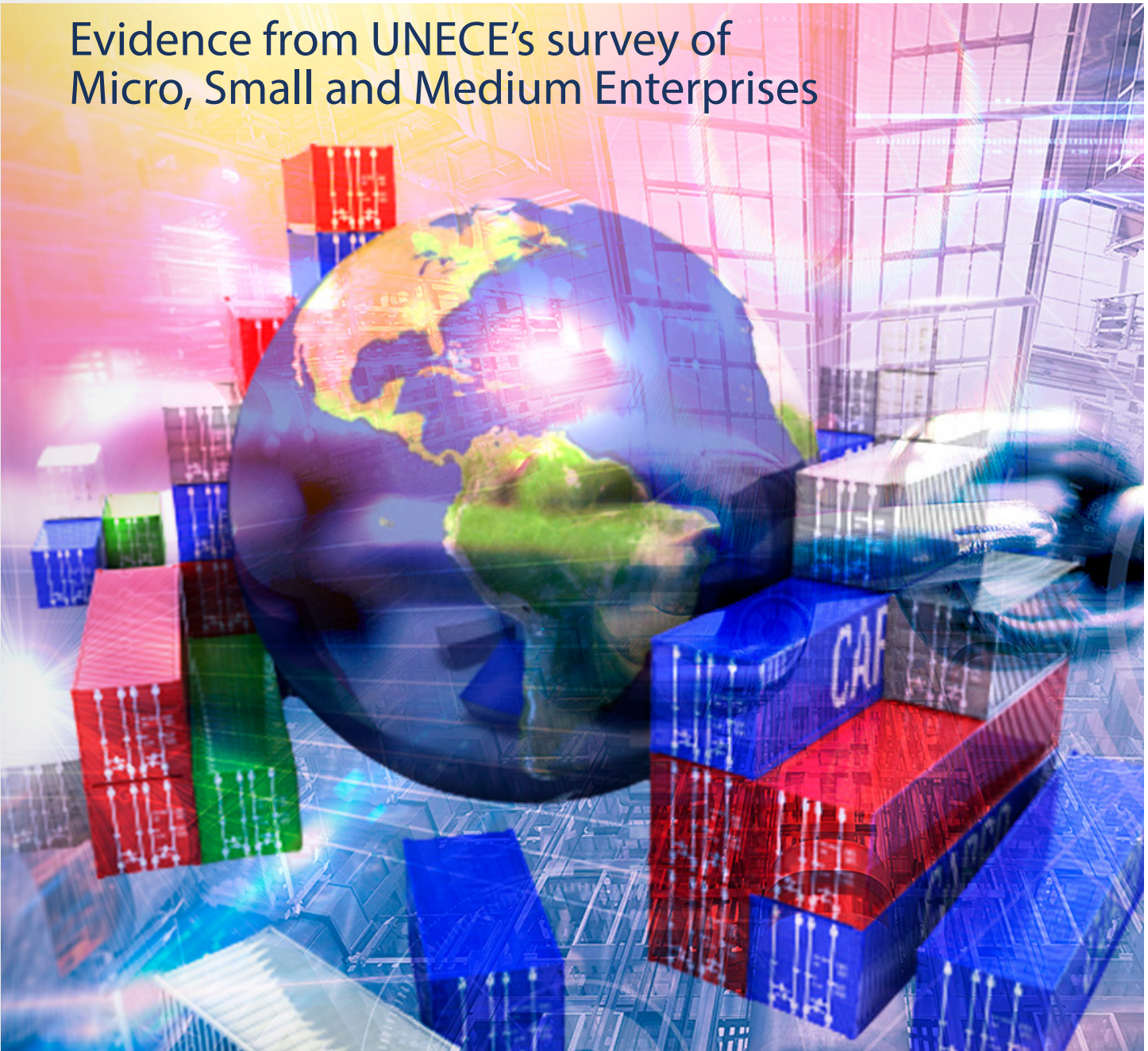


The impact of COVID-19 on trade and structural transformation in Serbia

Evidence from UNECE's survey of Micro, Small and Medium Enterprises



NOTE

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PREFACE

As the new coronavirus disease (COVID-19) continues to spread, its disruptive impact is becoming more pronounced, posing unprecedented challenges for all countries. Governments have seen their priorities shift overnight towards upscaling public health preparedness and emergency support measures to cater for the vulnerable segments of their population. The challenges facing governments are further complicated by supply chain disruptions that have left enterprises struggling to survive. Pay cuts and furloughs have been increasing, so that losses in lives are compounded by livelihood crisis.

If anything, countries across the globe are suffering setbacks that are akin to complex humanitarian emergencies associated with disasters. The coping strategies of businesses and State agencies are being depleted by the unfolding economic crisis, so that vulnerabilities are aggravated and the impact on productive capacities, institutional flexibility and business confidence is severe. It, therefore, stands to reason to avoid treating the pandemic as a temporary shock whose effects can be swiftly reversed once normality is attained.

The implication is that any attempt to assess the impact of COVID-19 must proceed from a clear understanding of the development challenges that occupied the governments' agendas at the eve of the pandemic and ground the analysis in the context of economic vulnerability. For if there is one lesson to draw from development experiences, it would be that disasters aggravate deep-seated structural weaknesses. Without an understanding of these weaknesses, relief and development efforts might miss the target.

It is from this perspective that the impact of the pandemic on Serbia's trade and structural transformation was assessed. Consistent with the United Nations Economic Commission for Europe's (UNECE) trade mandate¹, the assessment traces the way how non-tariff measures (NTMs) governing trade in goods influenced end-to-end supply chains and captures the lingering ripple effects into the economy.

The assessment is based on a survey of small and medium-sized enterprises (MSMEs) belonging to the agricultural, manufacturing and trade sectors, drawing on the experience gained from the UNECE study on regulatory and procedural barriers to trade in Serbia. The focus on MSMEs is consistent with their important contribution to income generation, as they account for 99 per cent of active enterprises.²

¹https://www.unece.org/fileadmin/DAM/trade/documents/ToR_SCTCS_Apendix5.pdf

²Statistical Office of the Republic of Serbia, Statistical Yearbook 2019 (<https://publikacije.stat.gov.rs/G2019/PdfE/G20192052.pdf>)

The assessment was carried out over the period May-October 2020 using the UNECE evaluation methodology, which was adapted to support building stronger and more resilient economies in the aftermath of the pandemic. The assessment proceeded in two phases. The first phase was implemented in May-June 2020 and focused on pilot testing the UNECE actor-oriented questionnaires targeting the MSMEs and the freight forwarders through phone interviews with 20 export-oriented enterprises belonging to the targeted sectors and with major forwarders. The second phase was implemented in August-October 2020 in cooperation with the Chamber of Commerce and Industry of Serbia to achieve a representative sample of MSMEs. It also involved follow-up interviews with the forwarders to gain further insights into issues raised by the MSMEs.

In total, 726 enterprises from across the country participated in the survey, and their experience provides valuable insights into the immediate and long-term development challenges facing the Serbian economy. The findings and recommendations were shared with the relevant Government agencies, and their comments were integrated into the report.

UNECE has shared the findings and recommendations with the UN Resident Coordinator Office in Serbia to inform the UN Country Team (UNCT) planning processes. The report was also shared with United Nations Department of Economic and Social Affairs (UN/DESA) as part the United Nations surge effort for supporting MSMEs.

The findings of this assessment will also be reported to UNECE member States during the 2021 session of the Steering Committee on Trade Capacity and Standards to form the basis for discussions over future activities in the area of trade.

UNECE supports closer economic relations among its 56 member States in the pursuit of the UN Sustainable Development Goals (SDGs) and the 2030 Agenda. Its Trade and Economic Cooperation and Integration subprogrammes assist member States in better integrating their economies into the world economy and in promoting enabling and promoting a better policy, financial and regulatory environment conducive to inclusive economic growth, innovative and sustainable development and higher competitiveness in the UNECE region.

The two subprogrammes of the Economic Cooperation and Trade Division service several inter-governmental bodies, which develop and support countries in putting into practice standards and policy recommendations for trade facilitation and electronic businesses, standardization policy and regulatory cooperation, agricultural quality standards, public private partnerships and innovation policies.

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ABBREVIATIONS

BCP	Border crossing point
CEFTA	Central European Free Trade Agreement
EA	European Cooperation for Accreditation
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GSP	Generalized System of Preferences
HS	Harmonized System
ICT	Information and communication technology
IEC	International Electrotechnical Commission
MSMEs	Micro, small and medium enterprises
NCTS	New Computerized Transit System
NTM	Non-tariff measures
PPE	Personal protective equipment
SAA	Stabilization and Association Agreement
SCA	Serbian Customs Administration
SDG	Sustainable Development Goal
SEED	Systematic Electronic Exchange of Data for Customs Administrations
SITC	Standard International Trade Classification
UN/CEFACT	United Nations Centre for Trade Facilitation and Electronic Business
UNECE	United Nations Economic Commission for Europe
UNMIK	United Nations Interim Administration Mission in Kosovo

USA	Sustainable development goals
USD	United States dollar
VAT	Value-added tax
WTO	World Trade Organization

EXECUTIVE SUMMARY

With a view to understanding the impact of the coronavirus (COVID-19) pandemic on trade and structural transformation in Serbia, this assessment traces the way that non-tariff measures (NTMs) governing trade in goods, adopted in the COVID-19 context, influenced end-to-end supply chains in the country. It is based on a survey of 726 micro, small and medium enterprises (MSMEs) from across the country. The survey was conducted over the period May-October 2020, and the findings were cross-referenced through interviews with major freight forwarders operating in the country.

The assessment shows that the Government of Serbia limited trade restrictions to the minimum; implemented expansionary monetary and fiscal policies, and launched sweeping relief measures, such as grants and tax deferrals, to curb unemployment and support the hardest-hit sectors. The Government of Serbia also relied on trade facilitation measures to reduce supply chain disruptions as follows:

- **Transparency in trade was ensured through** online publication of health protection measures and up-to-date information on customs clearance procedures.
- **At the border control continued** continued within the context of an integrated border management strategy.
- **Transit traffic continued to be facilitated** by cooperation arrangements anchored in regional agreements and UNECE international transport conventions and protocols.
- **Along with Central European Free Trade Agreement (CEFTA) partners, Serbia forms part of a regional green corridor system** that was launched (13 April 2020) to mitigate the impact of border health and safety arrangements on cargo traffic within the region.

1. Trade facilitation gains undermined

As shown below, trade was disrupted by lockdown measures and the special health and safety control arrangements at land border crossing points (BCPs) in Serbia and in partner countries. The impact of these factors was amplified by shortfalls in Serbia's institutional set-up.

- **Business uncertainty was alleviated by transparency measures.** All the MSMEs surveyed were abreast of applied trade-related regulations and administrative procedures, thanks to the timely publication of new/ revised NTMs and health and safety guidelines. An issue for MSMEs was the time spent in piecing together information from different sources.
- **Issuance of trade documents was slowed down by continued reliance on paper-based procedures** as the Government has yet to fully transition to a paperless trading environment.
- **Customs clearance was slowed down by the lack of basic infrastructure at land BCPs**, including separate facilities for perishable goods, terminal facilities, and non-intrusive inspection equipment (e.g., x-ray and gamma-ray scanners).
- **Customs clearance was also slowed down by the special control arrangements at land BCPs in Serbia**, particularly COVID-19 testing of drivers arriving from countries included in Serbia's list of highly affected countries, which have been generating significant delays.
- **Outbound consignments were hindered by the special health and safety arrangements at land BCPs in destination countries.** This was the case of cargo destined to the Russian Federation and the European Union (EU), particularly to Austria, Belgium, Croatia, France, Hungary, Italy, Poland, Romania, and Spain. For goods destined to the EU, the impact of safety and health protection measures was aggravated by discrepancies in applied surveillance and COVID-19 testing measures within the EU.

1.1 Disruption effects mitigated by business coping strategies

The above-mentioned transmission channels inflated transport costs. Combined with dwindling international demand, the increased transport costs undermined the MSMEs' ability to engage in trade. The MSMEs' were able to mitigate the impact of these channels through the following coping strategies:

- Combined shipments with other MSMEs to reduce the costs of road transport.

- Refocused exports towards countries that do not include Serbia in national lists of highly affected countries. In this respect, several MSMEs praised freight forwarders for their support and guidance in identifying such countries and in organizing shipments.
- Renegotiated delivery deadlines, though this was only possible for contracts with long-standing international buyers with whom the MSME's enjoyed strong relations of trust.

These strategies appear to have enabled the MSMEs to mitigate the impact of supply chain disruptions. Around 46 per cent of the enterprises surveyed reported regaining their pre-pandemic export earnings by October 2020. MSMEs that suspended exports altogether (exports decreased by over 100 per cent) represented 17 per cent of the enterprises, while the remaining saw their export earnings take a nosedive.

1.2 The lingering effects of COVID-19 on the Serbian economy

Only 31 per cent of the MSMEs regained their pre-pandemic income levels by October 2020. The remainder saw their income plummet. This reflects the MSMEs limited engagement in exports, particularly micro and small enterprises, which exhibited a heavy reliance on domestic markets for income generation. Around 41 per cent of MSMEs surveyed lost up to 50 per cent of their total income and another 7 per cent experienced total loss of income. The COVID-19 induced economic crisis has also aggravated the MSMEs' vulnerability.

- **Reduced productive capacity:** Almost half of the MSMEs surveyed scaled down production under the weight of dwindling demand and supply shortages, with 40 per cent reducing production activities and another 9 per cent suspending production altogether.
- **Limited production repurposing:** Only 24 enterprises repurposed part of their production lines to respond to, among other things, the upsurge in construction activities, fuelled by infrastructure development projects and a rise in demand for buildings and housing units.
- **Limited engagement in e-commerce:** Only 23 per cent of the MSMEs surveyed increased their engagement in e-commerce to maintain operations. However, the majority focused on boosting sales in domestic markets as opposed to boosting exports.
- **Sharp increase in the MSMEs' debt burden:** Around 53 per cent of [the MSMEs surveyed deferred business payments, particularly loan repayments, utility bills (including electricity, internet, and phone bills), wages and rent payments. Around 78 per cent emphasized that their survival hinged on receiving government support, particularly, in the form of tax deferrals and subsidized loans.

- **Marked deterioration in the living conditions of the MSMEs' households:** Around 41 per cent of the enterprise owners used their personal savings to cover business expenses to the detriment of their households' welfare. The owners had to cut back on, among others, school tuition, medical bills and food expenditures as well. The magnitude of the MSMEs' income fallout is reflected in the fact that around 78 per cent of the MSMEs emphasized that their survival hinges on receiving government support.

The economic impact of the pandemic would have been much worse had it not been for the Government's sweeping relief measures. Around 79 per cent of the surveyed MSMEs received assistance, particularly in the form of grants for supporting the enterprises' wage bills along with tax payment deferrals. This support enabled the MSMEs to provide minimum wage for their staff and maintain operations.

2. Policy implications

There is no doubt that the return to normality will breathe new life into the Serbian economy. However, the course of recovery is dependent on addressing the lingering effects of the pandemic. Section five provides action-oriented recommendations for the Government's consideration as it forges ahead in rebuilding stronger and more resilient MSMEs in the aftermath of COVID-19. The recommendations aim at:

- Addressing the MSMEs financial crisis
- Bolstering transparency in trade
- Supporting a transition to a paperless trading environment
- Improving border control
- Strengthening regional cooperation
- Improving the MSME's production capabilities

Consistent with the Government's development strategy, the recommendations, are geared to bolster the contribution of trade to structural transformation drawing on international best practice recommendations, including those developed by UNECE. They aim at enabling MSMEs to reap benefits from the growth opportunities generated by the Stabilization and Association Agreement (SAA) and carry direct contribution to achievement of the 2030 sustainable development goals (SDGs) 1 (no poverty), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure), 16 (peace, justice and strong institutions) and 17 (partnerships for the goals).

UNECE stands ready to assist the Government in implementing the recommendations in collaboration with the UN resident Coordinator Office in Serbia, UN agencies and international development partners.

1. INTRODUCTION

An upper-middle-income country, Serbia is undergoing extensive reforms and development efforts as the Government forges ahead in consolidating a competitive market-based economy.³ Special emphasis is being placed on unleashing the potential of trade-led growth, with reforms anchored in regional cooperation arrangements and the multilateral trading system administered by the World Trade Organization (WTO).⁴

Serbia's trade-led development efforts entered a new phase in 2013⁵, which marked the entry into force of the Stabilization and Association Agreement (SAA) with the European Union (EU). The Agreement sets the context for developing a free trade area between Serbia and the EU, building on achievements gained since 2000 when the EU granted duty-free access for Serbia's industrial and agricultural products, barring sugar, baby beef, wine and certain types of fish (which were subject to the EU's preferential tariff quota regime).⁶

Serbia, which reciprocated by initiating a gradual opening of its markets to the EU's industrial and agricultural goods in 2010⁷, sees in the SAA a strategic framework for informing its legislative and institutional reforms. This is particularly because the SAA gives new impetus to Serbia's legislation approximation with the requirements of the EU *Acquis Communautaire*.⁸

Serbia is a member of the Central European Free Trade Agreement (CEFTA)⁹, and the Organization of the Black Sea Economic Cooperation, and has a free trade agreement with the European Free Trade Association (EFTA).¹⁰ Serbia also has bilateral free trade agreements with Belarus, Kazakhstan, Turkey and the Russian Federation, and benefits from the Generalized System of Preferences (GSP) programme of the United States of America.

³For an informative overview of Serbia's achievements in transitioning towards a market economy, see, European Bank for Reconstruction and Development (EBRD) Transition Report 2018-2019, Country assessments: Serbia; available at: <https://2018.tr-ebd.com/countries/#>.

⁴The Law on Foreign Trade ("Official Gazette RS" No.36/09, 36/11, 88/11 and 89/15) is compliant with the European Union (EU) and the WTO rules. The Law promotes free trade of goods and services, with import restrictions limited to ensuring the protection of health, consumer safety and the environment. Up-to-date information on Serbia's accession to the WTO is available at: https://www.wto.org/english/thewto_e/acc_e/a1_serbia_e.htm

⁵Serbia was identified as a potential candidate for EU membership in 2003. "The Stabilization and Association Agreement between the European Communities and their Member States of the one part, and the Republic of Serbia, of the other part" was signed on 29 April 2008 and entered into force on 1 September 2013. Serbia's accession negotiations began on 21 January 2014. An overview of the country's relations with the EU is available at: <http://www.mfa.gov.rs/en/foreign-policy/eu/political-relations-between-the-republic-of-serbia-and-the-european-union/12452-chronology-of-relations-between-the-republic-of-serbia-and-the-european-union>

⁶These extensive concessions were granted to Serbia under the EU's Autonomous Trade Measures Regime. An overview of this regime is available at: https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/association-trade-measures_en

⁷See the "Interim Agreement on trade and trade-related matters between the European Community, of the one part, and the Republic of Serbia, of the other part". The Agreement entered into force on 1 February 2010 to mark a gradual opening of Serbia's markets to EU agricultural and industrial products over a six-year period. It was established pursuant to Serbia's decision to unilaterally initiate the implementation of the trade-related arrangements foreseen under the Stabilization and Association Agreement. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A22010A0130%2802%29>. Effective January 2014, per Serbia's SAA with the EU, around 95 per cent of EU agricultural imports enjoyed duty-free access to Serbia.

⁸Legislative alignment with the EU *Acquis* constitutes a stepping stone towards the establishment of a free-trade zone with the EU and is guided by the multi-year National Programme for the Adoption of the *Acquis* (NPAA) that is updated periodically (<http://www.mei.gov.rs/eng/information/questions-and-answers/national-programme-for-adoption-of-the-acquis-npaa/>)

⁹Serbia joined CEFTA on 19 December 2006. As of 2020, CEFTA brings together Albania, Bosnia and Herzegovina, UNMIK-administered Kosovo (on whose behalf CEFTA was signed by the United Nations Interim Administration Mission in Kosovo), Republic of Moldova, Montenegro, North Macedonia (formerly, FYR of Macedonia), and Serbia. Prior to this, CEFTA members benefited from the support of the Regional Cooperation Council (<https://www.rcc.int/home>).

¹⁰EFTA member States are Iceland, Liechtenstein, Norway, and Switzerland. The FTA with EFTA was signed in 2009.

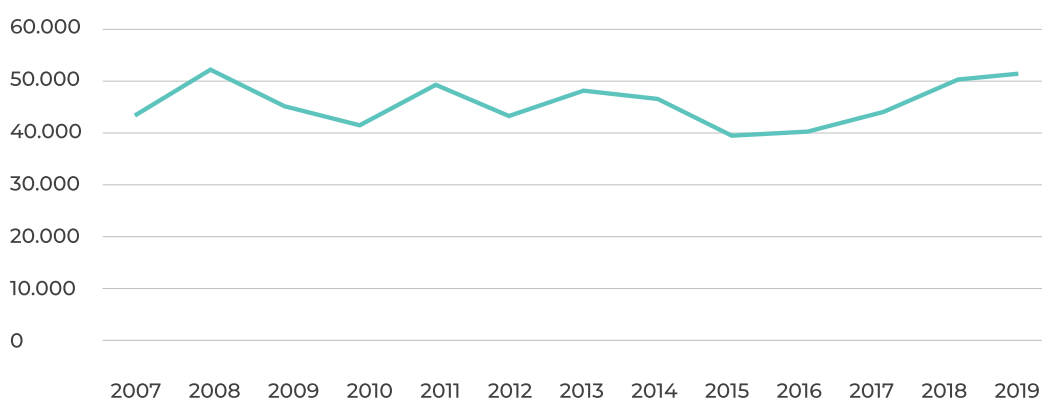
In October 2019, the Government entered into a free trade agreement with the Eurasian Economic Union (EAEU), which brings together Armenia, Belarus, Kazakhstan, Kyrgyzstan and the Russian Federation.¹¹

The ever-expanding cooperation arrangements are instrumental for capitalizing on Serbia's strategic location. Serbia stands as a gateway to Central and Southeast Europe thanks to its shared borders with Bosnia and Herzegovina, Croatia and Montenegro to the west, North Macedonia to the south, Bulgaria and Romania to the east and Hungary to the north.

Serbia's trade-led development approach is complemented by targeted efforts to ensure inclusive and sustainable growth.¹² These efforts are geared towards consolidating a conducive business environment, stimulating investments in strategic priority sectors for economic growth and job creation, supporting enterprise development, reducing poverty, and leveraging cross-cutting issues, including gender equality, quality infrastructure and transport.¹³

Serbia's reform and development efforts have borne fruit, as evidenced by the country's impressive income growth. The economy was able to quickly bounce back from the flooding disaster that hit Southeast Europe in 2014, with gross domestic product (GDP) assuming an increasing trend (Figure 1.1). GDP growth was also accompanied by consistent reductions in unemployment, which in 2019 stood at 9.5 per cent.¹⁴

Figure 1.1 Serbia's GDP growth
(In millions of United States dollars, at current prices)



Source: Statistics Office Republic of Serbia

¹¹The agreement was signed in October 2019. Detailed information is available at the EAEU's institutional website (<http://www.eaeunion.org/>)

¹²The notion of development driven approach to trade denotes going beyond a preoccupation with tariff reduction and the harmonization of trade legislation with the requirements of the WTO-administered multi-lateral trading system to focus on creating dynamic synergies between trade reforms and other policies. Such an approach has proven to be critical for stimulating the expected trickle down effects of trade liberalization in the form of structural transformation, higher employment rates and reduced poverty levels. For a detailed discussion of this perspective, see UNCTAD (2004) The Least Developed Countries Report – Linking International Trade with Poverty Reduction, New York and Geneva: United Nations Publications.

¹³UNECE (forthcoming), Regulatory and procedural barriers to trade in Serbia: Needs assessment.

¹⁴SORS (2019) Economic trends, 2019 – Estimates, issued on 29 December 2019; available at: <https://www.stat.gov.rs/en-us/oblasti/nacionalni-racun/>

As shown in Annex 1, Serbia has also registered an impressive export performance record, with export growth underpinned by increased specialization in knowledge-intensive activities with high value-added. However, evidence suggests that more could be done, particularly in relation to maximizing the trickle-down effects of reforms to MSMEs that dominate the economy. Available studies show that only 11.6 per cent of SMEs were engaged in export activities in 2015; of which only 3.3 per cent were engaged on a continuous basis.¹⁵

In addition, poverty and income equality reduction continue to be a challenge. Around 26 per cent of the population were found to be at risk of poverty in 2017 compared to 25 per cent in 2014.¹⁶ When taking into account those living in severe material deprivation and in households with low work intensity, the percentage of population at risk of poverty or exclusion becomes higher and was estimated at 36.7 per cent in 2017.¹⁷

1.1 COVID-19 induced economic crisis

The Government of Serbia was quick to launch an array of relief and support measures to alleviate the economic impact of the pandemic. These measures involved, among others, direct cash injections and expansionary fiscal policies (Annex 3) and were complemented by expansionary monetary policy,¹⁸ with impressive results. Unemployment was estimated at 7.3 per cent by the end of the second quarter in 2020¹⁹, down from 10.4 per cent in 2019.²⁰

The Government's measures also mitigated income losses. Non-seasonally adjusted GDP declined by 6.3 per cent year-over-year in the second quarter of 2020 but was quick to pick up steam in the third quarter, declining by 1.4 per cent year-over-year (or by 9.3 per cent and 7.5 per cent, respectively, seasonally adjusted).²¹ Recent estimates show GDP as contracting by 1 per cent in 2020, and registering full recovery in 2021 with GDP growth projected at 6 per cent.²²

¹⁵Bobić, Danijela (2015) "International Competitiveness of Small and Medium-sized Enterprises", Center for Advanced Economic Studies (CEVES) Business & Finance Magazine, 29 December; available at: https://ceves.org.rs/category/media_corner/

¹⁶In Serbia, the "at risk of poverty" threshold amounts to 15,600 Serbian dinars (RSD) per month for a single person household; RSD 28,080 per month for a household with two adults and one child below 14 years old; and, RSD 32,760 per month for a four-member household with two adults and two children below 14. The at-risk-of-poverty rate is one of the three indicators set out in the EU 2020 Strategy for measuring poverty and social exclusion. The remaining two indicators are the percentage of population under the age of 60 living in households with very low work intensity and the percentage of population living in severe material deprivation. For further details see SORS 2017 report on poverty and inequality in Serbia; available at: <http://publikacije.stat.gov.rs/G2018/PdfE/G20181345.pdf>

¹⁷Low work intensity is defined as the number of persons living in a household where the members of working age worked less than 20 per cent of their total potential during the previous 12 months. For further details see Statistical Office of the Republic of Serbia 2017 report on poverty and inequality in Serbia.

¹⁸The National Bank of Serbia introduced several reductions to the base rate applied to the main short-term monetary policy operations (<https://www.nbs.rs/en/indeks/>).

¹⁹<https://publikacije.stat.gov.rs/G2020/PdfE/G20201237.pdf>

²⁰<https://publikacije.stat.gov.rs/G2020/PdfE/G20205658.pdf>

²¹Statistical Office of the Republic of Serbia (<http://publikacije.stat.gov.rs/G2020/pdfE/G20201332.pdf>).

²²The National Bank of Serbia (https://www.nbs.rs/export/sites/NBS_site/documents-eng/finansijska-stabilnost/presentation_invest.pdf)

The Government's policies and support measures notwithstanding, Serbia's recovery will depend on the speed of the global recovery; a critical element for sparking foreign direct investment inflows, which declined by 26 per year-over-year over the period January-May 2020. The Government is also facing severe financial constraints, with public debt estimated at 59.8 per cent of GDP in 2020.²³ These pressures are aggravated by dwindling remittances, which plummeted by 23.8 per cent in January-May 2020 compared to the same period last year.²⁴

1.2 Scope of the assessment

The assessment draws on a survey of 726 manufacturing and agricultural MSMEs from across the country as well as trading MSMEs (i.e., enterprises that are exclusively engaged in exports and imports), view to capturing:

1. The transmission channels of the COVID-19 pandemic effects and the influence of NTMs governing international trade in goods therein.
2. Supply chain disruptions and their impact on international trade activities.
3. The MSMEs' coping strategies, understood in terms of the manner in which they used their assets to maintain operations.²⁵
4. The ripple effects of the pandemic on the economy, particularly those generated by the MSMEs' coping strategies.

As shown in Annex 2, the surveyed enterprises were dominated by micro and small enterprises, which accounted for 41 and 40 percent of the total MSMEs, respectively. Thus, issues and challenges that particular to micro and medium enterprises will be singled out.

1.3 Report outline

This report is organized in five sections. The introduction is followed, in section two, by a discussion of the transmission channels of the pandemic's effects. The section shows that NTMs and lockdown measures deployed by the Government of Serbia and partner countries constituted the main transmission channels of the pandemic's effects. The section captures the way in which these measures influenced the MSMEs' trade activities, highlighting instances of supply chain disruptions and their impact, with a view to setting the context for analyzing the MSMEs' coping strategies.

²³<https://www.imf.org/-/media/Files/Publications/CR/2020/English/ISR-BEA2020001.ashx>

²⁴National Bank of Serbia.

²⁵Development experiences show that coping strategies often aggravate economic vulnerability by transforming assets into liabilities, as the case when loans become unmanageable. To arrive at a clear understanding of economic vulnerability, the capital base in the broadest sense to include financial capital, natural capital (e.g. land), physical capital (i.e. infrastructure), human capital (i.e. skills), and social capital (social networks).

For a concise overview of vulnerability analysis, see, for example, Cannon, Terry (2008) *Reducing People's Vulnerability to Natural Hazards: Communities and Resilience*, UNU-WIDER Research Paper No. 2008/34.

Section three discusses the MSMEs' strategies to cope with supply chain disruptions. It shows how these strategies created new realities with direct consequences for structural transformation. Section four provides an overview of the MSMEs' income losses, the strategies used by the owners to withstand these losses and the resulting impact on the enterprises' economic vulnerability and the welfare of their households. Section five proposes recommendations for supporting the Government's efforts to build a stronger and more resilient economy in the aftermath of the pandemic. The recommendations address emergency and long-term development needs, with a view to bolstering the trade sector's contribution to economic recovery and structural transformation.

2. TRADE DISRUPTIONS

The period since the outbreak of COVID-19 has seen governments across the globe deploy NTMs to contain the spread of the pandemic. In most cases, the measures involved temporary export bans on medical equipment as part of a broader effort to address supply shortages. Several countries also introduced export restrictions on certain food items to hedge against food shortages.²⁶

Trade restrictions were paralleled by an easing of the financial burden on enterprises through customs duties and value added tax (VAT) exemptions on imports of, among others, medical equipment.²⁷ Governments also relied on trade facilitation measures advanced under the WTO Agreement on Trade Facilitation²⁸ for generating savings for enterprises and ensuring compliance with the World Health Organization (WHO) inspired safety guidelines.

As shown below, Serbia used NTMs to contain the spread of the pandemic and reduce supply chain disruptions. However, expected benefits were undermined by border closures and lockdown measures in health protection measures in partner countries.

²⁶<https://www.macmap.org/COVID19>

²⁷<https://www.macmap.org/COVID19>

²⁸The Agreement on Trade Facilitation clarifies and improves the General Agreement on Tariffs and Trade articles V (Freedom of Transit), VIII (Fees and Formalities connected with Importation and Exportation), and X (Publication and Administration of Trade Regulations). These articles correspond to the following chapters of United Nations Multiagency Support Team (UN/MAST) NTM classification system (<https://unctad.org/en/Pages/DITC/Trade-Analysis/Non-Tariff-Measures/NTMs-Classification.aspx>): Sanitary and phytosanitary measures (Chapter A); technical barriers to trade (Chapter B); pre-shipment inspection and other formalities (Chapter C); price control measures, including additional taxes and charges (Chapter F); finance measures (Chapter G); measures affecting competition (Chapter H); distribution restrictions (Chapter J); government procurement restrictions (Chapter M); rules of Origin (Chapter O); and, export-related measures (Chapter P).

2.1 Transmission channels

The Government of Serbia used restrictive NTMs on a limited basis to address shortages in pharmaceutical and essential food products. It also introduced temporary customs duty exemptions on imports of ethyl alcohol.²⁹ Otherwise, the Government relied on trade facilitation measures to reduce supply chain disruptions:

- Transparency in trade was ensured through online publication of health protection measures.³⁰ The Serbian Customs Administration also publishes up-to-date information on customs clearance procedures on its institutional website,³¹ and all trade legislation is published on national Gazette.³² In addition, trade partners were kept abreast of special arrangements at border crossing points through prompt submission of notifications to the UNECE Observatory on Border Crossings.³³
- At the border control continued within the context of an integrated border management strategy.³⁴
- Transit traffic continued to be facilitated by cooperation arrangements anchored in regional agreements and UNECE international transport conventions and protocols.³⁵
- Along with CEFTA partners, Serbia forms part of a regional green corridor system that was launched on 13 April 2020 to mitigate the impact of border health and safety arrangements on cargo traffic within the region.³⁶ The system features earmarked green lanes for facilitating the flow of essential goods (including certain food items, animal feed and personal protective equipment (PPE) that are included in a common list)³⁷ and accords humanitarian goods priority treatment. All BCPs along the earmarked lanes operate 24 hours/7 days, and changes in the common list of essential goods are communicated to customs authorities in real time through the regional Systematic Electronic Exchange of Data for Customs Administrations (SEED).

Trade facilitation measures were used to cushion the impact of the special safety and health protection arrangements that were established at BCPs to ensure compliance with the Government's WHO inspired health and safety guidelines and to curb the inflow of drivers from highly affected countries.³⁸

²⁹The Government of Serbia introduced temporary export ban on certain pharmaceutical products (15 April till 15 May 2020) and essential food items (14 March till 7 May 2020). Customs duty exemptions on imports of ethyl alcohol were implemented from 1 April till 1 May 2020 (<https://www.macmap.org/COVID19>).

³⁰<https://www.srbija.gov.rs/>.

³¹<https://www.carina.rs/lat/Stranice/Default.aspx>.

³²<http://www.slglasnik.com/>

³³<https://wiki.unece.org/display/CTRBSBC>

³⁴The "Integrated Border Management Strategy in the Republic of Serbia" was adopted in 2006 pursuant to Article 45.1 of the Law on Government No. 55/05 and 71/05-amendment. The strategy is available at: https://www.srbija.gov.rs/uploads/documents/strategy_border.pdf. The Strategy was subsequently revised and the most recent version, titled "Development Plan of the Customs Service 2017 – 2020", is available at: <https://www.mfin.gov.rs/UserFiles/File/dokumenti/2017/Development%20Plan%20of%20the%20customs%20service%202017-2020.pdf>

³⁵<https://www.unece.org/trans/maps/un-transport-agreements-and-conventions-18.html>.

³⁶<https://www.carina.rs/lat/Stranice/CEFTACovid19.aspx>

³⁷CEFTA parties have established a common list of essential goods that is modified periodically, depending on emerging needs.

³⁸Information on the Serbia's border special arrangements are available at: <https://wiki.unece.org/display/CTRBSBC/Serbia>. These are inspired by the WHO Global surveillance for COVID-19 caused by human infection with COVID-19 virus: <https://www.who.int/publications-detail/global-surveillance-for-covid-19-caused-by-human-infection-with-covid-19-virus-interim-guidance>.

The above transmission channels of the pandemic's effects operated alongside the nationwide lockdown measures over the period 15 March - 08 May 2020.³⁹ The measures involved the closure of shopping centers, cultural and educational institutions along with nonessential businesses; suspension of in country public transport; curfews; the closure of international airports in Belgrade and Niš to commercial traffic; and the closure of BCPs, except for truck drivers and individuals with special permits. Some of these measures, including those imposed on BCPs, were lifted on 21 April 2020.⁴⁰

The impact of the lockdown measures was amplified by negative transmission channels, particularly, border closures and health protection measures in partner countries. As shown below, these channels also find root in capacity shortfalls in Serbia's institutional set-up.

2.2 Impact on supply chain operations

The assessment shows that the improved levels of transparency helped alleviate business uncertainty. However, these gains were undermined by capacity shortfalls within State agencies and the lack of adequate facilities at BCPs. The reduced working hours of national border control agencies and the special safety and health protection arrangements at BCPs in partner countries generated additional challenges, which combined to cause severe transport disruptions and inflated trade costs. The MSMEs also faced dwindling international demand under the weight of lockdown measures and recessionary pressures in partner countries. These factors dealt a strong blow to the MSMEs' participation in international trade, with harmful effects on their productive capacities.

2.2.1 Business uncertainty alleviated by transparency measures

Transparency in trade played an important role in mitigating the adverse effects of the pandemic, providing enterprises with a certain level of certainty to plan operations. All the interviewed MSMEs were abreast of applied trade-related regulations and administrative procedures thanks to the online publication of new/revised NTMs, at the border arrangements and health and safety guidelines.

The MSMEs were also kept abreast by their freight forwarders. Forwarders interviewed explained that they receive up-to-date information on new regulations and procedures through the national freight forwarders association, which receives regular updates from the SCA. The forwarders also reported reaching out to the SCA and other relevant State agencies when in doubt and praised SCA officials for their prompt support and advice.

³⁹A detailed, up-to-date account of emergency response measures are published on the Government's COVID-19 website (<https://www.srbija.gov.rs/>) and online Legal Information System (<https://www.pravno-informacioni-sistem.rs/ftp/covid19>).

⁴⁰On 21 April, the Government lifted some of the lockdown measures, including shortening by one hour the nationwide curfew, and the opening of certain shops and green markets (<https://www.srbija.gov.rs/>).

Nonetheless, there remains room for improvement. The freight forwarders noted being overwhelmed by the time and effort invested in piecing together the information from different sources. At the same time, the rapid spread of the virus and remote working meant that trade-related procedures were introduced rapidly. Forwarders noted that they could have contributed to designing these measures drawing on their intimate knowledge of the national context and exposure to the experiences of other countries that were struggling with similar challenges.

2.2.1 Efficiency gains undermined

All the MSMEs and forwarders interviewed reported that border control agencies (namely, the SCA, Border Police, Border Phytosanitary Inspection and Border Veterinary Inspection) followed established clearance procedures to the letter. However, trade was disrupted by the extended waiting time for obtaining trade documents, as these continued to be issued in hard copies following paper-based procedures. The current conditions of social distancing have extended the waiting time for obtaining trade documents by up to 2 days per consignment, since all supporting documents are issued in hard copies and the entire set of documentary requirements for customs clearance (i.e., the trade documents and supporting documents) is sent by post.

These delays could have been avoided had the Government been able to fully transition into a paperless trading environment. The SCA just entered into the process of establishing a Single Window (SW) facility for exports, imports and transit trade following UN/CEFACT Recommendation No. 33 on establishing a single window facility⁴¹ (Box 2.1).

BOX 2.1

Building blocks of Serbia's paperless trading system

Serbia is yet to transition to a paperless trading environment. As at February 2020, trade documents were paper based,⁴² with the customs declaration based on the single administrative document (SAD).⁴³ Electronic submission was only possible through the New Computerized Transit System as per the to the EU Convention on the Common Transit Procedure and the Convention on the Simplification of Formalities in Trade of Goods, barring the transit accompanying document (TAD) that was still paper based. Moreover, electronic data interchange (EDI) was possible between customs, the Tax Administration and the National Bank and was limited to customs declaration messages.

Source: UNECE (2021) *Regulatory and procedural barriers to trade in Serbia: Needs assessment*

The closure of national BCPs in March-April 2020 was another complicating factor. Truck drivers had to obtain special permits and proceed in convoys, which resulted significant delays. While cargo traffic picked up steam following the re-opening of the BCPs, clearance was hindered by:

⁴¹A Single Window is "a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single-entry point to fulfil all import, export, and transit-related regulatory requirements. If information is electronic, then individual data elements should only be submitted once": UN/CEFACT Recommendation No. 33, 2005.

⁴²Trade documents and forms are published on the SCA website at: <https://www.carina.rs/cyr/Informacije/Stranice/DokumentiiObrasci.aspx>

⁴³SAD is used for customs declarations in the EU, Switzerland, Norway, Iceland, Turkey, and North Macedonia. Further details on the use of SAD in EU is available at: https://ec.europa.eu/taxation_customs/business/customs-procedures/general-overview/single-administrative-document-sad_en

- Errors in submitted trade documents, which were mainly due to the continued reliance on paper-based procedures.
- The requirement of submitting documentary requirements for customs clearance in paper form. Forwarders reported that documentary requirements for customs clearance must be sent by post, preferably in advance of the cargo's arrival at the BCPs. This complicates cross border trade, especially if there are errors in submitted documents.
- Lack of synchronization in the working hours of border control agencies. While some customs offices work throughout the week, the remaining agencies work irregular hours and some phytosanitary inspection offices have reduced working hours. This was a major concern during the pre-pandemic period and was aggravated by lockdown and health protection measures.
- Lack of basic infrastructure at land BCPs, including separate facilities for perishable goods, terminal facilities, and non-intrusive inspection equipment (e.g., x-ray and gamma-ray scanners).
- The special health and safety arrangements at BCPs, particularly COVID-19 testing of drivers arriving from countries included in Serbia's list of highly affected countries, which have been generating significant delays.⁴⁴
- Tighter control procedures for inbound consignments originating from China.

The upshot has been congestion at all land BCPs, with trucks forming long queues. In addition, outbound shipments faced considerable delays at the BCBs in destination countries, as control agencies applied strict health protection measures to curb the spread of the virus. This was the case of cargo destined to the Russian Federation and the EU, particularly Austria, Belgium, Croatia, France, Hungary, Italy, Poland, Romania, and Spain.

For goods destined to the EU, the impact of safety and health protection measures at land BCPs was aggravated by discrepancies in applied surveillance and COVID-19 testing measures within the EU. Some countries test truck drivers crossing the borders irrespective of whether they are symptomatic or not, and drivers are often re-tested given the absence of mutual recognition of COVID-19 tests. In addition, some countries established in-country-documentary checks (e.g., France), while others have introduced the requirement of transporting cargo in convoys (e.g., Croatia).

⁴⁴These measures are applicable to drivers arriving from countries included in Serbia's list of highly affected counties, except for non-nationals from North Macedonia, Bulgaria, Romania and Croatia (These are granted entry if they have a negative polymerase chain reaction COVID-19 test, no older than 48 hours, issued by the health authorities in their country of residence or the country from which they are entering into Serbia (<https://wiki.unece.org/display/CTRBSBC/Serbia>).

2.2.3 Inflated transport costs

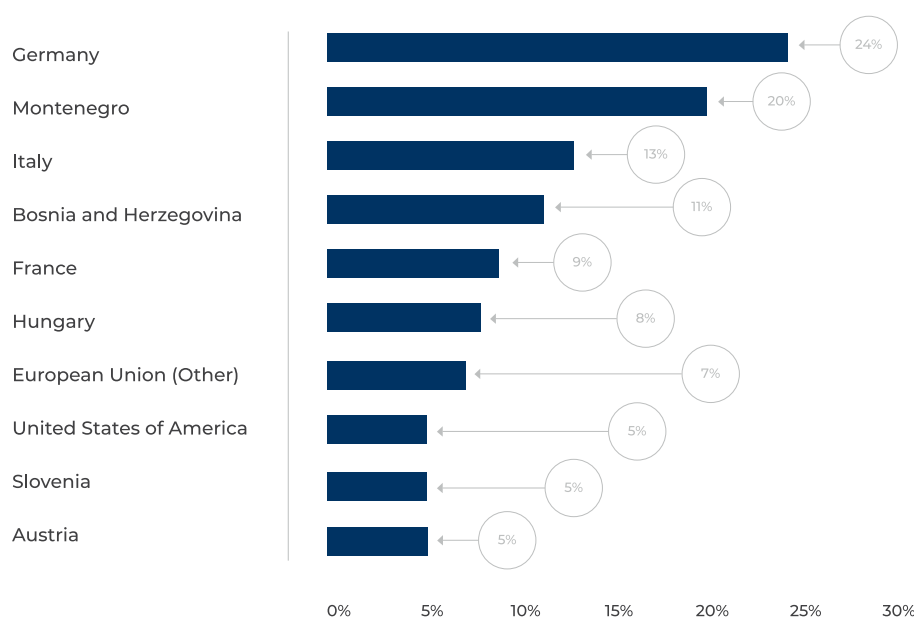
In addition to the challenges associated with safety and health protection measures at main BCPs, the surveyed MSMEs faced inflated transport costs. As explained by freight forwarders, arranging for land transport was complicated by border closures and the travel restrictions to/from countries included in Serbia's list of highly affected countries.⁴⁵ Freight forwarders had to plan long detours to circumvent border closures. They also struggled with finding carriers willing to make the journey, even at higher fees, as drivers were worried about contracting the virus and the business ramifications of the 14-day quarantine rule. All this meant additional delays and increased road transport costs by at least 30 per cent.

Shipment by air was hard hit under the weight of travel restrictions, while sea forwarders had to deal with congestions at ports under the weight of the health protection arrangements and, in some countries, the lack of staff. Shipments to China and other Asian countries were particularly challenging owing to the lack of space on ships. Many shipping lines cut down the number of voyages to withstand falling demand, so that forwarders had to arrange for storing the cargo in "in-terminal facilities" pending the arrival of ships with free space. This has proved to be rather challenging since these facilities were often filled up, while available space came with high storage fees, which inflated maritime transport costs by up to 50 per cent.

2.2.4 Reduced export and import activities

The impact of transport disruptions was compounded by dwindling international demand under the weight of recessionary pressures and lockdown measures in partner countries, which involved the closure of non-essential businesses. Many MSMEs reported losing their main partners, particularly in Germany, Italy, and Montenegro (Figure 2.1).

Figure 2.1 - Most affected export destinations (% of respondents)



Source: UNECE survey of Serbian MSMEs

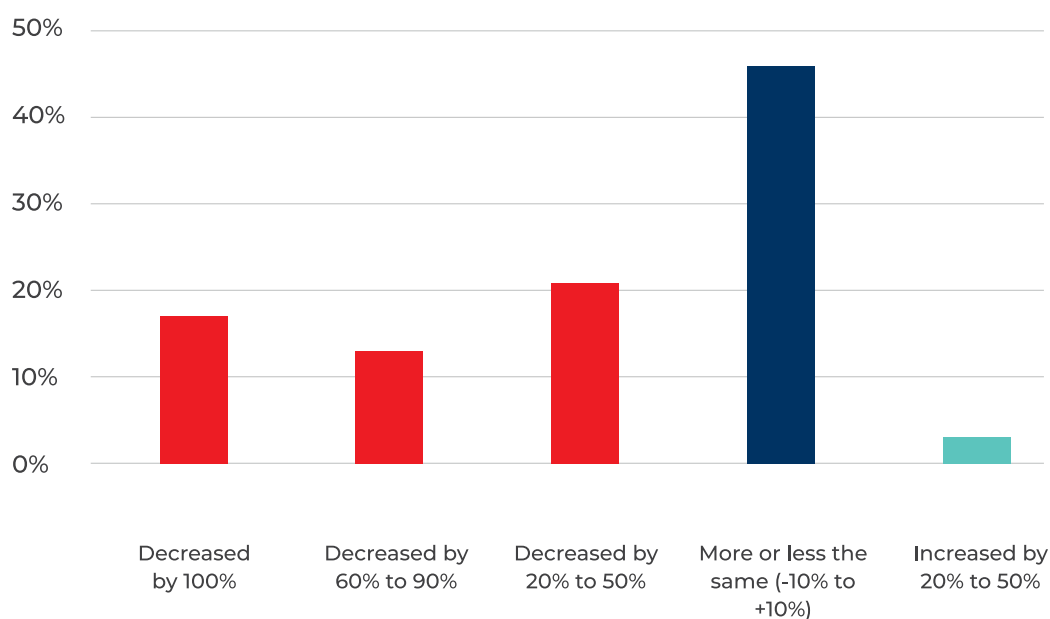
⁴⁵Most of the surveyed enterprises ship by road, which is used in combination with maritime transport for dispatching cargo to/from distant markets.

To withstand the impact of these adverse conditions, the MSMEs resorted to the below coping strategies:

- Combined shipments with other MSMEs to reduce the costs of road transport.
- Refocused exports towards countries that do not include Serbia in national lists of highly affected countries. In this respect, several MSMEs praised freight forwarders for their support and guidance in identifying such countries and in organizing shipments.
- Renegotiated delivery deadlines, though this was only possible for contracts with long-standing international buyers with whom the MSME's enjoyed strong relations of trust.

These strategies appear to have enabled the MSMEs to mitigate the impact of supply chain disruptions. As shown in figure 2.2, 46 per cent of the enterprises surveyed reported regaining their pre-pandemic export earnings by October 2020. MSMEs that suspended exports altogether (exports decreased by over 100 per cent) represented 17 per cent of the enterprises, while the remaining saw their export earnings take a nosedive.

Figure 2.2 - MSMEs' export earnings , January-October 2020
(% of respondents)



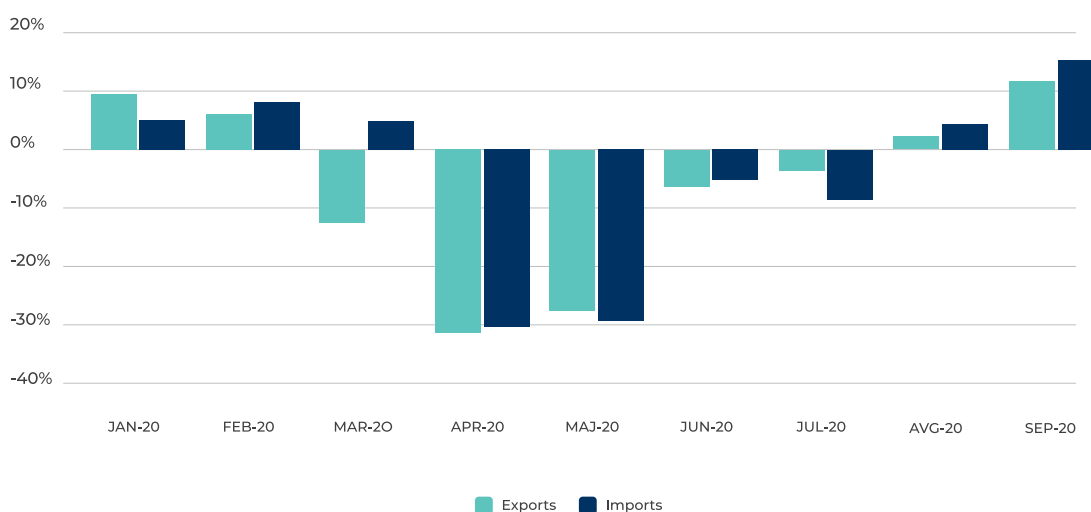
Source: UNECE survey of Serbian MSMEs

However, the surveyed MSMEs, particularly micro and small enterprises, were skeptical as to their ability to maintain exports owing to supply shortages. They noted that sourcing from abroad became a complex undertaking owing to the closure of non-essential businesses in partner countries; late shipment deliveries; delays in obtaining documentary requirements for customs clearance; and the breakdown of communications with suppliers.

The micro and small enterprises sought to overcome these challenges by switching to alternative suppliers and/or raw materials and by renegotiating the delivery terms, quantities, and prices established under long-standing (pre-pandemic) sales contracts. But these strategies appear to have met limited success. The majority reported that sourcing from abroad was putting additional stress on their budgets, and around 52 per cent were struggling with supply shortages.

The MSMEs surveyed fared worse than the national trend. As shown in Figure 2.3, the trade sector appears to have fully recovered by September 2020, with exports registering a 12 per cent growth rate compared to September 2019 and imports growing by 16 per cent. The implication is that unless supported by targeted efforts, MSMS, particularly micro and small enterprises, are unlikely to achieve full recovery, with negative consequences for job creation and poverty eradication.

Figure 2.3 - Serbia's exports and imports year over year per centage change (2019-2020)



Source: Statistical Office of the Republic of Serbia

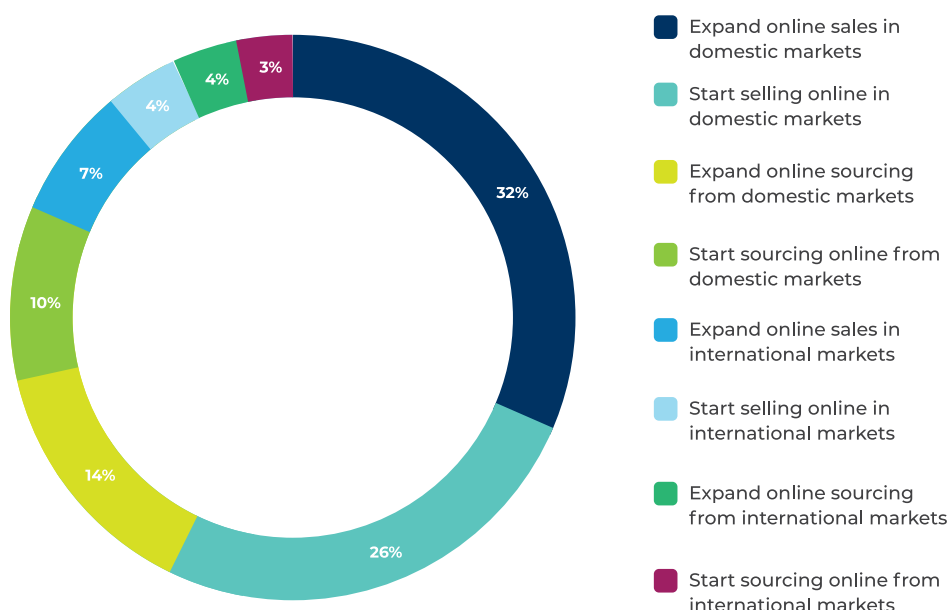
3. THE RIPPLE EFFECTS OF TRADE DISRUPTIONS

Trade disruptions had reverberating effects, which were amplified by the MSMEs' coping strategies. Most notable was the scaling down of production activities, particularly among micro and small enterprises, which left them awkwardly placed to recover once normality is attained. For a limited segment of MSMEs, scaling down production constituted the strategy of the last resort. It came on the heels of growth enabling strategies, which involved upscaling e-commerce activities and/or repurposing production. This section discusses the new realities created by these coping strategies, while the next section looks into the extent to which they helped curb the MSMEs' income fallout.

3.1 Limited engagement in electronic commerce

Electronic commerce (e-commerce) figured as an important coping mechanism for 23 per cent of the MSMEs surveyed. As shown in figure 3.1, the enterprises mainly used e-commerce for boosting sales in domestic markets and were quick to emphasize that they cannot rely on their online platforms to maintain operations.

Figure 3.1 - MSMEs' engagement in e-commerce (% of responses)



Source: UNECE survey of Serbian MSMEs

The remaining MSMEs were not engaged in e-commerce even though several had websites, which they used for promotional purposes. The enterprises surveyed were hesitant to venture into e-commerce and this was the case for micro, small as well as medium enterprises. The majority cited the modest appetite for e-commerce in domestic markets, particularly in rural areas, where buyers prefer to experience the product and attach much importance to the immediate availability of the product.

Others noted that certain products are difficult to sell online. In this respect, manufacturers of durable consumer goods (particularly furniture) and producer goods (particularly, metals, construction materials and machinery equipment) drew attention that selling online means doing without the tangibility of the product and expert advice. These are major elements to buying decisions, which are difficult to influence through online platforms.

MSMEs showing interest in e-commerce lamented the lack of financial resources for procuring the necessary equipment as well as information and communication technology (ICT) skills and experience in designing e-commerce business plans. This was the case of micro, small as well as medium sized enterprises. The majority were also aware of their limitations when it came to such practical issues as conceptualizing and launching promotional strategies were difficult challenges. MSMEs were also wary of their limited experience in finding partners and in adapting their supply chains to the requirements of just-in-time delivery.

The safety, health and environmental protection regulatory requirements in destination countries posed another challenge. MSMEs noted that venturing into e-commerce is unlikely to translate into higher sales unless they meet these requirements; a challenge that has been undermining their ability to reap the expected benefits from the SAA.

3.2 Limited production repurposing

Production repurposing did not constitute an important coping strategy for the MSMEs surveyed. The majority were either hesitant to repurpose production or were strongly against repurposing, given the high degree of economic uncertainty and, in some cases, limited ability to comply with regulatory requirements in destination countries.

Only 24 MSMEs repurposed production. These were dominated by manufacturers of construction materials and related products (namely, electrical machinery and equipment and wood paper for flooring), which repurposed part of their production to new lines in response to the upsurge in demand for buildings and housing units.⁴⁶ The MSMEs were also responding to an upsurge in infrastructure development work, with statistics showing the value of contracted and executed work associated with railway and road increased by 6.7 per cent year-over-year in January-June 2020.⁴⁷

⁴⁶Available statistics show the value of contracted and executed construction work as increasing by an average of 11.8 per cent year-over-year in January-June 2020, fueled by the rise in demand for buildings and housing units. <https://publikacije.stat.gov.rs/G2020/PdfE/G20203011.pdf>

⁴⁷<https://publikacije.stat.gov.rs/G2020/PdfE/G20203011.pdf>

Some of the MSMEs repurposed to substitute imports. This was the case of manufacturers of household equipment, which repurposed to energy saving products. A case in point is a producer of household equipment of base metal, which repurposed part of existing production lines to professional cold food tables that were traditionally imported from Italy. International standards implementation provided the main impetus for repurposing, enabling the enterprises to select and properly plan the acquisition of appropriate technologies.

The remaining MSMEs repurposed to cater for domestic demand. This group of enterprises were involved textiles, food, and automatic data processing equipment manufacturing and repurposed part of production to food, ICT equipment and cloth face masks. For textile and food producers repurposing was a temporary solution as opposed to a major step towards specialization in new products.

The MSMEs' repurposing activities were not without challenges. The lack of skilled workers was cited as a major concern along with the lack of financial resources. Only four MSMEs managed to finance their investments through bank loans, and these involved modest amounts of less than USD 10,000. The remainder used retained earnings, exclusively or combined with bank loans, to finance repurposing and the investments were also modest (less than USD 20,000).

3.3 Reduced production

As previously shown, production repurposing and e-commerce did not figure prominently among the surveyed MSMEs' coping strategies. Rather, the majority scaled down production, with 40 per cent reducing production activities and another 9 per cent suspending production altogether.

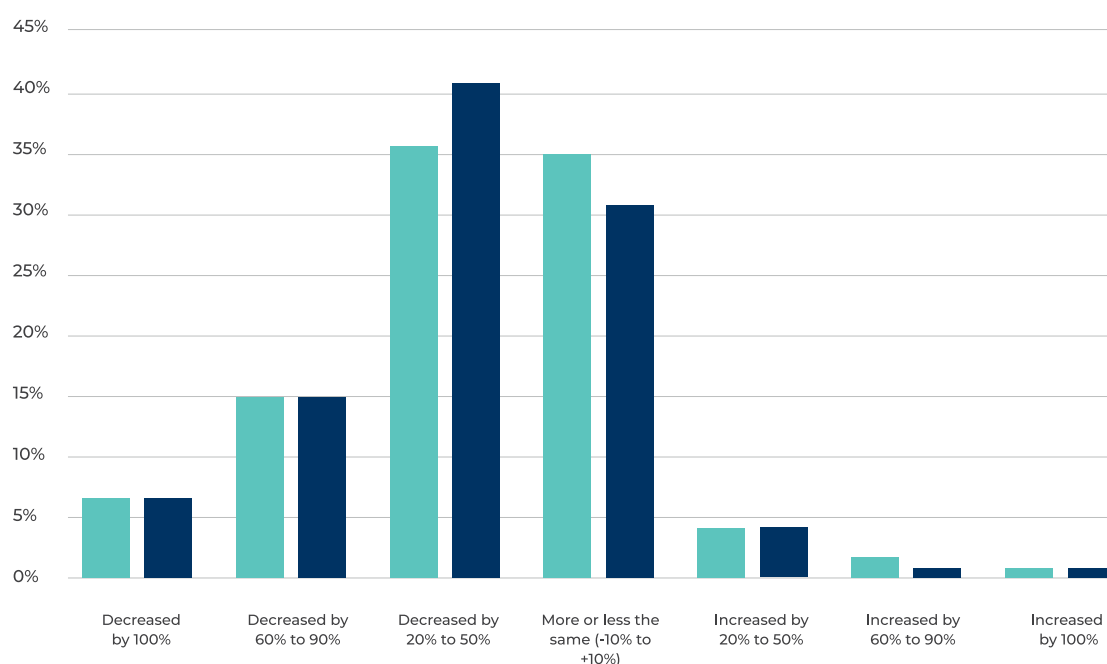
These drastic measures were prompted by not only dwindling demand but also supply shortages. Most of the MSMEs, particularly micro and small enterprises, have effectively depleted their raw material reserves and were experiencing difficulties sourcing from abroad, owing to rising transport costs (Section 2.2.4). Only 23 per cent found alternative raw materials in domestic markets. MSMEs involved in manufacturing technology-intensive products (e.g., machinery equipment), were also struggling with the skills shortages. Travel restrictions have meant that they can no longer source expertise skills from abroad or benefit from the on-sight training provided by their suppliers.

For micro and small enterprises, a return to normality, while critical for recovery, is insufficient for realizing their full potential. These enterprises were adamant in drawing attention to their weak production capacities and highlighted the need for strategic business support to expand partnerships with regional and global enterprises and modernize their production facilities.

4. INCOME FALLOUT

As shown in Figure 4.1, only 31 per cent of the MSMEs regained their pre-pandemic income levels by October 2020. The remainder saw their income plummet. Around 41 per cent lost up to 50 per cent of their total income and another 7 per cent experienced total loss of income (i.e., a 100 per cent decline in total income). These figures highlight the limited engagement of MSMEs, particularly micro and small enterprises, in exports. Their income fallout came despite that fact almost 50 per cent managed to regain their pre-pandemic export earnings (Section 2.2.4). For these enterprises at issue was the dwindling domestic demand, with only 35 per cent regaining their pre-pandemic domestic sales earnings (Figure 4.1).

Figure 4.1 - Changes in MSMEs' domestic sales earnings and total income, January-October 2020 compared to 2019 (% of respondents)



Source: UNECE survey of Serbian MSMEs

Despite these adverse conditions, the MSMEs avoided laying off staff. Only 6 per cent laid off staff, while another 21 per cent of introduced salary cuts. In addition, around 13 per cent put staff on furloughs (unpaid or semi-paid leave). As shown in Table 4.1, the production departments assumed the brunt of these measures, which is consistent with their coping strategies (Section 3.3).

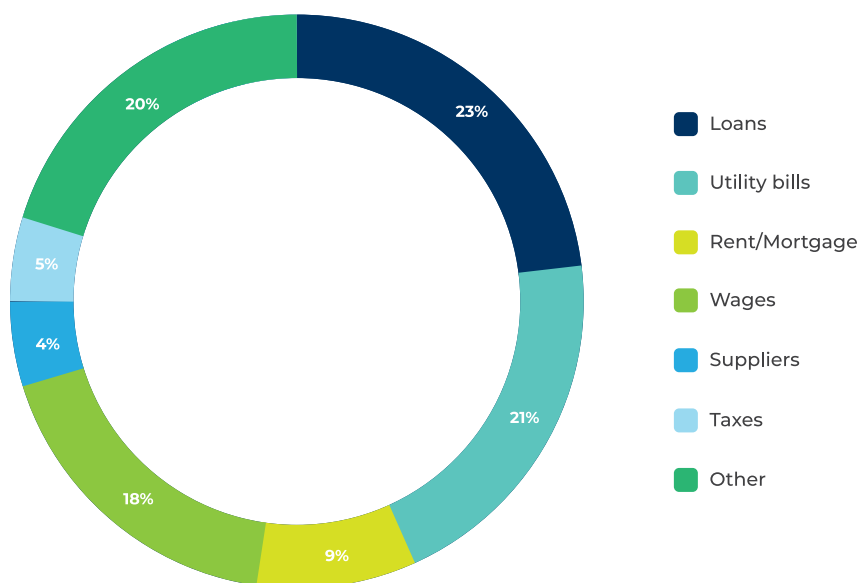
All the surveyed MSMEs emphasized that salary reductions, furloughs, and job cuts were measures of last resort, given their negative impact on staff morale. Several also drew attention to the lingering effect of these measures, noting that it would be difficult to replace staff, particularly those with expertise skills.

Table 4.1	MSMEs furloughs, salary cuts and layoffs by department (% of responses)		
Department	Furloughs (Unpaid and semi-paid leave)	Salary cuts	Layoffs
Finance and accounting	10%	0%	5%
Human resources	5%	10%	5%
Information technology	3%	0%	5%
Management	10%	33%	11%
Marketing and promotion	15%	24%	5%
Other	8%	5%	21%
Production	25%	5%	16%
Sales and exports	15%	19%	16%
Transport	10%	15%	16%

Source: UNECE survey of Serbian MSMEs

To avoid last resort measures, MSMEs' adopted erosive coping strategies, with negative consequences for their debt burden. Around 53 per cent of the enterprises surveyed deferred business payments, particularly loan repayments, utility bills (including electricity, internet, and phone bills), wages and rent payments (Figure 4.2).

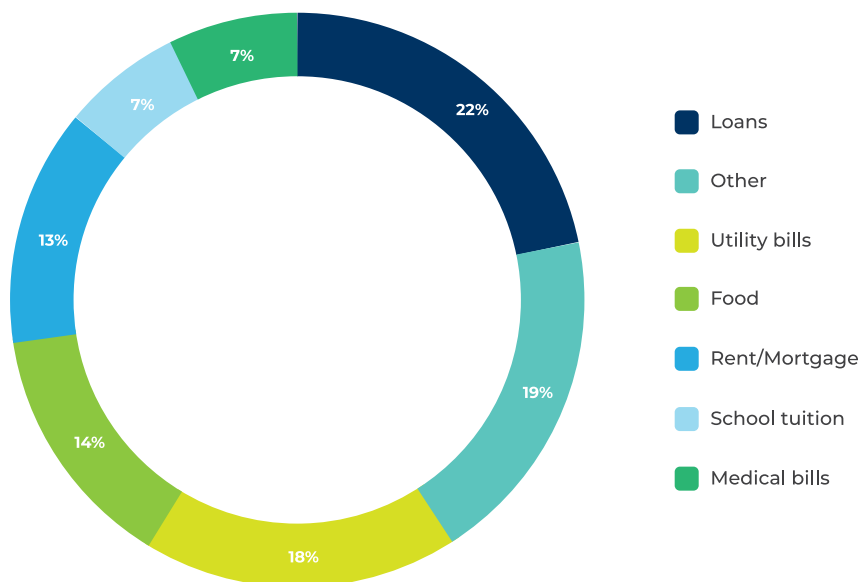
Figure 4.2 - MSMEs deferred business payments (% of responses)



Source: UNECE survey of Serbian MSMEs

Moreover, around 41 per cent of the owners used their personal savings to cover business expenses to the detriment of their households' welfare. As shown in Figure 4.3, the owners had to cut back on, among others, school tuition, medical bills and food expenditures as well.

Figure 4.3 - MSMEs deferred household payments (% of responses)



Source: UNECE survey of Serbian MSMEs

was making it increasingly difficult to maintain operations. The enterprises were concerned about their high debt levels. The majority reported that they would have to introduce further salary cuts, which as of October 2020 were predominately between 20 and 30 per cent (Table 4.2). Moreover, several said that they might lay off large portions of staff during the last quarter of 2020 or early 2021 and this was reported by micro, small and medium enterprises.

Table 4.2

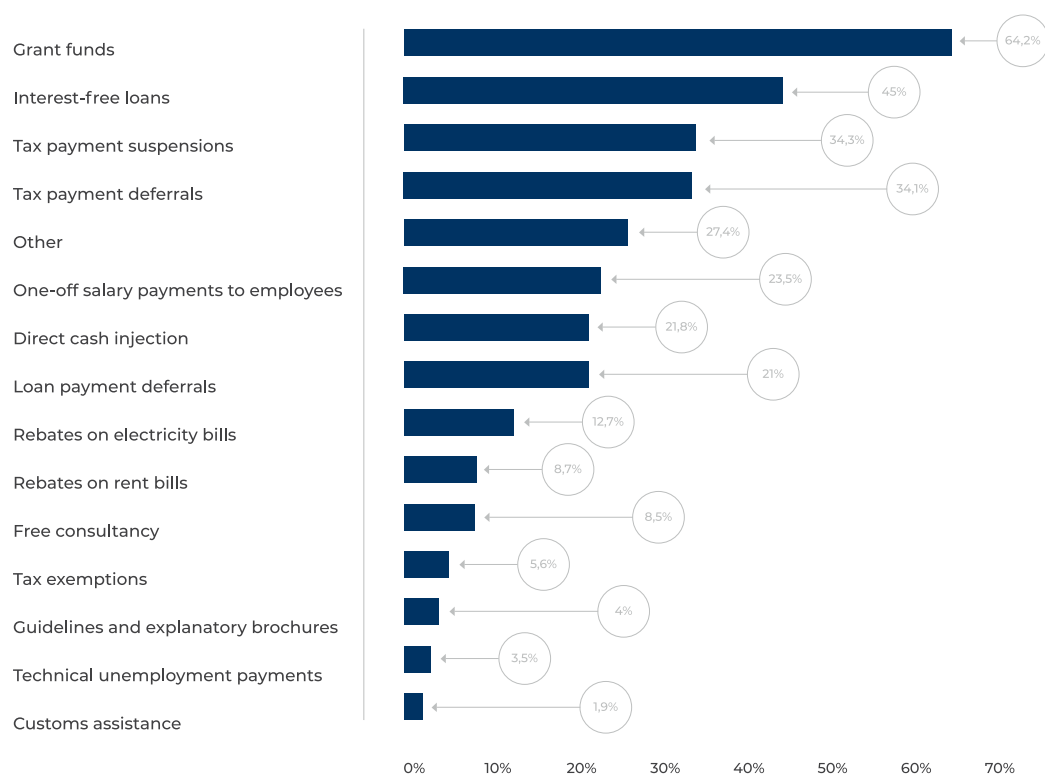
Salary cuts introduced by the surveyed MSMEs

Responses	Number	Percentage
10% or less	16	12%
11 - 20%	30	22%
21 - 30%	38	27%
31 - 40%	20	14%
41 - 50%	16	12%
51 - 60%	6	4%
61 - 70%	2	1%
71 - 80%	3	2%
81% or more	8	6%
Total	139	100%

Source: UNECE survey of Serbian MSMEs

The magnitude of the MSMEs' income fallout is reflected in the fact that around 78 per cent of the MSMEs emphasized that their survival hinges on receiving government support. Of these, 44 per cent noted that they urgently need support to cover running expenses, particularly wage bills, through grant funds (i.e., at zero interest rates). They were also in dire need of business loans and emphasized the necessity of reducing their tax burden through tax payment deferrals and suspensions (Figure 4.4). The MSMEs were wary of their increasing debt burden, noting that commercial banks were unwilling to restructure loan payments.

Figure 4.4 - MSMEs' urgent needs for maintaining operations (% of respondents)

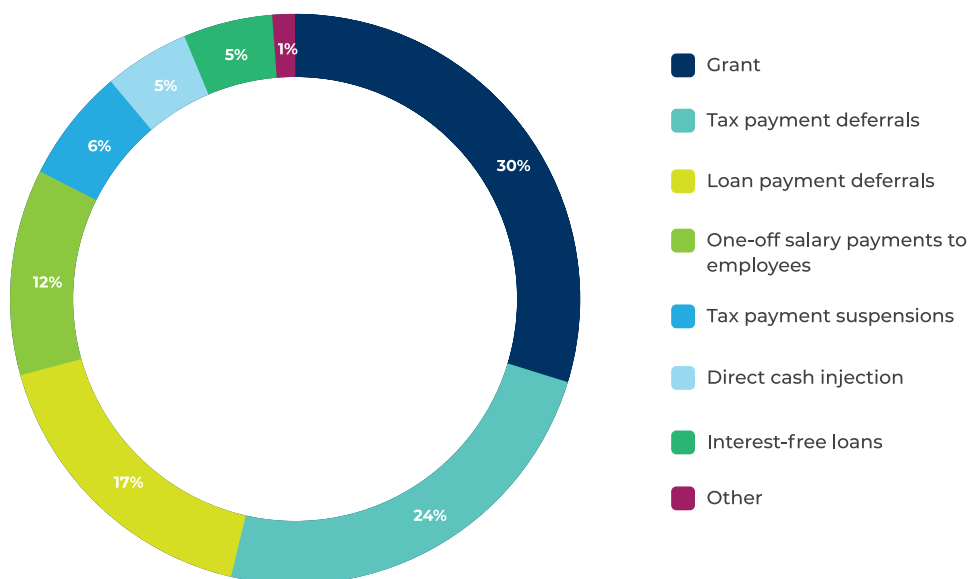


Source: UNECE survey of Serbian MSMEs

The MSMEs' income fallout would have been more severe had it not been for the Government support. Around 79 per cent of the surveyed MSMEs received assistance, particularly in the form of grants for supporting the enterprises' wage bill along with tax payment deferrals (Figure 4.5). This support enabled the MSMEs to provide minimum wage for their staff and maintain operations.

Another 7 per cent received support from international organizations, such as the European Bank for Reconstruction and Development and the American Chamber of Commerce, within the context of donor-funded projects. This included low-interest loans for purchasing raw materials and machinery and free consultancy. The remaining MSMEs noted that their efforts to obtain Government support were met with limited success because they did not meet the eligibility criteria under the different support schemes (Annex 3).

Figure 4.5 - Breakdown of Government assistance received by the MSMEs (% of respondents)



Source: UNECE survey of Serbian MSMEs

The MSMEs emphasized that more can be done to speed up the disbursement of Government support, and several found the application procedures complicated. The lack of clarity over how best to assess compliance with eligibility criteria was among the main challenges cited by the enterprises. Moreover, the State agencies seem to be overwhelmed, with the application process being complicated by slow response times.

Obtaining funds through the Government Loan Programme, which is implemented by the Development Fund of the Republic of Serbia in cooperation with the Ministry of Economy,⁴⁸ was described as most challenging due to slow response times, overly austere loan conditions and high interest rates. MSMEs noted that the commercial banks involved in schemes seem to be using strict risk assessment criteria and were quick to reject loans or impose high interest rates and strict repayment conditions.

⁴⁸The Loan Programme was launched on 11 April 2020 pursuant to the Government Decree "On the establishment of the Program of financial support to economic entities for maintaining liquidity and working capital in difficult economic conditions due to the COVID-19 pandemic caused by the SARS-CoV-2 virus." (<http://www.pravno-informacioni-sistem.rs/IGlasnikPortal/eli/rep/sgrs/vlada/uredba/2020/54/6/reg>)

5. RECOMMENDATIONS

This assessment traced the way NTMs deployed by the Government of Serbia and its trade partners combined with health protection measures influenced the MSMEs' trade and production activities. In so doing, it provided an overview of the COVID-19 effects on end-to-end supply chain operations. The Government of Serbia used NTMs to curb the spread of the virus while cushioning the impact of supply chain disruptions. The Government limited trade restrictions to the minimum and used trade facilitation measures to reduce the cost of trade. The Government also launched support measures to assist the enterprises in the form of tax deferrals and grants and was successful at controlling inflation.

However, the above-mentioned efforts fell short of preempting the MSMEs' economic fallout. The MSMEs were struggling to maintain operations in the face of dwindling demand, high transport costs, long waiting times at BCPs, and delays in obtaining documentary requirements. Nonetheless, around 46 per cent of the enterprises surveyed regained their pre-pandemic export earnings by October 2020. Their success is a testament to their entrepreneurial spirit. They renegotiated their sales contracts, combined shipments and refocused exports towards countries that do not include Serbia in national lists of highly affected countries.

Despite their success in mitigating the impact of supply chain disruptions, the surveyed MSMEs were unable to regain their pre-pandemic income levels. They fared worse than the national trend, which shows both exports and imports as registering full recovery by September 2020. The MSMEs' dwindling export earnings, coupled with the inflated transport costs, meant that they were unable to afford sourcing from abroad. The MSMEs' income fallout was also due to the drop in domestic demand, which for the majority, represented their main income source. Under such conditions, they had no choice but to scale down production. The MSMEs also postponed business payments and most owners used their personal savings to maintain operations at the expense of their households' welfare.

These erosive coping strategies aggravated the MSMEs' economic vulnerability, particularly micro and small enterprises. These enterprises were the hardest hit, so that the task of setting them on the path towards sustained growth is further complicated. Micro and small enterprises interviewed as part of this assessment lack the skill sets and capacity to venture into activities with high value added, let alone engage in growth enabling strategies such as production repurposing and e-commerce.

No doubt that a return to normality will breathe new life into the Serbian economy. However, the course of recovery and the prospects of increasing the MSMEs' engagement in exports are dependent on addressing the lingering effects of the pandemic. This begs the need for intensifying long-term development efforts, with a view to targeting the root causes of the MSMEs' economic vulnerability.

Table 5.1 provides action-oriented recommendations for the Government's consideration. These include emergency support measures for improving the MSMEs' resilience and addressing capacity shortfalls and structural weaknesses. The emphasis is on enabling the Government to create dynamic synergies between relief measures and long-term development objectives.

Consistent with the Government's development strategy, the recommendations are geared to bolster the contribution of trade to structural transformation. They aim at enabling MSMEs' to reap benefits from the growth opportunities generated by the SAA and carry direct contribution to achievement of the 2030 sustainable development goals (SDGs) 1 (no poverty), 8 (decent work and economic growth), 9 (industry, innovation and infrastructure), 16 (peace, justice and strong institutions) and 17 (partnerships for the goals).

UNECE stands ready to assist the Government in implementing the recommendations in collaboration with the UN resident Coordinator Office in Serbia, UN agencies and international development partners.

Proposed measures for stronger and more resilient Serbian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Emergency Measures			
Financial support	MSMEs are struggling with tax payments	Extend the duration of tax exemptions till 2021.	SDG 1.1: By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day
	MSMEs are experiencing shortages in working capital	Expand the scope of emergency credit schemes to address the MSMEs' liquidity crunch and publish detailed information on application procedures.	SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
Transparency	MSMEs invest significant time and effort in piecing together a clear understanding of applicable rules and procedures from public sources	<p>Improve and keep up to date State agencies' institutional websites to offer detailed information in one international language, as well as in Serbian, on applied regulations and associated administrative procedures, including fees and forms.</p> <p>State agencies need to also publish brief online explanatory brochures on the steps that MSMEs engaged in trade should follow to ensure due diligence in fulfilling the legislative requirements. These brochures should be prepared in close cooperation with the private sector to ensure that they respond to the enterprises' needs.</p> <p>In the medium term, establish a customs trader portal⁴⁹ to serve as the authoritative source of information on existing clearance regulatory and procedural requirements and implementation guidelines for enterprises. The portal should also feature information on new/planned regulations along with explanatory brochures on expected implications, including: any changes to legislation, regulations, procedures, fees, forms, and the timing of these changes; the areas in which no change will be required; and the implications for export-import activities, supply chain operations and ICT requirements that enterprises have to meet.</p>	<p>SDG: 16.10 Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements</p> <p>SDG 17.10: Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda</p>

⁴⁹See, for example, the EU Customs Trader Portal (https://ec.europa.eu/taxation_customs/eu-customs-trader-portal_en).

Proposed measures for stronger and more resilient Serbian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Emergency Measures			
Border control	Control of inbound cargo is complicated by the lack of synchronization in control processes	Synchronize working hours across customs offices and extend them as needed (some of the delays were due to carriers arriving late in the day).	
Regional Cooperation	Outbound cargo destined to/transiting through the EU countries is delayed by the lack of clarity over applied safety and health protection arrangements at BCPs	Intensify the exchange of information with relevant EU authorities on situational awareness and applied safety and health protection procedures at BCPs, inter alia, by organising consultations, scaling up existing information sharing and coordination mechanisms.	SDG: 16.10 Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements
Structural Measures			
Customs clearance	Trade-related procedures are still paper based	Establish the legal framework for an international single window following UN/CEFACT Recommendation 35 on establishing a legal framework for an international trade Single Window.⁵⁰ Accord priority to establishing the Single Window facility following UN/CEFACT Recommendations 33 on establishing a Single Window, 36 on Single Window interoperability ensures interoperability with trade partners, and 37 on single submission ensures interoperability with the private sector.⁵¹	SDG 17.10: Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda SDG 17.6: Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries
	Border control features continued reliance on physical inspection	Undertake a thorough review of the risk parameters and profiles established in the SCA information system, to reduce the amount of cargo assigned to physical control.	SDG 17.10: Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization, including through the conclusion of negotiations under its Doha Development Agenda

⁵⁰https://www.unece.org/fileadmin/DAM/trade/Publications/ECE-TRADE-401E_Rec35.pdf

⁵¹<https://unece.org/trade/standards/trade-and-uncfact/trade-facilitation-recommendations>

Proposed measures for stronger and more resilient Serbian MSMEs

Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Structural Measures			
At the border Customs terminals lack the required infrastructure	MSMEs assume additional costs to prove compliance with regulatory requirements in export markets due to the lack of internationally recognized conformity assessment bodies	<p>The refurbishment of border-crossing points should focus on basic infrastructure for clearing perishable goods – in particular</p> <ul style="list-style-type: none"> - Adequate facilities for physical inspection of cargo. - Refrigeration points for perishable cargo. - Quarantine facilities at or close to the BCPs. 	SDG 9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all
Enterprise support	MSMEs are ill-equipped to meet regulatory requirements in destination countries	<ul style="list-style-type: none"> • Develop training programmes on international standards implementation, particularly the EU harmonized standards, to enable MSMEs to achieve compliance with health, safety, and environmental regulatory requirements in destination markets, particularly the EU. Implementing international and EU standards also enables MSMEs to modernize production. By modernising production, MSMEs could benefit from the SAA, be in a better place to transition to transition to circular production systems and, thereof, increase their engagement in e-commerce. <p>Launch linkages programmes to integrate MSMEs with regional and global value chains, as this would enable them to achieve the twin objective of accessing new markets and modernizing production. Such programmes should target both labour-intensive industries and those with technology intensive activities and could be tailored to create: (i) horizontal collaboration, such as sharing the costs of expensive equipment or research and development; (ii) vertical collaboration through facilitating the decentralization of the production process; and/or (iii) exchange of information on technology and common problems.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high value added and labour-intensive sectors</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</p>

Proposed measures for stronger and more resilient Serbian MSMEs

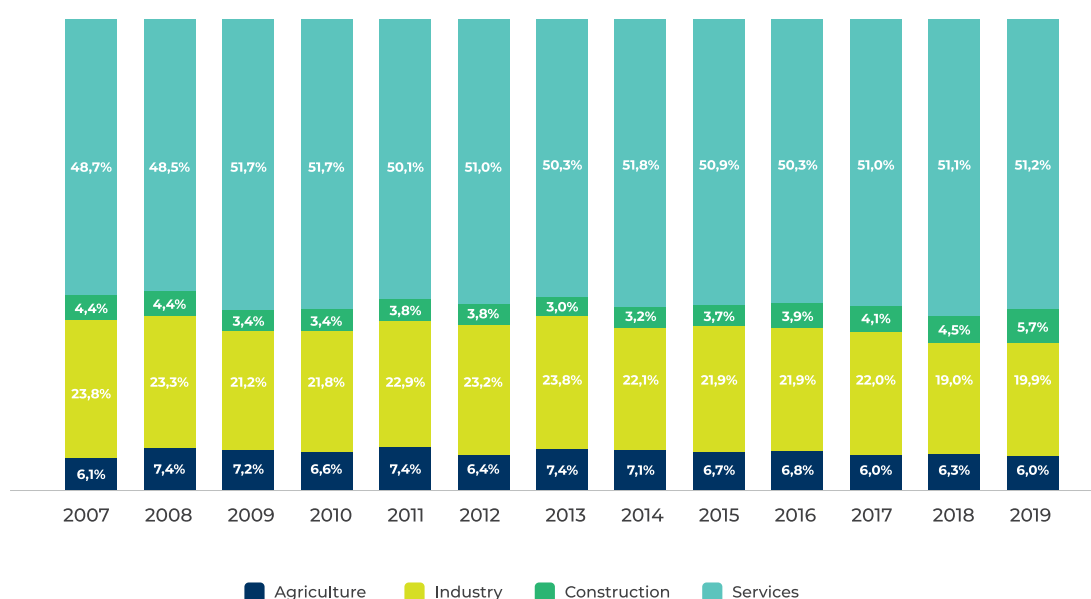
Area	Challenges	Recommendations	Contribution to sustainable development goals (SDGs)
Structural Measures			
Conformity assessment	MSMEs are struggling to find skilled workers	<p>Strengthen vocational training institutions with resources to develop targeted training for: (i) existing MSMEs' employees to improve their skill sets within their areas of work; and, (ii) unemployed individuals whose skills could be upgraded to the specific requirements of the demanding jobs within their areas of work. The emphasis should be on enabling the individuals on acquiring the necessary skills for engaging in production activities with high value added.</p> <p>Develop advanced, forward looking curricula and programmes within the higher education institutions, which tailor both the content and approaches to industry needs.</p> <p>Establish a national skills-matching strategy (or sectoral/ field-specific matching strategies) for guiding the above.</p>	<p>SDG 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high value added and labour-intensive sectors.</p> <p>SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.</p>
	MSMEs are ill equipped to engage in e-commerce	<p>In addition to the above measures:</p> <ul style="list-style-type: none"> - Launch awareness raising campaigns to address public concerns over e-commerce and familiarize consumers with the benefits of on-line shopping. - Launch credit schemes to enable MSMEs to procure the necessary ICT equipment and skills. 	<p>SDG 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets</p>

ANNEX 1 - COUNTRY BACKGROUND⁵²

A.1.1 Economic structure

The Serbian economy is driven by the services sector, which generated 51 per cent of GDP in 2019 and accommodated around 69 per cent of the labour force in 2019 (Figures A.1.1 and A1.2). The industrial sector ranks as the second income source, with a 20 per cent share in GDP and 25 per cent share in total employment during the said years, followed by agriculture and construction. Agriculture accounted for only 6 per cent of GDP, with construction generating the remaining 4 per cent. The two sectors exhibited a modest contribution to job creation, accounting for a combined 6 per cent share in total employment.

Figure A1.1 - Serbia's gross value-added, by sector (% share)



Source: Statistical Office of the Republic of Serbia

These figures mask the manufacturing sector's transformation towards increased specialization in activities with high value-added. Manufacturing has consistently accounted for the lion's share of total investments in fixed assets⁵³ and innovative activities over the past decade,⁵⁴ driven by machinery and transportation, particularly the automotive industry.

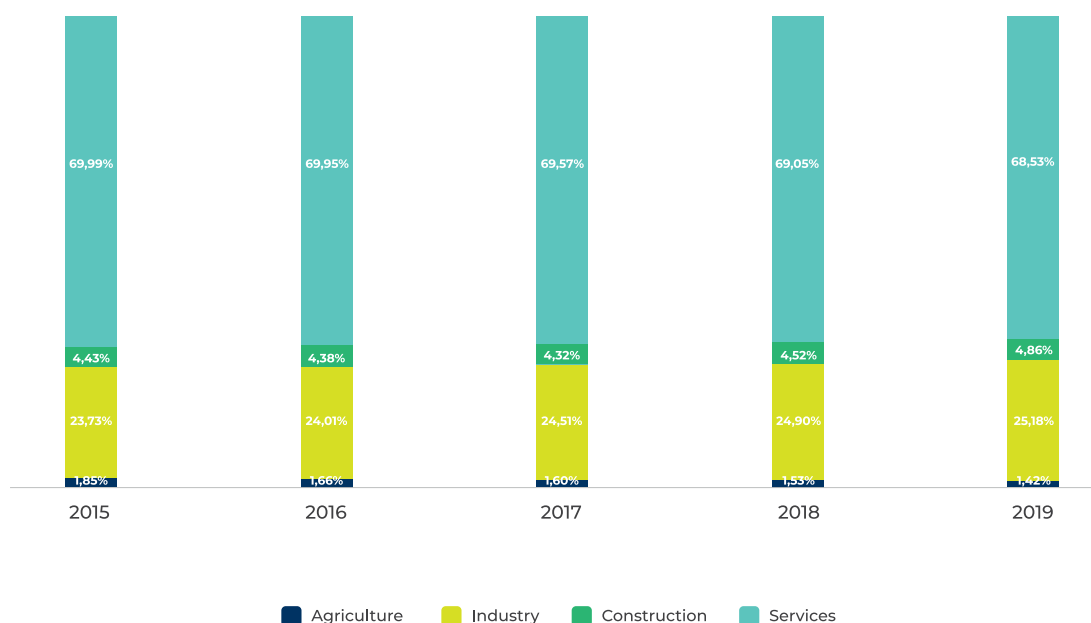
⁵²This annex draws on the UNECE study on regulatory and procedural barriers to trade in Serbia; available at: <https://unece.org/trade/studies-regulatory-and-procedural-barriers-trade>

⁵³According to the most recent statistics by SORS, manufacturing accounted for 21.5 per cent of total investments in fixed assets in 2018, followed by public administration, defense and compulsory social security (15.8 per cent); electricity, gas, steam and air conditioning supply (11.2%); transportation and storage (7.7 per cent); and, wholesale and retail trade; repair of motor vehicles and motorcycles (7.2 per cent). SORS (2019) Investments in fixed assets, 2018- Annual survey on investments in fixed assets: Results

⁵⁴SORS (2019) Indicators of innovation activities, 2016–2018; available at: <https://www.stat.gov.rs/en-us/oblasti/nauka-tehnologija-i-inovacije/>

⁵⁵FDI inflows to Serbia grew by 44 per cent in 2018 relation to the previous year continuing the trend from previous periods. UNCTAD (2019) World Investment Report; available at: <https://unctad.org/en/pages/Publication-Webflyer.aspx?publicationid=2460>

Figure A1.2 - Serbia's employment by sector (% share)



Source: Statistical Office of the Republic of Serbia

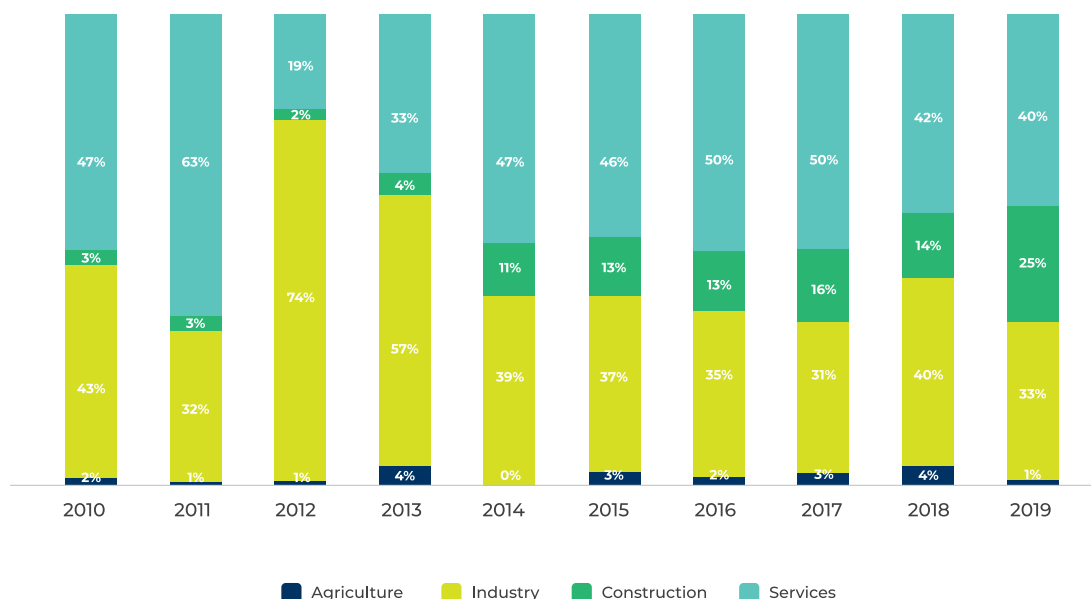
This remarkable transformation cannot be understood in isolation from the continuous influx of foreign direct investment (FDI), which in 2018 rendered Serbia the second largest recipient of FDI among South-East European countries and territories, the Commonwealth of Independent States (CIS) and Georgia.⁵⁵ FDI inflows, which accounted for 42 per cent of gross fixed capital formation in 2017⁵⁶ and 18.7 per cent of GDP in 2018⁵⁷, maintained their upward trend in 2019. As shown in Figure A1.3, FDI reached an estimated USD 4.1 billion in 2019 compared to USD 3.7 billion in 2018⁵⁸, with the industrial sector consistently accounting for the second largest share of total inflows.

⁵⁶FDI accounted for 42.1 per cent of Serbia's gross fixed capital formation in 2017 up from 35.7 per cent in 2015, and registered an average share of 45.9 per annum over the period 2005-2007. UNCTAD World Investment Report 2018, country fact sheet: Serbia; available at: https://unctad.org/sections/dite_dir/docs/wir2018/wir18_fs_rs_en.pdf

⁵⁷Statistical Office of the Republic of Serbia (SORS) Statistical Pocket Book 2019; available at: <http://publikacije.stat.gov.rs/G2019/PdfE/G201917012.pdf>.

⁵⁸Statistics by SORS do not cover AP Kosovo and Metohija. National Bank of Serbia (https://www.nbs.rs/internet/english/80/platni_bilans.html)

Figure A1.3 - FDI inflows by sector (% share)



Source: Statistical Office of the Republic of Serbia

A1.2 The trade sector

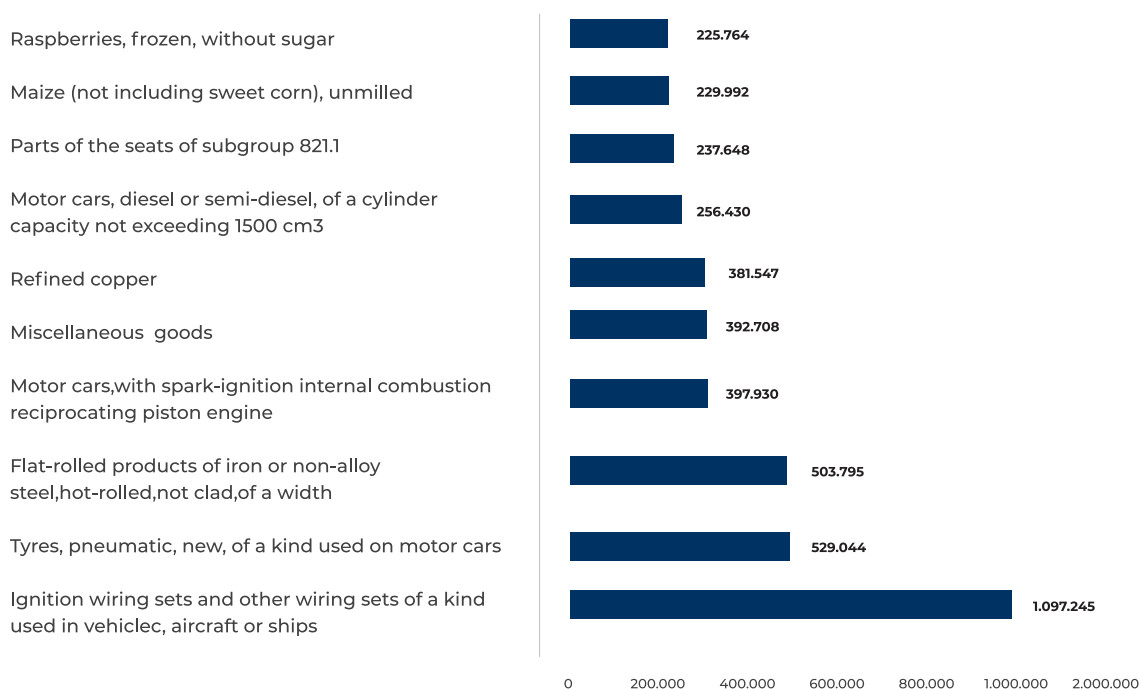
With a trade-to-GDP ratio estimated at 110.06 per cent in 2018,⁵⁹ Serbia has effectively established itself as an open economy. This high degree of trade openness has been underscored by steady export growth, fuelled by the country's expanding export mix. Serbia enjoys revealed comparative advantage (RCA)⁶⁰ in 284 products,⁶¹ with transportation and machinery equipment dominating the country's top 10 exports (Figure A1.4).

⁵⁹World Bank Data Bank (<https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=RS>)

⁶⁰An empirical application of the definition of comparative advantage, the RCA index is based on the idea that if a country exports more than the global average exports of a specific product, then said country has a comparative advantage in that product and RCA carries a value greater than 1.

⁶¹Observatory of Economic Complexity (OEC) calculations (<https://bec.world/en/profile/country/srb/>).

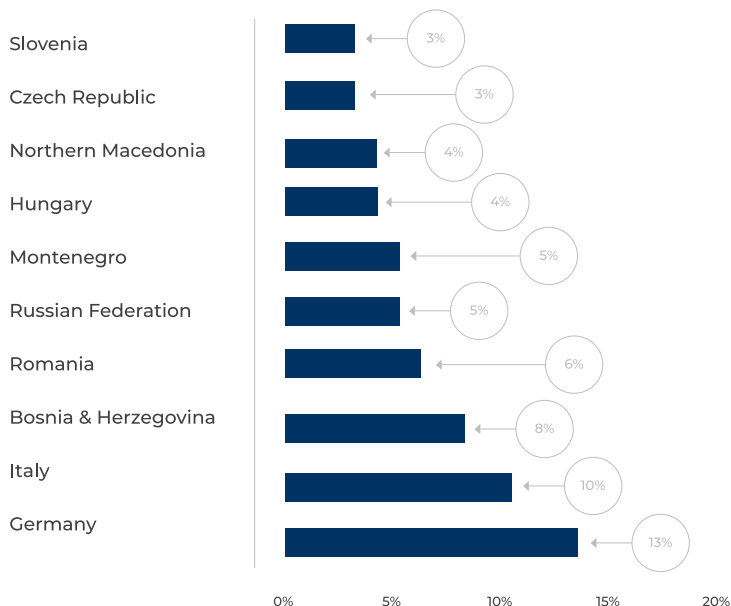
Figure A1.4 - Serbia's top 10 exports, 2018 (in thousands of United States dollars)



Source: Statistical Office of the Republic of Serbia

The EU stands as the main export destination for Serbia's products,⁶² with Germany and Italy accounting for the largest share of total exports (Figure A1.5).

Figure A1.5 - Serbia's top 10 export partners 2019 (Share in total exports)

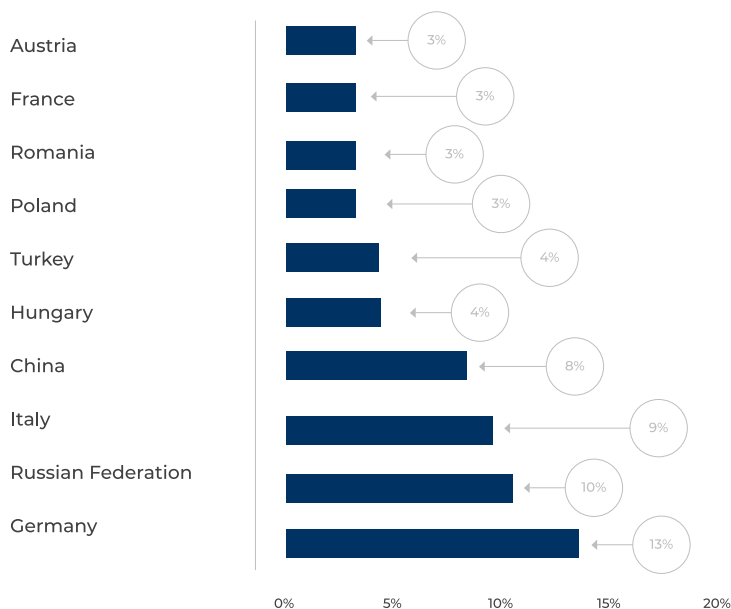


Source: Statistical Office of the Republic of Serbia

⁶²The period since 2006 has seen Serbia triple its exports to the EU. Data on Serbia's trade with the EU since 2004 is available at the European Commission's institutional website at: https://madb.europa.eu/madb/statistical_form.htm

However, like in many transition economies, imports have consistently outstripped exports. Serbia shows continued reliance on international markets for satisfying local demand for petroleum, consumer goods and raw materials, with Germany, China and the Russian Federation accounting for the largest share of total imports (Figure A1.6).

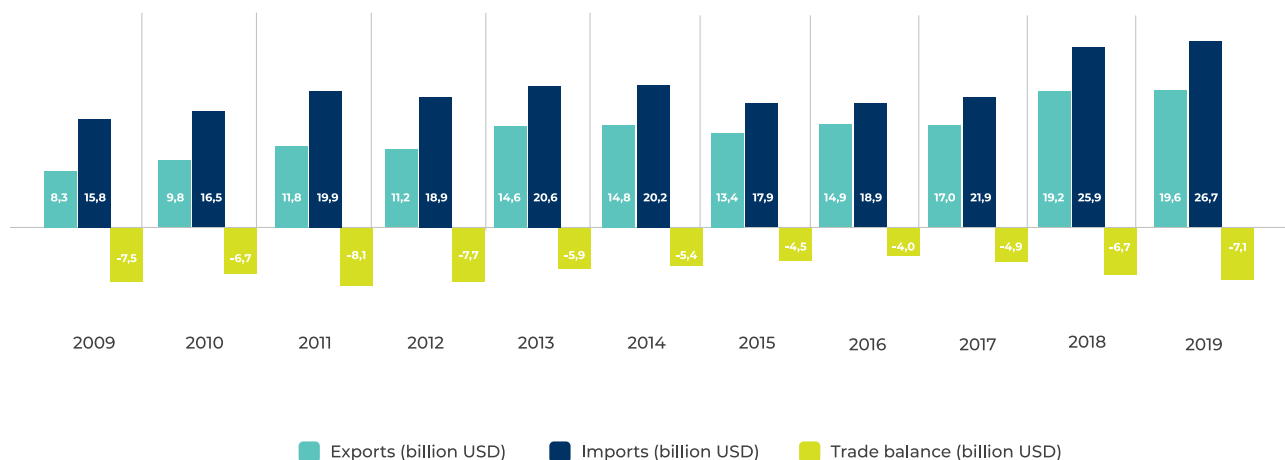
Figure A1.6 - Serbia's top 10 supply sources, 2019 (Share in total imports)



Source: Statistical Office of the Republic of Serbia

Nonetheless, Serbia's trade deficit remains below its peak levels of 2011 and 2012 (Figure A1.7), suggesting the country's success in carving a niche in global markets, particularly the EU.⁶³ This is especially the case of the agricultural sector, which has been registering a consistent trade surplus since 2005.⁶⁴ The challenge is how best to consolidate achievements to date with new exports and trade partners in a manner that creates new impetus for inclusive and sustained structural transformation.

Figure A1.7 - Serbia's trade balance



Source: Statistical Office of the Republic of Serbia

⁶³Statistics by the European Commission, show Serbia's exports to the EU more than tripled over the past decade from EUR 3.3 billion in 2009 to EUR 11.2 billion in 2019 (https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_serbia_en.pdf).

⁶⁴SORS (<https://data.stat.gov.rs/Home/Result/170303?languageCode=en-US>)

A1.3 Marked steps towards structural transformation

As shown in table A1.1, the manufacturing enterprises are exhibiting increased engagement in knowledge/technology intensive activities, with many registering high scorings against the product complexity index, PCI⁶⁵ (table A1.1). Serbia's structural transformation is also reflected in the country's impressive score against the economic complexity index (ECI). Serbia's score was estimated at 0.533 in 2017, placing it in 40th position in a ranking of 129 countries.⁶⁶

Table A1.1	Serbia top 10 knowledge-intensive products, 2018
Products (Harmonized System) HS4	PCI
Tools for working in the hand, non-motor electric	1,65
Sharpening, honing, lapping, grinding machine tools	1,64
Self-adhesive plates, sheets, film etc. of plastic	1,55
Machinery, non-domestic, involving heating or cooling	1,43
Moulds for metals (except ingot) plastic, rubber, etc.	1,42
Pumps for liquids	1,38
Machinery for paper pulp, paper, paperboard making	1,37
Air, vacuum pumps, compressors, ventilating fans, etc.	1,21
Rubberized textile fabric, except tyre cord	1,19
Chains and parts thereof, of iron or steel	1,18

Source: Observatory of Economic Complexity⁶⁷

⁶⁵The PCI ranks the diversity and sophistication of the productive know-how that went into manufacturing of individual product. It is used as a proxy for measuring the technical and knowledge intensity of products.

⁶⁶OECD calculations. ECI measures the knowledge intensity of an economy by considering the knowledge intensity of the products it exports. An up-to-date ranking of countries against ECI is available at: <https://oec.world/en/rankings/country/eci/>.

⁶⁷Observatory of Economic Complexity: <https://oec.world/>

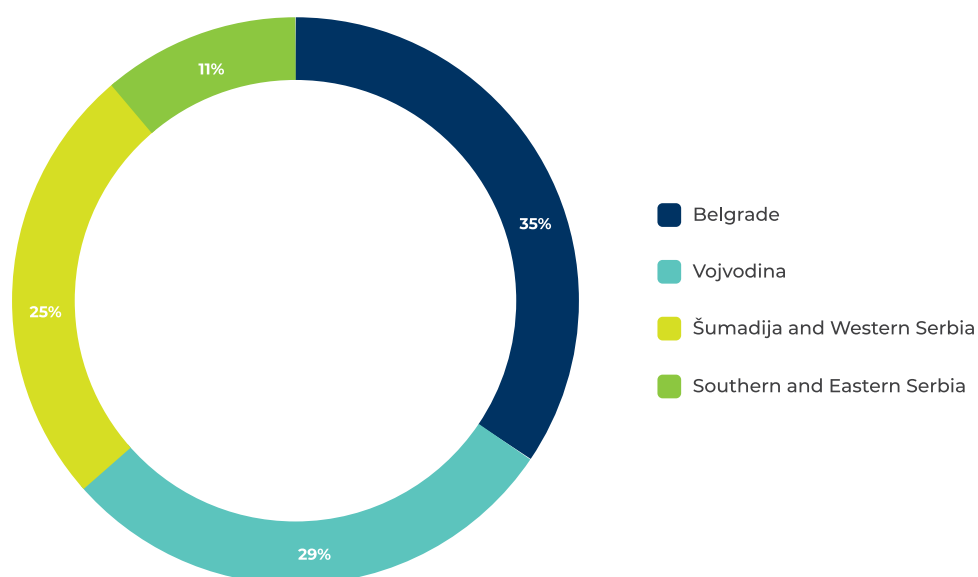
ANNEX 2 - PROFILE OF THE MSMEs SURVEYED

The assessment draws on a survey of 726 MSMEs from across Serbia. This annex provides a breakdown of these enterprises by location, size, and economic activity.

A2.1 Location

Mirroring the countrywide spatial distribution of enterprises,⁶⁸ the region of Belgrade was home for the largest segment of the surveyed MSMEs. The region of Vojvodina, accounted for the second largest share, followed by the region of Šumadija and Western Serbia and the region of Southern and Eastern Serbia (Figure A3.1).

Figure A3.1 - Breakdown of the surveyed MSMEs by geographic location (% of respondents)



Source: UNECE survey of Serbian MSMEs

A2.2 Size

The MSMEs surveyed were dominated by micro enterprises (employing less than 10 persons) and small enterprises (employing between 10 and 49 persons). These accounted for 41 per cent and 40 per cent of the MSMEs surveyed, respectively, with medium enterprises (employing between 50 and 249 persons) accounting for the remaining 18 per cent.⁶⁹

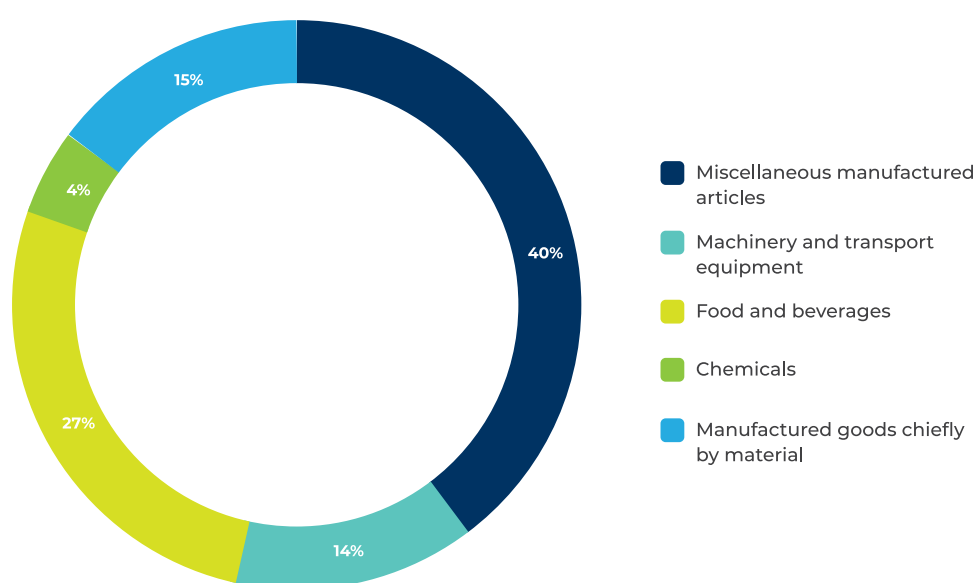
⁶⁸According to the most recent official statistics, 45 per cent of the registered enterprises were located in Belgrade in 2017. The region of Vojvodina was home to 25 per cent, while the regions of Šumadija and western Serbia and southern and eastern Serbia accounted for 18 per cent and 11 per cent, respectively. SORS Statistical Yearbook -2018.

⁶⁹The classification of MSMEs follows the EU Commission Recommendation 2003/361/EC "Concerning the Definition of Micro, Small and Medium-sized Enterprises".

A2.3 Economic activities

The majority of the MSMEs belonged to the manufacturing sector. These accounted for 53 per cent of the surveyed enterprises, followed by those involved in trade and domestic retail activities (23 per cent); construction (12 per cent); agricultural activities, including harvesting and animal husbandry (11 per cent) with MSMEs engaged in mining and quarrying accounting for the remaining balance (1 per cent). As shown in figure A3.2, most of the manufacturing MSMEs were engaged in the production of miscellaneous manufactured articles; food and beverages; and machinery and transport equipment.

Figure A3.2 - Breakdown of manufacturing MSMEs by activity (% of responses)



Source: UNECE survey of Serbian MSMEs

ANNEX 3 - THE GOVERNMENT OF THE REPUBLIC OF SERBIAS'S RELIEF AND SUPPORT MEASURES

Area	Measures
Tax policy measures	<p>Deferred payment of payroll taxes and contributions (during the state of emergency) with subsequent repayment of liabilities in instalments (starting from 2021 at the earliest)</p> <p>Deferred payment on taxes and contributions on salaries for one month</p> <p>Value added tax (VAT) exemptions</p>
Direct assistance to the private sector	<p>Payment of three minimum wages to entrepreneurs that are subject to the flat rate tax and pay tax on actual income, and to privately-owned MSMEs.</p> <p>Payment of assistance to large private sector enterprises in the amount of 50 per cent of net minimum wage for employees on paid temporary leave on employer's decision</p>
Measures to preserve liquidity	<p>Financial support to the enterprise sector through the Development Fund of the Republic of Serbia</p> <p>Enterprise support guarantee scheme</p>
Other measures	<p>Moratorium on dividend payments until the end of 2020 (private enterprises)</p> <p>Wage increase measures and other direct financial assistance</p> <p>Direct assistance to all Serbian citizens (equivalent of € 100)</p>
Additional measures (July/August 2020)	<p>Payment of 60 per cent of minimal wage to entrepreneurs, and to privately-owned MSMEs</p> <p>Deferred payment of income tax advances for one month</p> <p>Direct support to the hotel sector - 350 € per bed, 150 € per room</p>

Source: National Bank of Serbia⁷⁰

⁷⁰https://nbs.rs/export/sites/NBS_site/documents-eng/finansijska-stabilnost/presentation_invest.pdf. Up-dates on Government support measures are available at: <http://www.pravno-informacioni-sistem.rs/fp/covid19>

Impact of COVID-19 on structural transformation in Serbia

The disruptive impact of the new corona virus disease (COVID-19) on all aspects of everyday life poses unprecedented challenges for all countries. Governments have seen their priorities shift towards upscaling public health preparedness to contain the spread of the highly infectious disease and, later, to mitigate the effects of those measures on the economy and on vulnerable segments of the population. The challenges are further complicated by supply chain disruptions that have left enterprises struggling to survive. Pay cuts and furloughs have become the norm, and some of the steepest drops in output of the past century indicate that an economic crisis is compounding this public health emergency.

This review traces how non-tariff measures (NTMs) governing trade in goods influence end-to-end supply chains in Serbia and highlights the lingering effects of the pandemic. Undertaken in the context of UNECE's Studies on Regulatory and Procedural Barriers to Trade under the Steering Committee on Trade Capacity and Standards, the assessment uses UNECE's evaluation methodology for designing targeted interventions for rebuilding stronger and more resilient post-COVID-19 economies.

UNECE supports closer economic relations among its 56 member States in the pursuit of the UN Sustainable Development Goals (SDGs) and the 2030 Agenda. Its Trade and Economic Cooperation and Integration programmes assist member States in better integrating their economies into the world economy and in promoting enabling and promoting a better policy, financial and regulatory environment conducive to inclusive economic growth, innovative and sustainable development and higher competitiveness in the UNECE region.

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