



USAID
FROM THE AMERICAN PEOPLE

PREPAREDNESS, PLANNING AND
ECONOMIC SECURITY PROGRAM (PPES)

SOUTH SERBIA AND SANDZAK ECONOMIC CRISIS IMPACT ASSESSMENT

August 2009

Table of Contents

Overview	3
The Global Economic Crisis	5
Data and Methodology	7
Impact of the Crisis	8
Firm Level Data.....	8
Financing During the Crisis.....	9
Markets and Demand During the Crisis	10
Conclusions and Recommendations.....	13
Conclusions	13
Recommendations	13
Appendix I: Base Questionnaire.....	15
Appendix II: Elasticities for Common Outputs.....	19

Overview

The Preparedness, Planning and Economic Security program is a multi-year, 19 million dollar program supported by the American people through the United States Agency for International Development (USAID). The program helps municipalities be more resilient to crises and disasters, assists businesses in difficult environments grow and expand into new markets and works with Serbia’s youth to empower them for the future.

The program has two components. The first is Preparedness and Planning, tasked with helping municipalities in target regions to prepare for a wide range of disaster situations. The second is Economic Security, tasked with improving economic security in the target regions. This is broadly defined as improving the prospects of residents in the region to earn sustainable livelihoods in the face of regional and global economic changes. Prior to the current global economic crisis, much of the effort was towards addressing shifts in regional trade networks and the impacts of increased globalization. Changing borders and tensions in the region had the potential to disrupt traditional trade routes. At the same time, ongoing trends toward less isolation in the Balkans and integration of the broader region into global markets opened up both new competition and opportunities for trade.

With the onset of the global economic crisis, a shift in program priorities may be warranted. Efforts to date have been centered largely around expediting the integration of local, regional and global markets. With the recent decrease in global trade and demand for exports in many previous target markets, different approaches may better serve to increase economic security. Whether this is the case and what those approaches may be are currently not well understood. The purpose of this study is to better understand the following set of questions:

- Are the companies in the area under the PPES mandate impacted by the global crisis, and if so in what way?
- Is a change in program approach warranted, and if so, what might that be?

The geographic areas under the PPES mandate differ in: their level of isolation from global, regional and Serbian national markets; their business environment; the culture of the areas; the data available, and; the relative level of economic development. These differences make it difficult to answer the above questions accurately by either analyzing data or from extrapolating from experience in other parts of the country or region. The nature of the economic crisis has also made it difficult to determine the crisis’ impact. Countries most impacted have been reliant upon some combination of low cost credit, exports and/or commodities. The companies of South Serbia do not fit cleanly into these categories.

The level and type of impact depends on a number of unknowns that lie across several continuums.

Markets Sold Into	
Lesser Impact	Greater Impact
<ul style="list-style-type: none"> ▪ Companies that have been long isolated from foreign markets, will be lesser impacted when those markets decrease their imports ▪ Poor supply chains into isolated markets may 	<ul style="list-style-type: none"> ▪ A collapse of markets has a ripple effect, forcing those regional firms that has previously sold into international markets, to look more locally to sell excess production at low prices. This can lower sales prices even in fairly

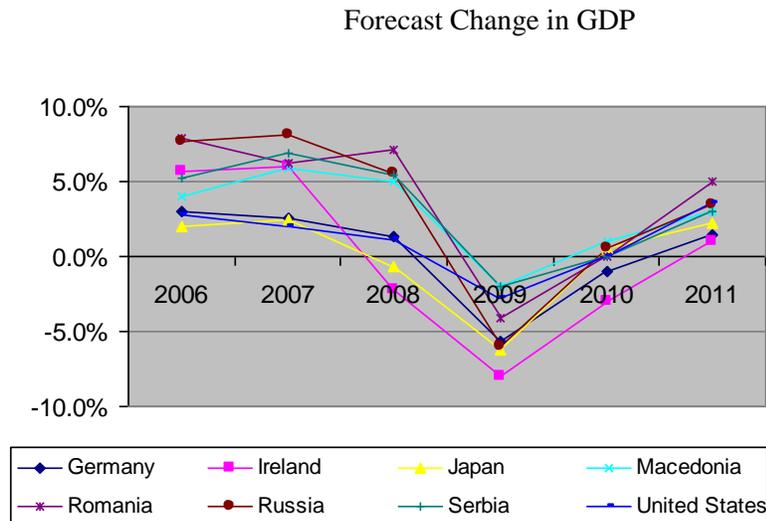
<p>help local firms retain those as “captive,” though this may not be good for local consumers.</p> <ul style="list-style-type: none"> Higher fuel and import financing costs may lead to more EU “near-sourcing” from Serbian companies, helping to counteract negative consumption trends 	<p>isolated markets.</p> <ul style="list-style-type: none"> The low income markets in South Serbia can lead to marginal profits in the best of times, meaning that local firms have little savings or financial flexibility during a downturn
Goods Sold	
Lesser Impact	Greater Impact
<ul style="list-style-type: none"> Many of the products produced in South Serbia are basic consumer staples that have low demand elasticities, meaning that as incomes drop demand does not drop as much as for some other products These same products may now be more desirable in foreign markets, due to their low cost 	<ul style="list-style-type: none"> Some manufacturing in South Serbia has relied on international markets. For example, the apparel market has been badly affected, though it is unknown whether the costs of these products are low enough to make them desirable during a recession
Sources of Financing	
Lesser Impact	Greater Impact
<ul style="list-style-type: none"> Firms in South Serbia have often not relied on formal financing, so would not be greatly impacted by the credit crunch 	<ul style="list-style-type: none"> Firms may have seen a “false dawn” during the previous years as credit became increasingly available, and may have taken on excessive debt under optimistic assumptions Informal financing also dries up during a recession Those funds that were available would tend to exit perceived high-risk environments such as South Serbia first Companies that rely on cash payments are particularly hard hit when liquidity dries up; they are unable to obtain the cash they need from buyers, at the same time that banks are most reluctant to lend
Management	
Lesser Impact	Greater Impact
<ul style="list-style-type: none"> Management is flexible and resilient, having lived through decades of crises and uncertainty 	<ul style="list-style-type: none"> Management is not modern and not well prepared for competition from newly aggressive multi-national and regional firms

Clearly, the potential impact of the crisis is subject to a number of difference factors and unknowns. The purpose of the study was to try to better understand how different threats and opportunities, such as those identified about, have actually developed over the past year since the crisis began.

The Global Economic Crisis

This section gives a short summary of the crisis and its main implications for South Serbian businesses. A more detailed discussion of the history of and prospects for the crisis can be found in a number of sources, including one recently conducted for the Serbia Agribusiness Project.¹ Much of the following is an updated summary of concepts from that report.

The most recent data shows the crisis beginning sometime in late 2007 and accelerating into 2008 and 2009. The chart below shows IMF and OECD actual figures and forecasts for a range of global economies and some of Serbia's main trading partners.



The consensus forecast among economists has the negative growth coming to a halt sometime in late 2009, though with still near zero growth for 2010. Economies are expected to recover slightly in 2011, before resuming more normal rates of growth. There are several unknowns that could cause the crisis to persist longer than expected:

- **Consumer Sentiment** Production and employment recovery will depend on consumers' feeling comfortable spending again. Consumer confidence continues to be low.
- **Bank Balance Sheets** The actual value of many assets on bank, pension and other fund balance sheets may be lower than hoped. The actual values may not be known until the end of 2009 as more banks begin to shed unwanted assets and market prices are revealed.
- **Consumer and Corporate Debt** Ongoing unemployment and low production could set off another debt crisis stemming from over-leveraged consumers or firms. The most recent banking data from the US indicates that the level of bad debt has not yet stabilized. This will be critical for any recovery.

¹ Most of the data from this summary was taken from the following sources, all of which can be referenced for a more detailed analysis. World Economic Outlook, IMF, October 2008; "Meanwhile in the Real Economy..." *The Economist*, October 18, 2008. European Commission Economic Forecast Spring, 2009. IMF Global Financial Stability Report, April 2009. Institute for International Finance "Capital Flows to Emerging Markets Economies" January 27, 2009.

The crisis effects firms in Serbia across two main fronts: finance and credit and consumer demand, each of which will be discussed in turn. The current crisis is at its roots a financial one. Credit was extended against assets which were then found to be higher risk than anticipated, and in many cases worth less than the credit extended. The resulting contraction of credit has stemmed from two related drivers. First, creditors took enormous losses, forcing them to contract their loan portfolios to increase capital ratios back to acceptable levels. Creditors simply have less money to lend. The retreat from Central and Eastern Europe has been especially severe. Net inflows to CEE and Russia of \$217 and \$107 billion respectively in 2007, are expected to reverse sharply to a net outflow of \$27 and \$49 billion in 2009. The second driver for the contraction of credit has been an increase in risk aversion among lenders. After mispricing the risk on mortgage securities, creditors are hesitant to lend to any but the most secure borrowers.

This turbulence in international financial markets affects Serbian producers and exporters in two main ways. The first is decreased buyer financing. Buyers in all markets are seeing their credit lines restricted. Even if cash flows are strong, in the current environment trading firms which often have little collateral are perceived as risky by increasingly risk averse lenders. The second is tightened credit for producers. The retreat of bank financing from emerging markets and CEE in particular would be expected to mean less credit and poorer terms for Serbian producers.

The second main front on which the crisis is expected to impact Serbian firms is in decreased demand. Demand for all products depends on consumer incomes. As consumer incomes decrease during a crisis, the demand for goods also decreases. The extent to which demand decreases with income is called the “income elasticity of demand.” The higher the elasticity, the most the demand decreases with income. Some goods, called “inferior goods,” see increased demand as incomes drop. Appendix II shows some common goods and their elasticities. Many of the products made in South Serbia are fairly low elasticity. An exception is in construction materials. Many construction materials are not traditionally high elasticity goods, though the particular characteristics of the current crisis will likely see them behaving as if they were.

Decreased demand occurs during a crisis for three main reasons. The first is from the contraction in consumer credit. As credit contracts in the system, that available to consumers also contracts, lowering their purchasing power. This may not be a major issues in South Serbia, as there was little consumer credit to begin with. It will matter more in export markets. The second is through increased unemployment. Tighter or unavailable credit increases costs to business and disrupts their ability to finance working capital cycles. This effect combined with lower consumer demand leads to a contraction in business activity and higher unemployment or lower wages. The third and final reason is through the asset price income effect. As financing becomes tighter and business activity contracts, asset prices tend to fall. Falling asset prices drive an income effect that is not directly related to current income, but to perceptions of future income. This increases savings and decreases consumer demand.

It is frequently the case that protectionism increases during crises as governments seek to limit employment losses in their local firm. While treaties are in place to encourage free trade in the Balkans, it is also the case that informal delays and constraints can be enacted quickly and effectively with little recourse. This does not generally affect informal cross-border trade, except to the extent that enforcement may increase.

Data and Methodology

The particular circumstances surrounding the PPES regions in South Serbia made a traditional and straightforward analysis impossible. As noted in the introductory section, it is not at all clear how the crisis would impact areas that were not fully integrated into financial and trade markets in the first place. Even where international and greater regional trade was important, it is not clear how the crisis would bear on the particular mix of goods produced in South Serbia. Perhaps more important, however, is the lack of consistently reliable data from those regions. This is largely due to the importance of the informal economy in those areas. Fortunately, this study is not meant to be comprehensive. The main purpose is as an internal analysis to better understand whether programs are best targeted to serve their purpose, or if they would be better off adapted.

The main data used was from a series of 29 in-depth interviews that were carried out in two main regions. The first was in South Serbia, in Presevo, Bujanovac, Surdulica, Vranje, and Leskovac. The second was in Sandzak, where firms were interviewed in Prijepolje, Sjenica, Tutin, and Novi Pazar. The questions are given in Appendix I. The interviews were all carried out face to face. This allowed the interviewer to follow-up and probe for additional information and details. The outputs were more like mini case studies in the end than interviews. The South Serbian firms tended to be smaller, with an average of 25 employees, with the smallest with 4 and the largest with 73. Novi Pazar had many larger firms with an average of 48 employees, but between 11 and 117 in the sample.

The companies were not selected on a random basis. They were chosen according to several criteria. First, that they, according to PPES personnel with extensive experience in the field, represented a cross section of firms in the region. Since many if not most firms participate to a greater or lesser extent in the informal economy, a truly random selection would not have been possible as there is no comprehensive database to draw from. Second, the firms were large enough to have employees, so were not generally single proprietorships. They varied between 7 and 80 employees. Finally, these were firms with a pre-existing relationship with PPES, so access and the time of owners and managers was guaranteed. The purpose of the study was to gain an understanding of current conditions, not to obtain an objective critique of programs to date.

The interviews were carried out between June 24 and July 3 by the same interviewer to ensure consistency.

The data collected comes with several important caveats. The first is that the data was collected in an environment where much business is conducted in an informal manner and without the possibility of verification. Figures were also given across different currencies, without the benefit of exact exchange rates at precise times. All figures should be considered in that light. Another major caveat is that there is no control group, either within the region or without. In any given year, the business performance of any given company will be expected to vary. It is not possible to know definitively whether performance is relatively good or bad. Finally, there may have been some biases built into the business owners' answers in the hope that the report would find its way to donors or government officials.

Impact of the Crisis

The data obtained is presented along three fronts related to impact. The first is what impact appears in the quantitative data provided by the firms. The second is related to financing and access to finance. The third looks at demand related impact across markets. The firms in Novi Pazar and South Serbia are examined separately when there are significant differences in responses.

Firm Level Data

Given the lack of official sub-national data, prior to the interviews it was not possible to obtain even a snapshot of the state of the economy in the region. The initial questions in the interviews dealt with trying to obtain a basic understanding of which direction indicators were heading. In addition to the difficulties outlined in the Methodology overview, it is difficult to obtain trend data with a high level of accuracy at a single point in time, without that data being collected previously. Records and memories cannot be relied upon. As such, the interviewer only sought to obtain an understanding of changes over the course of a two year period. The first was the year prior to the interview, June 2008 to June 2009. The second was the previous year's period, June 2007 to June 2008. These periods roughly correspond to pre- and during crisis stages.

The following table summarizes the figures. The directions of change are given here as well as the averages of the magnitudes of change.

		Sales	Employment	Exports	Investment
Number of Firms Reporting	South Serbia				
	Increase	5 (+12%)	4 (+23%)	4 (+57%)	2 (+400%)
	Same/No data	0	5	4	6
	Decrease	10 (-36%)	6 (-25%)	7 (-44%)	7 (-84)
	Novi Pazar				
	Increase	4 (+18%)	5 (+21%)	4 (+295)	1 (100%)
	Same/No data	3	7	8	8
	Decrease	7 (-20%)	2 (-6%)	2 (-59%)	5 (-87%)

As can be seen, figures from the crisis year have deteriorated from the previous, non-crisis year. Overall, there are more decreases than increases across the indicators. Given the way percentages are calculated, the magnitudes on the downside are also nearly as high, and higher in many cases. Companies have seen sales and investment in particular drop, while employment has been more steady and increasing in many cases. Economists have long recognized that employment is “sticky” downward. Oddly, some of the companies that reported lower sales, have also increased employment over the last year. Some companies noted a difficulty in laying off workers, partially due to pressure to maintain employment in a small community.

The companies from Novi Pazar, while experiencing an overall drop in sales, have on average reported higher exports. This potentially reflects a drop in domestic sales, but steady demand in

export markets, where low cost goods may be being substituted for higher cost goods of other origins. In both regions, most of the increased exports were in meat processing and dairy, though a furniture company and a window company also increased their exports. Investment figures, which represent owners' forecasts about the future, were down significantly across most companies.

When asked to report on the broad impact of the crisis on their company, owners and managers were more explicitly negative. Most indicated that the current state of the economy was having a severe impact. On a scale of one to ten, with five being no impact and ten being severe negative impact, the average response was 8.6. The main comments were that demand was down, prices were lower, debt had been taken on, and most commonly that they were having trouble getting paid by buyers. Though this is a long-standing issue in Serbia, the problem has become much more acute with even the main supermarket chains often taking months to pay. Furthermore, almost all respondents stated that the impact of the crisis on the municipality was severe. They cited plants closing, high unemployment, increased migration and higher political tensions.

Respondents were also asked whether they felt that their companies and municipality would be more or less affected by the crisis than others. Respondents overwhelmingly believed that their companies and municipalities would be less affected by the crisis than others. The main reasons given included lower levels of debt, ongoing demand for basic products, and the flow of remittances from abroad back into the region. At the same time, however, many respondents in Novi Pazar noted that there had been a broad decline in manufacturing. This trend appears to pre-date the crisis, so it is difficult to understand exactly what impact the crisis is having and which are broader trends. Apparel has always been an important industry in the Novi Pazar region. Ongoing trends toward Asian outsourcing of mass produced apparel, and near-sourcing of "fast fashion" apparel has left the region in a shrinking middle. Many jobs have been lost in the mass production firms.

The quick data snapshot above indicates some distress in South Serbia. Sales, employment, investment and exports are all down on average. However, the export figures also show a resilience that may reflect some of the strengths of the region. A focus on basic consumer staples can help shield many producers from the worst of the crisis. The limited data show problematic broad trends, but not a collapse of output and employment. The subjective assessments, however, reflect a very negative outlook for both the companies and the region.

Financing During the Crisis

As noted, the current economic crisis is at its roots a financial one. In addition to decreases in incomes and demand for products, globally credit has become much less available to companies. One component of the survey focused on changes in the availability of credit in the PPES region. Overall, in Serbia banks have restricted lending since the onset of the crisis. The purpose of the survey was to try to better understand if and how this constriction of credit has impacted areas that have often been outside of the formal banking system. It should be noted that financing was always difficult for companies in these regions to access. The interviews sought to understand how that had changed from a low baseline.

The following table summarizes the responses on access to and use of credit.

Credit Extended	Use of Bank	Access to	Other Credit
-----------------	-------------	-----------	--------------

	to Buyers	Credit	Bank Credit	Used
South Serbia		8/15 used formal bank credit		<ul style="list-style-type: none"> ▪ Development Fund (11) ▪ Savings ▪ Ex Im Bank (public export bank)
Increase	4		1	
Same/No data	8		3	
Decrease	2		4	
Novi Pazar		9/14 used formal bank credit		
Increase	5		1	
Same/No data	6		1	
Decrease	3		7	

There was no clear pattern in the companies being forced to extend greater credit terms to buyers. It is often the case during crises, and especially those with financial origins, that credit moves from formal bank loans to forced vendor financing. There appears to be some evidence of this, but few clear trends. Surprisingly, a number of companies were able to tighten their terms and lower the amount of credit extended to buyers. In some cases, however, this did not actually lead to being paid more quickly.

Over half of the firms interviewed did rely on formal bank credit. Contrary to intuition, the small firms of South Serbia were nearly as inclined to use bank credit as were the larger ones in Novi Pazar. Those firms that did use formal bank credit generally reported that it had become more difficult to obtain, sometimes substantially so. This was more the case in Novi Pazar than in South Serbia where credit still seems to be more available on similar terms to before the crisis. Many firms made use of the subsidized credit available from the state Fund for Development of the Republic of Serbia. Several mentioned that this was a critical source of credit for them, though many were still struggling with making the concessionary payments on these funds.

Most companies do use credit, though in many cases this is not directly from a commercial bank. The state Development Fund does seem to play a prominent role in the financing of businesses in the target region. It is not clear whether this is the case overall, or that companies that PPES work with are more inclined to be connected to other types of support. For those companies that use credit, there has been some tendency towards that becoming more difficult to obtain. Companies have noted that banks are asking for additional information and requiring greater levels of security than was previously the case.

Markets and Demand During the Crisis

Different product and spatial markets behave differently during a crisis. Product markets tend to contract overall, with the greatest contraction in luxury goods, and with less contraction and in some cases expansion in demand for lower cost and staple goods. As a result, though total spending decreases, spending in certain areas may hold steady or even increase. In spatial markets, there is a tendency also for decreases in purchases across all geographic areas during a crisis. However, opportunities may also arise as purchasing patterns shift. Markets that were previously profitable may be come less so, at the same time that those where previously there had not been demand, may become good targets.

The resilience of firms and regions largely is dependent on firms' ability to move into and out of markets, and to adapt their products to them effectively. The interviews sought to understand both the impact of the crisis on different markets, and the reach that the firms had into those markets. Companies were surveyed on six different broad markets: Belgrade; the rest of Serbia; former Yugoslavia ex. Kosovo; Kosovo; Albania; EU, and; other (specified). They were asked whether they were selling more, the same or less into each of the markets over the last year since the crisis began. Most companies were regional, though some were able to extend their reach into the EU and abroad. The responses are summarized in the table below. The No Sales category indicates that there were no sales in that region either previously or currently. Not all companies reported on all categories. In this case, no number was reported. In some categories no companies reported. The category denoted Serbia is for all of Serbia outside of Belgrade.

	Belgrade	Serbia	Ex-YU	Kosovo	Albania	EU
South Serbia						
More	1	3	1	2		1
Same	3	3				1
Less	4	7	4	3		4
No Sales	7	2	10	10	1	9
Novi Pazar						
More			1			
Same	4	5	2			
Less	3	7	6	1		2
No Sales	7	2	5	13	14	12

Two main conclusions can be drawn from the table. First, companies in both South Serbia and Novi Pazar have lost business across a wide range of their markets. Those in South Serbia have done somewhat better in preserving and expanding their markets during the last year. At the same time, despite the crisis, a not insignificant number of companies in both areas have been able to maintain their sales into some of their key markets. The impact has been severe, but some firms have been able to maintain and grow in their markets. In South Serbia, across the entire range of surveyed markets, there were 22 instances of decreased sales as opposed to 8 instances of increased sales. In Novi Pazar, across the entire range of surveyed markets, there were 19 instances of decreased sales as opposed to 1 instance of increased sales.

The second conclusion is that many of the respondent companies, even the larger ones in Novi Pazar, have relied on fairly limited geographic markets. Very few firms are reporting sales into either Kosovo or Albania. Even the former Yugoslavia was not considered a market for the majority of firms in South Serbia, despite the proximity to Macedonia. Many firms also do not sell at all into Belgrade, the largest market in Serbia. It may be, however, that these firms are selling to local traders, who then sell their products into markets that the producing firm is not aware of.

A second series of questions asked about the state of the competitors, and whether or not they had seen an increase in competition since the onset of the crisis. Better financed companies in times of crisis may seek to sell, even if at a low margin, into previously unattractive markets. The questions were designed to try to understand whether companies in the PPES regions were facing additional competition on top of the more difficult market conditions.

The table below indicates the responses, which were free form rather than multiple choice. The responses are framed into five basic categories based on qualitative responses. Some firms did not respond and others had multiple responses, so the responses do not sum consistently.

	Lower Prices	More Ex-Yugoslavia	More EU	Fewer Competitors	Same
South Serbia	3	2	1	4	8
Novi Pazar	1			9	5

In first column are the number of companies that responded that they had seen prices decrease since the start of the crisis. The second two columns indicate from where firm management saw increased competition. The last two columns indicate whether the number of competitors were perceived have increased or decreased. As these were free form responses that were framed into categories, there need not be a consistent relationship across the categories.

Results differ between the regions. In Novi Pazar, there has been a longer term trend toward plant closures, which is very much reflected in the survey results. Many firms are seeing their competitors go out of business. This theme was fairly common in the Novi Pazar interviews. In South Serbia, the competitive situation appears to be fairly similar to before the crisis, though prices have decreased even as some firms report their competitors going out of business.

Conclusions and Recommendations

The surveys and analysis led to a number of conclusions and recommendations. The conclusions are taken from the full notes of the interviewer, and not all are reflected in the summaries above.

Conclusions

- Firms in the PPES regions are suffering during the downturn. However, it was not clear whether they were suffering any more than firms in other areas. A reliance on basic, staple products and long experience in crisis situations may keep the impact from being greater than it otherwise would have been.
- Political stability is a greater problem in these regions, however, and this can be upset by economic hardship. As a result, even if the economic impact of the crisis is less than in some other areas, the toll on stability could be greater. Weak local governments and often poor relations with the national government further limit options.
- Much of the economy is driven by remittances, both national and international. Though the impact on firms may be similar to or less severe than in other regions, the overall economic impact could be much greater should workers be forced to return home.
- Companies with a long business history are doing better than those that were more recently started.
- There are long-term changes in the regional and global economy affecting firms in the PPES regions that are causing difficulties. It is a challenge to separate out the impact of the crisis. The economy in Novi Pazar has been in decline for some time. This is due to basic changes in the nature of regional markets since the beginning of the decade. It is not clear how much of the impact being felt is due to the crisis.
- Firms are not well integrated even into regional markets. Very few firms are selling into other markets, even if their proximity is very close. It may also be that the firms sell to traders, who then bring the products into those markets.
- The drop in the exchange rate has a varied impact. For those firms with domestic markets and foreign denominated debt, this has led to increased debt service costs. For those with domestic inputs and foreign markets, profits have increased.
- Some managers saw opportunities to increase efficiency coming from the crisis, to motivate workers, and as well to invest in lower cost real estate.
- Management practices in the region are very provincial. In some ways, there is considerable flexibility in the organizations. However, strategy, accounting and finance, operations, and human resource capabilities often lag behind those of both global and regional competitors. When markets were more captive, these weaknesses were less important. In a crisis situation in increasingly competitive markets, they become more so.

Recommendations

- Closely monitor the situation with Serbian workers in foreign countries and the remittances the regions have come to rely on. This is likely to have as great an impact on economic security as almost any other single factor.
- Improve knowledge among managers of markets outside of those that companies are most familiar with. (These are still likely ex-Yugoslavia and regional.) Continued investment by

PPES in such activities that encourage managers to push into new markets (such as trade missions and trade fairs) is a sound strategy for improving knowledge of new markets.

- Improve management training. While the previous model can work under the conditions that have prevailed in the past, the regional and global situation is changing and even previously isolated firms are facing competition from well-run competitors. Skills needed include: basic business skills, financial management for managers, strategic and business planning and marketing, supply chain management, and human resource development. The program may want to closely examine the different existing delivery institutions and implement a pilot program with improved curriculum.

There are indications from the interviews that firms are starting to change business practices in response to the crisis. This may be an ideal time to attract managers into training programs.

- A number of regulations that are made at the national level put firms in these regions at a disadvantage. Some examples include the structure of dairy subsidies that favor large commercial farms, non-enforcement of tariffs on many apparel products, and the need to travel to Belgrade to obtain business licenses. Groups of firms and municipal representatives could potentially be assisted in attempts to lobby to change these regulations.

Appendix I: Base Questionnaire

Background Data

(Complete as much as possible prior to interview to maximize time on interview questions)

Name of Interviewee	
Title of Interviewee	
Name of Firm/Organization	
Sector	
Number of Employees	
Municipality	
Years of Operation	
Telephone Contact	
Email Contact	
Date and Time of Interview	
PPES Interviewer Name	

Introductory Interview Script

1. Thank you for your time.
2. (optional for those not familiar) I am with Development Alternatives International, a firm that was hired by USAID to help improve economic security in Serbia.
3. As you are likely aware, the world is in the middle of a serious economic crisis. Many of the wealthier countries are seeing large decreases in income. The impact on countries such as Serbia is less clear. In some cases, the impacts seem serious. However, in some cases little seems to have changed or the situation has improved.
4. We are conducting a series of interviews to better understand how companies in your municipality are impacted by the crisis.
5. You were identified as a business leader in the area. We appreciate your willingness to talk with us.
6. All responses will be kept fully confidential and will only be grouped together in the final report. There will be no way to connect any response that you give with you or your company.
7. Do you have any questions about who we are and what we are trying to achieve in this meeting?

Interview Questions

1. Our first questions asked for your subjective assessment of whether certain business indicators have risen or fallen over the last year since the crisis began, as compared to the year before that. Please consider the last year to be June 2008 to June 2009, and the previous year to be June 2007 to June 2008. We are not looking for exact accounting figures, but your estimates.

	Last Year June 2008 to June 2009	Previous Year June 2007 to June 2008
Sales		
Employment (formal and informal)		
Export		
Investment		
Days of credit extended to buyers		

2. The second question asks about the availability of bank or other forms of credit.
 - a. Do you use bank credit?
 - b. If yes, have you found bank (more, the same, less) interested in providing credit to your firm over the last year (June 2008 to June 2009)?
 - c. If no, what form of credit do you use, and have you found any changes in availability over the last year (June 2008 to June 2009)?

3. We are interested in how markets for your products may have changed over the last year (June 2008 to June 2009). The table below indicates a number of markets. Please note any changes in sales to these markets (much more, more, the same, less, much less)

	Last Year June 2008 to June 2009
Belgrade	
Other Serbia	
Ex-Yugoslavia	
Kosovo	
Albania	
EU	
Other (please specify)	

4. Sometimes during a crisis, there are changes in competitors. Have you noticed any increase or decrease in competitors here in Serbia or from any particular countries? If so, what are those?

5. Overall, do you believe that the crisis is having a impact on the economy on your company. Please rank 1 to 10, with 1 a positive impact, 5 no impact, and 10 a negative impact.
 - a. If not 5, please discuss the nature and extent of the impact.
 - b. If >5 , what are you doing to lessen the impact?
 - c. If <5 , what are you doing to take advantage of the situation during the crisis?

6. Overall, do you believe that the crisis is having a impact on the economy on this municipality. Please rank 1 to 10, with 1 a positive impact, 5 no impact, and 10 a negative impact.
 - a. If not 5, please discuss the nature and extent of the impact.

7. Do you believe that relative to other firms and municipalities, the crisis will have a greater or lesser impact on:
 - a. Your firm, why or why not?
 - b. This municipality, why or why not?

8. Do you believe that there are any opportunities that could come from the crisis, and if so what would those be?

9. What do you believe that the government of Serbia could do to help companies like yours during the crisis?

10. Is there anything else that you would like to tell us about the crisis, its impact on your company or the municipality, or what can be done to help during this period?

Appendix II: Elasticities for Common Outputs

	Gourmet food	1.5	Atlantic Economic Journal, Feb 2006
	Recreation	1.25	USDA-ERS (EU average)
	Medical Care	1.25	USDA-ERS (EU average)
	Education	1.05	USDA-ERS (EU average)
	Beverages	0.97	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
	Frozen Specialties	0.9	Azzeddine Azzam
Serbia	Clothing	0.88	USDA-ERS, Regmi, Anita, M.S. Deepak, J. L. Seale Jr., Jason Bernstein
	Distilled Liquor	0.82	Azzeddine Azzam
	Canned Specialties	0.77	Azzeddine Azzam
Serbia	Dairy (middle income)	0.71	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
Serbia	Meat (middle income)	0.65	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
Serbia	Sausages and Prepared Meats	0.635	Azzeddine Azzam
	Food (overall) middle income countries	0.58	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
	Food away from home	0.57	Monthly Labor Review
	Poultry Slaughter and Processing	0.533	Azzeddine Azzam
Serbia	Fruits/vegetable (middle income)	0.53	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
Serbia	Oils (middle income)	0.43	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
Serbia	Cereals (middle income)	0.41	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
	Candy	0.4	Azzeddine Azzam
	Dairy (upper income)	0.35	USDA-ERS, Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
	Meat (upper income)	0.33	USDA-ERS, Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
	Cheese	0.32	Agra CEAS Consulting, UK
	Food (overall) upper income countries	0.29	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
Serbia	Fruits/veg (upper income)	0.27	USDA-ERS, Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
Serbia	Oils (upper income)	0.21	USDA-ERS, Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
	Butter	0.2	Agra CEAS Consulting, UK
	Yoghurt	0.19	Agra CEAS Consulting, UK
	Cereals (upper income)	0.19	Regmi, Anita, M.S. Deepak, James L. Seale Jr., Jason Bernstein
	Fluid Milk	0.154	Azzeddine Azzam
	Cookies & Crackers	0.012	Azzeddine Azzam

Serbia	Milk, fresh	-0.17	Agra CEAS Consulting, UK
Serbia	Dried Fruits & Vegetables	-0.4	Azzeddine Azzam
Serbia	Sugar	-0.4	Azzeddine Azzam
Serbia	Macaroni & Spaghetti	-0.41	Azzeddine Azzam
Serbia	Processed Foods	-0.49	Azzeddine Azzam
Serbia	Pickles, Sauces	-2.2	Azzeddine Azzam