MARKET ANALYSIS OF THE FOREST PLANTS INDUSTRY IN THE PCINJA AND JABLANICA DISTRICTS
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Contents

FOREWORD ......................................................................................................................... 3

1. Introduction .................................................................................................................. 5
   1.1 Who is the paper aimed at? ......................................................................................... 5
   1.2 The paper and how to read it ..................................................................................... 5
   1.3 Project overview ........................................................................................................ 5
   1.4 Market development approach ................................................................................. 6
   1.5 Project focus .............................................................................................................. 7
   1.6 Why we choose this sector? ...................................................................................... 9

2. Target market and determinants .................................................................................. 11
   2.1 Major products ........................................................................................................ 11
   2.2 Main markets/trends ................................................................................................. 11
   2.3 Demand conditions + market requirements .............................................................. 16

3. Forest plants industry in Pčinja and Jablanica districts, physiognomy and challenges ....................................................... 18
   3A Physiognomy/structure and performances ................................................................. 18
   3A.1 Basic functions of the value chain – industry structure and performance ............... 18
   3A.2 Value chain players ............................................................................................... 20
   3A.3 Marketing and distribution ...................................................................................... 23
   3A.4 Value chain supporters and their performances .................................................... 23
   3A.6 Rules and Regulations ......................................................................................... 25

3. B. Key challenges of the forest plant industry (symptoms of underperformance) ........... 28

4 Underlying causes for poor performance ................................................................... 32
   4.1 Low productivity and profitability ........................................................................... 32
   4.2 Inappropriate Promotion ......................................................................................... 34
4.3. Weak cooperation ........................................................................................................... 36

5. Intervention areas and strategies .................................................................................... 38
  5.1. Overall vision and rationale for intervention ......................................................... 39
  5.2. Embedded services ..................................................................................................... 42
  5.3. Promotion .................................................................................................................. 44
  5.4. Cooperation ............................................................................................................... 45
  5.5. Gender dimension .................................................................................................... 45
      Enabling the "real" participation .................................................................................... 45
      Visibility of "unpaid" work and its conversion into market-oriented activity ............... 46
      "Dislocation" - prevention and relocation .................................................................. 47
      Institutional partnership and gender equality promotion ........................................... 47

6. Next steps ..................................................................................................................... 48
Regarding the settings of potential, we can recognise two types of region economy. The Intensive region (Vranje and Leskovac) and extensive region (Presevo, Bujanovac and Trgovište).

Processing industry (especially the one based on wood, forest plants and herbs), agriculture and services now has the biggest contribution in national income.

Wood processing (primary and furniture production) is the strongest one in this moment. It’s mostly located in municipalities Vranje, Leskovac and Bujanovac. Leather industry has a large base of human recourse (there is a significant number of educated workers) in Vranje and Trgovište. Milk and meat industry especially in Leskovac, Vranje and Presevo where cattle breeding is most developed. Fruit production and processing and forest plants processing have strongest perspective regarding permanent increasing of demand. Natural conditions for Tourism, this is the border area (corridor 10) with possibility for transit tourism, also spa tourism in Bujanovac and Vranje, or rural tourism in Trgovište with river “Pcinja” defined as landscape with special characteristics, could be recognised as perspective, regarding the private sector development in South Serbia.

Targeted area is still to be considered a noticeably segmented space from the economic point of view, where the substantial development axes does not cross or connect. The area has many social and cultural similarities. The fragmented economy together with the depopulation trends especially in rural areas represent the main challenges to be faced to.

Inter municipality relations at the region are not developed enough and that the processes a low effectiveness of valorization of local potentials and non efficient management of the territory.

The territory, at which is foreseen the implementing of the present project, can be characterized as under-developed. These are territories with strongly worsen demographic indicators, with high levels of unemployment, with predomination of productive branches and agriculture.
The majority of population of this region is living and earning in rural areas. That implicates the need for more serious approach in analyses of rural potentials, as a real base for processing industry and their promotion, from the one and supporting to further capacities for cooperation between development concerned institutions and communities from the other side.
1. Introduction

1.1 Who is the paper aimed at?
This document is intended primarily for the private sector involved in forest products, their associates and potential investors in this sector. The main topic of this paper is forest products market and potential interventions to improve the market for all participants in that market, including the target groups of the project - the poor. Also, paper is aimed "strategic players" within markets, for instance government agencies and consultants playing innovation and advisory roles.

1.2. The paper and how to read it
The first section introduce the reader with information about the project, a brief description of the methodology used, the reasons for choosing this sector and recommendations on the use of this document. The second chapter describes the market of forest products from the statistical perspective, and provides basic information about main products, market trends, etc.

The third chapter is divided into two subsectors. 3A section is descriptive and informs the reader about the situation on the ground. Describes the main market stakeholders and flows between them within the frame of formal and informal regulations. Section 3B defines the main challenges and symptoms (symptoms of underperformance).

In the fourth section the focus is on underlying causes for poor performance. Conclusions in this part are the basis for defining the area of intervention in the fifth chapter. The final chapter announces the following activity of PSD project.

1.3. Project overview
Regional Economy and Entrepreneurship Development Agency Pcinja District "VEEDA" ltd started in April 2010 a realization of the project "Private sector development in the south of Serbia". The project is funded by a Swiss agency for development and cooperation (SDC) and it has been implemented in five municipalities of Pcinja and Jablanica regions.
Market Analysis of the Forest Plants Industry in the Pcinja and Jablanica Districts

Vranje, Leskovac, Presevo, and Trgovište. An initial stage of the project, with an overall budget of 350,000 CHF, lasts for 18 months and ends in September 2011.

The aim of the project is to contribute to a decrease in unemployment and poverty, an increase in income and an improvement of general quality of people’s lives through stimulating systemic changes in major sectors. The project uses M4P methodology, which, unlike other methodologies, deals with symptoms, affects the cause of a problem.

In the introductory stage of the project, on the basis of the analyses of 6 sectors, three have been chosen – wood processing industry, forest plants and tourism, which serve as generators of income and employment in Pcinja and Jablanica districts. This report represents findings of the sector analysis conducted for the forest plants sector.

1.4. Market development Approach

The PSD project uses a market development approach (known as the “Making Markets Work for the Poor (MMP)” approach), which is gaining increasing recognition among development agencies worldwide. As such, this PSD project is among an increasing number of projects worldwide that stress the importance of creating long-term, sustainable systemic change in markets that are essential to a large number of people as a source of income and employment. PSD is one of two SDC funded projects in Serbia that are pioneering this approach.

M4P is an analytical and action-oriented approach guiding development agencies and governments toward sustainably improving the terms by which people participate in market systems. Though varied and non-prescriptive in application, M4P programmes are all consistent in their adherence to a set of common principles, defined below.

1. Inclusive growth (and access): Creating an environment in which people (especially the poor, SMEs, youth and women) are able to access and take advantage of sources of growth and opportunities to improve their economic (and social) circumstances.
1. **Systemic action**: Understanding the disadvantaged position of the target groups to be the result of critical failings in how (market) systems function, and acting to correct such failings. This requires the project to develop an understanding of functions and players within market systems and how these can be strengthened in order to better serve the needs of the poor.

2. **Sustainability**: Ensuring that the market players needed to supply relevant goods and services on a recurrent basis have the incentives and capacities to do so. The focus on systemic change also means that interventions address the underlying causes of underperformance rather than merely their symptoms – hence achieving greater sustainability.

3. **Impact at scale**: Aiming to affect change relevant to large numbers of people, for example, across a whole sector, rather than across just one village or a few individual enterprises. The project therefore pursues an active strategy of crowding-in market players, ensuring that change goes beyond immediate intervention partners.

4. **Facilitation**: Determining a temporary, catalytic role for the PSD project which stimulates market players themselves to adopt and perform functions necessary for the continued, successful operation of their market system, rather than become a market player oneself.

### 1.5 Project focus

The project has been implemented in five municipalities of Pcinja and Jablanica region: Presevo, Bujanovac, Trgoviste, Vranje and Leskovac (Vranje and Leskovac are recently categorised as cities).
Pcinja and Jablanica districts are, by the level of development, at the bottom in Serbia and are much behind other regions, according to all indicators of socio-economic development. According to the law on regional development and the decree of the Serbian government on establishing a single list of the development of regions and local self-governments for 2010, Pcinja and Jablanica districts are placed into the group of underdeveloped regions and most of the municipalities belong to the most underdeveloped group. The regions are characterized by low GDP, it is only 63% of ADP at the state level, low salaries — an average salary is 27% lower than the republic average, high unemployment rate — 23.6% in Jablanica region and 18.71% in Pcinja district. According to NES data, at the end of July 2010, women make up 48.79% out of the total number of unemployed in Jablanica district, while this percentage in Pcinja district is higher and amounts to 50.46%. The youth make up 39.63% of the unemployed in Jablanica district and 36.91% in Pcinja district. Compared to the republic average, the achieved MSPP sector development in Pcinja district is not proportional to the region potentials and the competitiveness of the economy is very low. There are a few reasons why SDC supports implementation of PSD project in Pcinja and Jablanica districts.
1.6. Why we choose this sector?

On the basis of previous interviews, workshops from Forest plants sector, conducted research and context analysis approved by back stopper and SDC we point out next characteristic as advantage of this sector.

1) Relevance - The sector provides income and employment to a significantly large number of poor people in the two districts, with positive growth trend. Number of employees in this sector is growing from year to year, it is attractive to young people, especially for women, and it has absorption capacity with regard to employment (is it very labour intensive so even small growth will involve significant increases in employment and particularly employment of poor people). Under the poor are considered unemployed people with no land and rural households who, because of the nature of the area in which they live, can not undergo an extensive production. In fact the whole target region is classified as LFA (less favourable area), with an average highness of over 500 meters. In our case, most of them are engaged in collecting forest plants. Collectors are mainly people who have lost their jobs in other industries, and those who live in distant areas, and do not have physical access to the second alternative. In addition to being picked forest fruits, one of them 10 percent are also involved in processing. In the process of harvesting are equally involved both men and women. In cash transactions in the main participating men, while in the processing of 80 percent women. The number of pickers is increasing from year to year because a growing number of unemployed people see this work as a way out of poverty. Average annual wages of pickers is still below the 1000 euro, but at least provides a secure existence. At this point, this group of people to participate primarily in gathering forest products, but in future it is possible that they are involved and in other stages of processing.

This sector has characterized by large number of poor people involved. Total number of employees in this sector is moving constantly from 6000 employees with 12000-16000 temporary employees in the season, approximately one collector of blueberries for example can collect 18kg per day. Comparing with estimated yield of 1500 tons per season we found number of collectors mentioned above. Capacity for forest plants processing increased over the years but still too low. Namely, at the end of 2008 in Pcinja district was registered 42 companies for forest plant processing and in Jablanica district 49.
2) Growth potential – This sector has great potential for further development. This is an area that, although there are no conditions for the extensive production, has a natural advantage over other regions. Awareness of the fact, that this area has a large number of plant and animal species that are unique in the region, is increasing. In addition to the traditional gathering of mushrooms, more and more to do with forest fruits and medicinal herbs, which is an interesting market in Western Europe. Also, there are at least thirty species of plants that are not currently being exploited, and there is demand for them (such as white birch). This region is far ahead of other regions in terms of quantity (for example, of the total 1600 tons of blueberry fruit in Serbia, in this region has accumulated an average of 1,500 tons). Also entry barriers in this business are low in terms of finance. Much greater importance is intensive work and knowledge of technology to collect and process.

Distinct interconnected dimension of this market: increased production of value added products have positive effects on related sectors - tourism, transport, production of packaging (glass and plastic packaging different weight) primarily through increased employment and income. In this way, they achieve positive impacts on the entire region.

3) Intervention potential - A big number of actors keen, growth perspective and with good credibility (to catalyze other actors in the system) represents potential for intervention. PSD team saw here an opportunity for intervention which can make systemic change. The greatest interest in systemic change in this market is certainly poor. They are expressed through all the workshops. Also, processors, exporters an especially who take the risk of the entire process are willing to share the risk with others. That means share of knowledge, information and markets. Local government declared support this process, but unfortunately the moment can do little to contribute. In fact, Serbia is only the beginning of the process of decentralization. Scope of work of the local budget is still limited to ex post activities. Development activities at the regional level are still largely under the jurisdiction of the Republic. However, there is a good basis for intervention by the Ministries, because Serbia has defined the development strategy in line with the CAP (EU Common Agricultural Policy), which insists on greater participation of the region.

1 Conclusion from PL/Workshop - Forest plans, 10.01.2011. VEEDA/VAECA
2. Target market and determinants

2.1. Major products
In this sub-sector we can single out three groups of products:

**Mushrooms** - Various types of mushrooms (boletus mushroom (*Boletus edulis*), chanterelle (*Cantharellus cibarius*), and black trumpet (*Craferellus*), and of cultivated mushrooms champignons (*Button mushrooms*) and their processing products.

The biggest part of products is fresh mushrooms. Producers sort, clean, pack and then sell fresh mushrooms to the end customers or process them into final products. The most important final products are: mushrooms in jar (boletus and chanterelle in special design packing), dried, frozen and mushrooms in brine.

**Forest fruits** - (blueberry, blackberry, raspberry and rose hip), the biggest part of products are fresh fruit: blueberry, blackberry, raspberry and rose hip. Apart from being used fresh those fruits can be used dry and processed into wine, brandy, jam, various types of juice, cakes, compote, marmalade, tea and other groceries.

**Medical herbs** - (mint, chamomile, sage, yarrow, elder, and primrose) sold fresh, dried and processed into tea. They are mostly exported in bulk and in pack in small series (tea). Higher stages of processing these herbs, such as the production of extracts, tinctures and essential oil, are not present in this region.

2.2. Main markets/trends

a) This sector as we mention in previous chapter is export oriented. Fresh products participate in total export approximately with 90%...
Mushrooms participate with 60% in total income of this sector in 2010. Comparing with 2009, mushroom share decreased for 13%, forest fruits and medicinal herbs share increased into total income of this sector for 9% and 4%

The share in exports of mushrooms varies from year to year depending on natural conditions. Overall income from the export of mushrooms is stable. However, growth in exports of forest products and medicinal plants is conditioned by new trends, in fact more and more attention has been focused on other products besides the traditional mushroom.

Export structure of these products changed: export of processing products (juice, jam, compote), increased while export of fresh products decreased. This is one of the reasons why income increased and second reason is rise prices of fresh forest fruits on world markets. Export income of medicinal herbs is constantly increased as a result of higher production products with value added (various types of tea)(Chart 2)
b) The export of forest plants to the EU countries and CEFTA countries makes the major part of the total export in the first ten months of 2010. The most important markets are shown in the chart 3.

We can conclude that export to the EU countries is growing. In addition, there is the fact that although the export "repertoire" found some by now until now, completely anonymous, markets, such as Croatia, Macedonia, Montenegro. Exports to these countries emerged as an immediate option because of delays in the inclusion of Serbia as a privileged nation status in trade with EU and CEFTA countries. In fact, most of the goods which were exported to these countries over again re-export finished everything on the EU market. A similar situation is with Russia.
This is recognizable in all types of products:

**Chart 4: Mushroom markets in 2010**

- Germany: 38%
- Austria: 10%
- France: 8%
- Switzerland: 6%
- Italy: 2%
- Macedonia: 5%

**Chart 5: Forest fruit markets in 2010**

- Germany: 43%
- Austria: 12%
- France: 6%
- Italy: 5%
- Russia: 4%
- Other countries: 15%

Forest fruit is mostly exported to markets of EU countries primarily, to Austria and Germany.

Medical herbs and herbs used for pharmaceutical purposes are mostly exported to Germany and CEFTA countries. Mint makes up more than 50% of export to Germany.

Overall, we estimate that the export of "new" products to EU countries (forest fruits and herbs) in EU countries is increasing.

What is very important, the trends show a decline in exports of fresh products, especially in the traditionally strongest customers: Germany and Austria. However, from these countries become the largest investors (such as Rauch² from Austria) who bought some capacities in Serbia (in 2007), and now reproduce products, particularly forest fruit in Serbia, and then transported to the parent company.

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2 April 16, 2010; in the juice factory in Kostoljev, Rauch put in operation new production line for bottling lime juice in two-liter bottles, which is the new brand intended for broad range of consumers. Rauch invested 2m EUR in the new line, which increased the value of investments in the Kostoljev-based factory to 26m EUR. People in that company also announce launching of new products. Source: “Kapija”
Chart 8: The most important markets of medical herbs and tea

Source: Chamber of Commerce

Here we go and differentiation of customers from EU. We can for example be noted that the market of the Netherlands in recent years almost insignificant. It's logical when you know that over the Netherlands in the past, a lot of fresh produce re-exported to Germany or Austria. With the establishment of its own capacities in Serbia’s German and Austrian markets have lost interest in the mediation of the Netherlands. (This is quite obvious if we compare for example blue and purple line in chart below, breaking year is 2007 when Rauch opened a factory for juice production in Koceljeva). These trends also support the contention that the sales volume of raw product decreases in favour of processed.
One of the comparative advantage of this area is high quality of forest plants, which is a result of ecological environment where this plants grows (climate, soil) and ecologically safe products which are better in compilation with other countries (Bulgaria, Russia, Romania).3

Beside quality, geographical conditions and significant number of specific species Serbia has cheap labour, low raw material prices and low processing costs.

2.3. Demand conditions + market requirements

Forest products market is very dynamic. Demand, which is mainly generated by the Western Europe, varies from day to day. Demand of domestic consumers is also increasing for these products. Namely the major buyers from Europe are buying forest fruits from the wider Balkan region and Eastern Europe. They are forced to daily “combine” the amount and type of processing of certain products. For example, in Serbia, there was a quantity of Boletus, but the amount Chanterelle weak, while in neighboring Bulgaria opposite situation. Recommendation customers, Serbian processors will be to reproduce (by freezing or marinating) Boletus and Cantareille should be prepared for shipping fresh, while the Bulgarian exporters recommends vice versa. This is understandable because of the planning delivery. It is impossible to transport (due to temperature and vehicle type) two different kinds of goods. That will send the first delivery truck refrigerator, for small amounts of fresh mushrooms, a month later, and a classic truck loading marinade. All this points to the need for a great flexibility in this market.

In addition to these “operational fluctuations,” this market is characterized by the changing trends over time. We must say that the happy circumstance that the signals of the Western market, to domestic exporters generally very clear. Obvious example is the need for the introduction of international standards. As a result of market requests big companies are organizing their production according to standards ISO 9001 and HACCP. And also there is a change in the type of goods and manner.

3 Marketing of non-wood forest products, Faculty of Forestry, Beograd, 2009
Mushrooms market, for example the EU market in the last five years preferred package fresh mushrooms, which was cleaned and packed in small wooden boxes, for direct sales in supermarkets. Marinated mushroom must be classified by the width "hat". It also seek to pack in glass bottles of olive oil at special recipes. Frozen mushroom instead of the earlier treatment in the "cube" changes to "laminate" etc.

As regards looking berries are frozen, "calibrated" goods that are uniform in size of fruits. Also, the fruits must be free of foreign matter (leaves and pine needles, etc., and "antenna" stalk must be remedied). Such goods are packed in small plastic boxes or bags. In addition, demand for extracts of fruit juice production is increasing.

Medicinal plants: in addition to drying it is necessary to separate the flowers from the stems, also increased the demand of essential oils that are more convenient for transport and for what you get much better price.

Fit into these trends mean for the survival of the Serbian processors on the market, achieve much larger income.
3. Forest plants industry in Pcinja and Jablanica districts: physiognomy and challenges

3A. Physiognomy/structure and performances

Forest fruits and medicinal herbs collecting are still developing, and there is a huge potential considering the areas under forests, meadows and pastures.

3A.1. Basic functions of the value chain – Industry structure and performance

Chart 7
There are three channels:

- **Products with no added value which are directly delivered to market**

  Only 2% of those who collect forest plants also process them so the products were ready for the final consumer. Operations mostly performed are: cleaning, drying and cutting, from herbs mostly (chamomile, mint, sage . . .), forest fruits (blueberry, strawberries and rose hip) and wild mushrooms. Products are sold at local markets either scattered or packed together with other agricultural products. Some collectors sell smaller amounts of collected forest fruits on improvised stands along important roads. The increasing role of these products in supermarkets and local shops will cause the growing reduction of goods placement through this channel in the coming period.

- **Semi-products**

  As it has been mentioned before, 90% of the products of this sector are exported fresh or semi-processed. Thanks to this, these two regions and Serbia lose a significant income since importers, which just pack these products considerably increase their price.

- **Final products**

  There are few companies in Pcinja and Jablanica districts which have higher stages of forest plants processing. Small quantities of tea and mushrooms cultivated and packed in small packages, are produced only. They are sold in the country and abroad directly, through network or the import of large companies. It has been estimated that the sale through this channel amounts to 20%.
3A.2. Value chain players

**Individual collectors** - Of the total number involved in the forest products sector (about 15,000) in the target region, most of them (about 12,000) are pickers, representing the majority of our target groups. They collect forest plants and sell them to assembly or directly to markets (green markets and roadside stands). This part of value chain includes all family, from the youngest to the oldest member. Beside this function, they sort and clean forest plants. Some of householders dry forest plants but dried products in this way, i.e. the sun are not standardized and are not the uniform quality. One of them, (especially women), occasionally involved in processing; however the share of earnings in the division of income is too low.

Take, for instance, a kilogram of Boletus. The average purchase price of a harvester is 2 euro. Collecting centres sell to processors the same kilogram of mushrooms at a price of 3.5 euro. Processors continue to exporters for 6 euro. Export price on party EXW (loaded in Serbia, no transportation costs and insurance), at a cost of 7.5 euro.

Collectors in Serbia in this respect in a better position than from the former Soviet countries (Eulгарia, Romania, etc.) In these countries, unfortunately forest fruit is rarely pay per kilogram, but pickers are paid per diem for the entire day of work. Compared to countries ex YU situation is worse (Slovenia and Croatia) where collectors are more involved in this process. In 2009 for example average buying price in Slovenia was 2.5 euro, in Serbia 1.1 euro.4

**Association of collectors** - include households and individual collectors of forest products. Most of these associations exist “on paper”. The reasons for their formation is often a personal nature (i.e. more favourable conditions for the purchase of equipment without taxes or similar). We can say that the greater benefit of the pickers is their informal groups, which are based on personal friendship. Namely, certain categories of people (from a village for example) go together in the harvest, and together form a minimum price, below which will no sell the goods to collecting centres.

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4 Source “Tanjug”
Collecting centres - important part of the value chain. They are formed in accordance with the legislation and must meet certain conditions regarding space, material they are built of, number of premises, sanitary and other conditions. They play an important role, because they buy forest plants from individuals who cannot keep and process them. They sell it at local and foreign markets, to individuals and big companies, either raw or processed.

Processors - Production is seasonal, temporary workers by the total number of 3000. The number of registered companies increased in period 2000-2009, especially after 2005 as a result of Ministry of economy and regional development, Ministry of agriculture and other organisation investment in processing capacity.

Chart 8: The growth trend: number of companies in forest plant processing in Pcinja and Jablanica district in the period 2000-2009

Source: Chamber of commerce
Primary processing - Products at this stage are not given any additional value but they are only collected and sorted out. These two operations are performed manually and are very difficult, so the number of employees in season during primary treatment of forest fruits is significantly increased. One part of the primary processing – drying and cocking is done in households, thus resulting in large quantities of non-standardized products. Primary processing is characterized by a great number of employees (pickers) and big dispersion – a great number of small purchase stations – shops. There are approximately 30 centres per municipality, in total 150 and they employ a total of 750 workers, while in the course of the season and that number increased to 4000 employees.

Products are sold to a final consumer or like raw materials for further processing. They are sailing products in domestic market (green markets and retail outlets) and export market.

This stage is very important because the preservation of the product's quality directly depends on the primary finishing way, realized from the moment of collecting, (picking) to the proper way of packing and storing.

Final processing - Enterprises engaged in forest plants processing i.e. those which add an additional value to products, are not present in large numbers in this region. This part of processing is comprised of large companies and exporters, their total number is 100 companies with 1500-2000 employees in total. These companies are engaged in processing - drying, cutting, freezing, pickling mushrooms, and pack it in jars and plastic containers of different weight. They also process forest plants into juices, marmalades, jams, preserves, compotes, and other products, and drying and freezing them. In this stage, medicinal herbs are drying and packing into various weight bags. These products are sold directly to retail, wholesale and distributors.

Wholesale - They buy products from the producers, then move them from their storages to companies (retail outlets) that either want to resell the products to end customers or use them in their own operations.

Retailers - Sells products directly to customers. These products are purchased from the producers or wholesale and sold to the end customers at market up price. This part includes supermarkets chains, groceries, health food shops or macrobiotic food stores, and, in case of some products, green markets.
**Exporters** - They buying products from wholesale and processors and after that selling products on foreign market.

### 3A.3. Marketing and distribution

In this sector marketing is not used to such an extent as in other activities. Distribution is very important in this sector. These are perishable products which must be transport and processing in defined time. The products cannot be kept for two weeks, transported for seven days and then be sold as first-class goods. Processed products need a certain temperature during transport so as to keep their quality and stay safe. The products are distributed by big manufacturers, large retail stores and distributors, while just collected products are, in some cases, bought on the spot by purchase stations which then transport them to their facilities, and in some cases individuals i.e. collectors bring products to purchase stations. Very important is good storage management.

### 3A.4. Value chain supporters and their performances

There are few supporting organizations in this sector. These are mostly public organizations formed at the state level, while there are only few such organizations in the region. Private consulting organizations almost don’t exist.

**The Ministry of Environment and Spatial Planning** is influencing on forest plants collectors, collecting centres and primary processors by prescribing every year the quantity of forest plants which can be collected in order to protect specific sort of forest plants. Companies which plan to assemble and process products applying in Ministry of Environment and Spatial Planning to give them permission.

**The National Agency for Regional Development** works to producers of primary and secondary wood processing and exporters implementation of programs and projects to encourage the innovation and competitiveness (grants, projects), the organization of trade fairs at home and abroad, business connecting entrepreneurs in the country and abroad, authorizes funds for introduction of standards, implementation of credit lines to the Development Fund for the purchase of equipment and construction of working space, services, mentoring and education organization.
Figure the following public organizations which provide services have been identified in Serbia:

- Standards Certification
- Ministry of Agriculture, Forestry and Water Management
- Chamber of commerce
- Municipality
- Export Promotion Agency (SIEPA)
- National agency for regional development: with its network of regional agencies
- Ministry of Environment and Spatial Planning

Wholesale  Final processing  Primary processing  Collecting centres  Collectors
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Activities of Chamber of Commerce are: to provide and organize professional assistance to producers in order to improve their business, to establish cooperation with foreign countries, fairs, commercial exhibitions in order to facilitate access to world markets.

The Export Promotion Agency (SIEPA), thought its programs, is reflective investment in expansion of processing capacity and increase export.

The Josif Pancic Institute, Belgrade, with guidance, advice and educates collectors and processors.

Ministry of Agriculture, Forestry and Water Management educates collectors and processors of forest plants, approves subsidies for processing capacity in primary and secondary production, organizes joint ventures, and determines selling prices.

3.4.6. Rules and Regulations

Uncontrolled and improper collecting has caused a great number of medicinal and aromatic species populations to become extremely endangered. For this reason, every year Serbian government, through the Ministry of Environment and Spatial Planning issues a decree which controls the use and trade of wild flora and fauna. Namely, the government open tenders, for issuing permits for collecting endangered species of wild flora, fauna.
An integral part of the tendering is the defined quantities of wild species which can be collected, as well as the ratio of fresh and dry fruit quantities. The Law and regulation of Ministry of Environment and Spatial Planning is not respected by all, there are still a significant number of individuals who collected and processed forest plants without permission.

Table 1: Quantities defined by the decree in kg for 2009 and 2010

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mushrooms</td>
<td>6.588.330</td>
<td>7.838.000</td>
</tr>
<tr>
<td>Forest fruits</td>
<td>12.661.000</td>
<td>12.811.000</td>
</tr>
<tr>
<td>Medicinal herbs</td>
<td>5.503.000</td>
<td>5.378.000</td>
</tr>
<tr>
<td>Fauna</td>
<td>1.215.500</td>
<td>1.215.000</td>
</tr>
<tr>
<td>Lichen</td>
<td>400</td>
<td>400</td>
</tr>
</tbody>
</table>

Source: Ministry of Environment and Spatial Planning

As for fruit, it is most allowed to collect rose hip (5,000,000 kg), blueberry (3,000,000 kg), blackberry (2,000,000 kg) and juniper (2,000,000 kg). When it comes to mushrooms, the government allowed collecting 4,000,000 kg of boletus mushroom in 2009, to further increase the approved amount to 5,000,000 kg in 2010. Chanterelle, with approved 1,800,000 kg is in the second place.
Since this is very perishable food, special conditions apply in the processing, distribution, and trade of these products. Namely, mushrooms are kept and delivered at specific temperatures, min -18°C and the products mustn't be defrosted and re-frozen. Each package must have a validity period posted on. To be competitive in the global market, processors of forest plants must have some standards accepted by the Global Initiative for Food Safety (GFSI®), HACCP, ISO 9001, KOSHER certificate (required for export to the U.S. market), COST R (required for export to the Russian market), IFS International Food Standard, Organic certification (guarantees that the products are 100% organic).

Groceries that are placed at the home market must be microbiologically safe i.e. they must meet the conditions defined by the Regulation on microbiological safety of food in trade by Government. Law on food safety provides a modern system where food is controlled from farm to fork and all the subjects in food production, processing, and trade are responsible for its correctness.

Ministry of Agriculture decree regulates the conditions under which purchase stations can be opened and can operate in order to maintain food safety and quality.

Apart from the defined rules and documentation for all activities, exporters must also provide Food safety certificate which is required document for sale on the domestic and foreign market.

According to the law on customs tariff, an average customs rate for medicinal herbs is nine percent, and for tea five percent. As for medicinal herbs, chamomile, mint, and coca leaf (20 percent) have the highest customs protection, fenugreek seeds (God's grass) follow, while the rest of herbs have the lowest customs from three to five percent.

Up to the present, Serbia has signed bilateral free trade agreements with Russian Federation, Belarus and Turkey, and the multilateral agreements with EU (an interim trade agreement as part of the Stabilisation and Association Agreement), the single multilateral agreement on free trade in southeast Europe - CEFTA 2006 and free trade agreement with EFTA countries. Thanks to these agreements, Serbia has enlarged foreign trade of all products, including the products from forest fruit sub-sector, with the signatory countries.

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5 The Global food safety initiative is a collaboration between some of the world's leading food safety experts from retailer, producers, and food services companies, as well as service providers associated with the food supply chain.
3. B. Key challenges of the forest plant industry (symptoms of underperformance)

Forest fruits market has obvious advantages compared to other markets, such as the production of milk and meat products and leather processing. These benefits are generally reflected in large number of target groups involved in this sector, a growing number of enterprises and natural comparative advantages.

Nevertheless, this market is faced with a number of "chronic" problems. PSD project is aware that the forest fruit market burdened by many problems. In this chapter we will characterize and analyze some of the systemic obstacles to the development of this sector. Also, looks at some of these challenges more closely, and attempts to understand the reasons that lead to the poor performance of forest plants industry in Pcinja and Jablanica districts.

3. B.1. Low productivity and profitability

Our target groups, especially the broadest groups among them – collectors, are very poorly involved in multiple processing stages, so continue to work for "peanuts". The reasons for this are twofold. In one hand, these people are included in the processing time to time, usually in larger urban areas, but the number is small, because they lack resources and time to commute to the city. From mountainous areas, even there is no regular daily traffic to the cities. Collectors themselves, have low levels of skills and knowledge in processing, which further hampers their engagement in companies located in cities. On the other hand, collecting centres, that they are physically much closer, too little work on processing, which further reduces the alternatives for employment.
Collecting centres and collectors are also not sufficiently involved in the **flows of information**. Also, collecting centres and processors, along with the pickers are not familiar with **new technologies of processing**. There is a lack of the technology and knowledge, especially in the processing of herbal and plant products, which will be used in the medical and pharmaceutical industry. Information, skills, and technological knowledge are concentrated in a small number of centres and are not standardized, but each works in its own way. In one word there is no feedback between value chain players and it is usually reduced to the phrase "cooperate only when the inevitable".

All this is bad for the exporters. Namely the risk and business wrap over them. Due to the uneven distribution of knowledge, and the uneven participation of market players in the process of processing, we come to the unequal sharing of business risk, so that exporters often pay for the mistakes of others, such as finance stock inappropriate goods and are faced with frequent complaints delivery.

### 3. B.2. Weak cooperation

In a series of interviews and workshops with key stakeholders in the forest plant industry, we identified **poor cooperation** relationships among market players.

In addition, it expressed low utilization of products that are collected from nature. It is their superficial treatment of all stages. There is no temporal coordination (in terms of starting time of harvest) between processors, pickers, and institutions, which further reduces the possibility to enlarge the product value. As we have already mentioned, around 90% of products are selling in fresh condition, without value added or with low value added.

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6 In workshop we use PLA methodology. This methodology, Participatory Learning and Action (PLA) is an umbrella term for a wide range of similar approaches and methodologies, including Participatory Rural Appraisal (PRA), Rapid Rural Appraisal (RRA), Participatory Learning Methods (PLM), Participatory Action Research (PAR), Participatory Systems Research (PSR), Method of Research Method (MAR), and many others. The common theme to all these approaches is the full participation of people in the processes of framing their needs and opportunities, and the action required to address them. Participatory approaches offer a creative approach to investigating issues of concern to poor people, and to planning, implementing, and evaluating development activities. The methods used range from visualization, to interviewing and group work. The common theme is the promotion of interaction, shared knowledge, and flexible, yet structured analysis.
Market Analysis of the Forest Plants Industry in the Pcinja and Jablanica Districts

In Pcinja and Jablanica district cost of transport are making 30% of final product price while republic average is 10%. Processing costs are also high with a high rate of waste. Consumers require products produced in accordance with the standards of quality management, but these products can offer currently only few big companies. Information flows on prices, market needs, trends and innovations are very weak. One of the problems is Short term cooperation. Namely, only a few companies have long term agreements with foreign buyers. Collectors processors and collecting centres also constantly look for better when.

An additional problem according to producers is seasonal character of this sector and lack of storage space, i.e., little ability to sell products off-season. There is no feedback between exporters and processors in terms of demands, and trends in foreign markets. Result is that a large number of poor in this region, whose existence is largely conditioned by the possibility of exploiting forest plants, on their own.

3. B.3 Promotion

Forest plants market looks quite disoriented in terms of marketing. Also, the broadest group - collectors almost all the work done in the "gray zone" given the procedures, protocols and licenses. Specifically, this group is almost uninformed about the conditions to be met in order to deal with this job.

Collecting centres and processors do not pay enough attention to quality and performance of regional products. Products that are processed in this region are poorly differentiated from other products (in terms of origin, type of processing, packaging, etc.).

Also there is at least thirty species of plants that are available in abundance literally "in his face" and not on the endangered list but are not exploited. According to the opinion of the respondents current process of promotion and regional offer are very low profiled.
Introducing a wide range of target groups with the possibility of using comparative advantages of the region in exploiting forest products, strategic positioning of the region as an area which is interesting for foreign markets, are determined by a well structured promotion. Insufficient and misdirected promotion resulting in poor supply, which in turn affects the lower income and employment in forest plants market.
4 Underlying causes for poor performance

4.1. Low productivity and profitability

Unskilled people from rural areas mainly collect and process forest plants. They collect forest plants on traditional way with no care for plants protection (damage them during the harvest) and they are not familiar with the time when fruits are collected (going to pick the green and small plants which can't be used in processing or they have a small prices). They do not familiar with the techniques of harvesting and storage of plants in crates to prevent damage. Processors don't have information about the requirements of individual markets in terms of types of fruit, quality, methods of processing and the information relevant to the core business: taxes, subsidies, benefits that the manufacturer could not fulfill the state, up to certain dates, etc...

If we look at mainstream information, skills, new technologies, among market players, we can conclude that all participants in the higher stages get feedback from collectors in terms of the predicted quality, quantity (eg. "this year has been exceptionally rainy, we expect better blueberry fruit but with a lower percentage of sugar"), as well as the time of the first harvest. But collectors in return got a little. "Break-point" in this process are the collecting centers, it is a "point" in which goods and money "physically" meet for the first time. Collecting centers are central, for fear of their market position, send "distorted picture" in both directions. On the demand side of the largest "mass" of knowledge are exporters. They are a kind of "little gods" on the ground and they are in a position to "dose" of information in accordance with their intentions. On the other hand are still collectors who are trying desperately to climb to a higher ladder. Because of this desire often "trampling" each other, completely unaware that only the joint election can better position in the market. "Volume" of knowledge and information is gradually decreasing from the exporter to the collecting centers and virtually "disappear" in the collectors field. Collecting centers on the other hand often play a game of "village bride", which constantly alternates between the "Proposal". They are namely the desire to provide a preferential position, often "trafficers" of information on both sides.
Introducing of these services is in "job description" of the *extensive services*. But this is not the case. It also highlighted the inadequacy of this system, because, the advisory services are full of Agriculture engineers who vainly trying to promote agricultural production or in our mountain region. In the last 40 years the region "covers" two extensive services. However, the use of their "advice" is minimal. Simply no one has confidence in them. These institutions are constantly in some state of "reorganization" and seem to never fail to define the appropriate program for this specific region. The main problem is the old-fashioned (former socialist) personnel who are used to "routinely" do the job.

Stylised view of market of information skills and technologies

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Supporting Function

1. New technologies
2. Information
3. Skills

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Collector → Association of collectors → Collecting center → Retailer → Small producers → Producers / exporters → End markets

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Regulations → Informal rules & norms

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Rules
4.2. Inappropriate Promotion

Promotion in a targeted region is sporadic and unplanned activities, and consists mainly of programs on agriculture, which are broadcast on national television (usually on weekends) and the occasional campaign of the Ministry of agriculture. Local media have almost no content on this topic. Also the content of these campaigns is inadequate, because it is mostly about crop production, which in this mountainous region is very little represented. The cause of inappropriate content is actually the lack of a defined consensus on what in fact be promoted? It is necessary to support the first function of research, in order to form a database of information that is relevant for the strategic positioning of forest fruit market.

There is no sufficient information and researches about market prices, quantities and quality and market trends. In addition to poor information, sharing initiatives are evident and physical difficulties in establishing communication. Specifically wide territorial dispersion makes it difficult to exchange experiences.

Non existing institutions/agencies for support the market in the region — At the regional level there is no institution or agency engaged in support of this sector. For example, completely underestimated the role of extensive services. Low awareness about the importance of geographical origin protection - Authentic, and/or traditional, food products have become an increasing trend in international food markets during recent years. Lack of geographical origin protection represents is a one cause of lower market value of the product because the price of products that are distinguished by special quality with characteristics that resulting from the value of their composition, type of production and processing and the region from which they came. Also, the lack of protection of geographical origin leads to an inability of branding and products protection in the Intellectual Property Office which creates opportunities for abuse of origin and product name. In the region there is no organization that provides any information relating to the protection of geographical origin of products and branding. In the state level there is an agency that should start in this year to issuing accreditation in accordance with European standards.
Also, **dissemination of information is very poor**. The reason for this is that no one takes into account that the local population to information comes through other channels. Local television and especially radio stations are more interesting of "information campaigns" and the stands. Also, locals almost every village has its own local celebrations (usually a day of a saint who is celebrated in village), when the frequency of communication with the others most. At these events is also little mention of the potential in the area of forest plants.

**Partnerships - cooperation between the private sector and public sector** and especially the media is very poor. Namely insufficient include representatives of the private sector in this process. On the basis of interviews and workshops we have held, brought us to the fact that there are many people in the region that have much to say on this subject, and are willing to share it with others. But no one gives them a chance to do so.
4.3. Weak cooperation

In this sector, participation of a great number of individuals who pick the fruit and then have the extra income. Therefore, it is their philosophy that they should take the money as soon as possible. Their interest in the business going mainly to collecting centres. The same problem transferred to the processors. There is no awareness of the benefits of establishing more cooperation with larger companies for a long time. An obvious example of this kind of work is small Italian company that "pick up" the goods raw. Such goods paid a lot cheaper, and with it go the possibility of additional income. There are in fact not a lack of space for storing products. On the contrary there are a number of warehouses and cold stores that are unused. The problem is actually a lack of trust between collectors, processors and collecting Centers and "bed" of the existing stock of goods. Seasonal character is one of the important characteristics of forest plants sector and the whole agriculture. Products are not available throughout the year but only within a certain period or season. Thus, the forest plants sector season lasts from April to November. Out of season, most manufacturers in the Pcinja and Jablanica district do not perform processing of forest plants that does not work primarily because of the lack of its own storage facilities. During the PLA workshop most producers in the Pcinja district mentioned that they can process maximum 30 tons of forest products (limited by storage space) and that there is a need for larger quantities on the market. They also noted that several large companies from Pcinja district that have collapsed in the nineties has a significant capacity refrigerators which if a few small producers join together can rent at reasonable prices, but this does not happen because of poor communication between them.
Mistrust and poor communication is present among the exporters, but they are still more aware of the importance of cooperation, especially if it results in better sales. The information is “jealous” saved. During interviews with entrepreneurs, PSD team is constantly encountered an illogical conclusion. Almost all processors, retailers and exporters have their own “secret archives” of brochures, samples of new products and a kind of “winning combination”. All emphasize the usefulness of this information and complain that they cannot implement their ideas because “the rest of the world” does not understand them. But when we asked them if they had ever tried to share information with others or to someone involved in the implementation of such projects, all gave a negative answer.

We also recognize their strong interest to meet with other new and better ways of processing. In the final instance “final concern” about the sale, even when the raw material is poor quality, it falls to them. We noticed a “healthy” initiative with their parties to present or promote new products, skills and other species. We are convinced, for everything cited above, the following logic in the forest industry plants should be supported:

a) “If we’re willing to deliver better goods, I am willing to also offer you a lot in return”

b) I am willing to share knowledge about new trends, but I can not work on the principle “from door to door,” I can work only with organized groups

c) If you want to cooperate, you get yourself organized. Also, we do not have time to answer a “thousand questions.” You should work with those who directly purchase goods from you, collecting centers.
5. Intervention areas and strategies

The above chapter has outlined some of the underlying systemic constraints that prevent the forest plant industry to become more competitive and provide more accelerated and inclusive growth of income and employment opportunities, for the poor. Key intervention areas identified:

This chapter begins by outlining the overall vision and logic for development intervention in the wood industry, and then continues to describe specific intervention strategies for the areas mentioned above.

5.1. Overall vision and rationale for intervention

This promising branch, from regional economy perspective, will continue to be "reservoir" for additional income supporting a large number of poor people. But, at the same time, because of the "narrow" approach from all stakeholders there is a real threat to not to move from this point...

Inappropriate skills, low level of technology among collectors and processors, insufficient flow of information, weak connections between market players at all levels, ignorance and absence of awareness of use a new opportunities, insistence on a narrow range of traditional products joined with competition from neighbour countries will result in best case in status quo. Thro the time regional offer will marginalised and unrecognisable. Product sold per constant "not promising" prices. Logically, on the free international market, someone else will take over those functions. In a word centres of welfare distribution dislocated, together with an opportunity for growth, access and implicitly on income and employment opportunities seriously reduced.
Project intents to improve this situation especially in next areas:

New skills, technologies a "new way of work" adopted.

Inclusion of a greater number of target groups, the poor in the processing, in order to increase their earnings by at least 20%.

Increased participation of the poor in the distribution of profits and strengthen their financial independence.

Creating conditions for a better negotiating position of the poor in terms of price, availability of services, etc.

Expanding the range of assortment of products for at least 25% (i.e. new types of forest products that are offered to foreign markets), which further creates the possibility for increasing the income of all participants in the value chain.

The formation of distinctive offers in the region. Sales of products from the region "under the same umbrella as defined origin. Defined new brands, according to the standards of the EU market, which enable greater competitive advantage in the region in terms of "breakthrough" on the market.

Strong and recognizable offer formed Forest plants market becomes a strong branch able to support other markets.
Stylised view of overall intervention

**Intervention areas**
- Intervention 1: Establishing function of promotion/ marketing and supply
- Intervention 2: Improvement of cooperation between SCA players and public sector
- Intervention 3: Improvement of embedded service linkages: SCA players and supporting function players

**System changes**
- Improved understanding and promotion of supply chain
- Improved marketing situation

**Industry changes**
- Increased sale of forest products
- Improved regulatory framework
- Increased business opportunities in forest plants sector

**Income & employment**
- Increased income and employment opportunities for youth and women
Project activities are based on the premise of sustainability, namely that all market players are willing to participate in the funding of the "personal" reasons. The question of "who does?" fits into their otherwise regular activities to encourage. New services are paid by those who have already paid for them but they were not given the right equivalent. In one word, market players are ready to pay, if there is benefit.

There is common interest of the PSD project and market players:
Based on interviews with entrepreneurs and analysis concerning need of this sector, methodology and rules of M4P methodology, PSD team made list of priority in intervention areas.

5.2. Embedded services

As we early mention, collectors and processors are people from rural and remote areas so information coming to them very slowly. PSD team is therefore recognized embedded services as an area where the project can implement an intervention which has a systemic change. Systemic change will be reflected in well organized and related markets. Spreading of new knowledge, gets private sector better feed, better positioning in the market and creates a better chance to increase profits.

Namely, activities need to focus on capacity building of organizations, institutions, companies and collecting centers in order to qualify for embedded services. It is necessary to improve relations between private and public sector, the organizations that provide advisory services, collectors, processors and traders in order to intensify cooperation and information exchange between them, which will lead to a better connection between the market participants.
Stylized view of leverage points, large scale impact, and sustainability.
5.3. Promotion

Promotion of new products, professions and others. First, create opportunities for self-promotion, why they were keen to participate in this process. In return get a chance to be on the domestic and international markets, especially the appearance of the high-profiled products, which in turn allow for greater profit. Serbian Ministry of Agriculture and the Ministries of European countries have long-term policy of subsidizing agricultural production and processing of forest plants. This is fully in line with common agriculture policy (CAP) and the trends of inclusion Serbia in EU. Local governments in the targeted region constantly working to highlight the comparative advantages of their areas, so that their support would not be missed. Finally, the trend of "healthy life" and finding topics and examples in this field over the past 5 years has become a real "obsession" of the media. So it is logical to expect a solid media sponsorship in promoting forest plants industry. Also private sector is always keen to appear in the media.

However, in order to achieve synergy among market players, it is necessary to first do inclusive market research that will take into account the potential of the district, representative of the private sector proposals, and the projection of the market that are interesting, as well as their expectations. On the basis of this research an inclusive regional market plan should be defined.

It is necessary also to establish a base bid forest plant market. This database should represent all products currently on the market, but also to identify potential products, which provide an opportunity wider circle of participants to expand their activities.

Also, encourage private sector cooperation with other interested sides, such as the media, through the active and legitimate participation of the private sector in creating program schedules and plans for promotion.
5.4. Cooperation

**Strengthening partnerships among VC players.** Advocacy utility market appearance, under the same umbrella of "regional brand, taking advantage of common facilities for storage and processing of forest products and point out the uselessness of distrust.

**Strengthening the capacity and role of private sector** through associations in order to better positioning in relation to the public sector. Involvement of private sector associations in the work of the regional chambers of commerce through the development of joint publications that are of benefit to wider circles. Also legitimate inclusion associations in negotiating with representatives of ministries and other institutions in terms of adjusting the criteria for licensing and better utilization of available funds for the branding and joint market access.

5.5. Gender dimension

There is a great disproportion of participation of women in certain parts of production and that women are most presented in the phases of collecting and classifying products. Also there is a chance in the inclusion of women in other stages of production. From the other hand we also have this kind of disproportion regarding to the man. Project will relay on next sub interventions in providing of gender equality:

**Enabling the "real" participation**

Simply numeric inclusion of women/men in program does not automatically mean participation. Project interventions must provide equal opportunities to woman and men to participate and benefit according to their needs. It is possible only through dialogue among women and man as a target groups and implementing partners.
Project interventions should secure equal participation in:
- Access to services, information and markets
- Decision making at all levels
- Benefit from the project

This process must facilitate different groups of women and men in order to create their ownership of the intervention conducting the interviews, meetings, focus group discussions, round tables, studies and consider their expectations and future contributions.

Visibility of "unpaid" work and its conversion into market-oriented activity

Greatest part of women activities in all branches are invisible and as a rule unpaid.

Presented activity PSD team to increase participation of women in the agricultural market through the operation of formal rules has resulted in greater inclusion of women. Also featured is the visibility of the work for the market and non-market share (unpaid work). The relation between paid and unpaid work of women is the result of a series of dialogues that the PSD team had with representatives of the Ministry of Agriculture and present collateral benefit.

Putting the "function" of this part of the work can be through:

- Diversification (such as handicrafts, traditional food, production of medicinal herbs, etc.)
- Skills development - special attention should be paid to occupational segregation (for example, women should not work in collecting centers, men should not clean mushrooms)
“Dislocation” - prevention and relocation

Dislocation is the exclusion of one group of people from the sector (market) which is caused by external factors. There are "inherited" dislocations, which is the case with a large number of dislocated women in the textile industry in south Serbia due to economic crisis. Also, "caused by" dislocations as a result of various project activities (for example, in order to increase the productivity, project provide a set of modern machinery for processing, which results in the release of large numbers of people).

-Avoid “exclusion” points
-Carefully dosage and timing of interventions
-Offering alternative – through gender pilots

Institutional partnership and gender equality promotion

All gender activities should be accompanied by facilitation at the institutional level through:
- Harmonization of policies and rules with the real needs of women
- Promotion of naming gender contact persons in all institutions (ministries, local governments, etc.).
6. Next steps

In previous chapter, we explained and defined intervention areas after workshop with representatives from forest plants sector.

Following the finding of the group work, VEEDA will compile the ID card of the fruit plants sector in the Jablanica and Pcinja regions and publish it on its website for further use by respective stakeholders.

Project is continuing to deep in understanding about the sector, and will increasingly also look at interconnected markets, such as the training system, standards and certification system, advocacy etc.

The next planned activities are:

1. Preparation of advisory committee for forest plants sector.

2. As a follow-up of the Gender Workshop in Tirana based from findings of the WS, VEEDA will organise workshops on Gender Equality in the targeted region.

3. Coordination with Youth Office.

4. Defining practical cooperation with Ministry of Agriculture in purpose of creating better conditions for PPP.

ANNEX 1 - ID card of Forest plants sector

ANNEX 2 - List of autochthon forest plants species in the Pcinja and Jablanica districts

ANNEX 3 – List of interviewed stakeholders
Authors: Goran Kostic, Bane Stanojkovic, Zivko Ivankovic, Vladimir Petrovic,
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