



Bosnia and  
Herzegovina

## SOCIO-ECONOMIC INCLUSION STRATEGY

### 1. Geographic location of Srebrenica Municipality and Natural Resource Base

The municipality is situated in the north-east of BiH-RS. It is located in the middle part of the Drina River, resting upon in length of 22 km. It verged on Perucac Lake in length of 40 km. It borders with the municipalities of Bratunac, Milici, Rogatica and Visegrad in BiH and the municipality of Bajina Basta in the Republic of Serbia. Before the war, within the regional territorial organization of the Republic of Bosnia and Herzegovina, Srebrenica belonged to the Tuzla region. The municipality covers an area of 530 km<sup>2</sup>.

The topography of the municipality is predominantly mountainous. The lowest parts are situated in the Drina river valley (app 300 m altitudes), while the highest areas located in the south-west part of the municipality are over 1500m alt (Orlov kamen 1517 alt).

In regard to natural resources, the municipality can rely on deposits of valuable minerals like zinc, lead and bauxite, forests, water, and fertile land suitable for agriculture. The reserves of bauxite in the Srebrenica-Vlasenica area are among the biggest in Europe. Beside bauxite, there are placers of cadmium, boulder, sand, limestone, clay and small placers of silver and gold.

The forest area spreads on 33,770 Ha and/or 64.8% of the municipal territory, which thereafter makes Srebrenica one of the richest municipalities in the region of north-east BiH. The rational annual lumbering is app 70,000 m<sup>3</sup>.

### 2. Economic Background

Before the war, the area was characterized by a diversified economy led by the state-owned mining industry and manufacturing enterprises. In total, 8,220 people were employed by 25 registered companies. The total annual turnover amounted to BAM 205,550,000. The main companies were:

- "Rudnik olova i cinka" (Lead and zinc mine);
- SG "Drina" (Local forest enterprise);
- MDD "Zeleni Jadar" (Wood processing company); and
- "Akumulatori" (Battery factory).

Today, the municipality of Srebrenica is challenged by a difficult economic transition in which dual and intricate attributes of war destruction and post-war resource based rent seeking are reducing the production, shifting investment patterns, and reallocating employment decisions with different expected levels of efficiency. This situation influences a deepening unemployment. Notwithstanding redundancy, governmental revenues have shrunk tremendously and large inter-governmental transfers are requested to insure minimum delivery of public services.

The still operating pre-war industries are experiencing declining in demand for their former products due to the loss of traditional markets, change in consumer tastes, or due to the competition from other European industries. New techniques of production often allow the same level of output to be produced with fewer

workers. The structural unemployment phenomenon experienced by the municipality of Srebrenica is due to the concentration of particular large industries inherited from the previous system. The decline of some industries such as the mining and cessation of some of them such as manufacturing sector led to high unemployment, thus to high level of poverty and will lead to insecurity in these municipalities.

### 2.1 Forestry and Wood Processing Sector

The forest resources of Srebrenica are amongst the highest in BiH in terms of extent and stock, when related to the size of the region. Forest land covers more than 60% of the total area of the region with substantial standing stock. More than 70% of the standing stock of the municipality is broadleaves, mainly beech and oak species and around 30% conifers, including fir, spruce and pine species. This represents a solid natural base for strong wood based industry, however, the forestry sector is performing far below its potential due to poor management and lack of investments especially in physical infrastructure such as access roads and forests regeneration.

The Srebrenica Municipality has a long tradition in manufacturing of mechanical and wood products. The prewar forest industry was based on substantial and suitable wood raw material; advanced technology, high professional and labor skill, largely modern technology and good market both domestically and abroad. Before the war the furniture industry was one of the most important sectors, domestically and abroad.

The current wood industry is struggling due to many reasons, in addition to war destruction, lack of appropriate financial services, lack of modern technological up-dates and loss of traditional markets and skilled labor, which fled due to war tensions. Currently, the wood processing companies (both recently privatized and private ones) are relying on primary processed wood products, which tend to offer low profit margins and generate limited number of employees.

### 2.2 Agriculture Sector and Rural Development

Despite the limited availability of flat agricultural land and the domination of mountainous land configuration, the agro-climatic conditions are favorable for the development of strong livestock (such as dairy and sheep) as well as for fruit and berry fruit production. Small scale subsistence farms dominate the agriculture sector and share an area of 11,488.00 Ha mostly classified as pastures and meadows.

Therefore, agriculture production in post-war Srebrenica could contribute to the economic recovery of the municipality and provide employment opportunities to the rural population including the returnees. However, producers are currently performing well below their potential. In most forms of production, yields and general productivity are less than half of the levels achieved in other regions of BiH. To address these problems, the strategy promotes the development of improved management systems, seeking to increase the efficiency and profitability of production, thereby increasing farm output and incomes. The primary vehicles for supporting adoption of these new management systems will be the development of effective programmes and creation of effective service institutions, both public and private, to promote best practice.

### 2.3 Financial Services

Access to finance is an essential component for economic development. Today, in Srebrenica, the access to financial services is inadequate to the needs of the enterprises. There are only two banks operating in Srebrenica, Nova Banka and Nova Banjalucka Banka, with a third one, Razvojna Banka, in Bratunac. The financial products these banks are offering to local entrepreneurs are limited and not suitable for capital investments. The collateral requirement, long and complicated procedure, limits their access by entrepreneurs. There is a need to develop new products, such as leasing and factoring in order to improve access to financial services in the region. Micro-credit organisations are active in the Srebrenica region. However, the clientele that they are targeting falls more into a category of micro enterprises rather than small and medium enterprises.

### 2.4 Tourism Sector

Despite the cultural, historical heritage and huge natural tourism potential available in Srebrenica, the tourism based industry was limited to certain sports recreation activities, hunting and medicinal spa. The hospitality services were limited to one hotel, some private accommodation, small restaurants and shops. The tourism

is underdeveloped and lags behind neighbouring municipalities in Serbia (namely Uzice, Bajina Basta, (c). The war destruction and unsuccessful privatization of existing tourism facilities have further contributed to poor conditions in the tourism sector.

There is a potential for SME development and employment generation in the tourism sector, namely, by the development of natural tourism as well as cultural and historical heritage, which, however, requires a long term strategy and mobilization of huge resources and investments in infrastructure, tourism institutions and technical assistance. In the short term, tourism development initiatives should focus on Srebrenica memorial centre and development of hospitality services for visitors.

### 3. Investments and SME Development

The war hostilities and political obstructions, which lasted until 2001, made Srebrenica unattractive for investments despite the immense efforts given by the international community as well as national and local governments, through various SME support programmes and incentives encouraging investments.

In these last two years, new positive developments have taken place in Srebrenica. The local government has succeeded to attract direct investments by domestic companies such as CIMOS for the production of metal parts for the car industry, textile company "Alma Ras" and cake production company Gusto e Sapore. Through these investments, 122 new direct and 28 indirect employment opportunities have been created. New investments are foreseen in the close future that could create up to 100 new jobs. These companies have shown the understanding of their social responsibilities towards Srebrenica population and provide positive signal to other companies that might be interested to support the Srebrenica economy through direct investments. However, there are serious constraints that impede direct investments and SME development such as physical infrastructure and unskilled labour available in the market. Any future support programmes to investments and SME development should consider these issues as priority to be addressed.

### 4. Institutional Support to the Economic Development

#### 4.1 Srebrenica Municipality Administration

Critical to the implementation of the strategy will be the development of greater capacity to manage the transition process. Support will focus on strengthening the capacity of the municipal Economic Development Department. The emphasis will be put on shifting the mechanisms of local government from control to facilitation and service orientation. Support will be targeted at department structures and staff that will promote private sector interests.

#### 4.2 Business Support Providers

The support institutions to business sector development are limited to weak associations implementing mostly income generation projects including training and technical assistance. Some business associations for advocacy and promotion of entrepreneurs' interests have been created by international NGOs, but their sustainability is questionable due to the lack of ownership by the private sector and lack of institutional capacity building. The only serious business support provider in Srebrenica is the Srebrenica Business Centre (SBC) created in 2002 as a local initiative and supported by the EU Quick Impact Facility project implemented by CARE. The SBC has become a recognized business support provider. Their sustainability has been addressed by UNDP through linkages established between the SBC and micro-credit organisations active in the region.

The Srebrenica Business Centre will play a very important role in the implementation of this socio-economic inclusion strategy by providing a large range of services in private sector development from financial management to business promotion. They will also be a key actor in improving the business environment and stimulating the development of the MSME sector. Business development services are generally viewed as a mechanism for addressing market failures which are particularly evident in transition economies, such as lack of information (market information, rules and regulations, access to credit and quality standards for export) which acts as a barrier to foster economic development and growth in underdeveloped municipalities like Srebrenica.

## 5. Donor Support and Co-ordination

It is hoped that this strategy paper will provide the basis to guide all future donors' economic development and social inclusion initiatives. Targeted coordination mechanisms should be established to enhance co-ordination of current and future project designs and implementations. In this context, the municipal Economic Development Department will be strengthened in its capacity to support programme and project cycle management. As this capacity develops, project design, monitoring and evaluation will become an integral part of the Economic Development Department's activities. UNDP has already designed an intensive training programme for local stakeholders in strategic planning, project cycle management, project appraisal, proposal writing and budgeting techniques.

## 6. Constraints to the Srebrenica Economic Development

Some constraints exist limiting the intrinsic capacity of the region to absorb investments, internal and external. The main constraints are:

- Low qualification of the labour force;
- Aging labour force;
- Lack of available land plots with adequate public infrastructure for the establishment of new production units;
- Access to adequate financial services;
- Lack of market access;
- Loss of traditional markets;
- Lack of adequate policies and measures for private sector development;
- Outdated production technologies in the industry and agriculture;
- Lack of entrepreneurial spirit; and
- Weak local government institutions to support the economic development.

The Srebrenica region is facing a critical problem in relation to its labour force. Due to demographic changes and the lack of employment opportunities, the number of qualified labour has significantly decreased. With the demographic movements that took place since 1992 till today, many of the skilled workers have found new job opportunities in other locations in BiH and abroad. With the collapse of the local economy, the labour that remained in the region or returned did not have the opportunity to upgrade their skills on the job. The result is a labour force that lacks the skills required in today's industry. Formal education is not able to cover this gap as the curriculum that is in offer is outdated and do not fit the needs of the industry. The equipment available in their workshops is in most cases more than 30 years old. Additionally, the Srebrenica region is faced with an aging population as young people with skills are tempted to search for new job opportunities in other regions of BiH.

Srebrenica has recently attracted direct investments. However, the municipality's capacity in regard to land and adequate public infrastructure has reached its current limit. New investments are needed to make new areas available for the establishment of new production units.

Access to finance is an essential component for economic development. Today, in Srebrenica, the access to financial services is inadequate to the needs of the industry. There are only two banks operating in Srebrenica, Nova Banka and Nova Banjalucka Banka, with a third one, Razvojna Banka, in Bratunac. The financial products these banks are offering to local entrepreneurs are limited. As an example, leasing is not available. Micro-credit organisations are active in the Srebrenica region. However, the clientele that they are targeting falls more into a category of micro enterprises rather than small and medium enterprises. As industrial production was disrupted during the war, market links were also lost. In addition, industries are experiencing a decline in demand for their former products due to a change in consumer tastes or due to the competition from other markets. The regional development agencies are still lacking sufficient resources and knowledge to provide assistance to local small and medium enterprises to access new markets, especially foreign markets.

Policies and measures at state, entity and local levels are still too weak to create a business environment conducive for its development. Public-private dialogue is essential. Even if the Bulldozer initiative lead to an improvement of the business environment in BiH, more needs to be done in Srebrenica. The provision of technical assistance, business development services and market information has to be strengthened. The competitiveness of locations is rooted primarily in the nature of the business environment they offer to firms.

The lack of skilled labour, adequate financial services, professional-technical assistance and proper access to market information results in production using outdated technologies. This further puts the region in an unfavourable position in the domestic and foreign markets. Production is limited to industrial processing that requires low technologies.

Before the war, the local economy was based on large state-owned companies such as the battery factory in Potocari, the mine in Sase and large wood processors. The region was not characterised by a vibrant SME sector. Compared to municipalities such as Gracanica, Gradacac or Dobojo, there is a clear lack of entrepreneurial spirit in Srebrenica. UNDP and other implementing agencies have tried to implement grant activities to support the development of micro and small enterprises. The success of these activities was limited due to the lack of private initiatives to start new production or introduce new technologies. As a result, the applications received were limited to crafts or services.

### 7. SWOT Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>▪ Local political will to support the private sector development</li> <li>▪ Industrial tradition in specific sectors such as wood based industry and metal industry</li> <li>▪ Srebrenica brand name</li> <li>▪ Young returnees</li> <li>▪ Availability of natural resources</li> <li>▪ Successful external investments attracted to Srebrenica</li> <li>▪ Existing programmes and expertise</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>▪ Low qualification of labour force</li> <li>▪ Aging labour force</li> <li>▪ Lack of available land plots with adequate public infrastructure for the establishment of new production units</li> <li>▪ Access to adequate financial services</li> <li>▪ Lack of market access</li> <li>▪ Loss of traditional market</li> <li>▪ Lack of adequate policies and measure for private sector development</li> <li>▪ Outdated production technologies</li> <li>▪ Lack of entrepreneurial spirit</li> <li>▪ Failure of privatization of strategic industries like wood processing and mining</li> <li>▪ Subsistence agriculture with outdated production technologies</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>▪ Donor and BiH Government funding</li> <li>▪ Potential young returnees</li> <li>▪ Potential external and internal investors</li> <li>▪ Employment opportunities in agriculture sector as a substitute to formal employment</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>▪ Political complexity of Srebrenica</li> <li>▪ Uncoordinated programmes that might undermine each other</li> <li>▪ Young and able people leaving to more attractive regions</li> </ul>

### 8. Objectives

The overall objective of the socio-economic inclusion strategy is to create a favourable business environment that promotes investments and employment especially for returnees.

The specific objectives of the strategy are:

- To establish Srebrenica as a centre for investments and business innovation promoting internal and external investments;

- To improve agricultural outputs in specific sectors with potential for growth;
- To optimize the environmentally friendly use of natural resources and promote tourism activities; and
- To improve local government capacity in strategic management and coordination of public and donor resources supporting private sector development.

To establish Srebrenica as a centre for investments and business innovation, activities will be implemented to improve the local environment so it is capable of providing high-quality and specialised inputs to firms, including: human resources; physical infrastructure; capital resources; technological infrastructure; information infrastructure; and natural resources. The promotion of a vivid SME sector in Srebrenica will ensure the creation of employment but equally important, it will generate growth directly contributing to increase of municipal revenues and consequently, its level of service delivery.

In the agricultural sector, measures will be implemented to improve the efficiency, profitability and competitiveness of production, processing and marketing. They will be mainly targeting returnees and vulnerable groups. The methodologies used will aim at recreating solidarity within rural communities and fostering social inclusion.

The sustainable use of natural resources is a key element of this socio-economic inclusion strategy. The interventions will focus on the forestry and wood-processing sectors. The aim is to increase the efficiency, competitiveness and sustainability of the forestry and wood-processing cluster through targeted, horizontally and vertically integrated, interventions along the supply chain. It will seek to maximize the economic and environment friendly use of forests through investments and capacity building. This, in turn, will help deliver the development objectives of increased employment and increased income levels. It will, thereby, also raise municipal revenues increasing the level and sustainability of service delivery to the communities.

As a part of the strategy, the local government should be trained in public-private dialogue techniques, project appraisals techniques and most importantly, in monitoring and evaluation techniques. It is also important to increase the municipal capacities in policy feedback to entity and state governments to ensure that policies prepared at entity and state levels are conducive for investments.

#### Strategy Design

In order to focus and structure the strategy, these objectives will be applied to four areas of action:

- The private sector development and promotion of internal and external investments
- The efficiency and profitability of agriculture production, marketing and processing
- Optimal use of natural resources
- Local government policy and institutions

These areas of actions are linked by the following common themes:

- (i) A focus on micro, small and medium enterprises in forestry, wood processing, metal manufacturing and agro-processing industry - labour intensive industry that most likely will generate sufficient level of employment;
- (ii) A focus on rural population targeting commercial farmers as the group most likely to adopt improved management practices but also small scale and subsistence farmers in order to address the social cohesion within rural communities;
- (iii) The establishment of producers associations to facilitate the dissemination and adoption of new technology and reduce the diseconomies of small fragmented farms, and link the producers to market outlets;
- (iv) The establishment of business associations and forums to facilitate the access to technology and improve advocacy for and promotion of local products;
- (v) A significant allocation of resources to support internal and external investments; and
- (vi) Strengthening the role of local government and private institutions in supporting the private sector development and establishment of mechanisms for donor interventions coordination.

9. Strategy Matrix

Area of actions	Issues/constraints	Short - term	Medium-term
Private sector development and promotion of internal and external investments	Lack of highly qualified labour and business management skills	Training programmes targeting key industries to enhance labour and business management skills	Institutionalize industry-driven training services that address needs in labour and business management skills upgrading
	Lack of physical infrastructure for enterprises establishment and expansion	Establishment of an industrial zone including all required infrastructures	Development of a sustainable business park for training, innovation and investments promotion
	Lack of investments capital for assets acquisition and new technology adoption	Development of tax incentive and grant mechanisms Provision of technical assistance to access financial services	Performance-based support to direct investments
	Loss of traditional markets, lack of market access for local products and lack of access to market information	Development of training to improve market and marketing knowledge	Establishment of business organizations for advocacy and promotion of local products
The efficiency and agriculture production, marketing and processing	Inefficient agriculture production dominated by subsistence farming	Farm investments targeting commercial farmers and development of schemes to support subsistence farmers	Establishment of producers organisation including the set-up of collection and products marketing infrastructure structures
	Lack of access to extension services to farmers and outdated farming practices	Development of training programmes and extension package suitable for small scale farmers in order to access modern farming practices.	Institutionalize farmers driven extension services and link it to entity extension services, universities and research centres
	Lack of market outlets for agricultural products		Promotion of agro-processing including traditional home-made products.
Optimal use of natural resources	Unused or insufficiently used of medicinal Guber water due inappropriate privatization and	Review the privatization and concession on medicinal Guber water by an appointed team of	Provide technical assistance to the municipal authorities in the preparation of a Public Private

<p>concession</p> <p>Low performance of the current management company in SASE mine</p> <p>Low performance of tourism based industry and low exploitation of Srebrenica events and natural tourism potential</p> <p>Low performance of forestry sector</p>	<p>international and local experts.</p> <p>Review the current performance of the Russian company that currently has a management contract with the RS government</p> <p>Development of small scale tourism based schemes to provide high quality tourism services to visitors during the most important events of Srebrenica</p> <p>Development of programmes to improve the forestry management practices</p> <p>Development of policies supportive to private sector development with strengthened role of local governments</p> <p>Establishment of a municipal coordination body in charge of management and coordination of donor funds</p> <p>Development of training programme to increase the knowledge of key municipal staff in project cycle management, project appraisal and formulation, and monitoring and evaluation</p> <p>Strengthening existing service providers such as Srebrenica Business Centre, Srebrenica Regional Processing Service, Forestry and Wood Processing Cluster, etc</p>	<p>Partnership for the promotion of a Guber spa resort.</p> <p>Advocacy at RS government level for more involvement of municipalities in natural resources management</p> <p>Development of programme to maximise the use natural tourism potential with a focus on rural tourism.</p> <p>Maximize the economic and environment friendly use of forests through investments and capacity building</p> <p>Increase the capacity of the local government in policy analysis and advocacy.</p>
<p>Local government policy and institutions</p>	<p>Lack of efficient policies supportive to private sector development at all government levels</p> <p>Weak capacity of local government in coordination and management of donor and government funds</p> <p>Weak service providers in business and agriculture development</p>	<p>Development of self-sustainable institutions providing high quality services in agriculture sector, business development, marketing etc.</p> <p>Establishment of a Local Action Group in order to access EU IPA Funds</p>



## 10. Priority Projects

The following table presents already formulated projects that have been identified as priority by local stakeholders. Some of these projects are already ongoing but require additional funds to build momentum and insure sustainability of the interventions.

Project Name	Short Description
Dairy Sub-sector Development	The development of the dairy sector has already started in 2005 with UNDP exercising a coordinating role. The project is looking at interventions along the market chain from the farmer down to the market. Additional support will be needed in order to sustain the interventions and replicate the successes achieved so far in new areas within the municipalities of Srebrenica and Bratunac.
Sheep Sub-sector Development	UNDP has started the implementation of a sheep development project in 2006. As for the dairy sector, interventions are planned to increase the profitability of the sector from the farm down to the market. Additional support is needed to extend the number of beneficiaries.
Poultry Farming Sub-sector Development	Mercy Corps started a project in 2005 and completed it in 2006. As the market is extending, additional support is needed to support the establishment of new modern poultry farms.
Promote the Entrepreneurial-ship in the Fruit and Beery Fruit Sub-sectors	CARE, CARITAS and UNDP are already implementing projects in these sub-sectors. These projects intend to introduce modern production technologies and to increase the capacity of processing units. Additional support is needed in processing especially looking at farm level.
Forestry and Wood processing Cluster Support for Employment	UNDP is currently implementing a project looking at the development of the forestry and wood-processing sector. The project is aimed at creating the conditions for returnee employment. Progress has been made in the past two years.
Private Sector Development through Establishment of Training and Innovation Centre and Industrial Zone (Business Park)	This initiative is a new one and has been developed as a response to the needs of the private sector in regard to infrastructures and human resources.
Regional Extension Service and Farmers Training Centre	The provision of services to farmers is essential to establish the agricultural sector as a profitable one. UNDP established an agriculture regional extension service in 2004. Further support is needed to build their capacity and ensure their sustainability.