УНИЈА ПОСЛОДАВАЦА СРБИЈЕ
SERBIAN ASSOCIATION OF EMPLOYERS

Navigating the COVID-19 crisis: Evolving challenges, needs and expectations of Serbian enterprises

Second edition

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About the survey

The Serbian Association of Employers (SAE), with the technical support of the International Labour Organization (ILO), conducted a second enterprise survey to track business challenges and needs resulting from the protracted COVID-19 crisis. Carried out online between September and November 2020, the survey report provides the views of 403 enterprises that completed the survey (out of 462 that participated). In addition, several in-depth interviews were conducted in December 2020 to give the analysis more depth and shed light on some survey results and patterns.

The online survey was developed by SAE in collaboration with the Centre for Advanced Economic Studies (CEVES) based on the ILO Enterprise Survey Tool: Assessing the needs of enterprises resulting from COVID-19.

The survey measured the perception of enterprises in relations to their operational continuity, financial health, workforce status, effectiveness of current government support measures and business sentiments. Likewise, the survey sought to define a set of actionable recommendations based on the current enterprise needs.

The data have been reflected through three dimensions: overall impact, size of the enterprise and sector perspective. The sectoral analysis covers nine sectors: food and beverage, low-tech manufacturing, medium-tech manufacturing, construction and real estate, retail and sales, transport and transportation equipment, HORECA (hotel, restaurant and catering), professional and public services and personal services. These sectors have been selected based on such criteria as: strategic importance of the sector, vulnerability to the crisis and representativity in the sample. An overview of survey findings across the seven key sectors that accounted for the highest response rate are provided in Annex I. Details of the survey demographics can be found in Annex II.

The first enterprise survey was conducted shortly after the outbreak of the crisis, in April 2020.[1] Findings from the survey were used to influence the two packages of economic emergency measures adopted by the Government so far.

1 The Impact of the COVID-19 Pandemic on Enterprises in Serbia: Challenges and Expectations. Serbian Association of Employers. Available at: https://drive.google.com/file/d/15wWgmescjFAv15smIKCWzGJgQyf2TOW6/view

Executive summary

Operational difficulties caused by the COVID-19 pandemic gradually phased out with the lifting of government restrictions in the last quarter of 2020.[2] Almost all surveyed enterprises (99 per cent) were in operation, of which more than half (56 per cent) operated fully on site. This significantly differs from the level of enterprise operation during the lockdown period (Q2 2020), when only a quarter were able to operate on their premises and less than half (46 per cent) combined work on site and telework. Positively, the share of enterprises operating below optimal levels dropped from 20 per cent to 12 per cent, while the share of enterprises not in operation decreased almost entirely, from 11 per cent to only 1 per cent. Micro and small enterprises were operating at sufficient levels to sustain their businesses, while medium-sized and large enterprises were operating almost unperturbed in the last quarter of 2020. The majority of sectors gradually restored their operations with the most significant results achieved in personal services, which was severely hit during the spring lockdown. HORECA (hotel, restaurant and catering) and, to some extent, low-tech manufacturing, portrayed the weakest capacity to rebound. Almost half of HORECA enterprises were either operating at significantly reduced capacity or not operating at all, while almost 20 per cent of enterprises in low-tech manufacturing operated far below the optimal level.

Inevitably, the crisis had a strong impact on the financial health of enterprises, with nearly 70 per cent of enterprises reporting a decline in revenue compared to the same period of 2019. The average revenue shortfall for all enterprises in the survey was 25 per cent. However, the shortfall varies significantly by enterprise size. The revenue shortfall among microenterprises was largest (an average of 31 per cent), whereas the revenue shortfall among large enterprises was the lowest (an average of 11 per cent). In addition, none of the medium-sized or large enterprises reported a revenue shortfall of more than 80 per cent, unlike 11 per cent of microenterprises and 3 per cent of small enterprises that reported such a shortfall. Revenue declined the most in sectors such as HORECA (58 per cent), personal services (39 per cent) and transportation (31 per cent), which were directly affected by the pandemic and administrative restrictions. More than a third of HORECA enterprises reported a revenue shortfall of more than 80 per cent. Survey findings show that, even in generally less affected sectors, at least 10–20 per cent of enterprises were highly affected and had a revenue shortfall of 40 per cent or more.

Close to 90 per cent of enterprises faced operational difficulties due to the COVID-19 crisis, and the most acute challenges were the sharp decline in demand (46 per cent) and delay in customer payments (43 per cent). Additional challenges such as a significant increase in operational costs, the inability to organize teleworking and difficulties in settling obligations to suppliers were reported by approximately 30 per cent of enterprises. To address the insufficient cash flow induced primarily by the drop in customer demand, around half of surveyed enterprises relied on their own reserves, with the practice being particularly widespread among microenterprises. The second most common practice, especially among large enterprises, was applying for the moratorium on debt payments. Enterprises adopted various strategies to optimize staff costs, of which freezing the recruitment of new staff was most frequently cited by enterprises. In addition, about 30 per cent of enterprises resorted to reducing or delaying the increase of wages and/or of annual bonuses or cutting staff development costs. Only 6 per cent of enterprises opted for layoffs. To increase revenue during the crisis period half of enterprises identified market-diversification and development of new products (or modification of existing ones) as the most effective strategies.

Although teleworking was largely implemented during the spring lockdown of 2020, the vast majority of enterprises returned to work on site after restrictions were lifted. Nearly 60 per cent of enterprises implemented full-time or part-time teleworking arrangements during the lockdown period, which was a significant increase compared to some 12 per cent of enterprises that used telework prior to COVID-19. However, the proportion of enterprises implementing teleworking almost halved after the lockdown ended. By size, the prevalence of teleworking practices decreased significantly even across large enterprises, which had the vast majority of their employees (89 per cent) transition to teleworking during the lockdown. Relatively small shares of enterprises (ranging from 11 per cent for microenterprises to 22 per cent for large enterprises) allowed up to 25 per cent of their staff to telework after restrictions were lifted. The shares of enterprises reporting that more than 25 per cent of their staff was teleworking are extremely low, except for microenterprises, of which 10 per cent reported allowing over 75 per cent

2 It can be expected that the situation might have deteriorated in March 2021 due to a significant increase in the number of infections and the subsequent introduction of additional restrictions on business activities.

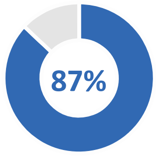
of their staff to telework. Interestingly, of enterprises that used teleworking, more than half reported a decrease in employee productivity. The transportation sector and professional and public services displayed the highest share of enterprises (some 40 per cent each) that maintained teleworking practices after the easing of restrictions. Low-tech manufacturing and HORECA showed the least flexibility, with none and 14 per cent of enterprises respectively allowing staff to telework.

Generous government support measures were assessed positively by 45 per cent of enterprises, while 34 per cent expressed dissatisfaction. Both support packages implemented in 2020 (the first one in April and the second one in August) were largely uniform, primarily aimed at MSMEs, irrespective of the sector. Hence, the measures were only relatively successful, failing to aid those most in need. Sector-wise, the economic support measures were assessed as insufficient mainly by HORECA, retail and sales and personal services. Wage support schemes (net minimum wage for each employee for three months and 60 per cent of the net minimum wage for each employee for two months) were the most frequently used and positively assessed measures, while the least used measures were liquidity loans provided via the Serbian Development Fund and commercial banking guarantee schemes. Almost 30 per cent of enterprises need additional economic measures to ensure their sustainability, but the need for such measures decreases with the increase in enterprise size. Specifically, slightly more than one third of microenterprises need additional support, while the same was true for only 6 per cent of large enterprises. By sector, the majority of enterprises in HORECA (70 per cent) and nearly half of low-tech manufacturing enterprises (48 per cent) needed additional measures to sustain their operations. Among enterprises that needed additional measures, wage subsidy was identified as the most sought-after type of support by 63 per cent of responding enterprises.

More than half of enterprises (52 per cent) expressed confidence about the future, noting that they already recovered or anticipated a full recovery in the near future. A further 12 per cent anticipated they would be able to recover, albeit with some additional cost-cutting measures. Alarmingly, almost a third of enterprises (31 per cent) anticipated major challenges towards recovery, while some 4 per cent were considering permanent business closure. Two thirds (66 per cent) of enterprises anticipated their revenue would be lower in 2020 compared to 2019. Recovery will be more challenging for micro and small enterprises in comparison to medium-sized and large enterprises. Sector wise, full recovery is expected to be most difficult for HORECA. Some 11 per cent of enterprises in this sector do not expect to survive the crisis, while 52 per cent were considering temporary closure and/or expected to face considerable challenges to complete their recovery. Despite the high uncertainty about the future due to the protracted health crisis, the majority of surveyed enterprises (69 per cent) reported their workforce would remain unchanged in 2021. Although some enterprises might resort to layoffs, they are likely to be relatively mild, up to 20 per cent of the workforce. Higher levels of layoffs are anticipated among micro and small enterprises (17 per cent and 21 per cent respectively). By sector, layoffs are primarily expected in HORECA, low-tech manufacturing and construction.

Key findings of the survey

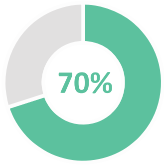
1. Operational status



87% of enterprises were operating at full or slightly reduced capacity in Q4, compared to 69% in Q2.

- 12% of enterprises operated at significantly reduced capacity in Q4, compared to 20% in Q2.
- Of 11% of enterprises that were not in operation in Q2, only 1% had not yet resumed operation in Q4.
- 45% of HORECA and 17% of low-tech manufacturing enterprises were operating at a significantly reduced capacity in Q4.

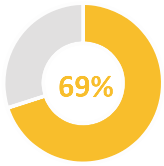
2. Financial health



70% of enterprises reported a revenue shortfall compared to the same period of 2019.

- The average revenue shortfall for all surveyed enterprises was 25%.
- Microenterprises experienced the largest average revenue decline (31%), with 11% reporting revenue shortfalls of more than 80%.
- The three sectors with the largest average revenue decline are: HORECA (58%), personal services (39%) and transportation (31%).

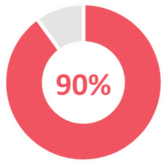
3. Workforce levels



69% of enterprises envisioned no changes in their workforce levels, while almost equal shares of enterprises planned either to dismiss (15%) or recruit new employees (16%) in 2021.

- Higher levels of layoffs are expected among micro and small enterprises (17% and 21% respectively). However, the proportion of employee reduction is anticipated to be less than 20% of the workforce.
- In HORECA 41% of enterprises planned to downsize their workforce.
- Nearly 60% of enterprises used teleworking during the lockdown period (Q2), of which more than half returned to on-site operations in Q4.

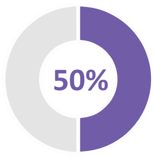
4. Critical challenges ...



Close to 90% of enterprises faced various operational difficulties due to COVID-19.

- A sharp decline in demand (46%) and delay in customer payments (43%) were the two most acute challenges.
- About 30% of enterprises experienced significant increase in operational costs, inability to organize teleworking and difficulties in settling obligations to suppliers.
- Inconsistent cash flow was a constraint for all sectors, but in particular for HORECA (98%), personal services (92%) and low-tech manufacturing (91%).

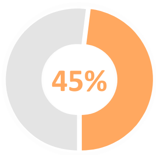
5. ...and strategies to address them



To address inconsistent/insufficient cash flow, about half of enterprises relied on their own reserves.

- Microenterprises relied on their own reserves most frequently, as well as 75% of personal services enterprises, 73% of HORECA enterprises and 61% of construction enterprises.
- 33% of enterprises applied for the moratorium on debt payments.
- To increase revenue, about half of enterprises opted for market diversification, development of new products/services or modification of existing ones.

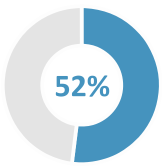
6. Adequacy of government support measures



Government support measures were positively assessed by 45% of enterprises while 34% expressed dissatisfaction.

- The three sectors expressing the largest dissatisfaction were HORECA, retail and sales and personal services.
- Wage subsidy was among the most frequently used and positively assessed support measure.
- Almost 30% of enterprises needed additional economic measures to ensure their sustainability, of which 63% needed further wage support.

7. Future prospects for recovery



52% of enterprises anticipated a full recovery, while 12% need to implement additional cost cutting measures to completely recover.

- Almost one third of enterprises anticipate major challenges towards recovery, while some 4% were considering permanent business closure.
- Two thirds of enterprises anticipated their revenue would be lower in 2020 compared to 2019.
- 11% of HORECA enterprises did not expect to survive the crisis, while 52% were considering temporary closure and/or expected to face considerable challenges to complete their recovery.

Recommendations

Based on the findings of the survey and interviews with enterprises, the Serbian Association of Employers presents the following recommendations to the Government so that further enterprise support measures can be pursued for a comprehensive recovery of enterprises, jobs and the economy.

- **Provide more targeted direct assistance tailored to the specific needs of enterprises in the hardest hit sectors**

The generous economic support measures adopted in 2020 had a positive effect, although it was unnecessarily costly. Although assessed positively by almost half of enterprises, the measures were largely uniform and aimed primarily at the MSMEs, irrespective of the sector or their financial and operational health. The "one-size-fits-all" approach (namely allowing all MSMEs to apply for economic support measures, provided that they did not lay off more than 10 per cent of their employees for the duration of the wage subsidy transfer and three subsequent months[3]), led to the provision of assistance to some enterprises that would have been sustainable without support, while the most affected enterprises struggled to stay afloat. Available analysis shows that resources spent on enterprises that did not need assistance could have sustained the most affected sectors (HORECA, personal services) for some 12 months.[4] The third support package, although still largely uniform, brought some long-awaited sector-specific measures (such as direct aid towards city hotels, tourism agencies, car rental and passenger transportation enterprises), and it included some measures for large enterprises. However, there is room for further improvements. The new measures should be developed based on regular assessments of enterprise needs resulting from their financial and operation health. An additional such measure, pointed out during the in-depth interviews, is the introduction of excise duty refunds to further support transportation enterprises, or reduction of VAT for food and beverages to 10 per cent, among others.

- **Continue providing wage subsidies based on specific eligibility criteria to enable the most vulnerable enteprises to retain their workforce**

Wage support schemes (net minimum wage for each employee for three months and 60 per cent of the net minimum wage for each employee for two months) were the most frequently used and positively assessed measures and remained the most sought after type of support in the near future, as identified by 63 per cent of responding enterprises (that need additional support). Further direct wage support (the minimum wage subsidy) should target the most vulnerable sectors. Additionally, it is recommended to provide wage subsidies that compensate wages lost due to reductions in working hours as a result of reduced workloads. This will allow enterprises to temporarily reduce the working time of their employees when the application of such measures is inevitable.

- **Continue deferring and decreasing taxes to alleviate liquidity problems**

Additional tax deferrals would be beneficial for enterprises that need additional support. Based on insights from interviews with enterprises as well as the results of this survey, it can be concluded that these deferrals, for the most part, refer to deferrals for VAT obligations. Currently, VAT obligations must be paid upon invoicing and not after the goods/services are paid for, which represents a serious constraint given that 43 per cent of enterprises claim that their customers are late with payments. It is recommended therefore charging the VAT after the invoices are paid. In addition, it is recommended to further defer wage taxes and social contributions, including their partial write-off, for MSMEs. Such measures could be applied to enterprises with a pre-pack reorganization plan.[5]

3 Details on direct support to all MSMEs (introduced in 2020) are available in Annex 3.

4 Centre for Advanced Economic Studies (CEVES), World Bank Group (2020). The COVID-crisis and Serbia's SMEs: Assessment of Impact and Outline of Future Scenarios. August. Available at [WB-Covid-19_-Report-final.pdf (ceves.org.rs)](WB-Covid-19_-Report-final.pdf).

5 Pre-pack reorganization plan (PRP) is a plan that the debtor prepares in cooperation with creditors and is submitted simultaneously with a proposal to initiate bankruptcy proceedings. Unlike other solutions, PRP may be voted in advance, if the Law of Bankruptcy allows for such an option. This model represents the solution for overcoming the critical situations and avoiding bankruptcy or liquidation procedures. This definition was retrieved from: T. Radojević & D. Rajin (2015). Company reorganization through pre-pack reorganization plan. *Proceedings of the International Scientific Conference - Synthesis 2015*. The paper is available at Company reorganization through pre-pack reorganization plan.

- **Continue providing liquidity loans to vulnerable MSMEs and sectors through commercial banking guarantee schemes and prolong, if possible, the moratorium on debts repayments**

A sharp decline in demand and delay in customer payments were reported as the most critical operational challenges, which caused a sharp drop in cash flow. The survey findings show MSMEs did not rely much on the banking sector but preferred to use their own reserves to address insufficient/inconsistent cash flow. Such financing has been, to a large extent, a limiting factor for business growth and expansion. In addition to liquidity support, the guarantee schemes should encourage greater reliance on the banking sector, including from the perspective of co-financing enterprises' investment activities. Furthermore, the situation with nonperforming loans and the ability of MSMEs to service debt should be closely monitored for optimal effects of a moratorium on debt payments.

- **Reduce the VAT for food and beverages from the general rate of 20 per cent to 10 per cent for HORECA enterprises**

HORECA was hit the hardest by the crisis and related containment measures. The sector had the greatest operational challenges. Approximately half of enterprises were operating at significantly reduced capacity or were not operating at all in the last quarter of 2020. In addition, the sector reported the highest revenue shortfall (equalling to 58 per cent on average) and a third of enterprises reported a revenue shortfall greater than 80 per cent. The sector also portrayed the weakest capacity to rebound. Namely, 11 per cent of enterprises in this sector did not expect to survive the crisis, while 52 per cent were considering temporary closure and/or expected facing considerable challenges to completely recover. Furthermore, HORECA displayed high shares of enterprises assessing the economic support measures as inadequate or insufficient. HORECA enterprises need more targeted and consistent support to sustain their operations. One measure, introduced by countries of the European Union as well as in the region, is the reduction of VAT for food and beverages, and this measure was recommended as beneficial by most HORECA enterprises that participated in the survey and interviews.[6]

- **Improve further the business environment to enable enterprises to navigate the crisis and prepare for a post-pandemic reboot**

The reverberations of the crisis have amplified the need for an enabling business environment during and beyond COVID-19. Most participants in the interviews emphasized the need to deal with administrative issues and structural challenges that existed long before the crisis and that were amplified by it. Among other things, the lack of a skilled workforce was recognized as a major obstacle even in the context of the pandemic. HORECA enterprises expressed concern that current operational disruptions and financial difficulties may encourage more experienced and qualified staff to leave for better job opportunities elsewhere. In response, the Government should prioritize the following actions:

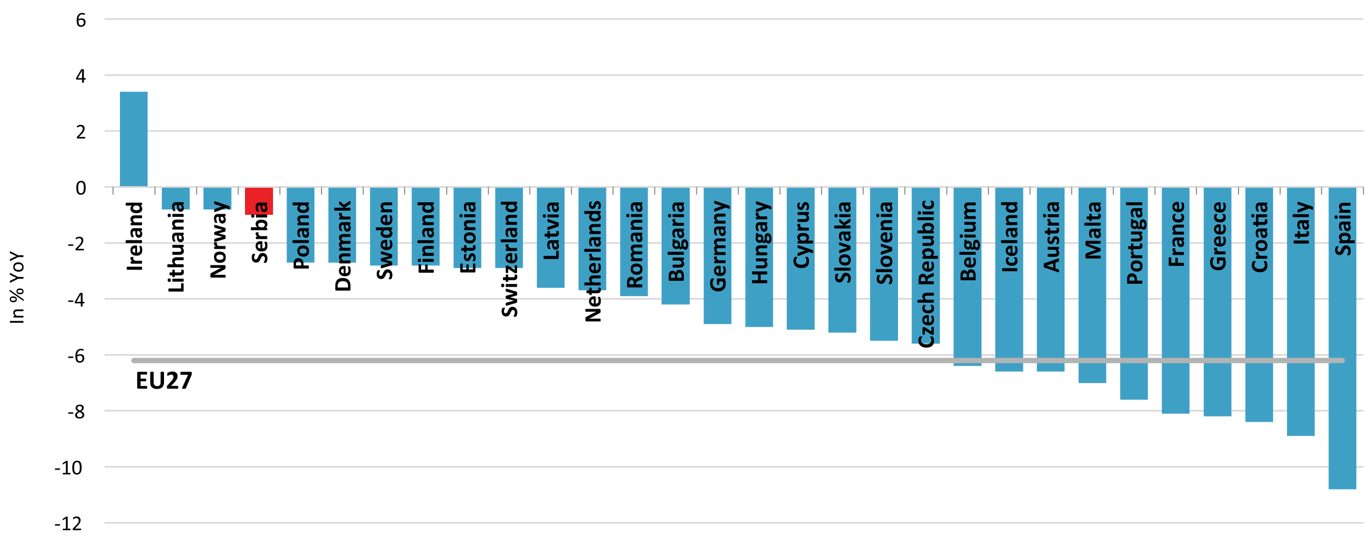
- Encourage enterprise formalization through initiatives that combine measures to reduce registration and compliance costs with incentives and business development initiatives.
- Review the need for many parafiscal charges and the possibility to reduce them. During the pandemic the state should suspend the introduction of new taxes and parafiscal charges.
- Support and encourage enterprises to comply with fiscal discipline and, through better enforcement, improve business practices.
- Improve the dialogue with the decision makers in designing new support measures that should be fully aligned to enterprise needs. More information and transparency is needed not only about enterprise obligations but also about available type of support and how it can be accessed.
- Focus not only on immediate but also on mid- and long-term measures that will strengthen enterprise resilience and make them fit for the future.

6 Several EU Member States have reduced VAT rates to help enterprises and consumers during the pandemic. For example, Germany cut its VAT from the general 19 per cent to 7 per cent to support its hospitality businesses, restaurants and cafes, while Bulgaria introduced a similar measure – reducing the VAT from 21 per cent to 10 per cent. An up-to-date list of 2021 general and reduced VAT rates per EU country, alongside information on VAT changes that have been made since the pandemic started, is available at www.avalara.com/vatlive/en/vat-rates/european-vat-rates.html.

I. Macroeconomic effects of the COVID-19 pandemic in Serbia

The recession caused by the outbreak of the COVID-19 pandemic in Serbia is among the mildest in Europe. The gross domestic product (GDP) decline stands at -1 per cent in 2020, which is a much better result compared to the average GDP decline in the new member States (-4.6 per cent), EU27 (-6.2 per cent) or any other country in Europe, except for Ireland, Lithuania and Norway (Figure 1). The much milder decline in Serbia compared to most European countries resulted from several structural factors – Serbia has a significantly higher share of agriculture, a lower share of tourism and related services and lower levels of integration in global value chains compared to most European countries. The hike in government spending caused by the increase in wages (in December 2019 and April 2020) and generous support measures since the onset of the crisis had also both direct and indirect effects on GDP (Figure 2).

Figure 1. GDP growth rate, YoY change, 2020



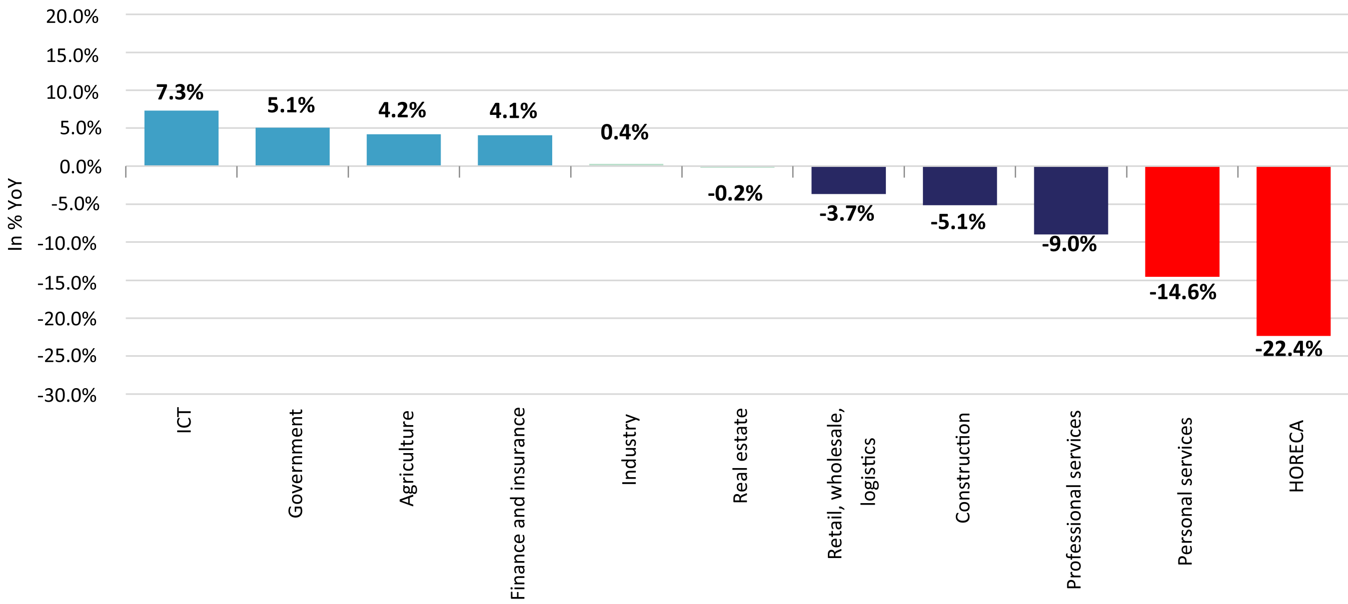
Source: Eurostat

HORECA and personal services were the most affected by the crisis, while information and communications technology (ICT) came out as a winner (Figure 2). In line with the results of this survey, national accounts show that HORECA and personal services relied heavily on personal contact, and their gross value added was affected the most so far (decline of 22 per cent and 15 per cent, respectively). Those sectors were impacted most by government restrictions – from the complete lockdown in March and April and the many limitations on their operations throughout summer and most of autumn, to the recent near-lockdown in December 2020. The results in sectors including ICT, finance and scientific and professional services[7] explain variability in some performance-related questions in this survey – while ICT and financial sectors were to some extent winners of the crisis, other professional services experienced relatively significant decline (-9 per cent). Mild decline in construction (-4.4 per cent) was a combined result of a slight decline in activity in 2020 and a strong third quarter in 2019.

Industry and its broad sub-components (energy, mining and manufacturing) nearly stagnated in 2020. The overall decline of only-0.1 per cent was a result of almost unchanged level of production in manufacturing, energy and mining according to indices on industrial production (Figure 2). However, further disentangling of manufacturing reveals that medium-tech and high-tech manufacturing were either stagnant or even increased (chemicals, pharmaceutics, computers), while some parts of low-tech manufacturing declined sharply (textiles-6.4 per cent, leather-21 per cent).

7 Due to insufficient sample sizes, these were merged together in this survey. Professional services are sometimes referred to as administrative services.

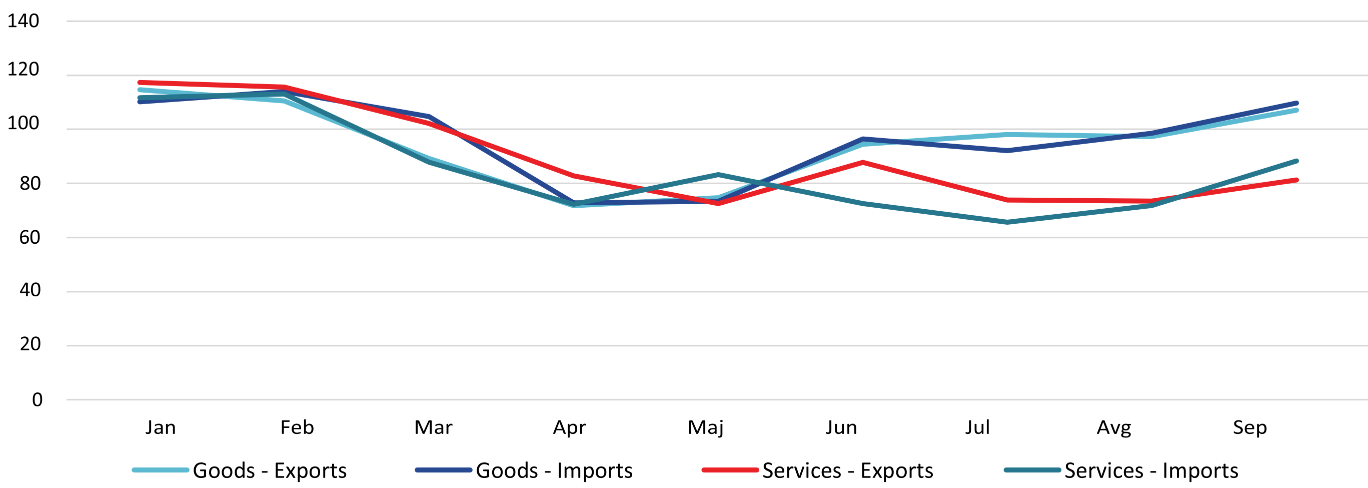
Figure 2. Gross value added growth rates by sector, flash estimates, 2020



Source: SORS, CEVES and SAE estimates

Foreign trade recovered in the last quarter of 2020. After a sharp decline in April and May (-28 per cent) exports of goods rebounded relatively quickly in June and were 9 per cent higher in September and 18 per cent higher in December 2020 compared to the same period of 2019. This strong recovery is, to a significant extent, the result of efforts of large exporters trying to make up for declines in production (and exports) recorded during the lockdown in Serbia and Europe. A somewhat more pronounced decline in exports (and imports) of services is owed to the stall in tourism and transportation (-11.1 per cent and-14.1 per cent in January–September).

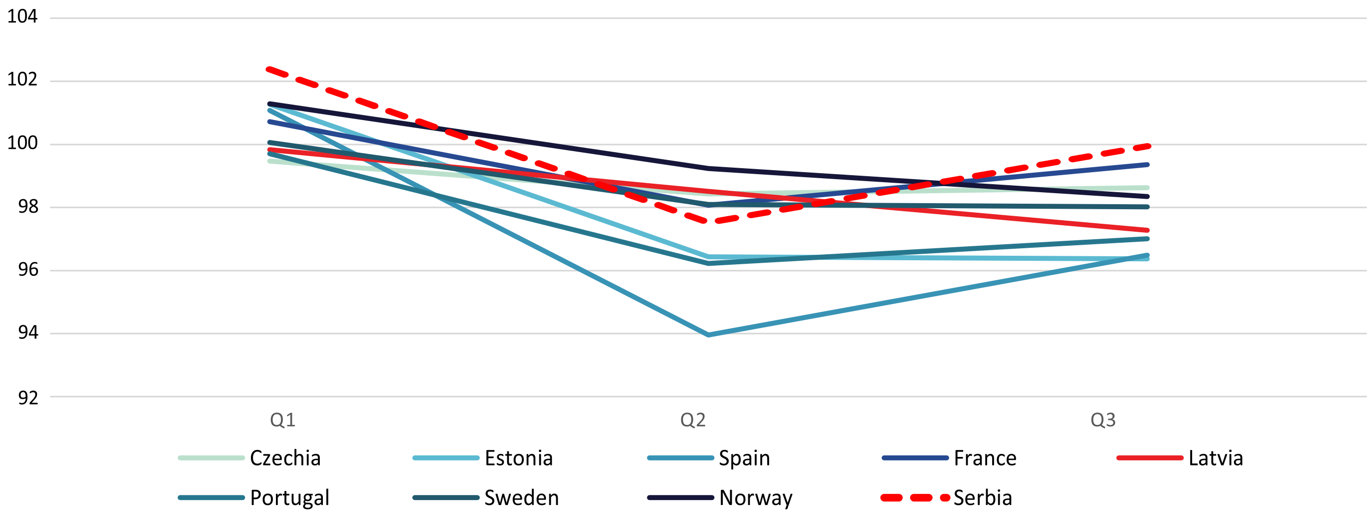
Figure 3. Serbia foreign trade, YoY indices, 2020



Source: NBS, Balance of payments

Employment showed relatively strong resilience in Serbia in the first three quarters of 2020. Employment recorded a dip in the second quarter of 2020 in most European countries and Serbia was not an exception (Figure 4). Putting Serbia under the scope, it can be concluded that almost the entire decline in employment (especially in Q2) can be attributed to its informal component (namely workers without formal contracts and/or those engaged in informal economy). On the other hand, formal employment slightly increased – even in HORECA and personal services. These results are the outcome of several factors: tightening of the labour market in recent years, growth momentum carried over from 2019, and economic support measures of the Government.

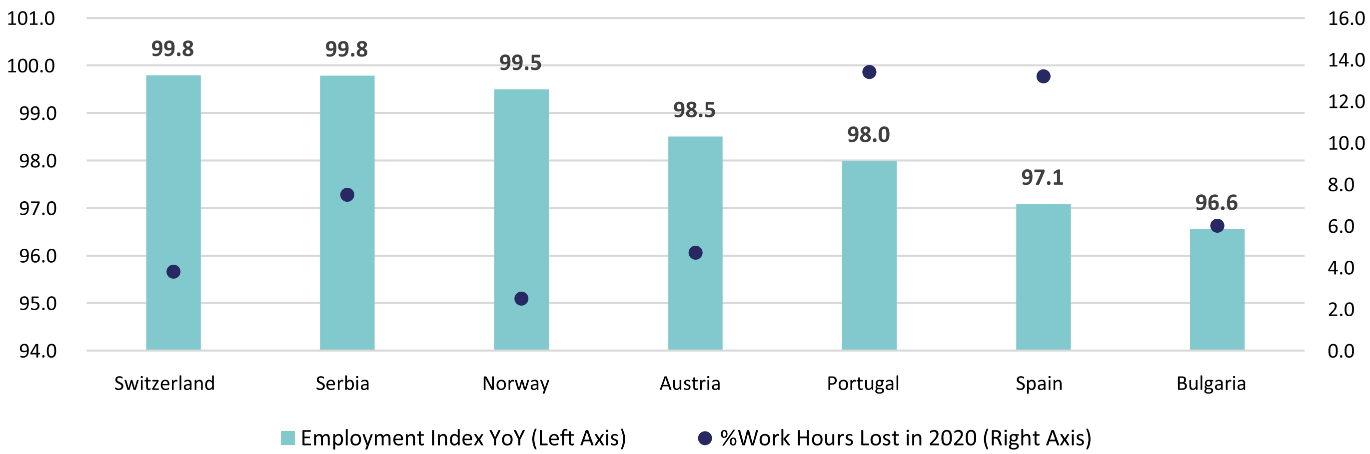
Figure 4. Employment indices, YoY change, 2020[8]



Source: Eurostat, Labour force survey

Although employment in Serbia remained relatively stable throughout 2020, total working hours fell significantly in comparison to 2019. The findings of several other studies,[9] underpin the results of this survey as well – enterprises generally opted for workforce adjustments along the intensive margin (reducing working hours and wages, furloughs), rather than layoffs. Yet, this especially holds true for Serbia, as employment declined by 0.2 per cent, while working hours dipped by 7.2 per cent (Figure 5).

Figure 5. Employment and working hours lost in 2020 relative to 2019[10]



Source: Eurostat (Labour force survey) and ILO (ILO nowcasting model)

8 The choice of countries was made on the basis of (i) diversity of development levels and (ii) availability of data.

9 For instance, World Bank Group (2020) Unmasking the Impact of COVID-19 on Businesses. Available at https://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-9434.

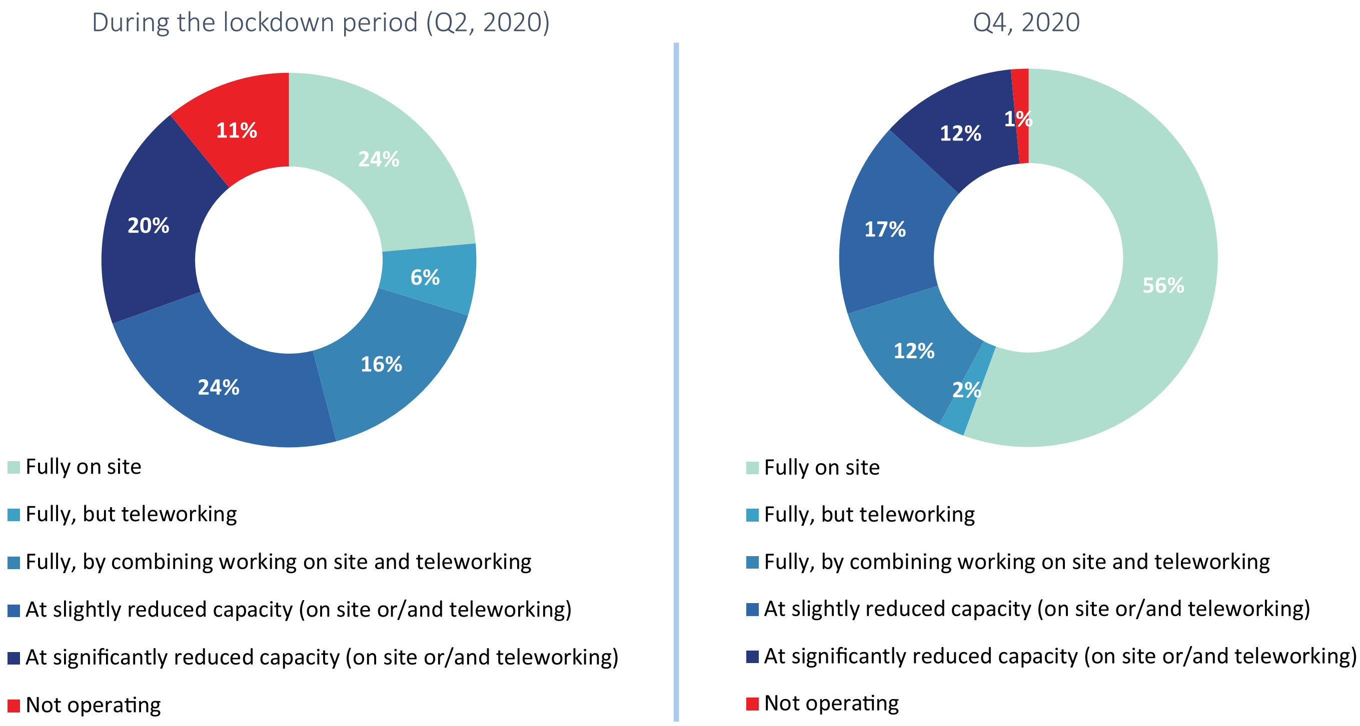
10 Working hours lost represents the percentage of hours lost compared to the baseline. Here the baseline is the latest pre-crisis quarter, namely the fourth quarter of 2019, seasonally adjusted (ILO).

Generous government support measures had a positive, although unnecessarily costly effect. Government support measures taken so far, although welcomed by enterprises, were aimed at all MSMEs irrespective of sector or their financial and operational health. Available analysis shows that resources spent on enterprises that were not in need of assistance (but that benefitted from it) could support the most affected sectors (HORECA, personal services) for some 12 months. In other words, better allocation of support measures could have led to more successful management of the pandemic. For instance, enterprises in HORECA and personal services should have been put under the new lockdown earlier while being offered adequate support. Such an approach could have prevented the strong third wave of COVID-19 infections that Serbia was facing from November 2020 until March 2021. Moreover, the current pandemic prospects threaten to entirely jeopardize previous efforts.

II. Impact of COVID-19 on enterprise operations and revenue

Operational difficulties caused by COVID-19 gradually eased as government restrictions were lifted in the last quarter of 2020.[11] Almost all surveyed enterprises (99 per cent) were in operation, of which more than half (56 per cent) operated fully on site. A further 30 per cent operated fully or at slightly reduced capacity by combining working on site and teleworking and some 12 per cent were still operating far below optimal levels. This significantly differs from the level of enterprise operation during the lockdown period (Q2 2020), when only a quarter of enterprises were able to operate fully on site and less than half (46 per cent) combined work on site and telework to keep their businesses operational. Of the enterprises that combined work on site and telework during Q2 2020, half operated at slightly reduced capacity. Positively, by the last quarter of 2020, the share of enterprises operating at significantly reduced capacity dropped from 20 per cent to 12 per cent, while the share of enterprises not in operation decreased almost entirely, from 11 per cent to only 1 per cent.

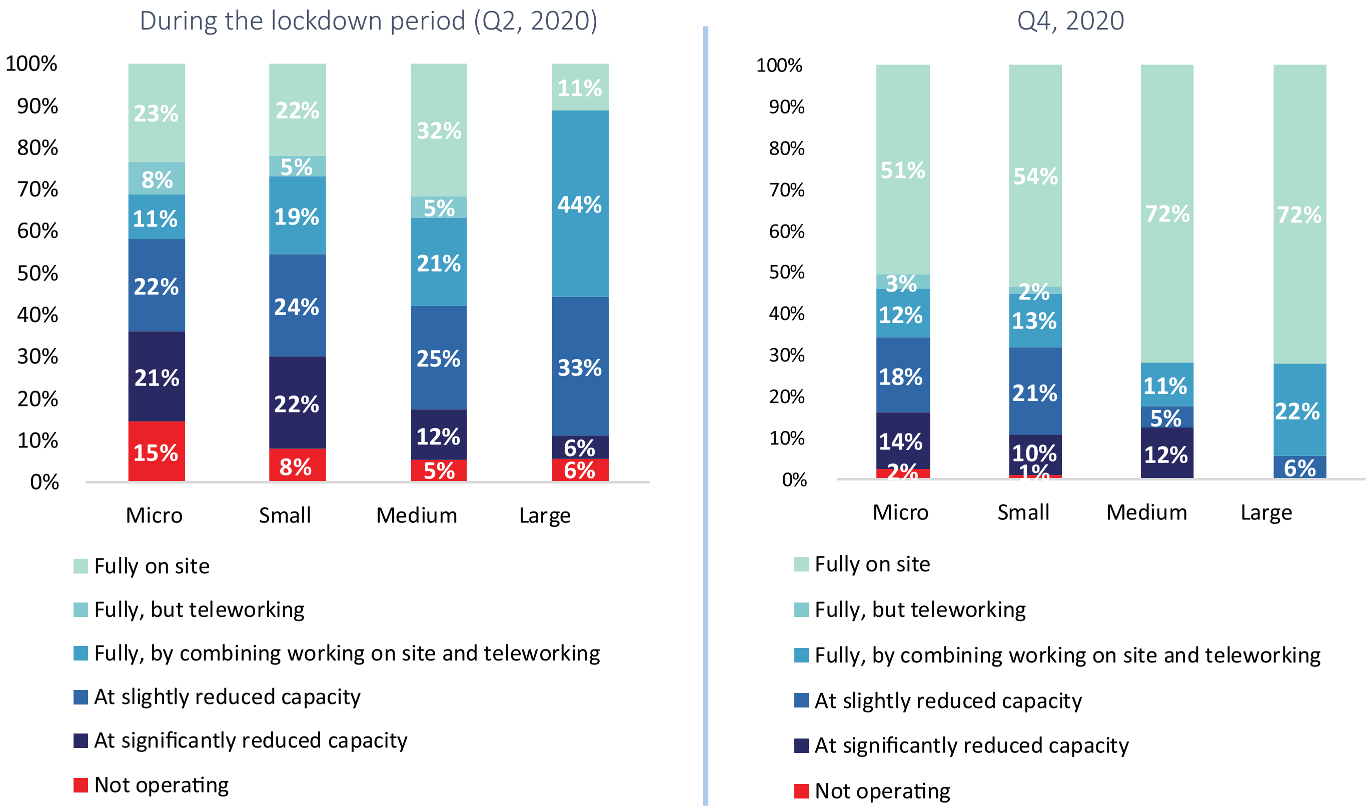
Figure 6. Could you specify the level of operations in your company? All surveyed enterprises



Micro and small enterprises were operating at sufficient levels to sustain their businesses, while medium-sized and large enterprises were operating almost unperturbed in the last quarter of 2020. Serbian enterprises have gradually adapted to pandemic-related circumstances, with large enterprises displaying the highest level of flexibility. All of the large surveyed enterprises were operational, of which 94 per cent indicated no disruptions at all. Of these enterprises, 22 per cent resorted to partial teleworking arrangements. Large and medium-sized enterprises proved to be more resilient during the lockdown period. Specifically, 88 per cent of large and 83 per cent of medium-sized enterprises operated at either full or slightly reduced capacity during the state of emergency, while microenterprises were the most heavily affected, with only 64 per cent operating at full or slightly reduced capacity and 15 per cent not operating at all.

11 It can be expected that the situation might have deteriorated in March 2021 due to a significant increase in the number of infections and the subsequent introduction of additional restrictions on business activities.

Figure 7. Could you specify the level of operations in your enterprise? Overview by enterprise size

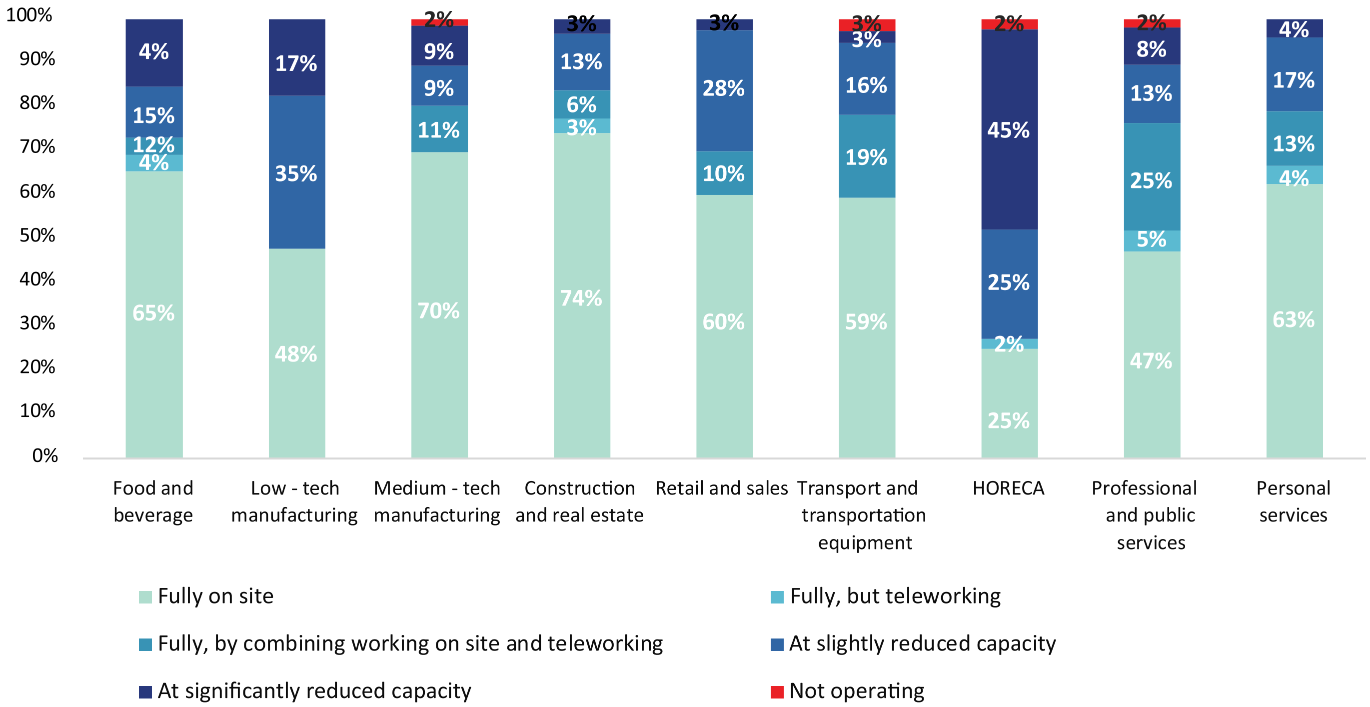


All sectors except for HORECA and low-tech manufacturing to some extent, were operating at sufficient levels to maintain their sustainability. Almost half of HORECA enterprises were either operating at significantly reduced capacity or not operating at all. Such results are mainly owed to the drop in foreign tourist arrivals (particularly affecting city hotels) and ever-changing pandemic control measures (such as limiting working hours or the number of people allowed indoors).

Enterprises in low-tech manufacturing were hit by declining demand, and although all were in operation at the time of this survey (unlike 2 per cent of HORECA enterprises), almost 20 per cent operated at significantly reduced capacity. These two sectors, alongside personal services and passenger transportation (not included separately in this survey) were the most affected sectors during the state of emergency. Some 43 per cent of HORECA enterprises suspended their operations and 41 per cent operated at significantly reduced capacity during the lockdown (Q2 2020) (Figure 6A).

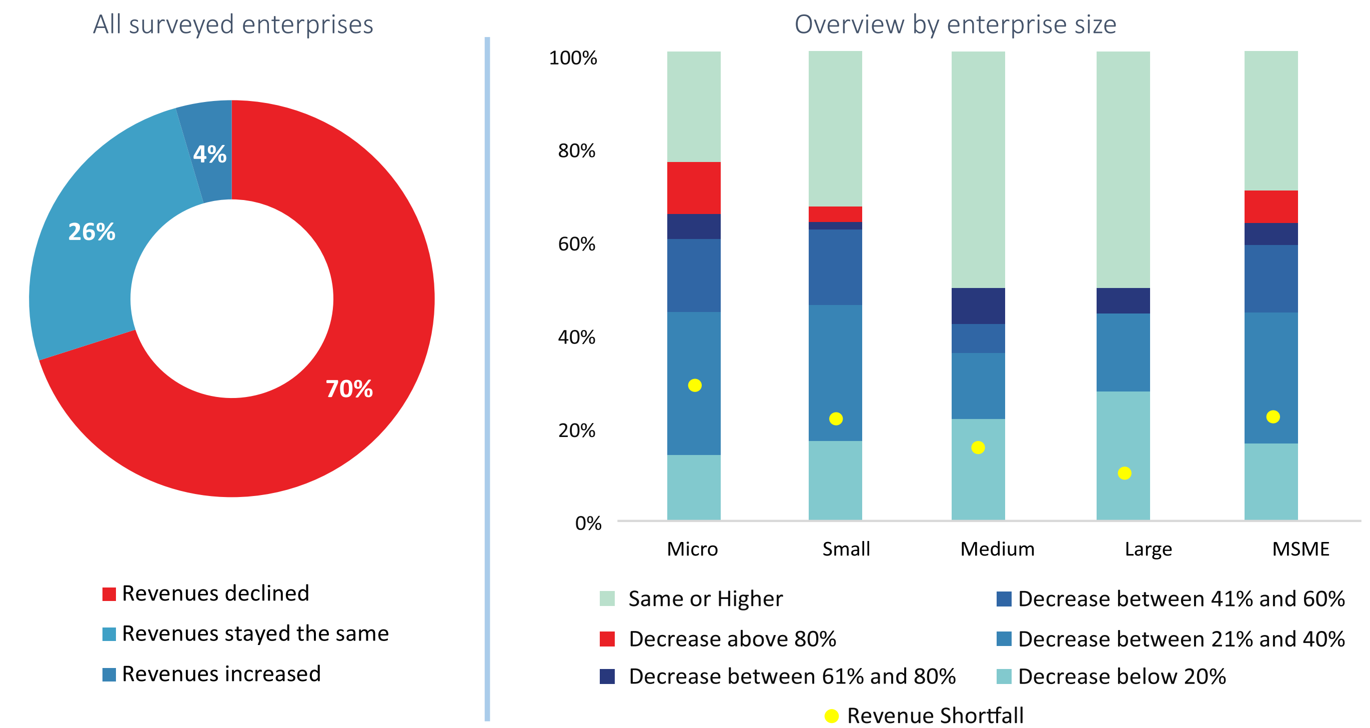
The majority of sectors have gradually restored their operations after the lockdown with the most significant results in personal services, where only 4 per cent of enterprises reported functioning at significantly reduced capacity (compared to 33 per cent during the lockdown and a further 21 per cent not operating at all). Personal services enterprises were able to adapt to uncertain circumstances by shifting to online operations and e-commerce.

Figure 8. Could you specify the level of operations in your enterprise in Q4 2020? Overview by sectors



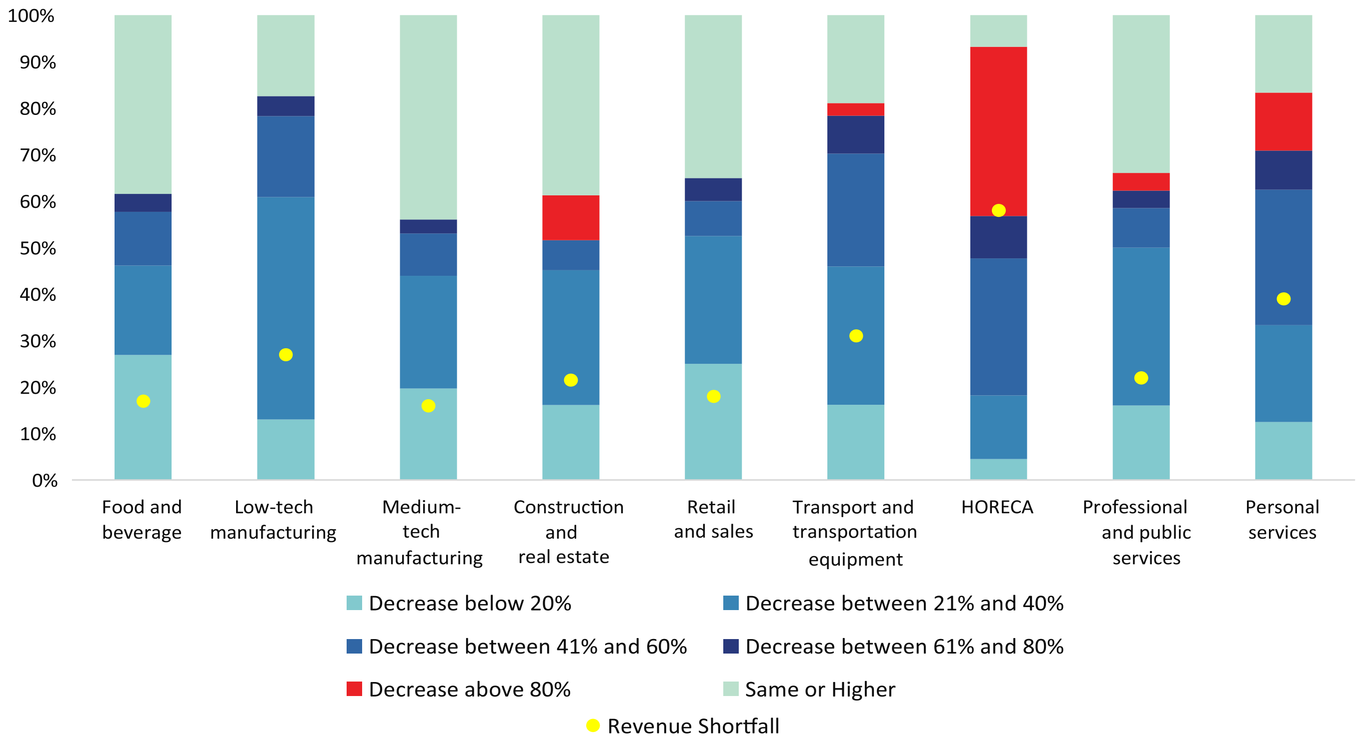
The majority of surveyed enterprises (70 per cent) reported a decline in revenue compared to the same period of 2019. Approximately 26 per cent of enterprises had no change in revenue, while only 4 per cent had increased revenue. The average revenue shortfall for all enterprises in the survey was 25 per cent, however, it varies significantly by enterprise size. The largest average revenue shortfall was reported by microenterprises (31 per cent), whereas large enterprises reported the lowest decline (11 per cent). In addition, none of the large or medium-sized enterprises reported a revenue shortfall of more than 80 per cent, unlike 11 per cent of microenterprises and 3 per cent of small enterprises.

Figure 9. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019



The COVID-19 crisis has not spared any sector. The majority of sectors reported an average revenue shortfall exceeding 20 per cent in the first three quarters of 2020 compared to the same period of 2019. Revenue declined the most in HORECA (58 per cent), personal services (39 per cent) and transportation and transportation equipment (31 per cent), which were directly affected by the pandemic and administrative restrictions. More than a third of HORECA enterprises reported a revenue shortfall of more than 80 per cent. In contrast, medium-tech manufacturing and retail and sales were the two best-performing sectors at the time of the survey, with average revenue shortfalls at 13 per cent and 15 per cent, respectively. However, survey findings show that, even in generally less affected sectors, there are highly affected enterprises. At least 10 per cent of enterprises in all sectors had a revenue shortfall of 40 per cent or more. Thus, the potential support measures for affected enterprises should be neither horizontal (equal for all), nor exclusively sectoral, but they should be based on some (or a combination of more) specific performance measures instead.

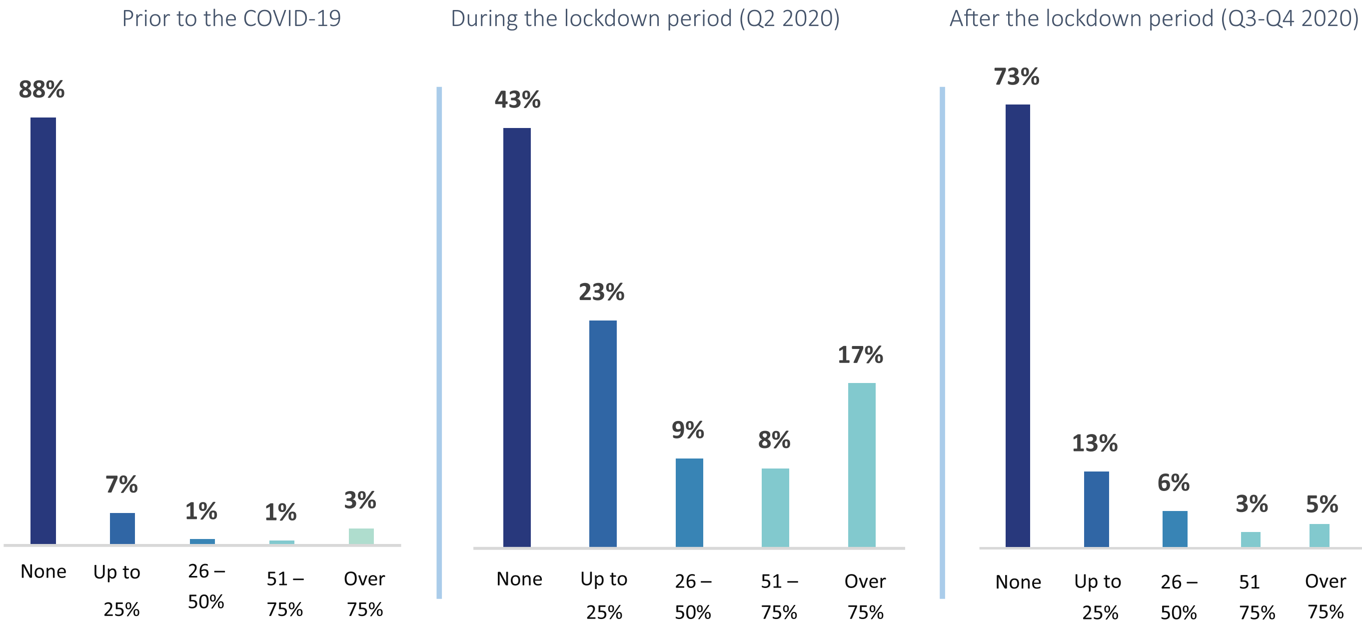
Figure 10. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019? Overview by sector



III. Impact of COVID-19 on the workforce

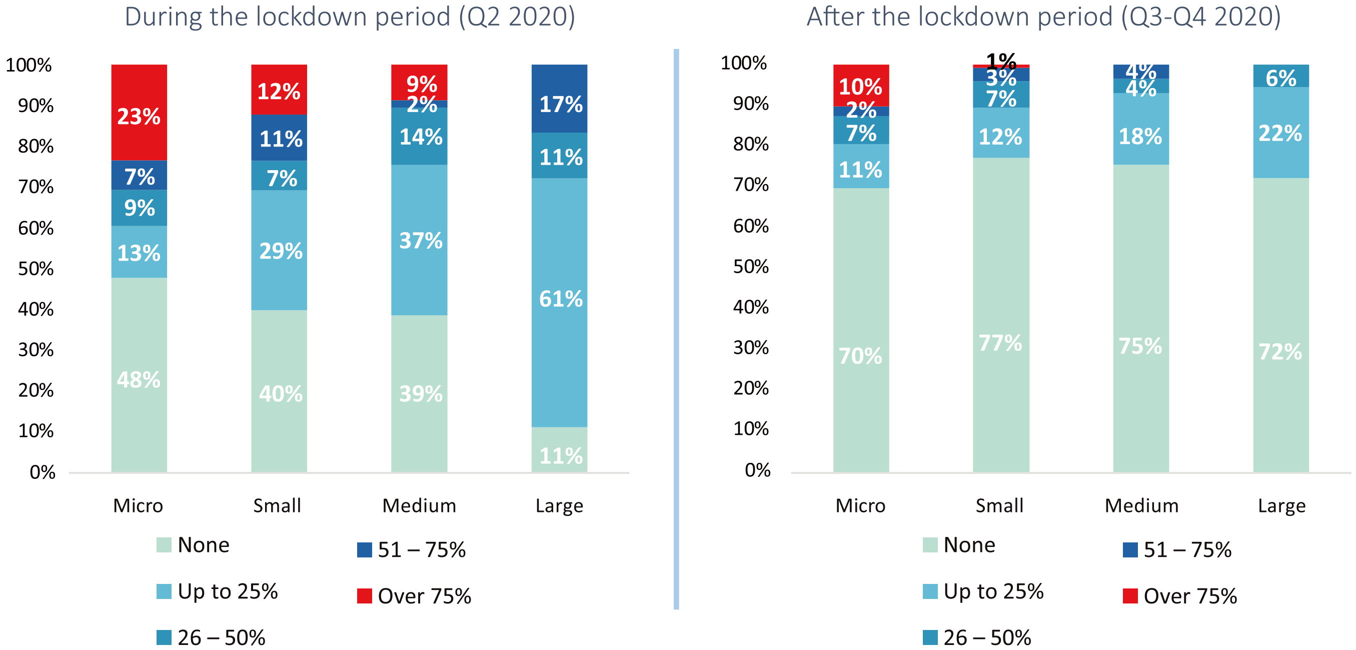
Although teleworking was largely implemented during the spring lockdown, the vast majority of enterprises returned to work on site after the lifting of restrictions. Nearly 60 per cent of enterprises resorted to full-time or part-time teleworking during the lockdown period, which was a significant increase compared to some 12 per cent of enterprises that used teleworking prior to COVID-19. However, the proportion of enterprises resorting to telework almost halved after the lockdown. Some 13 per cent of enterprises used teleworking for less than 25 per cent of their workforce, 6 per cent had up to 50 per cent of their staff working remotely and a further 5 per cent reported that more than 75 per cent of staff were teleworking. A small proportion (3 per cent) used teleworking for less than 75 per cent of staff.

Figure 11. What share of employees teleworked/is teleworking (at least once per week)? All surveyed enterprises



At least 70 per cent of enterprises of all sizes resumed work on site after restrictions were lifted. The prevalence of telework decreased significantly even across large enterprises, which allowed the vast majority of staff (89 per cent) to telework during the spring lockdown. Overall, relatively small shares of enterprises (ranging from 11 per cent for microenterprises to 22 per cent for large enterprises) allowed up to 25 per cent of their staff to telework after the lockdown period. The shares of enterprises reporting that they applied telework for over 25 per cent of their work-force are extremely low, except for microenterprises, of which 10 per cent reported allowing over 75 per cent of their workers to telework.

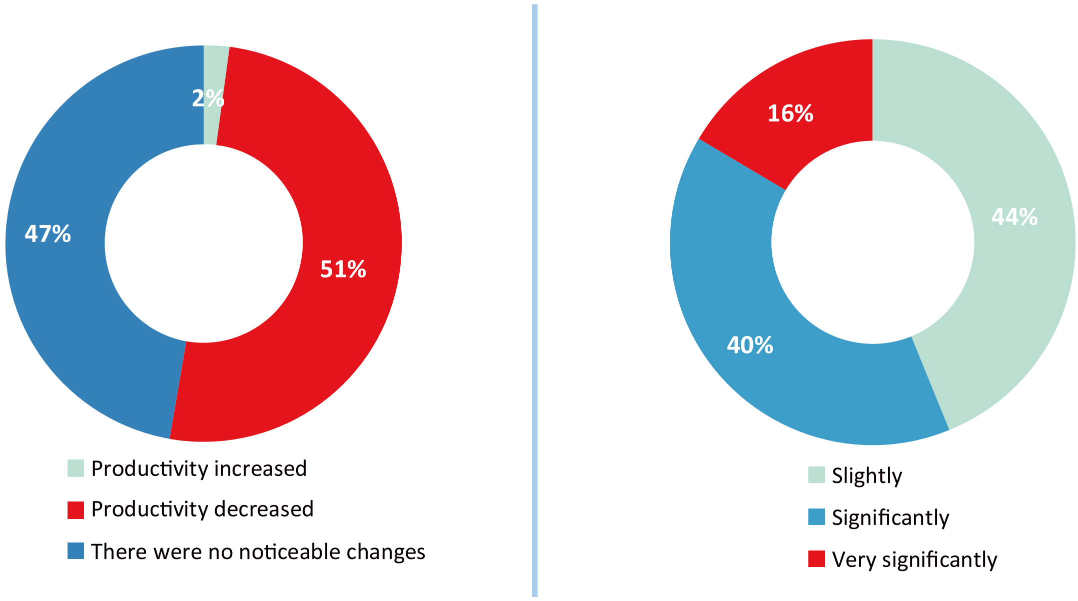
Figure 12. What share of employees teleworked/is teleworking (at least once per week)? Overview by enterprise size



Transport and transportation equipment and professional and public services (some 40 per cent each) displayed the highest share of enterprises that allowed staff to continue teleworking after the easing of restrictions. Low-tech manufacturing and HORECA showed the least flexibility in adapting to teleworking arrangements, with none and 14 per cent of enterprises, respectively, allowing staff to telework (Figure 7A).

Of enterprises that used teleworking, more than half reported a decrease in employee productivity. A further 47 per cent did not experience any changes and only 2 per cent reported an increase in productivity. Of enterprises that reported a decline in productivity, 56 per cent assessed the decline as significant or very significant. By enterprise size, large enterprises did not report any cases of productivity decline, while some 20 per cent experienced an increase in productivity. In contrast, 58 per cent of microenterprises reported a decrease in productivity, while a further 42 per cent did not notice any changes. The decline in productivity was more pronounced in micro and small enterprises, with 66 per cent and 45 per cent, respectively, noting that the decline was significant or very significant. In contrast, medium-sized and large enterprises reported only a slight decrease.

Figure 13. How did productivity change while your employees were teleworking? If productivity decreased, can you estimate by how much? All surveyed enterprises



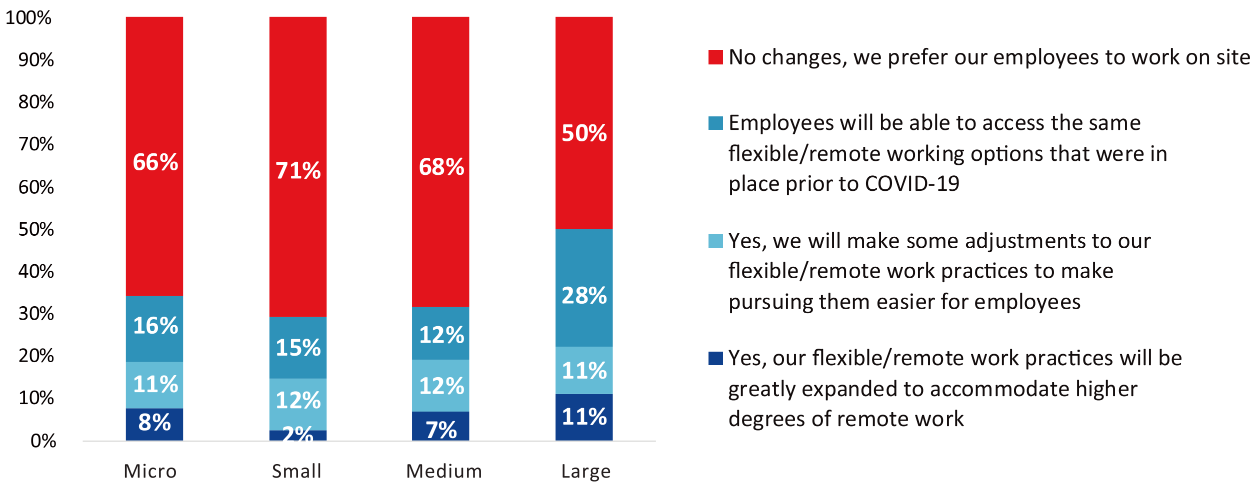
Low-tech manufacturing (67 per cent), personal services (64 per cent), food and beverage (57 per cent), and retail and sales (56 per cent) displayed the highest shares of enterprises reporting a decline in productivity while employees were teleworking. On a positive note, food and beverage (14 per cent), low-tech manufacturing and personal services (7 per cent each) reported a modest increase in productivity (Figure 8A).

Two thirds of enterprises reported they did not envisage switching to flexible/remote working practices over the long term. An additional 15 per cent of enterprises would keep the same remote working practices that were in place prior to the outbreak. Only 6 per cent declared their flexible work practices would be greatly adjusted to accommodate higher degrees of remote work and 11 per cent would make at least some adjustments to current work arrangements to make it easier for employees to telework.

Figure 14. After the COVID-19 crisis is over, do you envisage changes to your flexible/remote working practices over the long-term? All surveyed enterprises

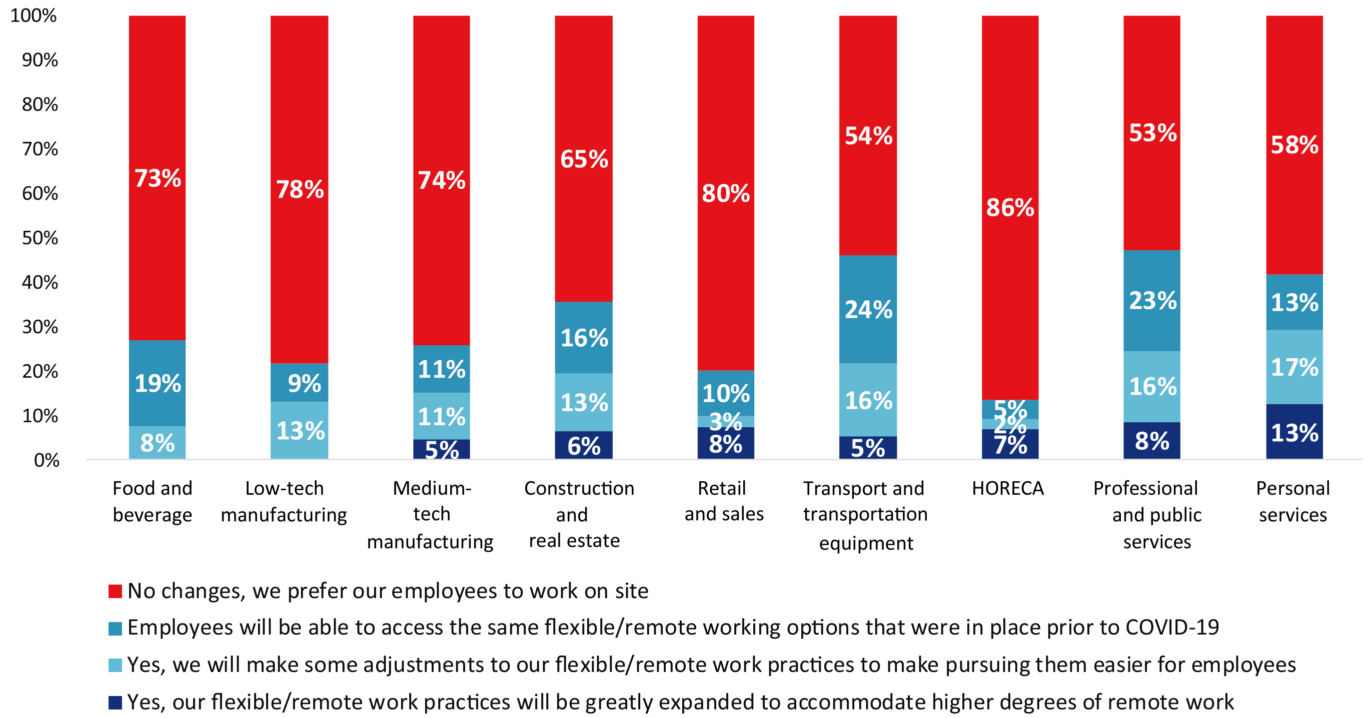
There were no significant differences between micro, small and medium-sized enterprises in terms of changes foreseen to their flexible work arrangements. On average, nearly 70 per cent of MSMEs preferred their employees to work on site when the crisis ended. In contrast, while half of large enterprises opted for work on site, equal shares (11 per cent each) planned either a considerable adjustment or make at least some changes to their flexible work practices to make it easier for employees to telework. Nearly 30 per cent reported that they would keep the same flexible work practices that were in place prior to COVID-19.

Figure 15. After the COVID-19 crisis is over, do you envisage changes to your flexible/remote working practices over the long-term? Overview by enterprise size



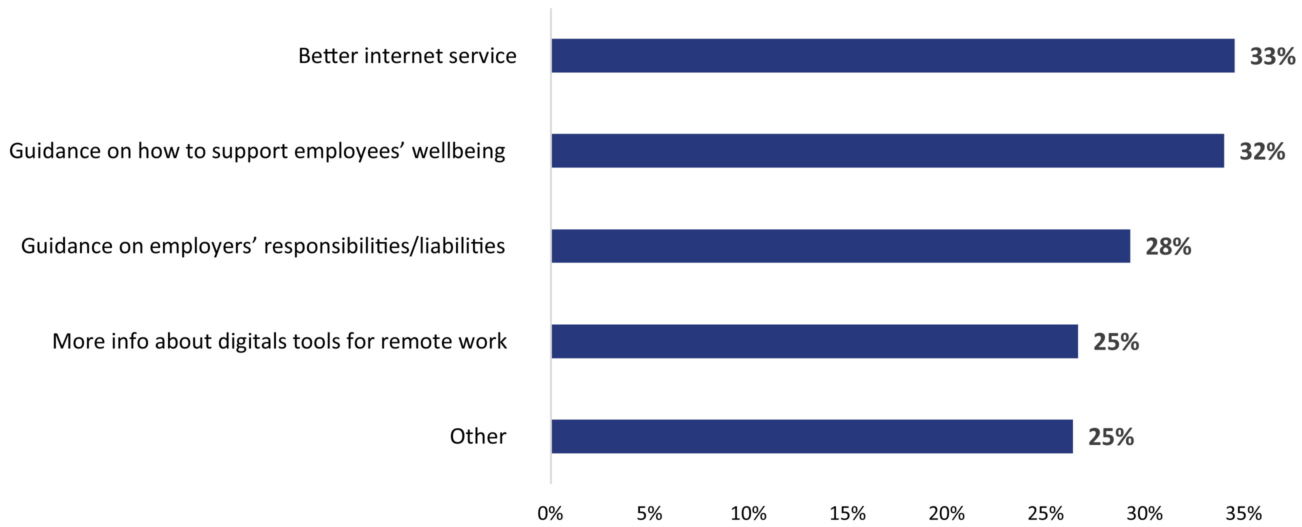
Overall, most enterprise across all sectors prefer their employees to work on site with HORECA and retail and sales portraying the lowest adaptive capacity. Of these enterprises, 86 per cent and 80 per cent, respectively, reported a lack of readiness to adjust their work practices, mainly because of the nature of their activities. On the other hand, personal services, professional and public services and transport and transportation equipment displayed the highest shares of enterprises envisaging changes to their flexible work practices.

Figure 16. After the COVID-19 crisis is over, do you envision changes to your flexible/remote working practices over the long term? Overview by sector



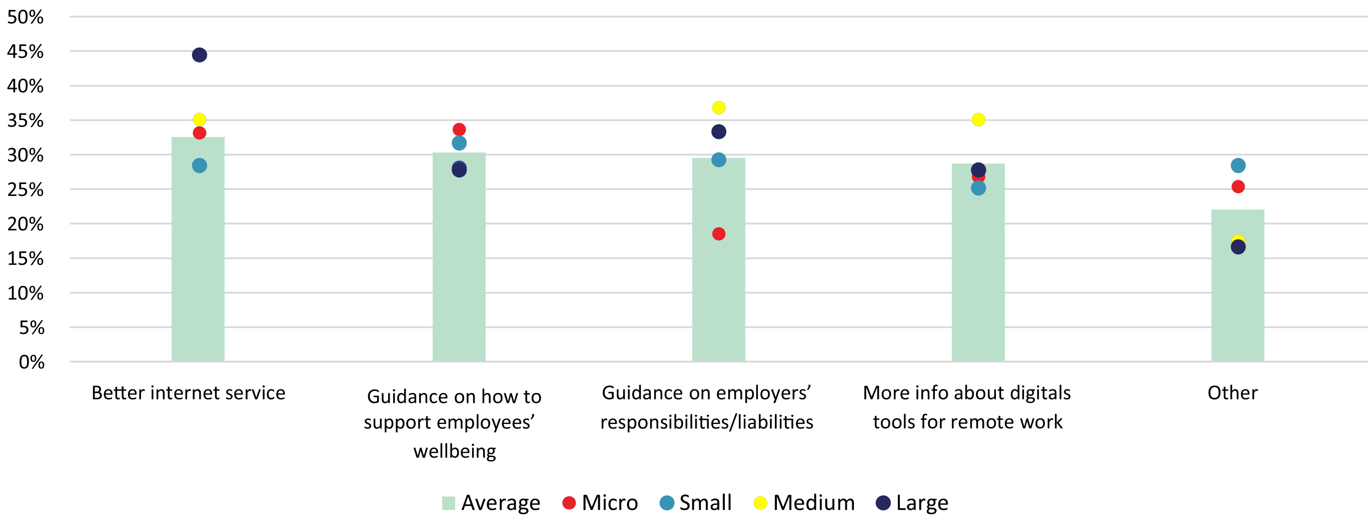
Every third enterprise needs better internet service and guidance on sustaining employee well-being to implement more effective teleworking arrangements. More than one quarter of enterprises require information on digital tools for remote work and guidance on employers' responsibilities, communication and monitoring.

Figure 17. What type of support does your company require to more effectively have the staff to undertake telework arrangements? All surveyed enterprises



By enterprise size, there are certain differences in prioritizing the type of support needed to implement telework. Some 44 per cent of large enterprises (a much greater share in comparison to other enterprise sizes) require better internet service. Another notable difference is that guidance on employers' responsibilities, communication and monitoring was the type of support that 37 per cent of medium-sized and 33 per cent of large enterprises require, while less than 20 per cent of microenterprises required this type of support.

Figure 18. What type of support does your company require to more effectively have the staff undertake telework arrangements? Overview by enterprise size

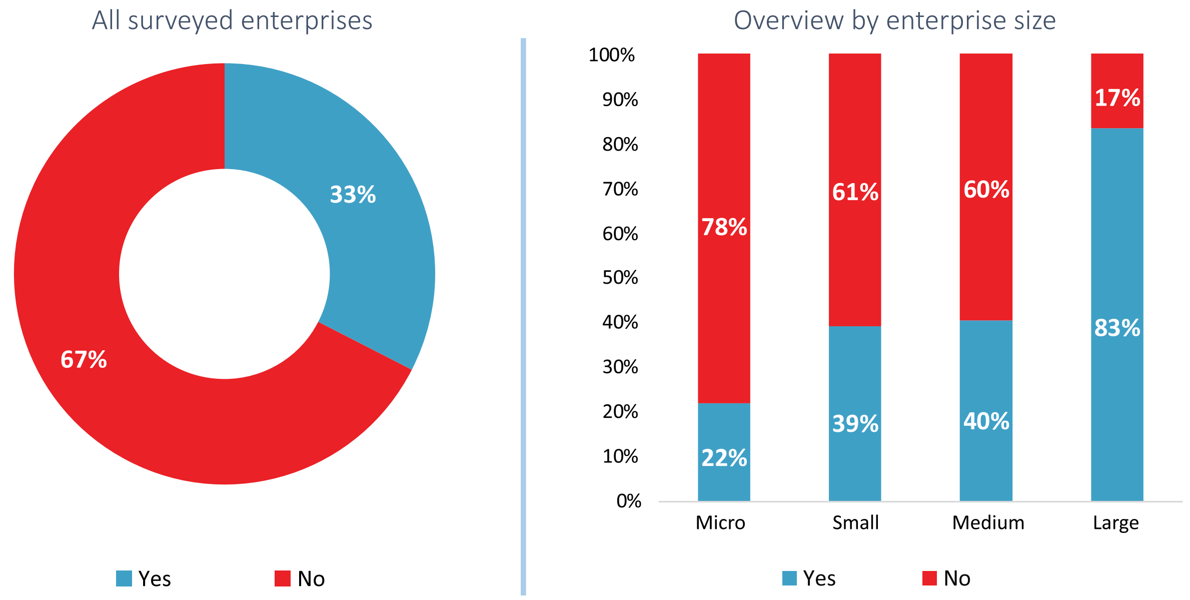


The type of support required for effective teleworking arrangements varies slightly across the sectors. Around 40 per cent of enterprises in food and beverage, retail and sales, construction and real estate, transport and transportation equipment, and professional and public services required better internet service. Almost half of enterprises in transport and transportation equipment, construction and real estate and professional services required additional guidance on how to support employees' work-life balance and mental health (Table 9A).

IV. Main challenges and adjustment strategies

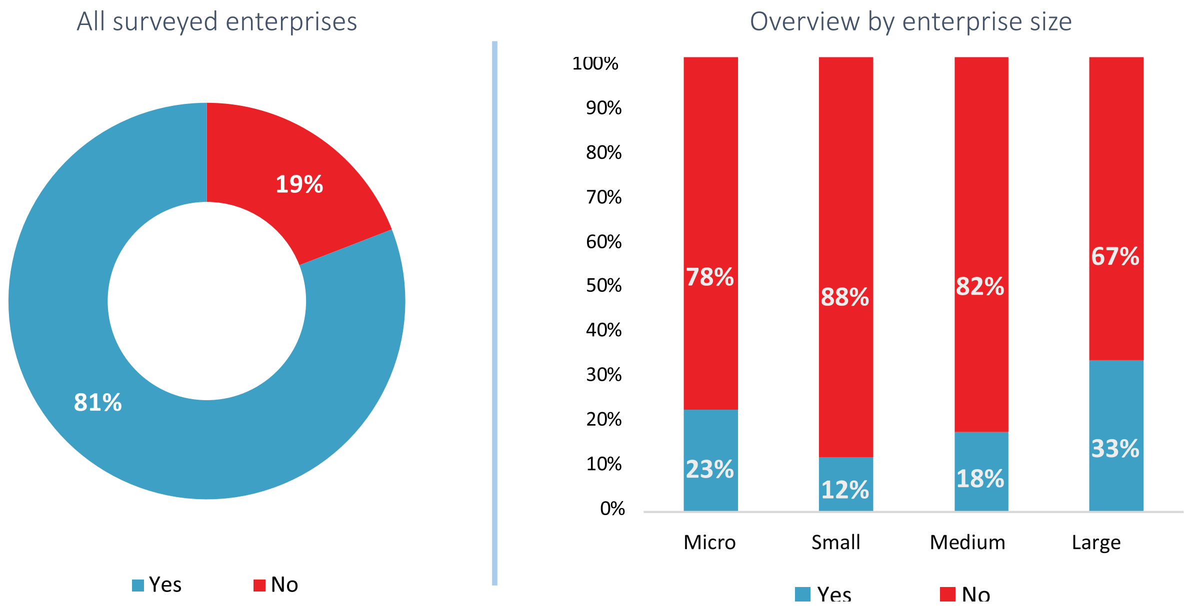
Only one third of all surveyed enterprises had a written business continuity plan before the COVID-19 outbreak. The share of enterprises reporting the existence of a business continuity plan increases with the enterprise size. Microenterprises showed the least preparedness for crises situations with only 22 per cent indicating that they had a business continuity plan, while on the other end of the spectrum, large enterprises confirmed the existence of a business continuity plan in 83 per cent of cases. However, there is no statistical evidence available proving that enterprises with written business continuity plans operated at a higher level than those that did not have such plans, which might be also indicative of their quality.

Figure 19. Did your enterprise have a written business continuity plan prior to COVID-19?



Less than one in five enterprises that did not have a business continuity plan before the COVID-19 outbreak developed one after the pandemic emerged. It might be that, due to high uncertainty, enterprises did not believe that a business continuity plan, albeit adapted to pandemic conditions, could be useful in dealing with the ever-changing circumstances. Similar to the pre-crisis situation large enterprises (33 per cent) resorted to developing a business continuity plan more frequently compared to the MSMEs. Interestingly, one quarter of microenterprises (23 per cent) saw the need to prepare a business contingency plan following the crisis outbreak, while these percentages are lower for small and medium-sized enterprises.

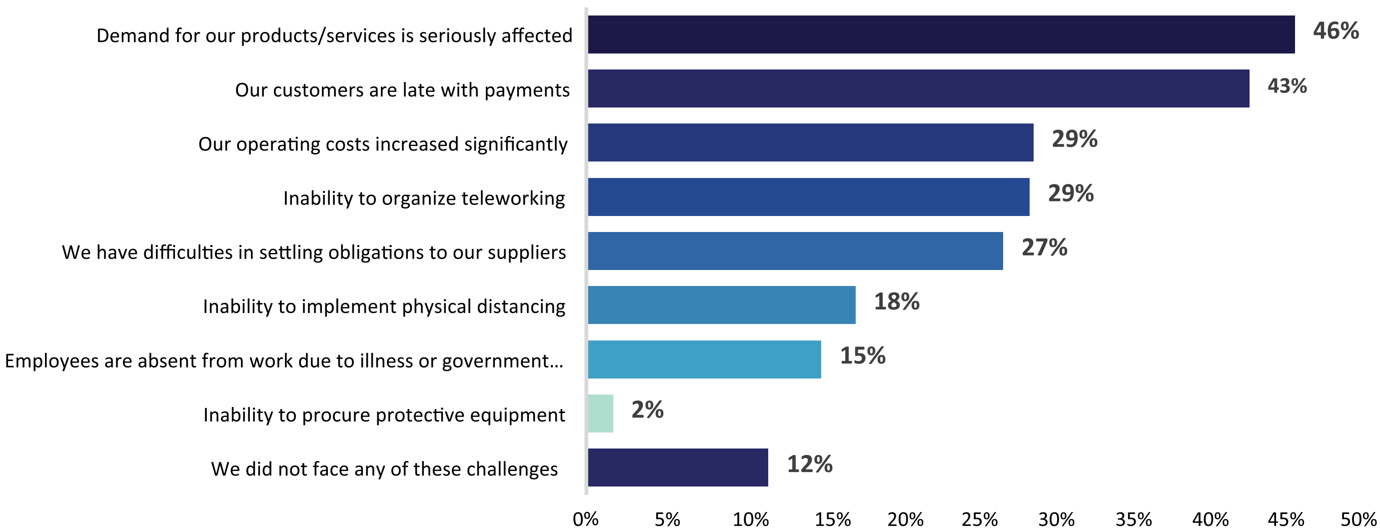
Figure 20. Did your enterprise develop a written business continuity plan following the COVID-19 outbreak (only those enterprises that did not develop business continuity plan before COVID-19)?



The highest shares of enterprises with a written business continuity plan before the crisis were in medium-tech manufacturing (48 per cent), food and beverage and personal services (42 per cent each). In other sectors, between one quarter and one third of enterprises reported having a written business continuity plan before the COVID-19 (Figure 10A). Following the outbreak of the crisis nearly one quarter of enterprises in medium-tech manufacturing and professional and public services, and one fifth of enterprises in HORECA, transport and transportation equipment and personal services developed a business continuity plan. Only 7 per cent of low-tech manufacturing enterprises resorted to developing business continuity plans in spite of having faced considerable difficulties operating during the lockdown period (Figure 11A).

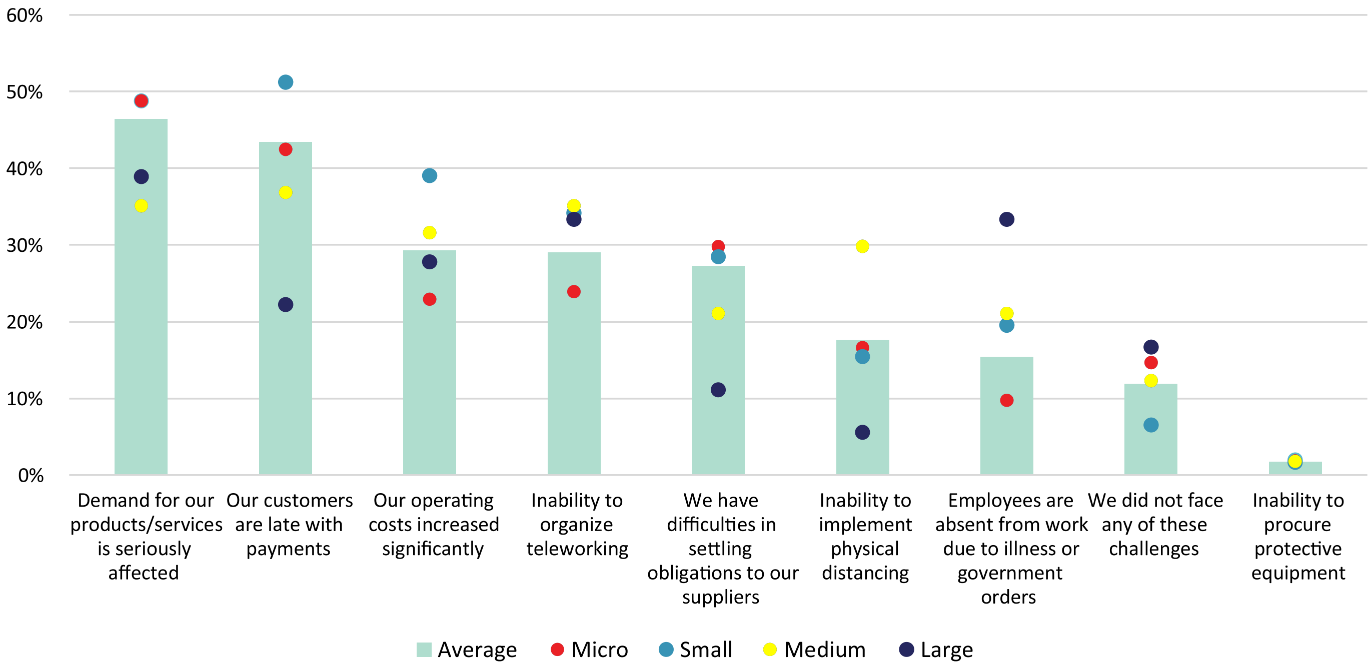
Close to 90 per cent of enterprises faced operational difficulties due to the COVID-19 crisis, with the sharp decline in demand (46 per cent) and delay in customer payments (43 per cent) featuring as the most acute challenges. These two challenges are interconnected, as customer demand is the main source of cash inflow. If prolonged, such a situation could lead to serious liquidity crisis in the private sector, causing a domino effect. However, it should be noted that economic measures taken by the Government were directly aimed at supporting enterprise liquidity and preventing a downward spiral. Additional challenges, such as the significant increase in operational costs, inability to organize teleworking and difficulties in settling obligations to suppliers, were reported by approximately 30 per cent of enterprises.

Figure 21. Which are the main operational challenges your enterprise currently faces resulting from COVID-19? All surveyed enterprises



Operational challenges were relatively similar across enterprises of all sizes. Around nine in ten small and medium-sized enterprises had at least some operational difficulty, while, somewhat surprisingly, it seems that these factors had a slightly lower impact on micro and large enterprises. Decreased demand and/or customers being late with payments were the most frequently reported issues by all enterprises, but the intensity was weaker for larger enterprises. Despite not facing challenges in implementing physical distancing measures, large enterprises experienced greater employee absenteeism compared to MSMEs. Furthermore, large enterprises are more financially stable as only one in ten had difficulties in settling obligations towards their suppliers and one in five faced delays in customer payments.

Figure 22. Which are the main operational challenges your enterprise currently faces resulting from COVID-19? Overview by enterprise size



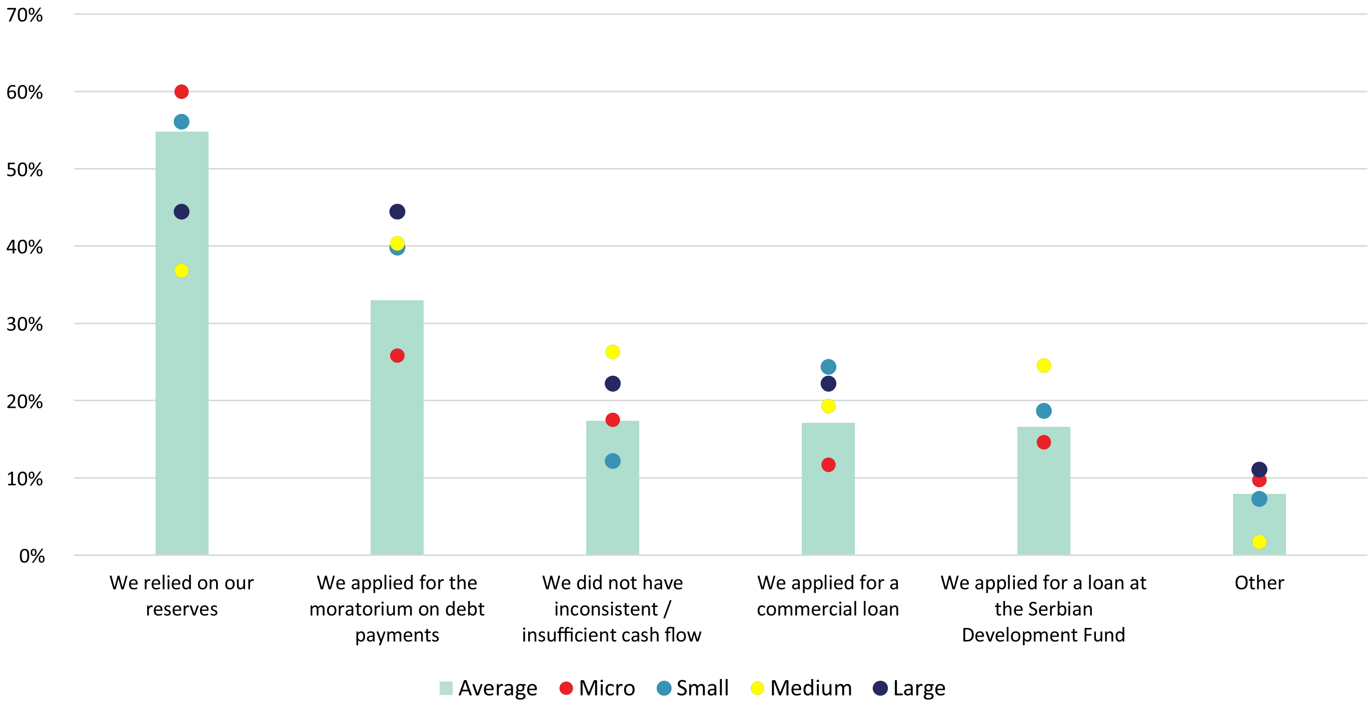
Enterprise assessment of main operational challenges varies across sectors with the shortfall in demand, delay in customer payment and difficulties in settling obligations to suppliers being the most cited (Table 12A) Shortfall in demand, encountered by a significant share of enterprises in all sectors, was the most pressing challenge for HORECA (75 per cent), low-tech manufacturing (65 per cent) and personal services (63 per cent) sectors. It should be noted that in HORECA and personal services the demand was also affected by the change in consumers' preferences and purchasing power. Interviews with key informants showed that even when restaurants were allowed to operate (albeit at reduced capacity), they often lacked customers. Therefore, many restaurants tried to adapt to the new circumstances by introducing contactless food-delivery services, a cheaper option for customers that carries almost no health risk.

Delays in consumers' payments was a major challenge for enterprises in almost all sectors, especially in transport and transportation equipment (62 per cent), construction and real estate (58 per cent), retail and sales (55 per cent), professional and public services and personal services (50 per cent each). Interviews with enterprises in construction and real estate revealed that they had faced delays in payments from clients such as local authorities or, more often, public enterprises.

Difficulties in settling obligations to suppliers were faced by some 30–40 per cent of enterprises in all sectors involved in procurement. Difficulties in organizing teleworking represented a challenge for companies in both low-tech manufacturing (43 per cent) and medium-tech manufacturing (36 per cent). The absence of employees due to illness or government orders was reported as a key challenge by some 35 per cent of enterprises in low-tech manufacturing. Importantly, some interviews revealed a rather worrying fact – some employees were absent from work due to various mental health disorders, such as stress, anxiety or depression. The inability to implement physical distancing was a challenge for a third of enterprises in HORECA and construction and real estate.

Around half of surveyed enterprises relied on their own reserves to deal with inconsistent cash flow. Microenterprises relied on their own reserves more frequently compared to other types of enterprises, and only 12 per cent applied for a commercial loan. The second most common practice, especially among large enterprises, was applying for the moratorium on debt payments. This does not come as a surprise, since more large enterprises rely on the commercial banking sector compared to smaller enterprises. In addition, large enterprises were not eligible for loans via the Serbian Development Fund, nor the loans offered through the state guarantee schemes, as the measure was only applicable to MSMEs. However, reliance on the banking sector was not high overall, and it was utilized by only 19 per cent of enterprises. Finally, about one fifth of enterprises reported having no problem with cash flow.

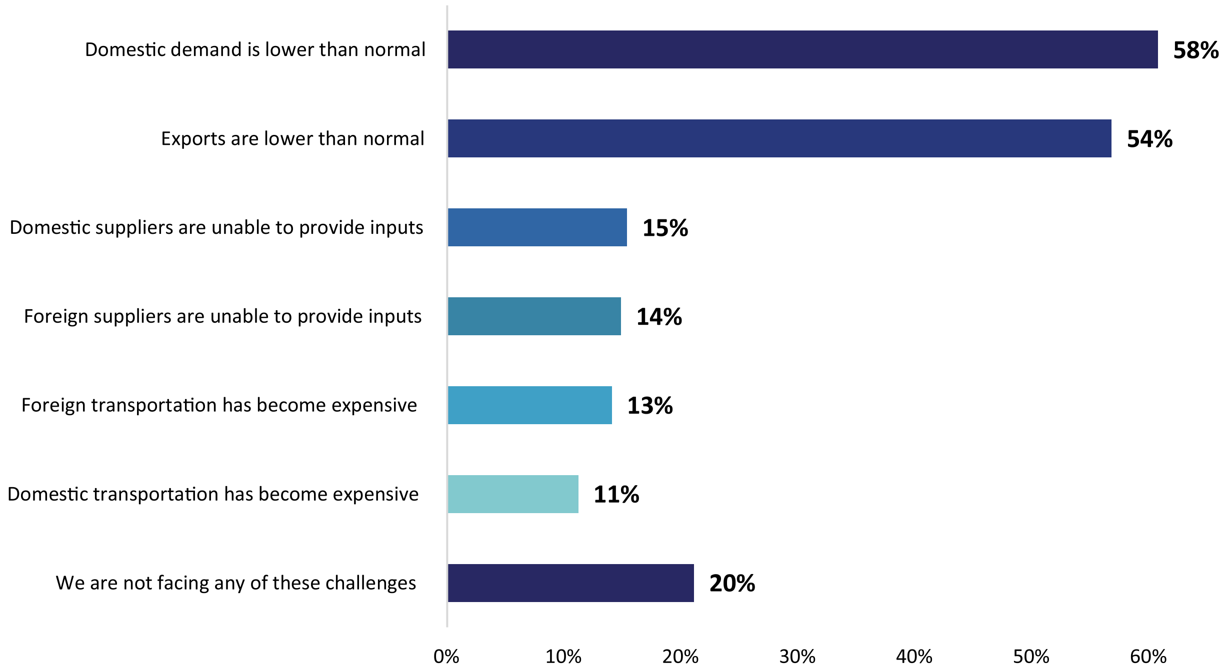
Figure 23. How did you cover for the inconsistent/insufficient cash flow? Overview by enterprise size



Inconsistent cash flow was a major problem in all sectors, but especially in HORECA (98 per cent), personal services (92 per cent) and low-tech manufacturing (91 per cent). Professional services and food and beverage were somewhat less affected (both at 73 per cent). The sectors in which enterprises relied primarily on their reserves for solving the problem of inconsistent and/or insufficient cash flow were personal services (75 per cent), HORECA (73 per cent) and construction and real estate (61 per cent). Commercial loans were most often picked by low-tech manufacturing enterprises (43 per cent). The most frequent applicants for loans via the Serbian Development Fund were enterprises from the transport and transportation equipment sector. The moratorium on debt payments was mostly used by low-tech manufacturing enterprises (61 per cent). Enterprises in food and beverage and professional and public services are among those that were less likely to experience issues with cash flow (27 per cent of surveyed enterprises in those sectors) (Table 13A).

The drop in domestic demand was the most acute challenge within the value chain reported by 58 per cent of surveyed enterprises. Exporter enterprises (54 per cent) were mainly affected by the decline in foreign demand. Transportation and procurement of inputs was rarely perceived as a challenge. Moreover, upstream value-chain problems were present only during the lockdown phase and were most frequently caused by foreign-trade issues, such as slow and expensive transportation and longer customs procedures.

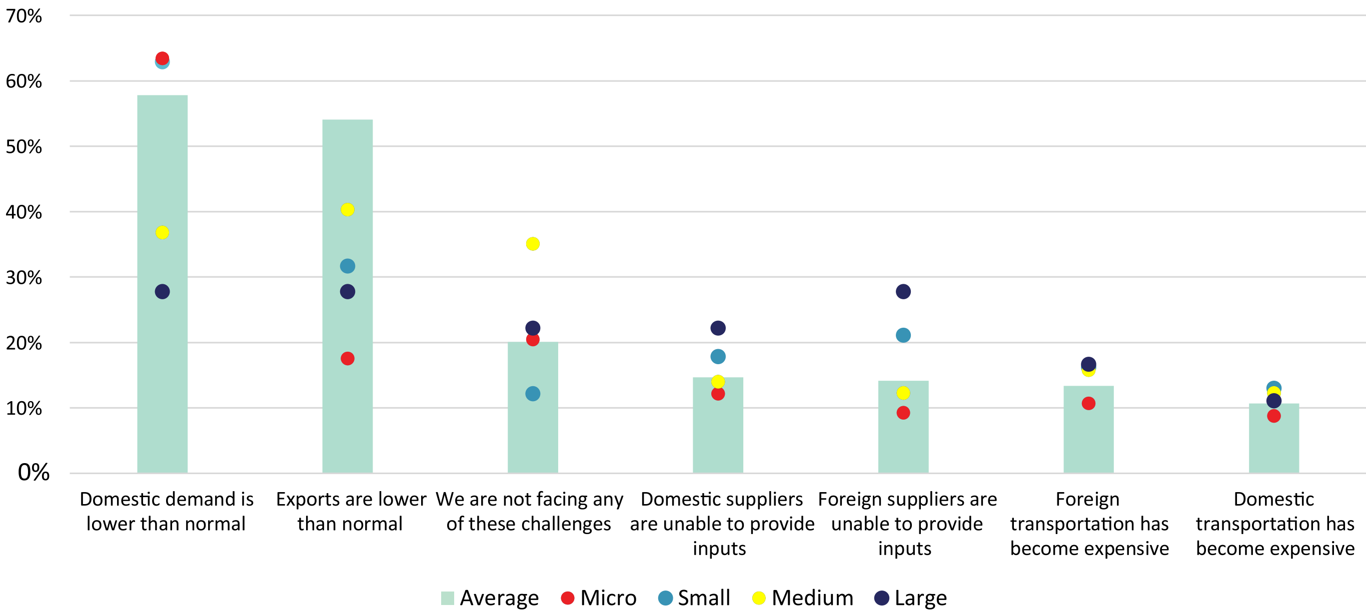
Figure 24. Which are the main challenges your enterprise currently faces within its value chain? All surveyed enterprises



Note: In case of exports, only exporter companies have been considered.

Value chain challenges do not differ much by enterprise size. However, the decline in domestic demand was most frequently reported by micro and small enterprises, while medium-sized enterprises faced difficulties in exporting their services and products. Procurement of foreign inputs was somewhat more difficult for large enterprises.

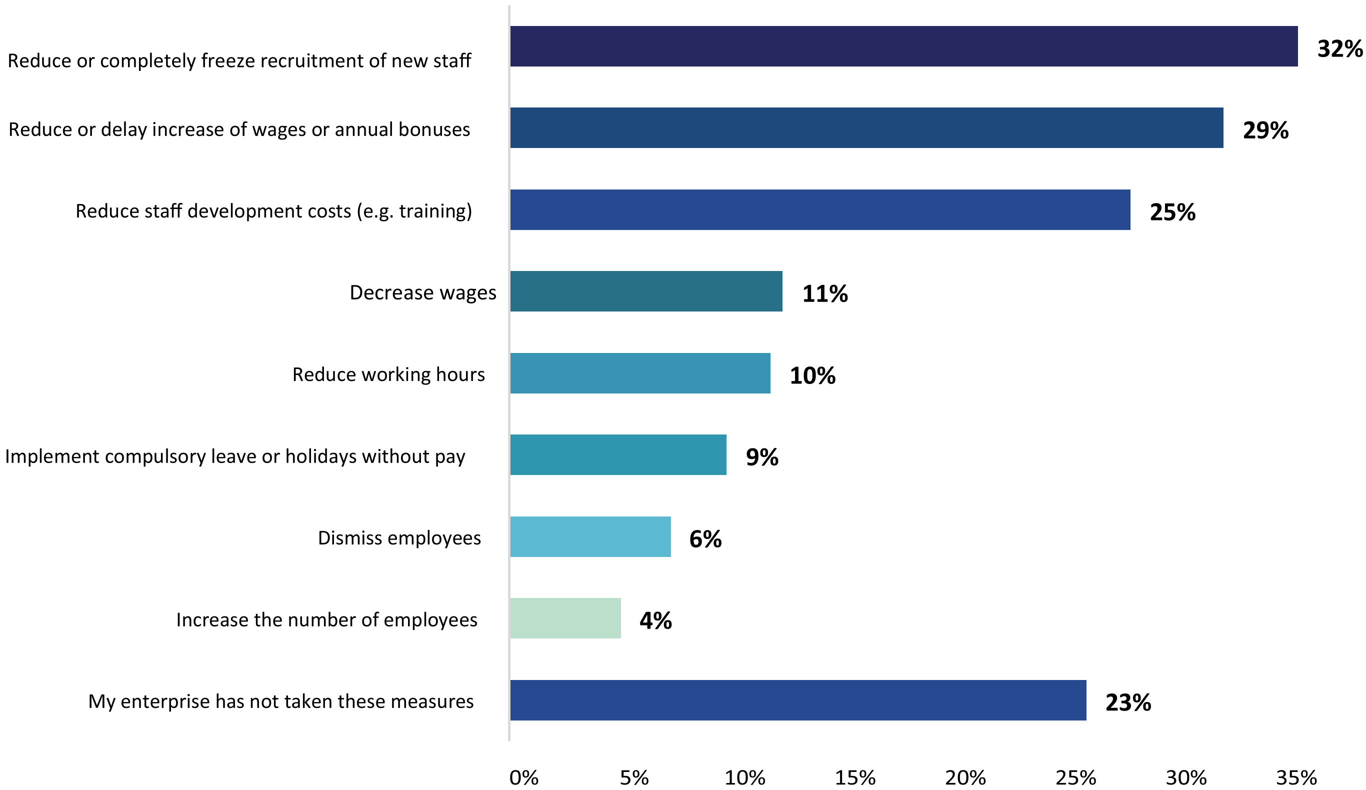
Figure 25. Which are the main challenges your enterprise currently faces within its value chain? Overview by enterprise size



By sector, the drop in domestic demand and decreased exports were the most often cited value chain challenges (Table 14A). Specifically, the drop in domestic demand was identified as the biggest challenge in almost all sectors, but especially in personal services (83 per cent) and HORECA (75 per cent). It was slightly less significant in transport and transportation equipment (62 per cent) and professional and public services (60 per cent). Decreased exports were most challenging in transport (62 per cent), low-tech manufacturing (61 per cent) and medium-tech manufacturing (42 per cent). The sectors most affected by the inability to deliver inputs and high prices of inputs (either by domestic or foreign suppliers) are medium-tech manufacturing (24 per cent) and construction and real estate (29 per cent).

The most widespread cost-cutting measure in terms of the workforce, reported by one third of enterprises, was reducing or completely freezing the recruitment of new staff. Almost 30 per cent of enterprises reduced or delayed the increase of wages or annual bonuses and a quarter reduced staff development costs. Some 10 per cent of enterprises decreased wages, reduced working hours or implemented compulsory leaves without pay. Only 6 per cent of enterprises opted for layoffs. These results are in line with the official statistics, as formal employment in Serbia has shown remarkable resilience thus far. In fact, the decline in employment could be partly attributed to the decrease in informal employment.[12] Due to the tightening of the labour market, finding and keeping workers with the required skills became challenging for Serbian companies long before the COVID-19 crisis, which is why companies tend to opt for layoffs only as the last resort.

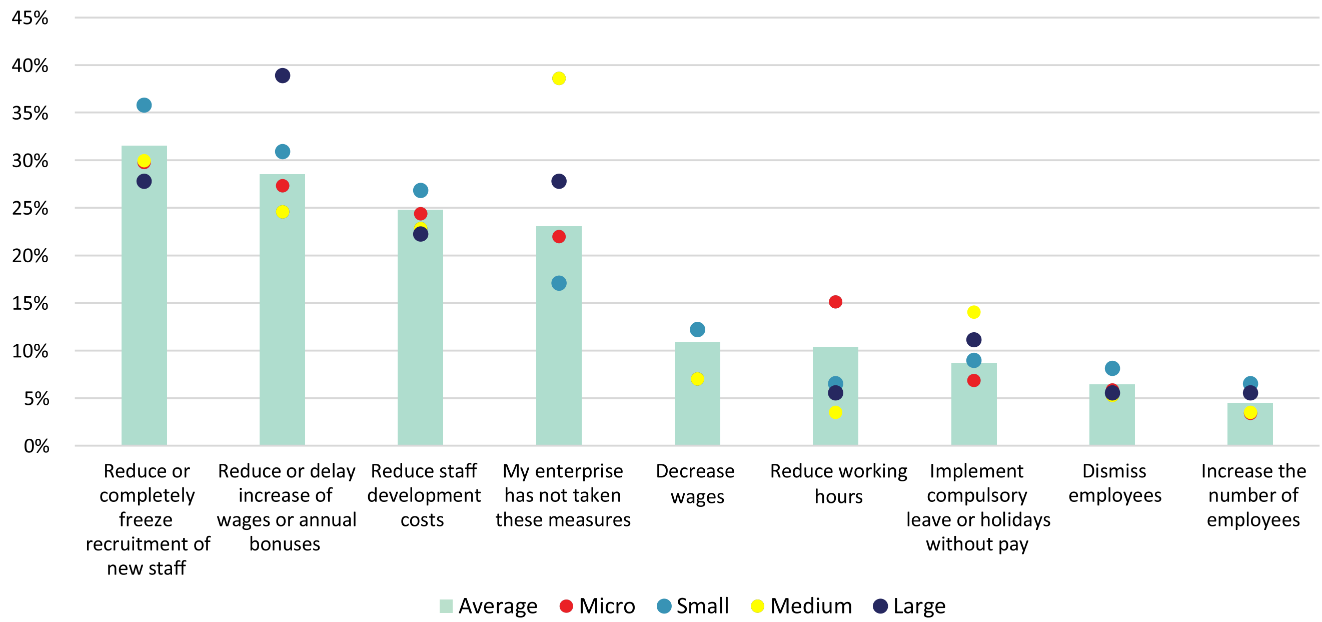
Figure 26. What measures in terms of your workforce and other cost-cutting have you conducted or plan to conduct, if any? All surveyed enterprises



Relatively similar cost-cutting measures were taken by all enterprises, irrespective of their size. However, small enterprises (36 per cent) were more inclined to reduce or completely freeze recruitment of new staff, while large enterprises (39 per cent) opted more frequently to delay or reduce wage increases or annual bonuses. Almost equal shares of small (27 per cent), micro (24 per cent) and large enterprises (22 per cent) reduced staff development costs. Interestingly, medium enterprises displayed the highest share of respondents that had not taken any cost-cutting measures.

12 For more details, see CEVES 2020. Uticaj COVID-19 krize na zaposlenost: Fokus na ranjive kategorij. January 2021. Available at: http://socijalnoukljucivanje.gov.rs/wp-content/uploads/2021/01/Uticaj_COVID-19_krize_na_zaposlenost.pdf

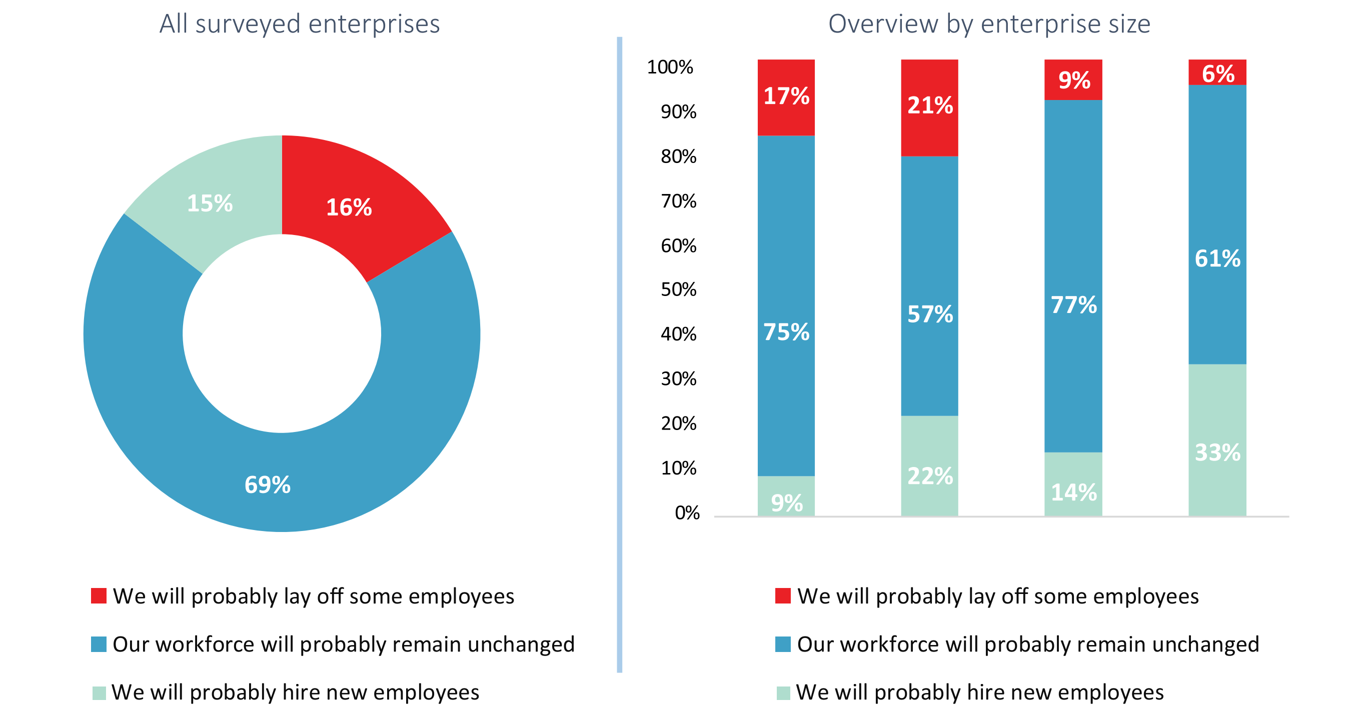
Figure 27. What measures in terms of your workforce and other cost-cutting have you conducted or plan to conduct, if any? Overview by enterprise size



Measures taken by enterprises to optimize staff costs vary across the sectors. Half of HORECA enterprises and 46 per cent of food and beverage enterprises opted primarily to reduce or freeze new staff recruitment. Reducing or delaying the increase of wages or annual bonuses was most frequently implemented by enterprises in HORECA (41 per cent), medium-tech manufacturing (35 per cent) and personal services (33 per cent). On average, some 30 per cent of enterprises in construction, food and beverage, medium-tech manufacturing and personal services reduced staff development costs (Table 15A).

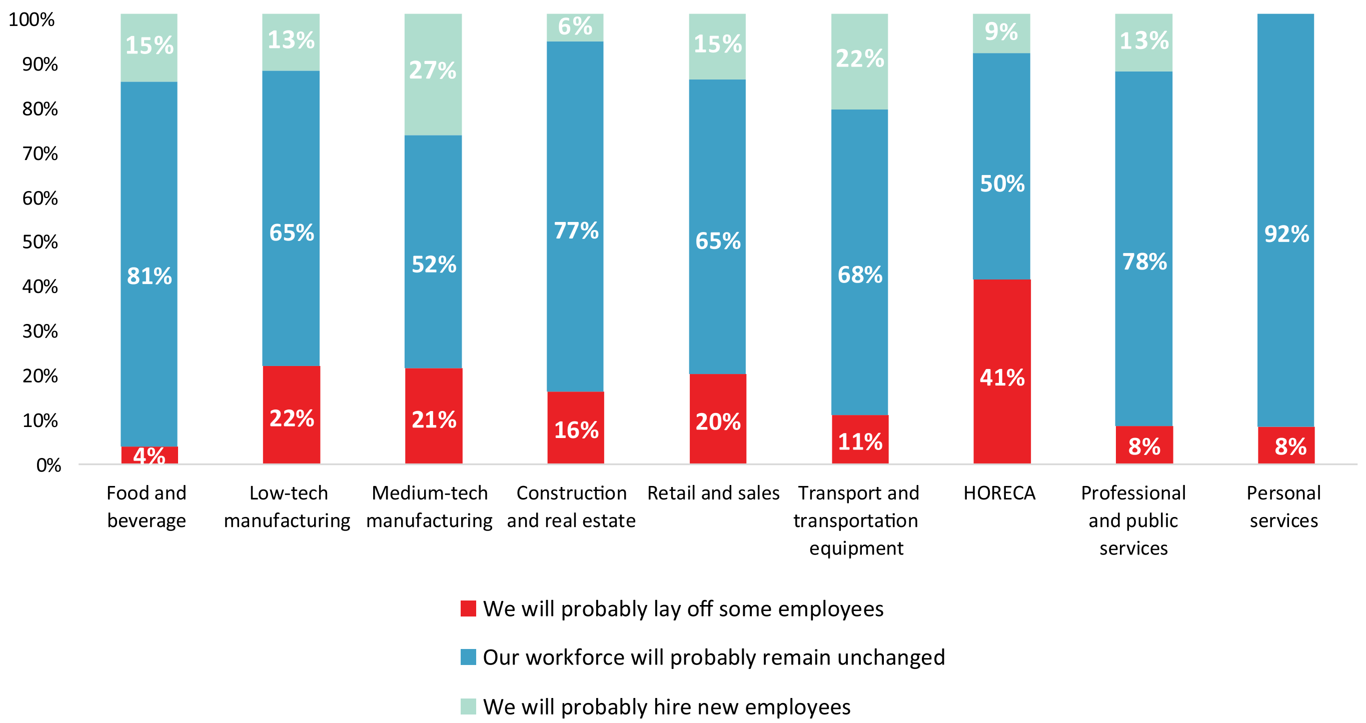
The majority of surveyed enterprises (69 per cent) reported their workforce would remain unchanged, while almost equal shares (15 per cent and 16 per cent respectively) planned either to dismiss or recruit new employees in 2021. Higher levels of layoffs are expected among micro and small enterprises (17 per cent and 21 per cent respectively). In contrast, one third of large enterprises, which were the least affected by the crisis, reported that they planned to hire new employees at the beginning of 2021. Although some enterprises might resort to layoffs, the level of layoffs is likely to be relatively mild. Most enterprises reported the number of employees would be reduced by up to 20 per cent, while about 12 per cent of enterprises planned more severe layoffs.

Figure 28: What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90% of employees ceases to exist)?



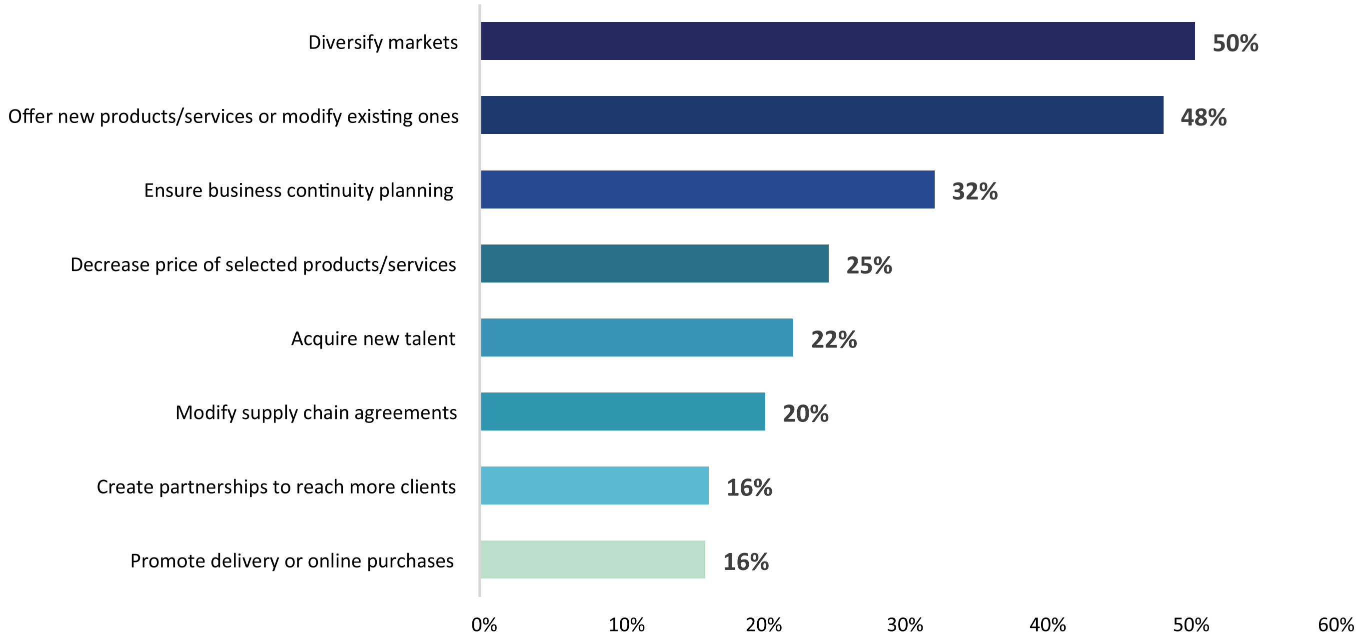
Layoffs are primarily expected in HORECA, low-tech manufacturing and construction, while net effect for the remaining sectors is, according to enterprise estimates, either neutral or even positive. On a different but related note, the prospects of increasing the number of employees in some sectors is rarely associated with the crisis, but rather stems from the positive momentum in the pre-COVID-19 period.

Figure 29. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)? Overview by sector



On average, half of enterprises identified market-diversification and development of new products (or modification of existing ones) as the most important strategies to increase revenue during and following the COVID-19 crisis. For instance, a number of city hotels rented their premises to business clients, restaurants switched to food delivery and textile producers turned to mask-production, to name a few. Some of the enterprises that could not diversity their products or services resorted to price-reduction. An interesting example are several enterprises that produce and sell food for domestic animals – even though they had to cut the prices of their food products, their revenue was projected to increase in 2020, as they had been providing stable consulting services for farmers, as well milking robots and software. By enterprise size and sector, it is notable that the most affected enterprises (especially microenterprises in highly impacted sectors) found almost all listed strategies to be useful for increasing revenue.

Figure 30. Which are the most important strategies to increase your revenue during and following the COVID-19 crisis? All surveyed enterprises



V. Enterprise perception of Government support measures

Serbia introduced two packages of economic support measures that were, by far, the largest in the region (constituting almost 11 per cent of its GDP in contrast to its peer Western Balkans countries, where this percentage did not exceed 3 per cent of GDP).[13] The economic support measures fell under three main groups (i) tax policy measures, (ii) measures involving direct incentives to the private sector, and (iii) measures to preserve enterprises' liquidity (especially MSMEs). These measures, although undoubtedly extremely helpful, were not tailored to sector-specific needs. Such an approach failed to support the most affected enterprises and the need for a more targeted approach (and of more effective spending of limited fiscal resources) has become obvious. In-depth interviews conducted for the purpose of this survey reflected the same perception.

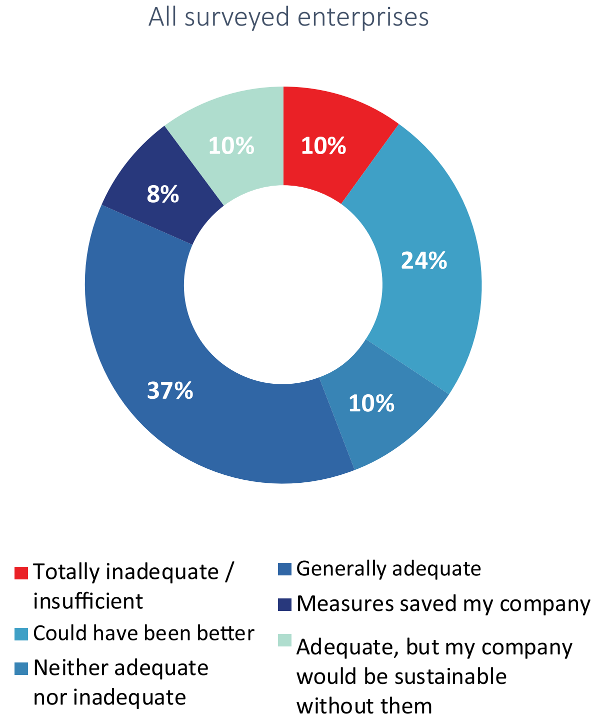
More than half of surveyed enterprises assessed the Government's economic support measures as adequate. Specifically, 37 per cent of enterprises assessed the measures as generally adequate, while 8 per cent claimed that the measures saved their business. Only 10 per cent claimed that measures were not necessary for the sustainability of their enterprises, while another 10 per cent held a neutral position, assessing the measures as neither adequate nor inadequate. At the other end of the spectrum, about 10 per cent of the enterprises were totally disappointed with the measures, while 24 per cent felt that measures could have been better.

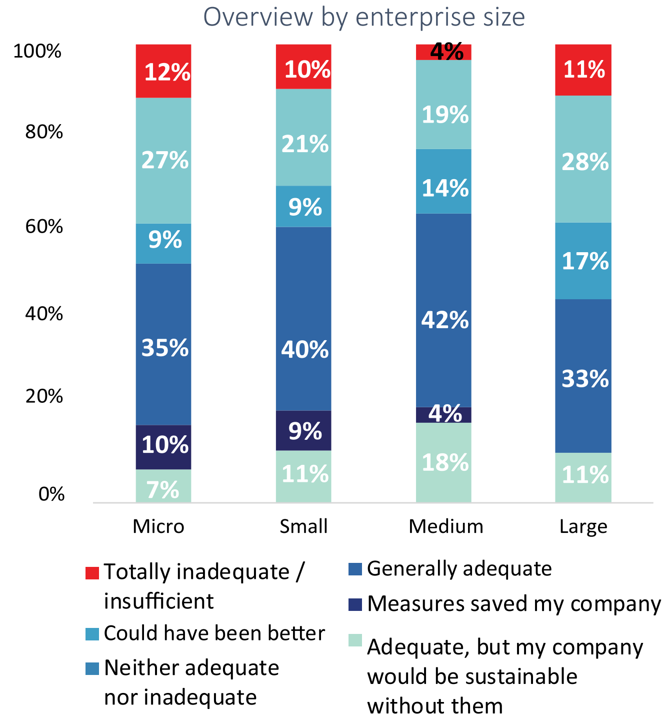
Although the difference in satisfaction level does not differ much across enterprise size, micro and large enterprises were somewhat less satisfied. While microenterprises reported the most significant revenue shortfall (which partly explains their dissatisfaction), large enterprises were not covered by the measures in the same way the MSMEs were. For large enterprises, only moratorium on debt payments and minimum wage support were available.[14] Medium-sized enterprises that were fully covered and least affected on average, seem to be the most satisfied. The support measures saved around 10 per cent of micro and small enterprises.

13 Serbia introduced a third package of economic support measures in February 2021, reflected upon in the policy recommendations section of this report. However, the analysis covers only the first two support packages, introduced by the time of the survey.

14 The measure provided 50 per cent of the net minimum wage per employee on compulsory leave.

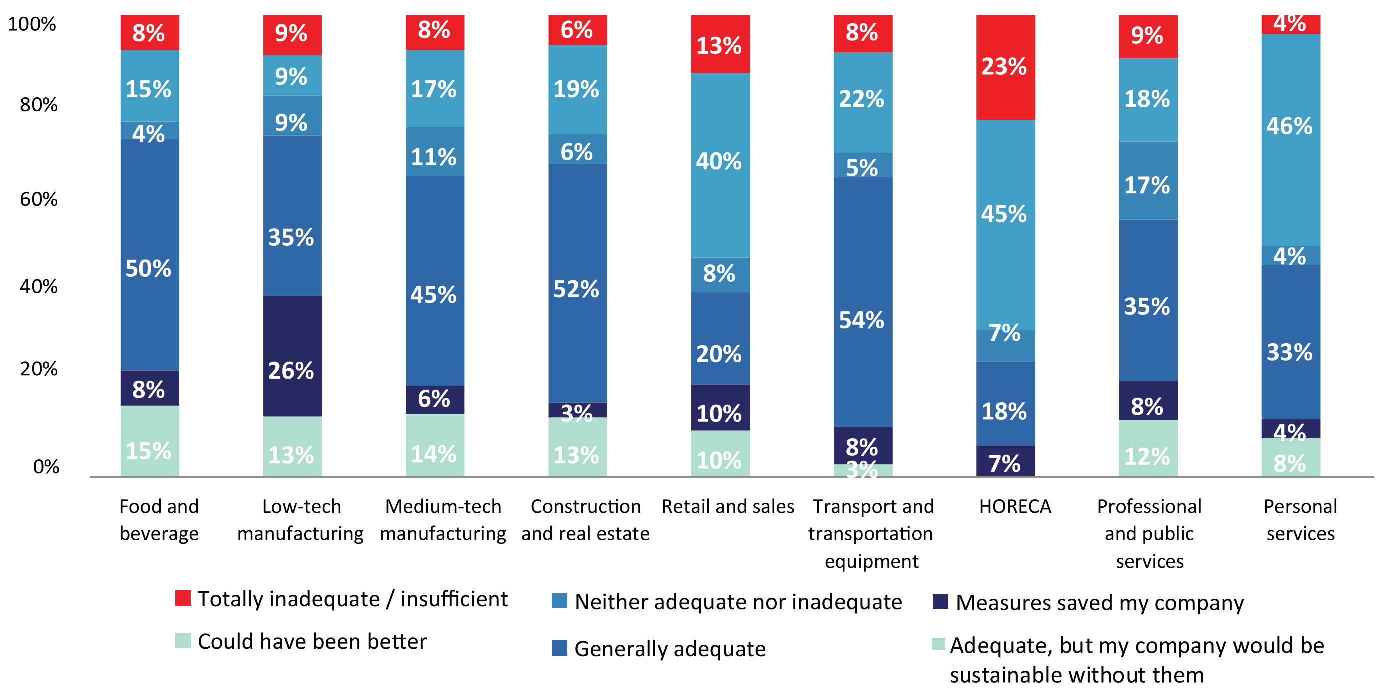
Figure 31. What is your assessment of the Government's economic measures in relation to your company's needs during the crisis?





The Government's economic measures were assessed as totally insufficient/inadequate or not sufficient/adequate enough by HORECA (68 per cent), retail and sales (53 per cent) and personal services (50 per cent). While personal services and HORECA were hit the hardest by the crisis in terms of revenue shortfall (39 per cent and 58 per cent, on average), a rather negative assessment of retail and sales enterprises (which claimed to have lost only 15 per cent of revenue) could be under the influence of shorter working hours and measures, which limited the number of customers in stores. On the other hand, low-tech manufacturing, also significantly hit by the crisis in terms of both revenue and level of operation, generally assessed the adequacy of measures most positively, with some 26 per cent of enterprises claiming that measures saved their business and another 48 per cent perceiving them as adequate.

Figure 32. What is your assessment of the Government's economic measures in relation to your company's needs during the crisis? Overview by sector



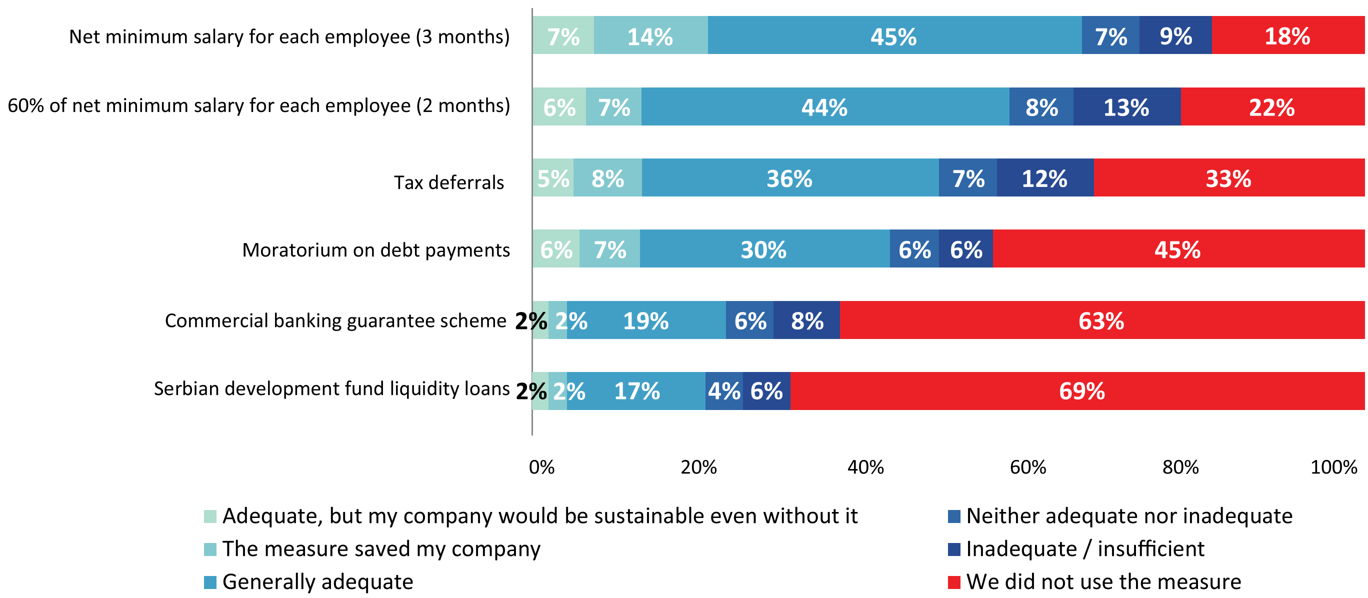
Wage support schemes were the most frequently used and positively assessed measures. Providing a net minimum salary for each employee during the first phase of the crisis (for three months) was considered to be a saving measure by 14 per cent of enterprises, while an additional 45 per cent assessed it as generally adequate.

Similarly, subsidizing 60 per cent of the net minimum salary for each employee (for two months) saved 7 per cent of surveyed enterprises and was assessed as generally adequate measure by 44 per cent of enterprises.

Tax deferrals were positively assessed by 37 per cent of enterprises, while moratorium on debt payments was seen as adequate by 30 per cent of enterprises.

Liquidity loans accessed via the Serbian Development Fund or commercial banks were assessed positively by only 1 in 3 enterprises. The overall perception among enterprises (confirmed during interviews) was that the Serbian Development Fund lacked capacity to respond to enterprise requests. Some enterprises that submitted documentation for a loan had not received any feedback.

Figure 33. How do you evaluate the following Government support measures? All surveyed enterprises



This section provides a detailed analysis of enterprise perception vis-à-vis the support measures by enterprise size and sector.

The provision of *net minimum salary for each employee* (for three months) was implemented to assist MSMEs to preserve employment and it was used by more than 80 per cent of all surveyed MSMEs and most often assessed as generally adequate**.** Moreover, sizeable shares of MSMEs (17 per cent of microenterprises, 12 per cent of small and 9 per cent of medium-sized enterprises) noted that this measure saved their business (Figure 16A).

There were notable differences by sector. On the one hand, low-tech manufacturing enterprises assessed this measure most positively, with 35 per cent of respondents noting that it saved their business and 39 per cent evaluating it as generally adequate. On the other hand, this measure was least applied by enterprises in construction and real estate (39 per cent did not use this measure) (Figure 17A).

The provision of *60 per cent of the net minimum salary for each employee* (for two months) was predominantly used by the MSMEs, which assessed it as generally adequate in about half of the cases (Figure 18A).

Enterprises in low-tech manufacturing and transport and transportation equipment used this measure most frequently. More than one quarter of enterprises in low-tech manufacturing confirmed that the measure saved their business. Notably, although nearly half of HORECA enterprises assessed the measure as adequate, a further one quarter (the highest share across all sectors) considered it as totally inadequate/insufficient (Figure 19A).

Almost 70 per cent of enterprises used *tax deferrals*, irrespective of size. Notably, this measure had a more positive impact on MSMEs. Some of them (less than 10 per cent) assessed the measure as business saving, which was not the case for large enterprises. However, for 15 per cent of microenterprises (the highest share across all surveyed enterprises), this measure was evidently inadequate/insufficient (Figure 20A).

Over 90 per cent of enterprises in low-tech manufacturing used this measure and, importantly, it saved almost one third of them. On the other hand, this measure was least used by enterprises in construction and real estate and professional and public services. Moreover, even though it was most-often assessed as generally adequate among enterprises that used the measure, regardless of the sector, 30 per cent of HORECA enterprises (the highest share across all sectors) found tax deferrals to be inadequate/insufficient (Figure 21A).

Moratorium on debts payments was least useful for microenterprises, with approximately half of them reporting they did not use this measure (the highest share across all enterprises), while one quarter evaluated this measure as generally adequate (the lowest share across all enterprises). Medium-sized enterprises displayed the highest share of respondents (40 per cent) that assessed this measure as adequate, while small enterprises reported the highest number of enterprises (10 per cent) that were saved by this measure (Figure 22A).

Moratorium on debt payments reportedly saved over a quarter of enterprises in low-tech manufacturing (the highest share across all sectors). The measure was assessed as adequate by all sectors (approximately around one third), except HORECA, professional and public services, and personal services, with high shares of enterprises that either did not use the measure or rated it as inadequate/insufficient (Figure 23A).

Loans accessed through commercial banking guarantee scheme was used by slightly more than one third of enterprises, being predominantly used by small (45 per cent), and medium-sized enterprises (42 per cent) (Figure 24A).

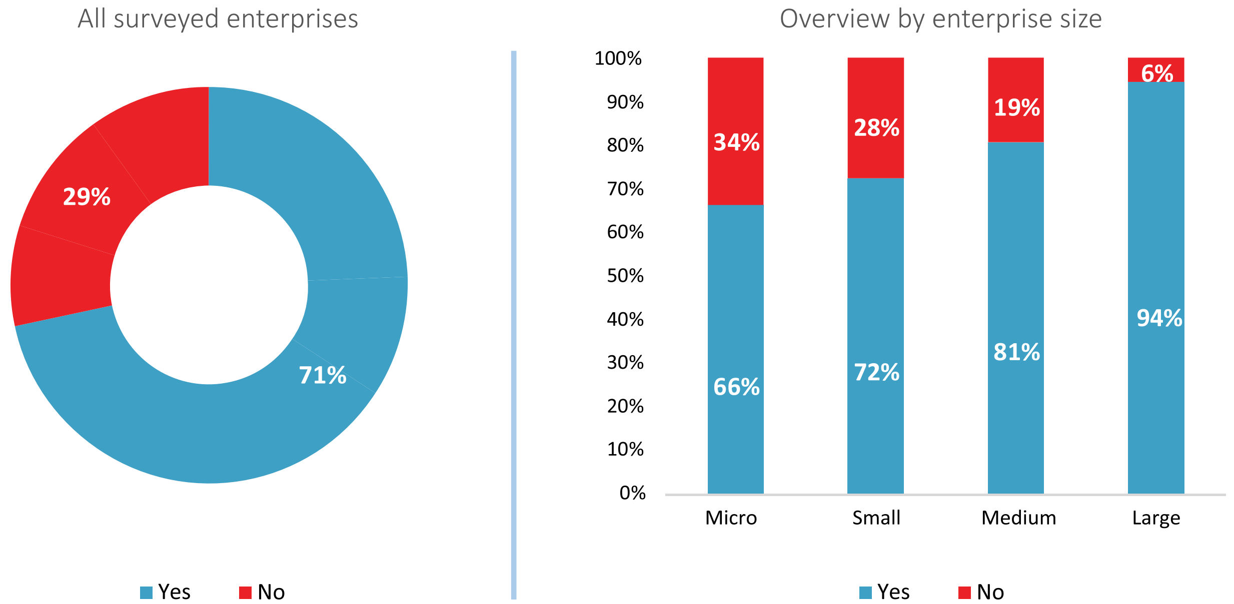
Enterprises in medium-tech manufacturing and HORECA used this measure more frequently (over 40 per cent on average) but also, most frequently, rated it as inadequate/insufficient (15 per cent on average). On the other hand, the largest share of enterprises in construction and real estate, transport and transportation equipment, and again medium-tech manufacturing (slightly below 30 per cent) rated this measure as generally adequate. Approximately 13 per cent of enterprises in the low-tech manufacturing sector noted that commercial banking guarantee scheme saved their business (Figure 25A).

Liquidity loans via the Serbian Development Fund were used by around one third of MSMEs and, to a much lesser extent, by large enterprises. This measure was especially helpful for 31 per cent of medium-sized and 20 per cent of small enterprises (Figure 26A).

Although the largest share of enterprises did not use this measure, around 30 per cent of enterprises in transport and transportation equipment and HORECA (the highest shares across all sectors) assessed it as adequate. This measure was least used by enterprises in professional and public services, as well as in personal services. Enterprises in retail and sales and medium-tech manufacturing mostly rated this measure as inadequate and/or insufficient (Figure 27A).

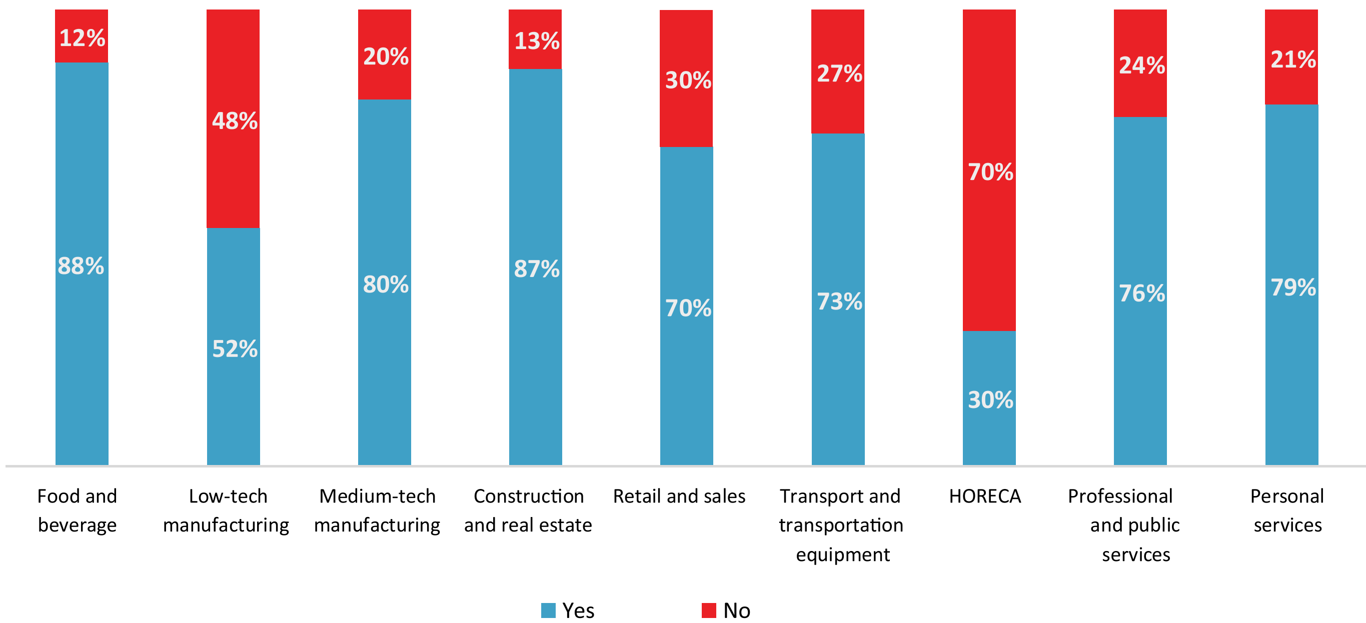
Almost 30 per cent of enterprises need additional economic measures to ensure their sustainability, but the need for such measures decreases with increase in enterprise size. Specifically, slightly more than one third of microenterprises need additional support, while the same was true for only 6 per cent of large enterprises.

Figure 34. Would your enterprise be sustainable without additional economic measures from the government?



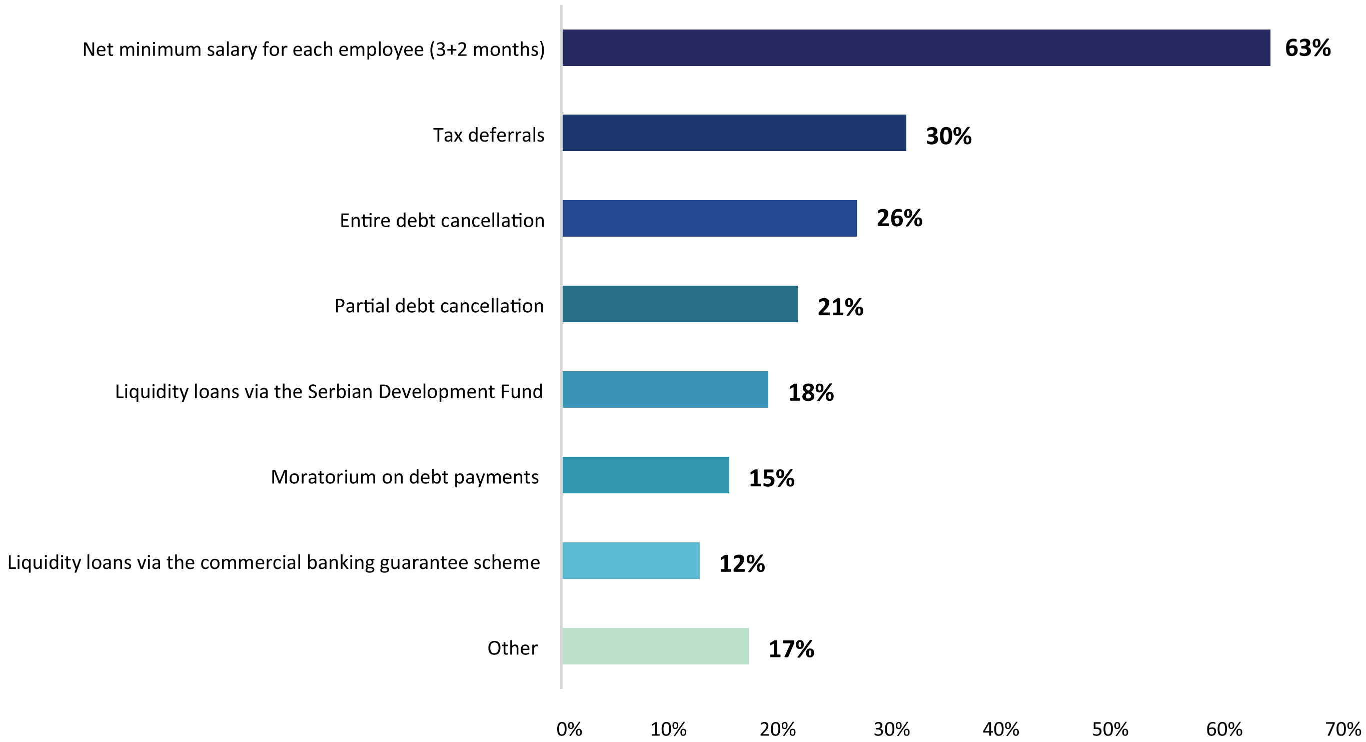
The majority of enterprises in HORECA (70 per cent) and nearly half (48 per cent) in low-tech manufacturing needed additional support measures. Given the current level of operation and revenue shortfall, compounded by a high dose of uncertainty, such a result was expected in HORECA. In the case of low-tech manufacturing, it could be justified by the reported increase in operating costs and decrease in demand (39 per cent and 65 per cent respectively). Furthermore, around 30 per cent of enterprises in retail and sales and transportation and transportation equipment also requested additional aid. Their needs most probably stem from the inconsistent cash flows, as around half of these enterprises reported a decrease in demand and delay in customer payments. The situation is more or less similar in the remaining sectors, with around 1 in 5 enterprises in need of additional measures.

Figure 35. Would your enterprise be sustainable without additional economic measures from the government? Overview by sector



Wage support remained the most sought after type of support as identified by 63 per cent of responding enterprises that need additional support. Additional *tax deferrals* would be beneficial for 30 per cent of enterprises. From the additional interviews with enterprise representatives, as well as results from this survey, it can be concluded that these deferrals, for the most part, refer to deferrals for VAT obligations. Currently, VAT obligations must be paid upon invoicing and not after the goods/services are paid for, which represents a serious constraint given that 43 per cent of enterprises claim that their customers are late with payments. *Entire or partial debt cancellation* are highly unrealistic and, together with *additional moratorium*, serve to measure the pulse of enterprises in difficulty. As these are not alarmingly high (around 5–6 per cent of surveyed enterprises), the overall situation does not indicate major liquidity crisis yet. However, relatively lower interest towards additional financial support in the form of liquidity loans from the Serbian Development Fund or commercial banks might indicate inefficiencies in the implementation of these measures so far and/or might be a consequence of lack of trust on loans from commercial banks.

Figure 36. What kind of additional measures would significantly contribute to the sustainability of your company? All surveyed enterprises



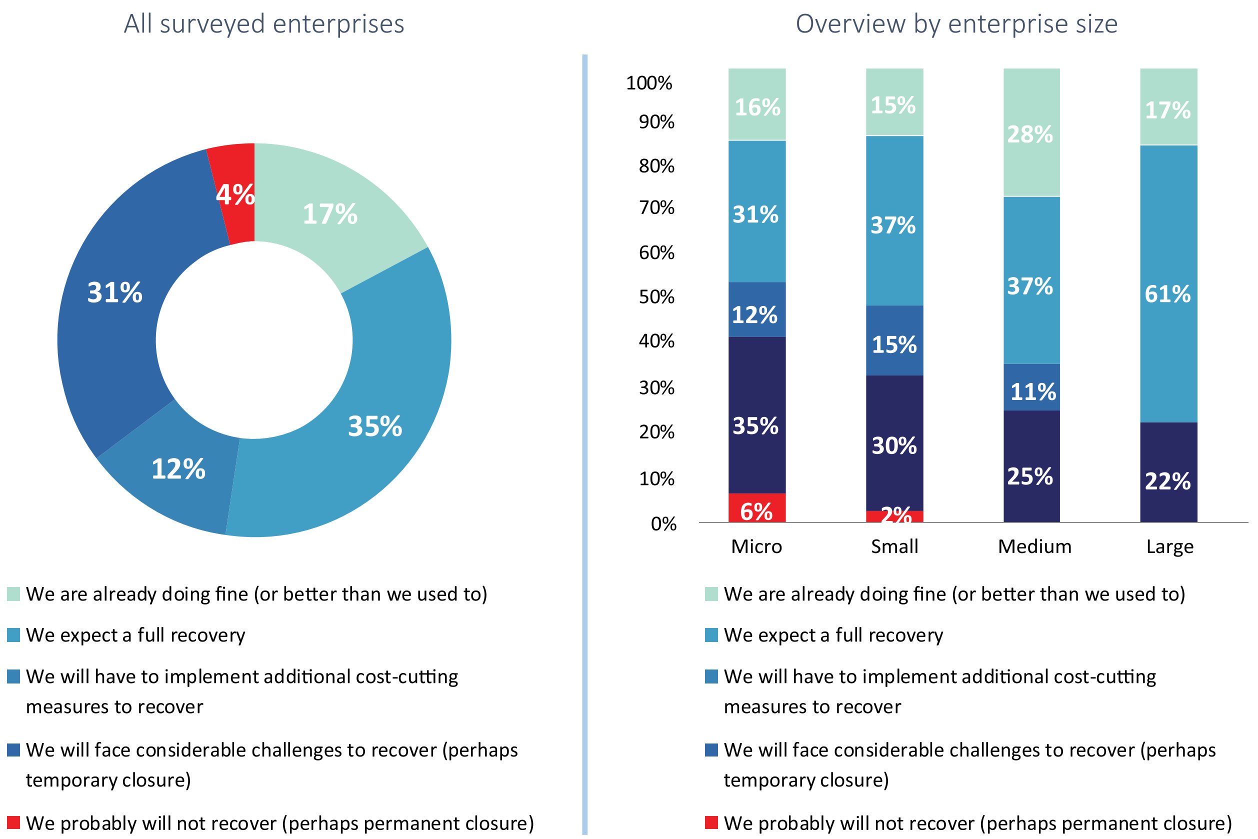
Prioritization of additional measures does not vary significantly across enterprise sizes and sectors with wage support being the most needed type of support.[15] In addition, smaller enterprises, which were most affected by the crisis, were more often inclined towards partial or total debt cancellation. Larger enterprises opted for liquidity loans more often than MSMEs, which is in line with their usual reliance on bank lending.

15 The limited sub-sample size (comprising 30 per cent of all surveyed enterprises) does not allow drawing precise conclusions about each enterprise size and sector, but overall differences appear to be relatively mild.

VI. Prospects for future recovery

More than half of enterprises (52 per cent) have already recovered or anticipated making a full recovery in the near future, while a further 12 per cent will be able to recover, albeit with some additional cost-cutting measures.[16] Alarmingly, almost a third of enterprises (31 per cent) anticipated major challenges towards recovery, while some 4 per cent were considering permanent business closure. Recovery will be more challenging for micro and small enterprises in comparison to medium-sized and large enterprises.

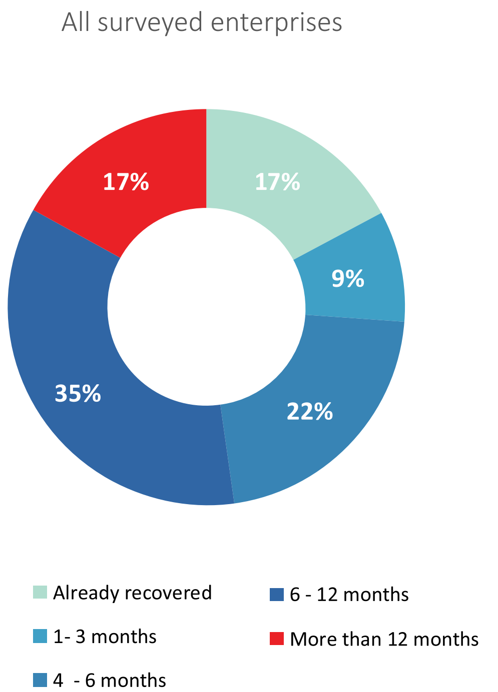
Figure 37. Having in mind the current situation in your company (and sector) what expectations do you have for your company's recovery?

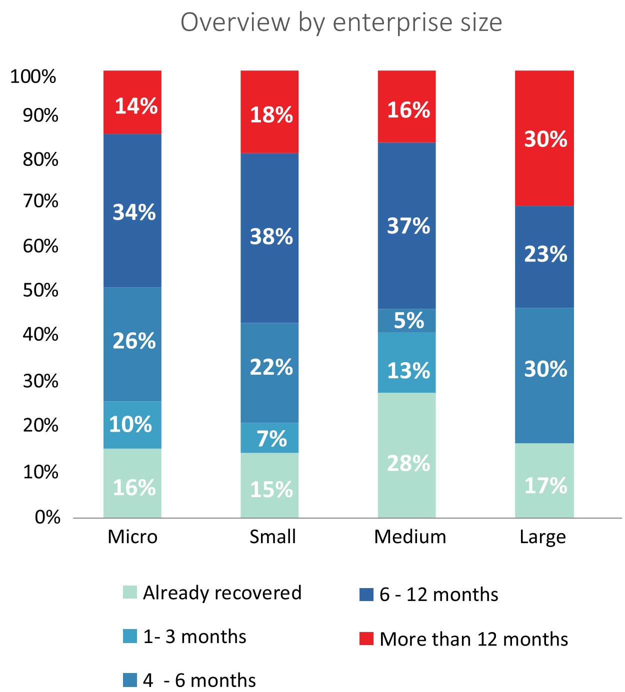


About 35 per cent of enterprises expected the recovery would take between 6 and 12 months, while some 17 per cent anticipated they would need more than 12 months for a full recovery of their operations. Given that the crisis has become a protracted one and shows no signs of abating yet, enterprises were more cautious in the last quarter of 2020 compared to April in assessing the needed time for recovery. Surveys results and interviews show that enterprises were generally very optimistic during the first months of the crisis, which was not the case in the last quarter of 2020. Responses differed by enterprise size, specifically, large enterprises anticipated a longer recovery period despite being less impacted by the crisis and much better equipped than MSMEs, with business continuity plans. It might be that large enterprises tend to interpret the recovery as the time needed not only to ensure company's sustainability, but also to make up for the lost revenue.

16 At the time of this survey, it was assumed that further government restrictions would not be imposed due to COVID-19.

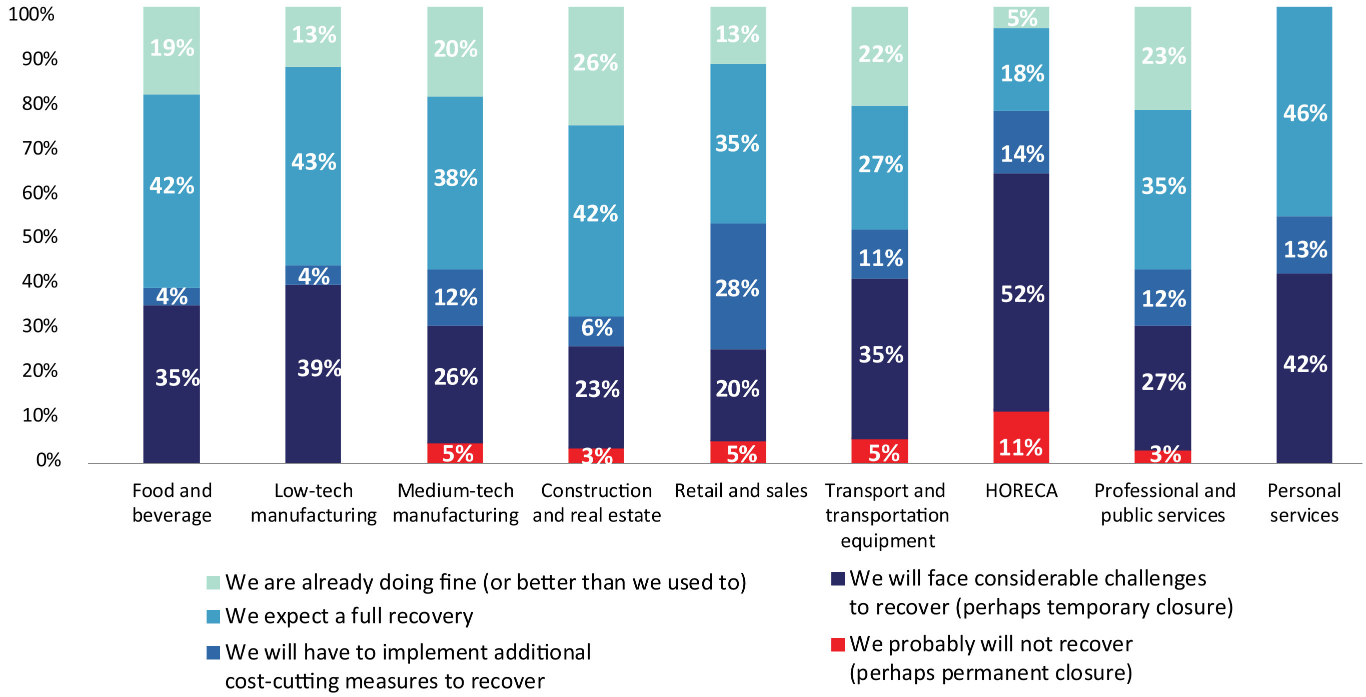
Figure 38. How long do you assess the full recovery will take?





Achieving a full recovery is expected to be most challenging for HORECA. Some 11 per cent of enterprises in this sector do not expect to survive the crisis, while 52 per cent were considering temporary closure and/or expected to face considerable challenges to complete recovery. Transportation enterprises also displayed a somewhat negative outlook, with 5 per cent of enterprises claiming that they would probably not recover from the consequences of the crisis, while 35 per cent would face considerable challenges. Positively, almost 50 per cent of transportation enterprises reported they had already recovered or anticipated a full recovery. Passenger transportation enterprises have been more affected by the crisis, while freight enterprises anticipated they would continue to operate with relatively mild difficulties**.** Enterprises in low-tech manufacturing, personal services and food and beverage, to a lesser but not negligible extent, anticipated considerable challenges in higher proportion than other sectors. On a different note, the majority of enterprises in personal services (79 per cent) and food and beverage (88 per cent) stated that they did not need additional economic measures, while half of enterprises in low-tech manufacturing stated that they needed additional help from the Government.

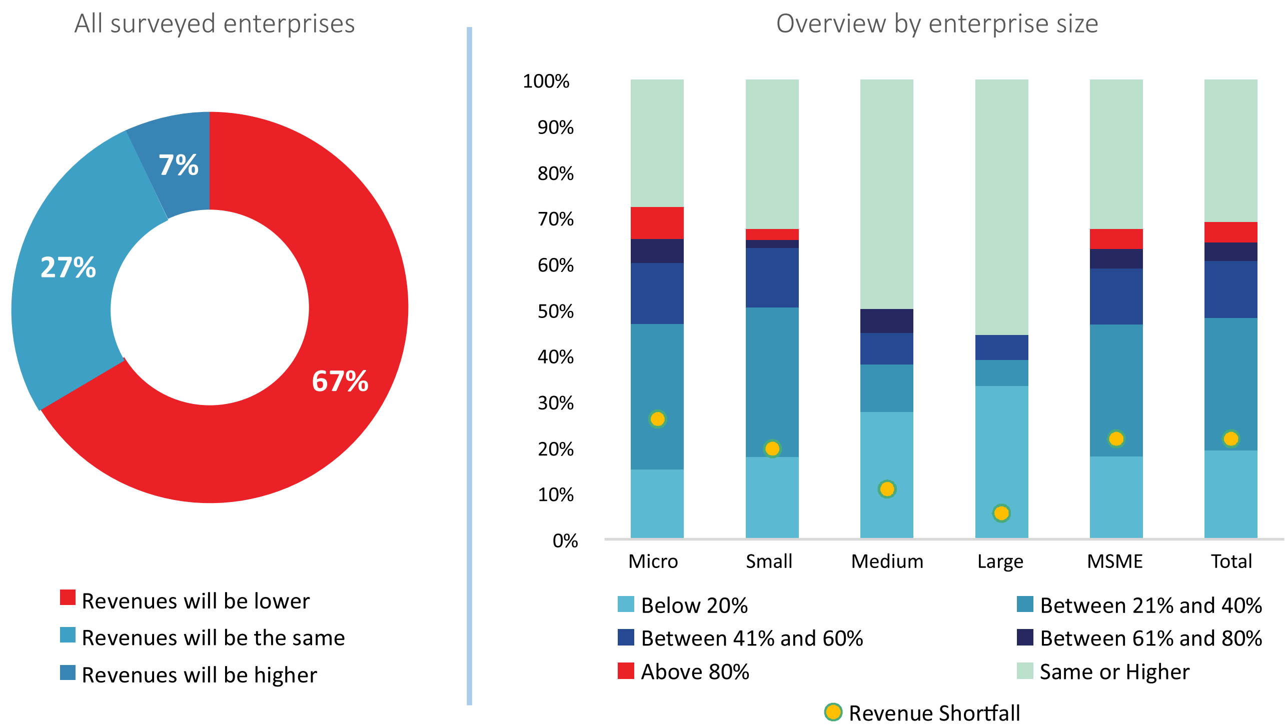
Figure 39. Having in mind the current situation in your company (and sector) what expectations do you have for your company's recovery? Overview by sector



Enterprises in HORECA and personal services need more time to recover. While enterprises in most of the sectors are expected to recover within eight months or less on average, recovery in HORECA and personal services could take ten months or more. It is noteworthy that all sectors have highly affected segments that could be sensitive to future shocks and that might take more than a year to recover (Figure 28A).

Two thirds (66 per cent) of enterprises anticipated their revenue would be lower in 2020 compared to 2019. The remaining one third of enterprises expected their revenue would either stay the same (27 per cent), or increase (7 per cent). Microenterprises will remain the most affected (with 72 per cent of enterprises anticipating lower revenue and an average shortfall of 26 per cent), while the effect on large enterprises will be relatively mild (44 per cent of enterprises anticipate lower revenue and an average 6 per cent shortfall).

Figure 40. How do you project your revenue for the whole of 2020, compared to 2019 (all 12 months)?



ANNEX 1: Sectoral profiles

1. Food and beverage

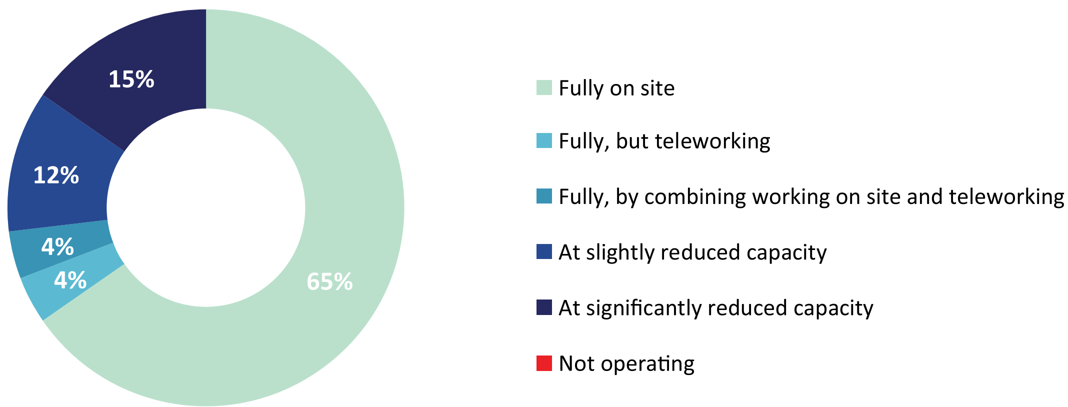
Profile of surveyed enterprises

- A total of 26 food and beverage enterprises answered the survey, accounting for 7 per cent of total responses.

Impact of COVID-19 on business operations

- Of surveyed enterprises, 73 per cent were operating at full capacity, of which 65 per cent were operating fully on site and 27 per cent were operating at a reduced capacity.
- About 42 per cent of enterprises reported having a written business continuity plan, accounting for a relatively high share across all sectors.
- Significantly decreased demand was reported as the main operational challenge (50 per cent), and other notable challenges stemmed from the inability to organize teleworking (31 per cent) and/or employee absenteeism (27 per cent).
- Lower exports were cited by 31 per cent of enterprises as main supply chain challenge.

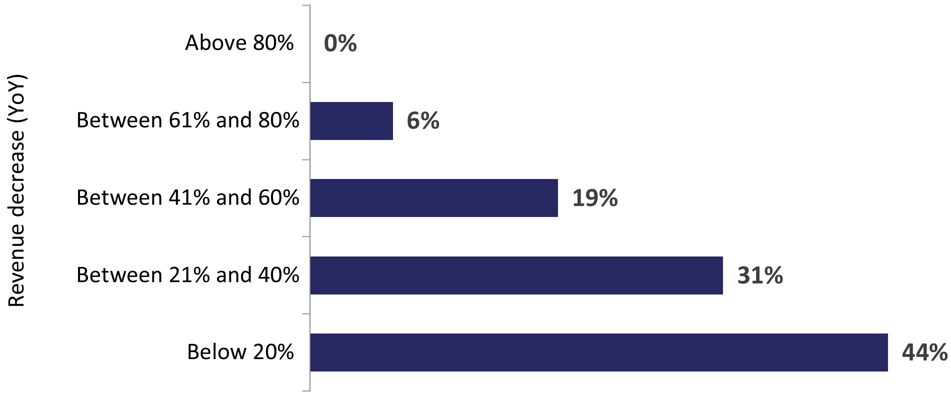
Figure 1. Could you specify the level of operations in your company?



Financial impact of COVID-19 on enterprises

- Of surveyed food and beverage enterprises, 38 per cent reported that their revenue remained unchanged or increased, against 30 per cent on average for all surveyed enterprises.
- Enterprises experiencing revenue losses, reported a significantly milder decrease than other enterprises in the survey: 44 per cent of enterprises in this sector reported a revenue shortfall of less than 20 per cent, against 24 per cent of surveyed enterprises across all sectors.

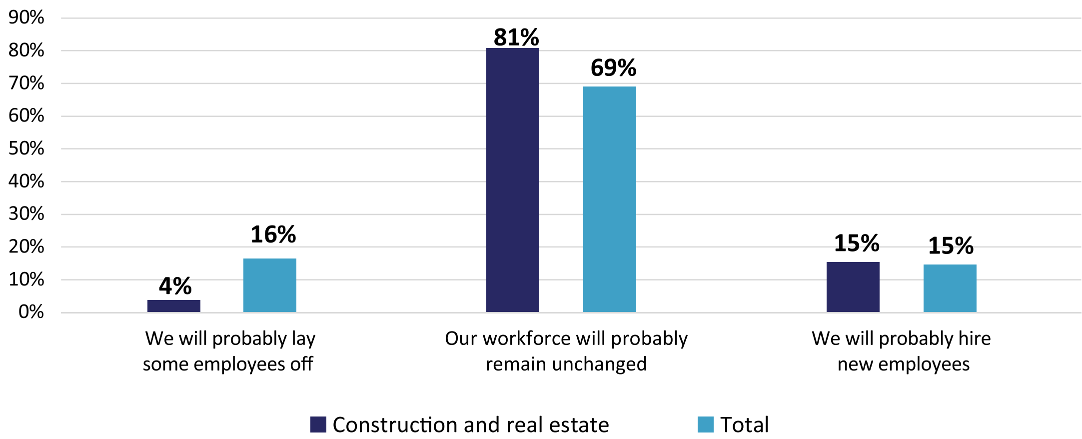
Figure 2. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- Only 4 per cent of enterprises planned to lay off part of their workforce, which is significantly less than the average of all surveyed enterprises (16 per cent).
- Roughly one third of enterprises had not taken any cost-cutting measures regarding their workforce.
- Half of enterprises applied teleworking during the crisis, but only 8 per cent planned to make adjustments to improve their flexible work practices, displaying the lowest results across all sectors.

Figure 3. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- Some 23 per cent of enterprises assessed the economic measures either as totally inadequate or reported that they could have been better.
- All food and beverage enterprises believed that they would recover, with an average recovery time of around six months.

2. Low-tech manufacturing

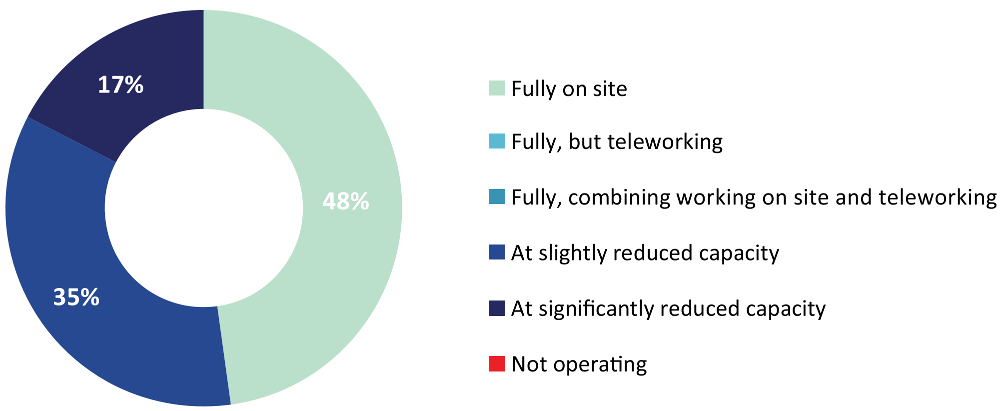
Profile of surveyed enterprises

- A total of 23 enterprises in low-tech manufacturing answered the survey, accounting for 6 per cent of total responses.

Impact of COVID-19 on business operations

- Almost half of enterprises operated fully on site. Another 52 per cent were operating at a reduced capacity, while no company responded that they used teleworking arrangements.
- Around 35 per cent of surveyed enterprises reported they had a business continuity plan – which is slightly above the average level of all sectors (33 per cent).
- Significantly affected demand was reported as the main operational challenge (65 per cent), while equal shares (43 per cent) noted the inability to organize teleworking and/or difficulties in settling obligations to suppliers.
- Some 61 per cent of enterprises cited foreign exports as a key supply chain issue.

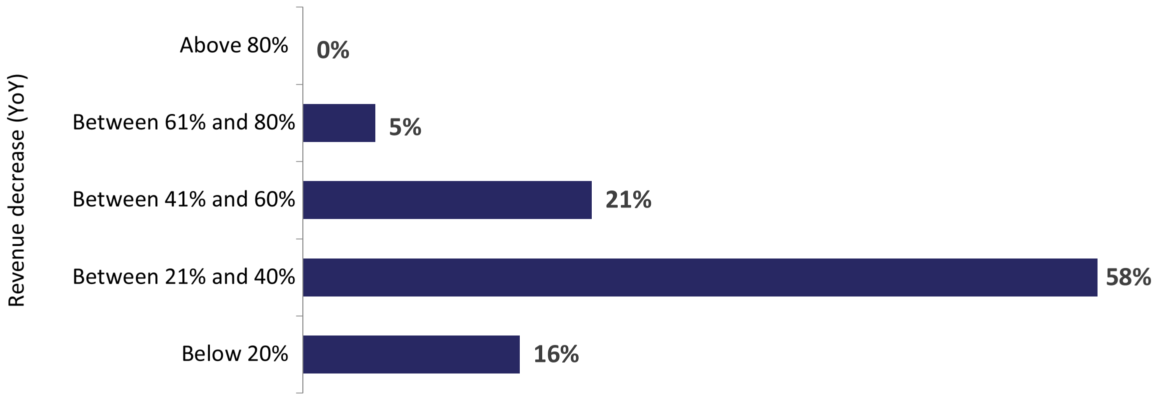
Figure 4. Could you specify the level of operations in your company?



Financial impact of COVID-19 on enterprises

- Low-tech manufacturing fared worst compared to other sectors. Some 83 per cent of surveyed enterprises claimed that their revenue had decreased, against an average of 70 per cent of surveyed enterprises across all sectors.
- However, among enterprises which reported a decrease in revenue, only 4 per cent claimed that their revenue dropped by more than 60 per cent, while as many as 74 per cent of enterprises claimed that their revenue fell by as much as to 40 per cent.

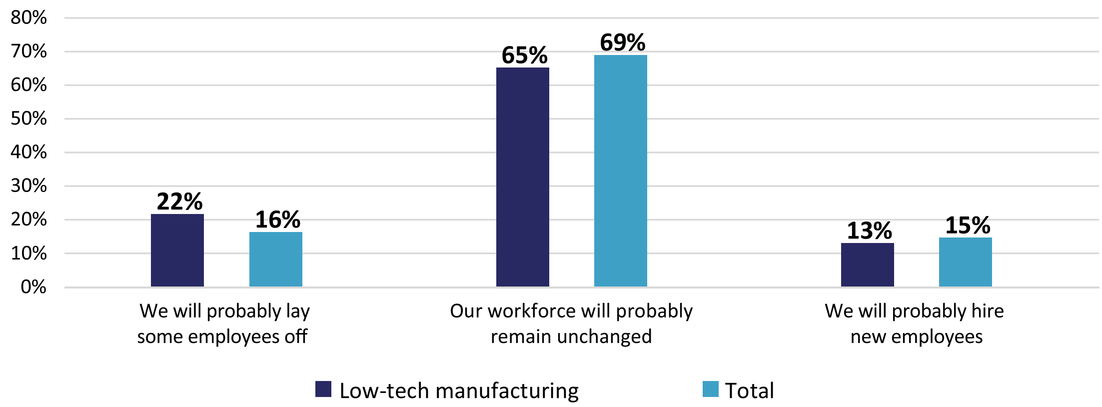
Figure 5. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- Low-tech manufacturing enterprises planned to lay off larger shares of employees compared to other sectors – some 22 per cent of enterprises stated they would need to lay off some employees, against an average of 16 per cent across all sectors.
- Only 13 per cent of enterprises had not taken any cost-cutting measures regarding their workforce.
- Some 26 per cent of enterprises used teleworking during the crisis, and 13 per cent are planning to make some adjustments to improve their flexible work practices.

Figure 6. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- About 18 per cent of enterprises considered the economic measures to be either totally inadequate or reported that they could have been better.
- All enterprises in this sector anticipated that they would recover, with an average recovery time of nearly eight months.

3. Medium-tech manufacturing

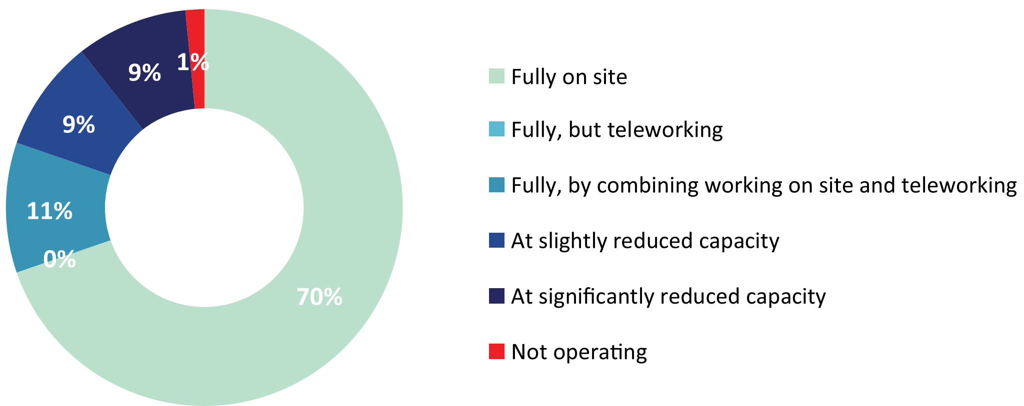
Profile of surveyed enterprises

- A total of 66 medium-tech manufacturing enterprises answered the survey, accounting for 16 per cent of total responses.

Impact of COVID-19 on business operations

- Almost 70 per cent of medium-tech enterprises operated fully on site at the time of the survey.
- Another 11 per cent operated fully, but combined work on site and telework.
- About 20 per cent of enterprises operated at a reduced capacity, of which a small minority (1.5 per cent) completely ceased production.
- Some 49 per cent of surveyed enterprises reported having a business continuity plan – significantly above the average level for all sectors, which was at 33 per cent.

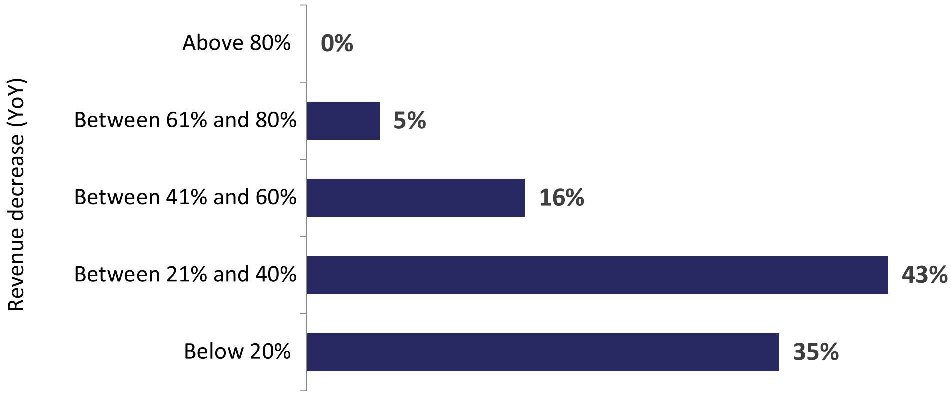
Figure 7. Could you specify the level of operations in your enterprise?



Financial impact of COVID-19 on enterprises

- This sector fared better compared to other sectors. Some 56 per cent of surveyed enterprises from this sector claimed that they experienced a revenue shortfall, against an average of 70 per cent for all sectors.
- Moreover, this decline was relatively milder than the decline in the remainder of the economy. Among enterprises that reported a revenue shortfall, only about 5 per cent experienced a decline of more than 60 per cent, while approximately 80 per cent claimed that their revenue fell by as much as to 40 per cent.

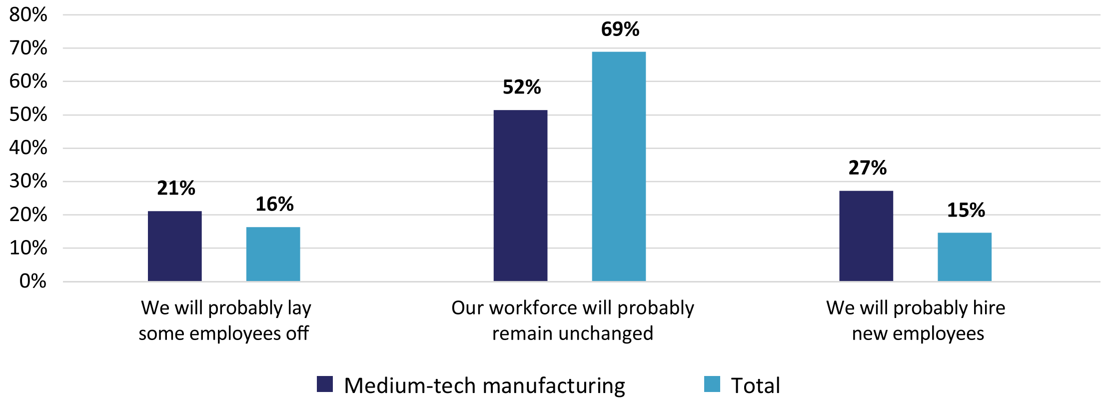
Figure 8. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- Medium-tech enterprises anticipated laying off more employees than other sectors. At the time of this survey, 21 per cent of enterprise reported they such a plan.
- Roughly 20 per cent of enterprises had not taken any cost-cutting measures regarding their workforce.
- Some 59 per cent of enterprises used teleworking during the crisis, with 16 per cent making adjustments to improve their flexible work practices.

Figure 9. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- Some 25 per cent of enterprises considered the economic measures to be either totally inadequate or they were convinced that they could have been better.
- All enterprises in this sector believed that they would recover, with an average recovery time of nearly eight months.

4. Construction and real estate

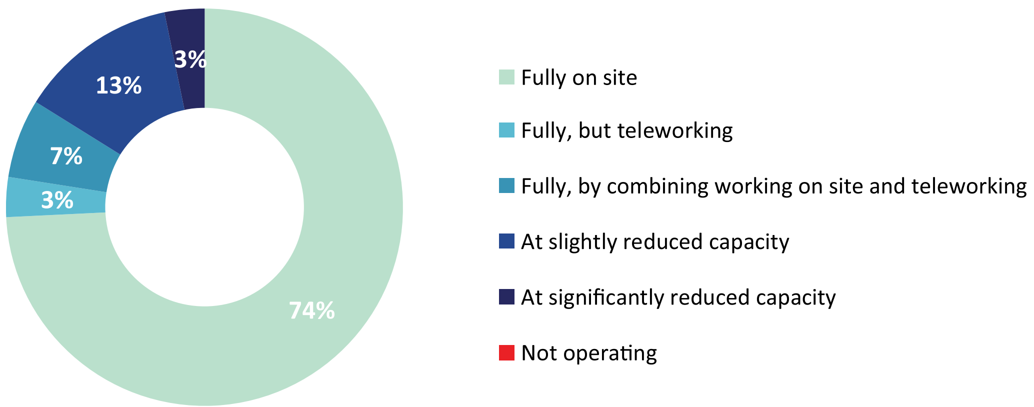
Profile of surveyed enterprises

- A total of 31 construction and real estate enterprises answered the survey, accounting for 8 per cent of total responses.

Impact of COVID-19 on business operations

- Of surveyed enterprises, almost 75 per cent operated fully on site, while another 10 per cent operated fully, through a combination of work on site and telework, likely representing most of the administrative staff.
- Only some 15 per cent of surveyed enterprises reduced operational capacity, of which the large majority reduced capacity only slightly.
- Only 26 per cent of surveyed enterprises reported that they had a written business continuity plan – significantly below the average level for all sectors (33 per cent).

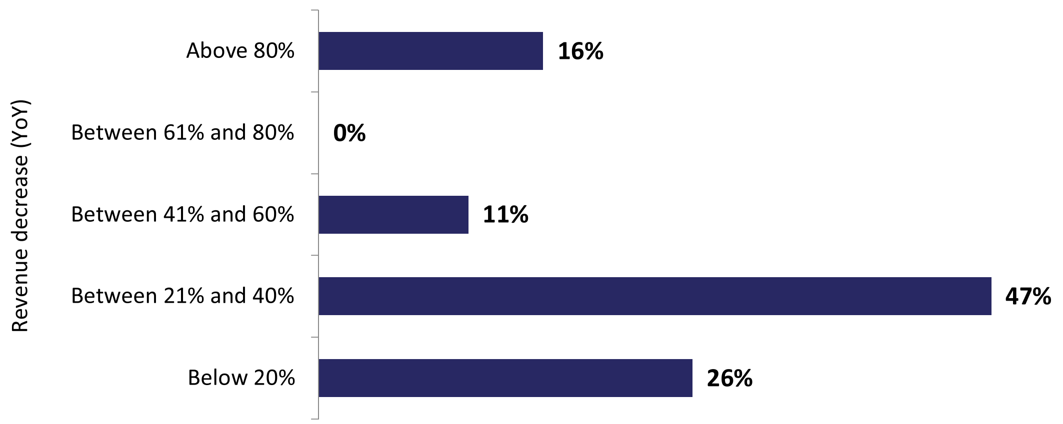
Figure 10. Could you specify the level of operations in your enterprise?



Financial impact of COVID-19 on enterprises

- Some 60 per cent of enterprises reported a revenue shortfall, which is somewhat better than the overall average of 70 per cent across all sectors.
- The average revenue shortfall was also lower than in other sectors. Some three quarters of enterprises in this sector with a revenue shortfall reported to have lost up to 40 per cent of revenue, compared to 64 per cent on average among all surveyed enterprises.

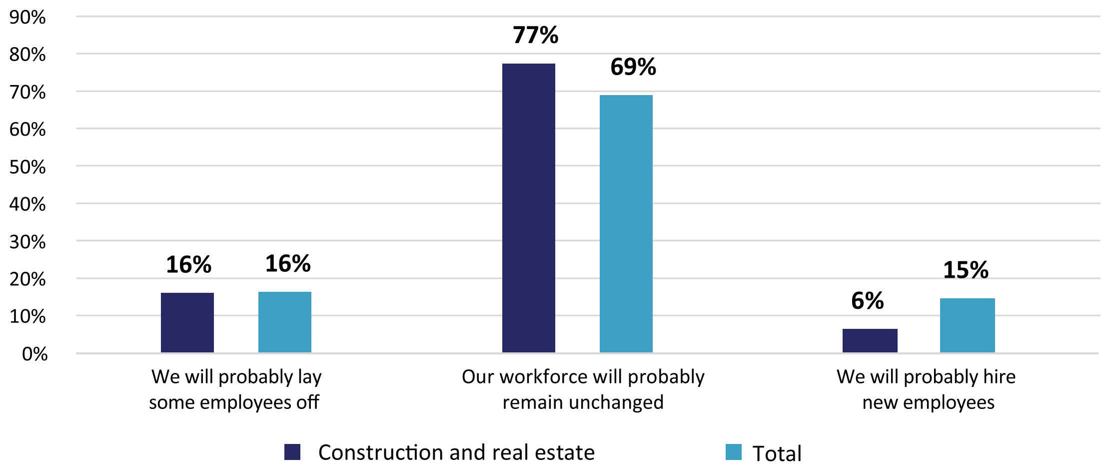
Figure 11. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- Enterprises from this sector are generally more reluctant to lay off workers compared to other sectors – they largely expected that their workforce would remain unchanged in the coming period.
- Roughly 39 per cent of enterprises had not taken any cost-cutting measures regarding their workforce.
- In this sector, 58 per cent of enterprises used some form of teleworking during the crisis, with 19 per cent planning to make adjustments to improve their flexible work practices.

Figure 12. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- Some 25 per cent of enterprises considered the economic measures to be either totally inadequate or reported that they could have been better.
- About 95 per cent of enterprises believed that they would recover, with an average recovery time of nearly seven months.

5. Retail and sales

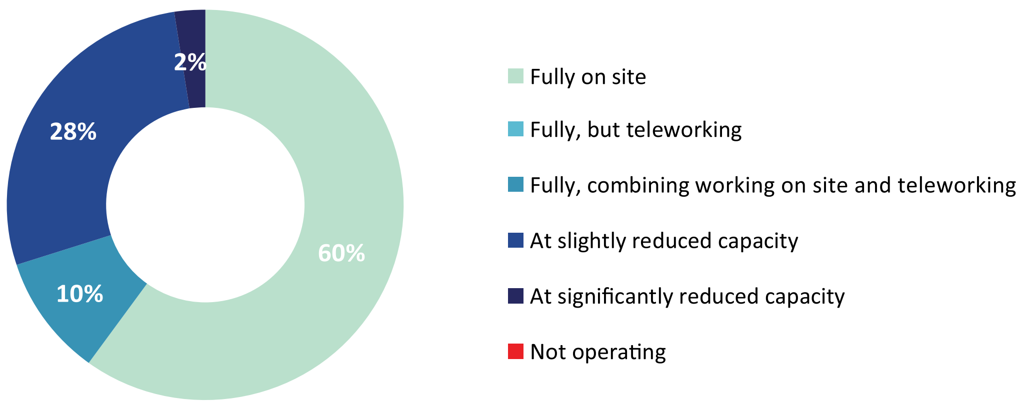
Profile of surveyed enterprises

- A total of 40 retail and sales enterprises answered the survey, accounting for 10 per cent of total responses.

Impact of COVID-19 on enterprise operations

- Some 60 per cent of retail and sales enterprises operated fully on site, while another 10 per cent operated at full capacity by combining work on site and telework, representing most of the administrative staff of enterprises in this sector.
- As many as 30 per cent of surveyed enterprises operated at reduced capacity, of which the vast majority reduced their capacity slightly.
- Only 25 per cent of surveyed enterprises reported having a business continuity plan, which represents the lowest result among sectors and is well below the average of all sectors (33 per cent).

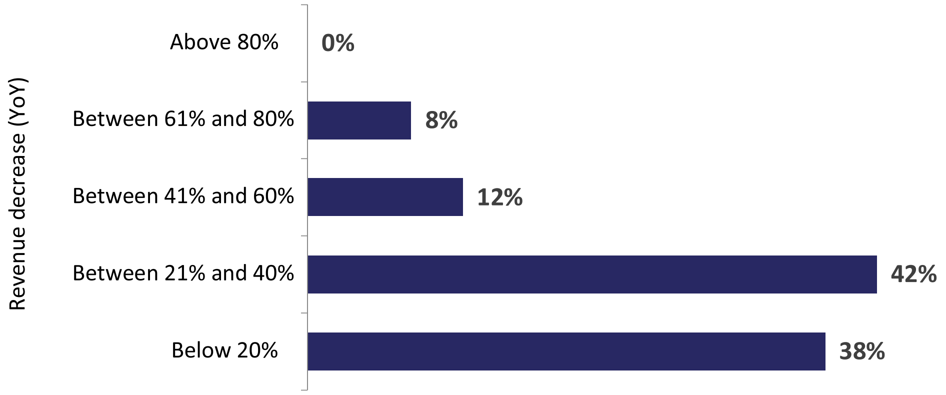
Figure 13. Could you specify the level of operations in your company?



Financial impact of COVID-19 on enterprises

- Some 65 per cent of enterprises in this sector reported a revenue shortfall, which is a better result than the overall average of 70 per cent across all sectors.
- Furthermore, the decline was relatively modest: of enterprises in retail and sales that reported a decline in revenue, as many as 81 per cent reported to have experienced a revenue shortfall below 40 per cent, compared to the average shortfall of 64 per cent across all sectors.

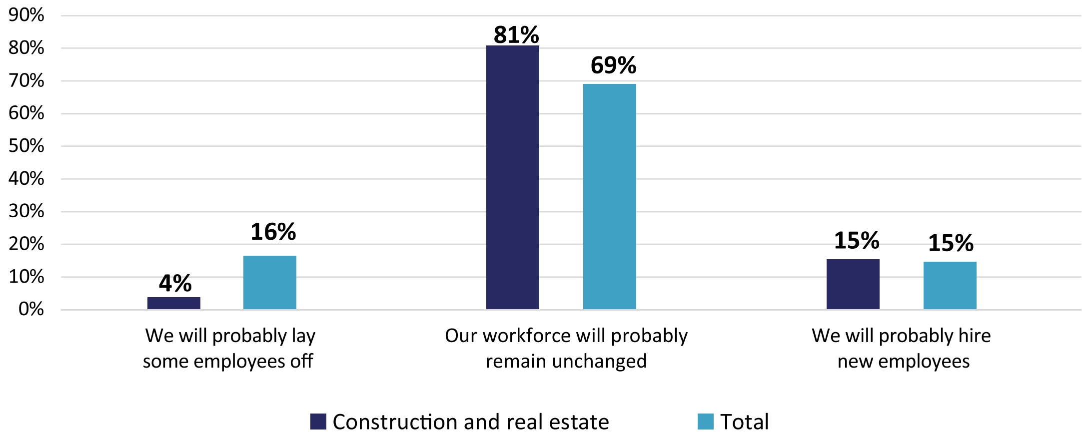
Figure 14. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- Retail and sales enterprises more frequently opt to lay off employees compared to other sectors – while fewer enterprises reported that their workforce would remain the same.
- About 25 per cent of enterprises had not taken any cost-cutting measures regarding their workforce.
- Some 47 per cent of enterprises used teleworking during the crisis, with 11 per cent planning to make some adjustments to improve their flexible work practices.

Figure 15. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- About 53 per cent of enterprises considered the economic measures to be either totally inadequate or said that they could have been better.
- Some 97 per cent of enterprises in this sector believed that they would recover, with an average recovery time of eight months.

6. Transport and transportation equipment

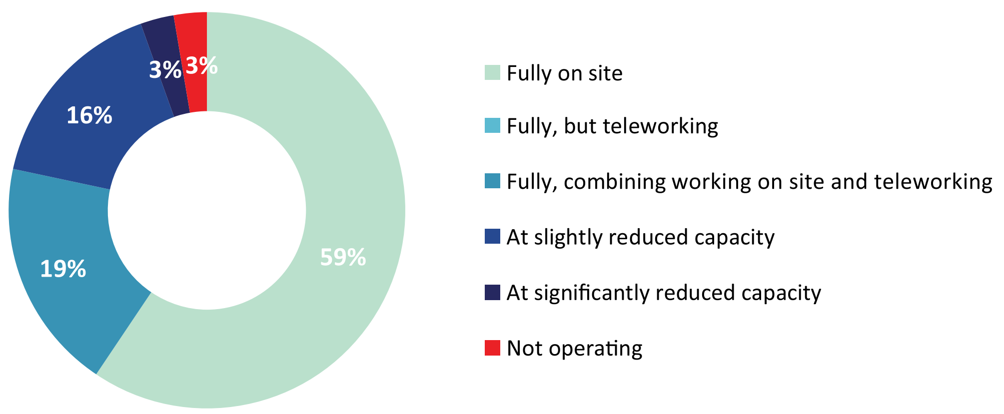
Profile of surveyed enterprises

- A total of 37 transport and transportation equipment enterprises answered the survey, accounting for 9 per cent of total responses.

Impact of COVID-19 on business operations

- About 60 per cent of transport enterprises operated fully on site, while nearly 20 per cent operated at full capacity by combining work on site with telework.
- The remaining approximately 20 per cent of enterprises operated at a reduced capacity, of which the vast majority reduced capacity only slightly.
- Only 27 per cent of surveyed enterprises had a business continuity plan – below the average level for all sectors (33 per cent).

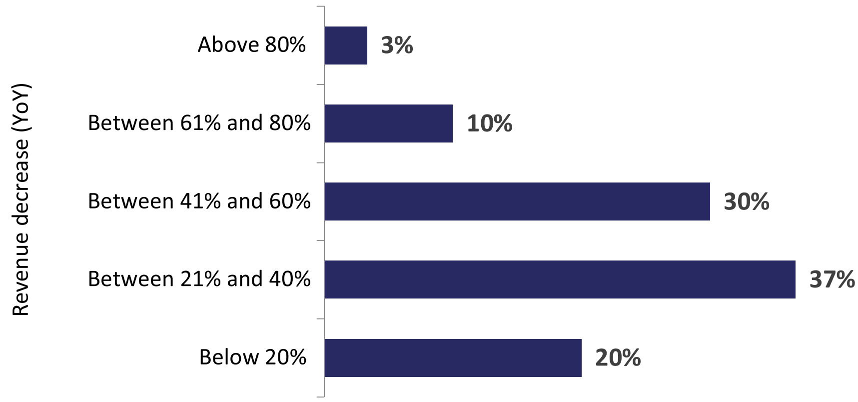
Figure 16. Could you specify the level of operations in your company?



Financial impact of COVID-19 on enterprises

- Slightly more than 80 per cent of enterprises reported a revenue shortfall, which is above the average of 70 per cent across all sectors.
- The decline in this sector was relatively significant: of enterprises that reported a revenue shortfall, 43 per cent claimed to have lost at least 40 per cent of revenue, while such revenue shortfall was reported, on average, by 36 per cent of companies.

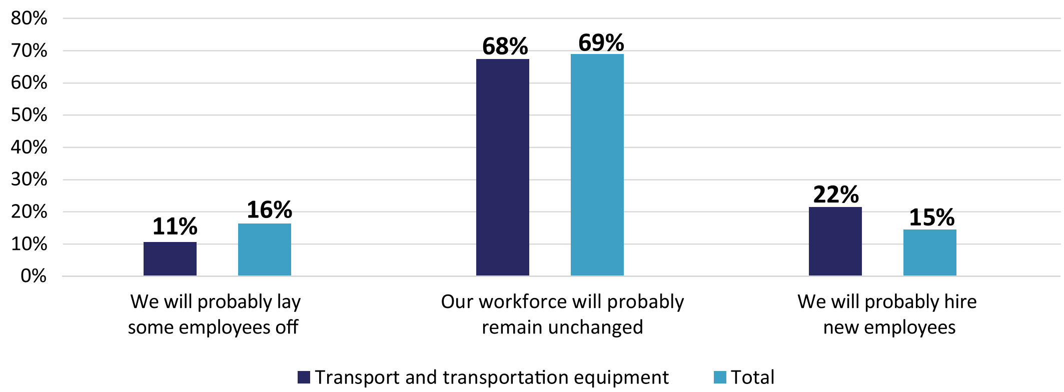
Figure A 17. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- Fewer enterprises in this sector opted to lay off workers compared to other sectors – while more enterprises reported that they planned to hire new employees in the coming period.
- Roughly 19 per cent of enterprises had not taken any cost-cutting measures regarding their workforce.
- About 76 per cent of enterprises used teleworking during the crisis, with 21 per cent planning to make adjustments to improve their flexible work practices.

Figure 18. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- About 30 per cent of enterprises considered the economic measures to be either totally inadequate or reported that they could have been better.
- Some 95 per cent of enterprises in this sector anticipated that they would recover, with an average recovery time of nearly eight months.

7. HORECA

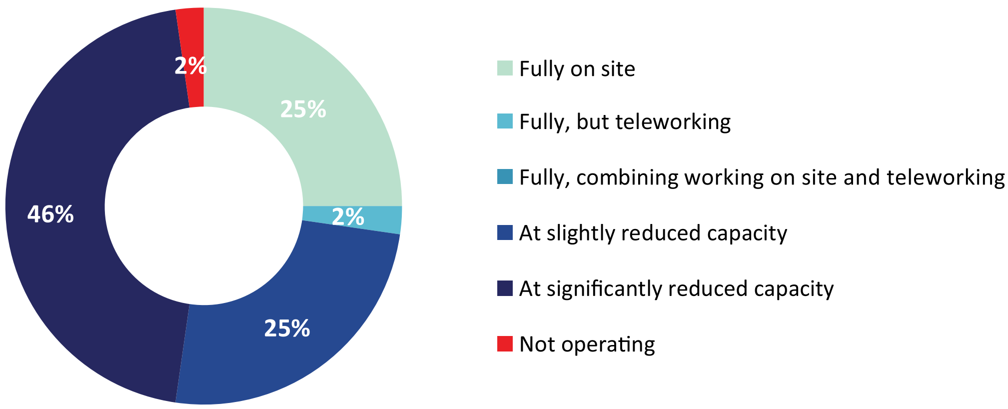
Profile of surveyed enterprises

- A total of 44 HORECA enterprises answered the survey, accounting for 11 per cent of total responses.

Impact of COVID-19 on business operations

- As many as 73 per cent of HORECA enterprises operated at reduced capacity, of which about half operated at significantly reduced capacity or were not in operation at all.
- Only a quarter of enterprises operated fully on site – significantly below the average of 56 per cent across all surveyed enterprises.
- As many as 80 per cent of enterprises reported not having a business continuity plan.

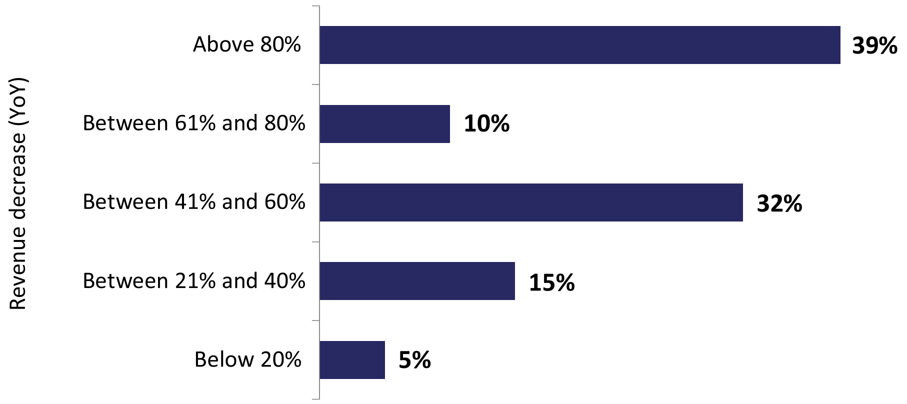
Figure 19. Could you specify the level of operations in your company?



Financial impact of COVID-19 on enterprises

- More than 90 per cent of enterprises reported their revenue had dropped in comparison to the same period of 2019.
- Most HORECA enterprises reported a very significant revenue shortfall – more than 35 per cent of enterprises reported their revenue had dropped by more than 80 per cent.

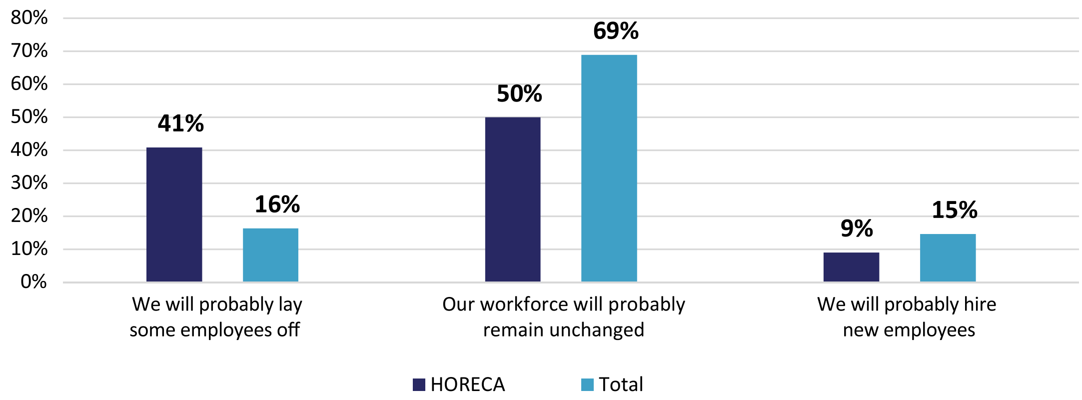
Figure 20. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- More than 40 per cent of HORECA enterprises planned to reduce their workforce in the period to come compared to the average 16 per cent of surveyed enterprises across all sectors.
- Roughly 16 per cent of enterprises had not taken any cost-cutting measures regarding their workforce.
- About 23 per cent of enterprises used teleworking since the outbreak of the crisis, with 9 per cent planning to make their current working practices more flexible.

Figure 21. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- Some 68 per cent of enterprises considered the economic measures to be either totally inadequate or they were convinced that they could have been better.
- About 89 per cent of enterprises in this sector anticipated that they would recover, with an average recovery time of 11 months.

8. Professional and public services

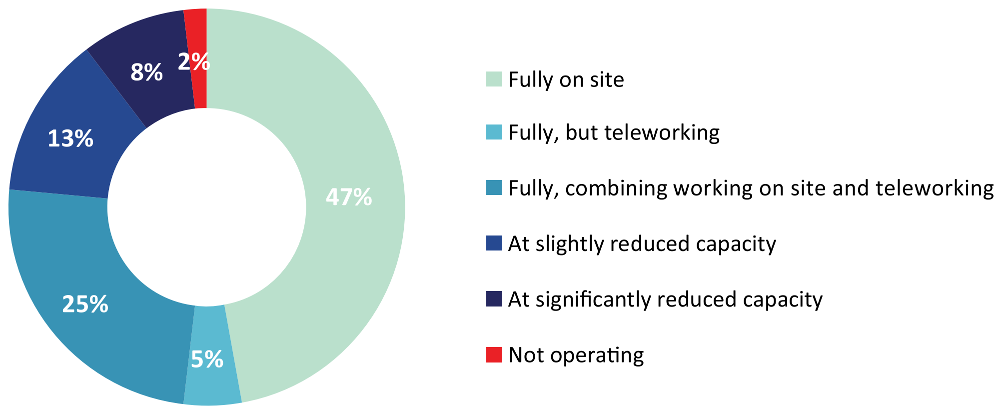
Profile of surveyed enterprises

- A total of 106 enterprises in professional and public services answered the survey, accounting for 26 per cent total of responses.

Impact of COVID-19 on business operations

- Almost 50 per cent of enterprises in professional and public services operated fully on site, while another almost 30 per cent operated fully with work on site and telework.
- The remainder, some 20 per cent of enterprises, operated at a reduced capacity.
- Only 26 per cent of surveyed enterprises reported having a business continuity plan – below the average level for all sectors (33 per cent).

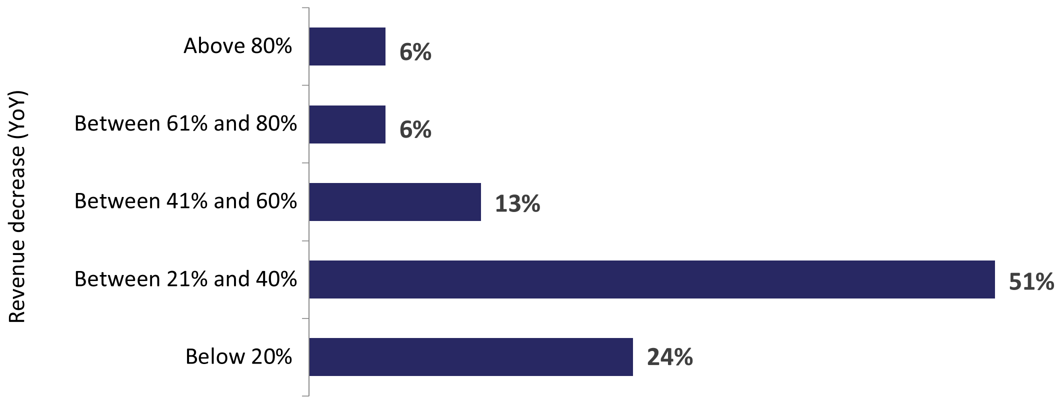
Figure 22. Could you specify the level of operations in your company?



Financial impact of COVID-19 on enterprises

- A little more than 65 per cent of enterprises reported a revenue shortfall – slightly less than the overall average of 70 per cent.
- The revenue decline in this sector was relatively mild: of all enterprises that reported a revenue shortfall, only 25 percent claimed it was larger than 40 per cent.

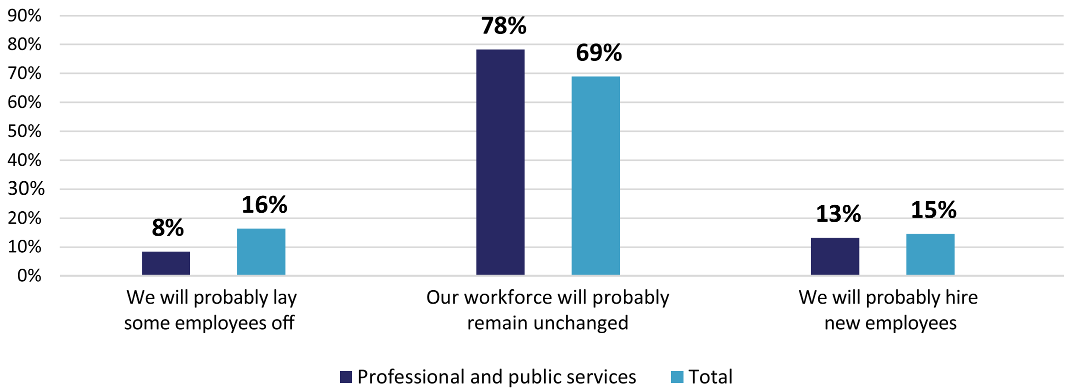
Figure 23. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- Fewer enterprises in this sector opted to lay off employees compared to other sectors – while more enterprises in this sector reported that they plan to change the level of the workforce in the coming period.
- Roughly 28 per cent of enterprises had not taken any cost-cutting measures regarding their workforce.
- About 75 per cent of enterprises used teleworking during the crisis, with 24 per cent planning to make adjustments to improve their flexible work practices.

Figure 24. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- About 27 per cent of enterprises considered the economic measures to be either totally inadequate or reported that they could have been better.
- Some 97 per cent of enterprises in this sector believed that they would recover, with an average recovery time of seven months.

9. Personal services

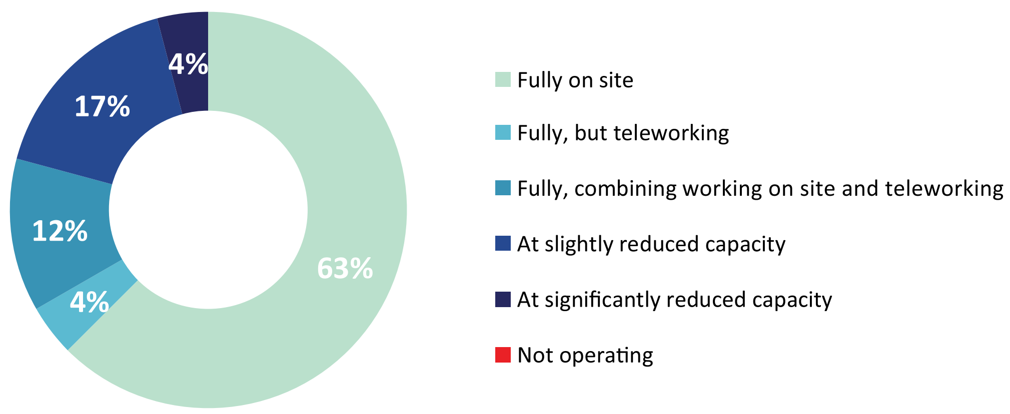
Profile of surveyed enterprises

- A total of 24 enterprises in personal services answered the survey, accounting for 6 per cent of total responses.

Impact of COVID-19 on business operations

- Almost two thirds of enterprises operated fully on site, while approximately 15 per cent operated fully by combining work on site with telework.
- The remainder, at approximately 20 per cent of enterprises, operated at a reduced capacity.
- More than 40 per cent of surveyed enterprises reported that they have a written business continuity plan – which is above the average level for all sectors (33 per cent).

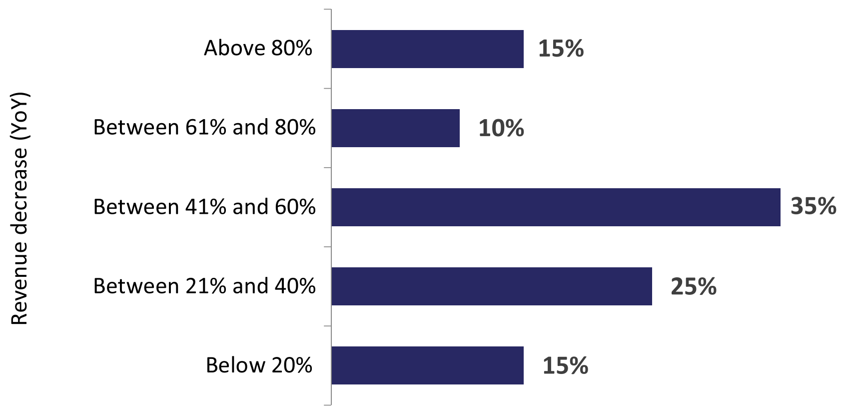
Figure 25. Could you specify the level of operations in your company?



Financial impact of COVID-19 on enterprises

- Over 80 per cent of enterprises reported a revenue shortfall, which is above the average of 70 per cent across all surveyed enterprises.
- The revenue decline in this sector was relatively high: of enterprises that reported a revenue decline, some 60 per cent claim to have lost more than 40 per cent of revenue.

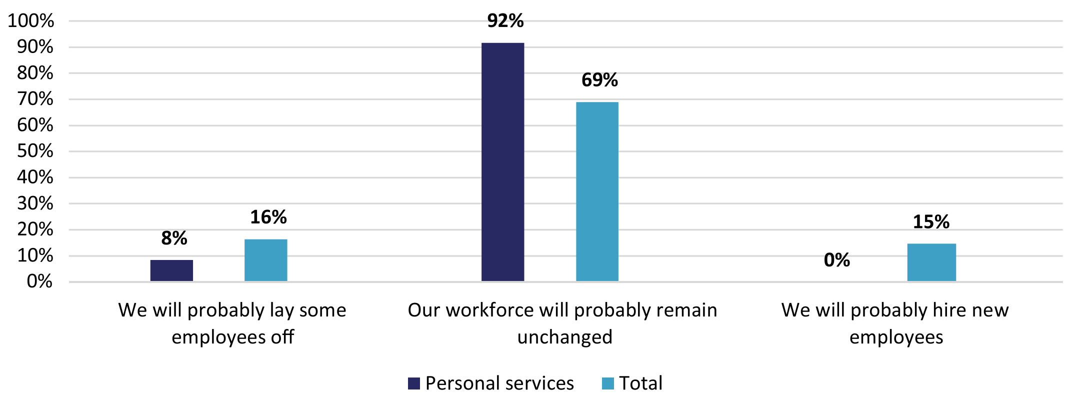
Figure 26. What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?



Impact of COVID-19 on the workforce

- Fewer enterprises in personal services opted to lay off workers compared to other sectors.
- About 13 per cent of enterprises had not taken any cost-cutting measures regarding their workforce.
- Some 62 per cent of enterprises used teleworking during the crisis, with 30 per cent planning to make some adjustments to improve their flexible work practices, the highest out of any sector.

Figure 27. What are your workforce plans for the beginning of 2021 (when the obligation to keep at least 90 per cent of employees will cease to exist)?



Government support measures

- About half of enterprises in this sector considered the economic measures to be either totally inadequate or reported that they could have been better.
- All enterprises from this sector believed that they would recover, with an average recovery time of nearly ten months.

ANNEX 2. Survey demographics and figures

Table 1A. Distribution of surveyed enterprises by location

Location – NSTJ2	No. of enterprises	Share
Vojvodina	136	34%
Belgrade	154	38%
Šumadija and Western Serbia	75	19%
Southern and Eastern Serbia	38	9%
Total	403	100%

Table 2A. Distribution of surveyed enterprises by type of ownership

Ownership type	No. of enterprises	Share
Domestic private company	267	66%
Sole proprietorship (unincorporated)	93	23%
Foreign private company	28	7%
Other	15	4%
Total	403	100%

Table 3A. Distribution of surveyed enterprises by size

Size	No. of enterprises	Share
Micro (1 - 9 employees)	205	51%
Small (10 - 49 employees)	123	31%
Medium (50 - 249 employees)	57	14%
Large (250 employees or more)	18	4%
Total	403	100%

Table 4A. Distribution of surveyed enterprises by export orientation

Export orientation	No. of enterprises	Share
Yes	148	37%
No	255	63%
Total	403	100%

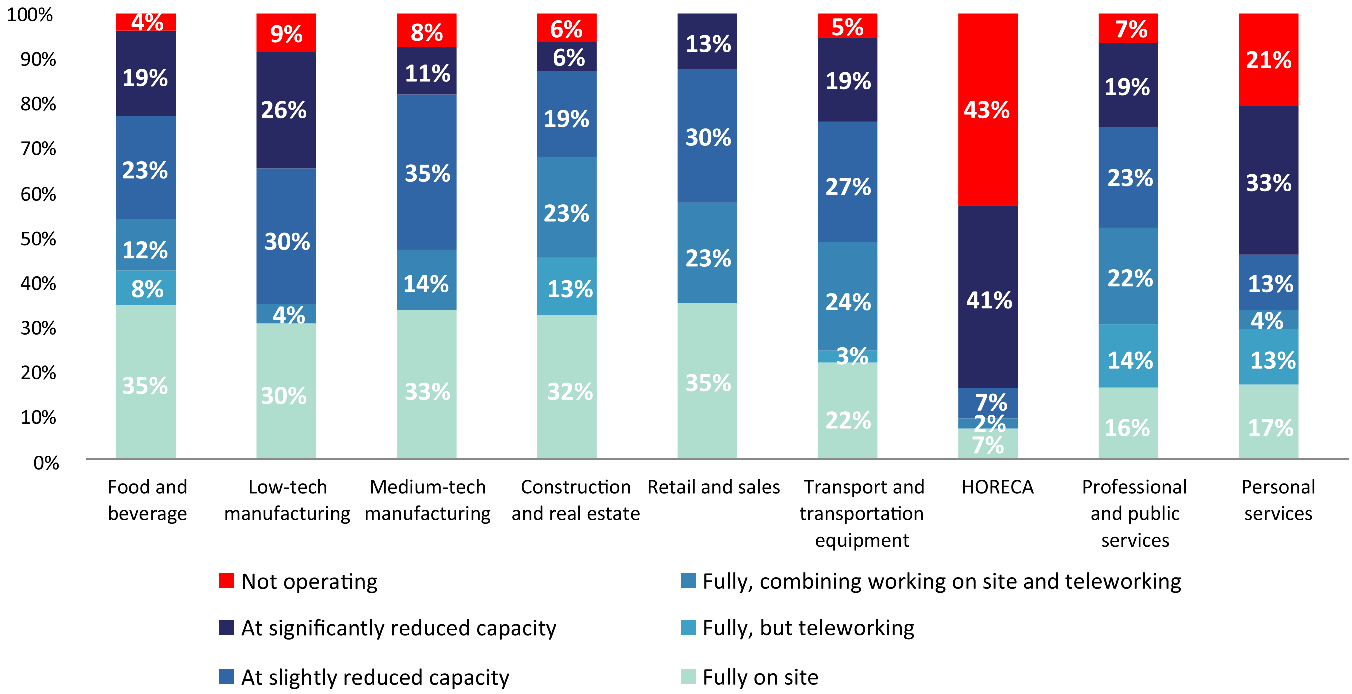
Table 5A. Distribution of surveyed enterprises by sector

Sector	No. of enterprises	Share
Food and beverage	26	7%
Low-tech manufacturing	23	6%
Medium-tech manufacturing	66	16%
Construction and real estate	31	8%
Retail and sales	40	10%
Transport and transportation equipment	37	9%
HORECA	44	11%
Professional and public services	106	26%
Personal services	24	6%
Other	6	1%
Total	403	100%

Note: For the purpose of this analysis some sectors were merged together, based on the similarities of their business activities, working and market conditions. The objective was to have relatively homogeneous and representative sectors, relevant for COVID-19 related analysis:

- **Food and beverage** was created by merging **agriculture** and **food and beverage production**, since they generally share the same agribusiness value chain
- **Low-tech manufacturing** was created by merging **textile** and **wood and furniture**. Such aggregation is used by Eurostat in aggregation of the manufacturing industry according to technological intensity.
- **Medium-tech manufacturing** was created by merging **rubber and plastics, electronics and electrical equipment, metal fabrication, chemicals and other industrial activities**. Such aggregation is also used by Eurostat in aggregation of the manufacturing industry according to technological intensity.
- **Construction and real estate** were created by merging **construction and real estate**, since they share the same value chain.
- **Retail and sales** are in its original form.
- **Transport and transportation equipment** are in its original form.
- **HORECA** was created by merging hotels and tourism and restaurants.
- **Professional and public services** comprise a set of business enhancing and smart services- f**inancial, insurance, consulting and other professional activities, IT and communications**, **and other services**
- **Personal services** are comprised of **education, healthcare and other personal services (beauty salons, recreation, entertainment, repairs)**. In general, healthcare and education are social (government) services, but in this sample, they belong to private sector and are language centres and similar (in case of education) and doctor's practices, dentist's offices and similar (in case of healthcare). Together with hairdressers and beauty salons, they comprise a sector of services that mostly depend on personal contact, which made them almost equally vulnerable to COVID-19.
- Sector "**Other**" comprise of **Oil and gas and mining**. While merging these two sectors could be sensible in terms of the similarities, sample size (six enterprises) is insufficient for reliable conclusions.

Figure 6A. Could you specify the level of operations in your enterprise during the lockdown period? Overview by sector



Note: **HORECA and personal services were the most affected by the state of emergency.** HORECA was the most severely hit by the lockdown measures (from March 21 to May 4), with the highest share of enterprises not operating at all (43 per cent) or operating at significantly reduced capacity (41 per cent). Restaurants and coffee shops switched to delivery, while hotels fared worse than the rest. Personal services were also severely hit, with 21 per cent of enterprises not in operation and 33 per cent functioning at significantly reduced capacity. Hairdressers and beauty salons were forbidden to operate and hence hit the hardest, while the language centres had to switch to online courses and telework.

Construction and real estate fared the best, while low-tech manufacturing was affected considerably more. Enterprises in construction and real estate were least affected by COVID-19 outbreak and the lockdown. The main obstacle for construction at the beginning of the lockdown was shorter working hours, which was relatively quickly sorted out by issuing permits for employee movement outside of curfew hours. Moreover, the pandemic did not affect ongoing projects, although it certainly brought some uncertainty about the future ones. Almost 90 per cent of enterprises functioned at full or slightly reduced capacity.

One of the most essential sectors, food and beverage, as well as high-tech manufacturing operated above the average level (close to eight out of ten enterprises operated at full or slightly reduced capacity). Food and beverage enterprises that operated at reduced capacity were the ones generally supplying the hospitality sector, affected by a severe drop in demand. Low-tech manufacturing were faced with two main challenges – labour intensive production and demand shortfall. Namely, low-tech manufacturing (textiles especially) requires a lot of manual labour in crowded production halls. Also, closures of the shopping centres caused sudden drop in demand for textiles and similar products. A third of enterprises in low-tech manufacturing did not operate at all or operated at significantly reduced capacity.

Retail and sales generally operated at a high level. Approximately 6 out of 10 enterprises reported operating at full capacity, either fully on site (35 per cent) or by combining work on site and telework (23 per cent). None of the enterprises in this sector could adapt their businesses to operating only by teleworking.

Remote work helped professional and public services to maintain a slightly above-average level of operation. In transport and transportation equipment, enterprises that engaged in predominantly domestic freight fared better than those engaged in cross-border freight or transportation of passengers.

Figure 7A. What share of employees teleworked/is teleworking (at least once per week)? Overview by sectors

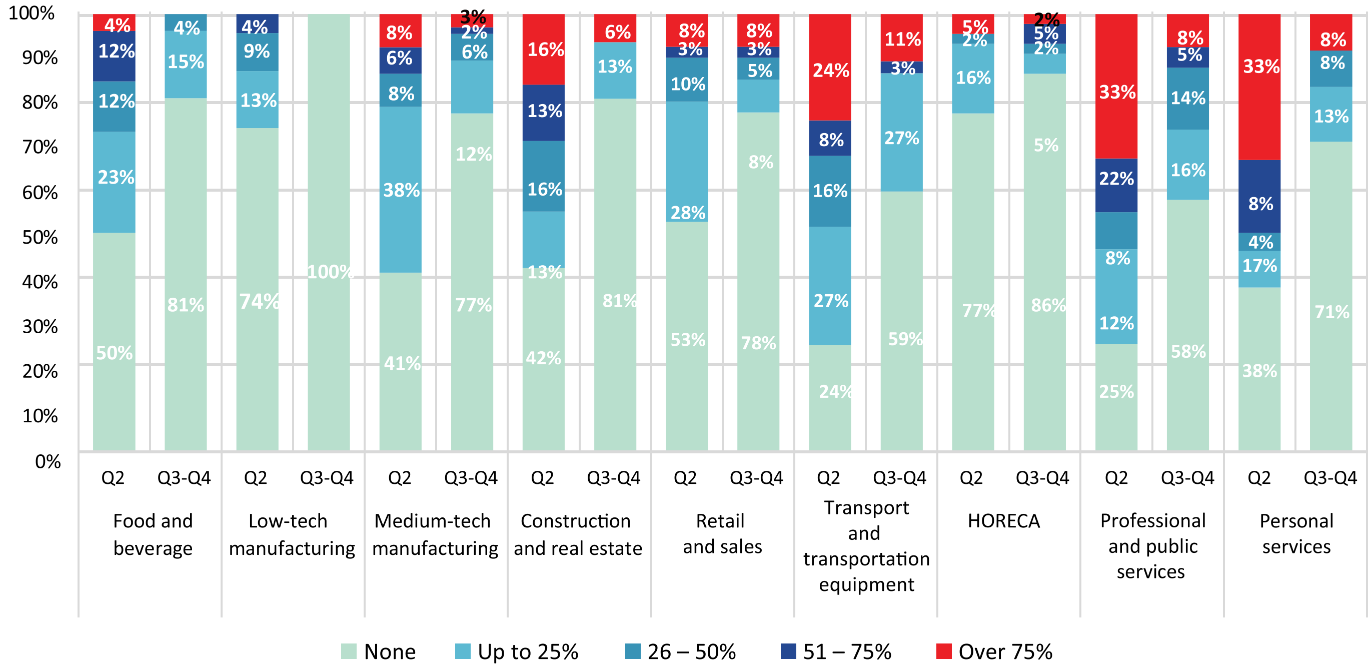


Figure 8A. How did productivity change while your employees were teleworking? Overview by sector

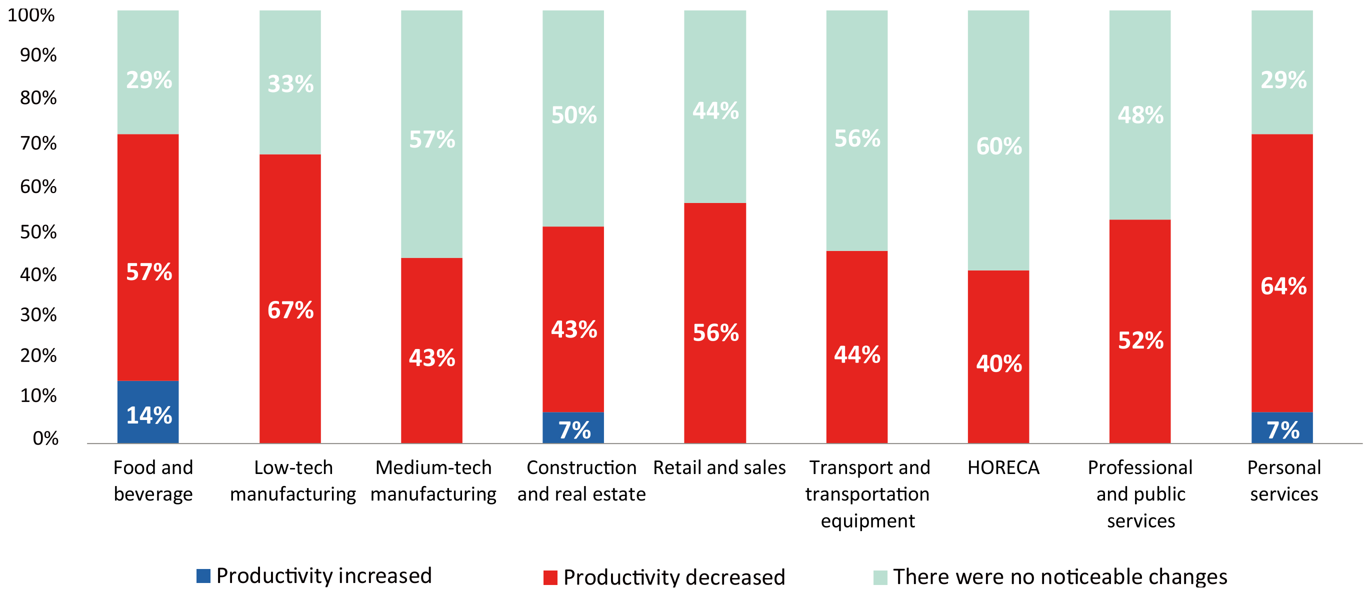


Table 9A. What type of support does your company require to more effectively have the staff to undertake telework arrangements? Overview by sector

	Better internet service	Guidance on how to support employees' well-being	More information about digital tools for remote work	Guidance on employers' responsibilities / liabilities,	Other
Food and beverage	42%	15%	23%	31%	19%
Low-tech manufacturing	22%	35%	17%	35%	39%
Medium-tech manufacturing	27%	26%	38%	29%	20%
Construction and real estate	39%	48%	35%	16%	23%
Retail and sales	40%	33%	23%	23%	23%
Transport and transportation equipment	38%	49%	35%	22%	11%
HORECA	20%	18%	9%	14%	52%
Professional and public services	38%	31%	28%	28%	23%
Personal services	21%	46%	29%	21%	21%
Other	17%	33%	33%	50%	17%

Note: The colour scale represents the percentage of enterprises by sector that required different types of support for more effective telework arrangements for staff. Blue indicates more enterprises in a given sector were interested in a type of support, while red indicates fewer enterprises in a given sector were interested.

Figure 10A. Did your enterprise have a written business continuity plan prior to COVID-19? Overview by sector

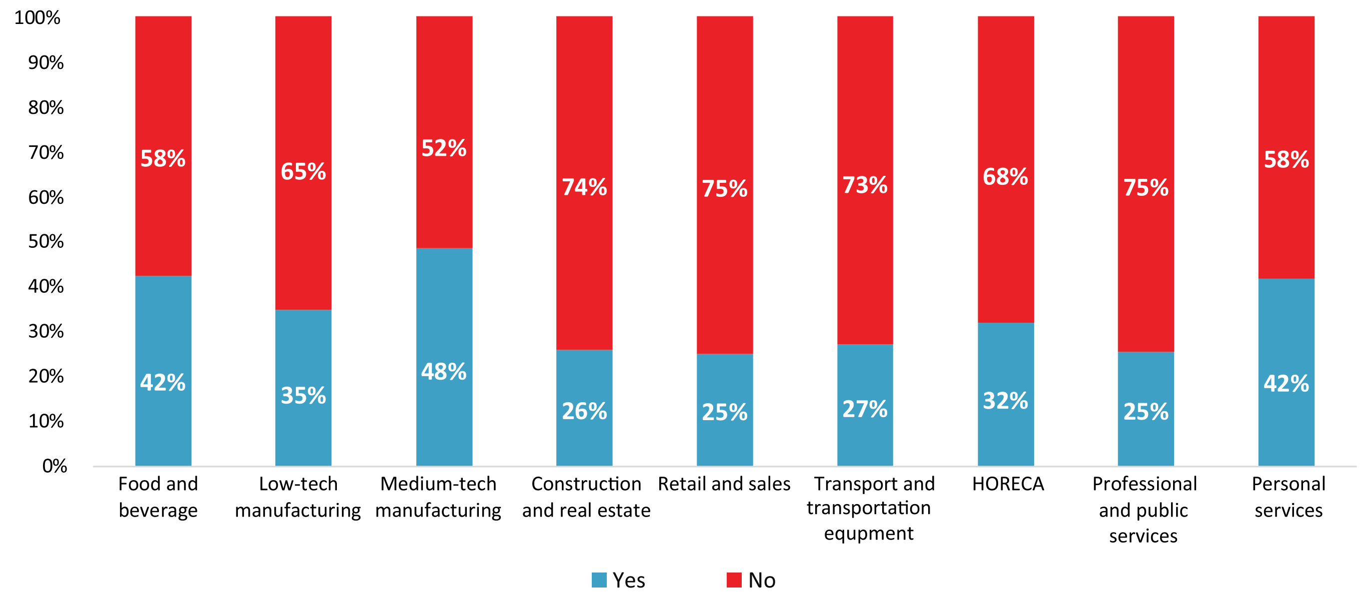


Figure 11A. Did your enterprise develop a written business continuity plan following the COVID-19 outbreak? Overview by sector

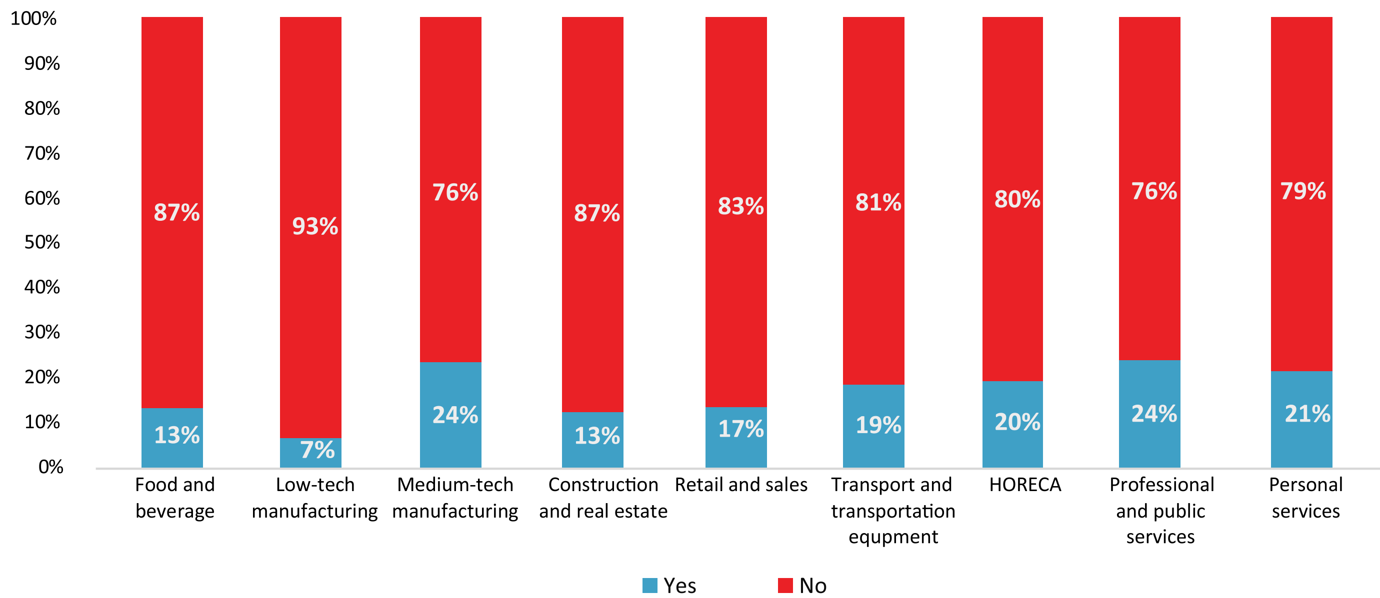


Table 12A. What are the main operational challenges, resulting from the COVID-19 crisis, faced by your enterprise? Overview by sector

	Demand for our products /services is seriously affected	Our customers are late with payments	Our operating costs increased significantly	Inability to organize teleworking	We have difficulties in settling obligations to our suppliers	Inability to implement physical distancing	Employees are absent from work due to illness or government orders	We did not face any of these challenges	Inability to procure protective equipment
Food and beverage	50%	19%	23%	31%	19%	15%	27%	15%	0%
Low-tech manufacturing	65%	35%	39%	43%	43%	13%	35%	0%	0%
Medium-tech manufacturing	39%	38%	39%	36%	30%	12%	23%	9%	3%
Construction and real estate	29%	58%	29%	23%	35%	32%	13%	16%	3%
Retail and sales	40%	55%	35%	23%	38%	13%	13%	15%	5%
Transport and transportation equipment	54%	62%	22%	14%	35%	8%	8%	8%	3%
HORECA	75%	18%	36%	43%	30%	32%	2%	2%	0%
Professional and public services	37%	50%	23%	21%	16%	18%	14%	20%	1%
Personal services	63%	50%	21%	38%	25%	17%	13%	4%	0%
Other	17%	17%	17%	67%	0%	17%	17%	17%	0%

Note: The colour scale is used to demonstrate the percentage of enterprises by sector that faced each operational challenge. Blue indicates few (or zero) enterprises in a given sector faced the specified operational challenge, while red indicates a large share of enterprises in that sector faced the specified challenge.

Table 13A. How did you cover for the inconsistent/insufficient cash flow? Overview by sector

	We relied on reserves	We applied for the moratorium on debt payments	We applied for a commercial loan	We applied for a loan at Serbian development fund / Guarantee scheme	We did not have inconsistent / insufficient cash flow	Other
Food and beverage	46%	15%	19%	8%	27%	4%
Low-tech manufacturing	39%	61%	43%	17%	9%	13%
Medium-tech manufacturing	55%	42%	24%	29%	12%	3%
Construction and real estate	61%	39%	13%	26%	23%	3%
Retail and sales	48%	38%	23%	18%	18%	5%
Transport and transportation equipment	38%	41%	11%	32%	19%	5%
HORECA	73%	27%	18%	11%	2%	9%
Professional and public services	56%	23%	7%	6%	27%	14%
Personal services	75%	25%	17%	13%	8%	4%
Other	50%	50%	33%	17%	0%	17%

Note: The colour scale is used to demonstrate the percentage of enterprises by sector that covered inconsistent/insufficient cash flow through specific means. Red indicates that a smaller share of enterprises in a sector used a specific coping technique, while blue indicates that a larger percentage of enterprises in a sector used a specific coping technique.

Table 14A. What are the main value chain challenges your enterprise currently faces within its value chain? Overview by sector

	Domestic demand is lower than normal	Exports are lower than normal	Domestic suppliers are unable to provide inputs	Foreign suppliers are unable to provide inputs	Foreign transportation has become expensive and/or takes too long	Domestic transportation has become expensive and/or takes too long	We are not facing any of these challenges
Food and beverage	58%	31%	12%	8%	12%	4%	15%
Low-tech manufacturing	57%	61%	9%	17%	13%	22%	4%
Medium-tech manufacturing	39%	42%	24%	24%	30%	15%	21%
Construction and real estate	39%	13%	29%	29%	10%	16%	35%
Retail and sales	58%	15%	20%	10%	13%	18%	23%
Transport and transportation equipment	62%	62%	16%	24%	30%	16%	5%
HORECA	75%	14%	7%	7%	5%	5%	18%
Professional and public services	60%	11%	8%	8%	7%	5%	26%
Personal services	83%	4%	8%	8%	0%	4%	13%
Other	67%	17%	17%	0%	0%	17%	17%

Note: The colour scale is used to demonstrate the percentage of enterprises by sector that experienced different challenges related to the value chain. Red indicates that a larger share of enterprises in a sector experienced a specific challenge, while blue indicates that a small share of enterprises (or zero enterprises) experienced a specific challenge.

Table 15A. What measures in terms of your workforce and other cost-cutting have you conducted or plan to conduct, if any? Overview by sector

	Reduce or completely freeze recruitment of new staff	Reduce or delay the increase of wages or annual bonuses	Reduce staff development costs	My enterprise has not taken these measures	Decrease wages	Reduce working hours	Implement compulsory leave or holidays without pay	Dismiss employees	Increase the number of employees
Food and beverage	46%	27%	31%	31%	4%	12%	4%	4%	0%
Low-tech manufacturing	30%	13%	17%	13%	4%	9%	9%	9%	17%
Medium-tech manufacturing	27%	35%	29%	20%	11%	3%	17%	5%	14%
Construction and real estate	29%	26%	32%	39%	6%	10%	3%	3%	3%
Retail and sales	30%	25%	18%	25%	8%	13%	8%	8%	0%
Transport and transportation equipment	24%	24%	19%	19%	19%	3%	3%	5%	8%
HORECA	50%	41%	27%	16%	27%	25%	20%	18%	0%
Professional and public services	27%	26%	25%	28%	7%	8%	5%	5%	1%
Personal services	29%	33%	29%	13%	17%	21%	8%	4%	0%
Other	33%	17%	0%	0%	0%	17%	0%	0%	0%

Note: The colour scale is used to demonstrate the percentage of enterprises by sector that used or planned to use different cost-cutting measures. Red indicates that a larger share of enterprises used or planned to use a specific cost-cutting measure, while blue indicates that a smaller share (or zero) enterprises used or planned to use a specific cost-cutting measure.

Figure 16A. How do you evaluate the Government measure: Net minimum salary for each employee (3 months)? Overview by enterprise size

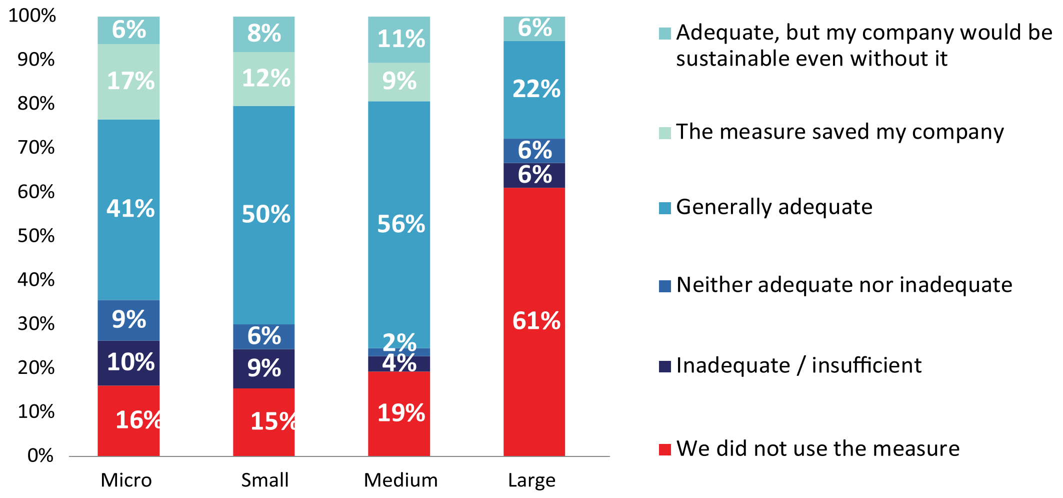


Figure 17A. How do you evaluate the Government measure: Net minimum salary for each employee (3 months)? Overview by sector

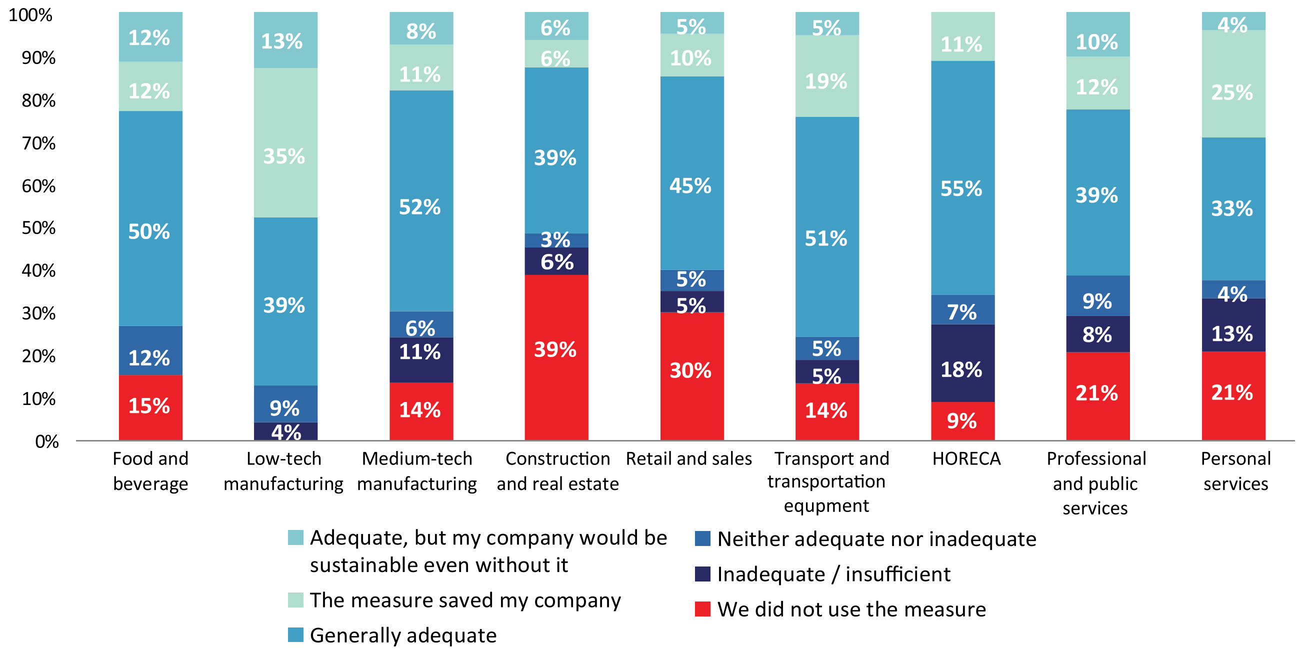


Figure 18A. How do you evaluate the Government measure: 60% of the net minimum salary for each employee (2 months)? Overview by size

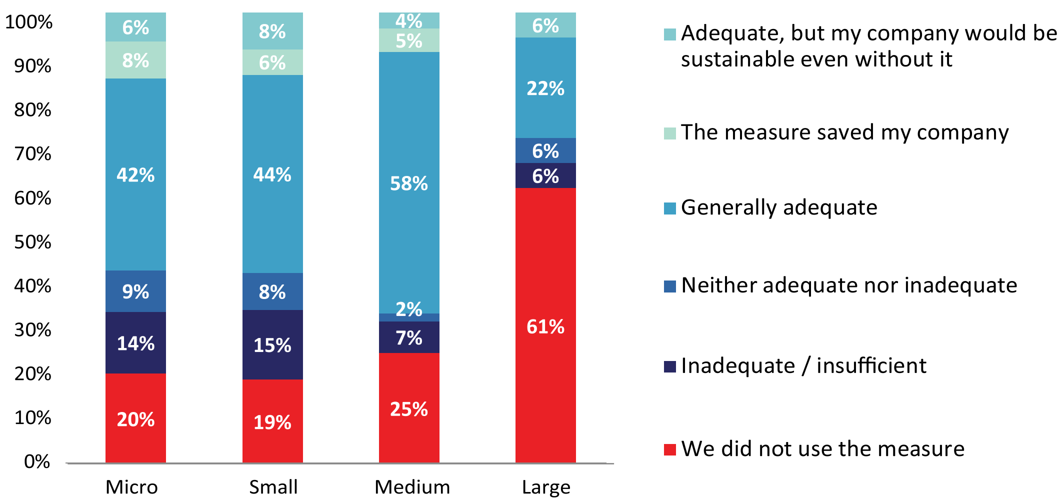


Figure 19A. How do you evaluate the Government measure: 60% of the net minimum salary for each employee (2 months)? Overview by sector

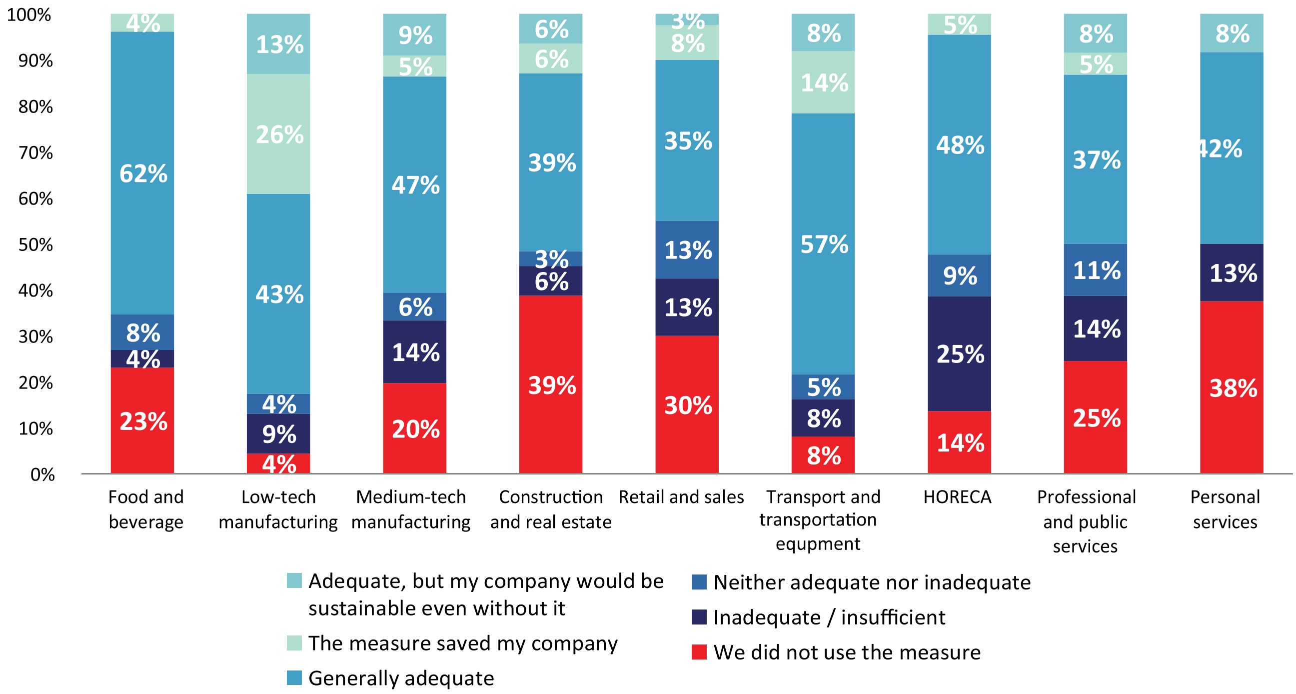


Figure 20A. How do you evaluate the Government measure: Tax deferrals? Overview by enterprise size

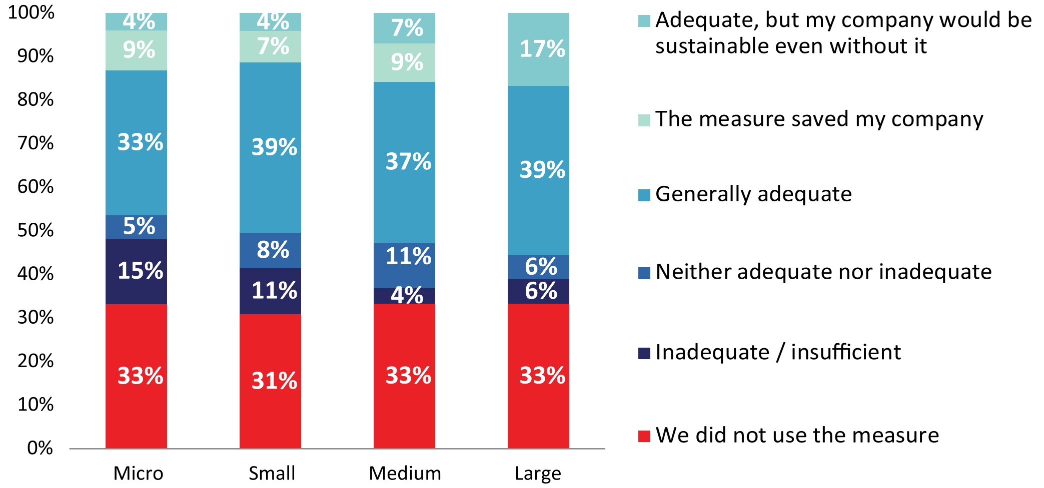


Figure 21A. How do you evaluate the Government measure: Tax deferrals? Overview by sector

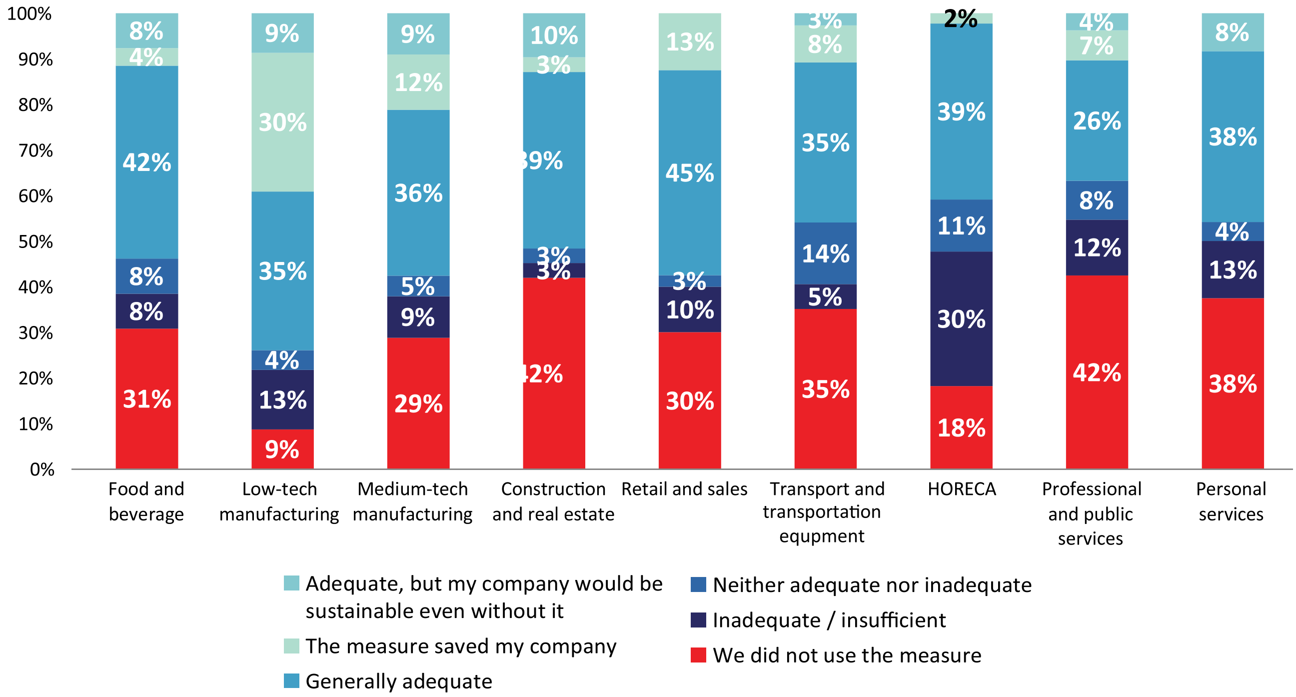


Figure 22A. How do you evaluate the Government measure: Moratorium on debt payments? Overview by enterprise size

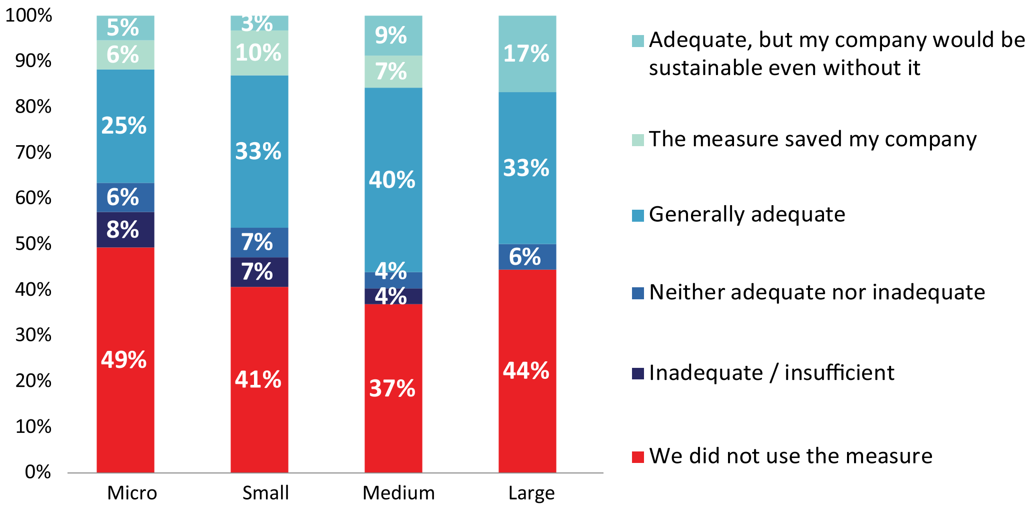


Figure 23A. How do you evaluate the Government measure: Moratorium on debt payments? Overview by sector

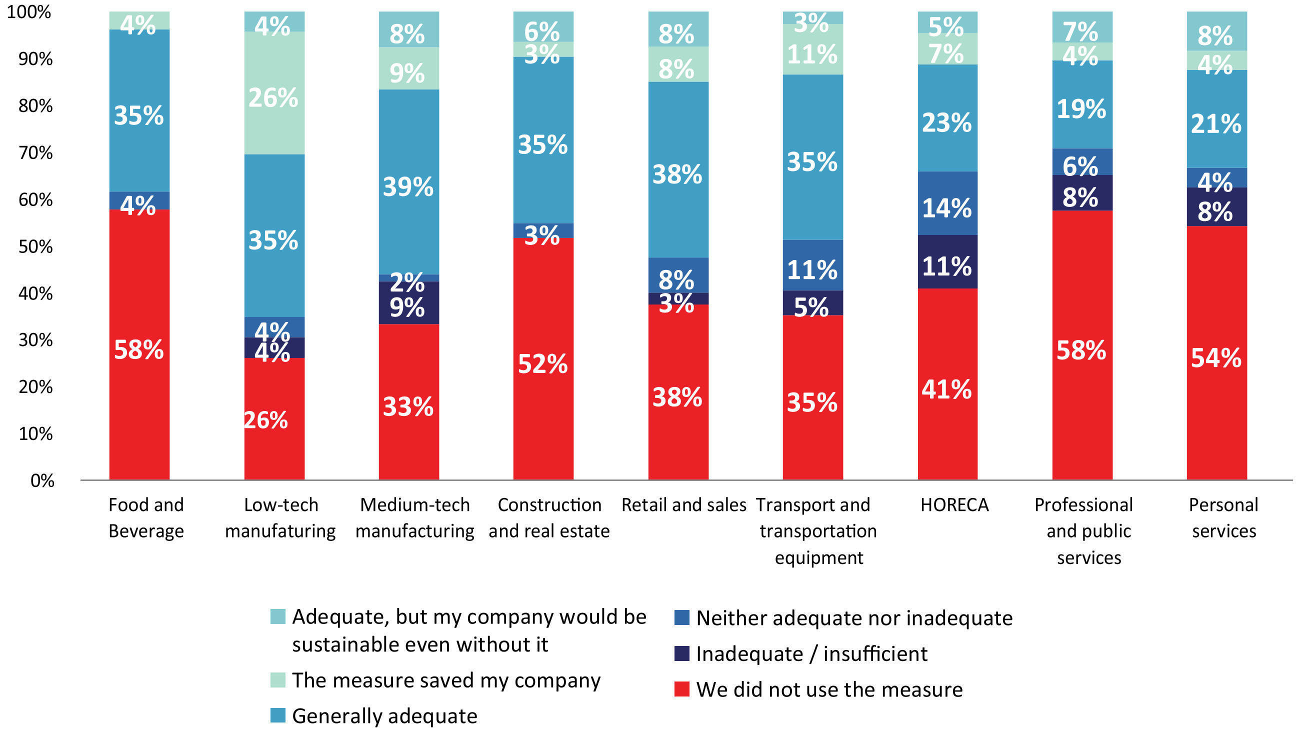


Figure 24A. How do you evaluate the Government measure: Commercial banking guarantee scheme? Overview by enterprise size

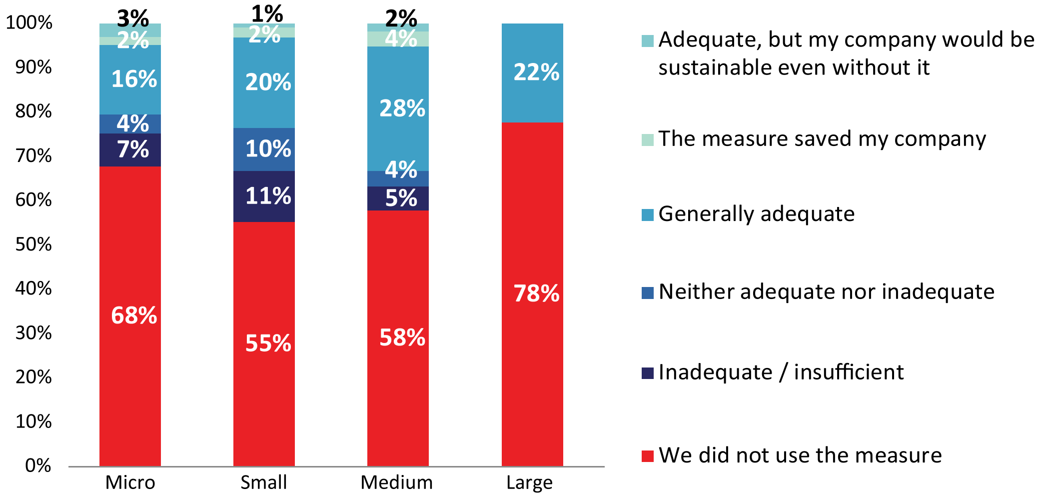


Figure 25A. How do you evaluate the Government measure: Commercial banking guarantee scheme? Overview by sector

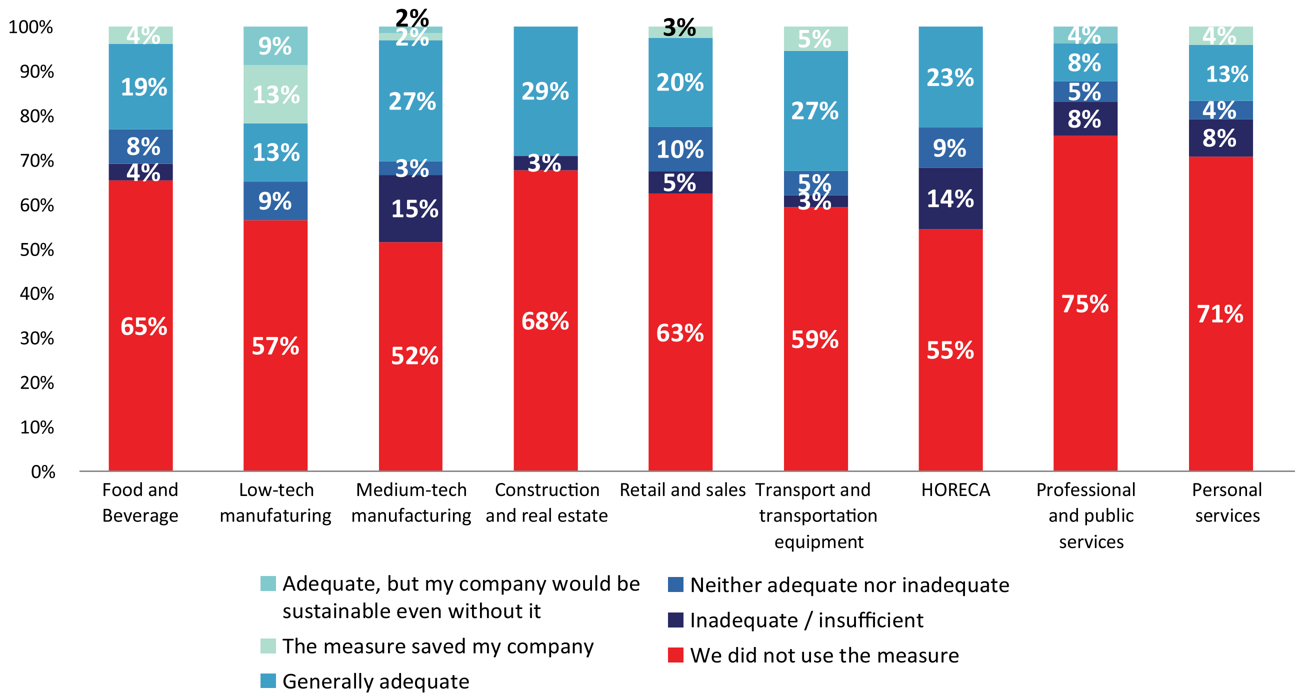


Figure 26A. How do you evaluate the Government measure: Liquidity loans via the Serbian Development Fund? Overview by enterprise size

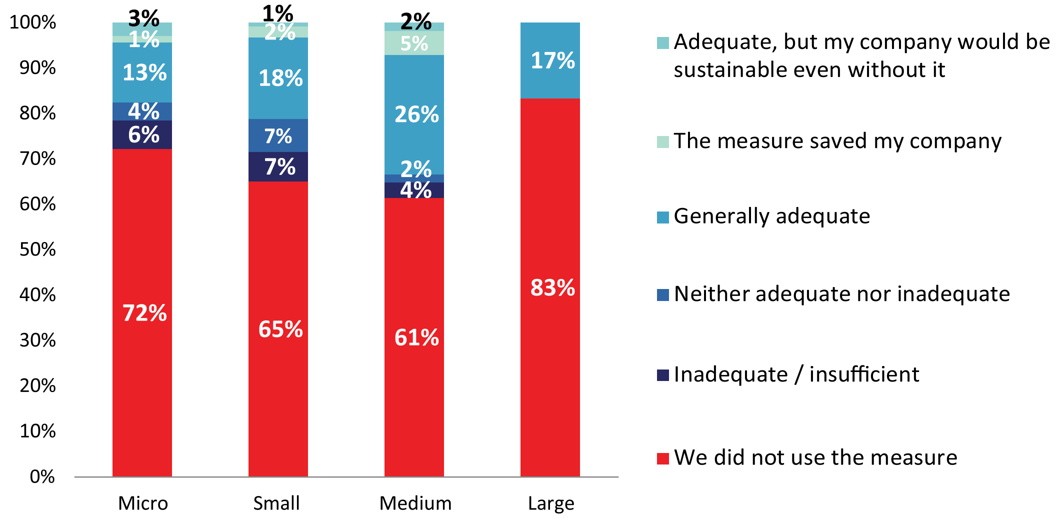


Figure 27A. How do you evaluate the Government measure: Liquidity loans via the Serbian Development Fund? Overview by sector

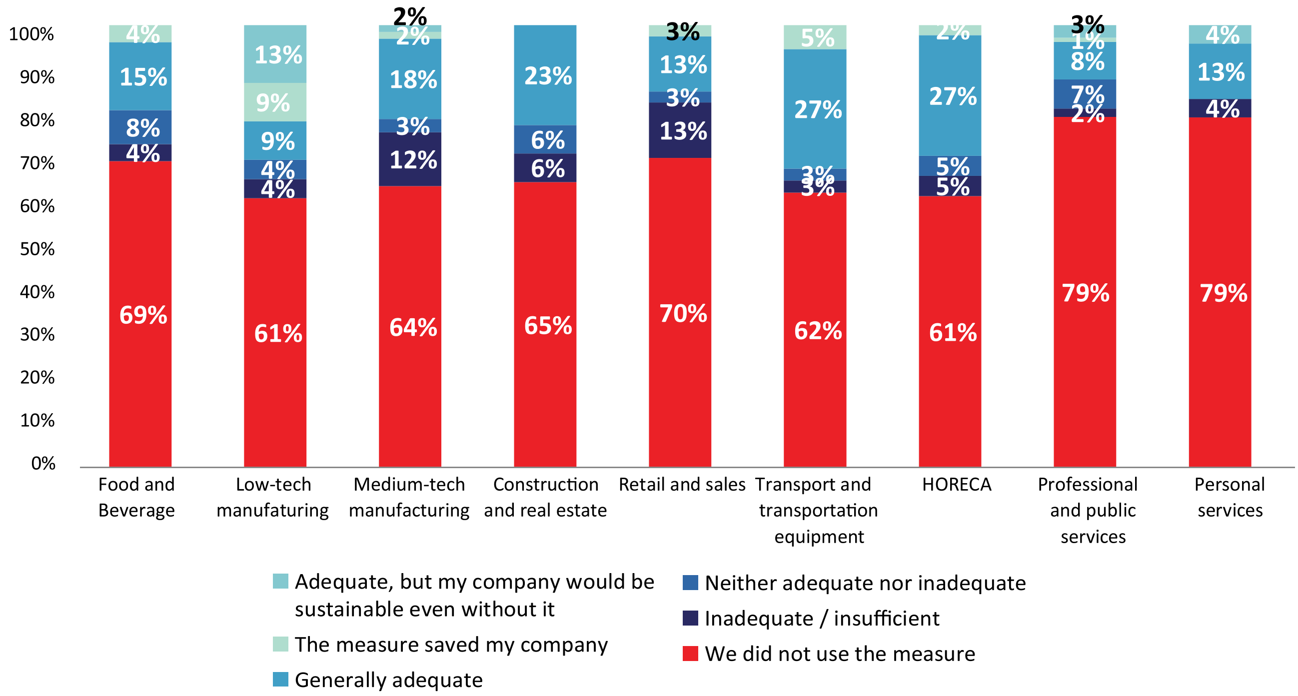
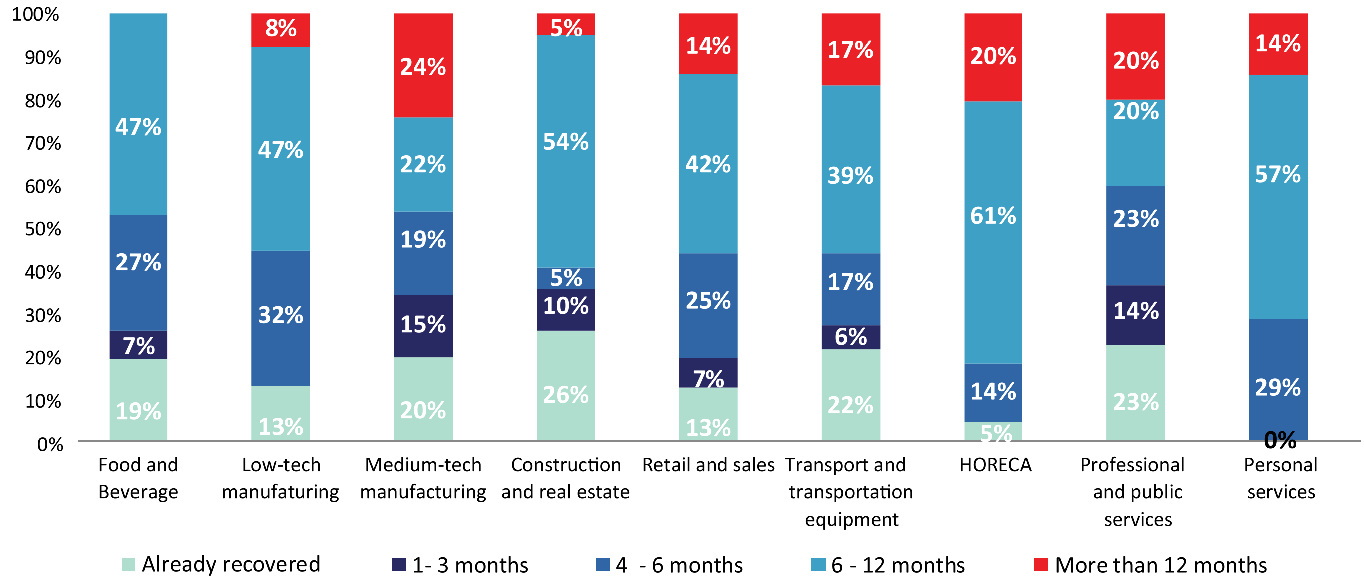


Figure 28A. How long do you assess the full recovery will take? Overview by sector



ANNEX 3: Overview of economic support measures

Overview of measures providing additional liquidity to both the banking sector and to the real economy, taken by the National Bank of Serbia (NBS) and the Government by mid-November 2020

1. The first package:

- NBS measures for liquidity easing- key rate reduction to 1.25% between March and October 2020; additional liquidity to the local banking sector through additional swaps (EUR/RSD) and repo (RSD) auctions and a decrease in deposit and lending facility rates.

- NBS moratorium on debt payments between end March and end September 2020.

- A guarantee scheme, a risk-based instrument, shared by the Government and the local banking sector. The Government allotted ca. 1% of GDP (ca. EUR 480 million) as a guarantee for potential losses, with the expectation that the banking sector will disburse approx. EUR 2 bn of loans to agricultural holdings and MSMEs.

- Direct support to all MSMEs- three monthly net minimum wages per employee (1.7% of GDP or EUR 0.8 bn), on condition that the company does not lay off more than 10% of workers for the duration of the transfer and 3 subsequent months.

- Direct support to large companies- 50% of net minimum wages (for the duration of state of emergency), per employee on a compulsory leave.

- Employment tax and social contribution deferrals to all companies for a period of three months, the measure later extended to the end of September.

- Increase of average pensions by 6% (from January 2021) and increase of wages in the public health sector by 10% (in April 2020).

- Additional funding for small loans to MSMEs through the Development Fund (0.4% of GDP or EUR 0.2 bn).
- Each citizen who had applied was given a lump sum of EUR 100, costing approximately 1.5% of GDP (ca. EUR 0.6 bn).

2. Follow-up measures:

- Direct support to all MSMEs – transfer of 60% of net minimum wages in August and September per employee, on condition that the company does not lay off more than 10% of workers for the duration of the transfer and three subsequent months.

- Direct support to large companies- 50% of net minimum wages per furloughed employee.

- Direct support to all registered companies founded between 15 March and 20 July 2020 (around 13,550 of them) in the form of a one-time transfer in September, equalling 120% of net minimum wage. These companies are also eligible for formerly mentioned “follow-up measures” of direct support.

- The only sector-specific measure- limited one-off support to hotels, in the form of EUR 350 per bed and EUR 150 per room.