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Economic Growth Assessment for Southwest and South Serbia

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Economic Growth Assessment for Southwest and South Serbia

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Acronyms

ASSTEX	Textile Association
BiH	Bosnia and Herzegovina
CB	Coordination Body
CEFTA	Central European Free Trade Agreement
ES	Economic Security Project
F&B	Fruits and Berries Project (DANIDA)
FTA	Free trade agreement
GOS	Government of Serbia
IPA	Instrument for Pre-Accession Assistance (EU)
LED	Local economic development offices
LSG	Local self-government
MATFWM	Ministry of Agriculture, Trade, Forestry and Water Management
MERD	Ministry of Economy and Regional Development
NALED	National Alliance for Local Economic Development
NMC	National Minority Council
NPI	National Program for Integration with the European Union
RDA	Regional Development Agency
SAP	Serbia Agribusiness Program
SEC	Socio-Economic Council of Serbia
SEDA	Sandzak Economic Development Agency
SEDA	Serbian National Milk Processors Association
SIEPA	Serbia Investment and Export Promotion Agency
SLDP	Serbia Local Development Program (USAID)
SMEs	Small and medium enterprises
SWOT	Strengths, weaknesses, opportunities, threats analysis
TCBoost	Worldwide Support for Trade Capacity Building
WTO	World Trade Organization

Executive Summary

As USAID/Serbia enters the final phase of its bilateral assistance to the Republic of Serbia, it is seeking to maximize its impact in Southwest and South Serbia—the areas of greatest need. USAID is particularly interested in economically devastated municipalities in the Zlatiborski and Raski Districts of Southwest Serbia, and the Peinjski and Jablanicki Districts of South Serbia. USAID/Serbia asked the Worldwide Support for Trade Capacity Building (TCBoost) project, implemented by Nathan Associates Inc., to assess economic sectors and subsectors—agricultural and otherwise—with the greatest potential to raise incomes and create jobs in these districts.

Despite obvious differences in culture, Southwest and South Serbia have much in common. Both regions have historically been more economically integrated with their neighbors (Bosnia & Herzegovina, Montenegro, Macedonia, Kosovo, and Bulgaria) than with Belgrade and the rest of Serbia, for both geographical and cultural reasons. Both have significant populations of ethnic minorities, particularly in municipalities deemed economically challenged or devastated; and both have large unemployed populations—the majority of whom are young, first-time job seekers. Fortunately, if sound economic policies and governance take root, both regions also hold potential.

The two regions are also affected by the Republic’s policies regarding regional development and decentralization, including the politically fraught and inefficient privatization of state-owned enterprises; investment climate challenges; relations with Bosniak and Albanian minorities; and Serbia’s desire to accede to the European Union and the World Trade Organization. Government institutions, particularly the Development Fund, the Serbia Investment and Export Promotion Agency (SIEPA), the Ministry of Agriculture, Trade, Forestry and Water Management (MATFWM), and the Ministry of Economy and Regional Development (MERD) can play a role in improving the economies of Southwest and South Serbia; however, the government—at the Republic and municipal level—still faces crises of legitimacy among some local populations.

Each municipality in Southwest Serbia has economic sectors and subsectors that employed many people before the political and economic transitions of the 1990s and onward. These sectors and subsectors still constitute a large percentage of economic activity and are likely to continue doing so barring major threats from domestic, regional, or international competition. These sectors are agriculture, textiles and apparel, and wood processing. There is also interest in taking advantage of the area’s natural beauty by developing agro-tourism and ecotourism. The situation is similar in South Serbia: certain sectors and subsectors have traditionally dominated economic activity in certain municipalities. These include agriculture, shoe production, furniture production, and light manufacturing.

Following an extensive literature review and a short period of intensive fieldwork, the assessment team chose the following agricultural subsectors as the most promising:

- **Dairy.** This subsector faces considerable challenges, notably a diminishing amount of livestock, disorganized production, poor value chain governance, low capacity to comply with food safety and quality standards, and stiff market competition in the medium to long term. Firms, however, could increase sales by capturing more of the local market and by developing artisanal, value-added dairy products branded with geographical origin and certified *halal*. This subsector has the potential for sales but does not hold much potential for employment.
- **Meat Processing.** This subsector has much in common with the dairy subsector. Slaughterhouses and butcher shops face a number of challenges—livestock shortage, poor value chain governance, low capacity to comply with food safety and quality standards, and a relatively saturated domestic market. In the absence of greater competition, firms have near-term opportunities to capture more of the local market and to enter niche markets in artisanal meat products and *halal*-certified products. Developing the sheep/lamb value chain for meat processing also holds potential. The subsector has potential for sales, but not employment.
- **Vegetables.** Vegetable production has potential for both sales and employment in South Serbia, which enjoys a strong reputation in Serbia for good quality tomatoes, lettuce, carrots, cucumber, etc. Challenges include a lack of land consolidation, soil degradation from previous attempts to grow tobacco, low levels of technology and extension, etc. Nonetheless, producers have opportunities to increase sales in the local market and producers in Albanian-majority municipalities could link with good effect to processors in Leskovac and further north. There are also opportunities in value-added products such as gherkins, *ajvar*, and peppers in cream. Programs linking lettuce producers to major buyers (e.g., McDonalds) demonstrate what is possible, though considerable investment is needed.

The tree fruit, berry, and wild gathered product (mushrooms and herbs) subsectors were also considered, but ultimately eliminated given the length of time required to see results in these areas.

The assessment team chose the following nonagricultural subsectors as the most promising:

- **Fashion (Textiles and Apparel, Shoes).** The textiles and apparel subsector of Southwest Serbia and the shoe production subsector of South Serbia both hold great potential. Firms in these areas are producing relatively high quality products at low cost compared to Western Europe. They enjoy strong domestic market share—many have their own brands—and regularly export to France, Italy, Germany, and Switzerland. There is additional market potential in Poland, Russia, and the Central European Free Trade Agreement (CEFTA) countries, and firms are investing in capturing these markets, sometimes with help from SIEPA and other government agencies. The formation of industry clusters—ASSTEX in Novi Pazar and Koštana in Vranje—demonstrate that actors in this subsector are also willing to collaborate. The subsector could increase sales and employment by better organizing production and marketing, bringing small partners into the formal sector, and working with local universities and technical high schools on workforce development.

- **Light Manufacturing.** This subsector has strong potential to generate sales and jobs in South Serbia. Several small light manufacturing firms (e.g., wooden and aluminum joinery, doors, windows, ceramic bathroom fixtures, scaffolding), some “incubated” by SIMPO, a state-owned enterprise, have good potential to capture markets driven by a construction boom in South Serbia. These firms have advanced technical knowledge and business networks and enjoy strong reputations, but need advice on marketing products and organizing flexibly to adapt to changes in the market, etc. This subsector has a high degree of informality, stemming from the desire to avoid taxation. Like the fashion subsector, it faces a shortage of skilled workers despite South Serbia’s high unemployment rate. Preliminary steps are being taken to develop vocational programs that will equip Presevo’s high school students to join the light manufacturing workforce at graduation.

We also considered the tourism and wood processing subsectors of Southwest Serbia but ultimately eliminated them given the length of time required to see results in these areas.

In addition to recommending these sectors and subsectors for USAID’s consideration, the team offers the following broad recommendations regarding the next generation of economic growth programming:

- To the extent possible, adopt the sector/value chain approach of the Serbia Agribusiness Program (SAP for Economic Security (ES) activities traditionally handled at the firm level.
- Focus on the nonagricultural sector for quick returns on investment and the agricultural sector for long-term results. The nonagricultural subsectors have more potential.
- Consider target municipalities/districts in a broad economic context.
- Choose partners with the greatest potential to affect sales and growth.

1. Introduction

Southwest and South Serbia are among the poorest regions in the Republic of Serbia. Of 150 municipalities in Serbia, the Government of Serbia’s Social Inclusion and Poverty Reduction Team¹ classifies 46 as “underdeveloped,” with 40 of these further classified as “devastated,” meaning their development level is lower than 50 percent of the national average. Half of these municipalities are in South Serbia, and a majority of the others are in Southwest Serbia. By almost every measure of economic wellbeing and human welfare, these regions not only lag behind the rest of the country but also are lagging at an increasing rate. For example, average wages in these regions are at least 2.3 times lower than in Belgrade, their ratio of population to doctors is more than 4.5 times worse than the national average, and discontinued education occurred at least seven times as frequently there than in the rest of the country.

As USAID/Serbia enters the final phase of its bilateral assistance to the Republic of Serbia, it is seeking to maximize its impact in Southwest and South Serbia—the regions of greatest need. USAID is particularly interested in economically devastated municipalities in the Zlatiborski and Raski Districts of Southwest Serbia, and the Peinjski and Jablanicki Districts of South Serbia. USAID/Serbia asked the Worldwide Support for Trade Capacity Building (TCBoost) project, implemented by Nathan Associates, to assess the economic sectors and subsectors with the greatest potential to increase incomes and create jobs in these districts.

We begin our assessment with an overview of the geography, demographics, and economic status of Southwest and South Serbia (Section 2) and a discussion of how national policies and programs affect economic development in these regions (Section 3). We then present our analytical methodology (Section 4), and our choices for key agricultural and nonagricultural subsectors in the regions (Sections 5 and 6). For each, we also present a strengths, weaknesses, opportunities, threats (SWOT) analysis. Finally, we present recommendations for future USAID programming (Section 7). Our scope of work and a schedule of meetings are presented in the appendixes.

¹ *First National Report on Social Inclusion and Poverty Reduction in the Republic of Serbia 2008 – 2010*

2. Target Regions and Districts

Despite obvious differences in culture, Southwest and South Serbia have much in common. Both regions have historically been more economically integrated with their neighbors (Bosnia & Herzegovina, Montenegro, Macedonia, Kosovo, and Bulgaria) than with Belgrade and the rest of Serbia, for both geographical and cultural reasons. Both have significant populations of ethnic minorities, particularly in municipalities deemed economically challenged or devastated; and both have large unemployed populations—the majority of whom are young, first-time job seekers. Fortunately, both regions also hold potential, if sound economic policies and governance are allowed to take root. In this section, we present some basic geographic, demographic, and economic data on the two regions.

SOUTHWEST SERBIA

Geography

Known locally as *Sandzak*, Southwest Serbia covers 4,504 km²—or 5.1 percent of the total land area of the Republic of Serbia—and borders Montenegro in the southwest, Kosovo in the southeast, and Bosnia and Herzegovina in the northwest. The terrain is mostly mountainous and rural, with meadows, pasturelands and forests predominating. In Southwest Serbia USAID has targeted six municipalities: Novi Pazar, Sjenica, Tutin, Nova Varos, Priboj, and Prijepolje. These municipalities are divided between the Raski (Novi Pazar, Tutin,) and Zlatiborski (Sjenica, Nova Varos, Prijepolje, Priboj) districts. The geographical position of Sjenica municipality is complicated because some of its jurisdictions are part of Zlatiborski and others are part of Raski.

Demographics

According to Census 2011, the population of Southwest Serbia is 229,382—down from the number recorded in the 2002 census (235,570). Southwest Serbia is a multiethnic area with a predominantly Bosniak population; 62 percent, or 142,350 inhabitants, declare themselves Bosniaks. The second most prevalent ethnic group is Serbs. Bosniaks are the majority in Novi Pazar (78 percent), Tutin (95 percent), and Sjenica (75 percent), while Serbs are the majority in Nova Varos (93 percent), Priboj (78 percent), and Prijepolje (59 percent). The city of Novi Pazar is the most populous, with 92,766 inhabitants or 40.4 of the region’s entire population (Census 2011).

The youth population in Southwest Serbia is higher compared with Serbia overall (with a median age of 41.3, Serbia is one of the “oldest” countries on the European continent). This presents challenges as well as opportunities. The majority of young people do not have a good education

and unemployment in the region is high (see more below). Sensing a lack of opportunity, young people are leaving the region in significant numbers. The last unofficial data from Census 2011 shows a continuous trend of outward migration from the majority of southwest local self-governments (LSGs) in varying degrees. Many leave rural municipalities to seek work in Novi Pazar, the region's administrative, educational, cultural, and economic center; in other parts of Serbia, such as Belgrade; or in neighboring countries.

Economy

Each municipality has economic sectors and subsectors that employed many people before the political and economic transitions of the 1990s and onward. These sectors and subsectors still constitute a large percentage of economic activity and are likely to continue doing so barring major threats from domestic, regional, or international competition. The region's natural beauty and high number of cultural heritage sites have piqued the interest of municipalities in developing tourism as a means to economic growth and cultural and environmental preservation.

The economy of

- *Novi Pazar* is characterized by the textile industry (traditionally jeans and denim), the furniture industry, and commercial transportation. In the past few years, transport (trucking) has increased greatly. A number of companies from Serbia hire Novi Pazar trucking companies to transport goods from Central Serbia to Kosovo.
- *Tutin* is characterized by livestock production, meat processing and meat products, dairy processing, primary and secondary wood processing, and the furniture industry. The construction industry has grown significantly in the past few years. Tutin also has Serbia's first wind turbine. The municipality hopes to establish an industrial zone on more than 150 hectares in Leskovac.
- *Sjenica* is characterized by livestock production, meat processing and meat products, dairy processing, and textiles, specifically women's undergarments and bathing suits.
- *Prijepolje* is characterized by textiles, primary and secondary wood processing, and agriculture production.
- *Nova Varos* and *Priboj* do not have specific, well developed industries. Nova Varos is somewhat more advanced in dairy production and primary and secondary wood processing.

According to the local economic development (LED) offices, there are 1,563 enterprises and 7,521 entrepreneurs in Southwest Serbia; the majority identify themselves as self-employed. A large percentage of economic activity has been estimated to occur in the informal economy, so data from the LED offices should be considered in that context. Table 2-1 presents information on the largest firms operating in the region.

Table 2-1

Southwest Serbia: Lead Companies by Number of Employees

No.	Name	Field of Work	Number of Employees	LSG
1	Sanatex d.o.o	Textile	600	Sjenica
2	AD Putevi	Road construction	450	Novi Pazar
3	AD Poliester	Plastic	320	Priboj
4	Zlatarplast AD	Plastic	300	Nova Varos
5	Dalas d.o.o.	Furniture	300	Tutin
6	AD Sloga	Brickyard	270	Novi Pazar
7	AD Ukras	Marble production	210	Novi Pazar
8	FAP Livnica	Metal industry	210	Prijepolje
9	DOO Conto Bene	Textile	200	Novi Pazar

SOURCE: Data provided by LED offices, 2011.

Employment/Unemployment

The unemployment rate in Southwest Serbia is very high. The official unemployment rate in all municipalities is higher than the Serbian average (23.7 percent) and the unemployed outnumber the employed in all municipalities, except Nova Varos. Unemployment is highest in Novi Pazar (37.17 percent) and Tutin (32.70 percent).

Young, first-time job seekers make up the largest share of the unemployed. Nationally, 36.6 percent of the unemployed are youth; in Prijepolje, 49.5 percent are youth and in Tutin a staggering 83.6 percent. The percentage of unemployed women varies by municipality. Sjenica has a significantly lower percentage of unemployed women because of the “fine labor” demands of the textile industry there. The textile industry in Novi Pazar and Prijepolje, however, focus on jeans and simpler textiles. Wages overall are lower compared to the Republic average (31,733 RSD)—particularly in Priboj (21,187 RSD) and Prijepolje (22,422 RSD) municipalities.

SOUTH SERBIA

Geography

South Serbia covers approximately 6,296 km² and borders Bulgaria in the east, FYR of Macedonia in the southeast, and Kosovo to the southwest. Like Southwest Serbia, the terrain includes pastures and meadows, but with considerably more arable land. South Serbia is crossed by the pan-European corridor X and European road E75, which holds promise for economic development. The Pcinjski and Jablanicki districts consist of 13 LSGs or municipalities. Pcinjski has 7 LSGs: Vranje (district seat), Bujanovac, Preševo, Trgovište, Vladičin Han, Bosilegrad, and Surdulica. Jablanicki has 6: Leskovac (district seat), Bojnik, Medvedja, Lebane, Vlasotince, and Crna Trava.

Demographics

According to Census 2011, South Serbia has 468,613 inhabitants or 6.25 percent of the total Serbian population. South Serbia is a multiethnic area including Serb, Albanian, Bulgarian, and

Roma populations. In Pčinjski district, ethnic Albanians are the majority in two LSGs, Preševo (89 percent) and Bujanovac (55 percent), and ethnic Bulgarians are the majority in Bosilegrad (70.91 percent). All other municipalities have ethnic Serb majorities.

As with Southwest Serbia, South Serbia's population is younger than the national average. Indeed, the Pčinjski district is the youngest of any in Serbia (36.76 years), especially in the ethnic Albanian-dominated LSG of Preševo (29.51). The region also shares a similar educational profile as the Southwest, though the situation is a bit more pronounced: the South has 42,975 illiterate people aged 15 and over—approximately 11.32 percent of that demographic group. The number of illiterate people is higher than the number of the total population with advanced and postgraduate education (25,949).

The outward migration picture is also similar to that of the Southwest. According to preliminary results from the 2011 census, 10,633 people from Pčinjski and Jablanicki are living abroad, most of them having left in search of gainful employment. According to the information from the Albanian-majority LSGs of Preševo and Bujanovac, approximately 30 percent of inhabitants from Preševo and 20 percent from Bujanovac are living abroad.

Economy

Certain sectors and subsectors have traditionally dominated South Serbia. In Vranje these include furniture, tobacco, textiles, shoe production, and light manufacturing, as well as agriculture, including fruit and vegetable production, and livestock. Bujanovac and Presevo focus mainly on construction, metal processing, the food industry, the wood industry, trade, and agriculture. Medvedja focuses on trade, agriculture, mining, and light manufacturing. Leskovac is a traditional center for vegetable production in Serbia, as well as for textiles. Municipalities are also interested in tourism development, though the path for this does not appear as clear as in Southwest Serbia.

There are 2,847 enterprises and 9,455 entrepreneurs in South Serbia. As in the Southwest, many unregistered businesses compete with micro and small enterprises in dominant sectors and subsectors. Table 2-2 presents information on the largest firms operating in South Serbia.

Employment/Unemployment

It is estimated that 45 percent of the population of South Serbia is unemployed; young first-time jobseekers are the most adversely affected, with 52 percent of them considered long-term unemployed. In Pčinjski district alone, 67 percent of people between 18 and 25 are jobless. For women, the situation in Pčinjski district is slightly more favorable because of the shoe and textile industries. The average salary in Pčinjski district is 77.19 percent of the Republic's average and in Jablanicki district 74.66 percent of the average. None of the municipalities reaches the average net salary in Serbia.

Table 2-2

South Serbia: Lead Firms by Number of Employees

No.	Company	Field of Work	Number of Employees	LSG
1	AD Simpo	Furniture	3,421	Vranje
2	AD Jumco	Textile	1,801	Vranje
3	AD Alfa Plam	Production of heating units	829	Vranje
4	FHI Zdravlje	Pharmaceutical	710	Leskovac
5	Sanch	Shoe production	552	Vranje
6	Heba	Mineral water production	502	Bujanovac
7	AD Zavarivac	Steel constructions	409	Vranje
8	Nevena	Cosmetics	339	Leskovac
9	Kavim jedinstvo	Transport company	281	Vranje
10	Porr - Werner & Weber	Waste treatment	277	Leskovac
11	Drvopromet	Wood processing	266	Leskovac
12	Lagado	Furniture	250	Bujanovac
13	Porecje	Production and food processing	233	Vucje
14	PGM Budućnost A.D.	Construction material production	90	Preševo
15	Tobler Skele	Production of scaffolding	38	Preševo
16	Fluidi	Production of beverages	36	Preševo
17	Saba Belča	Construction	32	Preševo
18	Vlora Com	Construction	8	Preševo

SOURCE: Data provided by LED offices in Vranje and Preševo, and Republic Statistical Office 2011.

3. National–Regional Development Dynamics

Political, economic, and sociocultural dynamics at the national level greatly affect the economic development of Southwest Serbia and South Serbia. In this section, we contextualize economic outcomes in our target regions by briefly discussing national issues, including decentralization, inter-ethnic politics, Serbia's aspirations to join the European Union, Serbia's political and economic relationships with neighboring countries, and the privatization of large state-owned enterprises.

ECONOMIC AND SOCIAL INSTITUTIONS

Governance in Serbia is highly centralized; nearly everything, especially financial and budgetary issues, is concentrated at the national level. Indeed, by some estimates, government programs and government employment comprise as much of 50 percent of the nation's economy. Despite the government's prominence, the Government of Serbia (GOS) has maintained a relatively light presence in Southwest and South Serbia. There is no shortage of government strategies for improving local economies and reducing poverty in the regions (e.g., National Strategy of Regional Development; The Serbian Draft National Rural Development Program for 2011-2013, and the Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises). These documents demonstrate a broad understanding of the challenges but implementation of strategies has been uneven.

Privatization

Development strategies have failed to gain traction partly because of the politically fraught and inefficient privatization of state-owned enterprises. According to the Privatization Agency, 3,700 companies were prepared for privatization between 2002 and 2011. Of these potential privatizations, 636 were canceled in process. A study by the Socio-Economic Council of Serbia (SEC) paints a bleaker picture, revealing that many firms have been ruined and as much as 65 percent of privatized companies have been liquidated or are no longer functional. The implications for productivity and employment are serious. Large numbers of people lost their jobs, and those that remain employed face lower or stagnant wages, temporary layoffs, and an erosion of workers' rights (e.g., collective bargaining).

The impact of unsuccessful privatization was discussed frequently during fieldwork in both regions. In Southwest Serbia, the largest companies from the former Yugoslavia era (e.g., FAP-Priboj, Raska-Novı Pazar, Ljubisa Miodragovic-Prijepolje) declared bankruptcy and are no longer

operational. This, in turn, affected their regional suppliers. Some privatized enterprises (PIK Pester, Sanatex) are operating at reduced capacity and with fewer employees. It is estimated that as many as 15,000 people have lost their jobs in the past decade because of unsuccessful privatization. In South Serbia, companies such as Agro-Adrija (Bujanovac), Mladenovic (Vranje), and Celiku (Preševo) have tried to acquire state-owned enterprises to expand their production base and create jobs but have given up in frustration with the slow and inefficient privatization process. The failure to privatize SIMPO, the Vranje-based furniture company, is delaying or preventing the creative destruction that could ultimately fuel a resurgence of the furniture industry in South Serbia.

Investment, Export Promotion and Subsidization

Potential investors are discouraged by Serbia's privatization and investment climate issues, as well as the financial crisis in the European Union. The efforts of the Serbia Investment and Export Promotion Agency (SIEPA) have had mixed results. SIEPA's staff is young and enthusiastic, but some sources felt that many lack practical, hands-on business experience and there does not seem to be a clear strategy for attracting investment or increasing exports. SIEPA has supported business clusters in the Southwest and South by subsidizing efforts to open up new markets. This support should be continued, but subsidy terms and administration should be improved to better suit the needs of small businesses (see Section 7).

The Government of Serbia's Development Impact Fund, an independent agency with several ministry representatives on its board, may hold greater promise for firms in the underdeveloped and devastated regions. The Fund makes loans to eligible firms in economically underdeveloped or devastated municipalities to finance capital investments. Interest rates are very favorable and the application process is reasonably straightforward and transparent. But firms from Southwest and South Serbia—arguably those in the greatest need—are consistently underrepresented among loan recipients. USAID's Economic Security (ES) project helped client firms obtain such loans; however, the process is quite labor-intensive given small firms' relative lack of capacity to apply.

MATFWM and MERD can also be sources of funding for firms in Southwest and South Serbia. MATFWM prints an annual guide that contains information on all available assistance programs. The process for accessing funds is straightforward; the government has clear regulations and guidelines governing the types of subsidies and the requirements for application. The subsidies are paid through the Agrarian Payment Agency in Sabac. The main challenge with these funds is that agrarian policy changes often, creating uncertainty and making agribusiness planning more difficult. MERD has been operating a domestic rural development support program for the past few years and has received USAID support (through the Serbian Agribusiness Project) for program design.

Regional Development Agencies

Given Serbia's candidacy for eventual European Union accession, some development could be financed by means of the EU's Instrument for Pre-Accession Assistance (IPA). IPA funds have components for cross-border cooperation, regional development, rural development, human resources development, and institutional development. However, these funds will not likely be available until 2015. In the meantime, the government has used regional development funds to create the Sandzak Economic Development Agency (SEDA) serving Novi Pazar, Sjenica, and

Tutin, and the Regional Development Agency (RDA) for Peinjski and Jablanicki districts, based in Leskovac. The effectiveness of these agencies is mixed. Some interviewees felt that RDAs in the Southwest and South have been relatively effective, while others felt that all RDAs are compromised by the government's belief that the EU's "regional concept" fosters separatism, particularly in ethnic minority-ruled areas. As long as the government views the "regional concept" as a threat to territorial integrity, RDAs may end up lacking the funding or authority they need to be fully effective.

Municipalities and Political Parties

For now, under the decentralization approach, economic development in the Southwest and South is the responsibility of the municipalities or local self-governments (LSGs). This responsibility is dictated by laws adopted at the end of 2007, including the Law of Self-Government Finances and the Law of Territorial Organization. Local economic development (LED) offices have been established in each municipality to lead economic growth and attract investment, but these have varying levels of capacity and expertise depending on who is in charge. USAID's Serbia Local Development Program (SLDP) has been encouraging intermunicipal cooperation in target regions (e.g., alliances between Novi Pazar, Sjenica, and Tutin) and working to have municipalities certified as "business friendly" by the National Alliance for Local Economic Development (NALED). So far, only Vranje, Bujanovac, and Leskovac in South Serbia have been certified as pro-business.

However encouraging as these efforts are, municipalities are not popular with citizens. In 2010, a survey in Southwest and South Serbia by the EU PROGRES project showed that citizens in underdeveloped regions have a low opinion of government effectiveness at all levels. When queried about the economic situation today versus three years ago, the majority responded that things had deteriorated. This lack of popular support poses a challenge not only for political participation, but also for economic development. The lack of trust in government reinforces the disincentive to formalize economic activity. The benefits of tax avoidance outweigh the costs (even though the benefits of registering with the government could include subsidies for agricultural activity) and compliant businesses doubt that tax money is used effectively.

The significant presence of ethnic minority populations (Bosniak, Albanian, Roma) in Southwest and South Serbia adds a complicating sociopolitical dimension to this problem. These parties have a big impact on the economy. In all municipalities, political parties appoint the directors of local public companies, institutions, and organizations. Employment in those entities is through political parties rather than regular procedures and entrepreneurs and owners of small and medium enterprises (SMEs) have an easier time if they are on the political side that runs the LSG. The ethnically mixed population and high level of poverty in the South and Southwest exacerbate this situation but there are signs of hope in the form of ethnically mixed coalitions in municipalities like Bujanovac (South Serbia).

In 2000, to mitigate interethnic conflict in South Serbia, the Government of Serbia established a Coordination Body (CB) to coordinate the activities of the Government of the Republic of Serbia and the Albanian-majority municipalities of Preševo, Bujanovac, and Medveda to improve political, cultural, and economic life in the South. The CB has its own budget and the Presevo-Bujanovac Development Agency was created to contribute to economic development in these Albanian-majority areas. The CB is involved in investment promotion in Medvedja. In 2010, the

government also facilitated creation of National Minority Councils (NMCs) for the Albanian, Bulgarian, Bosniak, Roma and other populations to have a stronger voice in national political dialogue. The Albanian NMC coordinates its activities with the CB; the Bosniak NMC has potential to represent the interests of Southwest Serbia, but political and cultural fissures in the Bosniak political establishment curb its influence.

Despite the challenges of interethnic relations, a recurrent theme in our fieldwork was that economic interests can often trump ethnic differences and that the “demonstration effect” (e.g., Albanian companies trading with Serbians north of Leskovac) can overcome ethnic and cultural barriers.

BILATERAL, REGIONAL, AND GLOBAL TRADE RELATIONSHIPS

Serbia’s desire to join the European Union presents the Southwest and South with opportunities and challenges. Applying to join the EU has expanded the potential market for Serbian exports and given consumers greater access to European goods. Serbia’s free trade agreement (FTA) with the EU, though not without import and export restrictions, has had a profound effect. In 2009, EU countries were Serbia’s largest export (54.2 percent) and import (52.9 percent) partners. If businesses in Southwest and South Serbia could more effectively integrate into the national economy, they could benefit from these arrangements.

EU accession also opens Serbian goods up to competition that threatens even traditionally strong industries supporting rural livelihoods (e.g., dairy). It also requires complying with stringent quality and safety standards for exports, especially agricultural products. Compliance can be costly, and often entails changing production, processing, and marketing methods that in some cases have been in place for centuries.

Serbia has been in negotiations to join the World Trade Organization since 2004. Negotiations are in a fairly advanced stage, and the country hopes to complete the accession process by the end of 2012. WTO accession, like EU membership, will offer opportunities as well as challenges. While new markets will open, Serbia’s domestic industries will also be subject to heightened competition from imports.

Serbia has signed on to the Central European Free Trade Agreement (CEFTA), whose signatories include Albania, Bosnia and Herzegovina (BiH), Croatia, Macedonia, Moldova, Montenegro, and Kosovo. Markets in BiH and Montenegro have traditionally been very important for Southwest Serbian products (i.e., agriculture, textiles, footwear, furniture, wood processing). Meanwhile, the Serbian perception that Kosovo is less an independent nation than a renegade province impedes smooth operation of traditional trade channels with the Southwest and South, giving rise to informal trade—or ending trade altogether at the expense of legitimate business in South Serbia. Serbia has also entered into an FTA with Russia, which, together with CEFTA, presents excellent short-term opportunities for Serbian exports because quality and safety standards are not as rigorous as the EU’s. This may soon change as these trade partners continue their own separate paths of greater integration.

4. Methodology

In this section, we briefly present our methodology for carrying out this analysis, including our pre-fieldwork, fieldwork, and selection of sectors and subsectors with the greatest potential to increase incomes and employment in Southwest and South Serbia in the near to medium term.

PRE-FIELDWORK

Once USAID/Serbia and TCBoost agreed on a scope of work (Appendix A), the team began an extensive review of secondary source literature, procured from USAID/Serbia and through Internet research. These documents included framework/planning documents from the Government of Serbia, including the National Program for Integration with the European Union (NPI); the Ministry of Economy and Regional Development Report on SMEs and Entrepreneurship (2009); the National Agricultural Program of the Republic of Serbia 2010-2013; the National Strategy of Regional Development; the Serbian Draft National Rural Development Program for 2011-13; and the Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises.

Reports and analysis from current USAID programs in Serbia also provided a basis for developing interview questions for fieldwork in Southwest and South Serbia. These included subsector value chain analyses, quarterly reports and work plan excerpts from the Serbia Agribusiness Program, geographically based (e.g., Novi Pazar, South Serbia) sector analysis from the Economic Security (ES) project, and competitiveness assessments from the Serbia Competitiveness Program, which closed last year. The team also conducted a telephone interview with the home office director of the Local Development Program (implemented by Chemonics International), who had recently returned from Serbia after a brief stint as Acting Chief of Party.

TCBoost's questionnaire for regional development agencies and LED offices was vetted through USAID representatives in Novi Pazar and Vranje. Response to the questionnaires could be characterized as "sporadic," but sometimes provided access to data at a very broad level (see more in "Assumptions/Scope" below).

FIELDWORK

In late November, assessment Team Leader Fred Harris began fieldwork in Southwest and South Serbia. Mr. Harris is a seasoned agribusiness expert whose experience includes a three-year stint as chief of party on a successful USAID-funded economic growth program in Montenegro. Mr. Harris was joined by agribusiness expert Senad Hopic in Southwest Serbia, and economic development expert Masa Bubanj in South Serbia. Fieldwork in Southwest Serbia (Zlatiborski and Raski districts) took place from November 29-December 7, 2011. On December 7, Mr. Harris

traveled to South Serbia, accompanied by Ms. Bubanj. Fieldwork in South Serbia ended on December 14, 2011.

In both regions, the team met with a broad range of public and private sector stakeholders, USAID Mission staff and implementing partners, and other donors. The team visited key municipalities in each region, concentrating on those considered economically underdeveloped or devastated per Government of Serbia criteria. A meeting schedule is presented in Appendix B.

ANALYTICAL FRAMEWORK

USAID is interested in learning which economic sectors and subsectors hold the most potential for increasing sales and jobs in underdeveloped and economically devastated municipalities in Southwest and South Serbia. The Mission is also interested in learning where its investment can have the most significant impact in 3-5 years. In addition, USAID is interested in knowing which subsectors in both the agricultural and nonagricultural sectors hold the most potential. To determine which sectors and subsectors best fit these criteria, the team used a simple matrix to compare subsectors in the agriculture and non-agriculture sectors. These matrices appear in the beginning of Sections 5 and 6, below.

Sales and Jobs

Economic data is notoriously difficult to collect in Serbia. One can get a fairly accurate picture of where Serbia stands economically vis-à-vis other CEFTA countries or EU countries, but beyond that things break down. Sales and jobs figures at the district level are skewed by the presence of large infrastructure companies in the government sector (e.g., power plants) or are rendered unreliable by sales and employment figures inflated for political reasons. The other challenge is the large percentage of economic activity that occurs in the informal or “gray” economies of Southwest and South Serbia, for reasons touched on in Section 3. In addition, many jobs created in the target regions are either informal or seasonal (agriculture). Textile jobs as such are not seasonal in the usual sense but do experience seasonal peaks and troughs. Seasonality should be considered when defining the “jobs” indicator: long-term jobs versus seasonal ones.

The team did collect some sector and subsector data from the regional development agencies and LED offices, but such data should be taken with a grain of salt. As one fieldwork informant said, “Sector and subsector level data basically doesn’t exist—all you can do is figure out what you need and collect things firsthand to the best extent possible.” USAID’s Serbia Agribusiness Program has data mainly at the subsector or value chain level. Any firm-level data is overwhelmingly on businesses outside of Southwest and South Serbia. While the ES project may have more data, its focus is the firm level, not the sector level. ES does put firms in broad categories such as food processing, textiles, and light manufacturing, but there is a great deal of subsector variation in the categories. For example, food processing includes the dairy and meat processing subsectors; light manufacturing includes shoe production and production of wood/aluminum joinery.

A more thorough analysis of data across projects may be worthwhile, particularly for ES. The project may in fact have some of the most accurate data on firms in the target regions and districts. An analysis of that depth was not feasible given the limited scope of this assignment. In the meantime, our assessment of sales and jobs potential comes mainly from our qualitative pre-

fieldwork research and information gleaned from interviews with key informants (e.g., project chiefs of party, USAID officials, LED offices, private sector representatives).

Timeframe

As USAID/Serbia prepares to design and implement its new economic growth project, it wants to know which investments could have the greatest impact in the near to medium term. This timeframe criterion greatly influenced our choice of certain subsectors over others, and USAID should carefully weigh this fact in reviewing our analysis. For example, while subsectors like berries and tourism are often mentioned as having potential to generate sales and jobs, the timeframe for achieving results in these subsectors may not “fit” USAID’s timeframe. Subsectors like dairy and meat processing fit the timeframe criteria, in that firms in those subsectors are certainly “present” in Southwest and South Serbia and have a market share that could be expanded, albeit modestly. They have also received donor assistance in the past. We recommend that USAID consider carefully both immediate impact and foundational impact in designing its next program. The distinction between these two types of impact should become more apparent as we delve into individual subsectors in Sections 5 and 6.

Vulnerable Groups

When we embarked on this analysis, USAID/Serbia instructed us to look broadly at the Zlatiborski and Raski districts in Southwest Serbia and the Pcinjski and Jablanicki districts in South Serbia in terms of municipalities visited. Given the timeframe, the team accomplished this to the greatest extent possible. But in considering the impact of certain subsectors, we tended to choose those that could have the most immediate impact on economically devastated municipalities. Our analysis of the wild gathered products (mushrooms, herbs) subsector exemplifies this approach: while some informants were bullish on the subsector’s capacity for jobs and sales others felt it was too much of a niche to have significant impact and that Southwest Serbia’s lack of road infrastructure keeps processors in, for example, Leskovac, from expanding their supply base. While the ethnic Albanian municipalities in South Serbia (Preševo, Bujanovac) have employable populations, they do not have the appropriate terrain.

SWOT Analysis

This assessment uses Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis as the basis for its examinations of key sectors and subsectors in each region. The SWOT approach is well known in Serbia, having been used in USAID- and EU-sponsored reports, and is the most appropriate given the accelerated period of performance for this assessment. Other SWOT analyses conducted for Serbia appear to be inconsistent in distinguishing strengths from opportunities and weaknesses from threats. Our guiding principle is to consider strengths and weaknesses as variables internal to the subsector, and opportunities and threats as external (e.g., the *opportunity* offered by buyers in a new market, or a GOS- or donor-funded assistance package; the *threat* of outside competition crowding out domestic producers or processors). While distinctions can still get blurred, we strive to follow the principle.

5. Agriculture Sector

Agriculture is a key economic sector in Serbia, providing livelihoods for rural producers and agro-processors throughout the country. Though certain subsectors at the national level have promise, the future of the sector overall is in question. Serbia's imminent accession to the EU and the WTO offers both opportunities and threats. While accession provides access to large, new markets, it also requires adherence to stricter quality and food safety standards that many small producers and processors may lack capacity and/or financing to implement. Accession also opens the domestic market in Serbia to greater competition from imports of higher quality or lower price.

These national-level challenges will be particularly felt in Southwest and South Serbia, where the poverty level is higher, and geographical and infrastructural challenges preclude producers from more fully integrating with domestic and foreign processors and experiencing higher prices. Frankly, several respondents—including those quite familiar with agriculture in Serbia—were quite downbeat about the future of the sector in these regions, equating further investment to artificial life support that merely forestalls inevitable decline. Life support, however, may have a place as specific plans are put in place to mitigate the negative socioeconomic effects of EU and WTO accession. These sectors are still “present,” providing income and employment to rural citizens, have market share (albeit modest), and have short-term potential. Ironically, it is the relative isolation of these regions that may provide the most significant short-term opportunity. For example, the “big boys” in dairy and meat processing (foreign-owned and domestic) who dominate and have saturated markets in more developed parts of Serbia have thus far ignored the Southwest and South. Local producers have a chance to meet unfulfilled demand with a higher quality product and to capture niche markets for specialty foods and halal-certified products.

Based on our review of the literature, as well as interviews, we chose the dairy, meat processing, and vegetable subsectors as those with the greatest potential to improve the livelihoods of economically underdeveloped and devastated municipalities in the near term (see Table 5-1). Below we describe each of these subsectors and provide a summary SWOT analysis.

Table 5-1
Framework for Agricultural Subsector Selection

	Sales	Jobs	Timeframe (1-3 Years)
Berries	Yes	Yes	No
Dairy	Yes	No	Yes
Fruit	Yes	Yes	No
Meat processing	Yes	No	Yes
Vegetables	Yes	Yes	Yes
Wild gathered products	Maybe	Maybe	Yes

DAIRY SUBSECTOR

Production and Processing

Milk production and dairy processing are the backbone of traditional agriculture in Serbia and the basis for its rural development. Approximately 200 dairies in Serbia sustain approximately 100,000 farmers and their households and contribute an estimated 25,000 jobs to the economy. According to the LED offices, there are 15 dairies (13 functioning) in Southwest Serbia and 5 in South Serbia (see Tables 5-2 and 5-3). Sources consulted during fieldwork, however, say that there are only 6 or 7 dairies of any significance in the two regions. These include Zornic, Turkovic, Velickovic, Fabrika Hleba i Mleka, and Fontana dairies. Many of the dairies listed below are in fact closed down, but still appear in the LED offices' records.

Table 5-2
Registered Dairies in Southwest Serbia

Dairy	No. of Employees	LSG
Turković D.o.o	49	Sjenica
Zornić d.o.o.	22	Tutin
Integral V	15	Nova Varos
Zlatarka	10	Nova Varos
Biomlek	9	Priboj
Nerko	5	Tutin
Zelenika plus	8	Nova Varos
Viskom	3	Nova Varos
Fass	N/A	Sjenica
Šanac	N/A	Sjenica
Sjeničanka	N/A	Sjenica
Beni komerc	N/A	Sjenica
Korzo	N/A	Sjenica
IRMA (not functioning at this time)	N/A	Prijepolje
Simlek (not functioning at this time)	N/A	Novi Pazar

SOURCE: Data from LED offices, 2011.

Table 5-3
Registered Dairies in Pcinjski District, South Serbia

Dairy Name/LSG	Installed Capacity (tons)	Share (%)	Collected Milk (tons)	Capacity Used (%)
Veličković, Surdulica	12,000	42.55	5,000	41.7
Fontana, Preševo	6,000	21.27	3,000	50
Fabrika hleba i mleka, Vranje	5,000	17.73	5,000	100
Doda, Preševo	3,000	10.63	1,000	33.3
Razvitak, Bujanovac	2,200	7.8	1,000	45.5
Total	28,200	100	15,000	53.2

A large majority of dairies in Southwest and South Serbia are small handicraft dairy plants (what might be called a “creamery” in North American parlance), usually found in the house, farm, or with another processing unit (e.g., with a slaughterhouse as with Turkovic). Processing capacities,² even in the handicraft plants, outstrip milk supply and most dairies are working at a maximum of 30 percent capacity, despite what the data from LEDs may imply to the contrary. One dairy in South Serbia buys milk from Nis, 150 km away, rather than rely on local supply.

The primary reason (among several) for the inadequate supply is the decline of livestock numbers in Serbia. Between 1990 and 2009, the number of livestock dropped from 1,554,000 to 1,002,000. In South Serbia, MATFWM and municipal governments have collaborated to deliver approximately 300 Simmental heifers to producers in Vranje, Vladicin Han, Preševo and Bujanovac. These stakeholders are also forming a cattle breeding cooperative to pool resources. In Medvedja, Concern Farmakom will be delivering at least 5 heifers each to at least 50 households.

With other improvements, these donor-funded efforts offer a good opportunity to increase milk production. Extension services, for example, should be improved to cover modern animal husbandry methodologies and housing and adherence to certification standards. Households could also benefit from subsidies to improve production methods and milk quality but are unaware of such subsidies or are reluctant to register. One dairy owner in South Serbia told us that only 7 of 300 households from which he receives milk have qualified for and are receiving assistance from the government. In addition to the informality issue, this may also be attributed to changing GOS agricultural policy. Subsidies change every year—in 2010, subsidies were only granted to registered producers with more than five cows. In addition, there is still a lack of horizontal cooperation among raw milk producers in both regions.

Processing capabilities should also be improved and expanded. Small on-farm dairies often use outmoded technology that fits the space available on the farm. Government policy and EU accession requirements entail the adoption of new and stricter production methods to ensure food quality and safety. Many small, informal farmers cannot afford this technology, so deliberately choose not to register with the GOS, even though doing so could provide them access to useful subsidies. Almost all dairy plants have established HACCP quality systems, some of them with

² Minimum daily processing capacity is 10 tons of milk.

the support of USAID and other donors. Others have obtained ISO certification. Some of these certifications are of questionable origin (i.e., purchased without inspection) and some have lapsed and not been renewed because of their cost.

Dairies in Southwest and South Serbia have between 6 and 20 employees, including a part time or full time technologist at each facility. If producers produced better milk at higher volumes, and processors operated at full capacity, sales could increase—but employment would not be greatly affected. Dairies tend to be family-owned and employ only immediate family, or they seek to vertically integrate milk production and processing and this will not create new jobs.

End Markets

Sixty to seventy percent of the milk produced in Serbia remains on the farm. About 85 percent produced in Southwest Serbia stays with the farm/household and the rest is sold on the farm or in local green markets. Milk is not produced to any quality or safety standard and packaging, marketing, and branding get little attention. There may be modest potential for more local sales if production increases and processing technologies improve. Attention must also be paid to governance issues between links in the value chain. Dairy processors are often paid late by middlemen and other buyers; sometimes they are not paid at all.

Niche, artisanal dairy products emphasizing geographic origin also have sales potential. Several producers, particularly in Southwest Serbia, manufacture “special” cheeses and sell them to Belgrade restaurants and green markets. These “Zlatarski” and “Sjenicki” cheeses are white cheeses produced in completely traditional ways (without cooling, milk processing immediately after milking, longer mature process etc.). These cheeses may not be much different from other white cheeses in the region but they have a good reputation because of their geographic origin. Concerted branding and marking that makes the most of this reputation could increase sales. These products would also benefit from standardizing production to ensure consistent quality. Products with similar potential include *kajmak* (a traditional sour cream) and other traditional products (e.g., peppers in cream) geared toward the local market.

Export markets also have modest potential. In Priboj and Prijepolje, home-produced dairy products are sold to dealers who market them in neighboring municipalities in Montenegro and Bosnia & Herzegovina. In these municipalities quality and food safety control are not carried out because of the cross-border space. Zornic dairy in Tutin exports around 50 percent of its production to Kosovo and Montenegro to small buyers. Fontana dairy in Preševo (South Serbia) has a history of exporting dairy products to Kosovo but this has been disrupted by the political situation and frequent border closures.

The formation of the Serbian National Milk Processors Association (SEDA) offers an opportunity for dairy processors throughout the country to improve marketing. SEDA seeks to raise productivity, improve products, and boost the competitiveness of Serbian dairy products. USAID has supported the association, and SLDP will be conducting a value chain analysis and preparing a plan for the marketing of milk and milk products for the Sjenica, Tutin, and Novi Pazar municipalities.

Exhibit 5-1
SWOT Analysis for Dairy Subsector

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong tradition of dairy farming • Favorable location and climate • Large number of farm suppliers with potential to produce more milk • Relatively large production capacity among regional dairies • Most dairies fully registered with GOS • Most HACCP certified • Cheap production costs 	<ul style="list-style-type: none"> • Less livestock in recent years • Low capacity veterinary and agricultural extension services • Road infrastructure; remoteness of farms makes milk collection challenging; poor organization of milk collection • Aging population of farmers • Farmers not organizing in cooperatives, other associations • Milk quality low • Large number of unregistered households • Outdated, obsolete technology used on farms and dairy facilities • Farmers and dairies not accessing credit • Poor value chain governance (buyers of milk and dairy products do not pay on time; sometimes not at all); lack of trust between producers and dairies; dairies and middlemen or other buyers • Little market distinction among dairy products (white cheeses, sour creams, etc); low marketing skills • Uneven application of quality and food safety standards
Opportunities	Threats
<ul style="list-style-type: none"> • Excess capacity in local market; opportunity to capture local market share in near to mid-term • “Big boys” in dairy (e.g. Imlek) not yet in Southwest and South Serbia • Limited opportunity for cross-border trade (Bosnia, Montenegro, Kosovo) • Regional artisanal cheeses (Sjenicki, Zlatarski) have good reputation in Belgrade, et al—brand based on geographic origin • Halal dairy products for Bosniak population; export markets • Subsidies available from GOS if farmers register • Regional Center for Agriculture and Rural Development opening in Sjenica • Donor-funded programs (HELP, USAID, EU) addressing challenges at firm and subsector (value chain) levels; encouraging intermunicipal cooperation on dairy development • MATWFM funding and/or Development Fund of Serbia loans/financing • New National Milk Producers Association (SEDA) can help with marketing products, integrating Southern producers; address enabling environment issues • Dairy classes in region, though limited 	<ul style="list-style-type: none"> • Imlek and other large dairy producers may expand into Southwest and Southern markets • Open markets from EU, WTO accession will raise competition; enforce standards that small farmers and dairies not prepared to implement • Strict border controls threaten cross-border markets and income (e.g., Kosovo) • Similar dairy products produced throughout Serbia and region; hard to differentiate these products • Health hazards resulting from poor adherence to food safety standards • Outward migration of young potential farmers • Political instability discourages FDI • World economic crisis

MEAT PROCESSING SUBSECTOR

Production and Processing

In Serbia, the beef supply is tied closely to the dairy industry. The same breed of cows (Simmental) used for dairy are used for meat, and reduced livestock numbers also affect meat processing. There is not enough supply to meet demand and keep local slaughterhouses working at full capacity. In response, some local slaughterhouses and butcher shops buy livestock or meat from Central Serbia, especially during the off season. Some of the bigger slaughterhouses and butcher shops have their own herds and a chain of permanent suppliers. Sheep and lamb meat are also traditional products of the Southwest. Lambs are sold in spring to buyers for local bakeries, restaurants, etc. Lambs are also sold for export, though the days of selling contracted large numbers for shipment to the Middle East for Hajj appears to be over.

Slaughterhouses. There are 15 registered slaughterhouses and butcher shops in Southwest Serbia (Table 5-4). The total number may be much higher as many are unregistered. The biggest slaughterhouse is Turkovic, followed by Ademovic Company, Giljeva, and Kod Jordana. Most of the slaughterhouses have up to 10 workers, but the biggest have more than 20 full-time employees. Bigger slaughterhouses have their own operations in the municipalities. A unique practice in Southwest Serbia is slaughtering for known buyers on the household or farm, often combined with some other kind of processing unit (e.g., dairy). There are three registered meat processors in South Serbia's underdeveloped municipalities: Dva Drugara, Jugocoop, and Agro-Adrija. Most of the large processors are in Leskovac. See Table 5-5.

Slaughterhouses have wide-ranging levels of equipment. Some have been HACCP certified; the best have ISO certificates. Many small processors still lack HACCP certification.

Butcher Shops. Every municipality in Southwest Serbia has numerous butcher shops. Novi Pazar alone has about 140 registered producers and processors, with about 650 employees processing about 2,000 tons of meat per year. Approximately 25 percent of this is dried meat.

Most of the shops in Novi Pazar buy fresh meat from slaughterhouses, although a significant number organize slaughtering in their own nonregistered facilities. Shops typically have a low slaughtering capacity (one or two head of livestock every two or three days – determined by need). In many cases, these are handicraft stores. Butcher shops have few employees and no technologists; slaughtering premises are very small, owning some basic slaughtering equipment. Technological knowledge is limited. Many of these facilities may not be able to comply with basic sanitary and veterinary standards required for GOS legal requirements and EU accession.

Investment in this sector will likely result in more sales and income than jobs because, like dairies, slaughterhouses and butcher shops tend to be small, family-run businesses.

Table 5-4
Slaughterhouses and Butcher Shops in Southwest Serbia

No.	Name	Capacity per Day (t)	Products	No. of Employees	LSG
1	Turković d.o.o.	100 head cattle 500 head lamb	Fresh meat and processed products	49	Sjenica
2	Ademović Company	30 heads	Fresh meat and processing	20	Novi Pazar
3	D - Zentrall d.o.o.	N/A	Trade, fresh meat and processing	20	Tutin
4	Giljeva d.o.o.	30 head cattle 300 head lamb	Fresh meat and processed products	20	Sjenica
5	Beko	10	Meat	15	Novi Pazar
6	Rafet (butcher shop)	20 head	Sirovo meso, prsuta, sudžuk	15	Tutin
7	Koran d.o.o	10 heads	Slaughter house and butcher shop	15	Priboj
8	Kod Jordana	30 head cattle 50 head lamb	Fresh meat and processing	10	Prijepolje
9	Misirlić	8 head	Meat	10	Novi Pazar
10	Đekic (butcher shop)	N/A	Meat processing	10	Tutin
11	Magnat O.D.	N/A	Trade, farming, meat processing	10	Tutin
12	Zeko	3 head	Meat	7	Novi Pazar
13	SMTUR Joksimovic	5 head	Slaughter house and butcher shop	6	Priboj
14	Pepa	1.5 head	Meat	3	Novi Pazar
15	Melić	3 head	Slaughter house	N/A	Prijepolje

SOURCE: Data provided by LED offices, 2011.

Table 5-5
Slaughterhouses and Butcher Shops in South Serbia

No.	Name	No. of Employees	District/Municipality
1	Zivinoprodukt	151	Pcinja, Vranjska Banja
2	Mesokombinat Promet	148	Jablanica, Leskovac
3	M 3 S plus Marinkovic	80	Jablanica, Leskovac
4	MK Doo	60	Jablanica, Leskovac
5	DVA Drugara	29	Pcinja, Vranje
6	Mesara Srbija	20	Jablanica, Leskovac
7	Braca Djokic	17	Jablanica, Leskovac
8	Agroadrija	13	Pcinja, Bujanovac
9	Lemes Prom	12	Jablanica, Vlasotince
10	Jugocoop	10	Pcinja, Bujanovac

End Markets

According to sources from the Serbia Agribusiness Program (SAP), the domestic market for meat products is nearly saturated—though during our fieldwork we heard that producers in Southwest Serbia are entering domestic markets. Turkovic supplies a couple of supermarket chains with fresh meat, and Giljeva is dealing with Belgrade restaurants and hotels. Agro-Adrija in South Serbia also appears to have developed products for local supermarkets. Very few butcher shops and slaughterhouses process meat into sausage, though this niche has potential for shops in the Southwest and the South. As with the dairy subsector, local livestock producers and meat processors can actually benefit from the regions' isolation, pending greater opening of domestic and export markets.

The halal market also holds promise and could be a niche for livestock, particularly lamb and sheep, raised in the Southwest. Sheep production is far more rapid than cattle production. Less equipment is needed and sheep are easier to handle and with fewer people. There is existing demand and potential demand locally, among Bosniaks, and abroad in Kosovo, Albania, and BiH. Building the halal market segment locally and with CEFTA countries could revive exports to the Middle East that were cut off by the political and economic events of the 1990s.

The EU market holds potential for Serbian beef products. The trade agreement between Serbia and the EU imposes a quota on beef exports but Serbia is not yet meeting this quota. Few slaughterhouses in Serbia, however, meet EU quality standards or have export licenses. BiH, Montenegro, Kosovo, and Russia may also prove to be viable markets, especially while these countries' requirements for quality and food safety standards are not stringent (something that could soon change).

The new National Meat Processors Association could help expand markets for Serbia's meat products. The association includes Turkovic (Sjenica) as well as Agro-Adrija (Preševo) and two other processors in Leskovac.

Exhibit 5-2

SWOT Analysis for Meat Processing Subsector

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong tradition of meat processing in this region (particularly Southwest) • Existing facilities reasonably modern • Most registered slaughterhouses and butcher shops ISO, HACCP certified • Proximity to inputs 	<ul style="list-style-type: none"> • Less livestock; lack of local supply of livestock (beef) • Large number of informal, unregistered slaughterhouses and butcher shops • Small size and scale of operations • Limited varieties of product outputs • Technology/equipment varies widely among processors • Poor value chain governance (buyers of milk and dairy products do not pay on time; sometimes not at all); lack of trust between producers and dairies; dairies and middlemen or other buyers. • Lack of strict application of certifications, and state rules for product safety and quality • Environmental degradation; improper treatment of offal and waste

Opportunities	Threats
<ul style="list-style-type: none"> • Local markets not saturated yet from competitors in the short term—limited opportunities selling to caterers, restaurants in Belgrade • Lamb and sheep market/value chain—shorter breeding cycle; less upfront investment • Demand for sheep/lamb from local population and neighboring countries • Halal market for meat products (beef, sheep, lamb)—domestic and export • Artisanal sausages with improved marketing/branding • National Meat Processors Association includes representation from Southwest and South—opportunity to impact marketing, national policies, extension, etc. • International donor attention • Potential funding from Development Fund; SIEPA, MATWFM, et al 	<ul style="list-style-type: none"> • Lack of strict application of certifications, and state rules for product safety & quality • Beef market saturated in other parts of Serbia • Vulnerable to import competition ; competition from better established domestic processors • Political volatility; impact on export markets

VEGETABLE SUBSECTOR (SOUTH SERBIA)

Production

South Serbia’s natural resources and climate are comparative advantages for agricultural production, particularly vegetables. Vegetables are produced in the fertile valleys near Vranje, Bujanovac, and Preševo and especially in Jablanicki district (Leskovac and Vlasotince). The Jablanicki district has always been known for its vegetables (tomato, peppers, lettuce, carrots, cucumber) but Pcinjski does not lag far behind. South Serbia usually produces more vegetables than the rest of the country.

Despite these advantages, the region—particularly the municipalities of Vranje, Preševo, Bujanovac, and Medvedja—faces tough challenges in agricultural production. Most farming is on smallholder plots and there is little consolidation of agricultural land. The same farmer may be working small plots of land several kilometers apart, and different crops are farmed right next to one another. Organized production through cooperatives or associations is very rare.

The near absence of technology in production also affects yield and quality. The lack of applied technology stems from the low level of agricultural extension services in the South, and lack of financing. Several years ago, with donor funding (USAID, HELP, et al), more than 200 greenhouses were built in the South to create jobs and sales and to raise subsector competitiveness. The greenhouses have helped somewhat but many have fallen into disrepair. Also several years ago, many farmers in South Serbia switched to tobacco production after the British American Tobacco factory opened in Vranje. Unfortunately, they did not establish a good working relationship with the factory and now 90 percent of them are trying to return to vegetable production. This effort to return requires some special assistance as the soil is now contaminated with viruses and pesticides used for tobacco and some vegetables cannot be grown, including the tomatoes, potatoes, and peppers traditionally grown here.

Nonetheless, stimulating vegetable production in South Serbia has the potential to increase jobs and income. Increasing production, especially greenhouse production of tomato, pepper, cucumbers, lettuce, and cabbage, will require significant investment in production, but will bring significantly higher incomes than common open field production (usually with a ratio of 1:5). The infrastructure is for the most part there but may need to be rehabilitated. This type of production also requires a lot of manual labor, which makes it ideal for the family business model typical to the region.

End Markets

The market for raw vegetables is local, but we note that these crops can face competition from neighboring countries whose vegetables are grown in more favorable Mediterranean climates and enjoy longer crop cycles. The greatest potential for vegetables lies with local processors in Leskovac and in linking Southern producers with larger processors in the North. These cleaning, sorting, and packing houses are purchasing raw material from outside of the region because of their lower prices.

If processors in South Serbia (Table 5-6) could be convinced to expand their supply base south rather than north, they and producers could both benefit. Some projects are already linking southern producers with steady domestic markets. The local NGO LifeAid, together with USAID and the German NGO HELP, has facilitated the sourcing of local lettuce for McDonald's restaurants in Serbia. Other opportunities lie in linking producers to processors of high-value added food products such as gherkins, peppers in cream, pepper powder or *ajvar* (red pepper paste). Capacity might also be built to process these products locally.

Table 5-6
Vegetable Processors in South Serbia

No.	Company Name	No. of Employees	District/Municipality
1	Strela	120	Jablanica, Leskovac
2	Jug Prom	90	Jablanica, Leskovac
3	Moravka Pro	52	Jablanica, Leskovac
4	Fungo Jug	40	Jablanica, Leskovac
5	Sonder Jansen	30	Jablanica, Leskovac
6	Simbi Cma Trava	29	Pcinja, Vranje
7	Jug Voce	15	Jablanica, Bojnik
8	Ana Eksport-Import	10	Pcinja, Bosilegrad

Exhibit 5-3
SWOT Analysis for Vegetable Subsector (South Serbia)

Strengths	Weaknesses
<ul style="list-style-type: none"> • Tradition of farming and agriculture • Favorable geographic position and climate conditions; richness of water flows and hot springs • Good reputation for vegetable production; higher yields than in some other parts of Serbia • Large population suitable to medium to large scale production • Existing infrastructure of hothouses and greenhouses from previous donor-funded efforts 	<ul style="list-style-type: none"> • Smallholder farms; no consolidation of land causes inefficiencies and higher costs • Little organized production (cooperatives, associations) • Degradation/contamination of soil from tobacco farming efforts that did not work out • Low level of applied technology and extension services • Loss of knowledge and expertise • Lack of processing facilities in underdeveloped and devastated municipalities—cannot add value in region • Lack of knowledge on capturing new markets within Serbia • Export market for raw vegetables very limited • Considerable investment required to stimulate production
Opportunities	Threats
<ul style="list-style-type: none"> • Local markets for fresh vegetables • Agricultural processors in Leskovac and further North who are looking to expand their supply base in areas closer to them • Demonstration effect of donor-funded projects (e.g., HELP project with McDonalds) can replicate success • Value added products (gherkins, ajvar, peppers in cream) • Vegetable production is labor intensive; can generate more jobs in the region • Donor assistance; assistance from Government of Serbia (Development Fund, MATWFM funds) 	<ul style="list-style-type: none"> • Imports of vegetables from neighboring countries with more favorable climates and production cycles • Challenges in fulfilling international quality and food safety standards • Competition from better organized, more established producers in other parts of Serbia • Market penetration of value-added products—many other processors (domestic and foreign) making these products • Hesitancy of investors to build industry up again in uncertain political environment

OTHER SUBSECTORS

Tree Fruits

Fruit production is present in Prijepolje, Nova Varos, and Priboj on a small scale. The one large-capacity sorting plant in Nova Varos, with a processing unit built in the 1970s, serves more as a collection point for berry products rather than a sorter. Several years ago, an FAO-funded project supplied farmers with apple seedlings of different apple varieties. Each farmer received seedlings for 0.5 ha. Farmers with these seedlings became the biggest apple producers in the region, but immediately faced a host of issues: high production flooding the market, varieties needing intensive and expensive care, and marketing. Most gave up. Prijepolje municipality is trying to develop or otherwise invigorate fruit production by providing subsidies to each farmer who wants to produce fruit (50 percent price of seedling).

Fruit production in South Serbia is also small in scale. Pcinjki district has 1,700ha under fruit production (Vranje, 650 ha; Vladicin Han 455ha; Bujanovac 185ha; and Surdulica 195ha). Constraints include lack of appropriate postharvest infrastructure, such as cold storage and

warehouses; disorganization of local fruit growers; lack of access to credit; and competition from imports. DANIDA's Fruits and Berries (F&B) project is trying to address these constraints but has only recently begun operations (see more below).

Berries

In Southwest Serbia a small land area is under berry production, mainly raspberries. All told, no more than 10 ha on about 100 farms are devoted to raspberry production. In South Serbia, the F&B project mentioned above is working in the Pcinjski and Jablanicki districts to support five value chains: raspberries, sour cherries, strawberries, blueberries, and plums. The project aims to increase production for domestic and export markets. USAID, through the SAP, has expressed its support for this program, offering to collaborate and pool resources as appropriate. The berry sector is strong in other parts of Serbia; with USAID's assistance, blueberry exports have grown well from a nearly nonexistent production base. Developing this subsector in the target regions and municipalities, however, will take time and USAID might not see results in its desired timeframe.

Wild Gathered Products (Mushrooms and Herbs)

SAP has been working with the mushrooms and herbs sector for several years, and project sources are bullish about connecting lead processing firms such as Strela (in Leskovac) with potential gatherers in the target regions. Collecting mushrooms and herbs does not require a lot of skill, barriers to entry and investment are low, and the crop cycle is nearly year-round. Other sources with more experience in the South and Southwest are less enthusiastic, considering the subsector too "niche" and the labor supply mismatched. Southwest Serbia has the right terrain, but not enough people to undertake the gathering and is quite isolated from processing centers. South Serbia has enough potential gatherers but not the right terrain. There is also evidence that traditional farmers in these regions are uninterested in entering this gathering work, given the relatively low price paid for wild products. Given these strong opinions we classified this subsector a "maybe" and believe it deserves further consideration.

6. Nonagricultural Sector

Though much of Southwest and South Serbia is rural, nonagricultural economic activity in the regions' urban centers dates back to the early days of the former Yugoslavia. In Southwest Serbia, the textiles and apparel subsector—centered in Novi Pazar—dominated production. In South Serbia, furniture and light manufacturing serving the construction industry was a large source of income and employment. South Serbia also has a history of shoe production. Throughout fieldwork, respondents were consistently upbeat about the potential of nonagricultural subsectors to generate sales and employment in Southwest and South Serbia.

Table 6-1 is our matrix for screening subsectors for their potential to generate sales and jobs in underdeveloped and devastated municipalities in Southwest and South Serbia. We selected textiles and apparel and shoes, which together make up the fashion subsector, and light manufacturing as worthy of USAID investment given the near- to mid-term view. Details on these subsectors, including SWOT analyses, are presented in the rest of this section.

Table 6-1
Framework for Nonagricultural Subsector Selection

Subsector	Sales	Jobs	Timeframe (1-3 Years)
Light manufacturing	Yes	Yes	Yes
Shoe production	Yes	Yes	Yes
Textiles and apparel	Yes	Yes	Yes
Tourism	Yes	Yes	No
Wood production	Yes	No	No

FASHION SUBSECTOR: TEXTILES AND APPAREL AND SHOES

Textiles and apparel have been an economic focus in Novi Pazar, Sjenica, and Prijepolje (Southwest Serbia) since the Yugoslav era. Each municipality has at least one textile company with more than 100 employees, and each claims niche areas of production based on historical specialization. Tradition may give these municipalities some comparative advantage but reliance on it may impede subsector development. The textile industry in Novi Pazar has received generous donor assistance, including from USAID's Economic Security (ES) program. Consequently, the most is known about the activity and dynamics of subsector in this municipality. Issues in Novi Pazar should be considered representative of the whole. Table 6-2 lists the lead textile and apparel companies operating in Southwest Serbia.

Table 6-2

Biggest Textile and Apparel Companies in Southwest Serbia by Number of Employees

No.	Name	Capacity (pieces per day)	Field of Work	No. of Employees	LSG
1	Sanatex doo	2,000,000	Woman fashion underwear	600	Sjenica
2	Conto Bene	1,200	Jeans	200	Novi Pazar
3	Medaki	800	Jeans	125	Novi Pazar
4	Nesal	650	Jeans	120	Novi Pazar
5	Trentex			100	Prijepolje
6	Denis	500	Jeans	80	Novi Pazar
7	Stilex		House and hotel laundry, working clothes , wool products	80	Prijepolje
8	Gold star		Sport clothes, knitted fabrics	60	Prijepolje

Note: Only companies with at least 50 employees are listed.

SOURCE: LED offices, 2011

Shoe production is also a traditional economic activity in the target regions, particularly in South Serbia. Shoe production dates back to 1958 with the establishment of the Koštana shoe factory in Vranje. Economic data in Serbia includes shoe production in “light manufacturing” so disaggregating data for this subsector can be difficult. For this assessment, we consider textiles and apparel and shoe production together as a “fashion” subsector because they have similar strengths and face similar challenges in upgrading value chains and entering markets.

Textiles and Apparel in Southwest Serbia

In this section, we examine the textile and apparel industries in Novi Pazar, Sjenica, and Prijepolje. Novi Pazar’s firms specialize in sportswear and denim jeans, while Sjenica’s specialize in women’s fashion undergarments. Prijepolje’s firms are not so specialized and the biggest companies produce home and hotel linens, wools, work clothes, uniforms, protective clothing, etc.

Novi Pazar

The intensive development of Novi Pazar’s textile industry began in the early 1990s with the collapse of Textile Combinat Raska, a state-owned enterprise that employed 5,000 people. Filling the vacuum created by the collapse, private casual wear manufacturers transformed themselves from small family workshops into significant actors in the textile industry. With production capacities of 19,000,000 length meters/year the textile industry is now the main industry in Novi Pazar. Production in 2010 and 2011 reached about 4,000,000 length meters/year, or 25 percent of capacity. The industry is estimated to employ between 8,000 and 10,000 people, many of them women.

As mentioned earlier, Novi Pazar has become famous for denim jeans production, though other materials such as corduroy, twill, and cotton are also used. Nearly all the fabric for textiles is imported. Large firms do much of their own ordering while small ones pool orders through third-party importers. Production technology and machinery vary with the size of the enterprise. Large and medium-sized companies have high quality and new machines, as well as full-time engineers

and designers. Many offer a stone finish option, which involves very expensive and demanding technology, and such a concentration of capacity in one area makes Novi Pazar unique in Europe. A number of factories also have in-house laboratories for quality control.

Large companies have production areas set up for 200-300 employees, but most are not working at full capacity and contract certain jobs with small producers, including entrepreneurs and households. Small producers follow simple processes, tend to have old machinery, and work most of the year without interruption. Production tends to be lowest in January and June. This way of working has been profitable for big companies and small producers. Most small producers are not registered with the government and therefore have no legal protection and cannot access credit (or receive USAID assistance through programs like ES).

Getting credit and collecting timely payments (i.e., enforcing contracts) are challenges for even the biggest registered firms and informality further weakens industry competitiveness. To address this situation, the largest textile producers from Novi Pazar, with USAID's assistance, created the Textile Association (ASSTEX) in 2009. The association started with 17 members and now has 135.

About 40 percent of production in Novi Pazar is for export. The main export markets are Bosnia and Herzegovina, Croatia, and Montenegro. The large firms have their own brands but also manufacture for international companies for cash flow and profitability. To improve the marketing of Novi Pazar's apparel products, ten producers formed the ASSTEX Cluster to target markets in Poland and Russia. The cluster has secured contracts with five companies in Poland and opened a representative office in Russia, with the help of USAID and SIEPA, and secured two contracts in Russia. The cluster is viewed as relatively successful and producers in other regions and municipalities are interested in replicating it with donor- or government-funded technical assistance. Novi Pazar's textile industry holds promise, but must improve production and marketing to withstand competition from Chinese producers.

Sjenica

Based in Sjenica, Sanatex is the biggest textile company in Southwest Serbia, with more than 600 full-time employees in the municipality. Sanatex has a factory with 150 employees in southeast Serbia. Almost all employees are female, so Sjenica has few unemployed women. At the moment, the company is searching for 350 more workers. Another 12 enterprises with 20-40 full-time employees are registered for textile production in Sjenica; 20-30 small registered and unregistered units are also operational. As in Novi Pazar, these small units often work part time, depending on market demands and given contracts. Ninety-five percent of companies in Sjenica produce women's accessories and swimsuits, about 3,000,000 pieces annually, of which 2,500,000 come from Sanatex.

Textile producers in Sjenica have not yet formed an association. Sanatex could increase its production significantly if its relationships with smaller firms/potential contractors in the municipality improved (through some sort of agreement or association), but these smaller firms are not interested in collaborating with Sanatex. Unfortunately, this reluctance to form an association has also caused smaller firms to reject larger contracts from EU countries because they do not have the capacity to fulfill these orders themselves.

The average salary in the textile industry in Sjenica ranges from 200-250 Euro per month. Sanatex reports it will raise its top salary to 300 Euro per month. With these salary levels, the companies are competitive in all markets. They also have a good reputation in European markets. Well-known European clothing retailers sourcing product in Sjenica include Benetton, Armani, Lormar, and Triumph. Sanatex just started a ten-year contract with Triumph. The nine other companies are working on contract with Lormar, though that contract will end in spring 2012 with little hope of renewal.

Prijepolje

The textile industry in Prijepolje is diverse and quite distinct from the industry in Novi Pazar and Sjenica. The biggest companies are Trendtex and Stilex with 97 and 80 employees, respectively. Trendtex handles 70 percent of textile production in Prijepolje. Stilex produces hotel and home laundry and bed linens. Both firms make work uniforms. Most of the other, smaller companies produce readymade clothing, and a few also produce sport socks. These companies usually have their own shops and all are registered. An association of textile, leather, and shoe producers has held initial meetings, though it has not registered with the government as an NGO. Most clothing and linens produced in Prijepolje are exported to Germany.

Shoe Production in South Serbia

As mentioned, the Pcinjski district in South Serbia has a tradition of shoe production. Producing women's and sports shoes of exceptional quality, Koštana quickly established itself as a leader throughout the Balkans. At its height, the company employed 4,000 workers and had production facilities in several municipalities in the Pcinjski district. The economic sanctions during the Milosevic era led to the company's collapse and the company declared bankruptcy in 2003.

In recent years, enterprising professionals in eight factories have revived shoe production in and around Vranje, employing skilled workers from the former Koštana Company. Sanch is the largest of these, employing 552 workers, followed by Mineks and Mladenovic Vranje (Table 6-3). According to data provided by the Vranje LED office for the Pcinjski district, another 68 businesses are involved in manufacturing leather products and shoes. This does not account for what could be a high number of unregistered businesses.

Table 6-3
Shoe Producers in Pcinjski District

No.	Company Name	No. of Employees
1	Sanch	552
2	Mineks d.o.o	150
3	Mladenovic Vranje	100
4	Kenda Farben SPA	85
5	Danny Style d.o.o	80
6	Stefi Komerc d.o.o	80
7	Alekstra Vranje	53
8	Ilić Od	42
9	Lotos Vranje	15

No.	Company Name	No. of Employees
10	Kožar	14
11	Roberto SS d.o.o	7

Daily production ranges from 50 to 2,300 pair of shoes, with some companies making only men's shoes and others only women's shoes of various types and styles. The large firms are running below capacity and some could raise productivity by as much as 100 percent if they could find enough skilled workers to add a second shift—a significant problem in a region with a high rate of unemployment. Most of the skilled workers are elderly or retired and their expertise is not being replicated in a new generation. The traditional training ground for new shoe workers, the leather production department at the secondary chemical technology school in Vranje, was closed six years ago. According to the mayor of Vranje, training could begin again once certain procedures are completed with the Ministry of Education. Restarting this training immediately could be an important step in continuing the revival of the shoe industry in the region.

In the meantime—as with textiles and apparel—the large companies outsource certain aspects of production to small producers with mixed results. Quality cannot be guaranteed, and contracts are not always honored. Firms both large and small also face other challenges in business planning, work organization, quality control, certification, market development, and product promotion. With USAID support, the “Koštana Shoe Cluster” was formed in autumn 2011 to address these issues. The cluster has 14 members, consisting of 12 companies, the Regional Development Agency for the Pcinjski and Jablanicki districts, and the secondary chemical technology school in Vranje. Some companies, like Sanch from Vranje, are lead members and could act as mentors for others in the cluster.

Many of the large shoe companies have been in business for more than 15 years and have refined their products and market. They produce for such European fashion brands as Nero Giardini, Moschino, and Progetti of Italy, and Louis Vuitton of France. They are also exploring markets in Germany and Russia, with donor assistance. Koštana cluster members participated and will participate in trade fairs in Germany in 2011 and 2012, and similar activities are being planned for the Russian and Polish markets. Companies will present their products as individuals and as a cluster. Sanch is especially interested in breaking into the U.S. market in a sustained way.

Companies are also interested in developing their own brands for the domestic and regional market (Bosnia and Herzegovina, Croatia, Macedonia, and Montenegro) since the profit is higher and they could further expand. But, as with textile and apparel producers in Novi Pazar et al, the costs of developing and expanding brands must be weighed against the potential benefits.

Exhibit 6-1

SWOT Analysis for Fashion (Textiles and Apparel/Shoes) Subsector

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong tradition of textile and apparel and shoe production; strong reputation in Serbia, CEFTA countries and Europe • Cadre of skilled workers • Large employer in Southwest Serbia (textiles and apparel) and South Serbia (shoes) • Apparel industry has proven it can adapt to changing markets • Relatively good equipment in larger firms • Relatively competitive wages, especially compared to Western Europe • Willingness to pool resources; form associations (ASSTEX and Koštana clusters) • Presence of vocational schools 	<ul style="list-style-type: none"> • Undertrained in specific technical machine usage • Many small firms dependent on subcontracts with large firms • Unregistered production; informality of smaller, contract firms • Lack skills/capacity in high level market and organizational development • Shortage of trained production workers, despite unemployment in both regions—need more specific training to suit industry • Value chain governance issues: contracts broken, late payments, unreliable buyers on the domestic market; quality issues with using smaller firms on contract work • Access to credit can be challenging • Perception of only women being capable of precision work limits potential workforce expansion • Negative environmental impact from dyeing and ‘aging’ fabrics and disposal of scrap leather
Opportunities	Threats
<ul style="list-style-type: none"> • Textiles and apparel and shoe clusters have consistent work in Western European markets (France, Italy, Switzerland, Germany) • Markets opening in Poland and Russia for textiles & apparel • Market expansion in Serbia and CEFTA countries under their own brands • Creation and expansion of new company brands can bring greater value added • Development Fund—favorable loans subsidized by the Government of Serbia • SIEPA support (e.g., co-financing of foreign representative offices) • USAID assistance (ES Project) on organizational/change management, quality standards, marketing and branding, trade show attendance • Workforce programs in cooperation with lead firms and local technical high schools in Novi Pazar and Vranje • Strong potential to increase sales and employment 	<ul style="list-style-type: none"> • Fashion industry always changing; must be nimble and keep current with trends • European buyers only want product for their own brands; will not welcome Serbian-branded items into their markets • Competition from Chinese and other low-cost imports, once trade opens up under WTO • Leather production education in Vranje remains closed

LIGHT MANUFACTURING SUBSECTOR (SOUTH SERBIA)

The target regions, especially South Serbia, are experiencing a small construction boom driven by a growing population's demand for housing and remittances from laborers working in Germany, Austria, Switzerland, and the Netherlands. These workers are making long-term investments in houses and apartment blocks to live in and rent once they return to Southwest and South Serbia. The economic crisis in the European Union and Serbia is also forcing construction firms and general contractors to cut costs, in part by looking further afield for suppliers with a cost advantage and relatively cheap labor. South Serbian producers of doors, windows, wooden and aluminum joinery, cabinetry, scaffolding, ceramics (toilets, sinks), office furniture, metal processing all fit this bill—providing high quality products at relatively low prices.

Table 6-4 lists light manufacturing firms registered in the Pcijski district. Reliable data on these firms is difficult to obtain, and the best source of information is probably the ES Project, which has been assisting firms in Southwest and South Serbia for the past four years. The project cites Tobler, Celiku, NURA, and Ceramika as firms with great potential to capture more market share and create jobs. We note that unregistered firms operating in the gray economy conduct as much as 50 percent of subsector activity related to wood.

ES broadly aggregates firm-level data in this subsector as “light manufacturing.” In reality, firms in this subsector encompass a range of production and all may be serving unique domestic and export niches.³ The project does not take a sector-based or value chain-based approach, so it is difficult to “pick winners” in this subsector. Instead, we focus on common strengths, weaknesses, opportunities, and threats in this broad category of firms serving the construction boom.

As mentioned earlier, SIMPO, the large state-owned furniture manufacturer, has been a de facto business incubator for the majority of light manufacturing companies in and around Vranje. In its heyday, SIMPO enjoyed a fairly good reputation as a manufacturer of home furnishings of export quality. As SIMPO's future hangs in the balance pending privatization, top talent has left to start niche firms, capitalizing on the knowledge, expertise and business networks gained under SIMPO's employ. These firms produce relatively good items. When SIMPO is privatized the furniture and home furnishing subsector in South Serbia will likely benefit, as the government's continued support of SIMPO is preventing the creative destruction that could fuel the furniture industry's re-emergence as an engine of economic growth.

To continue growing, many light manufacturing firms require training in market development, organizational development, and change management. They must also overcome a shortage of skilled and qualified workers. In some cases, the “shortage” arises when trained employees start their own companies, especially in wood and aluminum joinery. This type of production can be initiated with relatively little capital, about 3,000 Euro for basic low-quality production performed by a single entrepreneur. To address the shortage, the USAID ES project is collaborating with the technical high school in Preševo to cost-share the purchase of equipment commonly used in light manufacturing so students can be trained on its use before entering the workforce. The project is also trying to establish internship or apprenticeship programs between the high school and local firms.

³ Borrowing the terms of the Government of Serbia, the ES Project also places shoe companies in the light manufacturing category.

Table 6-4

Light Manufacturing Companies Registered in the Pcinjski District

No.	Company Name	No. of Employees
1	Lagado Bujanovac	250
2	Trajkovi DOO Ristovac, Vranje	50
3	Fenix DOO Vranje	45
4	Nura Presevo	20
5	Pegasus O.D Vranje	16
6	Sipor D.O.O Vranje	15
7	STR Sarac, Medvedja	15
8	Hanibal KD Vranje	13
9	Marković DOO Vranje	12
10	Alumina D.O.O , Vranje	12
11	Tina Trade Vranje	10
12	Celiku Presevo	10
13	STR Zenit, Medvedja	8
14	Mahagon Bujanovac	7
15	Milenium OD Vranje	
16	Simpres-m Vranje	
17	Arbo DOO	
18	Tr Iver-Com	
19	Furko Bunuševac	
20	Cerak D.O.O , Vranje	
21	STR Vukic, Medvedja	

SOURCE: LED offices in Vranje and Medvedja.

The market for light manufacturing products is primarily domestic—both in the immediate area and further afield (Central Serbia). For example, Celiku sells 93 percent of its products in other parts of Serbia. This is significant, as Celiku’s success has shown other Albanian-owned firms that ethnicity is not an obstacle to selling in other parts of Serbia. Other firms are in fact exporting. Some export directly, while others export through middlemen (e.g., Pegasus in Vranje). According to NURA in Preševo, export procedures for Western Europe are not an obstacle; the firm is exporting up to 30 percent of its products to Switzerland. Though there have been attempts at forming associations or clusters to assist in the marketing of light manufacturing products, most of firms we interviewed appear to resist horizontal cooperation. The success of clusters in the fashion subsector (ASSTEX, Koštana) may be softening such resistance.

In the aggregate, these firms do not seem too concerned with international certification, perhaps because their primary market is domestic. One firm interviewed obtained ISO 9001, 14000, and 18000 certification in 2008, but has not renewed certification because it lacks time and workers to implement the required systems and not having certification has not yet proven to be a barrier to business. As the subsector opens up, and as these firms eye market expansion, they may reconsider the value of international certification.

Exhibit 6-2

SWOT Analysis for Light Manufacturing Subsector (South Serbia)

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong aggregation of skilled companies “incubated” by SIMPO • Businesses have relatively high level of business expertise, networks • Relatively high quality products at low prices • Many businesses are export ready • Strong sense of entrepreneurialism in the subsector • Number of skilled workers • Relative ease in training entry level workers • Building strong reputation in Serbia and, increasingly, abroad 	<ul style="list-style-type: none"> • Needs specific targeted training in high level market development & organizational development – many small, family-run businesses • High amount of informality in sector; constant splintering into smaller firms to evade taxation • High number of smaller firms dependent on subcontracts from larger firms • Value chain governance between larger LM firms and unregistered smaller firms • Lack of skilled workers to fuel expansion of production; meet demand
Opportunities	Threats
<ul style="list-style-type: none"> • Construction boom in the region; general contractors and construction companies in other parts of Serbia looking for high quality, low cost components for homes and apartment blocks • Export expansion into Western Europe, CEFTA countries • Government of Serbia support (Development Fund, SIEPA) • Donor support at firm level (e.g., USAID / ES) • Workforce/vocational program between LM firms and technical high school in Preševo • Potential to generate both sales and jobs in South Serbia 	<ul style="list-style-type: none"> • Construction boom ends • Challenges in fulfilling quality standards (EU and other) • Purchase of SIMPO by credible buyer

OTHER SUBSECTORS

Tourism

Throughout fieldwork, tourism development—particularly for Southwest Serbia—was a popular theme among regional development agencies, municipal governments, and others. Indeed, Southwest Serbia is blessed with natural beauty, rich ethnic and cultural diversity, and proximity to ski areas, rivers, forests, and historically significant sites. Agro-tourism would provide new opportunities for the region’s farmers. South Serbian districts also have their sights set on tourism and on benefitting from the region’s location along Corridor X. The Regional Development Strategy for the Jablanicki and Peinjski districts (2008-2012) identifies several heritage sites, hot springs (*banja*), festivals and recreational sites (e.g., Vlasina Lake) that, if developed, could improve tourism offerings, the regional economy, and employment.

Tourism development, however, is constrained by challenges that do not appear solvable within USAID’s near- to mid-term timeframe. The challenges are manifold, ranging from infrastructure, the enabling environment (land ownership, privatization, investor confidence), business planning and feasibility studies for site development, a lack of “service mentality” in the region, pollution, and perceived political instability. Given the areas’ natural assets, the infectious desire to develop tourism is understandable. Denizens of this area have justifiable pride of place, and believe that

all others will naturally see this as well. However, target markets must be carefully considered; Southwest Serbia will be competing with well-established direct competition in Austria, Switzerland and Northern Italy. Literature on tourism as the “magic bullet” of economic growth and rural development is also proliferating. Nonetheless, the challenges are considerable and USAID should invest with care in this sector.

Wood Processing and Furniture (Southwest Serbia)

The target districts in Southwest Serbia are close to sizeable forests, and there is a history of producing wood products and furniture sourced from these areas. A large number of primary and secondary processors are operating in the subsector but at least half are not registered and are defying the cutting limits of the Serbia Forest Service. Many processors and furniture makers could benefit from donor assistance but until informality and illegal wood sourcing are curbed the subsector must remain somewhat self-sufficient.

7. Recommendations

As USAID/Serbia contemplates additional economic growth assistance, it faces several decisions on the best approach and the best investments to leave a powerful legacy of alleviating poverty in Serbia—especially for vulnerable groups in underdeveloped and economically devastated municipalities in the Southwest and South. Through the Serbia Agribusiness Program (SAP), Economic Security Project (ES), and Serbia Local Development Program (SLDP), USAID has arguably had the most robust and consistent donor presence in Bosniak and Albanian-majority areas; this assistance has not gone unnoticed or unappreciated.

Throughout this report, we have recommended agricultural and nonagricultural subsectors to consider in future economic growth programming. The SWOT analyses described challenges and opportunities in each subsector, revealing where USAID might channel technical assistance to capitalize on opportunities. Below we present broader recommendations for the next phase of USAID economic growth programming.

RECOMMENDATION: Adopt (to the extent possible) the sector/value chain approach for activities traditionally handled at the firm level by ES. USAID is running three economic growth programs affecting Southwest and South Serbia, all of which take different yet overlapping approaches. The SAP is a traditional value-chain development and subsector program with a national focus. It engages processors mid-way in the value chain to improve the quality and quantity of raw material provided to producers, and to identify new end markets through improved marketing (trade shows) and branding, and through forming new subsector associations. Though SAP is paying more attention to the Southwest and South in its final year, its focus has been national not regional.

Meanwhile, the ES project works with companies in the South and Southwest, assigning firms to a development tier—top, middle, or base—on the basis of minimum annual sales figures, age (e.g., established vs. startup), and geographic area. Most participating firms in Southwest and South Serbia are in the base tier and receive an assistance package of business basics, access to finance (often in terms of Development Fund), and marketing assistance (trade fair participation). Firms are not considered as “sectors” beyond being placed in broad categories of economic activity. Meanwhile, the SLDP is working with municipal LED offices to encourage cooperation and the pooling of resources for market research, technical assistance, etc.

As the ES project has proceeded, clusters of relatively sophisticated firms have developed in each target region (e.g., ASSTEX in Southwest and Koštana shoe cluster in South) and ES has adopted a cluster approach, encouraging the pooling of resources to enable access to new markets (e.g., Russian market for Novi Pazar denim) and linking the private sector to local technical high

schools and universities to match the skills of graduates with the requirements of firms. This approach is not incompatible with SAP's value chain/sector approach. While academics might make semantic distinctions, many development practitioners would view the two approaches as similar if not identical.

Adopting a value chain or sector approach for the textile and shoe subsectors should not raise issues. Geographically-based clusters have already formed and, with USAID's support, have started entering new markets and addressing issues such as the lack of skilled labor. In the agricultural sector, jobs and sales might be improved at the producer level (particularly in the vegetable subsector) by taking the value chain approach of working with processors to expand their supply bases. Any new project should also be flexible enough to support firms that might defy easy categorization (especially in light manufacturing), through a grants fund or Special Activities Fund mechanism.

RECOMMENDATION: Focus on the nonagricultural sector for quick returns on investment, the agricultural sector for long-term results. The assessment team had two overriding instructions for this analysis: (1) focus on where the most jobs can be created and the most income generated, and (2) select or recommend areas where significant change can be accomplished in 1-3 years. Under these parameters, the agricultural sector is second to the nonagricultural sector. Given the unique situation of Southwest and South Serbia, USAID must consider to what degree it wants to focus on "export-ready" firms and clusters needing a boost to move forward (e.g., textile, shoe and light manufacturing firms) versus supporting subsectors that will need considerable assistance to enter markets that—on a national level—already face what could be overwhelming competition in somewhat saturated markets (dairy and meat processing firms, vegetable producers). There are reasons to support the agricultural sector in Southwest and South Serbia, but stimulating a large spike in sales, jobs, and overall subsector competitiveness may not be one of them: agricultural assistance from USAID might be better viewed as "life support" or a de facto social safety net as farmers face the eventual dissolution of traditional industries.

RECOMMENDATION: Consider target municipalities/districts in a broader economic context. Entry and exit briefings with USAID/Serbia stressed the Agency's interest in deciding which four municipalities in Southwest and South Serbia it should target for assistance in the next program. The obvious choices are municipalities classified as "economically devastated" by the Government of Serbia and with dominant ethnic minority populations (e.g., Sjenica, Tutin, Bujanovac, and Presevo). However, one cannot consider these municipalities without considering their symbiotic economic relationships with neighboring, more economically developed municipalities (e.g., Novi Pazar, Vranje, Leskovac). SLDP is taking this approach at the municipal level and this should be continued in any following project.

This focus on inter-municipal collaboration in the public sphere should also be considered for the private sector. The value chain or sector approach entails connecting Southwest and South Serbian suppliers with processors, middlemen, wholesalers, and buyers further up the value chain. These actors may be in more developed municipalities in the immediate area (potential of linking Southern vegetable producers with processors in Leskovac), Belgrade, or even abroad. Republic-level enabling environment issues may also affect regional/local firms in specific sectors. USAID might consider funding actors like the National Dairy Processors Association and National Meat Processors Association to advocate for changes in national policy that can trickle down to the

target regions. Regional representatives in these associations (e.g., Turkovic, Leskovac Dairy) can also ensure that regional concerns are voiced.

RECOMMENDATION: Choose partners who have the greatest potential to affect sales and growth. National, regional, and local economic actors in Serbia are proliferating; making sense of them was one of the more challenging parts of this assessment. According to interviewees, the Development Fund may offer the best opportunity for supporting local businesses at the national level. The Fund offers low-interest loans on favorable terms to disadvantaged businesses through a relatively straightforward process. These loans carry less risk than other potential government-sponsored financing schemes.

SIEPA can also be a strong partner, particularly for associations or clusters; however, SIEPA's administration of funds poses more risks for the small entrepreneur. SIEPA expects firms or associations to pay costs upfront, and then reimburses them on the basis of receipts. SAP has assisted client firms mainly through the dissemination of information on available programs offered by the MAWFM and MRRD. These ministries can continue to be strong partners to helping agricultural and nonagricultural firms expand jobs and sales.

At the regional level, RDAs should be considered in planning and implementation; however, as long as their mandate is not fully supported by the GOS they will probably have capacity gaps. USAID's investment in building the capacity of municipal LEDs is probably better placed, as these offices have the mandate (through decentralization legislation) and incentive to foster economic development. Collaboration with other donors' programs should also be continued. There are potential complementarities, such as between EU-funded programs working with producers (Fruits and Berries Project) and USAID's traditional approach of working with processors to foster backward linkages and embedded services.

Appendix A. Scope of Work

WORLDWIDE SUPPORT FOR TRADE CAPACITY BUILDING (TCBOOST)

Contract No. EEM-I-00-07-00009-00, Order No. 02

Terms of Reference Agribusiness/Enterprise Development Specialist (Team Leader) Serbia Assessment (South Serbia and Southwest Serbia)

BACKGROUND

Serbia's democratic, economic, and social development is central to the future prosperity and political stability of Southeast Europe. The United States seeks to engage Serbia as a constructive partner on bilateral, regional, Euro-Atlantic and global issues. USAID's Country Strategic Plan (CSP) for Serbia (2011-2015) has the overall strategic goal to support Serbia in its vision to be democratic, prosperous and integrating into Euro-Atlantic institutions. This will be done through two Assistance Objectives that address key economic and democratic reforms and are targeted to areas where assistance is most needed and where USAID can have the greatest impact. The first of these assistance objectives is "A More Competitive Market Economy." To support Serbia's increased competitiveness, USAID and its Serbian partners have designed, or are designing technical assistance programs in areas such as (1) private enterprise growth in selected sectors and (2) local economic development in the regions of Serbia with the greatest need--South Serbia and Southwest Serbia. Although the exact program areas within South Serbia and Southwest Serbia remain to be defined, they will definitely include municipalities in the following four districts: Zlatiborski and Raski for Southwest Serbia; Peinjski and Jablanicki for South Serbia.

Characteristics of Southern Serbia and Southwest Serbia: The regions of South Serbia and Southwest Serbia remain among the poorest in the country. Of the 150 total municipalities in Serbia, the government has classified 46 as "underdeveloped," with 40 of these further classified as "devastated" (i.e. their development levels are lower than 50% of the national average). Half of these municipalities are in South Serbia alone, and a majority of the others are in the Southwest Serbia region.

In almost every measure of economic wellbeing and human welfare, these two regions not only lag behind the rest of the country, they are doing so at an increasing rate. For example, average

wages in these regions are at least 2.3 times lower than in Belgrade, their ratio of population to doctors is more than 4.5 times worse than the national average, and discontinued education occurred at least seven times as frequently there than in the rest of the country. Not only have each of these indicators worsened over the past few years, they have done so at an increased rate compared to those of the greater Belgrade area and the Vojvodina region.

These regional disparities are particularly troubling in South Serbia and Southwest Serbia given the experience of inter- and intra-ethnic conflicts that have marked the recent histories of both areas. Economic marginalization and geographic isolation in both regions continues to be exploited by local political and ethnic leaders who use them to keep tensions elevated between and among Albanian, Bosniak and Serbian communities. These tensions lead to an atmosphere of political instability and fragmentation that effectively disincentives sufficient private sector investment necessary to drive economic growth and create jobs.

The economies of South Serbia and Southwest Serbia are primarily agriculture-based—approximately 68% of small rural households have identified agriculture as a source of income. These regions have specific comparative advantages in agriculture, presented by the favorable climate and a large share of high quality pastures and meadows. These conditions offer the best prospects for the livestock subsector (meat, sausage, dairy, dairy products), although there is also potential for increased production in berries (raspberries, sour cherries, blueberries), wild collected forest products (herbs & mushrooms) and specialized products such as organic honey. However, these subsectors face several challenges, including low productivity, a higher than normal ratio of post-harvest losses, food safety concerns arising from poor handling and storage, outdated production methods, low levels of horizontal linkages within the subsectors (i.e., associations), difficulty accessing finance and limited awareness of investment capital sources, low capacity to meet quality and food safety standards demanded by EU markets, and stiff market competition.

In non-agricultural sectors, South Serbia and Southwest Serbia have a long tradition of textile production and wood processing/furniture production; and rural tourism; however, these sectors have not achieved economies of scale, have had trouble attracting investment, and are being outsold in regional and international markets due to heavy competition from competitors able to produce goods more cheaply and to better meet buyers' quality standards.

Ongoing USAID Programs: USAID currently has several technical assistance programs in place that focus to a greater extent on South Serbia and Southwest Serbia: the Serbia Agribusiness Project (SAP), the Economic Security (PPES) project, and the Sustainable Local Development Project (SLDP).

- The Serbia Agribusiness Program (SAP) is a 5 year, \$25.8 million Serbia Agribusiness Project (<http://www.agrobiznis.net/>) providing assistance to Serbian agriculture and agribusinesses with the aim of increasing agricultural sales and exports by Serbian firms and creating new employment in the six selected agricultural sub-sectors: berries, dairy, wild collected forest products, livestock, tree fruit and vegetables. To address the specific needs of Southern Serbia and Southwest Serbia, the project recently hired three regional agribusiness development officers (ADOs) to cover Nis, Vranje and Novi Pazar. The ADOs will assess the current status of SAP client firms and attempt to identify new focus areas for assistance. SAP is scheduled to end in September 2012.

- The Economic Security (ES) project (www.scopes-serbia.org) promotes economic growth in South Serbia and Southwest Serbia by working with successful small and medium-sized enterprises and with Serbia's youth to equip them with the skill sets needed to compete in a global economy. The project's business development strategy focuses on sector-specific technical assistance to promising businesses with the capacity to expand into new markets and gain market share. Businesses operating in the following three sectors are considered for assistance: 1) textiles and apparel; 2) dairy; and 3) light manufacturing. The PPES project is projected to end in March 2013.
- The Sustainable Local Development Project (www.lokalnirazvoj.rs) is a five-year, \$22 million project designed to support the long term economic and social development of Serbian communities. Core Project activities target inter-municipal initiatives to prepare major infrastructure and area-wide development projects, improve local governments' financial and asset management, involve the public more directly public in municipal affairs, reduce red tape for businesses, support youth entrepreneurship and employment, and foster a more business friendly environment. The Project targets 12 inter-municipal partnerships, each bringing together three or more neighboring communities with common development interests. So far, 5 inter-municipal partnerships have been established in South and Southwest Serbia, including the municipalities around the cities of Novi Pazar, Vranje, Leskovac, Kraljevo, and Uzice. Through extensive stakeholder consultations, the Project developed its approach and streamlined activities in line with needs of the Government of Serbia (GoS). The project was launched in January 2011 and will be particularly active in South Serbia and Sandzak. The project will end in December 2015.

Assessment Support from TCBoost: As SAP nears its completion; USAID/Serbia is preparing to design a new private sector development program. With support from the Worldwide Support for Trade Capacity Building (TCBoost), the Mission is planning to assess which economic sectors and subsectors have the greatest potential to increase employment and sales (both domestic and export) for producers-- inclusive of rural residents, youth and women-- in the target South Serbia and Southwest Serbia regions. Toward this end, TCBoost will mobilize a team of three agribusiness/enterprise development experts—one expatriate and two locals—to interview public and private sector stakeholders and USAID- and other donor-funded economic growth technical assistance programs in South Serbia and Southwest Serbia, gather available economic data (qualitative and quantitative) to the greatest extent possible given time constraints (two weeks to cover four districts) and synthesize/analyze the information in a concise and targeted report for USAID/Serbia.

OBJECTIVE

To assist USAID/Serbia in determining which economic sectors and subsectors in South Serbia and Southwest Serbia are best positioned to generate jobs and sales – inclusive of rural residents, youth and women – and will provide the best return on investment for USAID development assistance.

TASKS

In the course of this assessment, the team shall:

(1) Review the following sources of information:

- Relevant documents on ongoing economic growth programs operating in South Serbia and Southwest Serbia, including those funding by USAID and other donors;
- Key framework/planning documents, including:
 - The National Program for Integration with the European Union (NPI)
 - The Ministry of Economy and Regional Development Report on SMEs and Entrepreneurship (2009);
 - The National Agricultural Program of the Republic of Serbia 2010-2013
 - The National Strategy of Regional Development
 - The Serbian Draft National Rural Development Program for 2011-13
 - The Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises
- Existing data (trade, investment, employment statistics) on potential sectors of interest
- Market trends (regional, global) for priority sectors/products.
Municipal local development plans (to be provided by USAID/Serbia in advance of fielding)

(2) Meet with relevant partners and stakeholders in Belgrade, Southwest Serbia (Zlatiborski and Raski Districts) and South Serbia (Pcinjski and Jablanicki Districts) to gather qualitative and quantitative information/data on economic sectors and subsectors with the greatest potential to increase jobs and sales in the targeted regions. Meetings shall include, at a minimum:

- USAID/Serbia Economic Growth Office;
- USAID Serbia Agribusiness Program;
- USAID Preparedness, Planning and Economic Security Program;
- USAID Sustainable Local Development Program
- EU PROGRES project and other EU-funded programs as necessary;
- Ministry of Agriculture (Sector for Rural Development) and Ministry of Economy (Sector for SME Development)
- Local partners in South Serbia and Southwest Serbia, including agricultural associations, regional development agencies, local self-government units, NGOs, etc.
- Lead firms in key agricultural and non-agricultural subsectors—including meat processing, dairy, vegetables, and textiles/apparel.
- Other donors and donor projects present in the two regions , including GIZ, Swiss and the European Union

(3) Synthesize available qualitative and quantitative information in a concise analysis for USAID/Serbia. The analysis should address the following questions for each region (Southwest Serbia and South Serbia):

- Overview: what are the main economic sectors in the region in terms of jobs and sales? What are the political and social issues in the region that impact economic growth overall? Which are the leading firms in these regions regardless of sector? What market opportunities do they see and are they focusing on?
- What are the strengths, weaknesses, opportunities and threats for the top two subsectors in the agriculture and non-agriculture sectors? The team should consider

- production/processing capacities, sales trends, potential for product innovation, development and marketing, quality standards issues, access to finance issues and opportunities for investment.
- Who, besides the lead firms, are the main economic actors with the potential to drive economic growth following Serbia's anticipated graduation from USAID assistance? E.g., sector or subsector associations, local development councils, etc.
 - How can the development of these economic sectors and subsectors positively impact the lives of youth and women?

(4) Deliver entry and exit briefings with USAID/Serbia Economic Growth Office

DELIVERABLES

The TCBoost team will be responsible for the following deliverables:

- Entry briefing with USAID Serbia to discuss the anticipated work schedule and interview questions.
- Weekly briefings with USAID/Serbia staff.
- Exit presentation of preliminary findings and recommendations for USAID/Serbia.
- Succinct analytical report on key economic sectors and subsectors that present the best potential for business growth and job creation in target districts within Southwest Serbia and South Serbia. It is anticipated that the report will be guided by the following outline:
 - I. Executive Summary
 - II. Introduction
 - III. Methodology
 - IV. Southwest Serbia (Zlatiborski and Raski Districts)
 - Political/Social Context for Economic Activity
 - Key Economic Sectors (Jobs, Sales) and Lead Firms
 - Top Two Agricultural Subsectors
 - i. Introductory Paragraphs (Lead Firms, etc)
 - ii. SWOT Analysis
 - Top Two Non-Agricultural Subsectors
 - i. Introductory Paragraphs (Lead Firms, etc)
 - ii. SWOT Analysis
 - Partners for Sustainability
 - Issues re Women and Youth
 - V. South Serbia (Pcinjski and Jablanicki Districts)
 - Political/Social Context for Economic Activity
 - Key Economic Sectors (Jobs, Sales) and Lead Firms
 - Top Two Agricultural Subsectors
 - i. Introductory Paragraphs (Lead Firms, etc)
 - ii. SWOT Analysis
 - Top Two Non-Agricultural Subsectors
 - i. Introductory Paragraphs (Lead Firms, etc)
 - ii. SWOT Analysis
 - Partners for Sustainability

- Issues re Women and Youth
- VI. Conclusion/Recommendations

Annexes

Annex A: Scope of Work

Annex B: List of Meetings, including names and full contact information

Annex C: Work Schedule

Annex D: Data Collection Instruments

Please note that given the proposed fielding dates, the delivery of the first draft will probably occur during the holiday season in the US and the USAID review period may run up against the Orthodox Christmas season in Serbia.

Appendix B. Schedule of Meetings

Southwest Serbia (28.11-6.12.2011) and South Serbia (7.12-14.12.2011)

No.	Date	Location	Activity/Meeting	Issue	Time
1	28.11.2011	Belgrade	Belgrade meetings	Introduction with tasks	14.00 h
	29.11.2011		Arrive Novi Pazar		
2	29.11.2011	Novi Pazar	Alek Iljenko	USAID office	15.00 h
3	29.11.2011	Novi Pazar	Ahmet Halilagic	USAID EPS and textile	17.00 h
4	30.11.2011	Novi Pazar	Ramiz Paljevac	LED office - Textile and wood industry, Data source	8.00 h
5	30.11.2011	Novi Pazar	Mirsad Jusufovic	Deputy Mayor of Novi Pazar, Political context	9.30h
6	30.11.2011	Novi Pazar	Samir Kacapor	Director of RDA - Economic situation	12.00h
7	30.11.2011	Novi Pazar	Tigrin Kacar	ASSTEX cluster - Textile	14.00h
8	30.11.2011	Novi Pazar	Nihat Ugljanin	BRUG company - Textile	16.00h
9	1.12.2011	Tutin	Haris Colakovic and Bahtir Hamitovic	LED office - Data source	8.00 h
10	1.12.2011	Tutin	Bajram Aljovic	LED office - Data source	10.00 h
11	1.12.2011	Tutin	Medzid Fatic	Elan company - Furniture industry	12.00h
12	1.12.2011	Tutin	Zornic Murat	Zornic dairy	14.00 h
13	2.12.2011	Novi Pazar	Edin Kalac	USAID AB project	9.00 h
14	2.12.2011	Novi Pazar	Ismail Saitaric	Union of Agriculture associations	10.30 h
15	2.12.2011	Sjenica	Muriz Turkovic	Mayor of Sjenica - Political context	13.00h
16	2.12.2011	Sjenica	Senad Mahmutovic and Hazbo Mujovic	Deputy Mayors of Sjenica, Political context	14.30 h
17	2.12.2011	Sjenica	Fuad Hrnjak	Giljeva slaughter house	16.00 h
18	2.12.2011	Sjenica	Faruk Abdagic	Vesna EMF - Textile industry	18.00 h
19	3.12.2011	Sjenica	Muriz Turkovic	Dairy and slaughter house	9.00 h
20	3.12.2011	Sjenica	Nisic Mehmed	Sanatex - Textile industry	11.00 h
21	3.12.2011	Sjenica	Esad Hodzic	Center for rural development	13.00h
22	4.12.2011	Novi Pazar	Free day	Travel to Nova Varos	
23	5.12.2011	Nova Varos	Milinko Saponjic	LED office - Data source	8.00 h
24	5.12.2011	Nova Varos	Aleksandar Salipur	Serbia Forests, Nova Varos office - Forestry	9.30 h

No.	Date	Location	Activity/Meeting	Issue	Time
25	5.12.2011	Nova Varos	Workshop with wood processors	Group of wood processors - Wood processing	10.30 h
26	5.12.2011	Nova Varos	Dragosav Djuric	Interbriko - Processing unit for briquettes - Wood processing	13.00 h
27	6.12.2011	Prijepolje	Dragisa Rakonjac	LED office Prijepolje - Data sources	9.00 h
	6.12.2011		Travel to Novi Pazar		
28	6.12.2011	Novi Pazar	Michael Pillsbury	USAID Program	19.00 h
	7.12.2011	Debriefing	Travel to Vranje		9.00 h
29	7.12.2011	Vranje	Armend Aliu	USAID Field Office Manager	16.00h
30	7.12.2011	Vranje	Ljubinka-Buba Milovanovic	President, Life Aid NGO	18.30h
31	8.12.2011	Vranje	Rexhep Ilazi	USAID Economic Security Project, Business Development Director	9.30h
32	8.12.2011	Leskovac	Biljana Stankovic	Director, Regional Development Agency Jablanica and Pcinja districts	11.30h
33	8.12.2011	Surdulica	Milan Velickovic	Director, Velickovic Dairy	13.30h
34	8.12.2011	Leskovac	Dejan Simic	Head of Medvedja Local Economic Development Office	16.00h
	9.12.2011	Vranje	weekly update, conference call USAID Belgrade/ team in charge for the assessment south west and south Serbia		9.30h
35	9.12.2011	Preševo	Urhan Shaipi	Head of Presevo Local Development Office (LED)	13.30h
36	9.12.2011	Bujanovac	Tatjana Strahinjic Nikolic	Deputy Program Manager, Peace building & Inclusive Local Development (PBILD)	15.00h
37	9.12.2011	Bujanovac	Aziz Zija Maliqi & Qenan Maliqi	Owners, Agro-Adria Meat Processing	16.00h
38	9.12.2011	Vladicin Han	Goran Simonovic	Owner, CIPA shoe production & repair	17.30h
39	10.12.2011	Bujanovac	Ruzica Zdravkovic	Director, Razvitak Dairy	08.30h
40	10.12.2011	Vranje	Bratislav & Nivica Djordjevic,	Owners, Donna Stile & Stefi Commerce shoe production	10.00h
41	10.12.2011	Vranje	Zoran Stoilkovic,	Director, Minex shoe production	11.30h
42	10.12.2011	Vranjska spa	Ljubinka-Buba Milovanovic	President, Life Aid NGO	13.30h
43	10.12.2011	Vranjska spa	Zoran Milosavljevic, MD	Director, Vranska Banja Spa & Hospital For Recovery (not-privatized), overview	14.00h
44	10.12.2011	Leskovac	Bratislav Stamenkovic	Sector Lead for Livestock & Meat, DAI Agribusiness Project	16.00h
45	11.12.2011	Preševo	Faim Sadiku	Manager, Celiku Production of windows and doors	18.00h
46	12.11.2011	Vranje	Tijana Milovanovic	Vranje Local Economic Development (LED) office	9.00h
47	12.11.2011	Vranje	Ivana Todorovic	“Progres” UNOPS	9.45h
48	12.11.2011	Vranje	Milica Andjelkovic Jovanovic	Vranje Youth Office Coordinator	10.30h
49	12.11.2011	Vranje	Miroljub Stojcic	Mayor of Vranje	11.30h
50	12.11.2011	Vranje	Nenad Mladenovic	Director Mladenovic Shoes	12.30h

No.	Date	Location	Activity/Meeting	Issue	Time
51	12.11.2011	Preševo	Museref Memedi	Director, Doda Dairy	14.00h
52	12.11.2011	Preševo	Armend Ibrihimi	Director, Fontana Dairy	15.00h
53	12.11.2011	Preševo	Besnik Musahu	Director, NURA doors, windows, kitchen, inned roors, office furniture	16.30h
54	12.11.2011	Vranje	Bane Stanojkovic	Project Assistant German NGO HELP-Hilfe Zur Selbsthilfe e.V	18.30h
55	13.12.2011	Vranje	Predrag Stanojkovic	Owner, Pegasus Furniture	11.00h
56	13.12.2011	Vranje	Robert Sirtov DMV	Director, Agricultural Advisory Services	12.30h
57	13.12.2011	Vranje	Goran Djordevic	Director, SANCH shoes	14.00h
58	13.12.2011	Preševo	Riza Halimi	Member of Parliament of RS	16.30h
59	14.12.2011	Preševo	Ragmi Mustafa	Presevo Mayor	09.00h
60	14.12.2011	Bujanovac	Shaip Kamberi	Bujanovac Mayor	10.00h
61	14.12.2011	Belgrade	Miodrag Stojadinovic	Team Leader, USAID Sustainable Local Development Project through DAI, Business Enabling Environment Component	16.30h