



中国—中东欧国家全球伙伴中心  
GLOBAL PARTNERSHIP CENTER OF CEECs AND CHINA

# IMPACT OF THE COVID-19 PANDEMIC ON SMEs IN CHINA, CROATIA, NORTH MACEDONIA AND SLOVENIA

Recommendations for improvement  
of policy measures

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# CONTENTS

<b>1.</b>	<b>INTRODUCTION AND METHODOLOGY DESCRIPTION</b>	<b>5</b>
<b>2.</b>	<b>COUNTRY REPORT – CHINA</b>	<b>8</b>
2.1.	SME sector in China in 2020	8
2.2.	Development difficulties and opportunities for Chinese SMEs in the post-pandemic era	9
2.3.	Policy measures supporting SMEs in China during the COVID-19 pandemic	10
2.4.	Recommendations for the improvement of policy support for SMEs during the pandemic	17
2.5.	Entrepreneurial response to opportunities emerged during the crisis caused by the COVID-19 pandemic – case studies from China	19
<b>3.</b>	<b>COUNTRY REPORT – CROATIA</b>	<b>24</b>
3.1.	Quantification of the impact of pandemic on SME sector in Croatia	24
3.2.	Policy measures supporting Croatian SMEs during the COVID-19 pandemic	36
3.3.	Review of the adopted government measures for supporting SMEs during the pandemic in Croatia	40
3.4.	Entrepreneurial response to opportunities emerged during the crisis caused by COVID-19 pandemic – case studies from Croatia	41
<b>4.</b>	<b>COUNTRY REPORT – NORTH MACEDONIA</b>	<b>45</b>
4.1.	Quantification of the impact of pandemic on SME sector	45
4.2.	Policy measures supporting SMEs in North Macedonia during the COVID-19 pandemic	51
4.3.	Impact of the adopted government measures and recommendations for a successful economic recovery	53
4.4.	Entrepreneurial response to opportunities emerged during the crisis caused by COVID-19 pandemic – case studies from North Macedonia	56
<b>5.</b>	<b>COUNTRY REPORT – SLOVENIA</b>	<b>60</b>
5.1.	Quantification of the impact of pandemic on SME sector in Slovenia	60
5.2.	Policy measures supporting SMEs during the COVID-19 pandemic	68
5.3.	Review of the adopted government measures for supporting SMEs during the pandemic in Slovenia	72
5.4.	Entrepreneurial response to opportunities emerged during the crisis caused by COVID-19 pandemic – case studies from Slovenia	74
<b>6.</b>	<b>CONCLUSION AND RECOMMENDATIONS</b>	<b>77</b>
6.1.	Impact of the pandemic on the small and medium enterprise sector in China, Croatia, North Macedonia and Slovenia	77
6.2.	Government measures to support the economy during the pandemic	78
6.3.	Review of the policy measures to combat the negative effects of pandemic on SMEs and recommendations	80
	<b>BIBLIOGRAPHY</b>	<b>84</b>
	<b>LIST OF TABLES</b>	<b>88</b>
	<b>LIST OF FIGURES</b>	<b>89</b>

The background features a light gray geometric design with a central blue horizontal band. Stylized virus particles are scattered around: a blue one with many spikes in the upper left, a larger gray one with spikes in the upper right, a smaller gray one in the lower left, and a blue one in the lower right. The text is centered in the blue band.

# **INTRODUCTION AND METHODOLOGY DESCRIPTION**

# 1. INTRODUCTION AND METHODOLOGY DESCRIPTION

*Global Partnership Center of Central and Eastern European Countries and China (GPC)* is a non-profit think tank association founded in 2019 that brings together organizations representing 17 Central and Eastern European Countries (CEEC) and China. The aim of the association is to encourage the exchange of information, implement joint research and education projects for the benefit of the countries involved, through cooperation of the organizations that are signatories to the Cooperation Agreement. GPC activities include support for the implementation of research focusing on key issues in the pragmatic cooperation between CEECs and China, which aims to promote the quality and efficiency through in-depth research on policies, laws and regulations, investment, business environment, etc.

In August 2021, an internal tender process was conducted among GPC member organizations for research projects aimed at researching:

1. China-CEECs Economic Cooperation in the Post-Pandemic Era;
2. Current Business Policies of CEECs and China, and Improvement Measures.

In October 2021, with the support of the GPC, a consortium composed of four organizations: *CEPOR – SMEs & Entrepreneurship Policy Centre from Croatia, The Centre for Polish and Central and Eastern European Studies, School of International Studies, Sichuan University from China, International Cooperation Centre – National Development and Reform Commission from China and ESTIMA – Association for Strategy Creation, Research, Education and Promotion of International Values from North Macedonia*, started the implementation of the project “*Impact of the COVID-19 pandemic on SMEs in China, Croatia, North Macedonia and Slovenia – recommendations for improvement of policy measures*”.

The aim of the research project was to provide a deeper insight into the impact of the pandemic on the small and medium enterprise (SME) sector in the four observed countries of focus (China, Croatia, North Macedonia and Slovenia), to provide an overview and critical review of the measures taken by governments to support the sustainability of small and medium enterprises during the pandemic, and point to examples of good practice in entrepreneurial responses to recognized pandemic opportunities leading to innovative products, services, processes or business models. The conducted research generated conclusions and recommendations based on good practice in supporting the small and medium enterprise sector in times of crisis.

The research conducted within the project included primary and secondary sources of information. Secondary sources of information relate to the collection of quantitative data on the performance of the SME sector in the pre-pandemic 2019 and pandemic 2020, and the comparison of indicators to identify the impact of the pandemic on sector performance. Sources of data for quantifying the impact of the pandemic on the SME sector included public institutions in the four observed countries. Publicly released (secondary) sources were also used to identify measures taken by governments to support the sustainability of the SME sector. Primary sources in the form of interviews with entrepreneurs were used to present examples of good practice related to innovative products, services, processes or business models created as a result of the perceived opportunity during the crisis. Innovative examples were identified through

media records and, in accordance with needs and capabilities, information was further collected by conducting semi-structured interviews with entrepreneurs. Entrepreneurs, together with identified economic analysts, were also the primary source of information for a critical review of government measures to support small and medium enterprises during the pandemic and to identify recommendations for better sizing and tailoring thereof, according to the needs of the sector. In addition to interviews with entrepreneurs and economic experts, data and reflections on the adequacy of measures and their effectiveness were collected through media statements by the representatives of entrepreneurs' associations as well as data from published research on the subject.

Through discussion, the concluding part of the study compares the impact of the crisis on the SME sector in the four observed countries, identifies positive aspects of government measures to support the SME sector during the crisis, and identifies recommendations in the form of lessons learned that can be useful to policy makers in situations where support for the sustainability of the sector is necessary due to the impact of external adverse conditions.

The background features a blue horizontal band with the title. Above and below this band are grey geometric shapes. On these grey shapes are several stylized virus particles: a blue one with many spikes on the top left, a grey one with fewer spikes on the top right, and two more grey ones on the bottom. A small, dark grey map of China is positioned on the right side of the blue band.

# COUNTRY REPORT **CHINA**

Zhenyan Xi 席珍彦  
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## 2. COUNTRY REPORT – CHINA

### 2.1. SME sector in China in 2020

On March 1<sup>st</sup> 2020, the Center for Urban and Competitiveness Research of the Chinese Academy of Social Sciences and the Enterprise Chacha Big Data Institute jointly released the “2020 China Enterprise Development Data Annual Report” which showed that as of February 2021, there were 144 million market entities in operation in China, including 44.572 million enterprises and 96.046 million individual industrial and commercial households.

The China Household Finance Survey and Research Center of Southwest University of Finance and Economics conducted a nationwide survey on the impact of the Covid-19 pandemic on SMEs in August 2020 and December 2020. The survey data showed that among SMEs<sup>1</sup>, there were 11 percent micro, 17 percent small and 72 percent medium companies. The number of micro, small and medium enterprises in China, and the share of employment in micro, small and medium companies is indicated in Table 1.

**Table 1:** Number of enterprises and employees with regard to size

Economic criterion	Enterprise size		
	Micro	Small	Medium
Number of enterprises (approximation)	93.6 million	22.1 million	14.3 million
Median number of employees	5	11	29
Proportion of employed persons	41%	22%	37%

Sources: China Household Finance Survey and Research Center of Southwest University of Finance and Economics

On January 27, 2020, the Ministry of Finance released the publication on “Economic Operation of State-owned and State-controlled Enterprises Nationwide from January to December 2020”. The report showed that the total business income of the state-owned enterprises in 2020 amounted to 8,283.61 billion EUR. According to the official website of the Central Government of the People’s Republic of China, the total business revenue of the top 500 private enterprises in 2020 is 4.6 trillion EUR. According to the same source, there are more than 750 million employees in China, with almost half of them working in the tertiary sector (Table 2).

<sup>1</sup> According to the VAT threshold and the criteria for identifying small-scale taxpayers, SMEs can be classified into three categories according to their annual business income: medium (annual business income of over \$5 million), small (annual business income of \$1.2 million to \$5 million) and micro (annual business income of less than \$1.2 million).



**Table 2:** Number of employees in China in 2020

2020 Employed persons	Numbers
2020 Employed persons (10,000)	75,064
Employed in the primary sector (10,000)	17,715
Employed persons in the secondary sector (10,000)	21,543
Employed in the tertiary sector (10,000)	35,806

Sources: The Central People's Government of the People's Republic of China. <http://www.gov.cn/>

## 2.2. Development difficulties and opportunities for Chinese SMEs in the post-pandemic era

The sudden COVID-19 pandemic had significant impact on many private enterprises, especially SMEs. Data show that in the first quarter of 2020, more than 460,000 private small and micro enterprises were closed and bankrupt. While the SMEs have encountered difficulties, the pandemic led to the emergence of new business models. Therefore, the post-pandemic era brings both difficulties and opportunities for SMEs.

### Difficulties

- (1) **Economic downward pressure:** In recent years, with the slowdown of the global economy and the decline in export growth caused by trade frictions, the downward pressure on China's economy has intensified. SMEs were already facing great difficulties and the pandemic further amplified the downward pressure on the economy.
- (2) **Global economic changes:** he pandemic further emphasized the need for companies to embrace digitalization in order to survive. The financial dilemma of ultra-low interest rates and high leverage appeared. The breakage and restructuring of global industry chains affected SME development. The pandemic also affected SMEs imports and exports, as well as cross-border investment.
- (3) **Cash flow management dilemma:** The pandemic has led to a reduction or transfer of orders. The flow of raw materials, labor and other production factors required by enterprises is not smooth, the upstream and downstream supply chains are not connected and production cannot be carried out normally. Sales channels are blocked, and finished products cannot be sold as usual. Rigid expenses cannot be avoided.
- (4) **Difficulties in financing:** The enterprises' either lack or have imperfect risk mechanisms to cope with the pandemic.; Low loan approval rates and low quotas make it difficult to meet financing needs in the post-pandemic era. The lack of matching financial institutions further affects SMEs which face an inability to raise funds and insufficient financing under the impact of the pandemic.
- (5) **Difficulty in implementing government policies:** According to relevant studies, the State promulgated many measures to help SMEs during the pandemic, but 2/3 of SMEs

still indicated that they did not enjoy preferential subsidies. Formalities in the process of implementing government policies at all levels need to be improved, and the gap between policy expectations and implementation needs to be reduced.

### **Opportunities**

- (1) Strong government policy support:** Measures have been targeted to help SMEs reduce tax burden, lower operating costs, reduce expenses and increase job stabilization efforts.
- (2) Digital transformation presents opportunities:** The companies' own awareness of digital transformation has increased significantly. The foundations for digital transformation are more solid.
- (3) The high-tech industry has seen opportunities:** It has promoted the use of 5G, big data and artificial intelligence; the development of medical equipment, medical materials and other pharmaceutical industries; the rapid development of industrial Internet, artificial intelligence, biomedicine, medical equipment and other emerging industrial technologies; and the development of the Internet economy.
- (4) International trade opportunities:** The post-pandemic era has facilitated the development of digital trade and lowered the entry barriers to international trade. This will provide a convenient platform and valuable opportunities for product innovation and brand creation for the SMEs, potentially reshape the status of the global industrial division of labor and promote the industry in the middle and high end of the value chain.

## **2.3. Policy measures supporting SMEs in China during the COVID-19 pandemic**

In order to strengthen the capacity of small and medium enterprises to ensure business sustainability despite the changed business environment affected by the pandemic, support measures for entrepreneurs were introduced at the national and local level, which primarily focused on four key areas:

1. Enhancing financial support
2. Reducing the burden of taxes and fees
3. Reducing operating costs
4. Increasing efforts to stabilize jobs.

### ***Increasing financial support***

For small, medium and micro enterprises in cultural and creative industries that have suffered large losses in project investment during the pandemic and have difficulty to resume normal operations within a short period of time, provinces opened green channels for financial services, helping them to overcome economic difficulties with measures such as lowering loan interest rates, extending loan terms, reducing or waiving financial service fees, and extending the collection of financial lease rentals.

### ***Implementing and improve tax incentives***

The State Taxation Administration issued the Notice on Optimizing Tax Payment Services in line with the Prevention and Control of the New Coronavirus Infection Pneumonia Epidemic. They proposed that the deadline for filing tax returns be extended according to the needs to ensure epidemic prevention and control. Taxpayers and withholding agents affected by the pandemic could also apply for further extensions in accordance with the law if they still have difficulties to process the tax returns after the deadline for filing tax returns was extended in February 2020.

### ***Further reducing the social burden on SMEs***

The Ministry of Information Technology's "Notice on Measures Aimed to Help SMEs Resume Work and Production to Overcome the Difficult Period in Response to the New Coronavirus Pneumonia Epidemic" proposes 20 measures in terms of tax reduction, fiscal support, financial support, innovation and public services, requiring relevant departments and local authorities to actively introduce policies to support SMEs from various aspects.

### ***Policy provisions to support SMEs to accelerate technological transformation***

Shanghai's Opinions on "Actively Responding to the Epidemic to Promote the Steady and Healthy Development of Cultural Enterprises" vigorously develop new cultural industries such as digital publishing, digital reading, animation and games, short video, e-sports, intelligent broadcasting, digital entertainment, online education, and digital cultural blogs, and promote the digitalization and intelligent transformation of traditional cultural industries.

In order to support the sustainability of the small and medium enterprise sector during the COVID-19 pandemic, in addition to government measures at the national level, measures at the level of provinces / municipalities have also been created. Table 3 shows the Chinese local government policies and measures to support the SMEs' deal with the effects of the COVID-19 pandemic in 2020. The description of measures is quoted directly from original government documents, found at official websites of China's local governments.

**Table 3:** SME-Support Measures in Response to COVID-19 adopted by Chinese provinces/ municipalities

Provinces/ municipality	Documents	Content	Date
Beijing	Measures to Promote the Sustainable and Healthy Development of the SMEs in Response to the Impact of the Covid Outbreak	16 measures have been formulated to effectively mitigate the impact of the epidemic on the SME production and operations, to help them overcome the difficult times and stabilize their development.	5 Feb., 2020
Shanghai	Several Policy Measures for Supporting the Stable and Healthy Development of Service Enterprises in Shanghai by Making Every Effort to Prevent and Control the Epidemic	In order to support small and medium-sized enterprises which rent operating properties of state-owned enterprises in the city to engage in production and business activities, they will initially be exempted from paying two months' rent for February and March (this includes various development zones, industrial parks, technology business incubators, etc.).	8 Feb., 2020
Shandong Province	Several Opinions on Supporting the Stable and Healthy Development of SMEs in Response to the COVID-19	Twenty suggestions have been made to support the stable and healthy development of SMEs by strengthening financial support, reducing the burden of taxes and fees, lowering operating costs and increasing efforts to stabilize jobs. Measures were also taken to alleviate the cost pressure on enterprises through rent reductions for SMEs, extension of contract performance periods, establishment of additional business incubation bases, subsidies for park operations, increased support for guaranteed loans for business start-ups, reduction of logistics costs for enterprises and "non-stop supply of unpaid fees", etc.	4 Feb., 2020
Zhejiang Province	Opinions of the Leading Group for Prevention and Control of Pneumonia Infected by the Coronavirus in Zhejiang Province on Supporting Small and Micro Enterprises to Overcome Difficult Times	Increased support for SMEs foreign exports.	5 Feb., 2020

Guangdong Province	Several Policy Measures on Supporting Enterprises to Resume Work and Production to Promote Stable Economic Operation in Response to the COVID Outbreak	A total of 20 policy measures in 5 areas have been proposed to increase the efforts related to resuming work and production, reducing employment costs, alleviating the burden of business operation, increasing financial and fiscal support and optimizing government services, targeting various enterprises affected by the epidemic.	6 Feb., 2020
Jiangsu Province	Policy Measures on Supporting SMEs to Mitigate the Impact of the Epidemic and Maintain Stable and Healthy Development	A total of 22 initiatives in four areas, including reducing the burden on enterprises, strengthening financial support, stabilizing employment protection and coordinating protection services, will actively support and help SMEs in the province to resume work and production as soon as possible, alleviate the impact of the epidemic, overcome operational difficulties, enhance coping capacity, boost confidence in development and maintain stable and healthy development.	12 Feb., 2020
Qinghai Province	Policy Measures to Support the Development of SMEs and Promote the Commencement and Resumption of Major Projects in Response to the Epidemic	Six chapters and 27 specific measures are proposed to coordinate the prevention and control of the epidemic with the restoration of economic and social order, stabilize growth, expectations and supply, minimize the impact of the epidemic to the greatest extent possible, maintain smooth economic operation, social harmony and stability, provide support and protection for winning the battle against the epidemic, and strive to achieve the objectives and tasks.	17 Feb., 2020
Gansu Province	Several Measures to Support the Stable and Healthy Development of SMEs in Response to the Epidemic	The document proposes six aspects, including ensuring the orderly resumption of production, improving financing services, stabilizing employment, financial and taxation support, reducing operating costs and strengthening service protection. It aims to effectively solve the production and operation difficulties of SMEs and support their stable and healthy development.	14 Feb., 2020
Henan Province	Several Policy Measures to Support the Stable and Healthy Development of SMEs in Henan Province in Response to the Impact of the Epidemic	A total of 20 specific measures have been introduced to support the stable and healthy development of SMEs in five areas, including making every effort to ensure the orderly resumption of work and production, strengthening financial support, enhancing financial and taxation support, reducing the burden on enterprises and increasing support for job stability.	13 Feb., 2020

Yunnan Province	Opinions of the People's Government of Yunnan Province on 22 Measures to Stabilize Economic Operations in Response to the Epidemic	The goal is to do a good job in the prevention and control of the epidemic, while solving the outstanding difficulties and problems in terms of economic operation, and promoting the stable operation and healthy development of the economy.	12 Feb., 2020
Shaanxi Province	Opinions on Resolutely Winning the Battle of Epidemic Prevention and Control and Promoting Stable and Healthy Economic Development	The document consists of 22 initiatives in seven areas aimed to ensure the orderly resumption of production by reducing the burden of taxes and fees, deferring payment of social security fees, strengthening financial support, increasing financial subsidies, and supporting enterprises to employ and stabilize jobs.	10 Feb., 2020
Guizhou Province	Circular on Response to the Epidemic for Smooth and Healthy Development of SMEs	15 measures have been launched in five major areas, including effectively reducing the tax burden on enterprises, further reducing the operating costs of enterprises, helping enterprises to relieve financial pressure, making every effort to ensure normal production of enterprises, and improving and optimizing service protection, to support SMEs to actively cope with the impact of the epidemic and promote the stable and healthy development of SMEs.	8 Feb., 2020
Ningxia Autonomous Region	Measures to Address the Impact of the COVID to Promote the Healthy Development of SMEs	The document puts forward 18 "hardcore" measures in five areas to support SME development. They include increasing credit support, stabilizing the workforce, reducing the burden of enterprises, increasing financial support and strengthening service protection, in order to help boost the confidence of SMEs and stabilize their operations.	8 Feb., 2020
Guangxi Zhuang Autonomous Region	Several Measures to Support Winning the Epidemic Prevention and Control Battle and Promoting Smooth Economic Operation	30 specific measures were launched to help enterprises resume work, prepare for the spring plowing and boost consumption, while at the same time do a good job in preventing and controlling the epidemic, and coordinate the work of reform, development and stability to achieve the annual economic and social development goals and tasks.	7 Feb., 2020

Inner Mongolia Autonomous Region	Policy Measures on Supporting the Healthy Development of Enterprises Focused on the Prevention and Control of the Epidemic and SMEs Affected by the Epidemic and Having Difficulties in Production and Operation	Measures are taken in four areas: increasing financial support, reducing the burden on enterprises, optimizing approval services and providing good business services to help enterprises overcome the difficult times.	7 Feb., 2020
Hainan Province	Eight Measures to Support SMEs to Tide Over the Difficulties in Response to the Covid in Hainan Province	Eight specific support measures have been introduced in four areas, with specified responsible units and implementation deadlines. They include stabilizing enterprise employment, reducing operating costs, easing the burden of taxes and fees, and strengthening financial support, with a focus on supporting SMEs affected by the pneumonia epidemic (caused by the new coronavirus infection) and experiencing difficulties in production and operation.	5 Feb., 2020
Sichuan Province	Policy Measures to Address the COVID to Alleviate the Production and Business Difficulties of SMEs	13 specific policy measures are proposed in four areas: increasing support for burden reduction, increasing financial support, increasing financial and taxation support and increasing support for job stability, effectively alleviating the production and operation difficulties of SMEs, and resolutely winning the battle against epidemic prevention and control.	5 Feb., 2020
Hunan Province	Several Policy Measures to Address the Impact of the COVID and Promote Healthy Business Development	The measures provide real support for enterprises to deal with the impact of the epidemic and promote healthy development. They include financial subsidies, social security contributions, tax support, to ensure stable employment, stable foreign trade and foreign investment, to ensure smooth logistics and optimize the business environment.,	18 Feb., 2020
Hubei Province	Circular on the Issuance of Policy Measures to Support SMEs to Overcome the Difficulties in Response to the Covid	Support policies are proposed in various aspects, such as reducing water and gas costs, reducing rent, increasing credit support, reducing financing costs, reducing or waiving relevant taxes and fees, deferring social insurance contributions and increasing employment subsidies.	9 Feb., 2020

Jiangxi Province	20 Policy Measures on Effective Response to the Epidemic to Stabilize Economic Growth	In order to further strengthen support for enterprises producing epidemic prevention and control materials and essential goods, help real enterprises overcome difficulties, and increase efforts to stabilize jobs and promote employment, a total of 20 policy measures in 4 areas have been proposed to fully support and promote enterprises and employees affected by the epidemic to resume work and production as soon as possible.	4 Feb., 2020
Tianjin	Notice of the General Office of the Tianjin Municipal People's Government on the Issuance of Certain Measures for Winning the Prevention and Control of the COVID in Tianjin to Further Promote Sustainable and Healthy Economic and Social Development	On the basis of continuous tax reduction and fee reduction for enterprises, the measures have been upgraded and strengthened again, by adopting 21 measures in 6 areas, fully reflecting the three characteristics of providing relief for enterprises, focusing on the practicality of policies and playing a market-oriented role, and truly helping enterprises to "lighten up" with "real money and silver".	7 Feb., 2020
Jilin Province	Measures to Support SMEs to Maintain Business and Stable Development in Response to the COVID	The four initiatives revolve around efforts to reduce labor costs and stabilize the workforce; promote tax cuts and fee reductions to reduce the burden on enterprises; increase financial support and properly address financing for enterprises in difficulty; and improve policy implementation and ensure a strong policy effect.	7 Feb., 2020
Liaoning Province	Several Policy Measures to Support the Production and Operation of SMEs in Liaoning Province in Response to the COVID	Twenty-five initiatives, such as financial subsidies, tax breaks, rebates on social security contributions and rent reductions, promote the role of SMEs in epidemic prevention, healthy operation and smooth development.	6 Feb., 2020
Fujian Province	Measures to Combat the COVID Outbreak in Fujian Province and to Ensure "Six Steady" Efforts	All departments are required to conscientiously implement the work of prevention and control of the epidemic, and at the same time, to coordinate the work of reform, development and stability, to fully support and organize the activities for various types of production enterprises to resume work and production, and to promote sustainable and healthy economic and social development.	6 Feb., 2020



Heilongjiang Province	Policy Opinions of the General Office of the People's Government of Heilongjiang Province on Supporting the Healthy Development of SMEs in Response to the COVID Outbreak	It is important to support the healthy development of small, medium and micro enterprises affected by the new coronavirus-infected pneumonia epidemic and experiencing difficulties in production and operation, as well as to provide corresponding policy support in areas such as enterprise fiscal and tax policy, stabilizing the workforce of enterprises, increasing financing support, helping enterprises stabilize production, and reducing the burden of production and operation of enterprises.	5 Feb., 2020
Chongqing	Twenty Policy Measures of the General Office of Chongqing Municipal People's Government on Responding to the COVID and Supporting SMEs to Tide Over the Difficulties	The burden on enterprises is further reduced through tax relief, tax deferment, deferral of social insurance premiums, providing aid to enterprises to stabilize jobs during the epidemic period, reduction of the burden of housing fund contributions and rent relief.	4 Feb., 2020
Hebei Province	Measures to Combat the Prevention and Control of the COVID and Promote Stable and Healthy Economic and Social Development	The document envisages 30 powerful measures in seven areas, aimed to continue to promote the prevention and control, to upgrade, strengthen, and promote the province's stable and healthy economic and social development. to protect the supply of materials during the epidemic, to support enterprises to resume work and production, and to increase fiscal and financial support.	4 Feb., 2020

Sources: the official websites of China's local governments

## 2.4. Recommendations for the improvement of policy support for SMEs during the pandemic

Small and medium enterprises (SMEs) are the foundation of people's livelihood. An SME in operation solves the employment of a few, a dozen, dozens or even hundreds of people, and fulfils people's basic livelihood needs. But the SMEs were most affected during the pandemic. The necessary quarantine measures taken to prevent and control the pandemic led to the stagnation of economic operations, with SMEs bearing the brunt of the impact. As foreign pandemics are not controlled and imported pandemics occur from time to time, local quarantine measures are taken to restrict the movement of people and economic operations. Support for SMEs is also the basis of the "Six Stabilities" and "Six Guarantees", especially in terms of employment, ensuring people's livelihood and protecting market players are the foundation of the "Six Guarantees". In this regard, the government should introduce some effective policies to support SMEs<sup>2</sup>.

<sup>2</sup> The policy recommendations were identified based on the interview conducted with Chinese economist Zhu Fangming.

First, providing fiscal support. It is important to provide SMEs with tax cuts, fee reductions, financial subsidies and related subsidies to reduce the burden of enterprises, as well as to improve relevant laws and regulations, speed up the establishment of a comprehensive disaster management system and financial emergency mechanism, so that various support policies can be put in place quickly. As the pandemic disaster is a force majeure, enterprises should be allowed to use the extension of tax declaration procedures in accordance with the regulations, and the taxation department should not fine for overdue tax, impose administrative penalties, or adjust the tax credit evaluation. There should be increased support for re-employment through fiscal policies, unemployment insurance stabilization rebates, vocational training subsidies and support for the SMEs human resources, so that those unemployed due to the pandemic can quickly resume employment.

Second, offering financial support. Active financial policies should be adopted, alongside an increase in the financial support for the enterprise production after the disaster. In coordination with commercial banks, the Central Bank has adopted favorable policies for enterprises severely affected by the pandemic, service industries, labor-intensive enterprises that absorb a large number of jobs and relevant high-tech enterprises, and has implemented liberal financial policies to support them. It opened a “green channel” for post-disaster reconstruction loans, so that those enterprises with good credit records and in urgent need of funds can obtain loans as soon as possible, due to the “force majeure” nature of the pandemic disaster. SMEs that are affected by the pandemic and have difficulties to repay loans should not be withdrawn, cut off or penalized, and should be supported by renewing loans on expiry and given appropriate support in the form of lower interest rates.

Third, establishing a good insurance payout mechanism. It is essential to provide timely insurance claims to give enterprises the financial compensation they need to recover and develop, as well as to promote innovation in the insurance system and introduce new varieties suitable for pandemic disasters to provide insurance support to enterprises and people for post-disaster reconstruction. They could include adding insurance to cover business interruption caused by the pandemic, thus solving the problem of widespread work stoppage, long downtime and serious losses caused by the pandemic.

Fourth, sustaining demand and creating a good macroeconomic operating environment. It is necessary to strengthen demand-side management, open up blockages, make up for shortcomings, cut through production, distribution, circulation and consumption, and form a good macroeconomic operating environment in which demand pulls supply and supply creates demand. Expanding domestic demand is closely related to and complementary to livelihood projects and the development of the SMEs. Improving people's livelihood is an important focus point for expanding consumer demand, hedging the impact of the pandemic and promoting high-quality domestic economic development. In the post-pandemic period, apart from providing support to the SMEs through various fiscal and financial instruments, expanding domestic demand is one of the most sustainable relief measures. By expanding domestic demand, enterprises can gain access to production opportunities in the market and provide people with employment opportunities, hence it is more dynamic and sustainable than fiscal subsidies and funding.

## ***Effective policies of Japan – an example of good practice***

*It is particularly interesting to analyze the approach in supporting the sustainability of the small and medium enterprise sector in other countries.*

*(1) In April 2020, the Japanese government issued emergency economic measures to increase financial support for the pandemic and proposed the first supplementary budget to provide significant subsidies to industries that were significantly affected by the pandemic, while focusing on financial support for companies that strengthen the medical system, accelerate the development of new vaccines, and provide support for economic recovery. In order to expand economic support, the government proposed and established the 2nd supplementary budget in June, 2020. The breakdown of the revised accounting budget shows that the largest number of support items are intended for financing SMEs. In addition, support for business operators includes subsidizing rent for setting up offices, support for continued employment, etc. Building on the 1st supplementary budget, financial support for strengthening the medical system, securing vaccine production, developing business ventures, and supporting ICT development is included as well.*

*(2) Issuing “Tax Reform 2021” to provide tax incentives for SME development*

*(3) Issuing “the Basic Law on Building a Digital Society” to promote the digital transformation of SMEs.*

## **2.5. Entrepreneurial response to opportunities emerged during the crisis caused by the COVID-19 pandemic – case studies from China**

### ***Seizing opportunities to advance digital transformation and develop digital trade***

Throughout the pandemic, the companies that managed to surmount the crisis share some common characteristics. They all fall within the online, digital and intelligent trends, showing the new economy industry traits. Some examples include AI temperature measurement and robot food delivery to support the front line of pandemic prevention; or cloud video conferencing tools and cloud document collaboration tools to provide tools for enterprises to resume work remotely.

### ***Joint production with foreign enterprises (i.e. collaboration in the production of anti-pandemic materials, etc.) to open up overseas markets***

After the pandemic, the business world will enter the Open 2.0 phase. Hema Fresh has “shared staff” with restaurants such as Yun Hai Yao and Youth Restaurant (Beijing) to meet its own surging demand for orders and to help restaurants absorb costs. Meituan also quickly followed

this cooperation manner, reaching “shared staff” cooperation with Putian Restaurant, Lugang Town, Xiao Nan Guo and other catering companies, while Walmart, Fresh Legend, Jingdong, Suning, Lenovo, 58 Tongcheng and many other companies launched similar “shared staff” measures. It can be said that openness is the best “moat”.

### ***Upgrading and improving the industry chain to adapt to the pandemic and move to the middle and high end of the value chain***

Starting from the supply chain system “Internet of Everything”, the application of 5G, IoT, big data, AR/VR and other emerging technologies with great potential can help enterprises collaborate remotely and empower them to match the dynamic changes in supply and demand and scientific scheduling.

During the pandemic, considerable number of SMEs went bankrupt, especially those which mainly do offline business such as restaurants and hotels. However, there were many companies which survived the pandemic owing to their type of business and the creative measures they undertook during the pandemic. Here are two companies in Chengdu which ran their business well throughout the pandemic.

### ***CHENGDU LIGENG CULTURE COMMUNICATION CO. LIMITED***

*CHENGDU LIGENG CULTURE COMMUNICATION CO. LIMITED* is a small and medium-sized enterprise, established in April 2018, with a shareholding structure jointly funded by two private person shareholders, with a shareholding of 70% and 30% respectively. The company belongs to the cultural communication industry and its main business direction is to provide public cultural services, the publication and distribution of books and the organization and planning of cultural activities for the society.

The outbreak of the Covid left the vast majority of companies facing practical difficulties in terms of declining business performance, which was inevitable, and CHENGDU LIGENG CULTURE COMMUNICATION CO. LIMITED company was no exception. Especially in the early stages of the outbreak in the first half of 2020, the lack of adequate knowledge and scientific understanding of the coronavirus inevitably caused a psychological panic, a panic that made people feel that the only safe place to be was at home. Any activities related to consumption were suspended except those related to the life necessities at that time. But when the whole society pressed the pause button on consumption, it was inevitable that companies experienced a sharp decline in business performance. In the case of CHENGDU LIGENG CULTURE COMMUNICATION CO. LIMITED company, the impact on business performance in terms of public cultural service projects was relatively small, mainly because their service contracts were signed before the outbreak and the company actively adjusted its service and organized some cultural activities online, such as reading and lectures. That allowed people staying at home during the pandemic to enjoy digital public cultural services through their computers or mobile phones and to continue the implementation of the service contracts. However, the company was basically unable to conduct its business or organize any cultural activities offline. The biggest challenge the company normally faces is the fierce competition in the industry, both in terms of event ideas and in terms of service quality and price. But these challenges seem to pale into insignificance in the face of the pandemic since after all, *“even fierce competition is better than no competition at all”*.

The challenge for all companies during the pandemic was the dramatic contraction of the consumer market. CHENGDU LIGENG CULTURE COMMUNICATION CO. LIMITED is a relatively small company. However, when faced with these difficulties, in addition to actively adjusting and organizing offline activities to be carried out online to the extent possible, in order to maintain the continuity of the business operations, the company management calmly observed and thought about the opportunities which had emerged on the market under the impact of the pandemic and whether the company could take advantage of them to develop some new cultural service projects.

At the beginning of the pandemic, the company was more passive in waiting or expecting an early end of the pandemic. But, as the pandemic continued to spread globally and as the management gained a new understanding of the pandemic, they started planning to open up a new scenario of cultural services in June 2021. The company already opened a new model of cultural services in the community – Yumei Space. It is expected to be officially start in January 2022. They expect this new model of cultural services to be accepted by the market and to better serve every societal group.

There is no doubt about the positive impact of the company's innovations on its performance, notably through the shift from offline to online activities. During the pandemic, in order to meet the obligations stemming from the service contracts, the company had to carry out their activities online in order to ensure that the contracts were effectively implemented and the income was protected. They are also confident in their new cultural service business, "Yumei Space", which will be launched in January 2022.

### ***CHENGDU LONG YUAN NETWORK TECHNOLOGY CO.***

Longyuan Network Technology Co. Limited was founded in 2013 and currently employs over 600 people. The company is a leading mobile game developer and operator in China, and has launched a number of products popular with players since its inception. In 2019, Longyuan Network created Duo Duo Auto Chess, the first Chinese original and globally popular e-game. Duo Duo Auto Chess has shown phenomenal popularity worldwide since its launch. It won the Google App Store 2019 Most Innovative Game of the Year award in 17 countries around the world. In addition, the company launched games such as Gathering Explosion, Wanxiang Story and Music World Cytus 2. The company has won 40 industry awards and honors.

The pandemic affects industries and company operations in two ways: first, employees are unable to work together, which affects productivity. From time to time, employees are quarantined due to the recurring COVID. The gaming industry is intelligence-intensive and requires cooperation and collaboration from many sides, thus the inability to work together has a significant impact on efficiency. Second, the uninterrupted risk in multiple regions of the country has an impact on the possibility to travel, thus communication with the upstream and downstream of the industry is not as convenient as before.

The company introduced protection measures where possible, with staff temperature testing, ledgers, going to work with masks, regular daily disinfection and active attention to health and travel. Second, they actively promoted the widespread use of teleconferencing and building a good VPN for the company's intranet to facilitate employees to do their work remotely or from home. Because the company's product format is primarily geared towards Internet users, there

is very little offline delivery. So, gradually adapting to teleconferencing and teleworking was an innovative way of operating in response to the pandemic. As a result of the pandemic, the company paid even more attention to long-term development and accelerated the renewal of its own strategy to adapt to this era of rapid change.

The use of teleconferencing and telecommuting may not have a direct impact on a company's performance, but it does make it easier for people to work and interact with each other. Things that were previously difficult to explain clearly by telephone could be better explained by teleconferencing, while looking at the presentation material over and over again. It has a positive impact on productivity.

The background features a light gray geometric design with several stylized virus particles. One blue virus is in the upper left, a larger gray one is in the upper center, and a smaller blue one is in the lower center. A faint map of Croatia is visible in the upper right. The title text is centered on a dark blue horizontal band.

# COUNTRY REPORT **CROATIA**

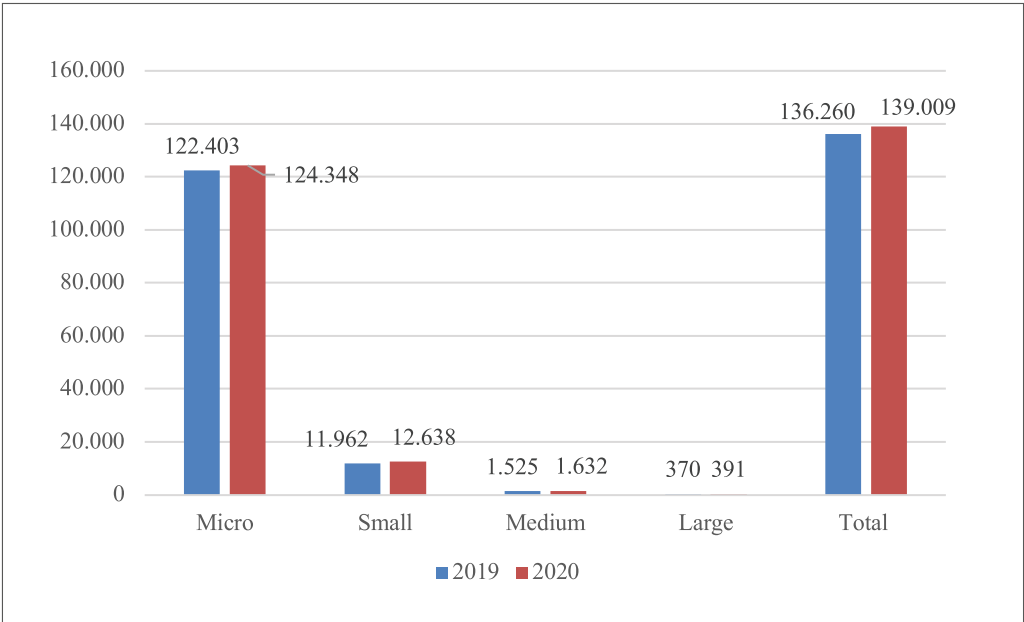
Maja Has

# 3. COUNTRY REPORT – CROATIA

## 3.1. Quantification of the impact of pandemic on SME sector in Croatia

In Croatia, as in most of the world, the small and medium enterprise sector has by far the largest share in the total number of enterprises (99.7 percent). In 2020, almost 140,000 enterprises operated in Croatia, and as many as 89.5 percent of the total number were micro enterprises. Despite significant changes in business conditions as a result of the COVID-19 pandemic, the growth trend in the total number of enterprises did not stop even in 2020, when 2,749 new companies were registered, which represents a growth of slightly more than 2 percent (Figure 1).

**Figure 1:** Enterprise structure in Croatia with regard to size in 2019 and 2020

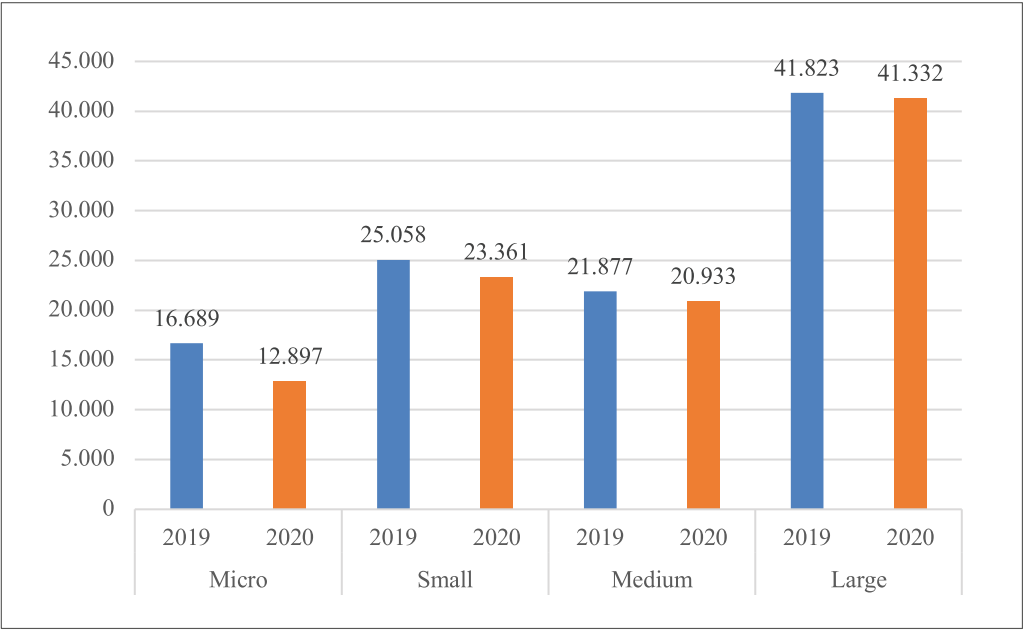


Sources: Adapted from “Results of Croatian entrepreneurs in 2019 classified by size”, FINA, 2020  
“Financial results of entrepreneurs in 2020 - classified by size”, FINA, 2021



In 2020, under the influence of the pandemic, there was a decrease in the total income<sup>3</sup> of all categories of business entities in Croatia. The largest decrease in total income was recorded by micro enterprises (23 percent), and the smallest by large enterprises, whose income decreased by 1.2 percent. Total income in small enterprises decreased by 7 percent, and in medium enterprises by 4 percent compared to 2019 (Figure 2).

**Figure 2:** Enterprise size and total income (million EUR) in 2019 and 2020 in Croatia

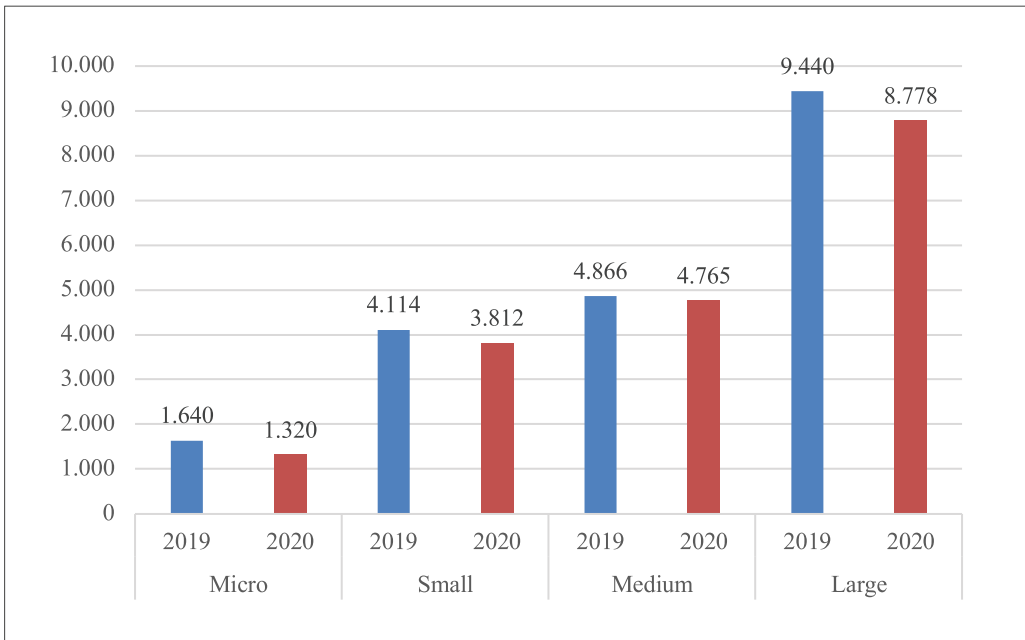


Sources: Adapted from: “Results of Croatian entrepreneurs in 2019 classified by size”, FINA, 2020  
“Financial results of entrepreneurs in 2020 - classified by size”, FINA, 2021

Due to significant restrictions on business activities in the conditions of the pandemic, there was a decrease in export activities in 2020. The largest decline in exports was recorded by micro enterprises (19.5 percent). In small and large enterprises, export activities fell by about 7 percent, while decline in exports was the least pronounced in medium enterprises, where it was 2 percent (Figure 3).

3 Original data related to the amounts of total income and exports expressed in HRK were obtained from the Financial Agency – FINA. For the purposes of preparing this report the exchange rate of 1 EUR=7,55 HRK was used for currency conversion and the amounts were rounded without decimal places. This methodology was applied in the entire chapter Country report - Croatia when converting HRK into EUR.

**Figure 3:** Enterprise size and exports (million EUR) in 2019 and 2020 in Croatia

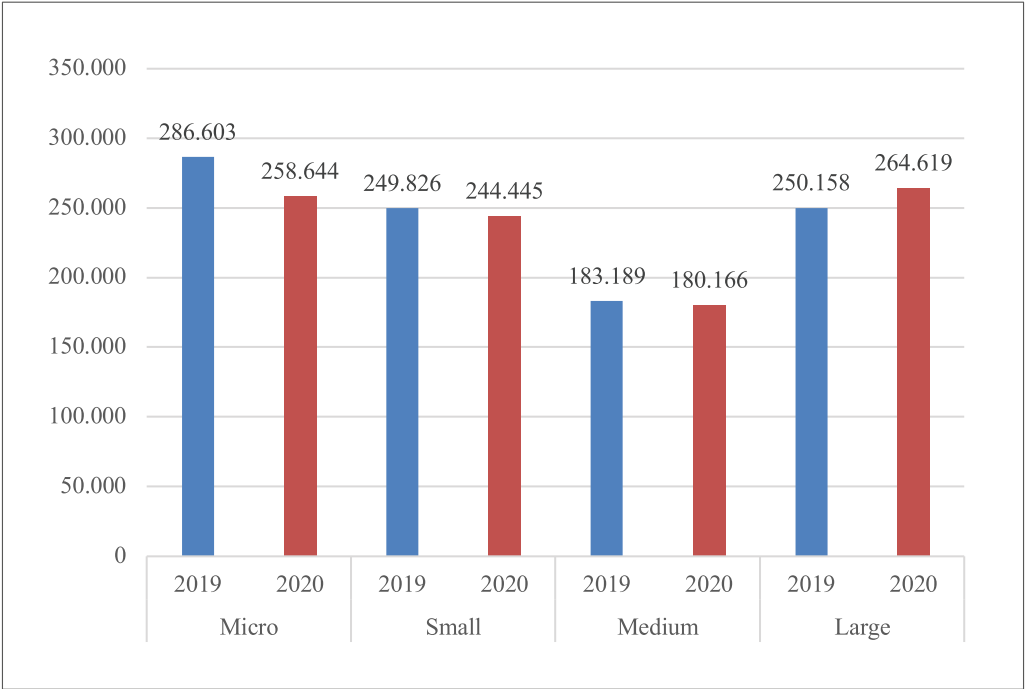


Sources: Adapted from “Results of Croatian entrepreneurs in 2019 classified by size”, FINA, 2020

“Financial results of entrepreneurs in 2020 - classified by size”, FINA, 2021

As a consequence of the pandemic and the reduction of income, in 2020 the number of employees in the micro, small and medium enterprise sector decreased by 5 percent compared to 2019, which reduced their share in the total number of employees in business entities in Croatia by 2 percentage points (Figure 4).

**Figure 4:** Enterprise size and number of employees in 2019 and 2020 in Croatia



Sources: Adapted from “Results of Croatian entrepreneurs in 2019 classified by size” FINA, 2020

“Financial results of entrepreneurs in 2020 - classified by size”, FINA, 2021

Compared to 2019, almost 28,000 jobs were lost in the micro enterprise sector in 2020, about 5,400 jobs in small enterprises, about 3,000 jobs in medium enterprises, while almost 14,500 new jobs were created in large enterprises, which partially mitigated the decline in total employment in 2020 compared to 2019, which amounted to 2.2 percent or almost 22,000 jobs (Table 4).

**Table 4:** Enterprise size and employment, total income and exports in 2019 and 2020 in Croatia

Economic criterion for sector evaluation	Enterprise size							
	Micro		Small		Medium		Large	
	2019	2020	2019	2020	2019	2020	2019	2020
Number of employees	286,603	258,644	249,826	244,445	183,189	180,166	250,158	264,619
Employment (share) <sup>4</sup>	29.6%	27.3%	25.8%	25.8%	18.9%	19 %	25.8%	27.9%
Total income (million EUR)	16,689	12,897	25,058	23,361	21,877	20,933	41,823	41,332
Total income (share)	15.8%	13.1%	23.8%	23.7%	20.7%	21.2%	39.7%	42%
Exports (million EUR)	1,640	1,320	4,114	3,812	4,866	4,765	9,440	8,778
Exports (share)	8.2%	7.1%	20.5%	20.4%	24.3%	25.5%	47.1%	47%

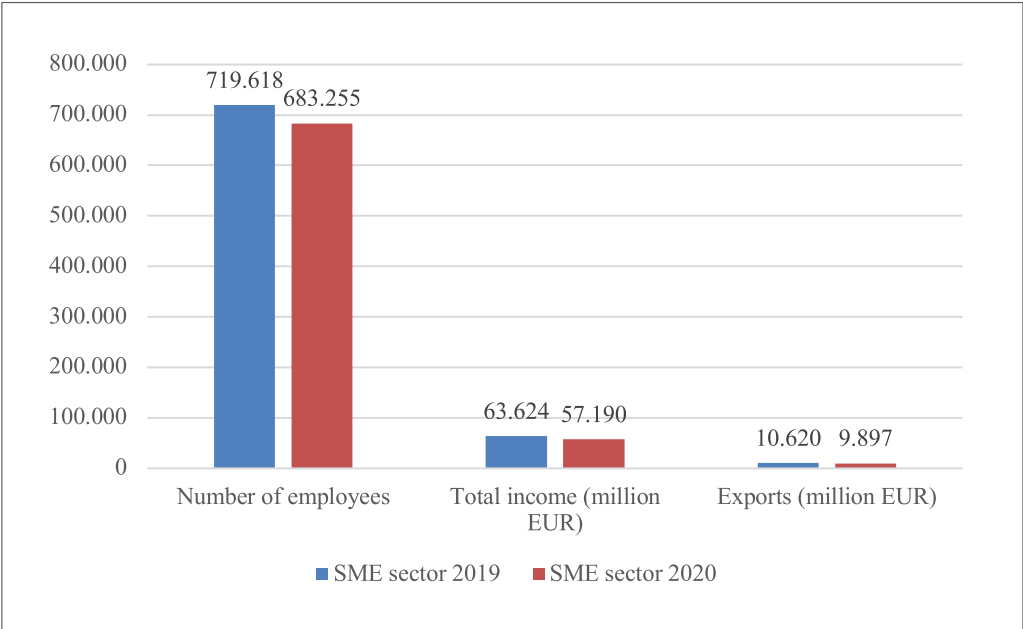
Sources: Adapted from "Results of Croatian entrepreneurs in 2019 classified by size", FINA, 2020

"Financial results of entrepreneurs in 2020 - classified by size", FINA, 2021 <sup>4</sup>

Based on aggregate data related to operations of the small and medium enterprise sector, it can be seen that the pandemic affected a decrease in the number of employees by 5 percent, i.e. that there were 36,363 fewer jobs in the small and medium enterprise sector in 2020 compared to 2019. Total income generated at the sector level in 2020 was 10 percent lower than in 2019, which is EUR 6.4 billion less, while the value of exports decreased by EUR 723 million, or almost 7 percent. (Figure 5).

<sup>4</sup> Slight deviations in the sum of the total share (100%) are possible due to rounding of amounts.

**Figure 5:** Number of employees, total income and exports in the small and medium enterprise sector in 2019 and 2020 in Croatia

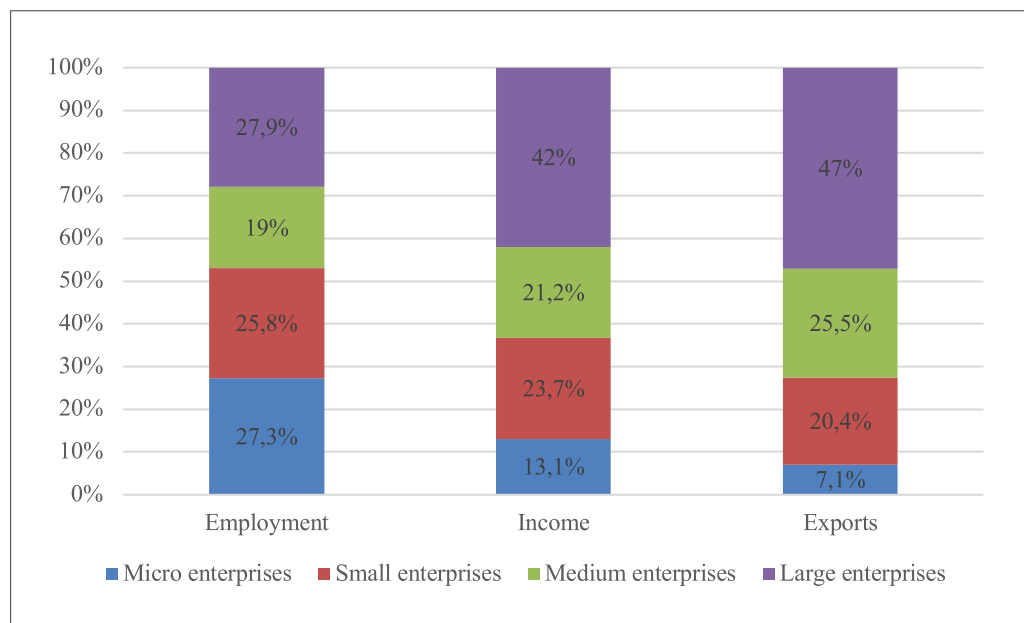


Sources: Adapted from “Results of Croatian entrepreneurs in 2019 classified by size”, FINA, 2020

“Financial results of entrepreneurs in 2020 - classified by size”, FINA, 2021

Figure 6 shows the differences between micro, small, medium and large enterprises in terms of their contribution to employment, total income and exports in 2020. In 2020, the small and medium enterprise sector employed 72 percent of the total number of employees and generated 51 percent of total income and 53 percent of the total Croatian exports.

**Figure 6:** Total employment, income and exports by enterprise size in 2020



Source: "Financial results of entrepreneurs in 2020 - classified by size", FINA, 2021

In 2020, the Croatian business sector achieved a positive consolidated result, but lower by almost 33 percent compared to 2019. The decrease in this indicator is the result of a decrease in total profit in 2020 by 6 percent with a simultaneous increase in total loss by 42 percent compared to the previous year (Table 5). As with previous indicators, after two consecutive years of growth in the amount of total net profit at the level of all Croatian companies, in 2020, under the influence of the pandemic, there is a change in the financial performance of enterprises. Despite the reduction in net profit, in 2020 all categories of enterprises achieved a positive financial result, which was not the case in 2019, when micro enterprises reported a loss that was higher than the generated profit.

**Table 5:** Financial efficiency of enterprises in 2019 and 2020

Enterprises	2019		2020	
	Million EUR	%	Million EUR	%
<b>Micro</b>				
Profit	1,372	21.2	1,296	21.3
Loss	1,392	59.7	1,290	39.0
Consolidated result – Net profit/loss	-20	0.5	6	0.2
<b>Small</b>				
Profit	1,522	23.5	1,544	25.4
Loss	383	16.4	537	16.3
Consolidated result – Net profit/loss	1,139	27.5	1,007	36.3
<b>Medium</b>				
Profit	1,244	19.2	1,246	20.5
Loss	301	12.9	529	16.0
Consolidated result – Net profit/loss	943	22.8	716	25.8
<b>Large</b>				
Profit	2,335	36.1	1,996	32.8
Loss	254	10.9	949	28.7
Consolidated result – Net profit/loss	2,081	50.2	1,048	37.7
<b>Total<sup>5</sup></b>				
Profit	6,473		6,082	
Loss	2,330		3,305	
Consolidated result – Net profit/loss	4,143		2,777	

Sources: Adapted from "Results of Croatian entrepreneurs in 2019 classified by size", FINA, 2020

"Financial results of entrepreneurs in 2020 - classified by size", FINA, 2021

Micro enterprises made a profit of EUR 1.3 billion in 2020, which is a decrease of 5.5 percent compared to the profit made in 2019. In addition to the reduction in profits, in 2020 the business of micro enterprises was marked by a reduction in losses by 7.4 percent. Unlike the year before, in 2020 micro enterprises showed a positive consolidated result, and their share in total losses of the business sector decreased by 20.7 percentage points.

<sup>5</sup> Slight deviations in the sum of the total share (100%) are possible due to rounding of amounts.

Small enterprises generated EUR 1.5 billion in profit in 2020, which is an increase of 1.5 percent compared to the result achieved in 2019. At the same time, they reported losses in the amount of EUR 537 million, which is 40 percent more than the previous year. With these results, the share of small enterprises in the total profit of enterprises in Croatia in 2020 increased by 1.9 percentage points, while the share in total losses remained almost at the level of 2019 (16 percent).

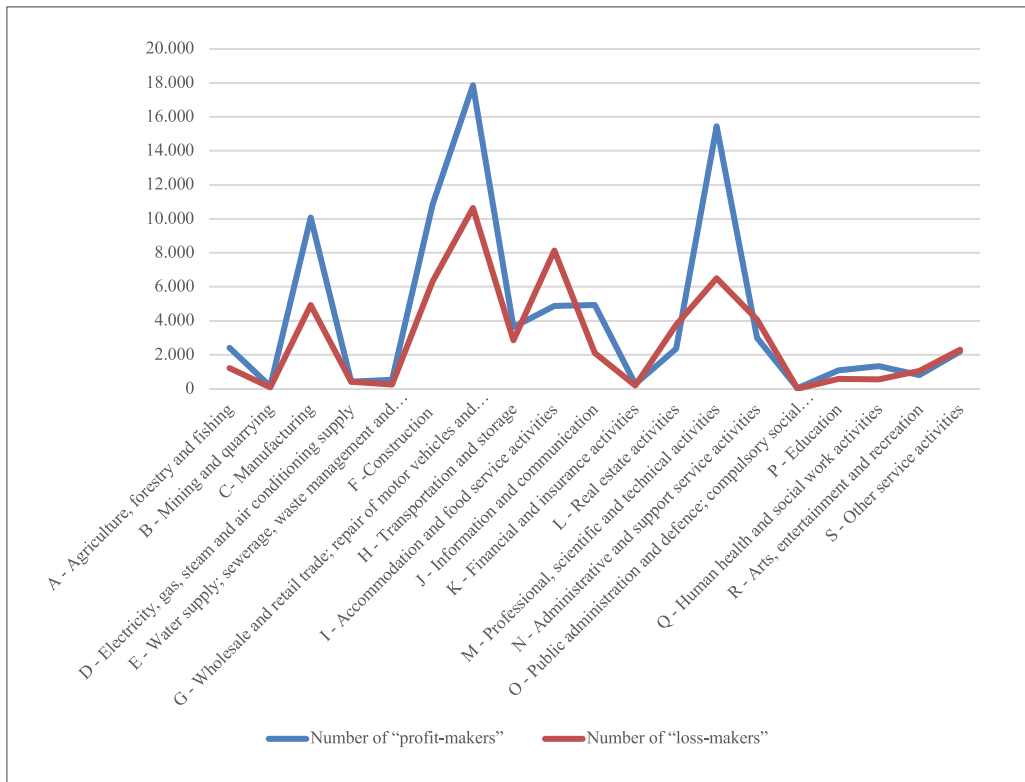
Medium enterprises made EUR 1.2 billion in profit in 2020, which is approximately at the level of the results from the previous year. Operations of medium enterprises in 2020 were marked by a significant increase in losses amounting to EUR 529 million, which is as much as 76 percent more than in 2019. With this increase in reported losses, medium enterprises also increased their share in total reported losses of the economy by 3 percentage points.

Large enterprises generated a profit in the amount of almost EUR 2 billion in 2020, which is a decrease of 14.5 percent compared to 2019. At the same time, in addition to the decrease in profits, operations of large enterprises were marked by a significant increase in losses. In 2020, large enterprises reported a loss of EUR 949 million, which is 3.7 times more than in 2019. Although large enterprises accounted for the largest share of profits at the level of the economy in 2020 (33 percent of the total generated profit), their share in total reported losses at the level of the economy increased by 17.8 percentage points.

*Based on the presented data, it can be concluded that the negative effects of the pandemic had the greatest impact on financial operations of large enterprises. Their consolidated result in 2020 is 50 percent lower compared to 2019. On the other hand, according to the presented data, the negative effects of the pandemic had the least impact on the operations of micro and small enterprises. These results can be explained by the agility and flexibility of micro and small enterprises, which are reflected in the rapid adaptation of their business to changes, but the Government's economic support measures certainly also mitigated the negative economic consequences of the pandemic, at least in the short term, as presented in this analysis.*



**Figure 7:** Number of “profit-makers” and “loss-makers” in the small and medium enterprise sector in 2020, by area of activity



Source: Adapted from “Financial results of entrepreneurs in 2020 - classified by size”, FINA, 2021

In the small and medium enterprise sector, out of the total number of enterprises that made a profit in 2020, the largest share of enterprises was engaged in wholesale and retail trade, repair of motor vehicles and motorcycles (22 percent), professional, scientific and technical activities (19 percent), and construction (13 percent). The largest number of enterprises that reported losses in 2020 also operated in wholesale and retail trade, repair of motor vehicles and motorcycles (19 percent) and accommodation and food service activities (15 percent) (Figure 7). The difference between “profit-makers” and “loss-makers” was greatest in the manufacturing industry, construction, wholesale and retail trade, and repair of motor vehicles and motorcycles in which the number of “profit-makers” greatly exceeded the number of “loss-makers”. On the other hand, activities in which the number of “loss-makers” was higher than the number of “profit-makers” were accommodation and food service activities, real estate activities, administrative and support service activities, arts, entertainment and recreation, and other service activities. These results can be explained by the changes that have marked operations of companies in 2020 in several areas. The consequences of the earthquake in March 2020 in Zagreb and the surrounding area affected the work of companies in the construction sector and indirectly the real estate companies. Epidemiological measures in the fight against the COVID-19 pandemic and the suspension of operation of catering facilities, cultural activities, service activities and

sports competitions, as well as the ban on holding public events and gatherings, affected the work of companies providing accommodation and food service activities, administrative and other service activities, and arts, entertainment and recreation activities.

In 2020, according to the Croatian Bureau of Statistics (2021) data, 12,948 legal entities were established in Croatia, i.e. 22 percent less compared to 2019. In the same period, 656 legal entities were terminated, which is 51 percent less than in 2019 (Table 6).

**Table 6:** Establishment and termination of registered legal entities in 2019 and 2020

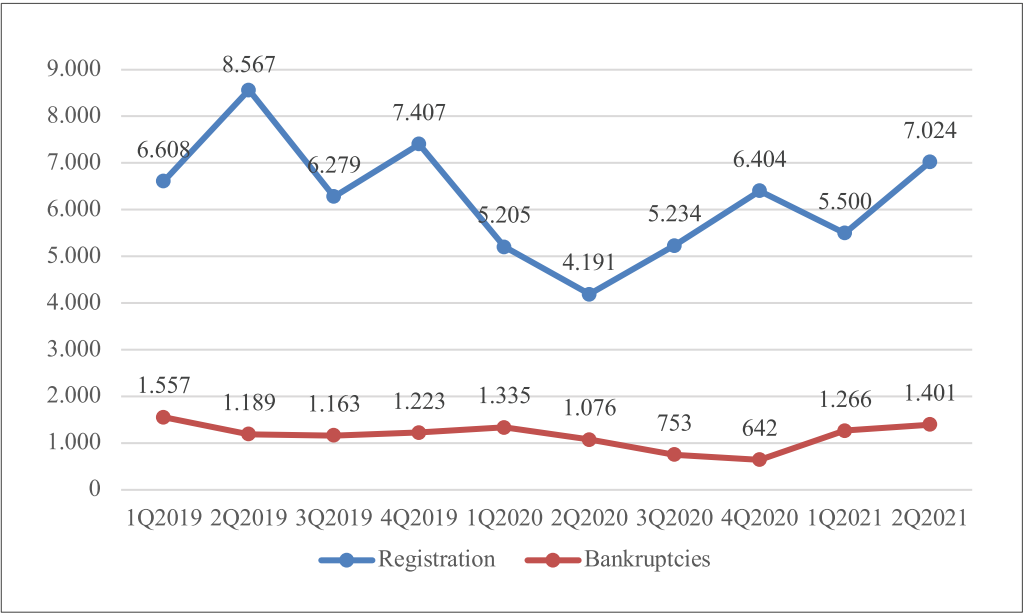
<b>Establishment</b>	<b>2019</b>	<b>2020</b>	<b>Difference</b>
Trade companies	14,805	11,518	- 22.2%
Other	1,766	1,430	- 19%
<i>Total</i>	<i>16,571</i>	<i>12,948</i>	<i>- 21.9%</i>
<b>Termination</b>	<b>2019</b>	<b>2020</b>	<b>Difference</b>
Enterprises	6	7	16.7%
Trade companies	939	444	- 52.7%
Other	389	205	- 47.3%
<i>Total</i>	<i>1,334</i>	<i>656</i>	<i>- 50.8%</i>

Source: *Number and structure of business entities, December 2020, First Release no. 11.1.1/4., 2021, Croatian Bureau of Statistics*

The Central Bureau of Statistics collected and analyzed data related to the effects of the COVID-19 disease pandemic on socio-economic indicators. In the context of business entities, it is possible to analyze statistics of registrations and bankruptcies<sup>6</sup> that includes business entities operating on a market basis. According to existing data, there is a significant decline in the number of registrations of business entities in the first and second quarters of 2020, which can be explained by a decrease in normal business activities and increased measures to combat the contagion that marked the period. Although the number of registrations of business entities increased in the third and fourth quarters of 2020, the number was still lower than in 2019 due to uncertain economic situation that is still ongoing. Regarding the number of open bankruptcy proceedings, the first quarter of 2020 saw an increase, while other quarters were marked by a decrease in the number of bankruptcies. In 2021, that number approached the 2019 level (Figure 8).

<sup>6</sup> The number of registrations also includes crafts, while the number of bankruptcies applies only to trading companies.

**Figure 8:** Number of registrations and bankruptcies of business entities in the period from 2019 to 2021, by quarters, in Croatia



Source: *Effects of the COVID-19 pandemic on socioeconomic indicators, Croatian Bureau of Statistics, 2021*

In the observed period, the highest number of registrations of business entities was in the areas of financial activities and insurance activities, real estate, professional, scientific and technical activities, and administrative and support service activities, while the lowest number of registrations was in the activity of transport and storage. The highest number of open bankruptcies was in wholesale and retail trade, repair of motor vehicles and motorcycles, and accommodation and food service activities, while the lowest was in education, health and social welfare, arts, entertainment and recreation, and other service activities.

## 3.2. Policy measures supporting Croatian SMEs during the COVID-19 pandemic

In Croatia, State aid measures for entrepreneurs affected by the COVID-19 pandemic<sup>7</sup> were prescribed on the basis of the “Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak” adopted by the European Commission on March 19, 2020. Its further amendments enabled the continuation of allocation of state aid until December 31, 2021. The types of state aid defined by the provisions of the “Temporary Framework” are as follows<sup>8</sup>:

- 1) Aid totaling up to EUR 1,800,000 per entrepreneur in the form of direct grants, tax reliefs and more favorable payment terms, or in some other form;
- 2) Aid in the form of loan guarantees and in the form of subsidized interest rates on loans exceeding EUR 1,800,000 per entrepreneur;
- 3) Aid in the form of guarantees and loans through credit institutions or other financial intermediaries;
- 4) Short-term loan insurance;
- 5) Aid for research and development in the field of COVID-19;
- 6) Aid for investment in construction or upgrading of testing infrastructures and for the improvement of processes from the laboratory to the production level;
- 7) Aid for investments in the production of products essential for the control of the spread of COVID-19;
- 8) Aid in the form of deferrals of taxes and / or social security contributions;
- 9) Aid in the form of subsidies for employees' salaries or the income of self-employed persons equivalent to salary;
- 10) Recapitalization measures for non-financial entrepreneurs;
- 11) Aid in the form of aid for uncovered fixed costs.

Following these conditions, the Government of the Republic of Croatia adopted its own package to help the economy. On March 20, 2020, the Croatian Employment Service adopted measures of direct financial support to employers with the aim of retaining jobs with employers whose economic and business activity has been disrupted or reduced due to extraordinary circumstances.

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7 Measures to help the economy due to the COVID-19 epidemic, available at: <https://mingor.gov.hr/mjere-za-pomoc-gospodarstvu-uslijed-epidemije-covid-19-7731/7731> and Tax information related to the state of emergency caused by the spread of the COVID-19 virus, available at: [https://www.porezna-uprava.hr/Stranice/COVID\\_19\\_informacije.aspx](https://www.porezna-uprava.hr/Stranice/COVID_19_informacije.aspx)

8 Categories of state aid to support the economy during the COVID-19 pandemic, available at: <https://mfin.gov.hr/istaknute-teme/koncesije-i-drzavne-potpore/drzavne-potpore/drzavne-potpore-za-podrsku-gospodarstvu-tijekom-pandemije-covid-a-19/3044>

The application for support in the first quarter (March-May 2020) could be submitted by<sup>9</sup>: (a) entrepreneurs prevented from performing their activity by decisions of the Civil Protection Headquarters, (b) entrepreneurs in accommodation and food and beverage service activities, and transport and storage activities, and labor-intensive activities within the manufacturing industry (textiles, clothing, footwear, leather, wood and furniture), and (c) other entrepreneurs that can demonstrate the impact of “special circumstances”. Already in the first month of aid allocation, March 2020, the number of recipients exceeded 500,000 employees, and their growth continued in April and May 2020.

Despite significant pressure on the state budget to meet these obligations (it was calculated that the net support for the period will amount to EUR 821 million, with another EUR 371 million for mandatory contributions), social actors linked to the economy assessed the whole change package as extremely positive. It is considered that these interventions successfully prevented numerous bankruptcies of business entities, a large number of layoffs and generally eliminated the ultimate scenario of economic collapse and social instability.

After that, the Government of the Republic of Croatia extended the period of application of these measures, and in the period from September to December 2020, they were divided into<sup>10</sup>:

- 1) Aid to micro-entrepreneurs intended for all economic entities (including craftsmen) employing up to 10 workers, if their income was reduced by 50% in the comparative period. The aid amounts to EUR 265 per employee, but they had to be employed prior to August 31, 2020.
- 2) Aid to employers from explicitly listed activities for the sectors most at risk, such as transport and storage (with special emphasis on air transport) and a wide range of activities related to the service and catering sector. The condition for receiving financial assistance was a drop in turnover of at least 60% for the previous month and it amounted to EUR 530 per worker.
- 3) Aid to employers who are organised for the employment of persons with disabilities, regardless of the registered activity, which amounted to EUR 530 per worker, provided that the turnover of the related business entity fell by at least 50% for the previous month.
- 4) Aid for shortening work hours for employers employing 10 or more workers, regardless of the registered activity, due to a temporary reduction in the scope of work. The precondition was a drop in turnover of at least 20% of the full-time fund if they employ 10 to 50 workers, and at least 10% if they employ 51 or more workers. The amount of aid is EUR 265 per worker.

The only exception in this case are those micro-entrepreneurs and employers who have been prohibited or prevented from working by the provisions of the *Civil Protection Headquarters* at the local, regional or national level. Also, some of the defined measures can be implemented by self-employed persons (including craftsmen) if they meet the prescribed conditions. For the

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9 Aid for preservation of jobs (Ivica Urban), available at: <http://www.ijf.hr/hr/publikacije/casopisi/12/osvrti-institutaza-javne-financije/109/potpora-za-ocuvanje-radnih-mjesta/1595/>, <http://www.ijf.hr/upload/files/1131.pdf>

10 Review of financial assistance measures to employers for preservation of jobs until the end of 2020, available at: <https://www.rif.hr/pregled-mjera-novcanih-pomoci-poslodavcima-za-ocuvanje-radnih-mjesta-do-kraja-2020-godine/>

period until December 31, 2021, the amount of aid was EUR 530 per worker (in the period from January to February 2021, this included aid for the preservation of jobs for areas affected by the earthquake). As part of aid to employers, in cases when there had been a temporary reduction in the scope of work, a subsidy in the amount of EUR 477 per worker was paid.

In addition to financial aid for job preservation, other measures to help entrepreneurs in activities affected by the coronavirus include approval of loans with favorable interest rates for micro and small entrepreneurs under the auspices of the Croatian Agency for SMEs, Innovations and Investments (HAMAG BICRO). This type of aid is divided into "COVID-19 loans" for amounts up to EUR 50,331 (including the group of medium-sized entrepreneurs) and "Micro loans for working capital for rural development" and "ESIF Micro loans for working capital" for amounts from EUR 1,000 to 25,000. The Croatian Bank for Reconstruction and Development also enables the use of various types of loans as temporary measures within the lending program for small, medium and large entrepreneurs<sup>11</sup>.

*The National Recovery and Resilience Plan 2021-2026 of the Republic of Croatia was adopted in July 2021, based on the establishment of the Recovery and Resilience Facility at the European Union level. Its measures and activities are aimed at helping the national economy recover after the crisis caused by the COVID-19 disease pandemic and creating a more resilient and sustainable society in the event of new economic shocks<sup>12</sup>. By the end of 2021, Croatia expects a disbursement of about EUR 808 million, which is an advance of 13% of the total amount of grants provided under the Plan.*

The National Recovery Plan is structured through 6 components:

- 1) Economy
- 2) Public administration, judiciary and public property
- 3) Education, science and research
- 4) Labour market and social protection
- 5) Health care
- 6) Initiative: Renovation of buildings

With regard to strengthening the productivity and competitiveness of the economy, special attention has been paid to reforms and investments aimed at "green" and digital transformation and achieving smart, sustainable and inclusive growth in general. In order to achieve optimal performance when implementing the Plan and spending the available funds, specific projects within these broadly defined goals should be aimed at increasing employment, growth and development of micro, small and medium enterprises, encouraging innovation and technological development, i.e. high-return investments that will significantly contribute to strong economic growth in the medium and long term, thus annulling the initial negative impact on the budget.

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11 Measures to help the economy due to the COVID-19 epidemic, available at: <https://mingor.gov.hr/mjere-za-pomoc-gospodarstvu-uslijed-epidemije-covid-19-7731/7731>

12 Recovery Plan: About the plan, available at: <https://planoporavka.gov.hr/o-planu/9>

## ***CITY OF ZADAR – an example of a local measure for entrepreneurs in dealing with the crisis caused by the COVID-19 pandemic<sup>13</sup>***

*In the City of Zadar, the city budget directly provided around EUR 1.3 million in aid by April 2021 through measures of price reduction or exemption of payment for lease of business premises and public space, and waiving a portion of utility fees, and in order to provide additional support to entrepreneurs and craftsmen, additional funds have been secured for the future period. In the fight against the negative consequences of the pandemic, Zadar has created two financial instruments for lending to entrepreneurs and craftsmen: “COVID-19 – loan for preservation of liquidity” and “COVID-19 – loan for investment”, through which the City subsidises interest on loans. The total credit potential for both programmes is EUR 26.5 million, the interest rate of seven contracted banks ranges from 2.5 to 3 percent, of which 1 percent is covered by the city’s programme. The grace period for liquidity loans is up to one year, and up to two years for investments. Beneficiaries of the Programme can be micro, small and medium business entities that are registered and operate in the area of the City of Zadar, operate throughout the year, have at least one full-time employee and who meet the conditions for disbursement of loans in accordance with the rules of commercial banks that have concluded an Agreement on the implementation of the Programme with the City of Zadar. The specifics of these programmes for lending to entrepreneurs and craftsmen are as follows:*

### **1. Lending programme “COVID-19 – loan for preservation of liquidity”**

*Loan purpose: loan for preservation of liquidity – “kuna loan” for financing current operations, which includes procurement of raw materials, intermediate goods, semi-finished products, small inventory, settlement of liabilities towards suppliers, labour costs, general operating expenses, refinancing of existing adverse loans, settlement of short-term liabilities towards financial institutions and the state;*

*Loan amount: from EUR 13,245 to EUR 132,450 (HRK 100,000 to HRK 1,000,000) (maximum one loan per entrepreneur);*

*Loan repayment period: up to 3 years, including the term of use up to 6 months and a grace period of up to 1 year.*

### **2. Lending programme “COVID-19 – loan for investment”**

*Loan purpose: kuna loan for purchase, construction, arrangement, reconstruction or expansion of business facilities and purchase of new equipment or new part of equipment;*

*Loan amount: from EUR 26,490 to EUR 264,901 EUR (HRK 200,000 to HRK 2,000,000) (maximum one loan per entrepreneur);*

*Loan repayment period: up to 10 years, including the term of use up to 12 months and a grace period of up to 2 years.*

*In the budget of the City of Zadar for 2021, funds in the amount of EUR 198,675 were planned for subsidising interest on loans for preservation of liquidity, that is, EUR 66,225 HRK 500,000 for subsidising interest on loans for investment.*

13 <https://www.grad-zadar.hr/vijest/opce-vijesti-28/gradonacelnik-dukic-predstavio-nove-covid-mjere-grada-zadra-za-poduzetnike-krediti-do-200-milijuna-kuna-za-likvidnost-i-investicije-poduzetnika-6721.html>

### **3.3. Review of the adopted government measures for supporting SMEs during the pandemic in Croatia**

One of the most used measures during the COVID-19 pandemic is aid for job preservation. Entrepreneurs who used these measures believe that the measure was an adequate response of the Government to the new situation in March 2020, and that they saved many jobs or at least delayed layoffs. But, in the long run, entrepreneurs believe that measures will not help them save businesses from collapsing. Even if they don't have a single employee or if they lay off everyone, entrepreneurs have fixed costs that they have to pay and that they won't be able to cover. For this reason, in the opinion of entrepreneurs, these measures alone were not sufficient to prevent companies from going into bankruptcy. In the national budget for 2021, not enough funds are allocated for investments in the economy and new projects that would stimulate the economy and the consumption.

Regarding the adoption of measures related to the prevention of the disease spread and accompanying measures related to operations of business entities from certain industries, it is noticeable that some entrepreneurs were dissatisfied by inconsistency, incoordination and delays with the implementation regulations, as well as the omission of certain activities when defining measures, which further confused entrepreneurs.

Employers associated in the Croatian Employers' Association – CEA, believe that the National Recovery and Resilience Plan should provide for much more investment in the real sector, manufacturing, and the introduction of new technologies in order to create added value and new jobs. Most of the investments envisaged in the National Recovery and Resilience Plan are primarily intended for public projects, from sewerage, water management to transport investments. These investments benefit the lives of citizens but will not create enough jobs in the long run and increase the domestic product as much as possible.

The Economic Council of the Voice of Entrepreneurs association, which brings together micro, small and medium entrepreneurs, self-employed craftsmen and employees in the private sector, has a similar opinion. They believe that the National Recovery and Resilience Plan will not distribute sufficient funds to small and medium enterprises, which will have a negative impact on the economy as a whole and its recovery from the effects of the COVID-19 pandemic. The National Recovery and Resilience Plan envisages the distribution of funds so that 54% of the funds are directed to the economy and 46% to "reforms" in the public sector. However, the 54% of aid to the economy include wastewater, waste management, road construction and transport infrastructure projects, which means investing in public companies that have shown low efficiency thus far. Therefore, they conclude that the National Recovery and Resilience Plan is not aimed at helping the private sector and encouraging the competitiveness of the Croatian economy. In order for the National Recovery and Resilience Plan to have a greater effect, it is necessary to prioritize investments in the private sector, focus on high return projects and monitor the return on investment and fiscal effects. In addition, it is necessary to disable corrupt distribution channels of funds and politically preferred projects.



Following the above, the Economic Council of the Voice of Entrepreneurs association proposed the following proposals for a successful economic recovery:

- A higher relative ratio of funds in the National Recovery and Resilience Plan should be directed to the private sector and citizens to recover demand, in line with the plans of other comparable countries in the European Union;
- Create models to help citizens who lost their jobs due to the pandemic;
- Implement aid to private companies;
- Tax relief for the affected sectors;
- Investment in renewable energy;
- Full transparency of the allocation process.

### **3.4. Entrepreneurial response to opportunities emerged during the crisis caused by COVID-19 pandemic – case studies from Croatia**

By innovating, companies bring new products to the market, achieve growth and ensure long-term competitiveness. During normal functioning of the economy, companies try to fight the competition by innovating, but in the conditions of crisis and unpredictable market movements, innovation becomes even more important. The global health crisis caused by the COVID-19 epidemic in the first wave prompted many economies to close, and consequently many companies were unable to continue their normal operations. Some of the companies recognized the opportunity and created new products, services and processes that meet the customers' needs resulting from the changed circumstances of living and working in a pandemic.

#### **ALARM AUTOMATIKA**

*([www.alarmautomatika.com](http://www.alarmautomatika.com))*

Through more than 30 years of market presence, since its foundation in 1989, Alarm Automatika has been developing its business operations in 11 countries, covering at the end of 2021 the whole Southeast Europe region. Alarm Automatika has more than 150 employees that provide support for more than 2,000 regular customers. The offer includes products from more than 200 global manufacturers, but also the company's own brands, with their characteristics tuned for the specific markets.

As stated on company's website: "The company's mission is to create a value proposition that includes high quality, innovative products, services and complete solutions which fulfil individual customer needs in order to reduce risk to customers and business partners, to support smooth business operations and faster growth by using the common platform."

The position of regional market leader is built by continuous investment in technical, economic, organizational, engineering, IT and management competencies of employees. In order for the company's portfolio to be maximally competitive and technologically advanced, integrated and adapted to the users' specific needs, the entire team of engineers is constantly monitoring new

technologies, developing new products, services and software, as well as its own brands. The company has been repeatedly awarded for the developed solutions and realized projects.

Both the company and the employees have all the necessary authorizations in the field of technical security, construction and informatics, as well as the Business Security Certificate. Operations are in accordance with the ISO 9001: 2015 certificate for business management and the ISO 27001 certificate for the information security. The success of the work has been verified by the 3A Creditworthiness certificate from Company Wall Business for more than 15 years.

In 2020, Alarm Automatika saw the coronavirus pandemic as an opportunity to look for solutions that they can offer on the market and thus fight the upcoming crisis. The company has created several products to help its clients cope more successfully with the challenges that the pandemic has brought to everyone. The ACC terminal is a unified solution for access control, temperature measurement and recognition of wearing a face mask, which enables contactless control of the entrance to the premises. Integration of systems that limit the number of people in a space by counting entrances and exits in, for example, shopping centers, but also in public transport, has been designed.

Furthermore, a practical solution that enables contactless communication between people in separate rooms (e.g. banks, public buildings) has been devised. The company also offers a medical thermal camera for body temperature detection, which also enables video recording at a distance of up to 12 meters, as well as real-time analytics, which can be of significant benefit to hospitals and airports.

One of the latest innovations was the solution that was implemented in November 2021 for the needs of organizing the Interliber book fair at the Zagreb Fair. Limiting the number of people is an essential measure to prevent the spread of coronavirus and a condition for larger gatherings to take place at all. In order to be able to organize fairs, the Zagreb Fair has implemented an Alarm Automatika's solution for determining the number of people in its exhibition pavilions. Alarm Automatika designed the solution, delivered the necessary equipment and implemented the solution. Special Vivotek 3D cameras and recorders are used for counting people, as well as software for calculating and displaying the current and maximum allowed number of people in the space. The solution was implemented on the eve of Interliber, one of the most visited events at the Zagreb Fair, and will continue to be used at other fairs. Thus, the Zagreb Fair has increased the level of safety of visitors and provided a permanent tool for accurate collection and analysis of data on visitors, which will enable them to better organize the events.

Through a quick response and the use of its innovation capacity, the company continued to successfully operate and grow even in difficult times.

## **GRAD-EXPORT**

*([www.grad-export.hr](http://www.grad-export.hr))*

Company Grad-Export Ltd. was founded in 1992 with its headquarters in Vinkovci, in the Eastern part of Croatia. Since its establishment, the company has been continuously developing and growing by investing in process and product innovation. Its main business operations are focused on the production of decorative ALU, PVC and HPL panels for entrance doors. Manufacturing facilities are located in the Industrial zone of Vinkovci on 38.000 m<sup>2</sup>.

Grad-Export is exporting its products to 26 countries all over Europe and beyond, and is one of the leading European manufacturers of decorative front door panels. Their product portfolio consists of 13 lines of decorative panels with over 250 different models that are the result of many years of work, 180 experienced and trained employees as well as modern technologies used in the production.

At the very beginning of the COVID-19 disease pandemic in 2020, the company saw the emerging crisis as an opportunity to seek new solutions that they could offer in the market and keep the business stable. The company has created the DS barrier, i.e. a disinfection barrier that is made in different dimensions and can be attached to a variety of surfaces. By creating a new product using the existing resources and technology, the company has recognized the trend of production of protective equipment and has adapted to the market situation. Successful sales of the new product continued in 2021 and, in cooperation with the existing foreign partners, the company exports disinfection barriers to foreign markets such as Spain, Ireland and Italy.

Through a quick reaction to the new situation of the global pandemic and using the company's existing resources and innovation capacity, the company continued to successfully operate and grow even in difficult times.

The background features a light gray geometric design with several stylized virus particles. A blue virus particle is in the upper left, a dark gray one in the upper right, and another dark gray one in the lower left. A blue virus particle is in the lower right. A dark gray map of North Macedonia is positioned in the upper right area, partially overlapping the blue background.

# COUNTRY REPORT **NORTH MACEDONIA**

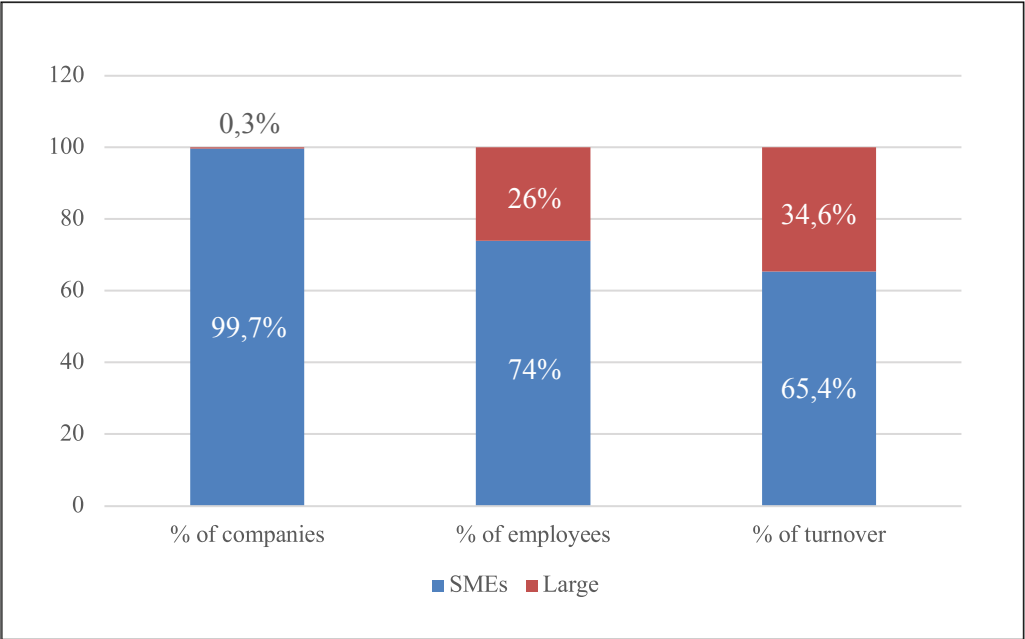
Ana Krstinovska

# 4. COUNTRY REPORT – NORTH MACEDONIA

## 4.1. Quantification of the impact of pandemic on SME sector

SMEs in North Macedonia represent the lynchpin of the economy. In 2019, they constituted 99.7% of all business entities, employed 74% of the private sector workforce and accounted for 65.4% of the income (turnover).

**Figure 9:** Share of the SMEs in the economy of North Macedonia in 2019

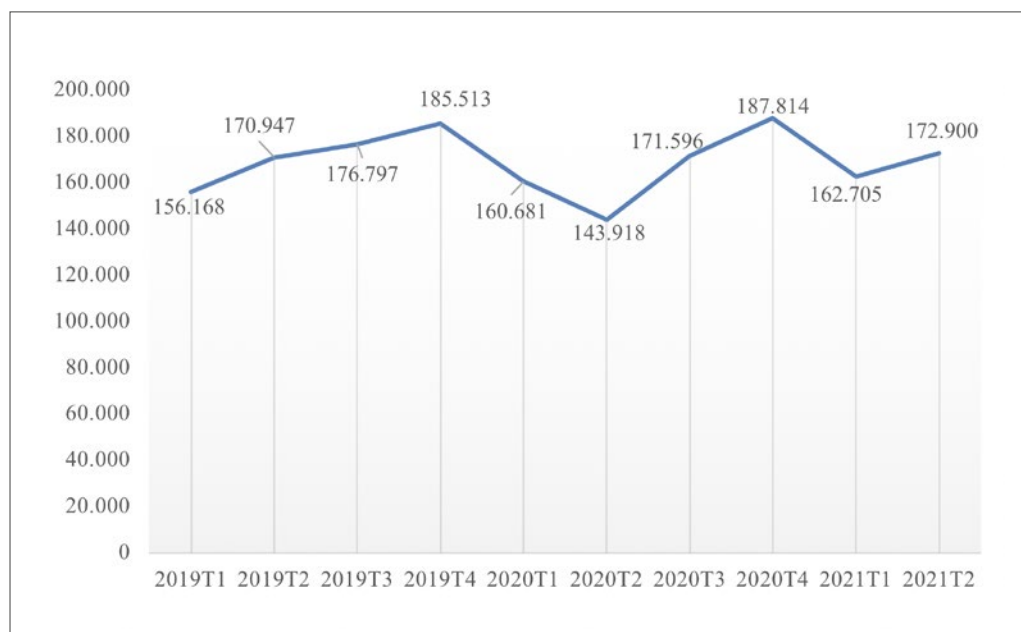


Source: State Statistical Office of North Macedonia (MAKSTAT database <https://makstat.stat.gov.mk/>)

North Macedonia was one of the most affected European countries by the pandemic in terms of sanitary and economic impact, while at the same time the fiscal response provided by the Government was one of the weakest, amounting to only 3.5% of GDP<sup>14</sup>. The drop of the GDP in the second quarter of 2020 of almost 15% is unprecedented in the country’s history. While the growth picked up by the end of 2020 as a result of the government measures, it has been largely contingent upon the state support. Hence, as the support was discontinued in the beginning of 2021, there was another severe drop in the GDP.

14 Jovanovik, B.et al. 2021. “Inequality in times of corona: The effects of the COVID-19 pandemic on the Macedonian economy”. Westminster Foundation for Democracy in North Macedonia. 4.

**Figure 10:** Quarterly GDP in the period 2019-2021, in million EUR

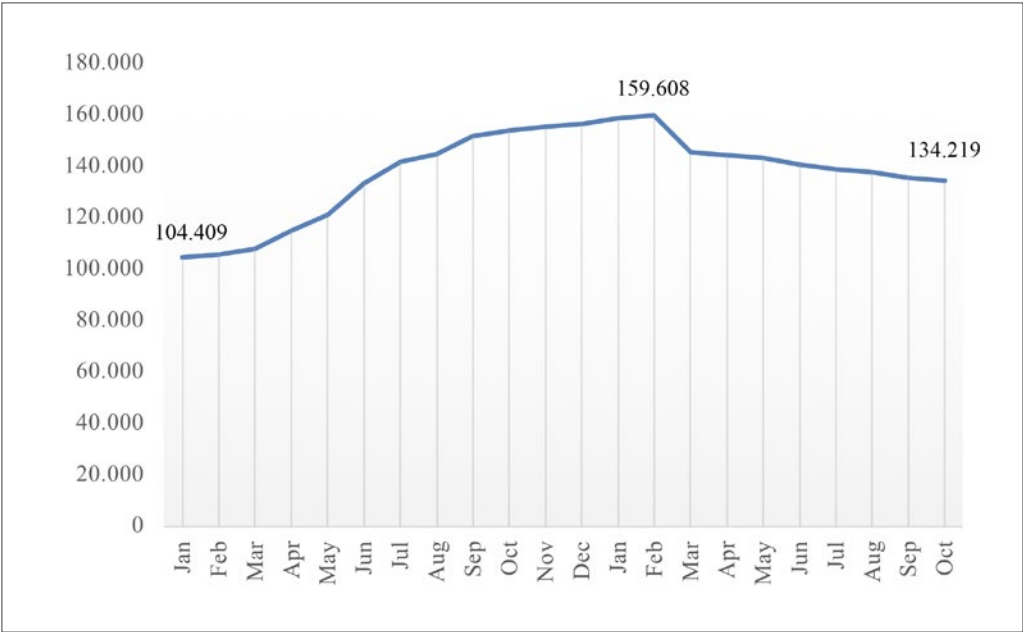


Source: State Statistical Office of North Macedonia (MAKSTAT database)

The pandemic affected 3/4 of the companies in North Macedonia and most of the employers resorted to reduction in salaries and all additional payments to their employees, as well as laying off staff in the more serious cases<sup>15</sup>. Given that unemployment has continuously been the most serious socio-economic challenge for the country since its independence in 1991, most of the government measures were designed to support the companies not to reduce their number of employees. However, despite the measures, the unemployment rate which had been constantly declining from a record 38% in 2005 to around 17% in 2019 increased again by 53% between January 2020 and February 2021 (Figure 11).

<sup>15</sup> Finance Think. 2020. "Economic effects of the corona-crisis".

**Figure 11:** Monthly unemployment rate, 2020-2021 in North Macedonia

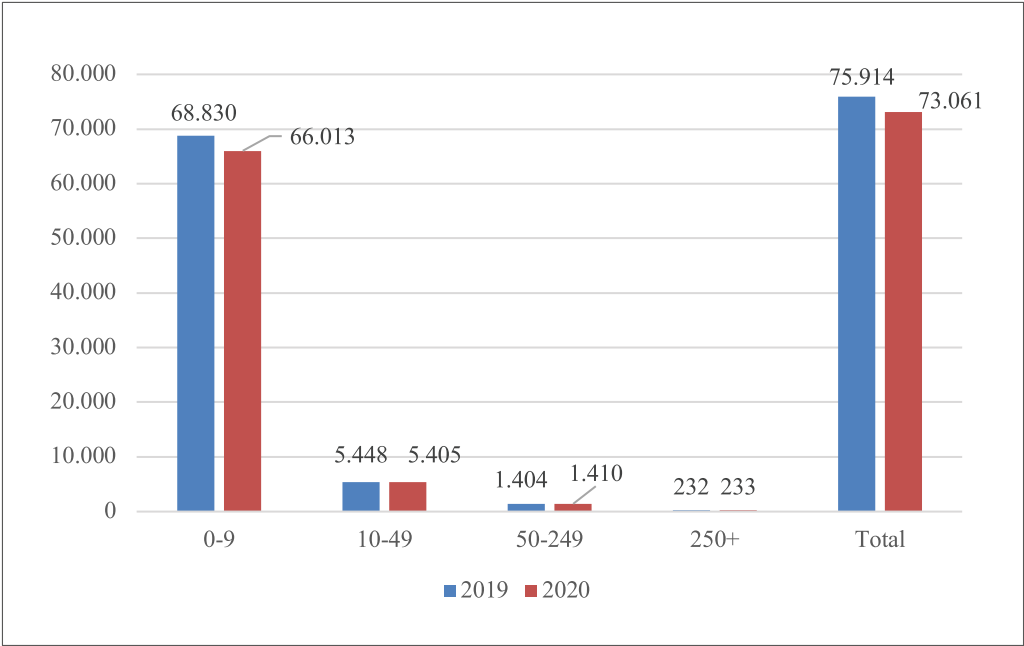


Source: *Employment Agency of North Macedonia*

The biggest portion of SMEs in North Macedonia operate in retail trade, processing industry, hospitality, tourism and transport, sectors which, by the very nature of their activities, were mostly affected both by the global implications of the pandemic and by the national sanitary measures aimed to prevent the spread of the virus. In addition, according to a study by the European Central Bank, small companies have significantly less access to external financing, compared to of medium and large enterprises, which makes them particularly vulnerable to external shocks.<sup>16</sup> Hence, around 4% of all registered business entities in North Macedonia, or a total of 2,846, had to cease their activities as a result of the pandemic and all of them fall within the category of micro and small enterprises.

<sup>16</sup> Moder, Isabella, Bonifai, Niccolò. September 2017. "Access to finance in the Western Balkans". European Central Bank, Occasional Policy Paper.

**Figure 12:** Number of active companies per size in North Macedonia, 2019-2020

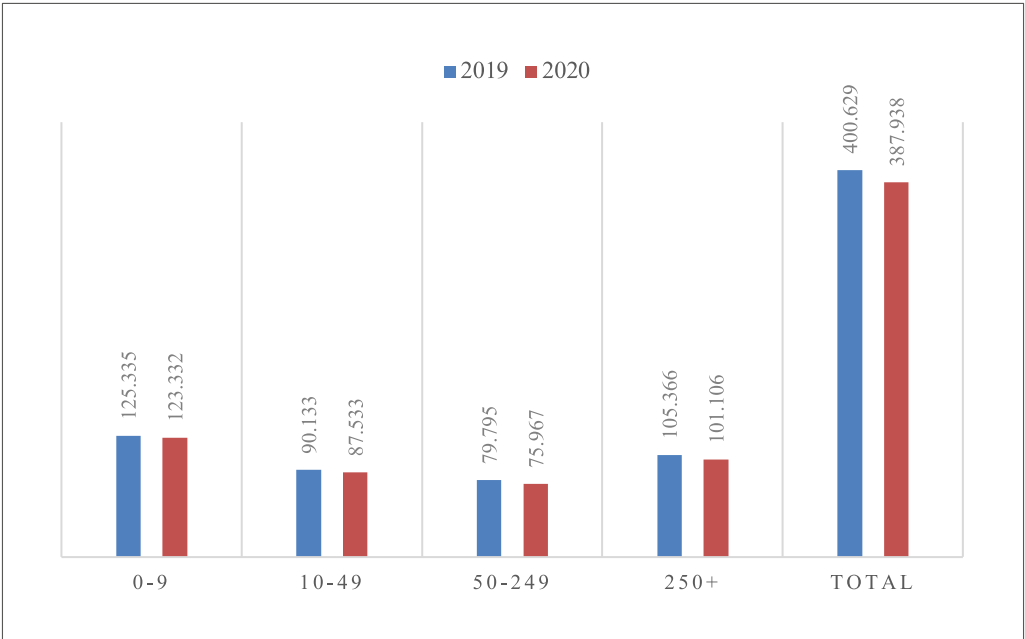


Source: State Statistical Office of North Macedonia (MAKSTAT database)

The downward economic tendencies have been also reflected in the declining number of employees across all company sizes. While the private sector workforce shrank by 3.2%, micro and small enterprises saw a decline of 1.6% and 2.9% respectively, while medium and big companies laid off 4.8% and 4% of the workforce respectively.



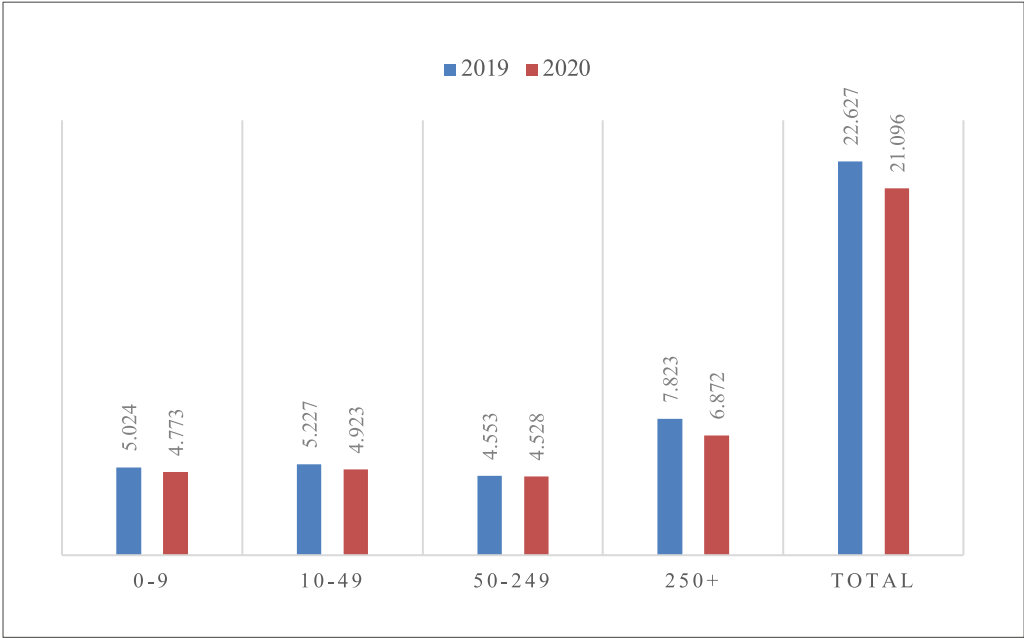
**Figure 13:** Number of employees per company size in North Macedonia, 2019-2021



Source: State Statistical Office of North Macedonia (Structural business statistics published for 2019 and 2020)

When it comes to income, while the overall drop in the turnover amounts to 7.8%, micro and small companies lost 5 and 5.8% in comparison to 2019, medium companies faced minor losses of an average of 0.5%, while large enterprises seem to be worst hit with a 12.7% drop in their income.

**Figure 14:** Turnover per company size in North Macedonia, 2019-2021, in million EUR



Source: State Statistical Office of North Macedonia (Structural business statistics published for 2019 and 2020)

## 4.2. Policy measures supporting SMEs in North Macedonia during the COVID-19 pandemic

The first COVID-19 cases in North Macedonia were registered in the first half of March 2020. A general state of emergency was declared by the President on March 18 and it was extended several times throughout the following one-year period. In a state of emergency and as the Assembly was dissolved, the Government initiated the adoption of decrees with legal force.

The first introduced measures included a ban on movement from March 21 onwards, which, depending on the development of the pandemic in North Macedonia, covered different time intervals throughout 2020. A complete ban on movement on weekends was introduced during the contagion peaks. The border crossings and the airports were closed, except for strictly defined categories of passengers, for transit and freight vehicles. Besides that, additional occupational safety measures were introduced which demand the maintenance of distance between workers, wearing personal protective equipment – disposable masks and gloves, providing higher hygiene standards (access to water, soap, waste management, disinfectants, etc.) Given that schools and childcare facilities were closed between March and the end of the school year in June 2020, companies had to allow to some of their employees who had children at a young age to either stay at home or work from home whenever possible, in order to be able to take care of their children.

On one hand, the measures contained in the decrees introduced restrictions related to the movement of people and the operations of different non-essential businesses. On the other hand, they introduced different types of assistance targeting the most affected businesses and citizens in order to mitigate the economic repercussions of the restrictions. A total of 6 emergency assistance packages have been adopted so far amounting to around 1.2 billion EUR.<sup>17</sup>

The first set of measures announced at the end of March targeted the tourism, hospitality and transport sectors since those companies were ordered to cease all their economic activities. An interest-free credit line amounting to a total of EUR 5.7 million was put at the disposal of SMEs through North Macedonia's Development Bank. The loans ranged between EUR 3,000 and 30,000, depending on the number of employees, with a grace period of 6 months and repayment over 2 years. Subsidies were offered for the most affected companies, in the amount of up to 50% of the average salary paid in 2019 (or around EUR 240 net), provided that the company does not lay off staff at least until September 2020, does not pay dividend or bonuses. The Central Bank reduced the basic interest rate to 1.75% and the mandatory interest rate on late payments was halved. Additional measures were taken related to freezing the prices and the reduction of custom duties for certain important commodities and products (flour, oil, dairy, eggs, some medicines, medical products and equipment).

The second set of measures extended the assistance and other measures until May 2020 and introduced several novelties. Some liberal professions and freelancing activities (sports, arts etc.) were included in the most affected categories eligible for assistance, as well as the media. As an alternative to salary subsidies, companies were allowed to ask for subsidies only to cover

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<sup>17</sup> This report focuses only on the most important measures targeting companies on the basis of the financial implications and outreach (number of SMEs concerned).

fringe benefits in the amount of up to 50%. Monthly unemployment fee of 50% of their average salary in the past 2 years was introduced for people who lost their jobs as a result of COVID-19, during a period contingent upon their paid work experience. The Law on forceful execution of payments was suspended until the end of June 2020.

With a landmark decision, the Central Bank amended its methodology on loan risk management in order to allow the banks and other financial enterprises to postpone or extend the maturity of the loans issued to physical and moral persons and to introduce more favorable terms for loan reprogramming, lowering interest rates and extending grace periods of the loans issued to companies. Additional EUR 8 million were put at the disposal of the most affected SMEs in the form of interest-free loans and EUR 50 million were disbursed through the commercial banks at an interest rate of around 1.5%, targeting SMEs willing to launch new projects, open new jobs or increase exports. The Government also banned the initiation of bankruptcy procedures during the state of emergency and 6 months after its end (announced for 31 December 2021).

The third set of measures (May 2020) directly targeted natural persons in socially disadvantaged categories. However, indirectly, it was supposed to help domestic companies by stimulating the consumption of their products and services. It provided citizens with EUR 100 vouchers they could use in hotels in North Macedonia and EUR 50 debit cards which could only be used to purchase domestic products. Moreover, a VAT-free weekend was organized during which all citizens were able to buy domestic products exempt of VAT charges in pre-determined sectors.

The fourth set of measures (September 2020) re-introduced the option for subsidizing salaries (which applied between March and May), for additional three months October–December 2020. This time, the amount of the subsidy was contingent upon the decrease of the company's turnover and could reach up to EUR 350. The estimate was that a total of 250,000 employees would benefit and 83,000 jobs would be saved, given that the condition was for companies not to lay off staff until 31 July 2021. The European Investment Bank supplied the Government with EUR 100 million in low-interest rates loans to be disbursed through the commercial banks. The grace period for the previously issued interest-free loans was extended for additional 3 months. The state also issued a guarantee of EUR 10 million as collateral aimed to help the companies secure additional EUR 65 million in loans from the commercial banks.

Additional support was provided to the tourism, hospitality and transport sectors through grants for the travel agencies amounting between EUR 3000–7000, return of the tourist tax paid by accommodation capacities for 2019, 3 months of minimum wage for the tour guides, grants for specialized wedding reception facilities, extension of the operating licenses for night clubs and transport companies. VAT of artisans' products was reduced from 18% to 5% in order to strengthen their competitiveness, and VAT for restaurant services was reduced from 18% to 10%. VAT exemption was also announced for donations of public character. SMEs were also able to use exemption from payment of profit tax advance payment for a period of 3 months, deferral of VAT payment by 1 week and an increase of the threshold to enter the regime of total income taxation from EUR 50,000 to 80,000.

The fifth set of measures (February 2021) included subsidies to the salaries for February and March 2021; interest-free loans with a potential grant component of 30–50%, in the total amount of EUR 10 million, targeting sectors such as tourism, event industry, hospitality, transport and private healthcare providers; specific financial support for media and broadcasters, crafts, liberal professions and companies with a reduction in turnover exceeding 50% in the previous

year; state guarantee scheme of EUR 5 million to support the disbursement of EUR 30 million in loans from the commercial banks and another extension of the grace period for the previous interest-free loans. The government also created a EUR 10 million fund to support export-oriented companies, EUR 6 million fund to support the technological development of SMEs and reduced or suspended custom duties on around 100 raw materials.

The sixth set of measures was announced in April 2021 and amounts to EUR 17,8 million. It specifically targets the most affected companies with grants and loans, such as the event industry and the hospitality sector, fitness centers, photo studios and travel agencies.

### **4.3. Impact of the adopted government measures and recommendations for a successful economic recovery**

There seems to be a consensus among national experts that the value of the government's response was adequate compared to the overall size of the budget, represented an important boost and helped many SMEs survive the initial wave of the pandemic. However, there is also a consensus that had the design and implementation of the measures been better, its impact could have been much stronger.

According to university professor Tamara Jovanov,<sup>18</sup> the measures should have been adopted in a timelier manner in order to mitigate the initial and strongest impact of the pandemic. One of the more serious shortcomings is related to the high level of “red tape” (forms and documents) that companies were supposed to collect and submit in order to be eligible for assistance, as well as the often unclear and/or changing procedures and guidelines. This turned out to be a significant administrative burden for SMEs who generally have few employees and often lack the knowledge to prepare complex applications. Furthermore, the criteria for receiving assistance initially excluded companies which had been profitable before the pandemic, leaving some of the most vulnerable sectors ineligible. At the same time, there were also allegations of “informal corruption”, with some companies close to the ruling government coalition receiving government assistance despite the fact that they were profitable throughout the pandemic.

For the president of the Business Confederation of Macedonia,<sup>19</sup> the support measures had predominantly a social component and did not take into full account the longer-term needs of the SMEs. While on the short term the subsidies, loans and tax relief measures served as a way to relieve “the headache” of many entrepreneurs who faced both a decrease in the demand and reduced liquidity, the uncertainty whether, when and how (much) they will need to return the received funds left a strong feeling of bitterness among entrepreneurs who had been paying taxes and sustaining the economy for years, hence expected more support in return. Moreover, the measures did not help to restore the much-needed trust in the economy and stimulate domestic consumption. Instead, faced with the imminent threat to their health and life, consumers prefer to save money and not to purchase non-essential goods and services.

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18 Personal interview with professor Tamara Jovanov (PhD), Economic Faculty, University Goce Delchev – Shtip, who is also a member of the advisory board of the National Platform for Women Entrepreneurship, 26.11.2021.

19 Personal interview with Mr. Mile Boshkov, President of the Business Confederation of Macedonia, 25.11.2021

But according to professor Jovanov, the crisis mostly affected the middle and low classes, while the higher-end of the society maintained its purchasing power. Hence, the strong decrease in domestic consumption was partly due to the lack of adaptability of SMEs and their lack of skills and know-how to reinvent their offer and target new consumers and markets. Namely, the specific features of SMEs in North Macedonia as a combination of internal factors (entrepreneurs out of necessity and not out of opportunity, underdeveloped business skillset and digital competences among both managers and staff, not diversified company portfolios) and external factors (highly dependent on both imports and exports, limited access to finance opportunities) acted as an impediment for many of them to swiftly adapt and find a way out of the crisis.

A survey conducted by ILO at the end of 2020<sup>20</sup> revealed that slightly more than half of all enterprises (52%) offered new products or services, or modified the existing ones. About a third decreased the price of selected products/services with a view to increasing sales and revenues (assuming customers were highly price sensitive). A quarter of the enterprises reached out to customers by providing delivery and/or online purchasing. According to the same survey, 61% of the enterprises were not satisfied with the government measures and suggest there could have been improvements in terms of their criteria, inclusiveness and targeting.<sup>21</sup> Around 1/3 of all active companies used the government measures, especially those supporting jobs which benefited a total of 31% of the private sector workforce. In terms of registered companies 44% of all small companies used the government support, 41% of medium, 36% of micro and 31% of large companies, but when it comes to supporting jobs, the statistics go largely in favor of large enterprises where 50% of the jobs were supported, as opposed to 29-32% of the salaries in SMEs.<sup>22</sup>

Job subsidies were the most popular support measure among SMEs and largely contributed to prevent an even bigger increase in the unemployment rate, followed by the subsidized loans. However, due to the fact that salaries were paid to the companies, and not to the workers directly, there were 181 cases of abuse when employers received state aid, but did not pay salaries to their employees. Until present day, no sanctions have been undertaken against those employers.

## **Conclusions and recommendations**

- It is important to increase consumers' trust and target domestic consumption as a component which can be easily stimulated by policy makers on the short term. This was done to a certain extent, although it could have been more efficient had the scope of products and the criteria for support to citizen categories been broader.
- The criteria to obtain financial support should have been better designed to ensure that it will go into the hands of those entities which need it most and are unable to secure other funding to overcome the crisis, while taking into account the profitability as well.
- Applications for recovery and long-term support measures should bear in mind the administrative capacity of SMEs and include only the strict minimum of bureaucracy.

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20 Mojsoska Blazhevski, Nikica. 2021. "Evolving challenges and expectations facing Macedonian enterprises during the COVID-19 pandemic (Second edition)." International Labour Organization. 19.

21 Mojsoska. 2021. 8.

22 Jovanovik. 2021. 14.

- There should be an oversight mechanism to ensure that the financial support is spent for the right purpose and there is no abuse.
- The State should help SMEs develop their flexibility and adaptability to external shocks by envisaging continuous support for their investments in equipment, research and innovation, digitalization, staff training and re-qualification.

### ***Best practice – Vilnius turned into an open-air café<sup>23</sup>***

*The hospitality sector was one of the most adversely affected during COVID-19, with restaurants, bars and cafes in many countries either entirely closed or operating at significantly reduced capacities and with great losses at different stages of the pandemic. In order to help these SMEs recover, in April 2020 the city of Vilnius decided to allow them to use much of the public spaces in the old town to set up tables during the summer season. A total of 18 squares, piazzas and streets were initially designated as places that restaurants and bars could use to expand their outdoor seating and 160 SMEs applied to use that opportunity. The measure was warmly welcomed by the Lithuanian Association of Hotels and Restaurants as a great balance to “accommodate more visitors and bring life back to the city streets, but without violating security requirements”. At the same time, the city authorities provided a total of 400.000 EUR worth of restaurant vouchers to public health workers, as a way both to reward them for their services during the pandemic and to stimulate the hospitality sector.*

23 Henley, John. April 2020. “Lithuanian capital to be turned into vast open-air café”. The Guardian. <https://www.theguardian.com/world/2020/apr/28/lithuanian-capital-to-be-turned-into-vast-open-air-cafe-vilnius>

#### **4.4. Entrepreneurial response to opportunities emerged during the crisis caused by COVID-19 pandemic – case studies from North Macedonia**

##### **GALINA**

GALINA<sup>24</sup> is a small enterprise established in Bitola in 2016 as a clothing manufacturer-subcontractor for foreign textile brands. Its products, predominantly tops and shirts, have been exported to a number of EU Member States, mostly Germany, Sweden and France. Although the restrictive sanitary measures did have an impact on enterprises because of the requirements related to distancing, wearing masks, providing higher sanitary conditions and restrictions on shifts, the apparel sector was once of the worst hit economic activities in the country mostly due to the closure of borders, the disruption of supply chains and the lower global demand for apparel products. At the outbreak of the pandemic, GALINA faced a decrease in its orders and serious difficulties to supply the necessary production materials. Hence, its manager decided to explore other options in order to find intermediary short-term solutions to overcome the crisis without laying off staff. Having extensive experience in the textile industry, she familiarized herself with the fabric specifications necessary to produce face masks and quickly re-oriented the production. She also sought to establish new distribution channels and offered Galina's face masks to public entities in the Bitola region who at the time needed large quantities of face masks.

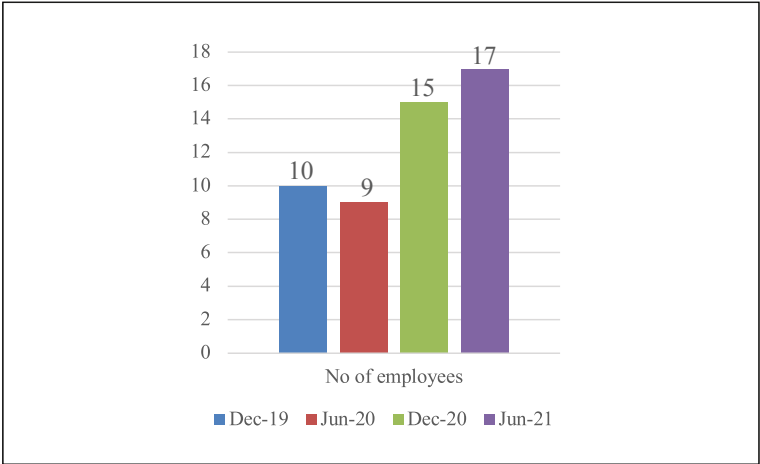
Given the uncertainty regarding the duration of the crisis, Galina's manager conducted market research in order to identify textile products which demand is likely to remain despite the pandemic. She decided to start a production line of casual underwear multipacks and seized an opportunity offered through the USAID Business Ecosystem Project to obtain a donation of 3 sewing machines for this particular purpose. Having trained the employees to manufacture the new products herself, she contacted the companies she used to work with in the Western European countries to offer them the new products.

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<sup>24</sup> Personal interview with Roza Vasilevska, general manager, 11.11.2021.

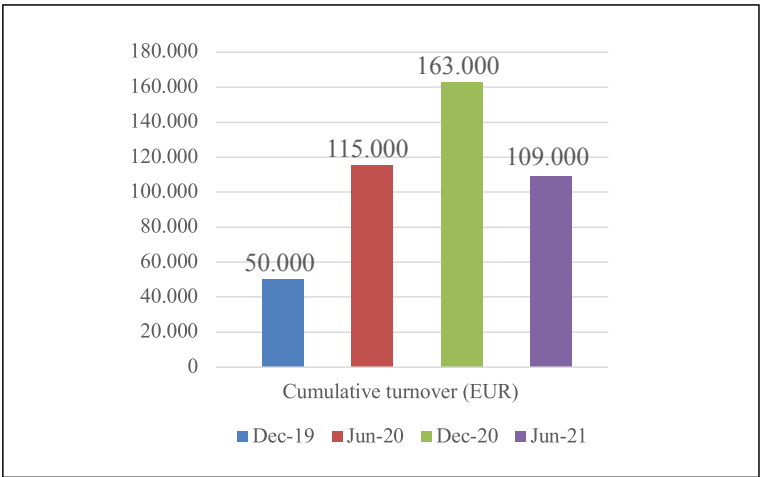


**Figure 15:** Number of employees working at GALINA, per semester, 2019-2021



Source: Personal interview with GALINA's general manager

**Figure 16:** GALINA's cumulative turnover, per semester, 2019-2021, in EUR



Source: Personal interview with GALINA's general manager

Introducing new products was the key to the company's survival at a time when most companies in the apparel sector faced huge losses. In 2020, at the peak of the pandemic, the number of its employees increased by 80% and the turnover doubled, with the same tendency continuing in 2021. The company did not use any of the measures provided by the Government because they were not targeted to meet its needs. Instead, it leveraged the flexibility, adaptability and team spirit both of the manager and the staff as the key assets not only to overcome the crisis, but also to transform it into a growth opportunity.

GRADITEL-B<sup>25</sup> is a small enterprise established in Ohrid in 1996 in the hospitality sector. They operate the restaurant Sajgija with a capacity of around 500 people which is open on regular basis and also hosts wedding receptions as the most important share of its usual income. The number of employees in the past several years has been constantly 13, despite the fact that the hospitality sector was one of the worst hit with the pandemic. Furthermore, the very fact that the restaurant is located in Ohrid, the Macedonian “tourism capital”, it was additionally adversely affected with the border closure and the lack of foreign tourists.

With the restrictions on movement and assembly, between March and May 2020, all restaurants, bars, night clubs and coffee shops were completely closed. As the first wave of the pandemic weakened and the weather improved, the restrictions were partially lifted and restaurants were allowed to open their terraces at the end of May 2020, but only up to 30% of the capacity. They were also operating at reduced working hours and were not allowed to host any celebrations (no more than 4 people could be seated at one table, initially only from the same family). The full restrictions returned during the fall 2020 and in the spring of 2021 at the peak of the second and the third wave of the pandemic when the restaurant was again closed for several weeks. But, even in the meantime the entire hospitality sector was operating at significantly reduced capacities and most of the time only in the outdoor parts (terraces). Moreover, given the looming risk of the contagion, many citizens did not feel comfortable eating out, which also affected the consumption/demand.

In order to save the business and not to lay off any staff, Graditel-B introduced a take-away and delivery service in May 2020. Moreover, in August 2020, they introduced a variety of home-made winter food products – which could be purchased in the restaurant. Macedonian people have a long tradition of preparing winter preserves – pickled vegetables, pepper paste (so-called ajvar and pindjur) and smoked meat. But, in the past years, as the pace of life accelerated and given that the winter preserves require time and skills (canning, preserving etc.), the new generations have been increasingly reluctant to prepare winter stock themselves. At the same time, the market offer for such products is usually higher in prices and lower in quality compared to the customer expectations. Hence, these products turned out to be a big success. After the initial sale of 20 jars the first week, the sale increased to 300 jars per week, allowing the restaurant to fully cover the operation costs and survive.

At the same time, the enterprise used three types of State assistance: salary subsidies during the months when they were available, a subsidized loan and 2 grants targeting wedding reception facilities. While such measures were helpful, they were much lower than the turnover generated through normal operations and insufficient to cover all the expenses, especially those related to ensuring decent salaries. In order to stimulate domestic consumption and increase the turnover, the VAT on restaurant services was reduced from 18% to 10%.

The hospitality sector and especially wedding reception facilities only resumed work at full capacity in the summer of 2021. However, with the fourth wave of the pandemic and the new restrictions in terms of vaccine certificates introduced in September 2021 (whereas only fully vaccinated people are able to go to restaurants and bars), it remains in a precarious position. To illustrate, as the restaurants' turnover picked up during the summer of 2021, increasing from EUR 6,800 in July to EUR 10,000 in August, it marked a severe drop in September to EUR 3,300.

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<sup>25</sup> Personal interview with Slagjana Kotevska, general manager, 24.11.2021.

The background features a blue horizontal band with a white map of Slovenia on the right. Above and below this band are grey trapezoidal shapes containing stylized virus particles. One blue virus particle is on the top left, a grey one is in the top center, and another grey one is on the top right. On the bottom left, there is a grey virus particle, and on the bottom right, a blue virus particle.

# COUNTRY REPORT **SLOVENIA**

Maja Has  
Mirela Alpeza

## 5. COUNTRY REPORT – SLOVENIA

### 5.1. Quantification of the impact of pandemic on SME sector in Slovenia

In 2020, there were 68,125 enterprises operating in Slovenia (Table 7). As is the case in most world economies, 99.4 percent of the total number of enterprises belonged to the Slovenian small and medium enterprise sector. A total of 67,683 enterprises operated in the small and medium enterprise sector, and the largest share belonged to micro enterprises (84.7 percent).

**Table 7:** Enterprise structure, employment and total income with regard to size in 2019 and 2020 in Slovenia

Economic criterion for sector evaluation	Enterprise size							
	Micro		Small		Medium		Large	
	2019	2020	2019	2020	2019	2020	2019	2020
Number of entities	57,146	57,722	8,521	8,846	1,095	1,115	416	442
Number of entities (share) <sup>26</sup>	85.1%	84.7%	12.7%	13%	1.6%	1.6%	0.6%	0.6%
Number of employees	94,886	93,204	141,399	140,171	105,023	101,221	178,197	175,105
Employment (share) <sup>27</sup>	18.3%	18.3%	27.2%	27.5%	20.2%	19.9%	34.3%	34.4%
Total income (000 EUR)	9,963,457	9,364,247	22,644,057	21,839,493	19,201,471	17,946,912	52,083,463	48,371,512
Total income (share)	9.6%	9.6%	21.8%	22.4%	18.5%	18.4%	50.1%	49.6%

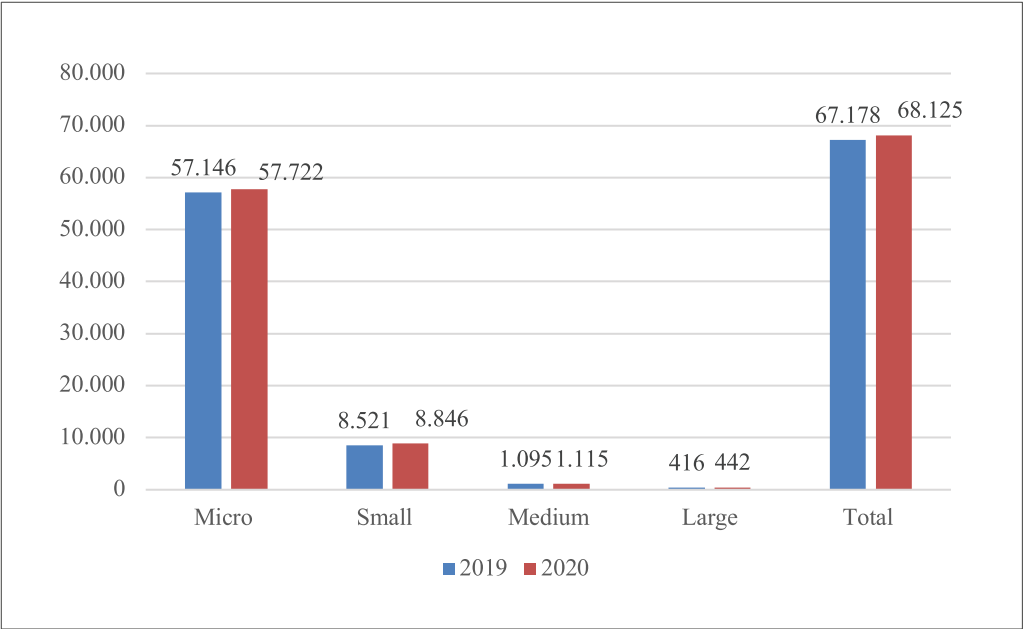
Sources: Adapted from "INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2019", Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2020 & "INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2020", Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2021

Although 2020 was marked by the pandemic and its characteristics that affected business conditions, 947 new enterprises were registered in Slovenia, which is an increase of 1.4 percent compared to the previous year.

<sup>26</sup> Slight deviations in the sum of the total share (100%) are possible due to rounding of amounts.

<sup>27</sup> Slight deviations in the sum of the total share (100%) are possible due to rounding of amounts.

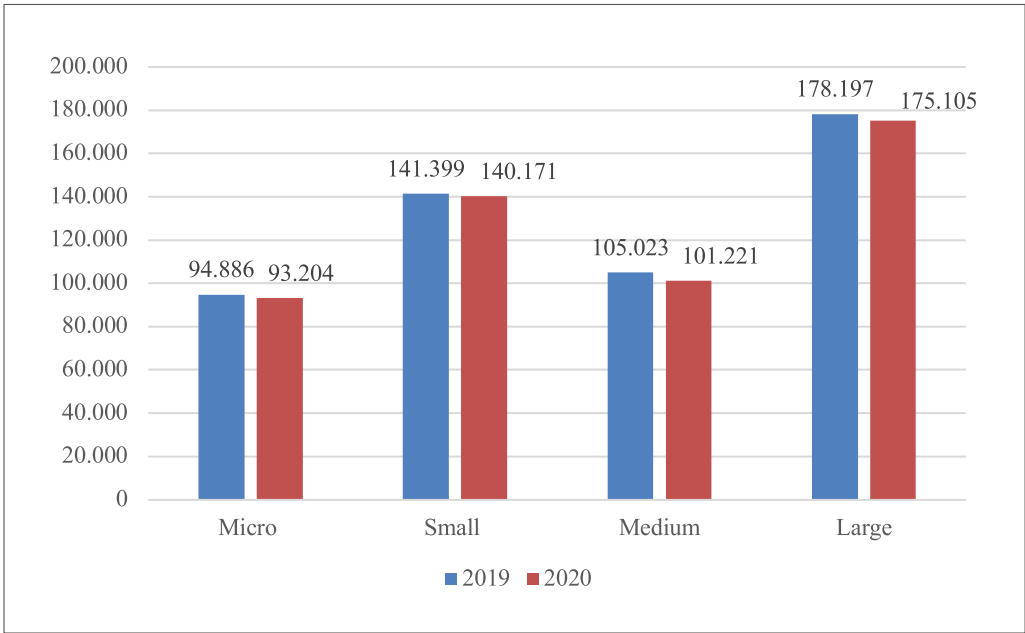
**Figure 17:** Enterprise structure with regard to size in 2019 and 2020 in Slovenia



Sources: Adapted from “INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2019”, Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2020  
“INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2020”, Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2021

Nevertheless, the negative impact of the pandemic is visible in 2020, which resulted in the reduction of the number of employees in the entire business sector of Slovenia by almost 2 percent compared to 2019. In 2020, 1,682 jobs were lost in the micro enterprise sector, 1,228 jobs in small enterprises, 3,802 jobs in medium enterprise, and 3,092 jobs were lost in large enterprises (Figure 18).

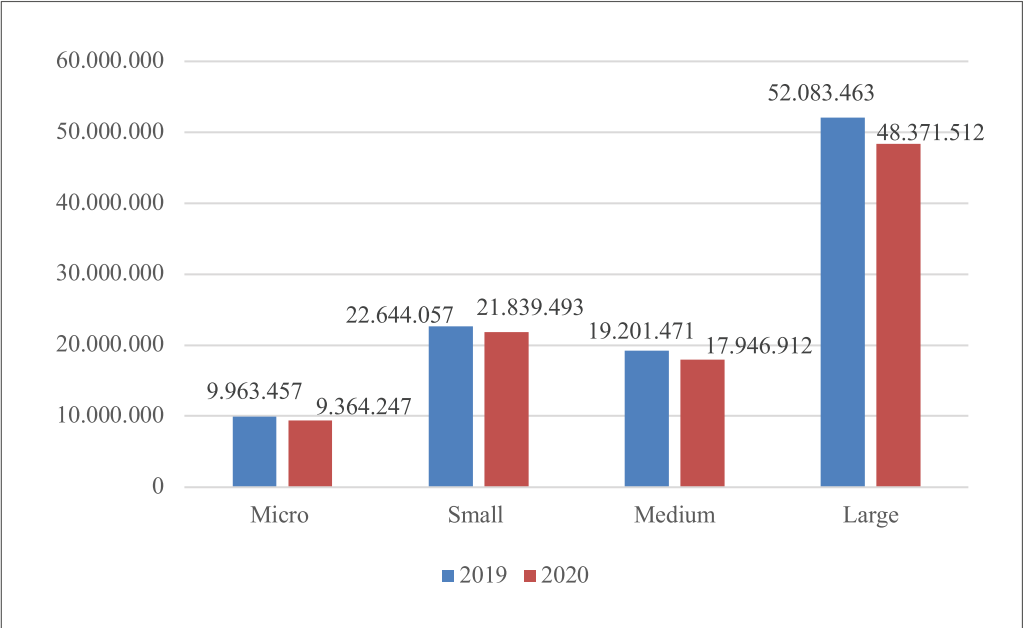
**Figure 18:** Enterprise size and employment in 2019 and 2020 in Slovenia



Sources: Adapted from "INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2019", Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2020  
"INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2020", Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2021

Due to significant restrictions on business activities in the conditions of the pandemic, there was a decrease in the total income for all categories of business entities in 2020. The decrease in income was most pronounced in large enterprises (7.1 percent), and least in small enterprises (3.6 percent). Total income in micro enterprises decreased by 6 percent, and in medium enterprises by 6.5 percent compared to 2019.

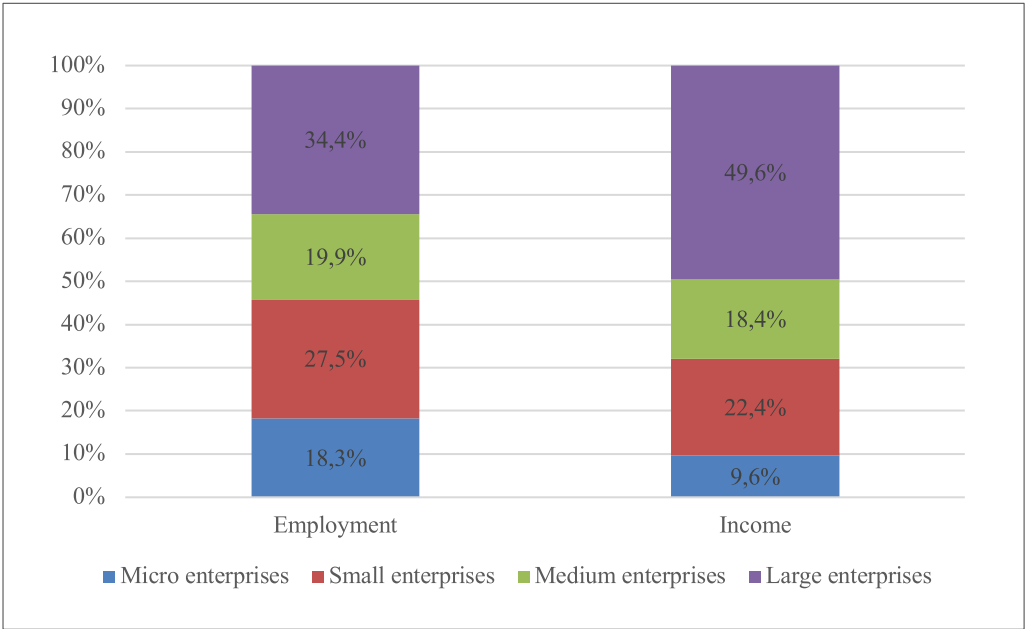
**Figure 19:** Enterprise size and total income (thousand EUR) in 2019 and 2020 in Slovenia



Sources: Adapted from “INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2019”, Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2020  
“INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2020”, Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2021

Figure 19 shows the differences between micro, small, medium and large enterprises in terms of their contribution to employment and total income. In 2020, enterprises in the small and medium enterprise sector employed 65.7 percent of the total number of employees, and they accounted for 50.4 percent of total income generated at the level of the entire business sector. Within the small and medium enterprise sector, small enterprises stand out with a share in total employment of 27.5 percent and a share in total income of 22.4 percent.

**Figure 20:** Total employment and income by enterprise size in 2020 in Slovenia

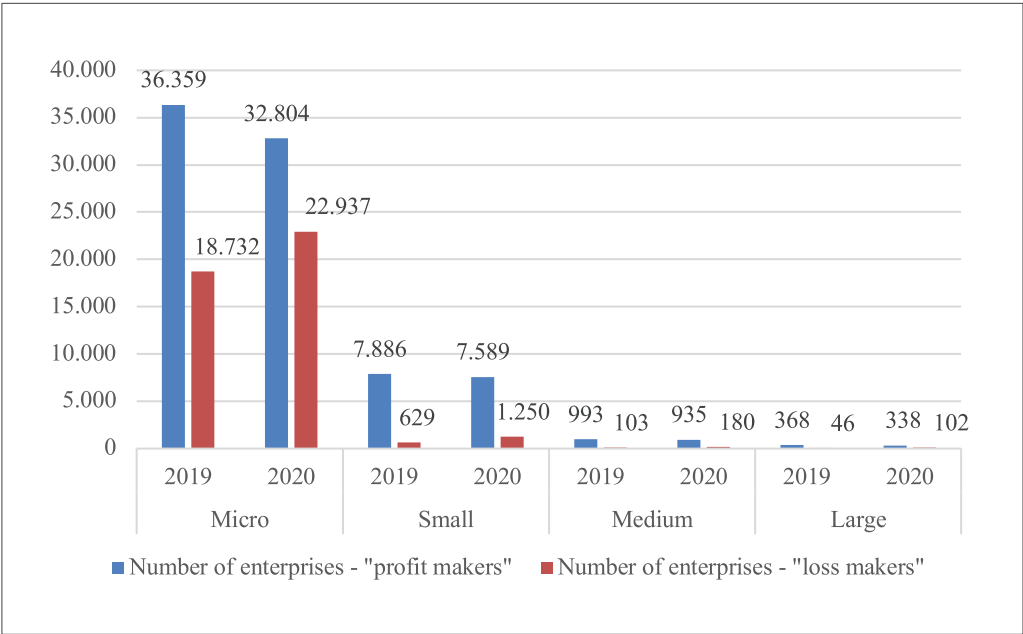


Sources: Adapted from “INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2019”, Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2020  
“INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2020”, Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2021

The consequences of the pandemic also affected the enterprises' financial results. In 2020, 41,666 enterprises operated with a profit, which is 8.6 percent less than in 2019. On the other hand, 24,469 operated with a loss, or 25.4 percent more than in 2019.



**Figure 21:** Number of enterprises that made a profit and reported a loss in 2019 and 2020



Sources: Adapted from "INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2019", Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2020  
"INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2020", Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2021

In 2020, the Slovenian business sector generated a profit of EUR 4.6 billion, which is a decrease of 15 percent compared to 2019. On the other hand, the total reported losses of the entire business sector amounted to EUR 1.8 billion, which is 2.3 times higher than the amount reported in 2019. These results also affected the total consolidated result, i.e. net profit, which was 39.3 percent lower than in 2019, and amounted to EUR 2.8 billion.

**Table 8:** Financial efficiency of enterprises in 2019 and 2020

Enterprises	2019		2020	
	Thousand EUR	%	Thousand EUR	%
<b>Micro</b>				
Profit	818,675	15.2%	705,157	15.4%
Loss	344,653	44.8%	472,883	26.6%
Consolidated result – Net profit/loss	474,022	10.2%	232,273	8.3%
<b>Small</b>				
Profit	1,165,782	21.6%	1,094,117	23.9%
Loss	116,259	15.1%	221,509	12.4%
Consolidated result – Net profit/loss	1,049,523	22.7%	872,608	31.1%
<b>Medium</b>				
Profit	893,265	16.6%	836,963	18.3%
Loss	95,886	12.5%	156,612	8.8%
Consolidated result – Net profit/loss	797,379	17.2%	680,351	24.2%
<b>Large</b>				
Profit	2,515,934	46.6%	1,949,578	42.5%
Loss	212,062	27.6%	928,894	52.2%
Consolidated result – Net profit/loss	2,303,871	49.8%	1,020,684	36.4%
<b>Total<sup>28</sup></b>				
Profit	5,393,656		4,585,815	
Loss	768,860		1,779,899	
Consolidated result – Net profit/loss	4,624,796		2,805,916	

Sources: Adapted from "INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2019", Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2020 & "INFORMATION ON BUSINESS OPERATIONS OF COMPANIES IN THE REPUBLIC OF SLOVENIA IN 2020", Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ljubljana, 2021

28 Slight deviations in the sum of the total share (100%) are possible due to rounding of amounts.

Numerous challenges and changes that marked operations of enterprises during 2020 affected the financial performance of the entire business sector and resulted in a simultaneous reduction in the amount of generated profit and an increase in the amount of reported losses in enterprises of all sizes. Nevertheless, regardless of the mentioned changes, in 2020 all categories of enterprises achieved a positive consolidated result, i.e. net profit.

Micro enterprises generated EUR 705.2 million in profit and reported losses in the amount of EUR 472.9 million in 2020. Compared to 2019, profits decreased by almost 14 percent, while losses of micro enterprises increased by 37.2 percent. The small enterprise sector generated a profit of EUR 1.1 million in 2020, which is a decrease of 6.1 percent compared to the result achieved in 2019. Losses of small enterprises amounted to EUR 221.5 million, which is as much as 90.5 percent more than the previous year. Medium enterprises made a profit of EUR 837 million during 2020, which is 6.3 percent less than in 2019. The amount of reported losses in the medium enterprise sector amounted to EUR 156.6 million, which is 63.3 percent more than in 2019. Large enterprises made a profit of more than EUR 1.9 billion in 2020, and this result represents a decrease of 22.5 percent compared to the previous year. In addition to the decrease in profits, operations of large enterprises in 2020 were marked by a significant increase in losses. Large enterprises reported a loss of EUR 928.9 million, which is almost 4.4 times more than in 2019.

These financial results affected changes in the structure of the share of individual enterprises in total profit and loss at the level of the entire Slovenian business sector. Micro, small and medium enterprises in 2020 increased their shares in total profit with their business results and reduced their shares in total losses at the level of the economy. The most significant reduction is visible in the category of micro enterprises, whose share in total losses decreased by 18.2 percentage points compared to 2019. With their results, large enterprises took the biggest share in the profits at the level of the economy in 2020, although this share decreased by 4.1 percentage points compared to 2019. Unlike the previous year, when micro enterprises participated with the largest share (44.8 percent) in total losses, in 2020 the share of large enterprises in total losses of the economy increased by 24.6 percentage points, whereby large enterprises took the majority share (52.2 percent).

Although the consequences of the pandemic affected the operations of all business entities in Slovenia during 2020, it can be seen, based on the above data, that they had a more pronounced impact on the operations of large enterprises than on the small and medium enterprise sector.

## 5.2. Policy measures supporting SMEs during the COVID-19 pandemic

Slovenia's Recovery and Resilience Plan (RRP)<sup>29</sup> pursues the general objective of the Recovery and Resilience Facility to promote economic, social and territorial cohesion within the European Union by introducing reforms and investments focused on attaining digital and green transition. Slovenia will thus improve and strengthen the resilience of the economy and achieve the level of economic growth, recorded before the pandemic, at a faster rate. This will be achieved through the digital transformation of certain sectors of the economy and society, reduced administrative burdens and greater openness and flexibility of the Slovenian economy, and by strengthening the innovation potential of all relevant stakeholders. Slovenia will also invest in environmental, transport, energy, education, healthcare, social and other infrastructures which can make a significant contribution to economic growth in the coming years and help pursue the objective of climate neutrality by 2050. The recovery instrument NextGenerationEU makes a total of EUR 5.7 billion available to Slovenia, of which EUR 3.6 billion loans and 2.1 billion grants (EUR 312 million from REACT-EU, EUR 134 million from the Just Transition Fund, EUR 1.6 billion from the Recovery and Resilience Facility and EUR 68 million for Rural Development). Slovenia's RRP allocates the available funding to the following four key development areas: 1) Green Transition, 2) Digital transformation, 3) Smart, sustainable and inclusive growth and 4) Healthcare and social security. Each component within an individual development area includes interrelated reforms and investments. The relevant milestones and objectives are defined for each measure, which will enable implementation monitoring.

Due to the severe negative shock that the restrictions pose for the economy and the income of the population, the Government adopted and drafted an array of measures to limit negative consequences. To this end, the Act Determining the Intervention Measures to Contain the COVID-19 Epidemic and Mitigate its Consequences for Citizens and the Economy (ZIUZEOP) or the so-called anti-corona package 1 and its amendments, and the Act on Additional Liquidity to the Economy to Mitigate the Effects of the COVID-19 Infectious Disease Epidemic (the so-called anti-corona package 2) were adopted.<sup>30</sup> The specific objectives of the measures proposed are the preservation of jobs and business operations; improvement of the social security of individuals, particularly of those affected the most by the COVID-19 disease; extraordinary assistance for the self-employed; improvement of corporate liquidity; assistance to science and research projects to combat the COVID-19 epidemic; reduction of attendance fees and salaries of public officials at the state level; exemption from payment of distribution services and assistance to agriculture. Package 2 included key measures that enabled companies to revive investment activities and thus preserve jobs.

To support measures to mitigate consequences of the COVID-19 pandemic, the Government of the Republic of Slovenia also adopted decisions relating to the implementation of the cohesion policy on 24 March 2020. The budget users involved in the implementation of the cohesion policy had to submit proposals to redistribute funds from the European Social Fund (ESF) and the European Regional Development Fund (ERDF) into measures to assist companies and preserve jobs and health care, and were invited to draft new or adjusted measures due to the epidemic.

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29 Republic of Slovenia – Government Office for Development and European Cohesion Policy (2021). *Recovery and Resilience Plan*. Available at: <https://eu-skladi.si/en/post-2020-1/recovery-and-resilience-plan>

30 Republic of Slovenia (2020). 2020 Stability Programme – April 2020, the COVID – 19 scenario

As an urgent and speedy measure, the Government of the Republic of Slovenia also enhanced commodity reserves and purchased special equipment to fight COVID-19.

An advisory group has been established to assist ministries in the preparation of the first legislative package with the following orientations that are part of the Anti-Corona Package 1 guidelines<sup>31</sup>:

- 1) Measures to preserve jobs – a new scheme for co-financing wage compensations, providing for the rewarding of persons employed and activated in critical sectors, sick pay and additional funds for already subsidized employment;
- 2) Measures to improve the social situation of people – the status of employees who were unable to work due to force majeure, unemployment benefit from the first day of unemployment, waiving the payment of fees for public services that are not provided, solidarity bonus for pensioners;
- 3) Measures to provide emergency assistance to self-employed persons - emergency assistance, basic monthly income amounting to 70% of the net minimum wage, writing off contributions while maintaining rights, suspending the prepayment of income tax;
- 4) Measures to keep businesses in operation - all contributions for pension insurance of employees who work to be covered by the state;
- 5) Measures to improve the liquidity of businesses and provide assistance to scientific research projects aimed at fighting the epidemic - purchasing claims against Slovenian companies, suspending the prepayment of corporate income tax and the payment of self-employment income tax, reducing deadlines for payments to private suppliers in the public sector, redirecting unused ESF funds;
- 6) Reduction of meeting fees and wages and exemption from paying fees for distribution services;
- 7) Providing aid to the agriculture sector; and
- 8) Measures related to public procurement.

The second legislative package included measures to ensure the liquidity of the economy and adjustments to the first package. By December 2021, the Government adopted eight packages of measures to mitigate the consequences of the pandemic for citizens and the economy.<sup>32</sup> Those packages include provisional measures in the areas of labor, public finance, the economy, agriculture, forestry and food, scholarships, subsidized student meals, higher education, infrastructure, and public procurement. Table 9 presents the relevant support measures in response to COVID -19 related to the small and medium enterprise sector in Slovenia.

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31 OECD (2020). Inclusive Entrepreneurship Policies, Country Assessment Notes – Slovenia, page 26

32 <https://www.gov.si teme/koronavirus-sars-cov-2/odpravljanje-posledic-epidemije/osmi-paket-ukrepov-za-omilitve-posledic-epidemije-pkp8/>

**Table 9:** SME-Support Measures in Response to COVID-19 implemented by the Slovenian Government

Type of support	Instrument	Description
Business costs	Reduction or waiver of administrative and government fees	Credit payments to the state has been deferred by 12 months. State suppliers were paid within 8 days instead of a minimum of 30 days.
Debt finance	New lending – under concessional terms	The state-owned export and development bank made additional funding, totaling 2¼ % of GDP, available.
		Liquidity release in the amount of EUR million 115.
		Legislation passed allowing a 12-month loan holiday to businesses and farmers.
Employment support	Provide wage as alternative to direct payments to individuals	Wage subsidies for suspended workers due to pandemic-related closures and quarantined people (about €50 million).
		Persons employed and activated in sectors that are key in overcoming the epidemic were rewarded with an increase in their basic salary between 10% and 200%, based on the decision of their superiors, in the form of hazard pay and higher workload bonuses.
		The Government will pay all social security contributions for firms that continue operations during the crisis. Moreover, the state will co-finance 20% of employees' net compensation. In case of quarantine, the state covers 80% of wages.
		All contributions for temporarily laid-off employees paid into the healthcare and pension insurance schemes were covered by the state, and the insured persons' rights were preserved. The measure was in place until May 31, 2020, with the possibility of an extension.
	Subsidies for employee sick leave	The national health insurance fund financed employers' obligation to pay sick leave for the first 30 days of sickness for people falling sick during the crisis.
		Sick pay for all workers during the pandemic from the first day onwards was covered by the Health Insurance Institute of Slovenia, not the employer.
		Parents who stayed home to care for their children were entitled to 50% wage compensation
	Support for informal or self-employed workers	Self-employed workers who were unable to operate due to the crisis or whose operations have been significantly reduced were entitled to a monthly cash transfer in the amount of 70% of the minimum net wage.
		Self-employed workers were guaranteed a minimum income of 70 percent of the minimum net wage and no longer subject to social security contributions.
Unemployment benefits	Unemployed persons were entitled to benefits from the first day of unemployment.	
Tax	Corporate tax rate reductions, credits, waivers, and/or deferrals	On 18/3/2020, the tax burden on businesses was eased with a 12-month deferral of credit payments.
		Corporate income tax payments have been deferred for up to 24 months without incurring interest.

Source: Adapted from <https://www.worldbank.org/en/data/interactive/2020/04/14/map-of-sme-support-measures-in-response-to-covid-19>

In addition to the Government's measures and laws, the Slovenian Export and Development Bank (SID Banka) and the Slovene Enterprise Fund (SPS) also adopted measures to provide support to the companies. Together with the Ministry of Economic Development and Technology, SID Banka offers financial products to small and medium enterprises and large companies in the total amount of EUR 800 million. The funds are intended to address liquidity problems, including liquidity in the supply of services and products, problems due to a drop in demand, production fall-out, supply chain difficulties and investment difficulties. Measures also include insurance and bank loan refinancing. Furthermore, the Slovene Enterprise Fund in cooperation with the Ministry of Economic Development and Technology, offers a package of measures for micro companies and SME sector related to liquidity loans, guarantees for bank loans with interest rate subsidy, microloans for companies in problematic areas and other measures intended to support the SME sector during the COVID – 19 pandemic.<sup>33</sup>

### **MUNICIPALITY OF PTUJ – an example of local support measure for supporting SMEs during the pandemic<sup>34</sup>**

*The Municipality of Ptuj, with its activities, is a good example of local support measures in the fight against the economic consequences of the COVID-19 pandemic. Specifically, the measures refer to the allocation of financial aid to economic entities in the municipality of Ptuj which have suffered business damage due to the pandemic. The total amount of financial aid was EUR 50,000. The aid was intended for craftsmen, micro enterprises with less than 10 employees or whose annual turnover and / or assets do not exceed two million euros, and small enterprises with less than 50 employees whose annual turnover and / or assets do not exceed ten million euros. Requests for financial assistance could be submitted by enterprises based in the municipality of Ptuj and those that operate in the municipality, but due to the pandemic did not operate for at least a month or faced restrictions. The measures excluded enterprises owned by the state or municipalities. Eligible costs included material costs such as accounting costs, proportional share of property insurance, rent of business premises, waste management, electricity, drainage and treatment of municipal water and drinking water supply, and the aid was divided into two application phases.*

<sup>33</sup> <https://selih.si/en/covid-19-en/measures-to-support-slovenian-economy/>

<sup>34</sup> <https://ptujinfo.com/novica/politika-gospodarstvo/ptujaska-obcina-bo-s-50000-evri-pomagala-podjetnikom-ki-so-v-epidemiji>

### 5.3. Review of the adopted government measures for supporting SMEs during the pandemic in Slovenia

In the fall of 2020, research<sup>35</sup> on the effectiveness of anti-corona aid packages (PKP) was conducted among members of the Association of Employers of Slovenia. The survey was answered by 204 employers operating in various industries, with the majority coming from the manufacturing industry (32 percent), followed by the catering industry (8 percent), professional activities (7.3 percent) and trade (7 percent).

The employers projected that the pandemic will have a very negative impact on both, the European and Slovenian economies, and that their revenues will decrease by at least 17 percent, with some even reporting a 100% drop in revenue. Most employers were convinced that the economic crisis triggered by the pandemic will last for more than two years. According to the survey results, employers carried out a number of activities to combat the negative effects of the pandemic, but still, the crisis was expected to reduce investment in tangible assets (by 75 percent), intangible capital (by 67 percent) and investment in new product development (by 53 percent). Furthermore, the pandemic seriously affected the labor market. More than 60 percent of employers reported a reduction in the number of employees and companies reduced their investment in training. Adjustments to the pandemic are reflected in the introduction of work from home (remote work), the use of protective equipment, the payment of crisis allowances with an exemption from pension and disability insurance, restrictions on business travel, the introduction of new means of communication and the like. The biggest challenge for employers in 2020 was managing insecurity, mental health of employees and maintaining/increasing employee productivity.

Regarding anti-corona government measures, it was found that employers mostly benefited from measures related to the payment of wage compensation and social security contributions, including reimbursement for workers whose enterprises were closed due to the sanitary restrictions and reimbursement of 100 percent of compensation in case of quarantine due to contact with an infected person in the workplace. From the viewpoint of employers, the most appropriate measures in the first anti-corona aid package included the entitlement to compensation for temporary absence from work at the expense of compulsory health insurance and reimbursement of labor costs for workers on forced leave and quarantined workers, which 90% of employers rated as useful or very useful. The least useful measures, according to employers, were those related to court proceedings, the establishment of additional credit lines through public funds and SID Bank and the postponement of self-employment contributions for two years. Many respondents did not benefit from any measure because, in their view, they were not eligible for aid.

Employers also provided their suggestions related to the improvement in government measures to help their company cope more effectively with the COVID-19 pandemic: measures should have been simpler, faster and include as few exceptions as possible. Furthermore, the most common suggestions were related to reduction in the payment of taxes or refunds of salary compensations. Employers also emphasized the need to help companies provide liquidity

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35 The research was conducted within the project "School of Negotiation - Training of Employers for Social Dialogue (Negotiating School 2)" in the period from 15th October – 8th November 2020. Source: Franca, V., Domadenik, P. i Redek, T. (2020). *Research on the effectiveness of anti-corona measures – PKP (slo. Raziskava o učinkovitosti protikoronskih ukrepov – PKP)*. Ljubljana



through unconditional grants, facilitate access to credit, defer contributions and taxes and, above all, ensure a transparent system of all applicable measures without excessive bureaucracy.

Based on the research results, authors Franca et al (2020) provided a set of recommendations for improvement of the government response in supporting the sustainability of businesses in a time of crisis:

- resources need to be directed to funding smart containment strategies, which will include intensive testing and tracking, restrictions on mobility in case of infections and real-time risk assessment;
- incentive schemes should be created for both start-ups and companies that have good business models and identified products or services, but do not have sufficient financial resources for further development;
- employment of young people and the elderly needs to be encouraged and better matched with the needs of the labor market through retraining and upskilling programs.

Finally, it was concluded that too rapid reduction in fiscal measures aimed at helping businesses would prolong the recession and exacerbate poverty and inequality.

## **5.4. Entrepreneurial response to opportunities emerged during the crisis caused by COVID-19 pandemic – case studies from Slovenia**

### ***LOTRIČ Metrology***

*([www.lotric.si/si](http://www.lotric.si/si))*

LOTRIČ Metrology, a family business in the Selška Valley, has been operating in the area of measurement, calibration, product development and implementation of metrological solutions for three decades. As an entrepreneur, the current owner and general manager Marko Lotrič started the craft in 1991, working mainly in the field of calibration of scales, weights and pipettes. Today, his group unites over 170 experts in the field of metrology, employed in seven countries. In addition to the parent company LOTRIČ Metrology, which operates since its beginnings in Selška valley, there are four companies in Slovenia which operate in Železniki - LOTRIČ Certificiranje, Ljubljana - PSM merilni sistemi and Puconci - Mikro Medica. Subsidiaries are operating in Austria, Germany, Croatia, Bosnia and Herzegovina, Serbia and North Macedonia, where they are established as accredited laboratories.

During the coronavirus epidemic, the company demonstrated traditionally strong attributes of family businesses that respond well to crises by displaying their flexibility and resilience. At the announcement of the epidemic, the company immediately set up a test laboratory and certification body to help start the Slovenian production and self-sufficiency in terms of face masks. In parallel, together with the companies Domel, EKWB, BPMC, Technology Park Ljubljana and Zavod 404, they developed a new, Slovenian medical ventilator called DIHAM. They joined forces with the goal of developing a prototype of a life-saving respirator that could be completely self-sufficiently produced in Slovenia, with Slovenian components and Slovenian knowledge. Along the way, they have developed a culture of cooperation, sacrifice, agility and help and finally, they managed to bring this initiative from complete chaos to a working prototype. It is a so-called turbine pressure respirator (without inflatable bellows). The device is designed in such a way that it can operate both in a hospital environment and in mobile hospitals or even independently. Furthermore, in response to the pandemic, company started testing protective masks and measuring CO<sub>2</sub> in indoor areas. Together with the National Institute of Biology, they started testing protective masks, conducting over 150 tests for 50 various models of masks and materials and became a certified body for FFP protective masks. In view of the pandemic, they also decided to implement a project related to the measurement of carbon dioxide levels indoors, which is one of the main indicators of air quality. In cooperation with the local school in Selca, the Exactum system was installed, which gives teachers insight into real-time measurements and thus more efficient ventilation of the premises.

LOTRIČ Metrology was recipient of the Excellence Award for Family Business in 2020, awarded by EY Slovenia to the best Slovenian family businesses. Looking ahead, as it celebrated its 30th anniversary in 2021, LOTRIČ Metrology wants to become a company with a zero negative impact on the environment by 2031. In the future, it will continue to focus on the development of its own metrology products and customer-tailored solutions which allow for a higher degree of production and business automation.

Optifarm Smart is an IT managing system for short food-chain optimization, which connects all the participants in the market. Farmers, who sell agricultural products and buyers, who seeking transparency of their demands, ease of use and orderly distribution, with all the logistics already covered. Optifarm Smart connects those different factors and unites them in a common point. Farmers produce the products and buyers buy them, the management is in charge of orderly management, local stores provide support through the logistics department. Optifarm Smart supports transparency, traceability and safe purchase of high-quality local and 'eco' fruit, vegetables and other products. Short food chains and optimization of farmers/producers' businesses are the company's primary focus, as well as providing farmers with modern sales channels in terms of IT support to sell their products.

The company, founded in 2016, and was originally intended to connect local suppliers of agricultural products with public institutions. But once it was developed, they realized that the stakeholders already operating in the public procurement market do not need this system. After this experience, the company decided to switch to retail, and so they developed the Optifarm Smart app. The coronavirus epidemic greatly accelerated its debut. They originally planned to put it into use in September 2020, but when having realized in March last year how quickly food shopping had moved online, they were in a hurry. Hence, the app become operational as early as April.

The Optifarm Smart application enables an overview of providers and their products. The user puts products in the cart, selects the method of payment and transport, and pays. The application takes care of the delivery to the last kilometer, using different types of services, connecting with transport service providers and products, enabling pick-up at local markets, home delivery, and supporting traveling shopping. In the spirit of promoting short delivery routes, it offers the user products close to him, depending on his location.

In general, the business model is based on the payment of sales commission and their approach is comprehensive: at the regional level or at the state level. By partnering with providers and presenting their individual stories, they are also trying to influence people's mindset about where to get food and who produces it. Given their contribution to entrepreneurship and innovation in the field of food self-sufficiency, Optifarm won the award in the category for the best example of integration and cooperation in the Agrobiznis competition 2021. The long-term goal of the company is to connect all the stakeholders in local markets with local customers, support the local economy and participate in developing solutions for a smart society.

The background features a light gray geometric design with a central blue band. Stylized virus particles are scattered around: a blue one with many spikes in the upper left, a dark gray one with fewer spikes in the upper right, a dark gray one with many spikes in the center, a dark gray one with many spikes in the lower left, and a blue one with many spikes in the lower right.

# **CONCLUSION AND RECOMMENDATIONS**

## 6. CONCLUSION AND RECOMMENDATIONS

The concluding part of the study compares the impact of the crisis on the SME sector in the four observed countries, identifies positive aspects of government measures to support the SME sector during the crisis, and recommendations in the form of lessons learned that can be useful to policy makers in situations where support for the sustainability of the sector is necessary, due to the impact of external adverse conditions.

### 6.1. Impact of the pandemic on the small and medium enterprise sector in China, Croatia, North Macedonia and Slovenia

The COVID-19 pandemic has left a significant mark on the health, social and economic picture of most countries, including China, Croatia, North Macedonia and Slovenia, which are the focus of this study. As a result of the pandemic, by the end of 2021 in China 4,636 people had lost their lives, 12,538 people in Croatia, 7,960 people in North Macedonia, and 5,589 people in Slovenia.<sup>36</sup> In 2020, the GDP in Croatia decreased by 8.1% compared to 2019, in North Macedonia by 5.2% and in Slovenia by 4.2%, while in China it increased by 2.3%.<sup>37</sup>

The small and medium enterprise sector is an important part of the economy in all the four observed countries. In China, the SME sector provides jobs for 130 million people. In Croatia, 72% of employees work in small and medium enterprises, 74% in North Macedonia, and 66% in Slovenia.

In all the four countries, the companies faced a significant disruption in business activity. The flow of raw materials, labor and other production factors required by enterprises was interrupted and production could not be carried out smoothly. Sales channels were blocked and finished products could not be sold. The pandemic revealed an absence of SMEs' own risk mechanisms to cope with the pandemic, but it also increased the need for an entrepreneurial answer to newly emerged opportunities coming from changed environment and needs. The awareness on the importance of digital transformation grew significantly and, in some industries, like health and IT, the barriers for international trade were lowered due to increased need for the products. This study presents 8 cases<sup>38</sup> of companies from all four observed countries which identified an opportunity and successfully created new products, services and processes that meet the customers' needs, resulting from the changed circumstances of living and working in a pandemic.

In China, in the first quarter of 2020, more than 460,000 private small and micro enterprises went bankrupt. With the slowdown of the global economy and the decline in export growth caused by trade frictions, the pressure on China's economy has intensified in the last couple of years. SMEs

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36 <https://www.worldometers.info/>

37 [https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?name\\_desc=false](https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?name_desc=false)

38 Companies that are presented in the report as an example of good practice are: CHENGDU LIGENG CULTURE COMMUNICATION CO. LIMITED, CHENGDU LONG YUAN NETWORK TECHNOLOGY CO., ALARM AUTOMATIKA, GRAD EXPORT, GALINA, GRADITEL – B, LOTRIČ METROLOGY, OPTIFARM SMART

were facing greater difficulties while the pandemic has been adding to the downward pressure on the economy.

In 2020, the Croatian business sector achieved a positive consolidated result, but lower by almost 33% compared to 2019. The decrease in this indicator is the result of a decrease in total profit in 2020 by 6% with a simultaneous increase in total loss by 42% compared to the previous year. In Croatia, the negative effects of the pandemic had the greatest impact on financial operations of large enterprises and the least impact on operations of micro and small enterprises. These results can be explained by the agility and flexibility of micro and small enterprises, which are reflected in the rapid adaptation of the business to changes, but also to the government's economic support measures.

The pandemic affected three quarters of companies in North Macedonia, and most employers resorted to reduction in salaries and all additional payments to their employees, as well as laying off staff in more serious cases. Around 4% of all registered business entities in North Macedonia, or a total of 2,846 businesses, had to cease their activities as a result of the pandemic and all of them fall within the category of micro and small enterprises.

The negative impact of the pandemic is visible also in Slovenia, resulting in the reduction of the number of employees in the entire business sector in 2020 by almost 2% compared to 2019. Due to significant restrictions on business activities during the pandemic, there was a decrease in the total income for all the categories of business entities in 2020. In 2020, the Slovenian business sector generated a profit of EUR 4.6 billion, which is a decrease of 15% compared to 2019. On the other hand, the total reported losses of the entire business sector amounted to EUR 1.8 billion, which is 2.3 times higher loss than the amount reported in 2019.

Due to this pressure and the negative impact of the pandemic on the economy, especially on the small and medium enterprise sector, governments around the world, including China, Croatia, North Macedonia and Slovenia, recognized the economic and social importance of the small and medium enterprise sector. Soon after the pandemic broke out, special packages of measures to help the economy were created in all the four countries, with a special focus on small and medium enterprises.

## **6.2. Government measures to support the economy during the pandemic**

Epidemiological measures to contain the pandemic have led to a reduction of economic activity and a decline in sales in companies that were directly or indirectly subjected to these measures. In order to overcome the challenges, many countries implemented measures to mitigate the economic consequences of the pandemic, with a special focus on small and medium enterprises (SMEs), which make up a dominant part of national economies of most countries.

The measures introduced by governments shortly after the outbreak of the pandemic included direct grants, tax reliefs and more favorable payment terms; loan guarantees and subsidized interest rates on loans; short-term loan insurance; deferrals of taxes and / or social security contributions; subsidies for employees' salaries or the income of self-employed persons equivalent to salary; interest free loans, etc.

Some of the measures were aimed directly at companies that were helping to find the answers to the health aspects of the COVID-19 pandemic. In Croatia, the government prescribed measures to provide aid for research and development in the field of COVID-19; aid for investment in construction or upgrading of testing infrastructures and for the improvement of processes from the laboratory to the production level; and aid for investments in the production of products essential for the control of the spread of COVID-19.

In Slovenia, too, the government introduced measures to improve the liquidity of businesses and provide assistance to scientific research projects aimed at fighting the epidemic - purchasing claims against Slovenian companies, suspending the prepayment of corporate income tax and the payment of self-employment income tax, reducing deadlines for payments to private suppliers in the public sector, redirecting unused ESF funds.

Other government measures in Slovenia included support to preserve jobs, measures to improve the social situation of people (e.g. employees who were unable to work due to force majeure), measures to provide emergency assistance to self-employed persons - emergency assistance, basic monthly income amounting to 70% of net minimum wage, writing off contributions while maintaining rights, suspending the prepayment of income tax; measures to keep businesses in operation - all contributions for pension insurance of employees who work to be covered by the state, etc.

Some of the measures in North Macedonia related to direct support to the population, especially vulnerable groups in society, with indirect support to domestic companies by stimulating the consumption of their products and services (e.g. a VAT-free weekend was organized during which all citizens were able to buy domestic products exempt of VAT charges in pre-determined sectors).

In addition to measures at the national level, additional measures to support the sustainability of business and jobs have been created at the regional and local levels. In China, for example, some provinces introduced measures aimed at:

- Increasing financial support (such as lowering loan interest rates, extending loan terms, reducing or waiving financial service fees, and extending the collection of financial lease rentals);
- Implementing and improving tax incentives;
- Reducing the social burden on SMEs (tax reduction, fiscal support, financial support, innovation and public services, requiring relevant departments and local authorities to actively introduce policies to support SMEs from various aspects);
- Policy provisions to support SMEs to accelerate technological transformation (promotion of digitalization and intelligent transformation of traditional industries).

The support for EU Member States was insured through EU funds and mechanisms, and the European Investment Bank supplied the Government of North Macedonia with 100 million EUR in low-interest rates loans to be disbursed through the commercial banks.

Based on the establishment of the Recovery and Resilience Facility at the European Union level (whose measures and activities are aimed at helping the national economy recover after the crisis caused by the COVID-19 disease pandemic and creating a more resilient and sustainable society in the event of new economic shocks), Croatia and Slovenia, as EU Member States adopted the National Recovery and Resilience Plan 2021-2026 in Croatia and the Recovery and Resilience Plan in Slovenia respectively.

Slovenia's Recovery and Resilience Plan (RRP) responds to the urgent need of fostering a strong recovery. The reforms and investments in the plan will help Slovenia become more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions, with 42% of the plan intended to support climate objectives and 21% of the plan to foster the digital transition. The plan consists of 55 investments and 33 reforms. They will be supported by EUR 1.8 billion in grants and EUR 0.7 billion in loans. Slovenia's RRP allocates the available funding to the following four key development areas: 1) Green Transition, 2) Digital transformation, 3) Smart, sustainable and inclusive growth and 4) Healthcare and social security.

For its National Recovery and Resilience Plan 2021-2026 under the Facility, Croatia was provided with financial resources in the amount of almost EUR 9.9 billion, of which EUR 6.3 billion are grants, and about EUR 3.6 billion are soft loans. Croatia will allocate its recovery funds on 1) Economy, 2) Public administration, judiciary and public property, 3) Education, science and research, 4) Labor market and social protection, 5) Health care 6) Initiative: Renovation of buildings.

### **6.3. Review of the policy measures to combat the negative effects of pandemic on SMEs and recommendations**

There seems to be a consensus among experts and entrepreneurs in the four observed countries that the governments' response represented an important boost for the economy and helped many SMEs survive the initial wave of the pandemic. However, there is also a consensus that if the design and implementation of the measures were better, its impact could have been much stronger.

Most of the objections to the measures adopted by the governments were not related to the content of support measures, but to the definition and implementation of epidemiological measures that affected various activities. Because of their inconsistency, incoordination and delays with the implementation regulations, as well as the omission of certain activities when defining the measures, entrepreneurs experienced significant difficulties in adapting their operations to the changing conditions.

An important objection in Croatia relates to the decision to provide a more significant allocation of the funds from the National Recovery and Resilience Plan 2021-2026 to the public, instead of the private sector. There is a high level of agreement among employers in Croatia about the need for much more investment in the real sector, manufacturing, and the introduction of new technologies in order to create added value and new jobs. Most of the investments envisaged in the National Recovery and Resilience Plan are primarily intended for public projects, from sewerage, water management to transport investments. These investments, according to the Croatian Employers' Association, benefit the lives of citizens but will not create enough jobs in the long run and increase the domestic product as much as possible.



It is also important to keep in mind that one of the serious shortcomings of policy measures is related to the high level of “red tape” (forms and documents) that companies were supposed to collect and submit in order to be eligible for assistance, as it was the case in North Macedonia, as well as the often unclear and/or changing procedures and guidelines. This turned out to be a significant administrative burden for SMEs who generally have few employees and often lack the knowledge to prepare complex applications.

While in the short-term the subsidies, loans and tax relief measures served as a way to help the entrepreneurs who faced both a decrease in the demand and reduced liquidity, the long-term needs of SMEs should be taken into account since the recovery of consumption is dependent on their recovery (SMEs as an important, and in most countries the largest employer).

The following are the key recommendations for improvement of policy response for SMEs in crisis, especially in the forthcoming period:

#### Recommendation 1:

##### **Fiscal support for SMEs and its implementation mechanisms**

*The main measures of government support for SMEs in crisis should include tax cuts, fee reductions, financial subsidies and related subsidies to reduce the burden of enterprises. When a crisis breaks out, a comprehensive disaster management system and financial emergency mechanism with various support policies should be established as fast as possible.*

#### Recommendation 2:

##### **Creating good macroeconomic operating environment to stimulate domestic demand**

*Apart from providing support to SMEs through various fiscal and financial instruments, expanding domestic demand is one of the most sustainable relief measures. By expanding domestic demand, enterprises can gain access to production opportunities in the market and people can gain access to employment opportunities, which is more dynamic and sustainable than fiscal subsidies and funding.*

#### Recommendation 3:

##### **Cutting the “red tape” in policy support measures**

*Applications for recovery and long-term support measures should bear in mind the administrative capacity of SMEs and include only the strict minimum of bureaucracy. However, there should be an oversight mechanism to ensure that the financial support is spent for the right purpose and there is no abuse. Measures should be simple, fast and include as few exceptions as possible.*

#### Recommendation 4:

##### **Principle of fairness in implementation of policy support measures**

*The criteria to obtain financial support should be designed in a way to ensure that it will go into the hands of those entities which need it the most and are unable to secure other funding to overcome the crisis, while also taking profitability into account.*

#### Recommendation 5:

##### **Establishing a good insurance payout mechanism**

*Innovation in the insurance system should be promoted so that new varieties of insurance products suitable for pandemic disasters are introduced.*

#### Recommendation 6:

##### **Support for unemployed due to the crisis**

*Increasing the support of fiscal policies for re-employment and vocational training subsidies so that those unemployed due to the pandemic can quickly resume employment.*

#### Recommendation 7:

##### **Developing SMEs' own risk mechanisms to cope with external shocks**

*The Government should help SMEs develop their flexibility and adaptability to external shocks by envisaging continuous support for their investments in equipment, research and innovation, digitalization, staff training and re-qualification.*

#### Recommendation 8:

##### **Support for SMEs after the pandemic: post-pandemic reconstruction loans**

*Too rapid reduction in fiscal measures related to SME support would prolong the recession and exacerbate poverty and inequality. Financial support for SMEs after the disaster should be prolonged, especially for those severely affected by the pandemic (post-disaster reconstruction loans).*

The background features a light gray geometric shape with a blue horizontal band across the middle. Stylized virus particles are scattered around: a blue one with many spikes on the left, a gray one with fewer spikes in the center, and a blurred gray one on the right. Below the blue band, there is a blurred gray virus particle on the left and a blurred blue virus particle on the right.

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# LIST OF TABLES

<b>Table 1:</b>	Number of enterprises and employees with regard to size .....	8
<b>Table 2:</b>	Number of employees in China in 2020 .....	9
<b>Table 3:</b>	SME-Support Measures in Response to COVID-19 adopted by Chinese provinces/municipalities .....	12
<b>Table 4:</b>	Enterprise size and employment, total income and exports in 2019 and 2020 in Croatia .....	28
<b>Table 5:</b>	Financial efficiency of enterprises in 2019 and 2020 .....	31
<b>Table 6:</b>	Establishment and termination of registered legal entities in 2019 and 2020 ...	34
<b>Table 7:</b>	Enterprise structure, employment and total income with regard to size in 2019 and 2020 in Slovenia .....	60
<b>Table 8:</b>	Financial efficiency of enterprises in 2019 and 2020 .....	66
<b>Table 9:</b>	SME-Support Measures in Response to COVID-19 implemented by the Slovenian Government .....	70



# LIST OF FIGURES

<b>Figure 1:</b>	Enterprise structure in Croatia with regard to size in 2019 and 2020 . . . . .	24
<b>Figure 2:</b>	Enterprise size and total income (million EUR) in 2019 and 2020 in Croatia. . .	25
<b>Figure 3:</b>	Enterprise size and exports (million EUR) in 2019 and 2020 in Croatia. . . . .	26
<b>Figure 4:</b>	Enterprise size and number of employees in 2019 and 2020 in Croatia. . . . .	27
<b>Figure 5:</b>	Number of employees, total income and exports in the small and medium enterprise sector in 2019 and 2020 in Croatia. . . . .	29
<b>Figure 6:</b>	Total employment, income and exports by enterprise size in 2020 . . . . .	30
<b>Figure 7:</b>	Number of “profit-makers” and “loss-makers” in the small and medium enterprise sector in 2020, by area of activity. . . . .	33
<b>Figure 8:</b>	Number of registrations and bankruptcies of business entities i n the period from 2019 to 2021, by quarters, in Croatia . . . . .	35
<b>Figure 9:</b>	Share of the SMEs in the economy of North Macedonia in 2019 . . . . .	45
<b>Figure 10:</b>	Quarterly GDP in the period 2019-2021, in million EUR. . . . .	46
<b>Figure 11:</b>	Monthly unemployment rate, 2020-2021 in North Macedonia . . . . .	47
<b>Figure 12:</b>	Number of active companies per size in North Macedonia, 2019-2020 . . . . .	48
<b>Figure 13:</b>	Number of employees per company size in North Macedonia, 2019-2021 . . . .	49
<b>Figure 14:</b>	Turnover per company size in North Macedonia, 2019-2021, in million EUR . .	50
<b>Figure 15:</b>	Number of employees working at GALINA, per semester, 2019-2021 . . . . .	57
<b>Figure 16:</b>	GALINA's cumulative turnover, per semester, 2019-2021, in EUR. . . . .	57
<b>Figure 17:</b>	Enterprise structure with regard to size in 2019 and 2020 in Slovenia . . . . .	61
<b>Figure 18:</b>	Enterprise size and employment in 2019 and 2020 in Slovenia . . . . .	62
<b>Figure 19:</b>	Enterprise size and total income (thousand EUR) in 2019 and 2020 in Slovenia. . . . .	63
<b>Figure 20:</b>	Total employment and income by enterprise size in 2020 in Slovenia . . . . .	64
<b>Figure 21:</b>	Number of enterprises that made a profit and reported a loss in 2019 and 2020 . . . . .	65

## EXCERPT FROM REVIEWS

*“The study provides an overview and a critical review of the measures taken by the governments of the observed countries with the aim of sustaining small and medium-sized enterprises during the pandemic and points to examples of good practice in entrepreneurial responses to recognised pandemic opportunities transformed into innovative products, services, processes or business models. On the basis of the conducted research, recommendations based on good practice in supporting the small and medium-sized enterprise sector were made.*

*Presenting short case studios further illustrated the specifics and trends in small and medium-sized entrepreneurship in the time of crisis. The identified lessons learned are a valuable contribution to future debates on the responsiveness of governments in times of external shocks in which small and medium-sized enterprises are particularly vulnerable.”*

**Ružica Šimić Banović, PhD**

**Associate Professor at Faculty of Law, University Zagreb, Croatia**

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*“The COVID-19 virus pandemic caused one of the biggest crises in economic history, and it certainly represents a valuable research area, which is greatly helped by this study, which provides a clear and detailed overview of the state of the small and medium-sized enterprise sector, as well as the implemented measures aimed at mitigating the negative consequences – unemployment growth, insolvency, losses, bankruptcies and liquidations. The special value of the study is reflected in the comparative analysis of countries from the environment with the world's leading economy. The study is certainly a valuable document for all participants in the process of adopting policies and regulations, as well as for lobbyists focused on policies and laws that would strengthen the small and medium-sized enterprise sector.”*

**Anamarija Delić, PhD**

**Associate Professor at Faculty of Economics in Osijek**

**J.J. Strossmayer University of Osijek, Croatia**

## **International Cooperation Centre, National Development and Reform Commission (China)**

*"The International Cooperation Center (ICC) of the National Development and Reform Commission (NDRC) is a directly affiliated institution of NDRC and a major institution of international cooperation.*

*As a decision-making advisory body serving the NDRC to study major strategies, coordinate major policies, promote large projects, analyze major trends, and cooperate with the NDRC to implement the "Belt and Road" construction and international capacity cooperation, the main implementation of a series of international cooperation mechanisms the organization has provided macro-decision support around the work of the Party Central Committee, the State Council, and the NDRC. It has played an important supporting role in providing policy advisory services to domestic and foreign enterprises and governments at all levels, and has formed comprehensive advantages such as policy research, international cooperation, planning consulting, forum training, and public diplomacy.*

*Facing the future, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, under the correct leadership of the Party committee of the NDRC, the ICC closely focuses on the overall work of the Party and the country's opening up and the work of the NDRC, and always insists on down-to-earth, enterprising and innovative work principles. It is committed to building thinkers, explorers, and practitioners who work together to build the "Belt and Road", and promote the high-quality development of local economies and enterprises. We have always been committed to being a thinker, practitioner and promoter of making a more open China positively engaged with the world."*

## **The Centre for Polish and Central and Eastern European Studies, School of International Studies, Sichuan University (China)**

*"The Center for Polish, Central and Eastern European Studies of School of International Relations, Sichuan University, was established in 2016. In 2017, the center was registered as a base of region and country-specific studies of the Department of International Cooperation and Exchanges of the Ministry of Education. It is an important unit for research and policy consultation on Poland, Central and Eastern Europe. Since its establishment, the Center has concentrated its resources and actively carried out academic research, decision-making consultation and international exchanges.*

*The center aims to serve the country's "Belt and Road" construction, and serve national diplomacy, economy and humanities cooperation as its own responsibility. Based in Sichuan, facing the world, oriented to major national and local needs, we strive to become an important base for research and talent training in Poland and Central and Eastern Europe and a high-end platform for exchanges between China and Central and Eastern Europe. Since its establishment, the center has pooled its superior resources and actively carried out academic research, decision-making consultation and external exchanges. The center will strengthen contacts with research institutions and think tanks of world-class universities, and jointly build an international cooperation network.*

*In recent years, our school has established a close cooperative relationship on teaching and scientific research with the University of Warsaw, Jagiellonian University, Lodz University in Poland; Charles University in Czech Republic; University of Pecs and Corvinus University of Budapest in Hungary; University of Ljubljana in Slovenia; University of Latvia in Latvia and other renowned universities in Central and Eastern Europe.*

*The Center holds the "Sichuan University- University of Warsaw International Relations Research Roundtable" twice a year to promote mutual recognition and academic cooperation between China and Central and Eastern European countries. So far, five sessions have been held.*

## **CEPOR – SMEs & Entrepreneurship Policy Centre (Croatia)**

*CEPOR – SMEs and Entrepreneurship Policy Center is an independent policy center which deals with issues of small and medium enterprises in Croatia. CEPOR was established in 2001, based on an agreement between the Government of the Republic of Croatia and Open Society Institute Croatia. Institutional founders of CEPOR are: Institute of Economics, Zagreb, Josip Juraj Strossmayer University of Osijek – Faculty of Economics in Osijek, Institute for International Relations Zagreb, Croatian Chamber of Economy, Croatian Chamber of Crafts and Trades, REDEA Development Agency Međimurje – Čakovec, IDA Istrian Development Agency – Pula, Center for Entrepreneurship Osijek, Open Society Institute Croatia and UHIPP, Croatian Institutions for Promotion of Entrepreneurship Association. CEPOR's mission is to influence the public-political environment emphasizing the role of entrepreneurship and small and medium enterprises in the development of Croatian economy. CEPOR wants to contribute to the shaping of entrepreneurial culture and to creation of stimulating institutional and regulatory framework for entrepreneurial activity.*

**ESTIMA –  
Association for Strategy Creation,  
Research, Education and Promotion and International Values  
(North Macedonia)**

*ESTIMA is a civic association established in 2016, specialized in policy research, analysis and advocacy, with a geographic focus on the Western Balkans, the EU and China. Founded by knowledge enthusiasts in North Macedonia, it strives to challenge the existing regional standards in the area of knowledge creation and exchange and to define new, higher ones. Its mission is to establish and develop the first globally recognized knowledge-brand in the country and the broader region.*

*Its analysts have a background in economic and development issues, focusing on private sector, particularly SMEs and women entrepreneurship. Their recent publications include the first Women Entrepreneurship Barometer in North Macedonia (November 2021), a set of 3 policy briefs related to the EU's Single Market (Digital Single Market, Access to Finance for SMEs and Protection of Intellectual Property Rights, November 2021), The Sofia Summit – Takeaways and Lessons Learnt (assessment of the Western Balkans Common Regional Market, November 2020), The impact of COVID-19 on the construction industry in North Macedonia (June 2020), Macedonian companies in the Belt and Road Initiative (April 2020), etc.*