IV. The enterprise sector and privatisation

Privatisation in Yugoslavia predates the ambitious programme announced by the new democratic government in June 2001. Earnest efforts at privatisation began at the end of the 1980s, and sporadically re-emerged during the 1990s as the government sought to raise revenue, increase efficiency or transfer assets to further its political objectives.

Yugoslavia's system of worker-managed socialism had bequeathed an enterprise sector very different from those typically found in other socialist economies. Firms operated in a market environment, setting prices and making investment decisions. However this outwardly competitive environment was commonly undermined by government intervention in the banking sector, setting the cost of credit and directing credits to favoured enterprises. Enterprises also faced very different incentives to those in a market environment: firm exit was rare, and surplus resources were rather used to increase wages than reallocated or invested (see OECD, 1991, and Annex III). Another Yugoslav peculiarity was that, unlike in systems of central planning, the central government refrained from intervening directly in businesses. To a certain extent, weaker central authority allowed local governments to play a much more important role, notably in the six separate republics that made up the Socialist Federal Republic of Yugoslavia (SFRY). In any case, competition did not extend to firm mergers or take-overs and, crucially, to forcing the closure of loss making firms. These structural factors had macroeconomic consequences, most notably through the upward pressure on public expenditure (see Chapter II). The need to subsidise loss-making enterprises was a direct source of pressure on the budget; another was public investment in new firms needed to absorb the growing labour force.

The nature of the enterprise sector and the experience with privatisation in the 1980s and 1990s influenced the design of privatisation that began in 2001, and will affect its ultimate outcome. Not least, this legacy has raised questions over legitimacy, arising from the difference between legislation at federal and republican levels. The drawn-out experience with privatisation has also induced a cynical view amongst the population of the government's motives in undertaking yet another programme.

Backwards steps: the experience of the 1990s

The last OECD Economic Survey of Yugoslavia drew attention to the deteriorating financial position of the enterprise sector through the 1980s (OECD, 1990). Reforms passed after 1984 had little effect in stemming losses and strengthening financial discipline, and rates of return remained very low despite access to credit at negative real rates of interest. The government passed an Enterprise Law in 1988, followed in 1989 by an Act on Financial Operations and a Law on Social Capital. Together these three pieces of legislation provided a mechanism to address the problem of insolvent firms by introducing rules on bankruptcy and allowing firms to restructure using private capital. They facilitated firm re-organisation, as a prelude to restructuring and privatisation, by suppressing semi-independent sub-units,[68] and specifically allowed wholly private enterprises as well as "mixed" private and socially-owned enterprises. The most important innovation was the change that allowed an enterprise's Employee Assembly to sell some, or all, of the enterprise's capital. Together this package of laws became known as the Markovic Laws.

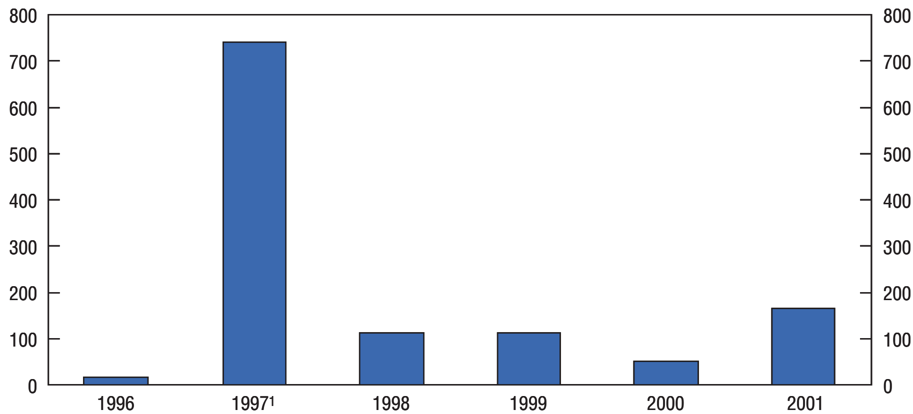
These legislative changes left open one important question. Although firms could become mixed, in the sense of having both private and social capital, the new rules did not specify how this would affect the hitherto dominant role of the Employee Assembly. This ambiguity acted as a considerable discouragement to domestic and foreign investors. Foreign direct investment remained at very low levels throughout the 1990s, despite legislation from 1988 that had accorded foreign firms "national treatment" (Figure 19).[69]

This legislation was passed by the Yugoslav federal parliament, and subsequently inherited by the five subsidiary republics. It worked on the basis that firms could not be compulsorily sold. The underlying tactic was therefore to make it attractive to managers and employees to opt for privatisation by allocating them shares.[70] In fact, the reforms had been undermined soon after they were enacted. The Serbian constitution of 1990 reiterated the equality of all ownership rights, including social ownership. This constitutional equality ruled out forcing privatisation on socially-owned enterprises, reinforcing the Yugoslav federal constitution that forbade compulsory privatisation. The shibboleth of voluntary privatisation was once again strengthened after it became entrenched in the new federal constitution of April 1992. This constitutional position dogged further attempts at enterprise sector reform throughout the decade, and remained in place until the adoption of a new Law on Privatisation in 2001. The Achilles heel of the Markovic process was that it failed to address the question of social ownership.

Initial privatisation in Serbia, 1990-94

Between 1989 and 1994 some 60 per cent of Serbian firms completed Markovic privatisation, after which they were on average 80 per cent privately-owned. However, sales to insiders and fundamental uncertainties over the relationship

Figure 19. **Foreign direct investment inflows, 1996-2001**
USD million



1. Includes sale of Serbian Telecom.
Source: National Bank of Yugoslavia.

between owners and the Employee Assembly, meant that privatisation did little to change the behaviour of enterprises, much less place them under a "hard budget constraint". As a result, the overall condition of the enterprise sector did not improve. As real interest rates turned positive during this period (removing one source of indirect subsidy to enterprises), firms began to accumulate arrears and continued to receive direct subsidies and soft credits. Banks often preferred to write loans off rather than put firms into bankruptcy; there was little incentive to foreclose on loans, since bankruptcy and liquidation procedures were heavily weighted in favour of the debtor. These influences dominated any marginal impact on efficiency that changes in ownership may have promoted.

Even the tentative efforts at privatisation in Serbia represented by the Markovic process were soon to be undone. Hyperinflation took hold in Yugoslavia at the beginning of 1993 and did not abate until January 1994. In the aftermath, the nominal amounts owed by those who had purchased shares under the privatisation programme had become vanishingly small. Privatisation had effectively transferred social assets to insiders for free. The government's response was to annul the privatisation process through an amendment to the Privatisation Law in 1994 that clawed back previously privatised capital.[71] Once this procedure was complete, less than 10 per cent of capital remained privately owned. The legacy of this reversal can be seen in the 2001 privatisation programme, in which sales are for immediate delivery of cash.

During this period a new trend emerged in the enterprise sector: nationalisation. This policy ran counter to the Yugoslav system of economic management that had prevailed since the late 1950s, but the government began to turn socially-owned enterprises into state-owned enterprises. This was the product of two distinct influences. Firstly, some argued that the strategy of decentralising enterprise management was undermining socialism. In addition, by 1993 the federal state had ceased to exist in all but name. Hence the need to maintain decentralised management in the enterprise sector, in order to sustain a political equilibrium between the republics, had also evaporated. If these were legitimate motivations, a second altogether more pernicious influence was that of corruption. State-owned companies were a ready source of political patronage. This was exploited directly by highly placed politicians, but also indirectly in the sense that they needed tighter control over key sectors in the economy to bolster their political position. An estimated 40 per cent of social capital was transferred into state ownership during the early 1990s, covering mainly utilities and transport but also including some television, radio and print media.

Experience in Serbia: 1995-97

There was a wide debate during 1995 on whether privatisation should be mandatory or whether it should continue to be voluntary. The issue had resurfaced due to an obligation under the new constitution to replace, or affirm, all federal legislation in place at the time it had been passed in 1992. A reform proposal co-ordinated by the central bank was made in May 1996 (Avramovic and Uvalic, 1996), but in the end the government dashed expectations of reform. It opted to affirm existing legislation: the 1996 federal Law on Privatisation endorsed existing policy that privatisation should be voluntary. The only innovation was explicit recognition that the republics should develop their own privatisation programmes within the loose framework laid down in federal law.

Serbia passed its own Privatisation Law in 1997. Much as in the Markovic process, firms could opt into a privatisation programme which offered shares to existing employees at a generous discount and on generous terms.[72] The proceeds from privatisation were earmarked to various funds (the Pension, Employment and Development Funds), though up to 60 per cent of the shares could be distributed free of charge. This renewed attempt at privatisation therefore amounted to little more than a reprise of the Markovic process, though for the first time the 1997 legislation introduced special treatment for "strategic enterprises". The government took over responsibility for privatising the (potentially lucrative) 75 enterprises that fell into this category. The most controversial privatisation under this law was that of Serbian Telecom in 1997, for which the government had to alter the Law on Foreign Investment to remove telecommunications from a list of strategic industries in which foreign investment was prohibited.

Table 25. **Privatisation in Serbia, 1997-2000**
Number of enterprises

Ineligible firms	1 750
Eligible firms	7 000
Capital valuation completed	2 218
Phase I started	412
Phase II started	202

Source: Uvalic (2001).

Table 26. **Profile of Serbian enterprises by ownership, December 1998**
Per cent

	Number	Employees	Assets	Turnover	Share in GSP
Wholly non-private ownership	12.0	49.6	57.8	34.8	33.1
Social	11.6	48.2	55.0	33.9	31.4
State	0.4	1.4	2.8	0.9	1.8
Co-operative	3.1	1.6	1.0	1.7	1.0
Mixed	8.8	34.1	35.1	28.3	28.2
Private	76.0	14.6	6.2	35.2	37.7

Source: Uvalic (2001).

In fact few companies opted to privatise under the 1997 legislation (Table 25), though by 2001 the various privatisation initiatives had, when taken together, resulted in a significant number of companies in "mixed" (social/private) ownership. This mixed group did not include the larger companies. This was because the ceiling on share distribution to "insiders" was expressed in nominal terms. The ceiling did not prevent insiders from gaining a dominant share of enterprises with modest total assets, but the *proportion* of assets passed to employees in larger enterprises was simply too small to persuade these groups to cede control. Managers had too many opportunities to "tunnel" assets and profits out of the state and socially-owned enterprises in which they worked to make privatisation an attractive option (see Chapter III). Although the Serbian private sector at the end of 1998 contributed more than one-third of gross social product, state and socially-owned enterprises dominated employment and ownership of assets (Table 26).

Slow progress in Montenegro led to determined change

The experience in Montenegro was somewhat different, although the outcome was much the same. The issue of social ownership had been confronted head on in the 1992 Act on Property and Management Transformation. This law

Table 27. **Enterprise transformation in Montenegro, 1990-99**
Number and capital (EUR million)

	Number	Capital	Per cent
Years			
1990-94	18	299	
1995	123	939	
1996	64	729	
1997	51	546	
1998	40	105	
1999	51	18	
Total capital incorporated	**347**	**2 635**	**56.6**
Remaining capital		2 021	43.4
Total enterprise capital		**4 655**	**100.0**

Source: Vukotic (2001).

required socially-owned enterprises to incorporate, that is to become public limited liability companies and issue shares representing ownership. The result was mass incorporation during the middle of the decade (Table 27). These newly issued shares were not sold, but rather were distributed to existing employees. This contrasts with the Markovic process: all enterprises became companies, and some shares were distributed free to the workforce.[73] At the end of the process, the state owned 60 per cent or more of formerly socially-owned enterprises, through various state funds (for pensions, employment and development) (Vukotic, 2001). There was no more "social capital" or confusion about the ownership of firms. However, as in Serbia, continued state ownership did little to change enterprise behaviour or encourage firms to behave more efficiently.

Montenegro used the latitude granted it in the 1996 federal law to pass its own Privatisation Law in 1996. This law set out how state funds would offer their accumulated shares in enterprises for sale to the public. In the three years following this privatisation law, the funds sold majority shares in 96 enterprises: a controlling share in 86 companies (of which two were by tender, the rest by auction), and a managing share in 12 companies.[74] Nevertheless, by the time this process concluded in 1999, still more than two-thirds of enterprise capital remained in state hands, and some 22 per cent of capital was held by employees (Table 28). The incentives on managers, notably through access to subsidies and easy credit, had not changed, and enterprise performance had not improved. As in Serbia, the process favoured insiders (employees and management), and sold shares at discounts and with long payment periods. In addition, the process was criticised for lacking transparency, and for decision-making being too dispersed amongst different parts of government, notably the three state funds. There was a generalised failure to co-ordinate the process, but also in enforcing those agreements that had

Table 28. **Ownership of Montenegrin firms, December 1999**
Per cent

State ownership	68.5
State	8.9
Development Fund	35.3
Employment Fund	6.1
Pension Fund	18.3
Banks	1.9
Employees	22.4
Other	7.2

Source: Vukotic (2001).

been reached. Where privatisation contracts had been made, employees sometimes simply refused to co-operate, or sought to add obligations/benefits to the agreed contract. There was little respect for formal property rights.

A radical change in strategy took place against the background of increasing pressure from foreign donors of aid and technical assistance to make progress. In response to criticisms, and to prevent the ossification that had occurred in Serbian privatisation, the government of Montenegro established a Privatisation Council in September 1998. This body took control of the process, putting a stop to "spontaneous privatisation" and promising immediate progress. The result was the 1999 amendment to the Privatisation Law. The amendment's guiding principles were swift, transparent privatisation. Companies were obliged to prepare a privatisation plan, specifying a timetable, which was made public. The government established a central share registry so that shares could be reliably bought and sold, and company ownership established. Most importantly, despite the misgivings of foreign advisers, the amendment marked a wholehearted shift in favour of mass voucher privatisation (MVP).

A *legacy of suspicion*

At the end of 1998, the private sector still accounted for less than 15 per cent of Serbian employment, and held about 6 per cent of business assets.[75] One year later, the situation was not much different in Montenegro despite protestations that the processes were entirely different. But in both republics there had been little change in ownership and still less in managerial behaviour over the enterprise sector as a whole.

By the end of the 1990s Yugoslav business had become characterised by a very close relationship between business and politics, fostered by the imposition of international sanctions on Yugoslavia for much of the decade. Rules and behaviour governing conflicts of interest had been replaced by the doctrine of looking after one's own interest. Defence of the public interest had given way to flourishing corruption and the confluence of political and business affairs. In Serbia, leading political figures were directors of the 30 largest enterprises. In this environment the public regarded the political motivation for further privatisation with some suspicion. This legacy was a strong influence on the design of Serbian privatisation that began in 2001. Montenegro sought to address weaknesses in its privatisation programme somewhat earlier through the legal changes it had introduced in 1999, but by the end of the decade these had not led to effective progress. The public doubted the legitimacy of the process.[76]

Breaking with the past: a fresh round of privatisation

As well as drawing on experience in other transition economies, the Serbian privatisation programme clearly addresses the concerns arising from the legacy of Yugoslavia's "lost decade". The privatisation process is mandatory; this more than anything else distinguishes the 2001 programme from its predecessors in the 1990s. It aims to pass socially and state-owned assets to a new dominant owner in a transparent and predictable process grounded in the rule of law (Box 6). One consequence of this approach is that the government has chosen to let those enterprises that had started privatisation under Serbia's 1997 law, complete the process. Retrospectively annulling these privatisations would have further undermined public confidence in the legal process and called into question the government's intention itself to respect the law. Foreign ownership is encouraged, as the government has acknowledged that foreign investors bring management expertise and technical know-how as well as financial resources (see below).

Serbia's programme encompasses all state and socially-owned enterprises, though the government has undertaken to restructure certain enterprises, or enterprise groups ("systems") before selling those pieces that are judged salvageable. Of an estimated 50 systems, the government expects nearly all will be restructured. The Ministry of Economy and Privatisation makes the decision about which systems will qualify for restructuring, in consultation with the Privatisation Agency. Broadly, the criteria are that the system should be large (together they cover some 150 000 to 200 000 employees), have a significant debt burden and, lastly, be regionally important. A summary of the systems likely to qualify is given in Table 29.

***Privatisation results*: Serbia**

At the end of September 2002 only 33 enterprises had been sold (5 by tender, 28 by auction) for a total of about EUR 180 million (Table 30). The government has set itself the ambitious target of auctioning 1000 enterprises by the end of 2002. This slow start calls into question the government's strategy of offering the best enterprises first in order to generate a momentum in the process that would then carry over to the less attractive firms.

Box 6. Serbia's privatisation programme

The Serbian privatisation programme was launched in June 2001. It is based on three laws and three decrees that define the process and give the authorities the powers they need to execute the sale of socially-owned and state enterprises. The three laws are the Law on Privatisation; Law on the Privatisation Agency and Law on the Share Fund. The ancillary decrees are on the Sale of Capital and Property by Public Tender; the Sale of Capital and Property by Public Auction, and on the Methodology for Valuation of Capital and Property. Together these lay out a strict timetable for each phase of the privatisation process. The process has been designed, and legislation drafted, in close association with the World Bank.

The legislation requires all enterprises to value themselves, and to prepare a timetable for privatisation. A decision to begin the process can be made by the enterprise, by the demand of a potential buyer, or by the Ministry of Economy and Privatisation. The law specifies that the privatisation of socially-owned enterprises must be completed within four years: *i.e.* by June 2005. Most enterprises are to be sold by auction, though some 300 of the larger enterprises will be sold by public tender. Those that cannot be sold by the end of the period and are bankrupt, will be liquidated. The decision about which enterprises to select for tender privatisation rests with the Ministry, after discussion with the Privatisation Agency. Indeed, the Ministry retains overall responsible for privatisation, whilst the Privatisation Agency executes the process at arm's length from government. The authorities expect that some 2 000 enterprises will be privatised by auction, with a slightly higher number likely to end in liquidation. The government's intention is that all enterprises should be privatised by direct sale to a majority owner.

The 2001 privatisation legislation has sought above all else to make the process transparent. Enterprises privatisation plans and valuations are public documents; the auctions and tenders take place in public and must be widely announced (including in the London *Financial Times*); there is to be no further negotiation with the winning bidders once the winner has been declared (other than on the nature of guarantees offered in support of the bid); in the case of tenders, the criteria used to assess the bids will be announced in advance, on a case-by-case basis. Each privatisation is supervised by a commission, and foreign advisers are used in constructing the tender and assessing the bids. The legislation also specifies how the proceeds from privatisation are to be distributed. Of the total, less success fees paid to advisors, 75 per cent passes to the Serbian budget, 5 per cent is set aside in a fund to meet restitution claims, 10 per cent is paid each to the pension fund and an infrastructure fund, of which half is controlled by the regional tier and half by the local municipality.[1] Once the sale is complete, up to 30 per cent of the shares (the proportion falls the longer it takes the firm to begin privatisation) is distributed free to employees, and citizens in the case of tender privatisations.

If any shares are left unsold, they are passed to a new Share Fund. This fund is intended only to hold shares until they can be sold. Its founding legislation insists that it will have sold all the shares transferred to it within six years: *i.e.* by June 2007.

Box 6. **Serbia's privatisation programme** (*cont.*)

Tenders

In consultation with the government, the Privatisation Agency sets the criteria for assessing the tender bids in advance of the call to tender. The tender commission consists of five members: three representatives of the government of Serbia, one of the local authority where the enterprise is located and one representative of the enterprise. The commission decides whether to accept or reject the winning bid proposed by the Privatisation Agency. Existing workers qualify for a free distribution up to 15 per cent of the enterprise's capital.

Auctions

The auction takes place at the Belgrade Stock Exchange providing that there is at least one qualified bidder.[2] The auction is an English auction, beginning at the lower end of the approved enterprise valuation. If there are no bidders, then the auction immediately begins again as a Dutch auction, beginning at the upper end of the approved enterprise valuation. Existing workers qualify for a free distribution up to 30 per cent of the enterprise's capital.

Valuation

Enterprises are all obliged to produce a book value and capital valuation according to two methods, discounted cash flow (DCF) and liquidation value. The discount rate used in the DCF is set to the return on a riskless asset + Yugoslavia country risk + entity specific risk of between 5 and 25 per cent. No enterprise may be sold for less than the deposit required of participants in tenders or auctions, though the Ministry of Economy and Privatisation sets this deposit without explicit reference to the enterprise valuation.

1. The relative shares of the Serbian and other budgets are being revised, with the aim to increase the part going to local authorities. This change was expected to take effect during the last quarter of 2002.
2. From September 2002, other suitable public places may hold auctions. Auctions may also take place outside Belgrade, in Novi Sad, Nis and Kraljevo.

A different approach to that used for enterprises has been used in the banking sector. The National Bank of Yugoslavia (NBY) has used the authority as banking regulator that it failed to exercise with any vigour during the 1990s (Chapter II). The NBY has adopted a policy of direct intervention to address the problems of liquidity and solvency in the medium-sized banks. Unlike the larger banks, it did not take-over the banks on grounds of insolvency but instead took control using debt-equity swaps. This was possible since many of these banks had issued debt under sovereign guarantee, on which they defaulted during the 1990s, passing liability onto the government (though they were subsequently relieved in an agreement with the Paris Club in

Table 29. **"Systems" qualifying for pre-privatisation restructuring**

	Number
Sector	
Metals	14
Chemicals	8
Textiles	6
Food and food processing	4
Machinery and equipment	3
Automotive	3
Rubber	2
Electrical machinery	2
Non-metals	2
Tools	2
Leather	1
Paper	1
Construction	1
	49
Geographical area	
Central Serbia	28
Belgrade	12
Vojvodina	9
	49

Source: Serbian Privatisation Agency.

Table 30. **Serbian privatisation, January-September 2002**
USD million

Company	Sale method	Month	Book value	Sale price	Investment commitments
Kosjeric	Tender	January	31.2	35.5	29.7
Beocin	Tender	January	7.2	50.9	32.3
Novi Popovac	Tender	January	15.5	52.5	85.5
Merima	Tender	September	12.0	14.4	43.3
Seval	Tender	October	11.0	6.5	14.6
Tender sub-total			**76.9**	**159.8**	**205.4**
2 companies	Auction	April	0.3	0.3	0.1
4 companies	Auction	May	3.3	2.1	0.5
8 companies	Auction	July	6.1	5.5	2.3
5 companies	Auction	August	2.3	2.2	0.2
9 companies	Auction	September	3.3	1.6	0.5
Auction sub-total			**15.3**	**11.7**	**3.6**
Total			**92.2**	**171.5**	**208.5**

Source: Serbian Privatisation Agency.

December 2001). These liabilities are being converted into equity. In this way the NBY took a majority stake in 16 commercial banks in August 2002, arguing that this would enable it to clean the banks up and quickly sell them to a strategic investor.

There is one further channel by which the Serbian government is transferring assets into private ownership. The state share fund has accumulated holdings in some 800 companies, in which it is often the largest shareholder. The holdings are generally between 10 and 40 per cent. Since April 2002 the Share Fund has auctioned holdings in 21 companies on the Belgrade stock exchange. Shares with a book value of USD 42.4 million were sold for USD 65.8 million. The government expects Share Fund sales to be an important source of revenue over the near future.

Privatisation results: Montenegro

Mass voucher privatisation (MVP) covered only 40 per cent of the shares in the 190 companies included in the programme.[77] Other methods, notably tender sales, have been more important for Montenegro's privatisation process (Table 31). Taking into account previous share distributions, individuals directly own some 30 per cent of industry, plus a further 15 per cent through privatisation investment funds (PIFs) in which they invested their vouchers. The largest fund represents about two-thirds of this holding, with the balance being divided between another five funds.[78] However, not all companies were included in the MVP. Indeed with voucher privatisation now complete, an estimated 45 per cent of industry (including the 17 largest companies) is not in private hands. Given that the state pension fund holds another 11 per cent and that the 30 per cent held by individuals is widely dispersed, this potentially leaves the state with considerable influence over developments in the industrial sector. This is particularly so since rules on protection of minority shareholders and competition regulation have not yet been developed. The government still aims to sell its direct holdings by tender.

Table 31. **Privatisation in Montenegro up to July 2002**

EUR million

	Estimated value of capital	Per cent
Mass voucher privatisation	318.8	13
Sale by tender	1 347.2	54
Batch sale	490.6	19
Auction	17.6	1
Other	322.6	13
Total privatised	**2 496.9**	**100**
Still to be privatised	2 208.3	

Source: Privatisation Council of Montenegro.

Shares are traded on one of Montenegro's two stock exchanges. Though shares in companies sold during the MVP had been tradable since March, secondary trading of shares only took off in May 2002.[79] However, the increase in trading volumes was largely not in MVP company shares, and only five companies accounted for 80 per cent of trading.[80] The privatisation funds are not yet active traders, having taken some time to meet regulatory requirements in respect of registering their shareholders on a central database. It remains the case that relatively few of the companies offering their shares on the exchange are able to sell them, and that it is too early yet to examine what impact privatisation has had on corporate governance and firm performance.

The, perhaps surprising, outcome of MVP has been that individuals mainly invested their vouchers in traditional sectors: steel, agriculture, electricity and the railway. This may implicitly involve a calculation about moral hazard; namely that the government will not let these, nominally private, companies fail.

Privatisation design in the FRY

The issue of speed

Privatisation in Serbia is portrayed as an issue of economic efficiency rather than one of social justice. At the same time, a main concern is to stem the need for subsidies, allowing the government instead to channel resources to areas such as education and the social safety net, both objects of equity not efficiency. It is not possible to consider policy in these two areas separately. Faster privatisation will help reduce subsidies more quickly, and the presence of adequate social safety nets encourages faster privatisation. Delaying privatisation will put off the moment at which assets are used more effectively by the firms that currently hold them, or recycled into better uses in others' hands. Indeed slow privatisation can provide an excuse for enterprise managers to stop selling assets on the grounds that they want to maximise the cash value of the firm in privatisation, although individual assets may have a higher economic value outside the firm. Notwithstanding this imperative, putting in place sound institutions to execute the privatisation process inevitably takes some time.

In line with this thinking, the government has continually stressed the need for speed in its privatisation programme. Although the government has been at pains to point out strict timetables, its four-year time limit is not as absolute as has been portrayed. The law specifies that privatisation of socially-owned enterprises must be completed within the time limit. The law says nothing about state-owned companies. Hence, following the wave of nationalisations in the 1990s, those companies now in state hands are not subject to this time bar. The authorities declare that they have an internal objective to complete privatisation of those state-owned companies that are to pass into private ownership within six years. But this intention has no legal force, and at the same time Serbia might wish to retain some of these assets permanently in state hands. For the time being the government plans only to look to the EU as a model, though the variety of experience amongst EU countries leaves open the possible future scope of the public enterprise sector.

The evidence from other transition economies on whether this matters for future enterprise performance is mixed. Indeed there is some evidence that firms privatised later in the process are at an advantage; they become seasoned by surviving in a difficult environment, though this presumes that the authority of the state and the rule of law are sufficiently strong to prevent managers asset-stripping the firms in the interim period before privatisation in what is euphemistically known as "spontaneous privatisation". Whilst privatisation is no magic bullet with respect to enterprise performance, slow privatisation is most likely to have a significant negative impact on the government's fiscal balance and could hinder the reform effort more widely (Kornai, 2001).

The relationship between privatisation and the budget

The government has set aside resources in the budget to pay the redundancy costs of 60 000 workers in 2002. Similar amounts are envisaged for 2003. This is one constraint on how fast restructuring of those enterprises held back from immediate sale will proceed. There is also inevitable pressure on the budget from payments under social programmes that are less directly under government control. For instance, the budget has to cover health insurance contributions for the registered unemployed.

Constraints imposed by international financial institutions prohibit the government from financing budget expenditure out of increased arrears. This leaves the authorities having to make an invidious judgement about the relative costs of preventing enterprises from collapsing by failing to enforce their current and historical obligations to the government or state-owned companies (such as the electricity company), and forcing (at least parts of) them into bankruptcy or liquidation. The former would deprive the government of some current revenues but save the immediate costs of increasing unemployment, the latter might help preserve scarce resources but would crystallise costs associated with higher unemployment. In addition, rising unemployment would most likely in itself present political difficulties for the government. Of course, privatisation revenues themselves are a source of financing, but experience in other countries suggests that they are usually extensively overestimated.

The choice between direct sales and mass privatisation

The Serbian approach avoids reliance on secondary markets as a mechanism for dominant owners to emerge. This should not prevent some effort being put into developing adequate institutions of corporate governance, particularly regarding the protection of minority shareholder rights, transparency and disclosure. The objective of privatisation is to concentrate ownership amongst outsider owners, unconnected with the enterprise. This choice reflects the experience in, notably East Germany, Estonia and Hungary. These countries moved decisively to sell their enterprises to outsiders, mainly foreigners, in contrast with transition economies such as both Slovenia and the Czech Republic. An alternative model is a more gradual development of a domestic entrepreneurial culture in Poland in what became known as "privatisation through liquidation". Though in Poland's case, privatisation of the state sector has proceeded quite slowly and the state still plays an important part in the economy. The chosen strategy was to reinforce creditor rights as a way to strengthen corporate governance and ultimately improve enterprise management and performance.[81]

Whilst the process aims to transfer assets to a dominant new owner, as in previous privatisation programmes the Serbian government has provided incentives to existing and retired workers to give up social ownership. This free distribution of shares can be seen either as a payment in support of social equity, or as a regrettable necessity to facilitate the privatisation process (Carlin and Landesmann, 1997). Within this constraint, the process minimises the risk of disruption. The free distribution of shares will take place only after the sale of a majority stake; once there is a new majority owner a minority share is distributed free of charge to the existing workforce.[82]

The government has rightly emphasised its desire to attract foreign investors: a new law on foreign investment was passed in January 2002 guaranteeing foreign companies and individuals "national treatment" including the right to buy land. Although the evidence on the role of private ownership *per se* is somewhat mixed, there is stronger evidence to support the positive role played by foreign participation in privatisation. Foreign partners not only bring fresh capital. They can bring managerial and technical expertise but also, crucially, access to international sales and production networks. Foreign direct investment is "patient capital", not susceptible to the sudden reverses that can affect more fickle portfolio flows. But it takes more than the existence of a privatisation programme to stimulate inflows of FDI. The supply of FDI is sensitive to the nature of the business environment. Indeed inflows of FDI and greater economic liberalisation tend to go hand in hand (Selowsky and Martin, 1998). Hence, it is possible to see flows of FDI as an indicator of the economic environment, that will of course also determine whether domestic SMEs are able to establish themselves and grow (World Bank, 2002). Low levels of *per capita* FDI are associated with low levels of employment in SMEs (see Chapter III).

Enterprise valuation

For those enterprises that immediately enter into privatisation by tender or auction, the valuation method for determining the minimum sales price (discounted future cash flow), places enormous weight on projected net cash revenues over the next 3-5 years. Over such a short time horizon, and given the low starting point, this should lead to modest sales prices. Advisers engaged by the government have an incentive to make sure that enterprises are sold since they will then gain a success fee: their remuneration has been weighted towards success fees rather than retainers. This reinforces the likelihood that enterprises will be offered at realistic prices. Nevertheless, the valuation method is rather cumbersome, and presumes the existence of accurate individual asset and financial valuations. In July 2002 the government made changes to the privatisation process that diminished the importance of enterprise valuation (see below).

Notwithstanding the precise methods set down to value enterprises, partly motivated by the desire to prevent corrupt sales at undervalue, sales prices are determined by demand. Serbia's relatively high labour costs, in euro terms, count against it when fighting to attract foreign direct investment to its privatisation programme. As does the shaky condition of financial statistics, which still mostly fail to meet International Accounting Standards. Neither is Serbia by itself a large market, and investors may reckon that it could yet take some time for regional trade to overcome the barriers, both formal and psychological, that are the inheritance of the Milosevic era (see Chapter V).

Voucher privatisation in Montenegro

In contrast to Serbia, Montenegro was much less influenced by the experience in other transition countries. Instead, a different set of domestic constraints played a much greater role in shaping privatisation. Notably this lead to the choice to distribute assets free of charge to the whole population in order to overcome its suspicions that the programme was biased towards a political class in which there was a generalised lack of confidence. The need to sell privatisation on these grounds was held to exceed the potential disadvantage of entrenching poor managers during MVP.

The newly established Privatisation Council had begun its work by passing the 1999 amendment to the Privatisation Law. In addition to technical changes, the amendment made provisions that privatisation revenues should be set aside to be used for development projects, rather than be swallowed by the gaping Montenegrin budget deficit. Its work culminated in the 2001 Privatisation Plan, mandated by the 1999 amendment. This Plan set out the timetable for mass voucher privatisation. The Privatisation Council also set in train a large public information campaign to persuade citizens to take up their free vouchers to use in the MVP. This played an important part in achieving the eventual take-up rate in excess of 90 per cent.

Legitimacy, delay and discretion

Whilst the adoption of mandatory privatisation in Serbia is a welcome departure from previous programmes, the legal position remains that the government cannot sell socially-owned assets. Hence the programme formally requires an enterprise's Employee Assembly to approve the privatisation plan. There is an incentive for them to do so: the number of shares distributed free to employees diminishes over time. However, it remains uncertain how the government can respond if Employee Assemblies refuse to adopt these plans in line with the new legislation. Notwithstanding the legal uncertainty, the Privatisation Agency has the power to impose privatisation on an enterprise without the assent of the Employee Assembly, though this power has not yet been tested in the courts.[83] The most obvious alternative route is for the government to enforce its obligations against the enterprise (the government forgives all debts outstanding to it from enterprises that are privatised). This would include tax and social security payments, but also debts to state-owned energy companies. The authorities do have considerable choice over how far and how fast to enforce hard budget constraints on socially-owned enterprises. However, in those situations where a socially-owned enterprise is successful and has no need for overt or covert support from the state, it seems the government has no mechanism to enforce its corporatisation or privatisation. In this case, the enterprise would not be a drain on the budget, and would contribute positively to the economy. It may be, therefore, that socially-owned enterprises will continue to be a quirk of the Yugoslav economy for some time to come.

Irrespective of whether some socially-owned enterprises do persist, addressing recalcitrance is likely to delay the process. Furthermore, the aim that privatisation be transparent adds to the inevitable tension between executing the process quickly and ensuring that it takes place properly. The authorities are doing what they can to reduce this pressure. They handed down a ruling in early 2002 obliging enterprises to begin immediately preparing financial data, so as to ensure that this, often painstaking, exercise does not hold up the process once the company has embarked on privatisation. Unlike in Montenegro, the government has side-stepped the potential delays that would have ensued from allowing a process of restitution by declaring that property included in the privatisation programme will be compensated financially (after the event, if necessary). But this issue may yet return (see below).

Furthermore, the notion of a quick, clean privatisation in Serbia is muddied by the existence of significant enterprise sector debts to bankrupt commercial banks. The relationship between enterprises and the commercial banks is of the utmost importance. The government decision to integrate policy towards the banking and enterprise sectors led to a Memorandum of Understanding between the Bank Restructuring Agency (BRA) and the Privatisation Agency. This short memorandum requires the two agencies to co-operate, and sets out two operational agreements. Firstly, the BRA will accept a part of the privatisation sales proceeds in settlement of the debts of enterprises sold at auction. The BRA's share will be equal to the proportion of bank debts in the enterprise's total liabilities.

Secondly, the BRA agreed to request the competent authorities *not* to enforce their claims against "major enterprises" until at least July 2003. By implication, such enterprises are all subject to tender privatisation. The Memorandum does not go on to specify how much the BRA will eventually recover.

The government has repeatedly stressed its wish to have an open, objective, privatisation process. The auction process clearly meets this aim, as does the tendering procedure outlined in the legislation. Whatever the good intentions, it remains the case that the *ad hoc* determination of criteria on which tender bids are submitted opens the door to accusations of potential manipulation. Any system requiring aggregation of multiple criteria demands the application of some discretion. A tender determined only on price does not suffer this drawback, though it does similarly suffer from the need to frame the rule for qualification to take part in the tender. But given the government's wish to apply different criteria on a case-by-case basis, the obligation to publish all information surrounding the tender, including the losing bids, is the most effective possible immunisation against potential charges of dishonesty.

The same goes for Montenegro. Discrimination between tender bids will not however be only on price. The authorities would like to attract strategic long term partners to Montenegro, and believe they need discretion to single out bidders who they believe meet multiple criteria including image, business plan (investment), projected employment and tender price. The first criterion, "image", is especially vague. Its presence could be used by opponents of privatisation to block any further progress, and its very vagueness leaves it open to exploitation by those with dishonourable intentions.

The privatisation process is still being established

Privatisation can mark a decisive shift in an economy towards greater efficiency delivered by private enterprise. Yet this will only succeed if accompanied by other policies that roll back the dully pervasive impact of state regulation typical of socialist economies and, more importantly, if it stimulates a culture of risk-taking and entrepreneurship. If privatisation merely represents more money to carry on as before it will actively damage the chances of new business to enter the market and develop (see Chapter III). It will also only provide short-term relief for the budget, since a call for renewed subsidies will inevitably emerge.

Releasing entrepreneurial energy means breaking the identity between politics and business (Box 7). Privatisation in Yugoslavia has been carefully designed with this in mind, though it is inevitable that domestic investors in privatisation will face scrutiny over the source of their wealth or financing. It seems that Serbia has wholeheartedly embraced the need to stimulate capital inflows from abroad, and therefore that the country will gain faster access to not just to financial capital, but also managerial and technical skills. The large continuing influence of

Box 7. The fight against corruption

In 2000 the FRY ranked next to bottom out the 90 countries covered in Transparency International's Corruption Perceptions Index. Since then the Serbian government has taken a number of measures to improve the situation. The most visible was the introduction of an Extra Profits Tax levied retrospectively on individuals with suspicious accumulations of wealth. This sent a strong signal that the authorities were not prepared to leave alone those who had become wealthy on the basis of corrupt relationships during the 1990s. Since then combined teams of police and prosecutors have been formed in 26 municipalities, and during the first half of 2002 special telephone numbers established by the government generated calls by whistleblowers that have led to 128 arrests.

The centrepiece of the government's effort is the creation of the Council for the Fight Against Corruption in December 2001. The Council has made a number of recommendations on the basis of which action plans were submitted to the government in September 2002. Specifically these envisage the need for new laws to regulate the financing of political parties and conflicts of interest amongst public servants, the creation of a code of conduct for civil servants, and finally the adoption of a national strategy on corruption.

Transparency International did not rank the FRY in 2001 for lack of suitable survey data. However, the country's ranking and index score are expected to rise as the new measures take effect.

the state in Montenegrin industry calls into question how much privatisation there will lead to a change in managerial behaviour and, through improved efficiency, to an increase in the rate of growth. In Serbia's case, the policy of targeting the best firms for early privatisation will not necessarily make it any easier to deal with the "hard cases" that remain. In the meantime, the government has sought to improve corporate governance by giving the Privatisation Agency the power to appoint directors and by increasing minority protection, notably through establishing a public share registry. Indeed both republics have not yet addressed the need to overhaul administration in bankruptcy and liquidation procedures in order to strengthen creditors' rights.

The absence of exit mechanisms may yet undermine privatisation strategy in Yugoslavia. Newly restructured and solvent banks will not increase their lending if they cannot protect their asset, however much the enterprise sector is starved of credit. This requires rules on collateral and a predictable, secure, way to recover loans that fall into default.[84] The absence of effective liquidation has two further consequences. The governments will have to bear the fiscal burden of keeping open existing bankrupt enterprises longer than it would otherwise have to. A second point concerns the emerging business sector. In Poland "privatisation by liquidation" was an effective way of recycling stranded assets into productive use. This played a part in encouraging the emergence of new firms. There is therefore a considerable cost in choosing to focus only on rapid privatisation of the better enterprises and to push off, most likely for some years, the more difficult decisions on enterprises that cannot survive. Whilst there is undoubtedly a need to get the process started, progress needs to be balanced to avoid subverting the whole process and undermining the benefits that privatisation is intended to bring.

Unlike rules on bankruptcy, the absence of competition regulation is less serious at this stage. As the economy and banking sector slowly recover, and a capital market takes root, firms will have little option but to rely on retained profits to finance investment. There is a strong argument that too fierce competition at an early stage may deprive firms of this source of financing, hobbling future growth in the economy (Carlin *et al*, 2001). Nevertheless, the emergence of dominant monopolies, especially if they are associated with organised crime, would become difficult to dismantle.

Adapting Serbia's privatisation strategy

The Ministry of Economy and Privatisation's strategy was different to that adopted by the NBY. The NBY used its power as a regulator effectively to nationalise banks prior to their subsequent sale. However, the difference between the two policies narrowed following a Decree Law in May 2002, which allowed the Ministry of Finance to undertake the same debt-equity swaps in the enterprise sector as those used by the NBY in the banking sector. This evolution of policy may herald an acceleration in the restructuring and sale of the largest state and socially-owned enterprises that is now expected to begin early in 2003.

July 2002 announcement on privatisation

The Serbian government has continued to show considerable commitment to its privatisation programme, placing great emphasis on the speed with which state- and socially-owned assets are transferred to the private sector. By the middle of 2002 the government rightly decided to accelerate the privatisation programme, and resolved to put in place measures to address what it had identified as shortcomings in its original design. It remains determined to pass any additional measures needed to conclude the programme within the time limits it has previously set itself.

It made some announcements in July 2002 that sought to simplify the privatisation process and stimulate participation in order to generate some momentum in a process that had ground to a halt. They affected the procedure for privatisation auctions, though not for tenders. The use of Dutch auctions (where the English auction failed to reach the reserve price) was abolished, and the minimum price was lowered to 20 per cent of the upper valuation.[85] The deposit required of auction participants was lowered to less than the reserve price. Most importantly, the government announced changes to the valuation method in August 2002, that considerably simplified the procedure. Auction results in September and October 2002 suggest these measures are having the intended effect.

Restitution is a growing source of discomfort

Despite the Serbian government's commitment to compensate owners, rather than restitute property that has been privatised, the issue of restitution is not resolved. As the privatisation process gathers pace it seems inevitable that more claimants will come forward. There is a real risk that this can lead to paralysis, not least in the judicial system. Proving or disproving claims to property is a complex and time-consuming business. There is also the political risk that failure to restitute property proves to be increasingly unpopular; particularly if compensation turns out to be low or paid out only slowly. Public dissatisfaction could damage the privatisation process, but not as much as halting the process to allow claims to be processed *ex ante*.

Successful privatisation depends on improving the business environment

Perhaps an overarching risk is that privatisation should not be seen as an end in itself. It forms one part of economic transition by which the balance of economic assets and control are shifted away from the public to the private sector. Hence, privatisation can only be a success to the extent that it is accompanied by other policies that give rise to a dynamic, competitive, entrepreneurial environment. This notably includes policies that enable new firms to enter the business sector (see Chapter III), and a regulatory framework that enhances corporate governance. Ultimately, successful economic transition results from building a set of mutually reinforcing policy reforms (OECD, 2000).

An important question mark over the emerging business environment concerns the role of the state share funds and what to do with enterprises for which there is no buyer. The Serbian share fund has been set up with a sunset clause and is prohibited from exercising its management rights. But, however obliquely, the state will be left with a significant holding and potential influence in the enterprise sector. The Serbian authorities insist that they will liquidate all enterprises which the Privatisation Agency cannot privatise. But beyond announcing that they ultimately expect to liquidate perhaps 2000 enterprises, they have not elaborated who will carry this out; or how; or over what time period. There is a similar issue in Montenegro over the shares held by its social funds, and the large remaining share in industry held directly by the government. For the time being, this lack of detail may undermine the credibility of their announced intention.

In conclusion, the challenges the government faces in disposing of the stock of state and socially-owned business assets may be less important than stimulating the environment for enterprise creation and supporting entrepreneurship. The market-oriented reforms that would lead to success in these areas would simultaneously prompt greater inflows of FDI. Foreign investors respond to the nature of the domestic business environment rather than individual enterprises offered for sale in a privatisation programme. Naturally, greater inflows of FDI supported by ongoing policy reforms could stimulate a virtuous circle of enterprise restructuring and growth leading to higher FDI. Unlike Montenegro, the legal framework for privatisation is not yet completely resolved in Serbia. Despite the legal certainty, enterprise sales in Montenegro, for instance by tender, suggest that implementation of privatisation is being varied in both republics as they increase their practical experience of the process.

Notes

1. The OECD Economic Survey of Yugoslavia published in 1990 covered the Socialist Federal Republic of Yugoslavia (SFRY), though it included regional breakdowns that allow comparison with what has become the Federal Republic of Yugoslavia (FRY).
2. On this subject, see OECD (1990)
3. This is the estimate of the Serbian government in Government of the Serbian Republic (2001), p. 5.
4. The main areas for structural change are privatisation, taxation, commercial bank regulation, pension reform, competition policy, health care, bankruptcy, the judiciary, and corporate governance.
5. The three plants were: Kosjeric, Beocin and Novi Popovac.
6. The ministerial declaration on regional investment forms a part of the Investment Compact, a programme of the Stability Pact for South East Europe.
7. Gross material product is the aggregate measure of domestic economic activity calculated by the FRY Federal Statistical Office (FSO (2001), p. 113). This measure is an underestimate of gross domestic product as it does not include a number of activities in the service sector. It also takes no account for the large grey economy. For this reason, if the grey economy has shrunk, growth in gross material product may actually overestimate economic growth in the country since 1999. Some FRY institutes and the IMF have attempted to estimate GDP on the basis of existing information, but the reliability of these estimates remains highly questionable. The IMF reports figures of 5.0 and 5.5 per cent for GDP growth according to their measurement in 2000 and 2001, respectively (IMF, 2002b).
8. The ILO definition of unemployment adds those workers who have informal jobs, but does not subtract those workers formally employed who are not paid or do not work.
9. As only Serbia made contributions in 2001, the federal budget is also consolidated with the Serbian republican and local budgets to form a "consolidated budget on Serbian territory". As described in Chapter II, the federal budget actually generated a small surplus in 2001.
10. It is widely believed that a larger share of imports went unrecorded before 2001, indicating that actual growth in imports may be somewhat exaggerated in official statistics.
11. By contrast, recent Montenegrin balance of payments data show that exports increased strongly during the first half of 2002 (see Table 10).
12. Measures increase in net real wages. See Chapter II for an explanation of methodological changes in calculating official wage statistics.
13. Changes in aggregate household incomes and expenditures in 2001 and 2002 are difficult to measure directly due to important methodological breaks in the relevant statistical time

series. Comparing May 2002 with July 2001 according to what is claimed as a consistent methodology would indicate that real household incomes grew by 9.3 per cent during that period, considerably slower than growth in reported wage rates.

14. The agreement allowed for a 51 per cent write-off upon signature of a 3 year Extended Structural Adjustment Facility (ESAF) with the IMF, and a further 15 per cent on successful completion of the ESAF.
15. For a comprehensive survey of macroeconomic policy issues, see IMF (2002a, 2002b).
16. Output and trade statistics in Montenegro exhibit a very high degree of volatility. This can partly be associated with the fact that a very large share of output and trade in the republic depends on a single aluminium firm, Kombinat Aluminijuma Podgorica (KAP), which continues to have access to heavily subsidised electricity.
17. Montenegro has employed the deutschmark, and later the euro, as its currency. Real exchange rate appreciation in Montenegro through inflation has been very similar to that in Serbia in 2002.
18. This has been highlighted in the memoranda of the FRY government contained in IMF (2002a); see also p. 4 in IMF (2002a).
19. It is difficult to know what FRY's exports are to Kosovo, not least since exports have been diverted through Montenegro and FYR Macedonia. Montenegro has only separately recorded exports to Kosovo since April 2001. UNMIK reports some imports to Kosovo, though its Figure of USD 0.5 million from Serbia seems low. An indirect estimate of trade with Kosovo can be made by taking the share of Kosovo's GDP that was traded with Serbia (Serbian territory) before the conflict, assuming that Serbia picked up half the trade that was previously with Croatia and Slovenia, and applying that share (38 per cent) to Kosovo's reported GDP in 1998.
20. Montenegro accounts for less than 10 per cent of GMP in the FRY. Industrial output in Montenegro is also dominated by the single giant aluminium plant, Kombinat Aluminijuma Podgorica (KAP).
21. Zavod za obracun i placanja.
22. Enterprises have to make a half-year return in June and a full return at the end of December, comprising balance sheet and profit and loss account.
23. In the ZOP accounts, the operating profit figures for 2000 are higher than those shown in Table 2.3. Under conditions of rapid inflation, depreciation allowances declined to quite low levels in real terms in 2000, but were subsequently adjusted upwards for 2001. In the interest of comparability, we have done a rough correction to compensate for this fact, postulating that the ratio of actual depreciation to sales in 2000 should have been similar to 2001. Depreciation costs for 2000 were therefore adjusted upward to the point where their share exactly equals that for 2001.
24. These percentages were calculated directly from ZOP enterprise data, and include sundry employer labour costs as well as employer payroll tax and social security contributions. The Serbian ministry of finance puts the wedge at, respectively, 105 and 75 per cent.
25. The simple average tax wedge in OECD countries was 43.0 per cent in 2001. Rates in Member countries ranged from 20.5 (Korea) to 76.5 (Hungary). The wedge in Yugoslavia is higher than in Poland or the Slovak Republic, though lower than in the Czech Republic or Hungary.
26. By way of comparison, the quick ratio for quoted firms in Germany was 1.25 towards the end of 2001.

27. In September 2002 the Serbian government announced its intention to adopt new tax incentives to attract investment, including a tax holiday and a reduction in corporation tax to 14 per cent.
28. This estimate is reported in World Bank (2001a), p. 2.
29. Data provided by EPS.
30. Electrical heaters are less than 10 per cent efficient from generation to consumption, compared with over 90 per cent for a residential gas boiler.
31. Figures in this paragraph are from the Serbian Ministry of Energy.
32. The Montenegrin government believes that a part of the price difference is justified by lower losses on the higher voltage transmission lines used to supply KAP.
33. The Montenegrin government expects the electricity price to KAP to increase at the end of 2002.
34. The information for this paragraph was obtained directly from Montenegro Electroprivieda (EPR).
35. IEA-UNDP Workshop on New Energy Policies in Southeast Europe, Serbia, October 2002 (*www.iea.org/about/nmccee.htm*).
36. The smallest EU farms are in Greece, Italy and Portugal, with average sizes of 4.5 Ha, 6.4 Ha and 9.0 Ha.
37. The export quota on wheat will be eliminated from December 2002.
38. Preliminary figures for FDI during the first three quarters of 2002 show a net inflow of EUR 300 million.
39. The timely disclosure of basic macroeconomic information to international organisations and potential investors would be one step forward in attracting greater FDI.
40. Estimate of the Institute of Strategic Studies and Prognoses reported in Monet, ISSP (2002).
41. The shift from the deutschmark peg (30 dinars) to the euro (60 dinars) did in fact imply a nominal depreciation of more than 2 per cent.
42. The outstanding stock of NBY bills increased by an estimated YUD 1.8 billion in 2001, which amounts to only about 6 per cent of the expansion of M1 during the same period.
43. Montenegro is an exception in Figure 2.8, since a significant share of its budget has been financed from foreign grants.
44. For comparative purposes, figures from EU and other countries on military spending can be found in International Institute for Strategic Studies (2000). Recent estimates of military spending in Serbia vary. One recent study placed military spending at over 6.2 per cent of GDP. The official 2002 federal budget proposes spending on the military that would be equivalent to 4.6 per cent of GDP.
45. Although Montenegro ceased making a contribution to the federal budget, it continued to pay local costs (*e.g.* food, accommodation, electricity) of the Yugoslav army (JA). The federal authorities had previously stopped transferring a part of federal customs revenue and contributions to the Montenegrin pension fund.
46. In Table 11, the sum of gross transfers to extra-budgetary funds in 2001 (5.2 per cent of GDP) is greater than transfers from the republican and federal budgets (3.9 per cent of GDP) due to transfers from the three extra-budgetary funds to each other (1.3 per cent).

47. See IMF (2002a), pp.11-12, 39. The World Bank conducted a fiscal sustainability analysis as part of an overall Public Expenditure Review in 2002, although the results had not been released at the time this Assessment was prepared.
48. The IMF report conducts two types of sensitivity analysis, one in which exports are only 60 per cent of the baseline projection and another where FDI is only half of that expected. Additional borrowing is assumed to fill the gap.
49. 2001 budgetary and extra-budgetary expenditure out of Serbian republican funds.
50. Government of the Republic of Serbia (2001), p. 7.
51. See OECD (1997a), OECD (1999).
52. Data provided by the NBY.
53. The NBY decision took account of the fact that these institutions also had negative cash flow.
54. The state took a majority stake in 10 banks (Kontinental Banka, Jubanka, Privredna Banka Pancevo, Vojvodjanska Banka, Kredi Banka, Panonska Banka, Niska Banka, Novosadska Banka, Borska Banka and Pirotska Banka), and became a co-owner of a further four (Agrobanka, Kapital Banka, Cacanska Banka and Komercijalna Banka).
55. Data provided by the NBY.
56. From data presented in National Bank of Yugoslavia (2002).
57. IMF (2002) supplement, p. 23.
58. National Bank of Yugoslavia (2002).
59. On this point, see in particular Blanchard (1997), Johnson, Kaufman, and Shleifer (1997), and World Bank (2002).
60. For the importance of SMEs for growth in the US economy, for example, see Foster *et al.* (1998).
61. Committee for Development and Foreign Economic Relations (2002), pp. 11, 23.
62. Committee for Development and Foreign Economic Relations (2002).
63. See for example OECD-EBRD (forthcoming), a review conducted as part of the Stability Pact for South East Europe's Investment Compact.
64. This is in contrast to the case of the Russian Federation, where more than half of entrepreneurs questioned indicated particular difficulties with expanding activities to different regions.
65. See for example G17 Institute (2002).
66. Committee for Development and Foreign Economic Relations (2002).
67. G17 Institute (2002).
68. These sub-units were called BOALs: Basic Organisations of Associated Labour.
69. "National treatment" did not extend to allowing foreigners to own land.
70. In Serbia's case, employees in firms opting to privatise received shares on very favourable terms, linked to length of service. Long-serving employees could buy shares, valued at accounting book value, at up to a 70 per cent discount paying over 10 years (Uvalic, 2001). However, the new owners had to accept the firm's liabilities and obligations along with its assets. The favourable terms in the original legislation were somewhat modified by the 1991 Serbian Privatisation Law, but the underlying approach did not change.

71. Motivated, doubtless, by political expediency, an analogous situation that arose at the same time over houses and flats sold to their occupants, was left to stand.
72. Enterprises deemed to be operating "in the public interest" had to seek prior approval for privatisation from the government (either republican or federal).
73. In Montenegro 10 per cent of the shares were distributed free of charge to employees, with another 30 per cent available under various conditions including long service. The state became the formal owner of the remaining shares.
74. A 'managing share' allowed management to buy 35 per cent of a firm's shares for payment over 5-7 years, but with the guarantee to exercise 51 per cent of the voting rights over this period (Vukotic, 2001).
75. The private sector was defined as self employment + enterprises in majority private ownership.
76. See, for example G17 Institute (2000).
77. An initial 40 per cent had been distributed to employees, and a further 20 per cent was transferred to the state pension fund.
78. Of these six PIFs, five (including the largest) are Slovenian owned.
79. Prior to voucher privatisation the dominant majority of shares traded in Montenegro were in short term securities. Trading volumes had anyway collapsed after 1998; a small revival in 2001 was due mainly to bank recapitalisation, during which banks issued new equity.
80. The five firms are: Juzni Jadran, Stevanoviac trgovina, Jasikovac, Obnova-Premis and Telecom Crne Gora.
81. For experience in other transition economies see for example OECD (1995), OECD (1997b), OECD (1997c), OECD (1998) and OECD (2000).
82. Retired workers will benefit indirectly, from the 10 per cent of the proceeds that the law specifies will be paid into the pension fund.
83. Amendment to the Enterprise Law, July 2002.
84. Bankruptcy is a federal responsibility; new rules await resolution of the terms under which Serbia and Montenegro will enter into a "state union".
85. In an English auction the bids increase in value; a sale is agreed where the last bid exceeds a minimum ("reserve") price. In a Dutch auction, the auctioneer reduces the offer price in steps, and the first bidder is declared the winner.
86. Formally, former-Yugoslavia was the Socialist Federal Republic of Yugoslavia (SFRY).
87. The export quota on wheat and wheat flour was abolished from 1 September 2002.

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Annex I

Yugoslavia: a selected chronology

1989

December

Start of Markovic reforms; dinar pegged to deutschmark.

1990

Spring

Privatisation law adopted.

Late autumn

Partial freeze on foreign currency savings.

1991

January

Milosevic expropriates foreign currency reserves through ZOP.

Spring

Slovenia stops transferring tax revenues to the federal budget.

June

First Yugoslav war begins in Slovenia.

Mid-summer

Second Yugoslav war begins in Croatia.

December

War with Croatia ends (Vance agreement).
Slovenia and Croatia conditionally recognised as independent states by the EC.

1992

April

Third Yugoslav war starts in Bosnia.

May

Economic sanctions introduced by the United Nations.

1993

Mid-year

Major new banks collapse.

1994

January

Hyperinflation peaks.
Fixed exchange rate introduced.

1995

July-August

Croatia takes control of Krajina; military activity spills over into Bosnia.

December

Dayton peace accords signed.

1996

Winter

Most sanctions on Yugoslavia removed ("outer wall of sanctions" remains).
Autonomous preferences extended by the EU.

May

NBY governor Avramovic (architect of the 1994 stabilisation) removed.

December

Large demonstrations erupt in Serbia, lasting 88 days.

1997

Spring

49 per cent of Serbian Telecom sold for USD 1 billion.

Mid-year

Parliamentary elections in Montenegro.

October

Privatisation law introduced (Serbia).

End of year

EU fails to renew autonomous trade preferences.

1998

January

USA and EU tighten "outer wall of sanctions".

Early spring

Violence erupts in Kosovo.

Mid-year

Milo Djukanovic wins the presidential elections in Montenegro.

December

Privatisation Council established (Montenegro).
Deutschmark introduced as the second legal tender in Montenegro.

1999

March

Fourth Yugoslav war begins in Kosovo.

June

End of Kosovo war; territory placed under UN administration.

July

Stability Pact for South East Europe launched in Sarajevo.

November

Deutschmark adopted as sole legal tender (Montenegro).

2000

October

Vojislav Kostunica accedes to Yugoslav presidency.

October

Most price controls relaxed (Serbia).

November

Montenegro introduces the deutschmark as its currency.

December

Exchange rate unified and dinar anchored to the deutschmark (Serbia).

Foreign Trade Law amended.

2001

January

UN sanctions lifted.

February

Djindjic government takes office in Serbia.

March

EU liberalises access to its markets.

May

Non-tariff barriers largely abandoned; new tariff structure introduced.

June

Privatisation Law (Serbia).

IMF Stand-by Arrangement approved.

July

Electricity prices increased (Serbia).

ZOP monopoly on transactions abolished (Montenegro).

September

Montenegro Stock Exchange (NEX) opens.

December

Agreement on debt reduction with the Paris Club.

2002

January

Privatisation by tender of 3 cement plants (Serbia).
Closure of largest 4 commercial banks (Serbia).
Interim pension reform (Serbia).

March

Agreement with EU on the FRY's future constitutional arrangements.

May

IMF Extended Arrangement approved.
Current account convertibility (IMF Article VIII) announced.

June

Electricity prices increased again.
Vojvodina granted limited autonomy.
Share trading accelerates on Montenegro stock exchange.
Dinar declared sole legal tender in Serbia.

July

Announcement of changes to privatisation programme (Serbia).
Ministerial declaration on regional investment (part of Stability Pact Investment Compact).

August

NBY exercises debt-equity swap to take over 14 commercial banks.

Annex II

OECD economics department survey of 404 small enterprises in the FRY

The OECD survey was carried out in May 2002 using a one-stage stratified sample. The first step was to take a random sample of active registered private enterprises from the Uniform Register of Enterprises. The total sample of 404 firms was drawn equally from Belgrade, Vojvodina, Central Serbia and Montenegro. The survey technique was face-to-face interviews. The sample was also stratified according economic activity, sampling enterprises in manufacturing, construction, commerce and services.

The sample population was small firms registered with the Commercial Court that had opened a giro account in the Clearing and Payment Service (ZOP) and filed the requisite returns. Firms are defined as "small" if they satisfy two of three criteria, namely having less than 50 employees, with assets or turnover less than a specified nominal ceiling that is revised annually. Of 270 000 registered firms some 100 000 have accounts at ZOP, and of these some 76 000 (28 per cent of registered firms) filed the requisite annual return for 2001. Of these, about 45 000 are small enterprises, of which some 40 000 (a little over 90 per cent) are in the private sector. In the FRY these active small private enterprises, only 15 per cent of total registered enterprises, are overwhelmingly (55 per cent) engaged in trade.

There were a number of practical difficulties in carrying out the survey. The most severe problem was locating small private enterprises. Many of them are registered at one address, whilst they actually carry on their business at another address (without reporting the change of address in the register). A second problem was that the activity description in the Register was often inaccurate, notably with enterprises registered in manufacturing or services in practice carrying on trade.

The full results of the survey are reported in Annex Table A.2.

Annex III

Yugoslav enterprise

Yugoslavia developed a style of economic management that was distinct both from central planning practised in most communist states and market socialism that began to emerge from the 1970s, notably in Hungary and China. From the early 1950s Yugoslavia adopted *worker managed socialism*. The essential difference from economic management in other communist states was that the Yugoslav system was based on decentralised market mechanisms. Banks ran on a commercial basis and the government ran a conventional budget into which firms had to pay taxes. There was even a bankruptcy procedure. However, there was little private ownership in industry or trade. But Yugoslavia's distinctiveness was apparent in the high degree of private activity in agriculture, housing (especially rural housing) and services, notably tourism.

The most important feature of the system was that it acknowledged individual firms were better placed than a central planner to make decisions about output and pricing. It left it to firms to assess and take business risks, including investment. By the mid-1970s, central planning had been reduced to a system of loose "indicative planning", where the centre only collected information on enterprises' intended output. Yugoslavia's system had two main characteristics: social ownership and self-management.

Social ownership

Enterprises were socially-owned. The state did not own and could not sell socially-owned enterprises. Socially-owned enterprises were also constitutionally forbidden to sell themselves. All decisions were made by the Employee Assembly, consisting of all current employees. The employees were in a practical sense the owners, since they were entitled to take residual income as wages. The state did impose some limits on this right, indirectly by placing legal restrictions on how residual income was derived (for instance, the firm was obliged to pay taxes and interest), and directly by capping growth in nominal wages.

Self-management

The Employee Assembly appointed the firm's management, and all employees had a contract with the firm. The state did reserve the right to intervene and replace a firm's management in defence of the "social interest", for instance when a firm was declared bankrupt, but in practice this power was only selectively exercised. Direct central control over self-managed firms was weak.

The combination of social ownership and self-management had a number of consequences. Employees had an obvious incentive to maximise residual income and minimise the number of workers amongst whom this residual had to be shared. Critics quickly noted that this would lead to lower output and employment than in similar firms in market economies

(Ward, 1958). The consequences for investment are ambiguous. There is pressure to under-invest (the Furbotn-Pejovic effect) as employees seek to maximise the residual available for distribution as wages, particularly employees closer to retirement who by their age and position would have a stronger voice at the Employee Assembly. There was a parallel impact on inflation, as this behaviour put upward pressure on enterprise wage costs. The resistance of self-managed firms to increasing employment had a further consequence. In order to absorb the growing labour force, the government had to found an increasing number of enterprises. This took its toll on efficiency as firms were not allowed to fail and the costs of co-ordination grew.

However, the potential for income growth increases with available capacity. The outcome in Yugoslavia tended towards ever greater investment as the authorities gradually subverted the market mechanisms by cutting the cost of credit enabling firms to borrow, often at negative real interest rates. A related development had frequently been the creation of “in-house” banks that freely financed enterprises in their wider “system”.

Annex tables

Table A.1. **Kosovo basic economic indicators, 2001**

	EUR million	Per cent of GDP
Population (million)	1.9	
GDP per capita (USD)	899	
National accounts		
GDP	1 946	100
Private consumption	2 000	103
Public consumption	355	18
Public investment	726	37
Exports	239	12
Imports	1 726	89
Balance of payments		
Trade balance	–1 446	–74
Unrequited transfers	1 247	64
Current account balance	– 86	–4
Budget		
Consolidated revenue	463	24
Current expenditure	416	21
Capital expenditure	712	37
Fiscal balance	–665	–34
Grant financing	761	39
Banking sector		
Total assets	502	26
Cash and CFA deposits	254	
Net loans	24	
Customer deposits	478	

Source: Demekas *et al.* (2002).

Table A.2. **OECD survey of 404 small enterprises in the FRY**

General information about the firm

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Q1. Where is your firm located (city)?														
Beograd	24	100	..	..	..	29	21	31	15	19	22	28	23	23
Niš	18	..	..	71	..	18	18	21	19	11	15	18	18	19
Novi Sad	21	..	81	..	..	22	20	17	19	28	16	16	25	23
Subotica	2	..	10	..	..	4	2	3	..	3	..	1	2	6
Kraljevo	2	..	..	10	..	2	3	2	..	5	..	..	1	7
Čačak	2	..	..	10	..	5	1	4	1	..	1	3	3	2
Kruševac	2	..	..	10	..	1	3	2	1	4	1	3	3	2
Pančevo	2	..	10	..	..	1	3	2	..	4	4	2	1	3
Podgorica	25	..	..	..	100	18	29	17	46	25	39	28	24	15
Q2. Where is your firm located (republic)?														
Serbia	75				n.a	82	71	83	54	75	61	72	76	85
Montenegro	25				n.a	18	29	17	46	25	39	28	24	15
Q3. When was your firm founded?														
1991 and before	38	46	41	38	27	n.a		45	33	29	25	34	41	46
After 1991	62	54	59	62	73	n.a		55	67	71	75	66	59	54
Q4. What is the principal activity of your firm?														
Manufacturing	51	64	46	60	34	60	45	100	..	..	37	44	51	64
Construction	6	6	8	10	2	6	7	..	..	22	4	3	6	11
Commerce	20	12	15	17	37	18	22	..	100	..	21	27	24	10
Transport	1	..	5	1	..	..	2	..	..	5	1	..	3	2
Services	19	13	25	11	28	14	22	..	..	66	36	25	13	10
Research and development	1	4	..	..	..	1	1	..	..	3	..	2	1	1
Other	1	..	2	2	..	1	1	..	..	3	..	..	2	2

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

General information about the firm

		Stratum				Founded		Principal sector			Number of employees			
Number	Total	Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Q5a. How many people are employed in your firm – full-time?														
Mean	10.9	9.4	12.8	13.6	7.8	12.7	9.8	12.8	7.4	9.9	1.7	3.9	7.9	24.6
Q5b. How many people are employed in your firm – part-time?														
Mean	1.5	2.8	1.2	1.7	0.6	1.7	1.5	1.6	0.4	2.2	1.0	0.6	1.8	2.5
Q6. How long have you been a director of the firm?														
1-2 years	17	17	16	13	24	5	25	16	22	16	27	23	9	13
3-5 years	20	10	23	17	28	4	29	14	26	25	21	22	18	18
> 5 years	63	72	61	71	49	91	46	70	52	59	52	54	73	70
	Years													
Mean	7.6	8.2	7.8	7.9	6.4	11.1	5.5	8.2	6.7	7.2	6.6	7.0	8.1	8.3
	Per cent													
Q7. What did you do immediately before becoming a director in this firm?														
Manager of another private firm	14	13	15	17	11	10	16	13	10	18	16	9	14	17
Non-managerial employee of another private firm	9	11	8	10	7	7	10	10	6	9	9	11	10	6
Employee in a socially-owned/ mixed/state firm	54	54	50	60	51	58	51	54	68	45	49	53	53	58
Self-employed	10	11	14	3	13	11	10	9	5	15	13	10	10	8
Other	2	1	4	3	1	3	2	2	1	3	1	2	4	2

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

General information about the firm

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
First employment	6	6	3	4	10	5	6	6	6	4	6	9	6	2
Retired	0	..	1	..	..	..	0	0	..	..	1	..	..	..
Employed in a non-managerial position in the same firm	1	..	2	1	1	1	1	0	1	2	..	1	2	1
Manager in a socially-owned/ mixed/state firm	1	1	2	..	1	1	1	2	..	..	1	1	..	2
Worked abroad	1	1	2	1	..	1	1	1	..	1	..	1	..	2
No response	2	1	..	2	5	1	2	1	2	3	1	2	..	4

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Local business climate

	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
Number	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Q8. In your view, how has the environment for small businesses changed in your city during the last two years?														
Improved	23	24	21	27	18	24	22	24	15	25	19	22	21	27
Unchanged	22	23	19	23	22	21	22	23	21	20	24	23	21	20
Deteriorated	39	42	42	41	32	43	37	38	42	40	40	40	42	36
Hard to say	16	10	17	9	29	12	19	15	22	14	16	16	17	17
Q9. How would you characterise the change in the following aspects of the environment for small businesses in your city during the last two years?														
Demand for goods and services														
Improved	27	26	31	23	31	27	27	29	17	32	30	22	28	30
Unchanged	23	23	22	30	17	24	23	28	16	20	25	23	19	26
Deteriorated	43	45	40	43	43	43	42	38	62	38	37	47	45	40
Hard to say	7	6	7	4	10	5	8	6	5	9	7	8	8	4
Profit margins														
Improved	17	12	19	17	21	19	16	20	9	19	22	14	11	22
Unchanged	22	23	21	20	22	20	22	22	19	23	21	22	22	22
Deteriorated	54	61	53	59	45	54	55	52	64	52	52	59	59	47
Hard to say	7	3	6	5	13	7	6	6	9	7	4	5	7	9
Investment opportunities														
Improved	23	28	23	21	22	27	21	29	19	16	18	20	19	33
Unchanged	25	16	28	24	34	22	27	23	25	31	36	26	20	24
Deteriorated	40	45	37	50	27	41	39	40	35	42	34	40	49	35
Hard to say	12	11	12	6	18	10	13	7	22	12	12	15	13	8
Availability of external (domestic or foreign) finance														
Improved	28	32	28	23	29	25	29	28	36	22	24	22	33	30
Unchanged	33	35	33	27	39	39	30	33	30	37	37	31	27	38
Deteriorated	24	19	22	35	18	20	26	24	22	24	24	28	26	18
Hard to say	15	14	17	15	15	16	14	15	12	17	15	18	14	14

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Local business climate

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Possibility to compete with existing firms														
Improved	25	24	28	16	30	22	26	27	23	21	21	27	25	24
Unchanged	45	44	36	49	50	49	42	43	51	44	52	36	40	53
Deteriorated	19	23	20	23	8	17	20	18	15	22	19	22	23	11
Hard to say	12	8	16	13	12	12	12	12	11	13	7	15	13	12
Relationship with employees														
Improved	23	24	14	24	29	19	25	24	19	22	27	22	19	24
Unchanged	72	73	83	72	61	75	71	71	75	73	66	78	70	73
Deteriorated	3	2	3	3	5	5	2	3	4	3	4	1	7	2
Hard to say	2	..	1	2	5	1	2	1	2	3	3	..	4	2
Relationship with tax authorities														
Improved	14	16	13	17	9	14	13	15	19	8	9	14	14	16
Unchanged	62	64	64	50	68	61	62	57	64	68	63	62	60	62
Deteriorated	19	15	17	31	12	18	20	23	11	18	21	22	15	19
Hard to say	6	4	6	2	11	7	5	5	6	7	7	3	11	3
Relationship with the local authority														
Improved	14	21	14	18	5	20	11	16	11	14	12	13	13	18
Unchanged	62	65	60	52	72	59	64	59	72	62	66	63	60	62
Deteriorated	13	7	16	18	13	14	13	15	12	11	10	16	13	13
Hard to say	10	6	11	13	10	7	12	10	5	13	12	8	15	7
Relationship with state authority/regulators														
Improved	13	16	18	15	3	19	10	15	11	11	10	10	13	18
Unchanged	62	62	55	54	78	58	65	58	72	64	61	67	63	58
Deteriorated	11	9	12	13	11	12	10	14	7	9	16	12	7	10
Hard to say	13	12	15	19	8	11	15	14	10	15	12	10	18	14

Table A.2. **OECD survey of 404 small enterprises in the FRY** *(cont.)*

Local business climate

	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
Number	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Relationship with agencies supporting small business														
Improved	11	12	10	16	8	10	12	16	6	8	7	8	10	18
Unchanged	44	41	42	33	58	48	41	41	48	44	46	41	41	46
Deteriorated	9	5	10	17	5	10	9	10	6	9	10	10	9	7
Hard to say	36	42	39	34	29	32	38	33	40	39	36	41	40	29
Ease of obtaining official licenses														
Improved	18	18	24	15	13	20	16	17	20	18	15	18	16	20
Unchanged	49	47	50	41	58	51	48	52	46	47	51	39	53	55
Deteriorated	20	22	14	29	14	16	22	20	19	21	21	24	21	14
Hard to say	13	12	12	15	15	13	14	12	16	14	13	19	10	10
Tax legislation														
Improved	17	17	23	18	9	26	11	19	17	14	9	11	19	25
Unchanged	41	37	42	32	54	39	43	37	42	49	43	42	42	39
Deteriorated	30	39	28	41	14	28	32	36	23	26	39	34	28	25
Hard to say	11	7	7	9	23	7	14	9	17	11	9	13	11	11
Protection from criminal activity														
Improved	16	8	15	22	20	13	18	14	26	14	16	16	8	22
Unchanged	50	60	52	39	48	53	48	52	53	44	48	45	56	50
Deteriorated	16	20	14	15	16	19	14	18	6	19	22	18	15	12
Hard to say	18	11	19	25	17	15	20	17	15	23	13	22	21	15
Efficiency of the judicial system														
Improved	9	11	9	12	6	8	10	10	9	8	9	7	8	13
Unchanged	53	53	50	51	58	55	52	54	58	48	54	49	58	52
Deteriorated	17	17	17	18	16	18	16	17	14	20	21	17	17	15
Hard to say	21	18	24	20	20	19	22	20	20	23	16	27	17	20

Table A.2. **OECD survey of 404 small enterprises in the FRY** *(cont.)*

Local business climate

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Q10. In your view, how has the burden on small businesses changed in the last two years with respect to the following:														
Taxes														
Increased	65	62	56	73	67	64	65	64	64	65	75	69	56	62
Unchanged	22	20	29	16	24	20	24	20	21	26	16	22	28	21
Decreased	8	12	12	8	2	11	7	12	9	3	1	5	11	13
Hard to say	5	5	3	4	7	5	5	3	6	6	7	3	4	5
Social contributions														
Increased	55	55	49	61	54	51	57	59	56	47	57	54	55	54
Unchanged	25	22	19	21	37	24	25	22	20	33	25	28	24	22
Decreased	17	20	30	15	2	22	14	18	17	15	10	16	16	22
Hard to say	4	2	2	4	7	3	4	1	7	5	7	3	5	2
License and other fees														
Increased	51	44	38	71	53	49	53	52	46	55	66	50	47	49
Unchanged	32	37	35	19	38	31	32	31	35	31	27	36	30	32
Decreased	8	12	13	7	2	10	7	10	6	8	1	6	9	14
Hard to say	8	7	15	4	7	9	8	7	14	6	6	8	14	6
Number of licenses/permissions/certificates														
Increased	32	27	21	41	38	26	35	30	32	35	39	39	22	29
Unchanged	45	47	47	40	48	47	44	43	37	54	49	39	45	50
Decreased	12	14	17	14	2	16	10	16	11	5	4	11	10	18
Hard to say	11	12	15	5	13	11	11	11	20	6	7	11	23	4

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Operating difficulties faced by small businesses

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Employment regulations														
Increased	24	23	25	35	11	25	23	30	14	19	25	22	20	27
Unchanged	48	46	47	40	58	46	49	44	44	56	54	53	46	42
Decreased	7	15	6	7	2	7	8	9	7	5	3	6	10	9
Hard to say	21	15	22	18	29	22	21	17	35	19	18	19	24	22
Health and safety regulations														
Increased	30	27	35	44	15	34	28	36	22	26	30	30	30	30
Unchanged	53	58	49	38	68	48	57	49	57	58	60	52	50	54
Decreased	4	7	3	6	1	5	4	4	5	3	3	4	5	4
Hard to say	12	8	14	12	16	13	12	11	16	12	7	14	15	12
Environmental regulations														
Increased	24	14	33	29	20	22	25	28	23	18	30	23	17	28
Unchanged	50	60	38	45	58	53	49	49	57	47	58	44	55	48
Decreased	2	6	2	..	1	3	2	1	6	2	1	3	3	1
Hard to say	23	19	27	25	21	22	24	21	14	33	10	29	25	23
Q11a. Which was the most significant difficulty in starting-up your firm?														
Costs of registration (payments)	13	8	11	16	18	14	13	14	15	11	19	16	13	8
Registration procedure (time and complexity)	25	24	28	27	22	25	25	27	23	24	25	28	25	24
Funding start-up costs and working capital	30	31	34	21	36	29	31	29	35	30	30	33	31	27
Opening a bank account	0	..	..	1	..	..	0	0	..	..	..	1	..	..
Finding suitable premises	4	8	1	3	5	2	6	3	5	5	4	3	3	6
Obtaining necessary licenses	11	12	12	12	8	12	10	9	10	15	10	8	13	13

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Operating difficulties faced by small businesses

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Attracting suitable managers	1	..	1	3	2	1	2	2	1	1	..	1	2	2
Attracting suitable employees	2	3	3	1	2	1	3	1	4	3	..	3	1	4
Finding suppliers	2	4	1	4	..	2	2	3	2	1	..	3	2	3
Establishing relations with potential customers	5	5	6	4	4	6	4	6	2	4	7	3	5	5
Establishing relations with local authorities	1	..	1	1	1	1	0	1	..	1	..	..	1	2
Extortion by criminal groups	0	..	..	1	..	..	0	..	1	..	..	..	..	1
Other	0	..	..	1	..	1	..	..	1	..	..	1	..	..
No response	4	4	3	6	3	5	3	5	..	5	3	3	4	6
Q11b. Which were the three most significant difficulties in starting-up your firm?														
Costs of registration (payments)	21	14	21	28	20	24	20	23	23	16	25	27	20	14
Registration procedure (time and complexity)	52	43	59	63	42	53	51	54	46	53	52	59	48	48
Funding start-up costs and working capital	55	54	57	53	56	58	53	51	59	59	67	56	52	50
Opening a bank account	2	3	4	2	1	1	3	3	2	2	3	1	3	3
Finding suitable premises	24	29	18	19	30	18	27	23	30	20	22	22	23	27
Obtaining necessary licenses	40	41	36	33	49	37	41	39	41	41	42	41	34	41

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Operating difficulties faced by small businesses

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Attracting suitable managers	8	2	4	15	13	7	9	10	9	6	1	4	14	12
Attracting suitable employees	16	13	21	15	16	15	17	18	15	15	12	16	17	19
Finding suppliers	16	15	15	14	20	16	16	14	25	14	18	18	15	14
Establishing relations with potential customers	27	30	30	24	27	22	31	27	30	27	27	23	35	26
Establishing relations with local authorities	11	8	12	9	14	12	10	8	10	15	6	9	11	14
Extortion by criminal groups	2	3	3	1	1	3	2	2	1	3	3	2	1	2
Other	1	2	2	1	1	2	1	2	1	1	..	1	2	2
No response	11	17	7	13	7	15	8	13	2	13	9	8	11	14
Q12a. Which is the most significant difficulty in operating your firm?														
Increasing wages	4	1	10	4	2	7	3	4	5	4	1	5	5	4
Increasing cost of other inputs	14	14	21	11	10	17	12	13	16	15	10	18	11	14
Unreliable supply of inputs	2	5	4	1		1	3	1	1	5		3	4	2
Insufficient working capital	14	14	18	15	10	16	13	13	19	14	21	15	16	10
Insufficient capital for investment	5	7	4	2	7	5	5	7	2	3	3	4	5	6
Insufficient credit	11	14	5	17	8	9	12	15	6	7	7	9	11	14
Obsolete technology	2	3	1	2	2	3	2	3	1	1	4	1	2	2

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Operating difficulties faced by small businesses

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Inability to find suitably skilled employees	3	2	3	4	3	3	3	3	4	3	1	3	3	3
Insufficient customer purchasing power	25	23	17	20	40	21	27	20	35	28	28	28	18	26
Fierce competition	5	3	7	7	4	5	5	6	2	6	4	5	7	4
Changing legislation and regulations	3	3	2	2	4	3	3	2	1	5	3	..	4	4
Conflict with owners of the firm	0	1	..	..	..	1	..	0	..	..	..	..	..	1
High local taxes	2	..	1	8	1	3	2	2	..	4	3	3	3	2
High national taxes	5	3	2	6	8	3	6	5	6	3	7	4	5	3
Other	4	5	5	3	2	4	4	5	1	3	4	2	4	5
Q12b. Which are the three most significant difficulties in operating your firm?														
Increasing wages	8	2	17	9	6	10	8	7	11	8	3	9	8	10
Increasing cost of other inputs	33	26	42	33	33	35	32	33	37	31	25	43	25	35
Unreliable supply of inputs	8	12	9	7	4	7	9	9	4	9	7	9	7	7
Insufficient working capital	29	27	35	29	25	31	28	28	28	31	42	29	26	24
Insufficient capital for investment	24	31	29	14	21	26	22	28	15	22	24	21	29	22
Insufficient credit	32	36	32	39	20	35	30	40	20	25	27	25	34	38
Obsolete technology	11	12	7	19	6	11	11	13	11	7	12	10	11	10
Inability to find suitably skilled employees	8	6	8	6	11	7	8	6	9	9	4	9	10	6

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Operating difficulties faced by small businesses

		Stratum				Founded		Principal sector			Number of employees			
Number	Total	Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Insufficient customer purchasing power	59	57	56	53	70	52	63	50	75	64	72	53	57	59
Fierce competition	26	21	26	20	37	22	28	22	32	29	25	22	30	26
Changing legislation and regulations	11	14	5	13	14	12	11	11	12	12	6	11	9	16
Conflict with owners of the firm	0	1	..	..	1	1	0	1	..	..	..	..	1	1
High local taxes	10	7	8	18	6	13	8	10	6	11	9	11	13	6
High national taxes	24	20	16	27	34	25	24	23	28	24	27	27	24	21
Harassment by state or local authorities	1	2	1	..	1	1	1	1	1	..	..	..	2	2
Other	6	11	6	4	4	6	6	9	2	4	7	5	5	7
Q13. How difficult is it currently for your firm to undertake the following?														
Open a bank account														
Difficult	3	6	4	2	1	2	4	4	2	3	6	1	5	2
Not so difficult	37	29	44	22	53	38	36	39	35	36	42	39	33	35
Quite easy	60	65	52	76	46	60	60	58	63	62	52	60	61	62
Obtain bank credit														
Difficult	55	83	61	39	40	57	55	62	43	52	61	53	57	54
Not so difficult	35	15	35	38	50	34	35	29	43	38	30	35	35	36
Quite easy	10	2	4	23	11	9	10	8	14	10	9	12	7	10
Obtain financial support from business partners, other enterprises or private individuals														
Difficult	64	72	76	60	50	65	64	66	58	66	67	68	64	60
Not so difficult	29	23	19	31	43	27	30	28	35	28	25	26	30	34
Quite easy	6	4	5	9	8	7	6	6	7	6	7	6	6	6

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Operating difficulties faced by small businesses

		Stratum				Founded		Principal sector			Number of employees			
Number	Total	Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Hire employees														
Difficult	32	31	28	35	33	31	32	30	43	27	48	29	29	27
Not so difficult	42	41	47	36	45	38	45	40	37	48	34	45	45	42
Quite easy	26	29	25	28	23	31	24	30	20	25	18	26	26	31
Dismiss employees														
Difficult	32	20	28	22	57	27	35	28	43	31	43	28	31	30
Not so difficult	37	44	49	29	26	32	40	38	30	40	33	41	36	35
Quite easy	31	36	23	49	17	41	25	34	27	29	24	30	32	35
Purchase new equipment														
Difficult	76	76	82	76	72	74	78	80	69	75	79	77	79	73
Not so difficult	19	22	17	20	18	22	18	16	27	19	16	16	18	25
Quite easy	4	2	1	4	10	5	4	4	4	5	4	7	3	2
Find suitably skilled and qualified employees														
Difficult	37	40	47	35	27	37	37	40	30	37	33	37	39	38
Not so difficult	45	37	43	49	50	44	45	45	46	44	49	41	46	46
Quite easy	18	23	11	16	23	19	18	15	25	19	18	22	16	16
Purchase timely business advice														
Difficult	34	35	40	37	25	35	34	40	23	32	30	33	42	32
Not so difficult	55	49	52	60	60	52	57	52	69	52	55	59	48	58
Quite easy	10	16	8	3	15	13	9	8	7	16	15	9	10	10
Obtain licenses/certificates														
Difficult	40	48	35	52	27	40	41	43	32	41	40	38	48	37
Not so difficult	51	44	54	47	59	47	54	49	60	48	48	52	47	56
Quite easy	8	8	11	1	14	13	6	7	7	11	12	10	5	7
To expand														
Difficult	66	71	67	68	58	66	66	66	68	65	70	65	69	63
Not so difficult	30	26	30	31	35	29	31	30	30	32	27	30	28	34
Quite easy	3	3	3	1	7	5	2	4	2	3	3	5	3	2

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Operating difficulties faced by small businesses

		Stratum				Founded		Principal sector			Number of employees			
Number	Total	Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
To lobby the authorities														
Difficult	69	67	65	66	79	62	74	67	72	71	70	72	71	65
Not so difficult	21	18	26	26	11	25	18	22	17	19	16	20	21	23
Quite easy	3	1	1	5	6	6	2	3	5	2	3	3	4	2
No response	7	13	8	3	4	7	7	7	6	8	10	4	4	10
Protect the business from extortion														
Difficult	30	41	36	21	22	25	33	33	20	31	30	29	29	30
Not so difficult	43	30	46	49	49	43	43	42	49	42	43	40	44	46
Quite easy	18	6	14	25	27	23	15	16	23	18	19	22	19	13
No response	9	23	5	6	3	9	9	10	7	9	7	9	8	10
Q14. Which of the following have been particularly obstructive to your firm's operations?														
Health and sanitation	1	..	4	1	..	1	2	2	1	..	1	..	1	2
Fire	2	2	6	1	..	2	2	3	1	2	..	3	1	4
Tax	30	39	26	37	19	33	28	33	27	28	25	31	33	30
ZOP	1	2	3	..	1	3	1	1	4	1	..	3	1	2
Local authority	5	3	8	2	6	5	4	3	4	8	3	3	5	6
State authority	5	7	8	..	4	5	5	4	4	6	4	5	5	4
Other	8	8	5	13	8	9	8	10	2	9	9	5	8	11
None	47	39	41	46	62	42	50	44	57	46	57	50	45	41
Q15. Which actions do you take if you believe regulatory bodies are exceeding their legal authority?														
Complain to the local authority	5	3	2	7	8	5	5	6	2	4	4	3	5	6
Complain to a state authority	4	7	1	5	5	3	5	4	4	5	1	6	3	6
Complain to the employers' federation/ chamber of commerce	3	1	5	1	5	3	3	2	5	3	..	..	4	6
Go to court	12	13	12	15	8	14	10	14	5	13	9	10	15	13
Try to negotiate a compromise	54	48	62	56	50	54	55	52	68	49	57	49	54	58

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Operating difficulties faced by small businesses

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Comply anyway	17	19	13	17	18	16	17	17	14	18	21	25	16	7
Other	0	..	1	..	1	1	0	0	..	1	..	..	..	2
No response	4	8	5	..	5	5	4	3	2	8	7	6	3	2
Q16. How much competition does your firm face?														
None	2	3	2	2	2	3	2	3	1	2		3	2	2
Little	4	5	1	4	7	7	2	4	4	4	6	3	7	2
Moderate	26	21	25	38	18	29	24	27	25	24	28	24	23	28
Fierce	63	65	67	49	69	58	66	60	67	64	58	64	63	64
Hard to say	5	5	5	7	4	4	6	5	4	7	7	5	5	4
Q17. Who are your firm's main competitors?														
Similar local private firm(s)	49	43	52	52	48	41	54	47	51	50	54	54	47	42
Local medium/ large firm(s)	15	23	11	9	17	15	15	11	19	19	18	17	13	13
Other Yugoslav firms	15	7	16	23	14	20	12	18	14	11	9	10	19	19
Foreign firms	4	7	5	4	2	5	4	5	4	3	4	3	5	6
Other (specify)	9	13	10	3	9	8	9	10	5	9	9	7	8	10
There is no competition	3	3	3	3	2	4	2	3	..	3	3	3	2	2
Hard to say	6	3	4	7	9	7	5	6	9	3	3	5	6	7
Q18. On average, how difficult would it be for you to start another business in a different city/region compared with your firm's city/region?														
Considerably more difficult	28	23	30	38	19	27	28	28	20	32	39	28	26	22
Somewhat more difficult	19	11	17	23	24	14	22	17	28	16	13	19	24	18
Similar	18	30	22	12	9	20	17	20	11	19	15	22	15	19
Easier	3	7	2	1	2	2	4	4	1	2	3	3	1	4
Hard to say	32	29	28	26	47	37	29	30	40	31	30	28	34	37

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Business relationships

	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
Number	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Q19. The level of wages in your firm is fixed in:														
Dinars	66	85	87	91	..	75	60	76	47	62	57	66	68	69
€ (EUR)	32	13	7	8	100	24	37	23	51	34	43	34	29	26
Other (DEM)	2	2	6	1	..	1	3	1	2	4	..	..	3	5
Q20. If the dinar falls against the €(DM), would you expect the dinar prices of goods you purchase from Yugoslav companies during the subsequent 2 months to:														
Increase proportionately	53	48	52	78	35	49	56	56	58	47	55	61	47	50
Increase less than proportionately	4	7	3	3	2	5	3	4	4	3	..	4	6	3
Increase more than proportionately	15	23	26	6	4	21	11	15	7	19	6	16	16	18
No change	3	1	8	1	3	4	3	1	4	6	6	2	4	2
Hard to say	25	20	11	12	56	22	27	24	27	25	33	17	27	26
Q21. In your view, which three of the following are the most helpful in collecting payments due to your firm?														
Having a formal contract	42	34	36	45	51	41	42	41	47	38	49	39	32	47
Having a good working relationship	48	43	40	48	59	45	49	46	54	45	51	50	44	46
Having a strong friendly relationship	50	46	45	45	62	46	51	44	60	51	54	48	53	46
The option to call on official authorities	10	17	11	6	5	10	10	11	5	11	12	8	10	10
The option to call on informal enforcement	2	5		3	2	1	3	2	4	2	1	3	4	2
There are no effective ways to collect debt	36	20	44	47	31	36	35	37	30	38	24	34	40	41

Table A.2. **OECD survey of 404 small enterprises in the FRY** *(cont.)*

Business relationships

		Stratum				Founded		Principal sector			Number of employees			
Number	Total	Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Q22. To what extent can you rely on formal contracts to obtain payments due to your firm?														
Always	8	10	4	10	8	9	7	9	6	7	4	11	4	10
Usually	24	17	22	21	35	25	23	23	20	27	25	20	20	30
Sometimes	31	22	36	25	39	29	31	29	41	27	42	28	26	30
Hardly ever	24	35	24	28	10	22	25	22	22	29	12	28	33	21
Not at all	13	15	14	16	9	14	13	16	11	10	16	13	17	10
Q23. Which of the following do you usually use to resolve conflicts with your customers and suppliers:														
Face-to-face negotiation	75	62	75	76	86	68	79	70	90	74	87	74	79	66
Appeal to state or local authorities	2	3	2	1	1	3	1	2	..	2	1	2	4	..
Commercial court	14	18	16	16	8	19	12	17	6	15	10	13	9	22
Arbitration or other courts	3	5	3	4	..	5	2	3	1	3	..	4	2	4
Other third party mediation	2	3	3	..	3	1	3	2	..	3	..	3	1	4
No response	4	8	2	3	2	5	3	5	2	3	1	4	4	4
Q24. How would you characterize the business relationships with your customers and suppliers?														
Predominantly reliable/ predictable	62	64	63	55	64	62	61	61	69	58	58	59	61	66
Mixed	34	29	34	36	36	31	35	34	30	36	37	34	34	31
Predominantly unreliable/ unpredictable	3	5	3	6	..	5	2	4	1	4	3	5	3	2
No response	1	2	..	3	..	1	1	1	..	2	1	2	1	1
Q25. With which groups do you believe it is most important for your firm to form a close long-term business relationship?														
Suppliers	69	65	77	73	59	69	68	73	68	61	60	69	71	71
Customers	93	95	96	88	91	90	94	92	94	93	94	91	91	95
Banks	45	42	51	51	36	47	44	49	41	42	36	42	50	49
Local authority	4	5	5	3	2	5	3	3	1	7	1	2	6	5
State authorities	5	11	4	1	5	5	6	8	..	3	1	6	7	5

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Business relationships

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Tax authorities	6	5	10	7	1	5	6	6	1	8	4	8	3	6
Other regulatory authorities	2	2	3	2	1	3	2	2	..	3	1	1	3	2
Other	1	..	3	..	..	1	0	..	..	3	..	..	..	2
Q26. How difficult is it to establish a working relationship with the following institutions?														
Banks														
Difficult	25	28	30	17	28	29	23	29	20	24	33	20	26	26
Not so difficult	46	49	46	37	53	44	47	46	44	47	45	45	49	46
Quite easy	28	23	24	46	19	26	29	25	36	29	22	35	25	27
Local authorities														
Difficult	43	47	42	28	55	40	45	44	44	41	52	43	36	43
Not so difficult	48	43	51	57	42	50	47	48	49	48	39	47	56	49
Quite easy	9	10	7	15	3	10	8	8	6	11	9	10	7	8
State authorities														
Difficult	54	62	50	44	61	50	57	55	59	50	55	50	54	58
Not so difficult	40	30	47	45	37	41	39	39	38	42	40	41	42	37
Quite easy	6	8	4	11	2	9	4	7	2	8	4	9	4	6
Tax authorities														
Difficult	50	54	32	57	58	43	55	51	59	43	51	52	54	46
Not so difficult	40	34	58	30	36	44	37	41	31	43	39	36	41	42
Quite easy	10	12	10	13	6	13	8	8	10	14	10	12	5	12
Public prosecutors office														
Difficult	50	58	32	43	67	42	55	50	59	44	54	49	51	48
Not so difficult	38	30	49	46	27	46	33	41	27	39	37	39	38	38
Quite easy	4	1	3	8	4	3	4	3	1	7	3	5	..	6
No response	8	11	17	3	2	8	8	5	12	10	6	7	11	8

Table A.2. **OECD survey of 404 small enterprises in the FRY** *(cont.)*

Business relationships

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Other regulatory authorities														
Difficult	40	49	27	33	50	36	42	42	47	31	42	41	40	38
Not so difficult	48	39	56	52	43	52	45	48	38	53	48	49	50	44
Quite easy	5	5	4	9	4	6	5	5	2	8	4	6	2	8
No response	7	7	13	6	3	7	8	5	12	8	6	4	8	10
Licensing/certification authorities														
Difficult	42	43	28	49	47	42	41	47	42	32	46	35	46	42
Not so difficult	44	44	53	37	40	41	45	41	40	50	39	47	44	43
Quite easy	8	4	10	6	11	8	7	4	11	11	9	11	4	6
No response	7	9	9	8	3	9	6	7	7	7	6	7	6	9
Q27. Which one of the following best characterizes the current financial condition of your firm?														
Stable	67	58	67	68	74	62	70	65	68	69	52	70	65	74
Unstable	24	32	25	19	20	29	21	26	23	20	37	20	23	21
Critical	9	10	8	14	6	9	10	9	9	10	10	10	13	6
Q28. How have the following main indicators of activity changed during the last two years in your firm?														
Level of production														
Improved	31	32	30	37	25	33	29	44	9	23	21	21	36	42
Unchanged	34	28	40	33	37	35	34	29	38	41	43	40	29	29
Deteriorated	21	28	17	25	15	24	20	26	15	17	24	21	21	21
No response	13	13	13	4	24	8	16	..	38	19	12	19	14	9
Sales														
Improved	29	33	29	29	26	29	29	37	17	25	24	19	30	41
Unchanged	32	24	31	36	35	32	31	26	41	36	33	36	29	29
Deteriorated	38	41	40	34	37	38	38	37	42	36	39	45	40	30
No response	1	2	..	..	3	1	2	0	..	3	4	..	1	1
Profitability														
Improved	20	16	16	22	28	17	22	23	12	21	21	14	18	28
Unchanged	35	31	41	32	36	37	34	35	36	35	36	38	31	34
Deteriorated	45	53	44	46	37	46	44	42	52	44	43	48	51	38

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Business relationships

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Average wages														
Improved	31	32	32	32	27	29	31	36	19	31	24	25	30	40
Unchanged	49	45	48	46	56	48	49	44	65	46	54	50	50	44
Deteriorated	21	23	20	22	17	23	19	20	16	24	22	25	20	16
Number of employees														
Improved	25	22	19	29	28	19	28	27	21	24	7	16	25	42
Unchanged	64	64	64	62	65	60	66	61	69	64	76	72	67	47
Deteriorated	11	13	17	9	7	21	6	12	10	12	16	12	8	10
Competitiveness														
Improved	41	38	32	34	58	30	47	40	43	40	42	38	33	48
Unchanged	39	43	41	42	31	44	36	39	37	41	43	41	40	34
Deteriorated	20	19	27	24	11	26	17	21	20	19	15	21	27	18
Q29. During 2002 do you plan to:														
Increase turnover significantly														
No	15	24	12	16	9	14	16	15	16	14	15	16	15	14
Yes	69	68	77	62	69	70	69	72	62	69	72	66	68	72
Undecided	16	7	12	23	22	16	16	13	22	16	13	18	18	14
Increase output significantly														
No	20	21	22	20	18	22	20	18	32	16	21	22	21	18
Yes	53	62	55	53	43	60	49	72	16	46	48	45	51	66
Undecided	17	5	14	25	24	12	20	9	25	25	21	19	19	11
No response	10	11	9	3	16	7	12	0	27	14	10	14	9	6
Radically change the product line														
No	58	66	74	44	50	63	56	62	52	57	54	58	70	53
Yes	16	14	11	25	12	15	16	24	5	8	16	10	13	22
Undecided	16	8	7	28	21	16	16	14	15	21	21	16	9	18
No response	10	11	9	2	18	7	12	0	28	14	9	16	8	6
Acquire other firm(s)														
No	79	84	83	72	77	78	79	76	78	85	84	83	82	70
Yes	8	8	8	8	8	6	9	8	10	7	7	7	7	10
Undecided	13	8	9	21	15	16	12	16	12	8	9	10	10	20

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Business relationships

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Establish subsidiaries or branches														
No	67	65	68	67	68	67	67	64	74	68	73	76	65	58
Yes	19	26	26	9	14	17	20	20	12	21	13	12	22	25
Undecided	14	9	6	25	18	16	14	17	14	11	13	12	14	18
Break-up the firm														
No	92	96	94	91	87	92	92	94	88	92	90	93	95	90
Yes	2	..	2	5	..	2	2	2	1	1	3	1	..	3
Undecided	6	4	4	4	13	6	6	4	11	7	7	6	5	6
Merge with another enterprise														
No	89	89	90	92	84	91	88	89	90	88	84	91	86	92
Yes	3	5	2	..	4	1	4	3	2	3	6	3	2	2
Undecided	8	6	8	8	12	8	9	8	7	9	10	7	11	6
Liquidate the firm														
No	94	94	98	92	91	95	93	95	91	93	91	92	96	95
Yes	2	2	..	4	1	2	2	2	2	1	3	2	3	..
Undecided	4	4	2	4	8	3	5	3	6	6	6	6	1	5
Sell the firm														
No	92	92	95	92	90	92	92	94	90	92	94	91	94	92
Yes	2	3	2	4	..	3	2	2	4	2	3	3	3	1
Undecided	5	5	3	4	10	5	6	4	6	7	3	7	3	7
Q30. Are you confident that your firm will survive over the next:														
3 months	2	1	1	4	3	1	3	2	2	2	7	3	1	..
6 months	2	4	1	1	1	3	1	3	..	..	1	3	1	2
12 months	5	11	1	3	4	3	6	4	2	7	4	5	6	3
24 months	2	3	1	1	4	3	2	3	1	2	1	3	3	1
36 months	2	2	2	5	1	2	3	3	1	3	3	5	1	1
> 36 months	69	57	75	74	71	73	67	70	72	67	60	59	70	83
Hard to say	17	21	19	13	16	16	18	14	21	20	22	22	18	10

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Business relationships

	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
Number	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Q31. Are there sufficient suppliers in your city/region of the following services to small business?														
Financial/credit (banks)														
Enough	41	27	27	64	46	39	42	39	54	36	40	41	40	42
Not enough	38	56	36	26	35	39	37	41	31	38	31	37	38	43
Practically none	9	10	18	2	7	11	8	11	6	8	10	6	11	10
Hard to say	12	7	18	8	13	10	12	9	9	18	18	16	11	5
Leasing contracts														
Enough	10	10	6	3	23	10	11	10	12	9	15	9	15	6
Not enough	31	36	31	35	22	29	32	35	28	26	31	28	32	32
Practically none	33	35	39	24	35	37	31	31	30	38	33	35	27	35
Hard to say	26	19	24	38	21	24	27	24	30	26	21	28	26	26
Legal advice on registering firms														
Enough	55	46	51	56	67	59	53	50	59	61	61	54	50	57
Not enough	24	29	25	25	16	24	24	27	20	20	22	22	23	27
Practically none	9	13	11	7	5	6	11	10	9	7	9	12	9	6
Hard to say	12	12	13	12	12	12	12	12	12	12	7	12	18	10
Other legal advice														
Enough	56	52	49	54	69	58	55	53	59	59	64	50	53	59
Not enough	25	26	30	29	16	22	27	26	20	27	24	28	24	25
Practically none	8	12	10	6	4	10	7	10	10	3	7	10	7	6
Hard to say	11	10	12	11	11	10	12	11	11	10	4	12	16	10
Advice on producing official certificates for goods/services, etc.														
Enough	30	36	21	25	41	32	29	27	41	30	37	33	26	28
Not enough	33	38	33	38	23	33	33	38	25	30	34	23	34	40
Practically none	15	13	20	17	10	17	14	17	10	15	9	18	17	14
Hard to say	22	13	25	21	27	18	24	18	25	25	19	26	23	18
Business consulting														
Enough	21	28	17	9	31	25	18	19	26	20	30	22	17	18
Not enough	34	38	30	40	30	33	35	36	41	28	31	31	39	36
Practically none	25	17	34	35	14	26	25	28	15	28	22	23	24	30
Hard to say	20	17	19	16	26	16	22	18	19	24	16	24	21	16

Table A.2. **OECD survey of 404 small enterprises in the FRY** (*cont.*)

Business relationships

Number	Total	Stratum				Founded		Principal sector			Number of employees			
		Belgrade	Vojvodina	Central Serbia	Montenegro	1991 and before	Since 1991	Manufacturing	Commerce	Other	1 or 2	3-5	6-10	> 10
	404	98	103	102	101	153	251	205	81	118	67	116	96	125
	Per cent													
Auditing														
Enough	77	83	76	80	71	78	77	74	83	80	84	78	74	77
Not enough	11	11	12	10	13	9	13	14	10	8	10	13	11	10
Practically none	4	2	5	6	4	5	4	5	2	3	3	5	4	4
Hard to say	7	4	8	4	12	8	6	6	5	9	3	4	10	9
Book-keeping														
Enough	89	93	92	86	83	87	90	87	89	91	97	88	88	86
Not enough	6	5	6	9	6	6	7	8	5	4	3	7	5	9
Practically none	1	1	1	2	1	2	1	1	..	2	..	2	1	2
Hard to say	4	1	1	3	10	5	3	3	6	3	..	3	6	4
Advice on protecting intellectual property														
Enough	22	33	17	12	26	29	18	21	23	21	30	19	21	21
Not enough	26	30	24	22	28	22	28	26	30	23	27	29	24	23
Practically none	29	13	36	46	19	26	30	33	17	29	21	26	28	36
Hard to say	24	24	22	21	28	23	24	20	30	27	22	26	27	20
Internet service providers														
Enough	63	81	64	42	66	59	65	65	68	57	67	62	69	58
Not enough	20	16	24	25	14	24	18	19	15	26	21	19	15	25
Practically none	6	1	5	15	3	6	6	8	6	3	4	8	5	6
Hard to say	11	2	7	18	17	11	11	9	11	14	7	11	11	12
IT *software and databases*														
Enough	49	58	48	28	61	45	51	47	58	45	58	51	46	44
Not enough	28	34	36	28	16	32	26	26	23	36	27	28	28	30
Practically none	8	4	7	18	3	9	7	11	7	3	4	7	7	11
Hard to say	15	4	10	25	20	14	16	15	11	17	10	14	19	15

Table A.3. **Description of HS 4-digit codes**

HS 4-digit	Description
2230	Alcohol
5210	Woven fabrics of cotton, containing 50 % to 85 % cotton by weight, mixed principally or solely with man-made fibres and weighing = < 200 g per M2
2402	Cigars, cheroots, cigarillos and cigarettes of tobacco or of tobacco substitutes
0803	Bananas, incl. plantains, fresh or dried
8802	Powered aircraft -*e.g.* helicopters and aeroplanes-; spacecraft -incl. satellites- and spacecraft launch vehicles
1005	Maize or corn
1701	Cane or beet sugar and chemically pure sucrose, in solid form
8471	Automatic data processing machines and units thereof; magnetic or optical readers, machines for transcribing data onto data media in coded form and machines for processing such data N.E.S.
3102	Mineral or chemical nitrogenous fertilizers (excl. those in pellet or similar forms, or in packages with a gross weight of = < 10 Kg)
2304	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya-bean oil
3105	Mineral or chemical fertilizers containing two or three of the fertilizing elements nitrogen, phosphorus and potassium; other fertilizers (excl. pure animal or vegetable fertilizers or mineral or chemical nitrogenous, phosphatic or potassic fertilizers)
6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather (excl. orthopaedic footwear, skating boots with ice or roller skates attached, and toy footwear)
8402	Steam or other vapour generating boilers (excl. central heating hot water boilers capable also of producting low pressure steam); super-heated water boilers
8429	Self-propelled bulldozers, angledozers, graders, levellers, scrapers, mechanical shovels, excavators, shovel loaders, tamping machines and road rollers
7302	Railway or tramway track construction material of iron or steel, the following : rails, check-rails and rack rails, switchblades, crossing frogs, point rods and other crossing pieces, sleepers cross-ties, fish-plates, chairs, chair wedges, sole plate
1806	Chocolate and other food preparations containing cocoa
8528	Television receivers -incl. video monitors and video projectors-, whether or not combined, in the same housing, with radio-broadcast receivers or sound or video recording or reproducing apparatus
8418	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps (excl. air conditioning machines of heading No. 8415)
9403	Furniture and parts thereof n.e.s. (excl. seats and medical, surgical, dental or veterinary furniture)
8443	Printing machinery (excl. hectograph or stencil duplicating machines, addressing machines and other office printing machines of heading Nos 8469 to 8472); machines for uses ancillary to printing, for the feeding, carriage or further processing
8433	Harvesting or threshing machinery, including straw or fodder balers; grass or hay mowers; machines for cleaning, sorting or grading eggs, fruit or other agricultural produce (other than machines for cleaning, sorting or grading seed
9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences, incl. scintigraphic apparatus, other electro-medical apparatus and sight-testing instruments N.E.S.
8422	Dish-washing machines; machinery for cleaning or drying bottles or other containers; machinery for filling, closing, sealing, capsuling or labelling bottles, cans, boxes, bags or other containers; other packing or wrapping machinery
3402	Organic surface-active agents (excl. soaps); surface-active preparations, washing preparations, incl. auxiliary washing preparations, and cleaning preparations, whether or not containing soap (excl. those of heading 3401)

Table A.3. **Description of HS 4-digit codes** (*cont.*)

HS 4-digit	Description
7210	Flat-rolled products of iron or non-alloy steel, of a width > = 600 Mm, hot-rolled Or Cold-Rolled Cold-Reduced, Clad, Plated Or Coated
2106	Food Preparations N.E.S.
8516	Electric instantaneous or storage water heaters and immersion heaters; electric space heating apparatus and the like; electro-thermic hair-dressing apparatus, *e.g.* hair dryers, hair curlers and curling tong heaters, and hand dryers
4011	New pneumatic tyres, of rubber
8504	Electrical transformers, static converters, *e.g.* rectifiers, and inductors
0303	Frozen fish (excl. fish fillets and other fish meat of heading 0304)
8415	Air conditioning machines comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated
8406	Steam turbines and other vapour turbines
8450	Household or laundry-type washing machines, including machines which both wash and dry
3907	Polyacetate, other polyethers and epoxide resins, in primary forms; polycarbonates, alkyd resins, polyallyl esters and other polyesters, in primary forms
3004	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic uses, in measured doses or put up for retail sale (excl. goods of headings 3002, 3005 or 3006)
2009	Fruit juices, incl. grape must, and vegetable juices, unfermented, not containing added spirit, whether or not containing added sugar or other sweetening matter
8481	Taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, incl. pressure-reducing valves and thermostatically controlled valves
4818	Toilet tissue, handkerchiefs, make-up removal tissues, towels, tablecloths, serviettes, nappies, sanitary towels and tampons, bed sheets and similar articles for household or medical use, personal hygiene or sanitary products, clothing and clothing access
8525	Transmission apparatus for radio-telephony, radio-telegraphy, radio-broadcasting or television, whether or not incorporating reception apparatus of sound recording or reproducing apparatus; television cameras
7010	Carboys, bottles, flasks, jars, pots, phials, ampoules and other containers, of glass, of a kind used for the conveyance or packing of goods, preserving jars, stoppers, lids and other closures, of glass (excl. glass envelopes and containers...)
8708	Parts and accessories for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motorvehicles principally designed for the transport of persons, motor vehicles for the transport of goods and special purpose motor vehicles
8477	Machinery for working rubber or plastics or for the manufacture of products from these materials, not specified or included elsewhere in this chapter
3304	Beauty or make-up preparations and skin care preparations, incl. sunscreen or sun tan preparations (excl. medicaments);manicure or pedicure preparations
4410	Particle board and similar board of wood or other ligneous materials, whether or not agglomerated with resins or other organic bonding agents
1905	Bread, pastry, cakes, biscuits and other bakers' wares, whether or not containing cocoa; communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products
7408	Copper wire (excl. surgical sutures, stranded wire, cables, plaited bands and the like and other articles of heading 7413, electrically insulated wires and strings for musical instruments)
4801	Newsprint, in rolls or sheets as specified in note 7a or 7b to chapter 48

Source: Eurostat.

Table A.4. **Detailed structure of exports, 2001**

Products		Export share	Memorandum items	
			Import share	RCA
76	Aluminium and articles thereof	8.88	1.19	7.68
62	Articles of apparel and clothing accessories, not knitted or crocheted	7.11	0.99	6.13
44	Wood and articles of wood; wood charcoal	5.70	1.53	4.17
40	Rubber and articles thereof	5.03	1.30	3.73
39	Plastics and plastic products	4.71	4.23	0.47
72	Iron and steel	4.64	2.33	2.30
08	Edible fruit and nuts; peel of citrus fruits or melons	4.62	1.40	3.22
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	4.54	10.20	–5.65
74	Copper and articles thereof	4.13	0.34	3.80
64	Footwear, gaiters and the like; parts of such articles	3.89	1.40	2.49
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	3.34	4.69	–1.34
73	Articles of iron or steel	2.75	1.72	1.03
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	2.64	20.70	–18.06
17	Sugars and sugar confectionery	2.18	0.88	1.30
30	Pharmaceutical products	2.15	1.31	0.83
07	Edible vegetables and certain roots and tubers	2.04	0.45	1.58
61	Articles of apparel and clothing accessories, knitted or crocheted	2.01	0.44	1.57
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	2.00	5.23	–3.22
94	Furniture; medical and surgical furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified; illuminated signs, illuminated name-plates and the like; prefabricated build	1.72	1.00	0.72
88	Aircraft, spacecraft, and parts thereof	1.65	0.97	0.69
Total		**75.74**	**62.30**	

Source: Federal Statistical Office and OECD.

Table A.5. **Detailed structure of imports, 2001**

Products		Import share	Memorandum items	
			Export share	RCA
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	20.70	2.64	–18.06
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	10.20	4.54	–5.65
52	Cotton	5.34	0.27	–5.07
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	5.23	2.00	–3.22
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	4.69	3.34	–1.34
39	Plastics and plastic products	4.23	4.71	0.47
48	Paper and paperboard; articles of paper pulp, paper or paperboard	2.63	1.40	–1.23
72	Iron and steel	2.33	4.64	2.30
29	Organic chemicals	2.02	0.47	–1.56
22	Beverages, spirits and vinegar	1.83	0.73	–1.10
38	Miscellaneous chemical products	1.73	0.43	–1.30
73	Articles of iron or steel	1.72	2.75	1.03
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	1.63	0.60	–1.02
31	Fertilizers	1.55	0.11	–1.43
44	Wood and articles of wood; wood charcoal	1.53	5.70	4.17
24	Tobacco and manufactured tobacco substitutes	1.44	0.18	–1.27
08	Edible fruit and nuts; peel of citrus fruits or melons	1.40	4.62	3.22
64	Footwear, gaiters and the like; parts of such articles	1.40	3.89	2.49
30	Pharmaceutical products	1.31	2.15	0.83
40	Rubber and articles thereof	1.30	5.03	3.73
Total		**74.21**	**50.21**	

Source: Federal Statistical Office and OECD.

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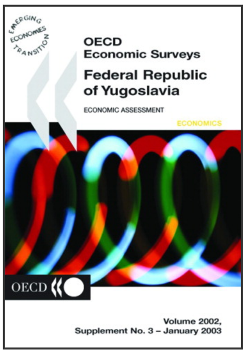

From:
OECD Economic Surveys: Federal Republic of Yugoslavia 2002

Access the complete publication at:
https://doi.org/10.1787/eco_surveys-srb-2002-en

Please cite this chapter as:

OECD (2003), “The Enterprise Sector and Privatisation”, in *OECD Economic Surveys: Federal Republic of Yugoslavia 2002*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_surveys-srb-2002-6-en