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NAVIGATING THE COVID-19 CRISIS:

Evolving challenges, needs and expectations of Montenegrin enterprises

SECOND EDITION

Podgorica, March 2021

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International Labour Organization

Contents

About the survey

After a relatively soft first wave of COVID-19 infections last spring, Montenegro experienced a second wave of infections that reached new peak levels in November and gradually decreased and stabilized in December 2020 and January 2021. At the time when this report was being finalized Montenegro was enduring a painful third wave of COVID-19, recording one of the highest rates of active cases in Europe. The shock and subsequent introduction of containment measures devastated Montenegro's large tourism sector, with knock-on effects on private consumption and investments, causing one of Europe's steepest declines in GDP in 2020, estimated at 15.2 per cent.[1]

Against this backdrop, the Montenegrin Employers Federation (MEF), with the technical support of the International Labour Organization (ILO) conducted a second enterprise survey to track business challenges and needs resulting from the protracted COVID-19 crisis. Carried out online between October and November 2020, the survey report provides the views of 312 enterprises that completed the survey. In addition, several in-depth interviews were conducted in December 2020, in order to give the analysis more depth and shed light on some survey results and patterns. Inputs collected through interviews were particularly useful in defining the new set of recommendations. The online survey was developed by MEF based on the ILO Enterprise Survey Tool: Assessing the needs of enterprises resulting from COVID-19.

The survey measured the perception of enterprises in relations to their operational continuity, financial health, workforce status, effectiveness of current government support measures and business sentiments. Likewise, the survey sought data on enterprise needs as inputs to define a set of actionable recommendations. The data have been analysed through three dimensions: overall impact, size of the enterprise and sector. The sectorial analysis covers seven sectors: food and beverage; construction and real estate; retail and sales; services; transportation and transportation equipment; HORECA and information and communication. These sectors have been selected based on such criteria as strategic importance of the sector, vulnerability to the crisis and representation in the sample. An overview of survey findings across the seven key sectors that accounted for the highest response rate are provided in Annex I. Details of the survey demographics can be found in Annex II.

The first enterprise survey was conducted shortly after the outbreak of the crisis, in April 2020.[2] MEF developed three sets of policy recommendations[3] based on the findings from the first enterprise survey that were used to influence the three packages of economic emergency measures adopted by the Government. The preliminary findings from the second enterprise survey have been used by MEF in shaping a new (fourth) set of recommendations adopted in December 2020.[4]

[1] The Ministry of Finance and Welfare estimated the GDP decline at 15.2 per cent for 2020, which is fully in line with MONSTAT estimations. Projections previously made by international organisations indicated a slightly lower decline. These estimations have been reflected in the "The draft law on budget of Montenegro for 2021" of March 30, 2021, available at: https://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/163/2518-14382-33-21-5.pdf

[2] The Impact of the COVID-19 Pandemic on Enterprises in Montenegro: Challenges and Expectations. Montenegrin Employers Federation. May 2020. Available at: http://poslodavci.org/en/publications/report-on-the-impact-of-the-covid-19-pandemic-on-enterprises-in-montenegro-challenges-and-expectations

[3] The proposal adopted by MEF board is available at: http://poslodavci.org/en/.

[4] The fourth proposal of measures adopted by MEF board in December 2020 is available at: http://poslodavci.org/site/assets/files/2963/16-12-2020_cetvrti_predlog_mjera_upcg.pdf

Executive summary and policy recommendations

Despite the severe disruptions caused by the COVID-19 crisis, Montenegrin enterprises gradually resumed operations in the last quarter of 2020. The vast majority of enterprises (95 per cent) were able to operate fully (either on site or remotely) or partially, while 5 per cent were not yet in operation, which was the case for almost a quarter of enterprises during the second quarter of 2020. Alarmingly, the share of enterprises operating at significantly reduced capacity (32 per cent) remained almost at the same level as during the spring lockdown. Microenterprises faced the greatest difficulties in restoring their operations. About 7 per cent of these enterprises were not yet in operation, while 40 per cent operated at significantly reduced capacity. The operational status of enterprises improved with the increase in enterprise size. Sector wise, HORECA, services and transportation portrayed the weakest capacity to rebound after having been hit hardest by the crisis.

Enterprise revenue has been affected dramatically with close to 90 per cent of enterprises experiencing a drop in revenue compared to the same period of 2019. Only a very small share of enterprises (9 per cent) reported no changes, while a further 2 per cent had an increase in revenue. The average revenue shortfall for all surveyed enterprises was 47 per cent. The largest revenue decline was reported by small enterprises with an average revenue shortfall of 50 per cent. Nearly one fifth of microenterprises and a quarter of small enterprises reported a revenue shortfall of above 80 per cent. The effect of the crisis reverberated across all sectors and had a particularly devastating effect on HORECA and the transportation sector. All surveyed enterprises in these sectors reported a drop in revenue for the first three quarters of 2020. The average decline was 73 per cent for HORECA and 62 per cent for transportation enterprises respectively. Furthermore, close to half of enterprises in HORECA and one third in the transportation sector reported a decrease in revenue of more than 80 per cent.

Teleworking was largely implemented during the lockdown period with the practice continuing, though on a smaller scale, after the lifting of restrictions. About 40 per cent of surveyed enterprises continued using full-time or part-time teleworking in the last quarter of 2020, compared to nearly 60 per cent of enterprises during the lockdown period. Microenterprises were least flexible in adapting to teleworking arrangements. The prevalence of teleworking arrangements remained relatively high in large and medium-sized enterprises (69 per cent and 51 per cent respectively) even after the lifting of restrictions, compared to microenterprises and small enterprises, which maintained teleworking in 37 per cent and 42 per cent of the cases, respectively. More than half of enterprises that resorted to teleworking arrangements experienced a decrease in productivity, of which nearly 60 per cent reported that the decrease was significant or very significant. About two thirds of enterprises would prefer their employees to work on site after the crisis is over and do not envisage switching to remote working practices over the long term.

A sharp decline in demand and delay in customer payments were reported by nearly 70 per cent and 50 per cent of enterprises, respectively, as the most critical operational challenges even after the easing of restrictions. Furthermore, almost equal shares of enterprises (about 40 per cent) experienced difficulties in settling obligations to suppliers and employee absenteeism. All these challenges increased significantly the operational costs as reported by almost one third of surveyed enterprises. To address liquidity shortages, a significant share of enterprises (65 per cent) resorted to their own reserves. The second most common practice, utilized by one third of enterprises, was applying for the moratorium on debt payments. Overall, enterprises did not rely much on the banking sector. Microenterprises relied much more heavily on their own reserves (73 per cent) but applied less frequently for alternative support measures compared to larger enterprises. Enterprises used primarily their own reserves in the following sectors: construction (81 per cent); services (69 per cent); transportation; information and communication (67 per each); and HORECA (61 per cent).

To reduce workforce related costs, the most heavily used measure was reducing or completely freezing the recruitment of new staff (46 per cent). A further one third of enterprises postponed the increase in wages, while close to 30 per cent reduced the costs for staff training. Although decreasing the number of employees was among the least utilized cost cutting measure, nearly one quarter of enterprises anticipated layoffs in the coming period. Small and medium-sized enterprises displayed the highest shares of respondents with an intention to dismiss workers (40 per cent and 30 per cent respectively). By sector, the prospects of job cuts are most worrying in HORECA with a staggering 53 per cent of enterprises planning to downsize their workforce. Furthermore, one third of enterprises in the transportation sector, nearly 30 per cent in services and information and communication and one quarter in retail/sales anticipated layoffs in the coming period.

Despite high dissatisfaction with government support indicated by 70 per cent of enterprises, the provision of wage subsidies was the most sought after type of support. Provision of minimum wage subsidies was assessed positively by 30 per cent of enterprises though only 4 per cent considered it as a business-saving measure. Tax deferral was positively assessed by 23 per cent of enterprises, compared to 21 per cent of enterprises that benefited from moratorium on tax payments. Incentives for new employment and credit loans through Investment Development Fund of Montenegro were assessed as adequate by some 20 per cent of enterprises.

An overwhelming 78 per cent of enterprises reported that they would need additional economic support measures to ensure their sustainability. Enterprises of all sizes are in great need of additional measures with microenterprises displaying the highest share (81 per cent) of respondents that need such measures. Although the need for additional support decreases gradually with the increase in enterprise size, the share of respondents demanding additional measures remains high even among large enterprises (63 per cent). The demand for additional support measures is extremely high across all sectors. Food and beverage expressed the greatest need for additional measures (94 per cent), while the same was true for an average 80 per cent of enterprises in construction, retail/sales, HORECA and transportation.

Wage subsidies remained the most sought-after type of support for some 60 per cent of enterprises. Medium-sized enterprises recorded the highest shares of respondents demanding wage subsidies (72 per cent), followed by almost equal shares of large and small enterprises (60 per cent on average) while microenterprises displayed the lowest shares (56 per cent). Subsidized liquidity loans under favourable conditions from the Investment Development Fund of Montenegro or commercial banks was requested by an average one third of enterprises and was the second most popular measure across MSMEs. Tax deferral was assessed as appropriate support measure by nearly 30 per cent of enterprises. Debt cancellation was assessed positively by 13 per cent of enterprises, while the moratorium on credit payments was seen as relevant by only 7 per cent of enterprises. Significant shares of enterprises (varying between 50 per cent and close to 90 per cent) across all sectors identified wage subsidies as priority support measure.

More than 40 per cent of enterprises anticipated a full recovery, while nearly one third noted that additional cost cutting measures would be needed to be able to recover. A further 14 per cent of enterprises anticipated considerable challenges and were considering temporary suspension of operations. Some 3 per cent of enterprises were pessimistic about prospects of future recovery and anticipated permanent business closure. Medium-sized enterprises displayed the highest share of respondents anticipating a full recovery (62 per cent) within a year, followed by microenterprises and small enterprises (both at 41 per cent), while the share of large enterprises was significantly lower (20 per cent). Furthermore, a significantly higher share of large enterprises (60 per cent) anticipated they would take cost-cutting measures to complete recovery relative to the MSMEs.

Recommendations

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

Continue providing employment retention subsidies to enable the most affected enterprises to retain their workforce

The provision of minimum wage subsidies was the most sought-after type of support in Q3-Q4 2020 and was ranked as the most adequate type of support in the coming period by some 60 per cent of enterprises. Although downsizing the workforce was among the least common cost cutting measures implemented by enterprises so far, almost one quarter of enterprises anticipated layoffs in the near fututre.

It is recommended to continue providing wage subsidies amounting to 100 per cent of the net minimum wage to enterprises that reported a decline in revenue of more than 30 per cent compared to 2019 due to the pandemic and restriction measures to contain it. The measure should be applied during the first quarter of 2021 or longer – depending on the epidemiological situation and the improvement of business conditions. Likewise, it is recommended to review the eligibility criteria for enterprises qualifying for wage subsidies on an individual basis. The survey results showed that the level of negative impact varies greatly not only across sectors but also within sectors with some enterprises reporting little or no impact in the hardest hit sectors and vice versa.

Provide further financial support to enterprises to partially cover liquidity shortages

One third of enterprises demanded financial support in the form of subsidized liquidity loans under favourable conditions. A sharp decline in demand and delay in customer payments were reported as the most critical operational challenges, which induced a sharp drop in cash flow. It is crucial to provide enterprises with the liquidity needed in order to avoid tipping solvent but illiquid businesses into bankruptcy.

It is recommended that the Government should guarantee at least 70 per cent of the amount of loans for businesses reporting a revenue shortfall of above 30 per cent due to the pandemic and restriction measures. The Government and the Central Bank guarantees provided through the Investment Development Fund and commercial banks should be earmarked proportionally to the market share of each bank in Montenegro and should not exceed 40 per cent of the overall placement of the bank. The maximum loan amount guaranteed by the State should be limited to €300,000 to enable a larger number of businesses to benefit from this measure. Loans exceeding this amount should be conditioned by the approval of the Government or relevant ministry. The Government and the Central Bank should establish in advance the interest rate (which must be fixed), grace period (minimum 12 months), and repayment deadline (minimum 36 months). The hardest hit entrepreneurs and MSMEs should be granted interest-free loans to cover the insufficient cash flow. Likewise, it should be considered converting part of the loan into grants if the enterprises meet specific criteria, one of which could be the retention of workforce.

Continue deferring and decreasing taxes to alleviate the liquidity problems

Nearly 30 per cent of enterprises requested to defer and decrease taxes to further support enterprises address the inconsistent cash flow.

It is recommended to defer the payment of due tax liabilities for all types of taxes, including social contributions on income tax for 2021 with the possibility of repayment in a minimum of 24 instalments. It is also recommended to defer the payment of customs duties and VAT for up to 90 days and foresee the possibility to apply this measure repeatedly (in cycles) until the enterprise cash flow is stable. Many enterprises suggest changing the VAT system and proposed charging VAT after the invoices are paid. Enterprises reiterated the need to increase the threshold for compulsory VAT registration from €18,000 turnover to (at least) €30,000 to support in particular the entrepreneurs and microenterprises, who raised this need even before the pandemic. Likewise, it was recommended to reduce local utility taxes, including fees for use of roads to access commercial facilities and suspend their enforced collection until the end of 2021. Finally, to be able to comply with Law on Fiscalization in Trade, Products and Services (effective as of 1 January 2021), enterprises highlighted the need to provide subsidies for the purchase of fiscal devices and equipment to replace existing tax cash registers in accordance with the requirements of the law.

Improve labour legislation to ensure effective implementation of teleworking arrangements and flexibility in human resource management

Teleworking was largely implemented during the lockdown period with the practice continuing, though on a smaller, yet not negligible, scale in the last quarter of 2020. About 40 per cent of surveyed enterprises continued using full-time or part-time teleworking in the last quarter of 2020, compared to some 60 per cent of enterprises during the lockdown period. Many enterprises had to implement working from home arrangements for the first time and they needed to quickly adopt such arrangements across the entire company. The current legislative base proved to be underdeveloped and caused many difficulties in practice.

It is recommended to supplement the provisions on working from home arrangements, especially with regard to ways of organizing work, the use of information technology, occupational safety and health and employee privacy among other things. It is equally important to clarify (either by adopting a new regulation or by amending the exiting legislative framework) how exactly to implement labour legislation during extraordinary (force majeure) situations. Employers should be granted the right to take unilateral decisions (after consultation with employees) to introduce work from home or part-time work arrangements with a proportional reduction in wages during the state of emergency. Likewise, the provisions on termination of employment, amendment of employment contract and working time should be supplemented with new grounds covering the extraordinary situations.

Provide adequate infrastructure and regulatory framework for the implementation of digital technology by enterprises and development of business continuity and enterprise resilience services

The enterprise survey highlighted the limited preparedness of enterprises for crisis situations with a small percentage of enterprises (30 per cent) indicating they had a business continuity plan in place. This is worrying as the ability to quickly adapt and adjust the business model will be key for survival. More than 60 per cent of enterprises reported having begun to adopt digital technologies after the outbreak of the crisis. Yet the share of those shifting towards e-commerce and online platforms to retain customers and explore new markets is relatively low (20 per cent).

It is important to train and support enterprises to develop business contingency plans that would help them to manage the current crisis and strengthen their resilience to future challenges. Aspects pertaining to effective implementation of working from home arrangements, occupational health and productivity should be also addressed. Enterprises also need support that will accelerate their digital transformation to make them fit for the future. Support and incentives should also be provided for enterprises that introduce and invest in more resource efficient business processes and innovation. It is also recommended to expand the digital infrastructure in the public sector that will be able provide effective e-services to citizens and businesses.

Key findings of the survey

Evolving impact of the COVID-19 crisis in Q3–Q4 2020 on:

Operational status

64% of enterprises were operating at full or slightly reduced capacity and **32%** of enterprises were operating at significantly reduced capacity in Q4 2020.

5% of enterprises were not yet in operation which was a significant improvement compared to **24%** in Q2 2020.

60% of transportation, **44%** of HORECA and **35%** of services enterprises operated at significantly reduced capacity.

Microenterprises displayed the lowest operational level with **40%** operating at significantly reduced capacity and **7%** not yet in operation.

Financial health

90% of enterprises reported a drop in revenue compared to the same period of 2019. The average revenue shortfall for all surveyed enterprises was **47%**.

Small enterprises experienced the largest average revenue decline (**50%**), with a quarter reporting revenue shortfall of more than **80%**.

The average revenue decline was **73%** for HORECA and **62%** for transportation enterprises.

Workforce levels

In HORECA, **53%** of enterprises planned to downsize the workforce, followed by transportation, services and ICT sectors (about **30%** each).

24% of enterprises anticipated layoffs in the coming period. More layoffs are expected among small and medium-sized enterprises (**40%** and **30%** respectively).

About **40%** of enterprises used full-time or part-time teleworking in Q3-Q4, compared to nearly **60%** in Q2 2020.

52% of enterprises that resorted to teleworking experienced a decrease in productivity, of which nearly **60%** assessed the decrease as significant or very significant.

Critical challenges

Sharp decline in demand (70%) and **delay in customer payment** (50%) were the most acute challenges faced by enterprises regardless of size and sector.

82% of food and beverage, **80%** of transportation and **72%** of HORECA enterprises reported **a significant drop in demand**.

40%

of enterprises experienced difficulties in settling obligations to suppliers and employee absenteeism.

... and strategies to overcome them

To address inconsistent/insufficient cash flow **65%** of enterprises relied on their own reserves.

33% of enterprises applied for the moratorium on debt payments.

Microenterprises relied on their own reserves most frequently (**73%**), as well as **81%** of enterprises in construction, **69%** in services, **67%** in transportation and information and communication and **61%** in HORECA sector.

Adequacy of government support measures

Government support did not meet the needs of nearly **70%** of enterprises: almost **30%** assessed the measures as totally inadequate or insufficient and more than **40%** felt they could have been better.

The MSMEs are less satisfied with government support compared to large enterprises.

Close to **90%** of enterprises in information and communication and retail sectors and about **60%** of enterprises in food and beverage, construction, HORECA and services expressed dissatisfaction with the economic support measures.

Future prospects for recovery

More than **40%** of enterprises anticipated a full recovery, and one third need to implement additional cost cutting measures to complete recovery.

78%

of enterprises need additional economic support measures to be able to sustain their operations.

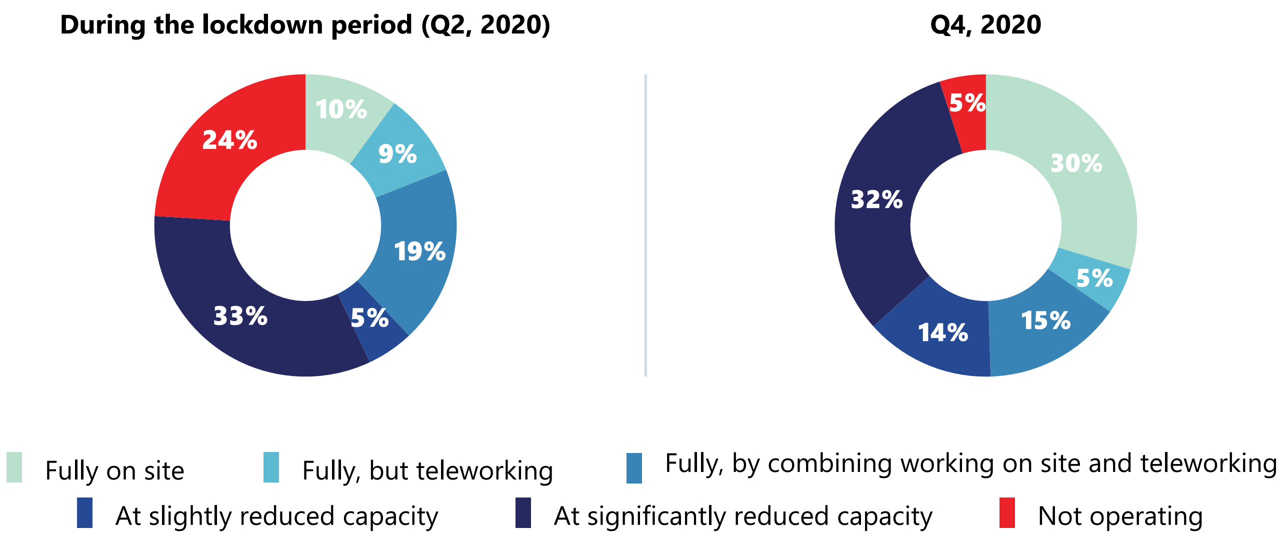
14% of enterprises anticipated considerable challenges and were considering temporary suspension of operations, while **3%** anticipated permanent business closure.

Wage subsidies remain the most sought-after type of support for almost **60%** of enterprises.

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

Despite the severe disruptions caused by the COVID-19 crisis, Montenegrin enterprises gradually resumed operations in the last quarter of 2020.[5] Of total surveyed enterprises, 95 per cent were able to operate fully (either on site or remotely) or partially, while 5 per cent were not yet in operation, which was the case for almost a quarter of enterprises during the spring lockdown. About 30 per cent of enterprises operated fully on site, while a further 20 per cent used teleworking as regular work arrangements even after easing the restrictions. In contrast, only 10 per cent of enterprises operated on site during the spring lockdown, while nearly 30 per cent sustained their operations through teleworking. Alarmingly, the share of enterprises operating at significantly reduced capacity (32 per cent) remained almost at the same level as during the lockdown period. (Figure 1)

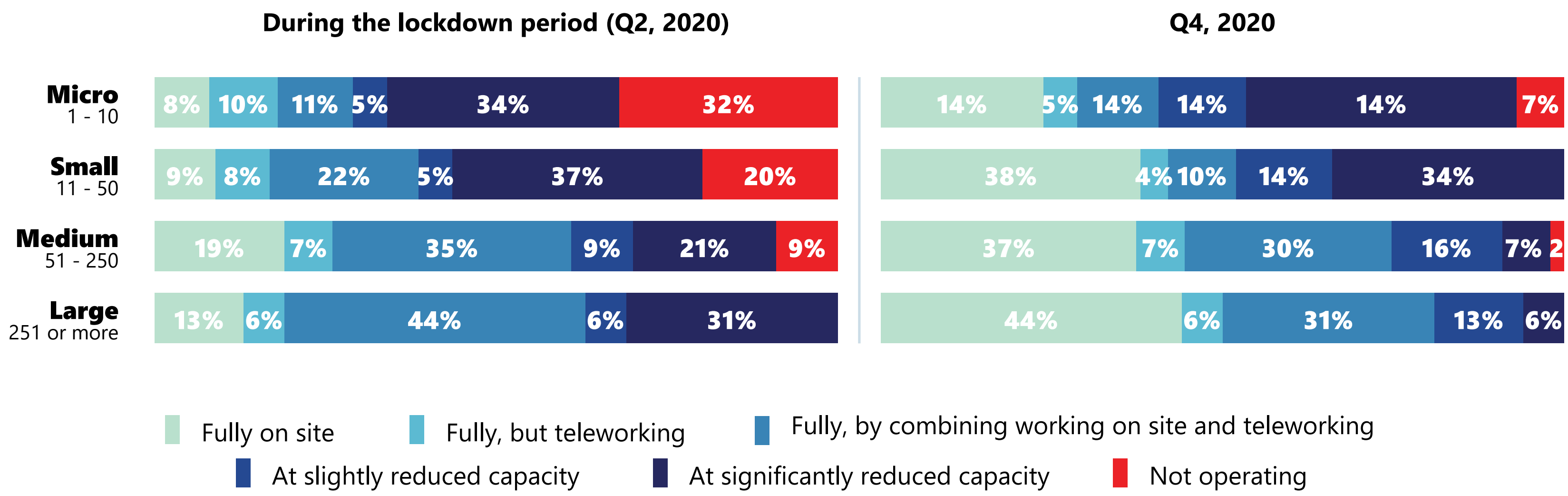
Figure 1. ***Could you specify the level of operations in your company?*** All surveyed enterprises



Microenterprises portrayed the highest vulnerability during the lockdown period and are facing the greatest difficulties in restoring their operations. About 7 per cent of these enterprises reported a temporary suspension of business operations whereas 40 per cent operated at significantly reduced capacity in the last quarter of 2020. Only a quarter of microenterprises operated fully on site, with a further 17 per cent operating remotely or combining working on site with teleworking. The operational status of enterprises improves with the increase in enterprise size. Small and medium-sized enterprises show good signs of improvement with more than half and three quarters, respectively, operating at full capacity, on site or remotely. Large enterprises appear to be more flexible in resuming their operations with more than 80 per cent operating at full capacity, of which more than half operated on site. (Figure 2)

[5] Although restriction measures were periodically eased and re-imposed during the execution of the survey, it can be expected that the situation might have deteriorated in March 2021 due to a significant increase in the number of infections and subsequent introduction of additional restrictions and bans on business activities.

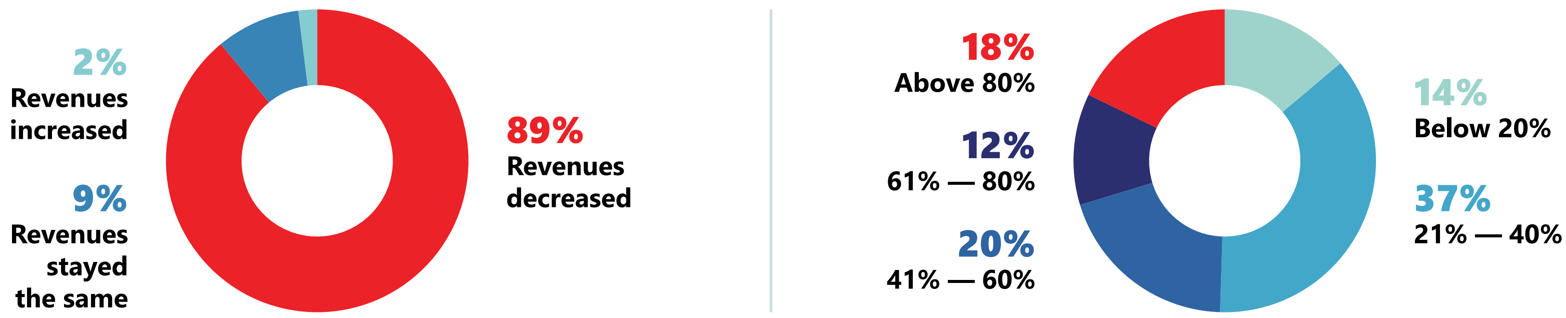
Figure 2. ***Could you specify the level of operations in your company?*** All surveyed enterprises by size



Sector wise, HORECA, services and transportation sectors revealed the slowest rebound after having been hit hardest by the crisis. Specifically, 60 per cent of enterprises in the transportation sector, 44 per cent in HORECA, 38 per cent in retail/sales and 35 per cent in the services sector operated at significantly reduced capacity. Those percentages are above the average (32 per cent) of all surveyed enterprises. In addition, 6 per cent of enterprises in HORECA and 8 per cent in the service sector did not resume operations at the time of the survey. Positively, the information and communications technology sector displayed the highest level of adaptability and reported the highest share of enterprises operating at full capacity (83 per cent) while the remaining 17 per cent operated at slightly reduced capacity (Figure 5A).

Enterprise revenue has been affected dramatically by the crisis. Close to 90 per cent of enterprises reported a drop in revenue compared to the same period of 2019. Only a very small share of enterprises (9 per cent) reported no change, while a further 2 per cent had an increase in revenue. The average revenue shortfall for all surveyed enterprises was 47 per cent. (Figure 3) The largest revenue decline was reported by small enterprises with an average revenue loss of 50 per cent. Nearly one fifth of microenterprises and a quarter of small enterprises reported a revenue shortfall of more than 80 per cent (Figure 6A).

Figure 3. ***What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019? If your revenue has decreased, can you estimate by how much?*** All surveyed enterprises



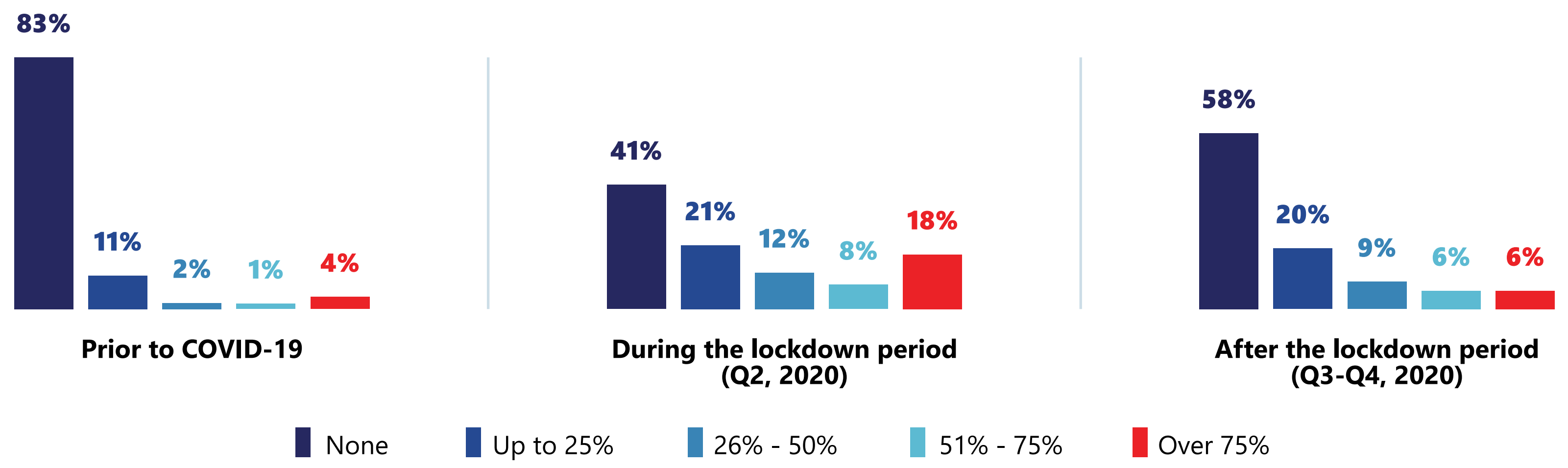
The effect of the crisis reverberated across all sectors and had a particularly devastating effect on HORECA and the transportation sector.[6] All surveyed enterprises in these two sectors reported a drop in revenue for the first three quarters of 2020. The average decline was 73 per cent for HORECA and 62 per cent for transportation enterprises. Furthermore, close to half of enterprises in HORECA and one third in the transportation sector reported a decrease in revenue of above 80 per cent. The crisis has not spared any sector. Revenue shortfalls for the first three quarters of 2020 (in comparison to the same period of 2019) in most sectors covered by the survey was 47 per cent. The food and beverage sector reported the lowest revenue shortfall of 31 per cent (Figure 7A).

[6] The survey data align with available statistical data. In the fourth quarter of 2020, MONSTAT passenger transport recorded a significant decline in all modes of transportation compared to the same period of 2019. Specifically, rail passenger traffic decreased by 53.6 per cent, road passenger traffic decreased by 69.7 per cent, while scheduled air passenger traffic dropped by 68.0 per cent. More information is available at:
http://monstat.org/uploads/files/Saobracaj/2020/4/IV%20kvartal%20-%20Kvartalna%20statistika%20%20saobracaja-%20cg-20.pdf
HORECA was affected by significant drops in tourist arrivals. There were 83.2 per cent fewer arrivals and 82.1 per cent fewer tourist overnight stays in 2020 compared to 2019. More information is available at:
http://monstat.org/uploads/files/TURIZAM/ukupno/Istra%C5%BEivanje%20o%20dolascima%20i%20no%C4%87enjima%20turista%20ukupno%20-%202020.pdf.

II. Effects of COVID-19 on the workforce

Teleworking was largely implemented during the spring lockdown with the practice continuing, though on a smaller scale, after the easing of restrictions. Nearly 60 per cent of enterprises resorted to full-time or part-time teleworking arrangements during the lockdown period, which was a significant increase compared to some 17 per cent of enterprises that used teleworking prior to COVID-19. About 40 per cent of surveyed enterprises continued using teleworking (after the spring lockdown) in the last quarter of 2020. (Figure 4)

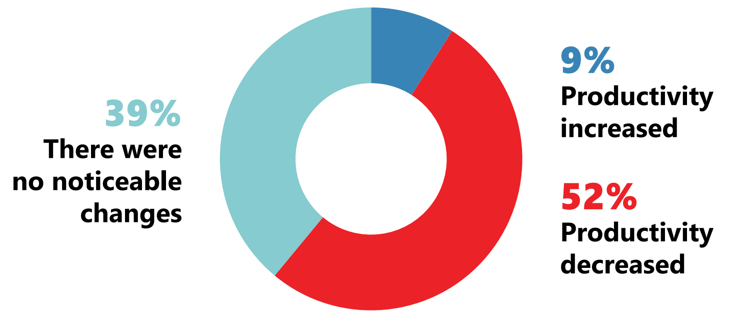
Figure 4. ***What share of employees teleworked (at least once per week)?*** All surveyed enterprises

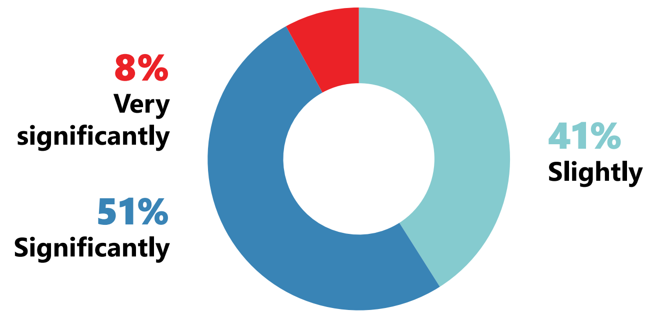


By size, microenterprises were least flexible in adapting to teleworking arrangements. The share of enterprises using teleworking increases with enterprise size, with 50 per cent of microenterprises, 62 per cent of small enterprises, 74 per cent of medium-sized enterprises and all large enterprises reporting to have resorted to teleworking arrangements during the lockdown period. The prevalence of teleworking arrangements remained relatively high in large and medium-sized enterprises (69 per cent and 51 per cent respectively) even after the easing of restrictions, compared to microenterprises and small enterprises, which maintained teleworking in 37 per cent and 42 per cent of cases respectively (Figure 8A).

More than half of enterprises that resorted to teleworking arrangements experienced a decrease in productivity. Nearly 40 per cent reported there were no noticeable challenges and only 9 per cent noted that employees' productivity increased. Of enterprises that reported a decline in productivity nearly 60 per cent assessed the decrease as significant or very significant and some 40 per assessed it as slight. (Figure 5)

Figure 5. ***How did productivity change while your employees were teleworking? If productivity decreased, by how much?*** All surveyed enterprises

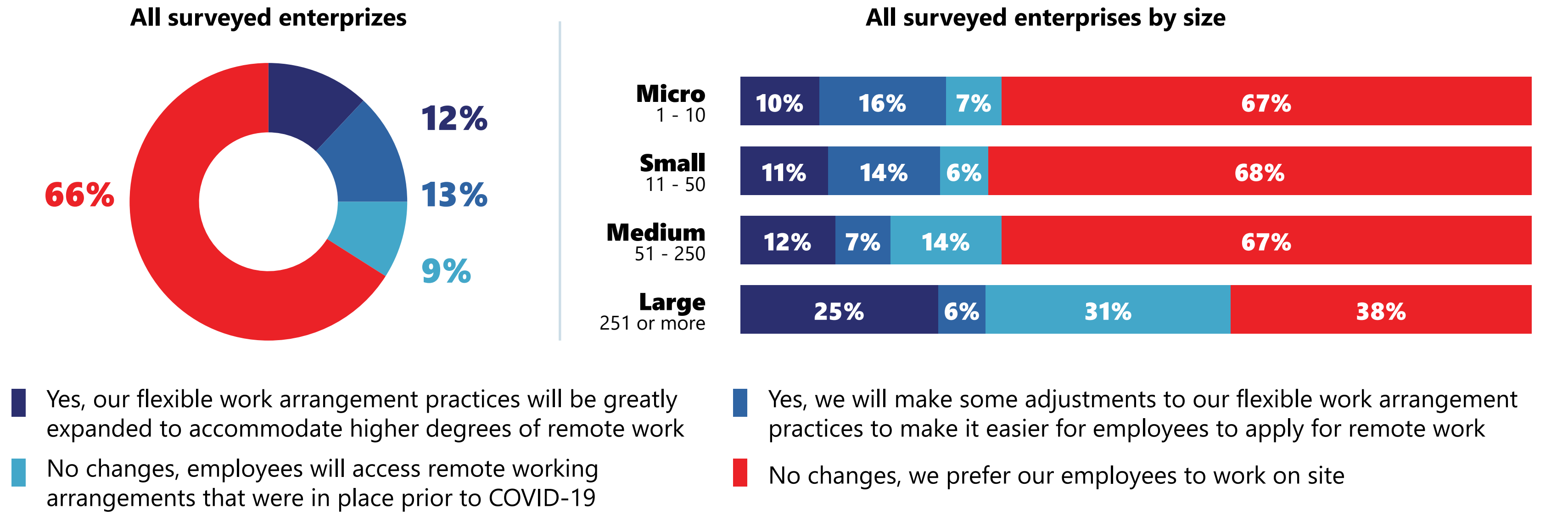




Two thirds of enterprises would prefer their employees to work on site and do not envisage switching to remote working practices over the long term. A quarter of enterprises planned to either considerably expand flexible working arrangements or make at least some adjustments to current work arrangements to make it easier for employees to access remote work. An additional 9 per cent noted they would keep equivalent levels of remote working practices that were in place prior to the COVID-19 outbreak. (Figure 6)

There are no significant differences between microenterprises, small and medium-sized enterprises in terms of changes foreseen to their flexible working arrangements compared to large enterprises, which expressed willingness to adjust their working practices in the future. On average, nearly 70 per cent of MSMEs would prefer their employees to work on site when the crisis is over. In contrast, a quarter of large enterprises planned to considerably expand or adjust flexible working arrangements. Some 30 per cent will maintain current remote working practices and nearly 40 per cent were in favour of working fully on site. (Figure 6)

Figure 6. ***After the COVID-19 crisis is over, do you envision changes to your flexible/remote working practices over the long term?***



The majority of sectors would prefer to have their employees back on site after the crisis is over. However, the information and communication, and construction sector were more inclined to maintain or enhance flexible work practices, with more than half of enterprises expressing their intention to do so. Sectors displaying the strongest preference of having workers on site were transportation and retail/sales, at about 80 per cent of surveyed enterprises (Figure 9A).

To be able to implement more effective teleworking arrangements enterprises need, first of all, information about tools used for remote work (37 per cent) and better internet service (34 per cent). A quarter of enterprises need guidance on how to ensure employees' wellbeing and help them better cope with work-life balance and a further 22 per cent need guidance on employers' responsibilities and liabilities, as well as communication aspects and monitoring of employees who are working remotely. (Figure 7)

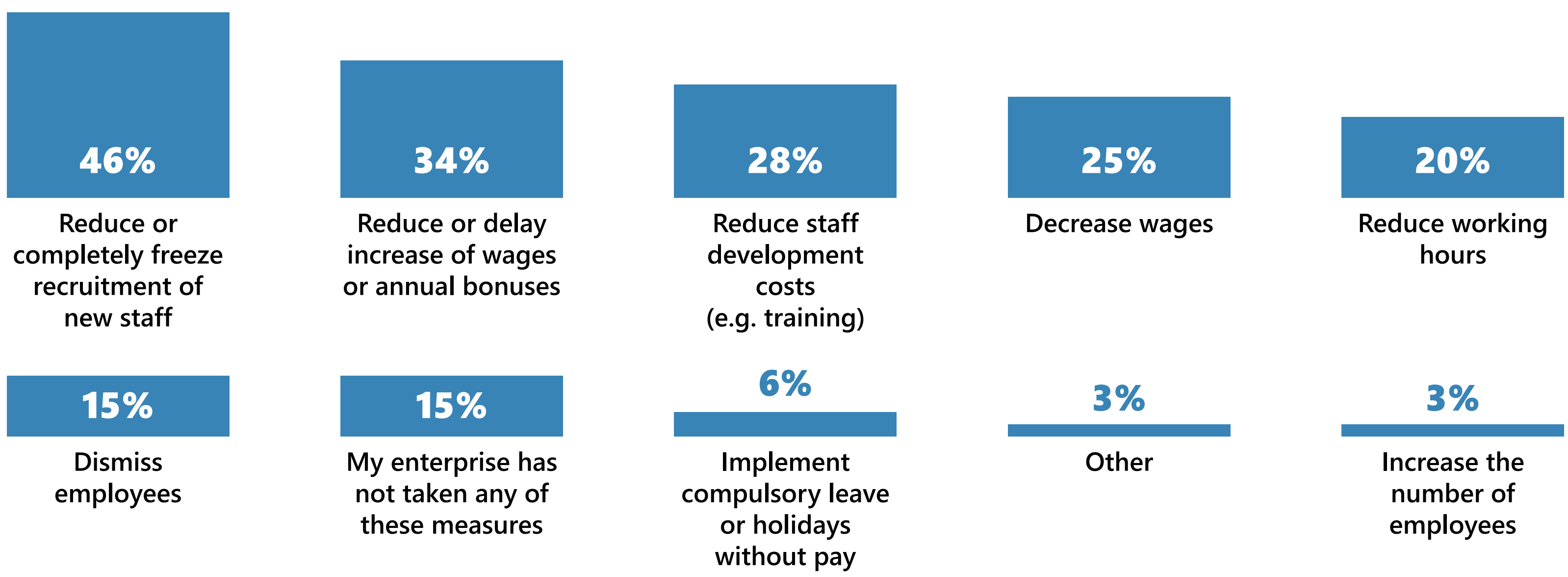
Figure 7. ***What type of support does your enterprise require in order to have staff undertake telework arrangements more effectively?*** All surveyed enterprises

Information about digital tools and better quality Internet are the most sought-after types of support across the microenterprises, small and medium-sized enterprises. Large enterprises need primarily information about digital tools (42 per cent) and guidance for employers on the correct implementation of teleworking legislation and advice on effective communication and monitoring of employee who are teleworking (Figure 10A).

The type of support needed by enterprises reflects the overall picture but it varies across sectors. The highest shares of enterprises in need of more information about digital tools are in food and beverage (42 per cent), transportation (33 per cent), information and communication (29 per cent), services (27 per cent) and HORECA (26 per cent). Better Internet service was sought after mainly by enterprises in services (32 per cent), information and communication (29 per cent), and retail and sales (25 per cent). Guidance on employee well-being was requested by enterprises in construction (32 per cent) and HORECA (22 per cent) (Figure 11A).

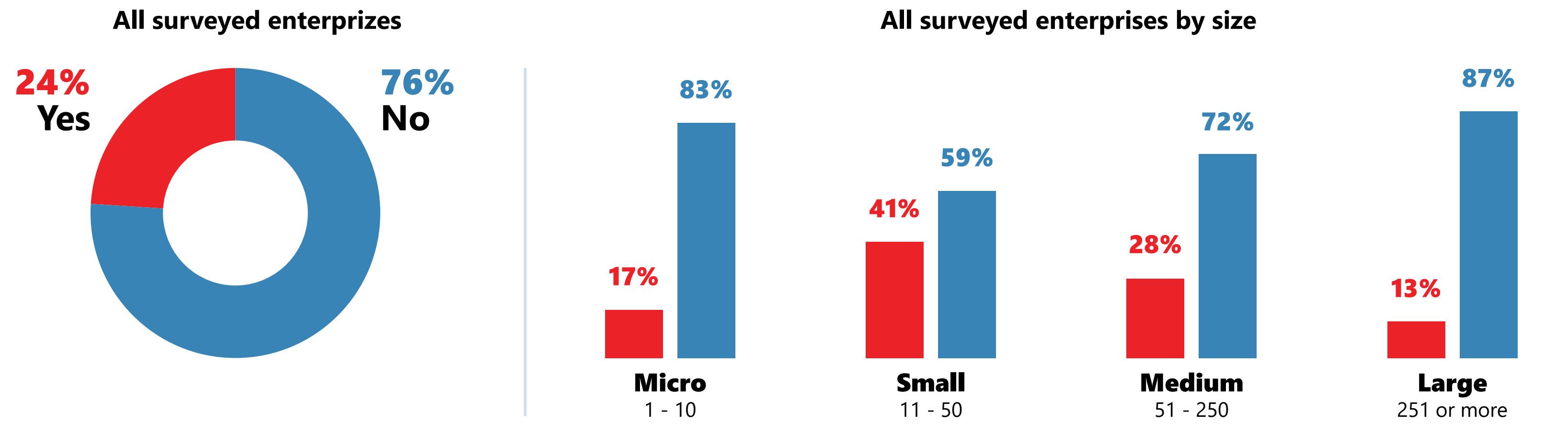
The most widespread cost-cutting measure taken by enterprises in terms of workforce was reducing or completely freezing the recruitment of new staff (46 per cent). Almost one third of enterprises postponed the increase of wages, while close to 30 per cent reduced the costs for staff training. One quarter of surveyed enterprises decreased wages and a further 20 per cent reduced working hours. Some 15 per cent of enterprises resorted to layoffs. Smaller shares of enterprises (6 per cent) implemented compulsory leave or holiday without pay to be able to preserve the workforce. Some 15 per cent of enterprises did not take any cost-cutting measures. (Figure 8)

Figure 8. ***What measures in terms of your workforce have you conducted so far, if any?*** All surveyed enterprises



Nearly one quarter of enterprises had plans to reduce their workforce in the coming period due to consequences of COVID-19. More than 40 per cent of small enterprises expressed the intention to dismiss their workforce, while the same was true for nearly 30 per cent of medium-sized enterprises. Smaller shares of microenterprises and large enterprises planned to reduce their workforce (17 per cent and 13 per cent respectively). (Figure 9)

Figure 9. ***Do you plan to dismiss employees in the coming period due to the consequences of the COVID-19 crisis?***

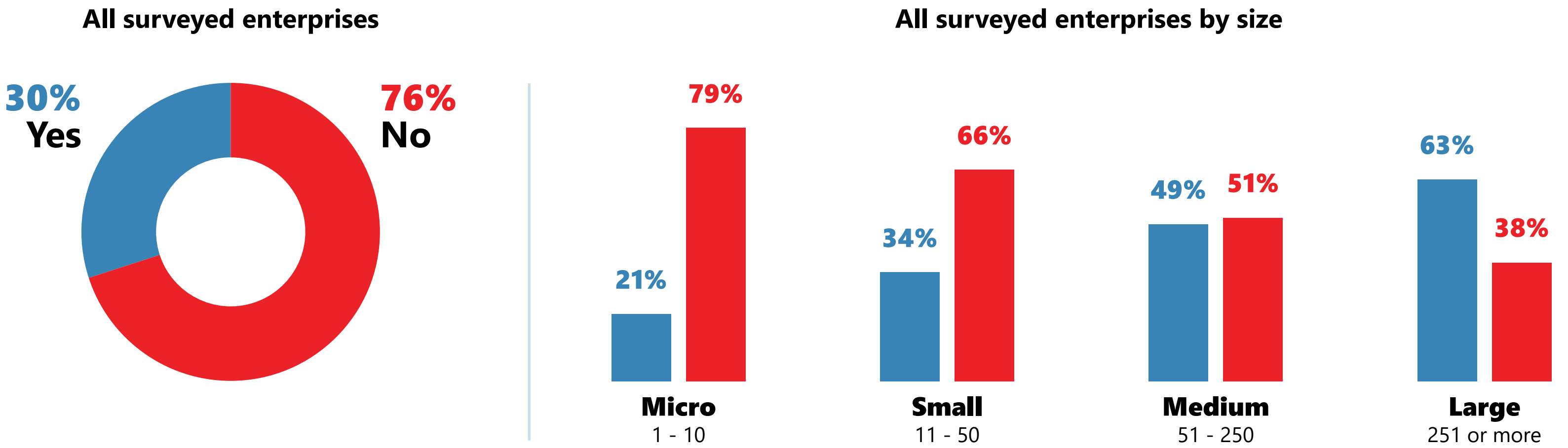


By sector, the prospects of job cuts in HORECA are worrying with a staggering 53 per cent of enterprises planning to dismiss workers. Furthermore, one third of enterprises in transportation sector, nearly 30 per cent of enterprises in services and information and communication and a further one quarter in retail/sales anticipated layoffs in the coming period. Lower shares of enterprises in the food and beverage and construction sector planned to dismiss their workers (13 per cent and 14 per cent respectively) (Figure 12 A).

III. Main challenges and adjustments strategies

Only 30 per cent of enterprises had a written business continuity plan prior to COVID-19, meaning that the majority lacked preparedness for the crisis. Microenterprises showed the least preparedness for crisis situations with only 21 per cent indicating that they had a business continuity plan. Enterprise preparedness to deal with potential threats to business continuity increased with enterprise size, with 63 per cent of large enterprises confirming the existence of such a plan. (Figure 10)

Figure 10. ***Did your enterprise have a written business continuity plan prior to COVID-19?***



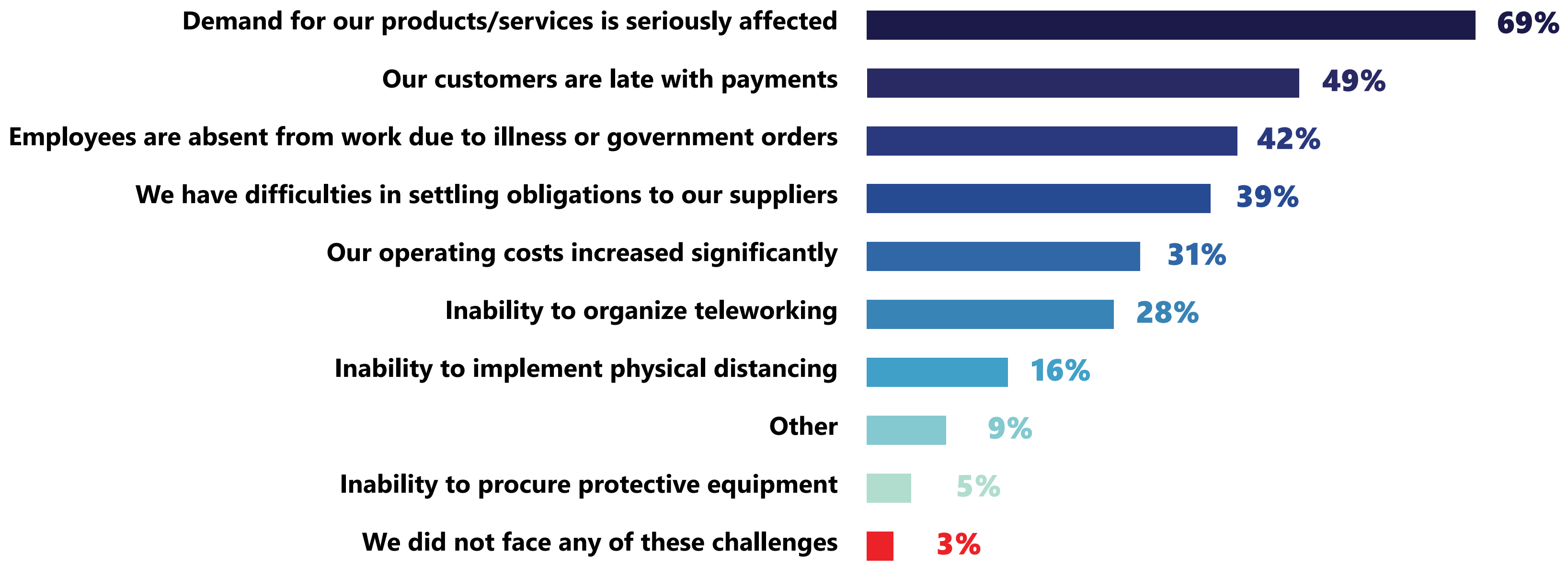
Of enterprises that did not have a business continuity plan prior to COVID-19, only a very small share (13 per cent) developed one after the outbreak of the crisis. Interestingly, medium-sized enterprises reported the highest share of enterprises (36 per cent) that had a business continuity plan before the pandemic, while the proportion of large and small enterprises was lower (17 per cent each). As expected, the lowest shares (8 per cent) were reported by the microenterprises (Figure 13A).

In general, almost all sectors portrayed weak preparedness in terms of business continuity. The highest shares of enterprises with a business continuity plan were in food and beverage (more than 40 per cent), followed by HORECA, information and communication and retail/sales sectors (about one third each). The least prepared sectors were construction (24 per cent), transportation (20 per cent) and services (17 per cent) (Figure 14A).

The share of enterprises that developed a business continuity plan after the outbreak of the crisis remains low across all sectors. Information and communication (25 per cent), HORECA (17 per cent) and retail/sales (13 per cent) reported the highest shares of enterprises that engaged in developing a business contingency plan. In other sectors, this share goes below 10 per cent (Figure 14A).

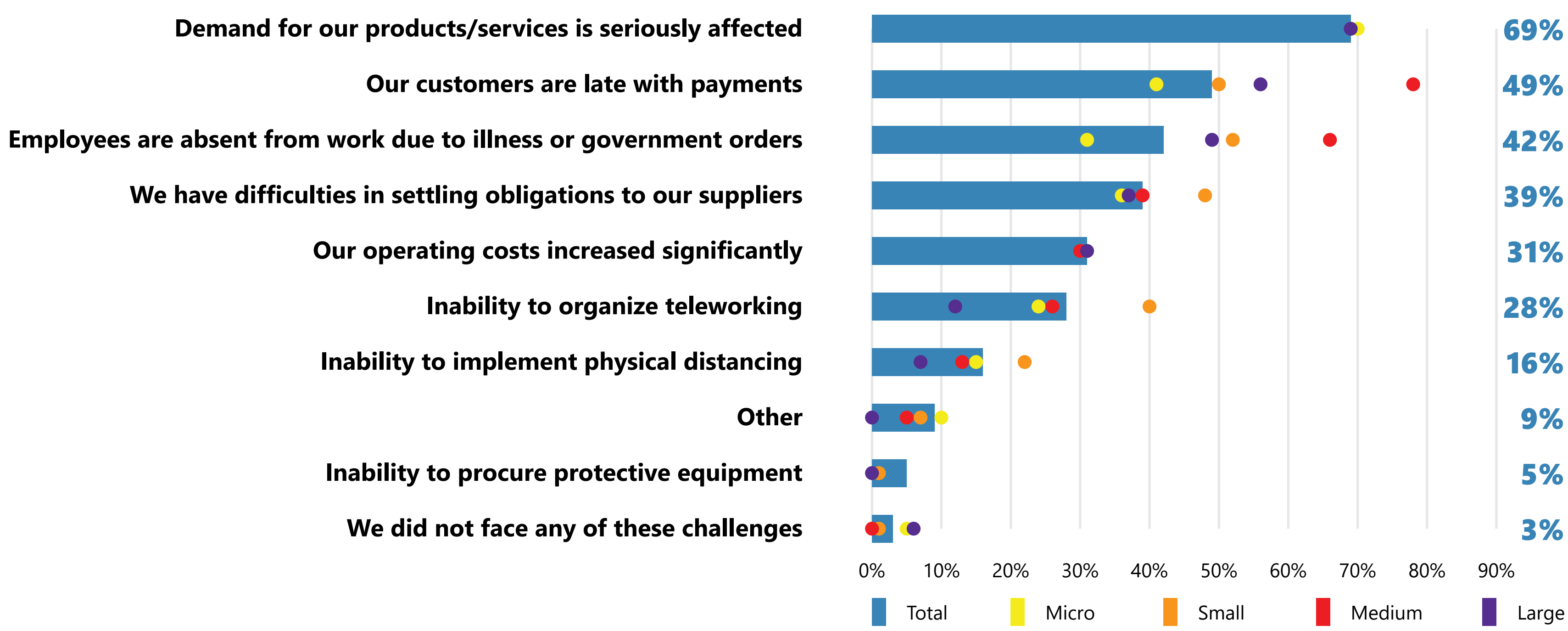
The most critical challenges enterprises faced were the sharp decline in demand and the delay in customer payments even after restriction measures were eased. Close to 70 per cent of surveyed enterprises reported that demand for their products and services was seriously affected, while almost half reported late customer payments. These two challenges are obviously interconnected, as customer's demand is the main source of cash inflow. Furthermore, liquidity shortages create difficulties in settling obligations to suppliers, reported by nearly 40 per cent of enterprises surveyed. Additionally, more than 40 per cent of enterprises reported that their employees were absent from work due to illness. All these challenges have increased significantly the operational costs as reported by almost one third of surveyed enterprises. Inability to organize teleworking was a challenge for about 30 per cent of enterprises, while difficulties to implement physical distancing were reported by some 16 per cent of enterprises. Only 3 per cent of surveyed enterprises did not have any operational challenges. (Figure 11)

Figure 11. ***Which are the main operational challenges your enterprise currently faces resulting from COVID-19?*** All surveyed enterprises



Operational challenges were relatively similar across all enterprises, irrespective of their size. Affected demand and (or) customers being late with payments were the most frequently cited issues by enterprises of all sizes. Furthermore, medium-sized enterprises experienced greater employee absenteeism (65 per cent) compared to other types of enterprises. Microenterprises and small enterprises reported having difficulties in settling obligations to supplier more frequently (45 per cent and 47 per cent, respectively) than medium-sized and large enterprises (40 and 39 per cent, respectively). Large enterprises were least challenged in organizing teleworking and implementing physical distancing compared to MSMEs. About 30 per cent of enterprises of all sizes reported that their operational costs increased significantly. (Figure 12)

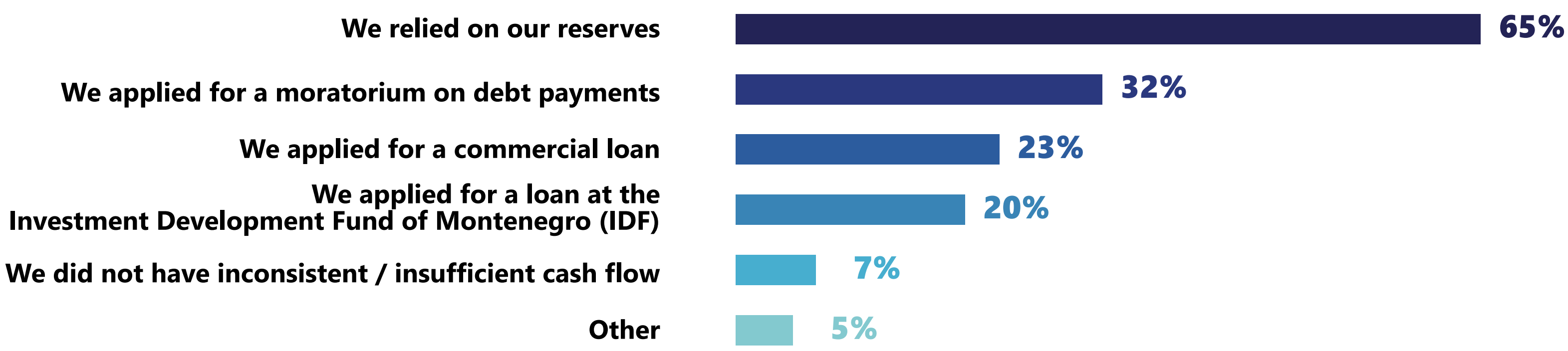
Figure 12. ***Which are the main operational challenges your enterprise currently faces resulting from COVID-19?*** All surveyed enterprises by size



Shortfall in demand featured as the most severe challenge across almost all sectors. The highest shares of enterprises reporting a drop in demand came from food and beverage (82 per cent), transportation (80 per cent) and HORECA (72 per cent). Delays in customer payments was assessed as a significant challenge by enterprises in all sectors, being more prominent in information and communication and transportation (67 per cent each). Difficulties in settling obligations to suppliers were encountered mainly by retail/sales (67 per cent), transportation (60 per cent) and HORECA sectors (53 per cent). Employee absenteeism was most frequently reported by enterprises operating in construction (57 per cent), transportation (53 per cent) and retail/sales (50 per cent). Operational costs have reportedly increased in construction (48 per cent) and transportation (40 per cent) sectors. Inability to organize teleworking was a major challenge for 60 per cent of enterprises in the transportation sector and a quarter of enterprises in HORECA, retail/sales and services sectors. Furthermore, difficulties in implementing physical distancing were encountered by nearly 30 per cent of enterprises in transportation (27 per cent) and about one fifth of enterprises in services and construction. It should be noted that only 17 per cent of enterprises in information and communication and 8 per cent in services responded they did not face any challenges related to COVID-19 (Table 1A).

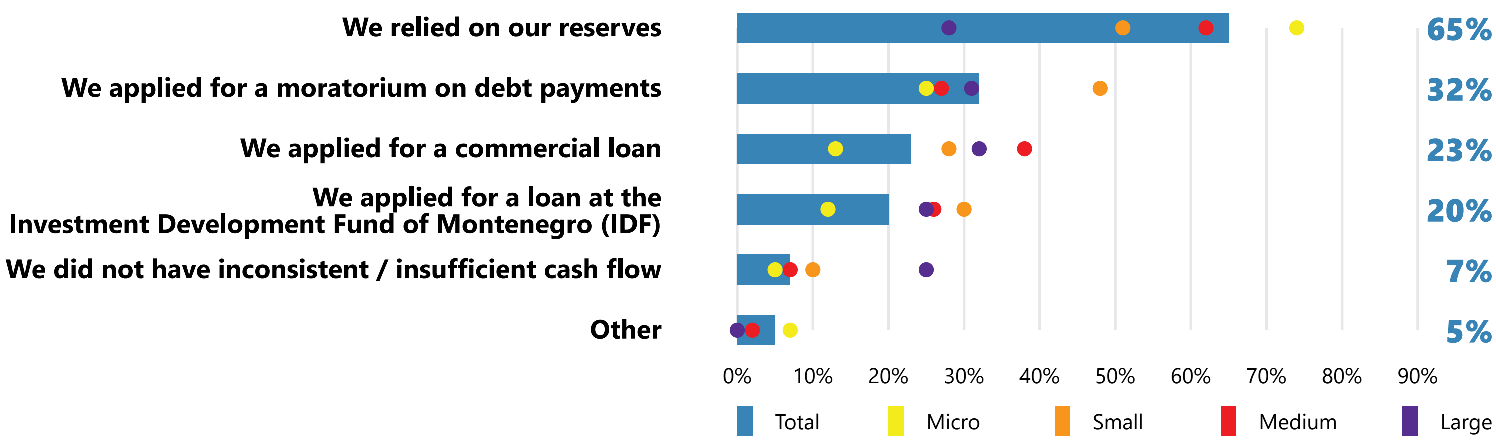
A significant share of enterprises (65 per cent) relied on their own reserves to address the liquidity shortages. The second most common practice, utilised by one third of enterprises, was applying for the moratorium on debt payments. Overall, enterprises did not rely much on the banking sector. Only 23 per cent of enterprises applied for a commercial loan and a further 20 per cent applied for a loan through the Investment Development Fund of Montenegro. Only 7 per cent of enterprises did not face liquidity shortages. (Figure 13)

Figure 13. ***How did you cover for the inconsistent/insufficient cash flow?*** All surveyed enterprises



Regardless of enterprise size, reserves were the most common means of covering for the inconsistent cash flow, especially in microenterprises and medium-sized enterprises (73 per cent and 63 per cent respectively). The moratorium on debt payments was used by nearly 50 per cent of small enterprises and more than a quarter of microenterprises, medium-sized and large enterprises. Commercial loans were primarily used by medium-sized enterprises (40 per cent) and some 30 per cent of small and large enterprises. About one quarter of small, medium-sized and large enterprises applied for a loan at the Investment Development Fund of Montenegro. Microenterprises applied less frequently for alternative support measures to manage liquidity shortages compared to other types of enterprises. Large enterprises displayed the highest share of enterprises (25 per cent) that reported not having any liquidity shortages. (Figure 14)

Figure 14. ***How did you cover for the inconsistent/insufficient cash flow?*** All surveyed enterprises by size

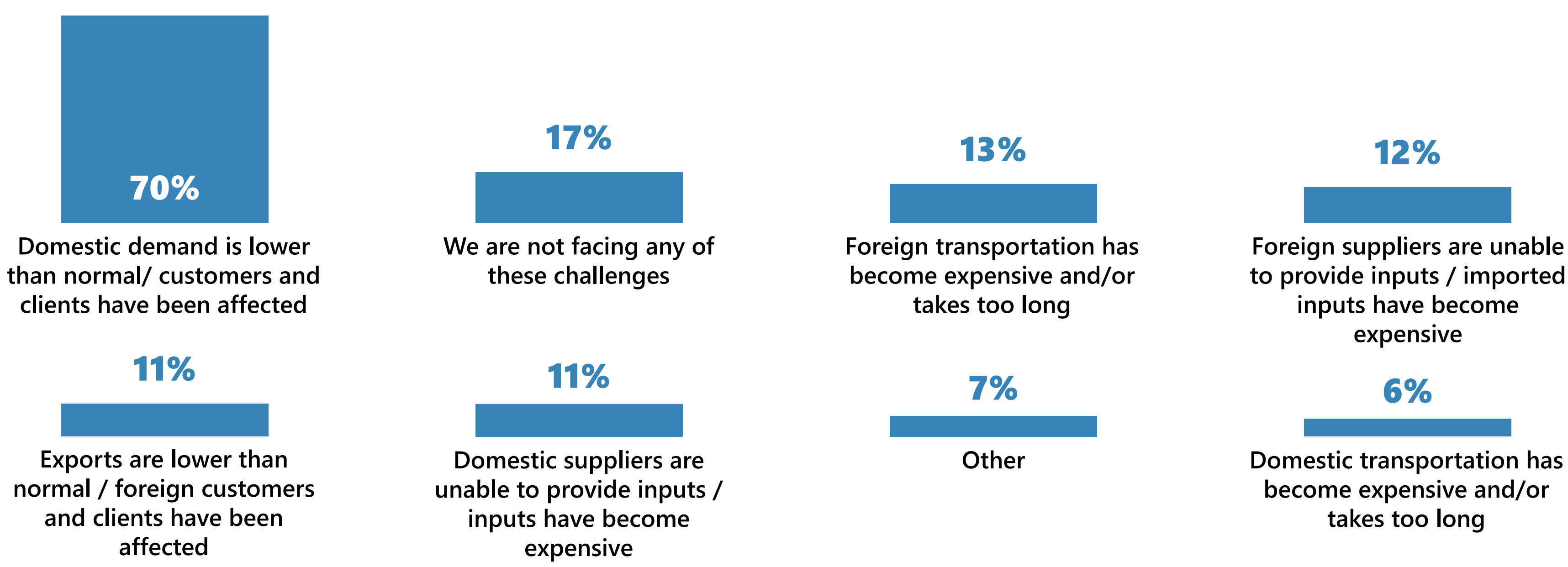


Liquidity shortage was the most significant challenge across all sectors, which was covered primarily from the reserves of the enterprises. The sectors in which enterprises relied heavily on their own reserves were construction (81 per cent), services (69 per cent), transportation, information and communication (67 per cent each) and HORECA (61 per cent). The moratorium on debt payments was mostly used by transportation (67 per cent), food and beverage (53 per cent) and HORECA (44 per cent). Enterprises in HORECA and retail/sales applied more frequently for loans from the Investment Development Fund of Montenegro (42 per cent and 35 per cent respectively). Furthermore, about one third of enterprises in HORECA, retail/sales and food and beverage applied for commercial loans (Table 2A).

The drop in domestic demand was the most severe challenge for an overwhelming 70 per cent of enterprises within their value chain (Figure 15). Enterprises of all sizes assessed the decline in demand as the most acute challenge, which significantly outweighs other challenges along the value chain, such as the decrease in exports, incapacity of domestic and foreign suppliers to provide inputs and increased costs for domestic and foreign transport. Only 17 per cent of companies reported that they did not face any challenges within the value chain (Figure 15A).

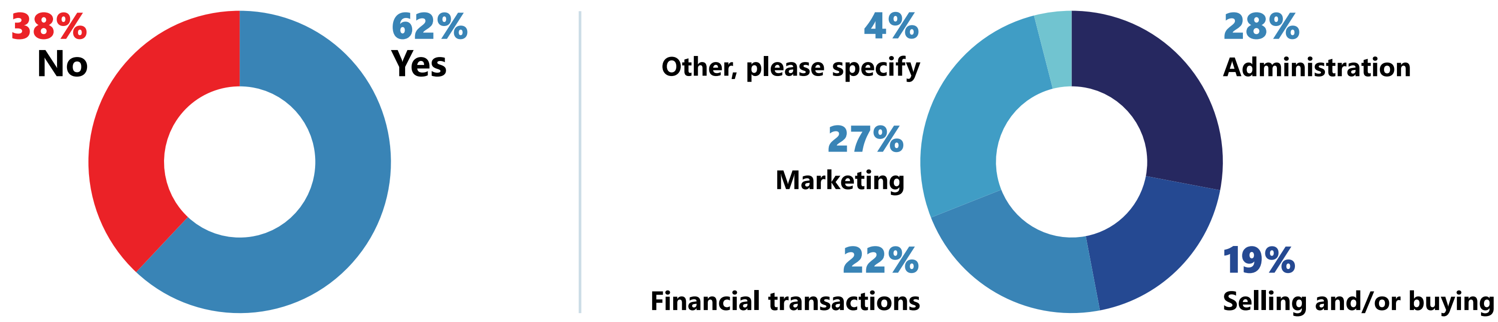
The sectoral breakout is a near replica of the overall situation with around 90 per cent of enterprises in retail/sales and transportation, more than 80 per cent of enterprises in food and beverage and construction, and around 60 per cent of enterprises in services, HORECA and information and communication sector assessing the decline in demand as the most critical challenge (Table 3A).

Figure 15. ***Which are the main challenges your enterprise currently faces within its value chain?*** All surveyed enterprises



To be able to navigate the crisis, more than 60 per cent of enterprises accelerated the adoption of digital technology. Specifically, almost equal shares of enterprises (some 30 per cent) integrated the use of technology in various administrative and management processes, as well as for marketing purposes. Furthermore, equal shares of enterprises (some 20 per cent) increased the use of technologies for financial transactions and e-commerce. Large enterprises were at the forefront of using digital technology (87 per cent) compared to medium-sized enterprises (70 per cent) and small enterprises (66 per cent). Microenterprises showed the least adaptation capacity with slightly more than half of enterprises (55 per cent) reporting to have resorted to the use of digital technology after the outbreak of the crisis. (Figure 16)

Figure 16. ***Has your company increased the use of modern technologies (internet, personal computer and mobile applications, social networks, etc.) during the COVID-19 crisis? If yes, for which business processes does your company use modern technologies?*** All surveyed enterprises



IV. Enterprise perception of government support measures

The Government of Montenegro adopted three packages of economic measures between mid-March and August 2020 with the overall aim to maintain the liquidity of enterprises and citizens, preserve jobs and support vulnerable citizens. The Government spent around €320 million on the first two packages and around €1.2 billion on the third package (covering the period of four years. The support measures included, among others, wage subsidies for employees in the most affected sectors and for new employment, deferral of wage taxes and social contribution payments, shorter VAT refund deadlines, one year VAT reduction for catering activities (from 21 to 7 per cent), additional support for the tourism sector, as well as incentives for the agriculture, fisheries and information technology sectors, creation of favourable credit lines, a moratorium on repayment of bank loans and other measures.

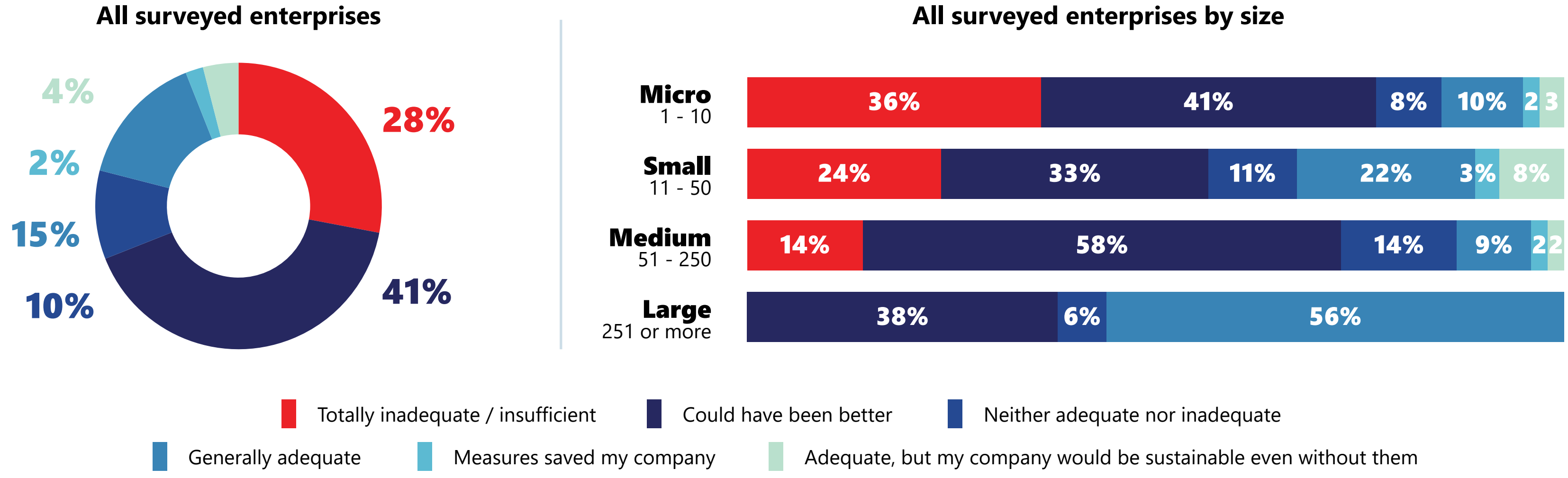
On 28 January 2021, the Government adopted a new package of support measures in the amount of €163 million to support the economy and citizens for the first quarter of 2021. The new measures include wage subsidies (with an expanded list of eligible sectors); tax deferrals; support for the creation of new employment; one-off support for firms from vulnerable sectors to implement e-fiscalization; and additional measures for the tourism, catering, agriculture and fisheries sectors.[7]

The Government's economic support measures did not meet the needs of nearly 70 per cent of surveyed enterprises. Specifically, almost 30 per cent of enterprises assessed the measures as totally inadequate or insufficient, while slightly more than 40 per cent were convinced that the measures could have been better. Only 15 per cent of enterprises assessed the measures as generally adequate and an insignificant share (2 per cent) claimed that the support measures saved their business. A further 4 per cent were convinced that although the measures were overall adequate, their enterprise would have been sustainable without them. Lastly, some 10 per cent assessed the measures as neither adequate nor inadequate.

The MSMEs were less satisfied with government support measures compared to large enterprises. The highest share of microenterprises perceived the measures as unsatisfactory (77 per cent), comprising 36 per cent that assessed the measures as totally inadequate and 41 per cent that reported the measures could have been better. Large shares of small and medium-sized enterprises also expressed dissatisfaction with government support measures (57 per cent and 72 per cent respectively). Interestingly, the share of enterprises that claimed the Government could have adopted more adequate measures was highest among medium-sized enterprises (58 per cent). Large enterprises displayed the highest level of satisfaction with the support measures (56 per cent). (Figure 17)

[7] MEF used the preliminary data from the survey to support the Government in defining new support measures based on the enterprise needs. A number of recommendations proposed by MEF were taken on board by the Government and reflected in the new package of measures. Yet, additional support measures will be needed for enterprises to sustain their operations amid the protracted crisis and accelerate their recovery.

Figure17. ***What is your assessment of the Government's economic measures in relations to your enterprise needs during the crisis?***



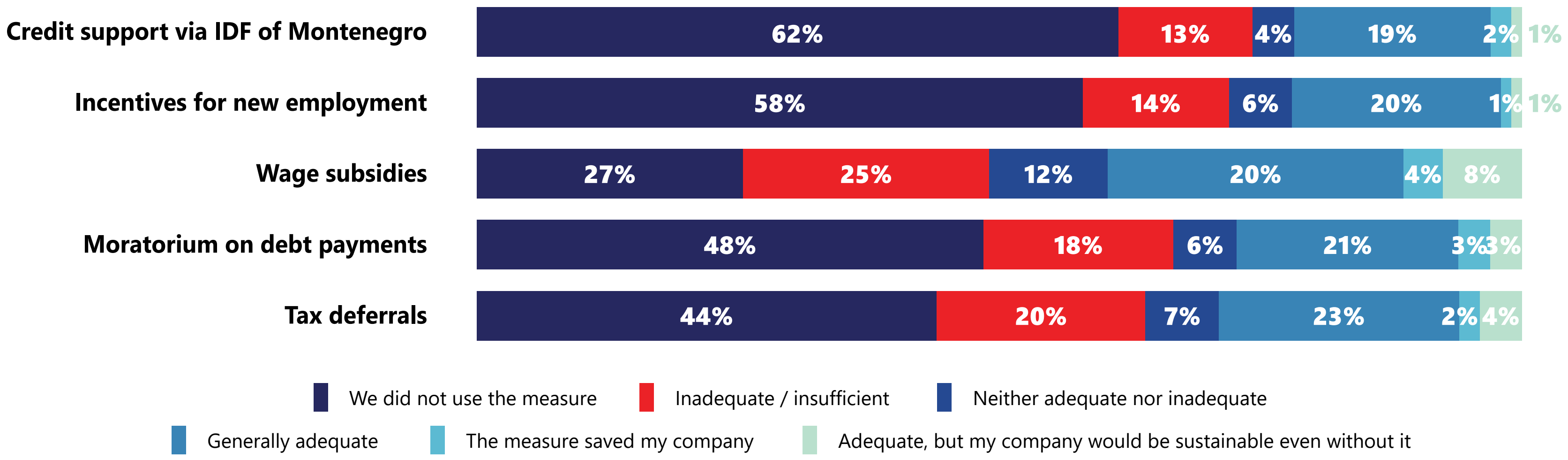
By sector, Government support measures did not meet the needs of the vast majority of enterprises. On average, more than 60 per cent of enterprises in food and beverage, construction, HORECA and services assessed the measures as totally inadequate or expressed the conviction that these could have been better. Close to 90 per cent of enterprises in information and communication and retail sectors shared the same perception. The highest shares of enterprises assessing the measures as adequate were in construction (29 per cent), HORECA (25 per cent) and transportation (20 per cent). Very low shares of respondents claimed that the measures saved their companies, namely in food and beverage (12 per cent), transportation (7 per cent), HORECA (3 per cent) and services sector (2 per cent) (Figure 16 A).

Despite the high dissatisfaction with government support measures and the low shares of enterprises benefitting from them, the provision of wage subsidies was the most adequate type of support. The provision of minimum wage subsidies was assessed positively by 30 per cent of enterprises though only 4 per cent considered it as a business saving measure. Wage subsidy programmes for April–May introduced through the first support package were included in subsequent support packages and continued throughout July and September, and November and December 2020.

The proposed measures included subsidies for enterprises that closed operations due to the pandemic (100 per cent of gross minimum wage), enterprises in the tourism sector (100 per cent of gross minimum wage), enterprises in sectors/industries at risk (50 per cent of gross minimum wage), earnings of employees on paid leave (70 per cent of gross minimum wage) and earnings of employees in quarantine or self-isolation (70 per cent of gross minimum wage).

Tax deferrals were positively assessed by 23 per cent of enterprises, while the same was true for 21 per cent of enterprises that benefited from moratorium on debt payments. Incentives for new employment and credit loans through the Investment Development Fund of Montenegro were assessed as adequate by some 20 per cent of enterprises. (Figure 18)

Figure 18. ***How do you evaluate the following government assistance measures?*** All surveyed enterprises

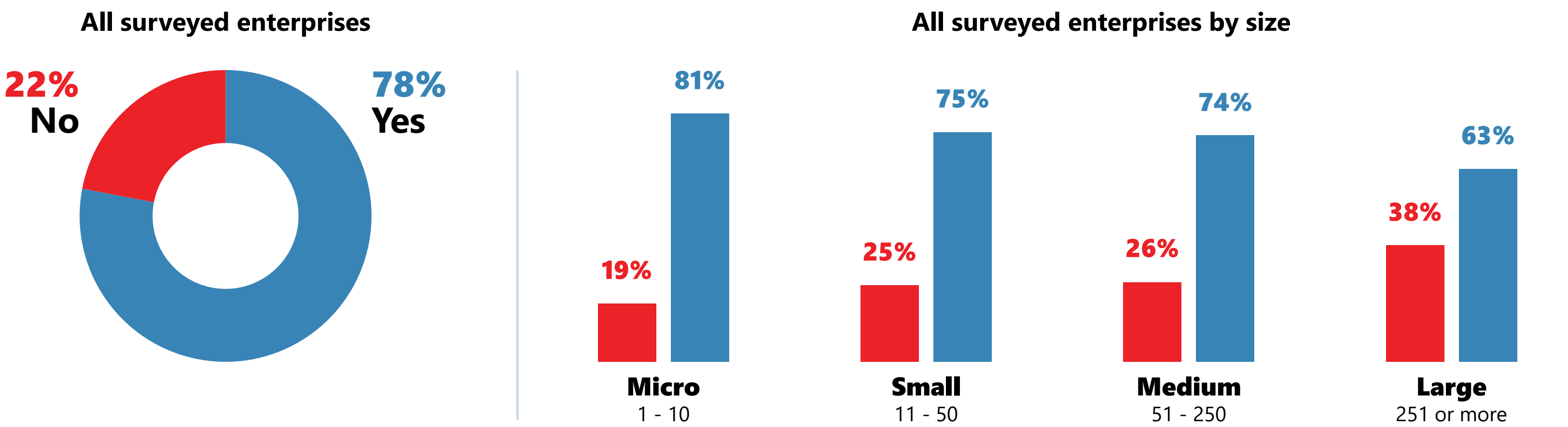


By enterprise size, the provision of minimum wage subsidies was assessed as adequate primarily by microenterprises (45 per cent). The positive assessment decreased as enterprise size increased, with the lowest share of large enterprises assessing the measure as adequate (9 per cent). Interestingly, the share of enterprises that reported having not used this measure increased as enterprise size decreased. On average, only 8 per cent of enterprises did not use this measure, but the share of microenterprises was significantly higher (45 per cent).

Tax deferrals were assessed most positively by microenterprises (43 per cent) and enterprise satisfaction decreased as enterprise size increased. Large enterprises had the lowest share of respondents that assessed the measure as adequate (8 per cent). As in the case of wage subsidies, the largest share of respondents that did not use the measure came from microenterprises (63 per cent), while the lowest share was among large enterprises (4 per cent).

An overwhelming 78 per cent of enterprises reported that they would need additional economic support measures to ensure their sustainability. Enterprises of all sizes are in great need of additional measures with microenterprises displaying the highest share of respondents (81 per cent) that need such measures. Although the need for additional support decreased gradually with the increase in enterprise size, the share of respondents demanding additional measures remains high even among large enterprises (63 per cent). (Figure 19)

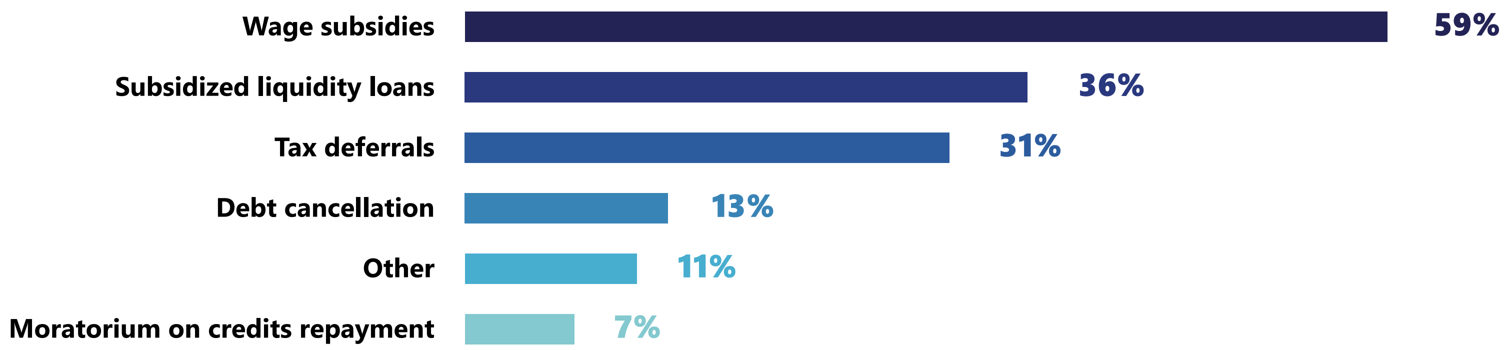
Figure 19. ***Would your enterprise benefit from any other additional/new economic measure introduced by the Government?***



The demand for additional support measures is extremely high across all sectors. Food and beverage enterprises expressed the greatest need for additional measures (94 per cent), while the same was true for an average 80 per cent of enterprises in construction, retail/sales, HORECA and transportation. Services and information and communication sectors displayed slightly lower shares (75 per cent and 61 per cent respectively), which are definitely not negligible (Figure 17A).

Wage subsidies remained the most sought after type of support for nearly 60 per cent of enterprises. This is not completely surprising given the peculiarities of the Montenegrin economy and its high reliance on the tourism sector and dependence on foreign direct investments. Financial support in the form of liquidity loans under favourable conditions from the Investment Development Fund of Montenegro or commercial banks was demanded by an average one third of surveyed enterprises, which signals that enterprises were still faced with liquidity shortages. Tax deferrals were assessed as appropriate support measure by some 30 per cent of enterprises. Debt cancellation was assessed positively by 13 per cent of enterprises, while moratorium on credit payments was seen as relevant by only 7 per cent of enterprises. (Figure 20)

Figure 20. ***What type of measures would significantly benefit your company's sustainability?*** All surveyed enterprises



Wage subsidies were identified as the most needed type of support across all enterprises, irrespective of their size. Medium-sized enterprises recorded the highest shares of respondents demanding wage subsidies (72 per cent), followed by almost equal shares of large and small enterprises (60 per cent on average) and microenterprises, which displayed the lowest shares (56 per cent). Liquidity loans through the Investment Development Fund of Montenegro or commercial banks was the second most popular measure across MSMEs, while debt cancellation was most popular among large enterprises (Figure 18A).

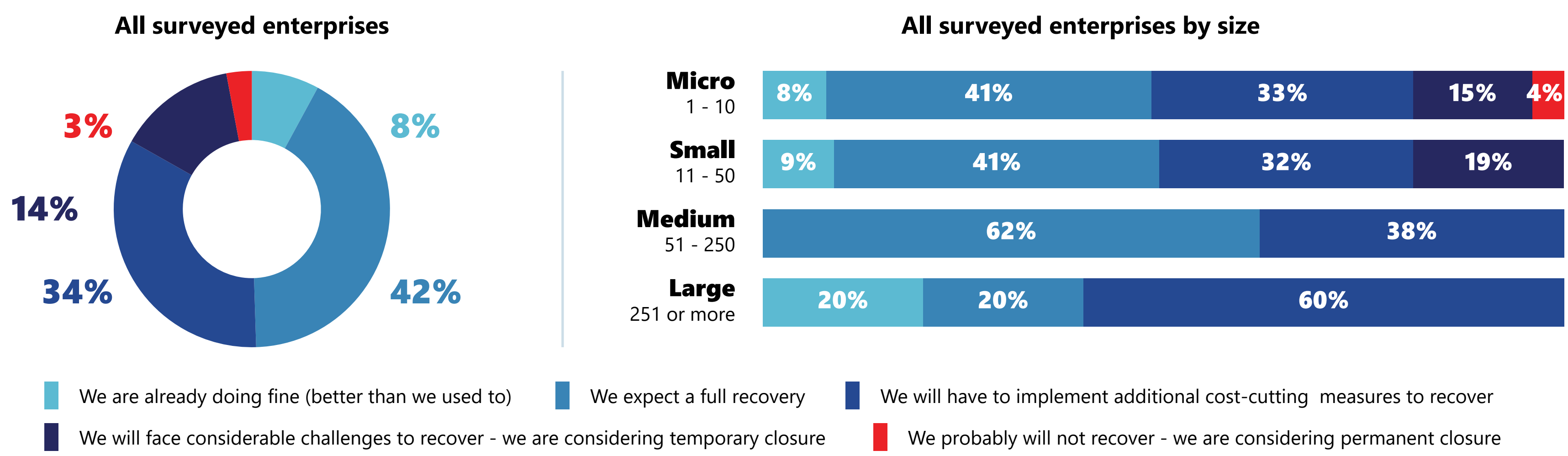
Significant shares of enterprises (varying from 50 to close to 90 per cent) across all sectors identified wage subsidies as a priority support measure. The only exception was the retail/sales sector, which gave higher priority to liquidity loans (50 per cent) followed by wage subsidies (48 per cent). Financial support came as the second most needed type of support (ranging between 25 and 40 per cent) in construction, HORECA and information and communication sector. Tax deferrals were the second most needed type of support in transportation (46 per cent) and services (35 per cent). (Figure 19 A)

V. Future prospects for recovery

More than 40 per cent of enterprises anticipated a full recovery, while nearly one third noted that additional cost cutting measures would be needed to be able to recover. A further 14 per cent of enterprises anticipated considerable challenges and were considering temporary suspension of operations. Some 3 per cent of enterprises were pessimistic about the prospect of future recovery and anticipated permanent business closure. Only 8 per cent of enterprises noted that they had recovered completely. (Figure 20)

Medium-sized enterprises had the highest share of respondents anticipating a full recovery (62 per cent), followed by microenterprises and small enterprises (both at 41 per cent), while the share of large enterprises was significantly lower (20 per cent). However, the share of enterprises reporting that they were already doing fine was higher among large enterprises (20 per cent), compared to MSMEs. Furthermore, a significantly higher share of large enterprises (60 per cent) compared to MSMEs anticipated they would need to take cost-cutting measures to recover. (Figure 21)

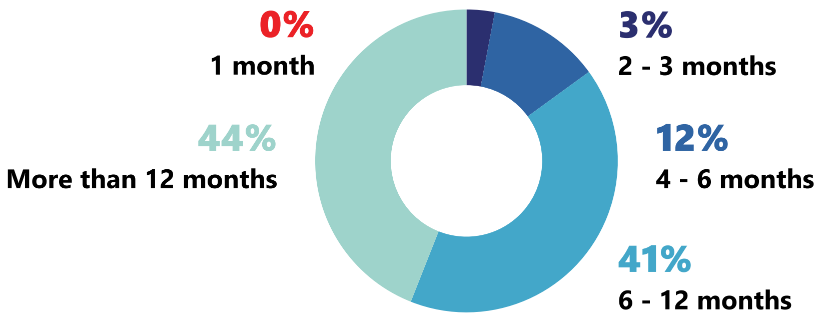
Figure 21. ***Having in mind the current situation in your company (and sector) what expectations do you have for your company's recovery in a year (until 31 December 2021)?***



Food and beverage (63 per cent), construction and retail sectors (50 per cent each) displayed higher shares of enterprises anticipating a full recovery within one year. In HORECA and the transportation sector large shares of enterprises anticipated they would need to implement additional cost cutting measures (56 per cent and 33 per cent respectively) or thought they would face considerable challenges that might lead to temporary suspension of operations (17 per cent and 50 per cent respectively). Interestingly, although information and communication had the highest share of enterprises reporting that they were already doing fine, which is significantly higher compared to other sectors, it had also some 8 per cent of enterprises that were considering business closure. In contrast, only 3 per cent of enterprises in services were also considering a similar option whereas the rest of the sectors did not have any enterprises that anticipated permanent business closure (Figure 20A).

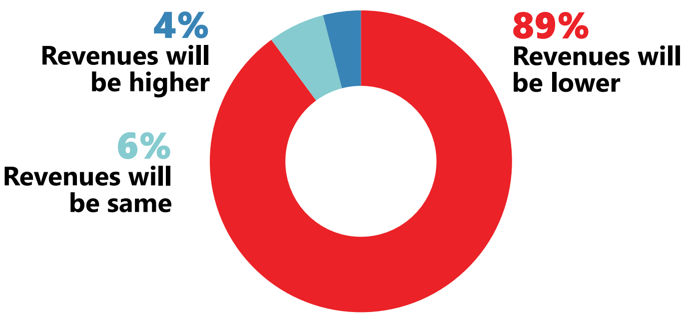
Almost equal shares of enterprises (more than 40 per cent) anticipated the recovery would take 6–12 months or more than 12 months. Only 12 per cent of enterprises expected they would be able to recover within four to six months, and a further 3 per cent expected it would take up to three months to fully recover. (Figure 22)

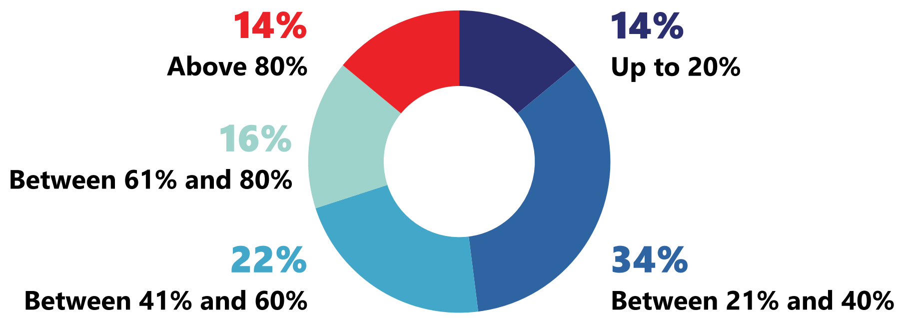
Figure 22. ***How long do you assess the full recovery will take?*** All surveyed enterprises



Close to 90 per cent of enterprises anticipated their revenue would be lower for 2020 compared to 2019. The estimated average revenue shortfall for 2020 was 47 per cent. A quarter of surveyed enterprises estimated that revenue would decrease by up to 40 per cent. Some 20 per cent projected the decline between 41 and 60 per cent, while a further 16 per cent anticipated a decrease ranging between 61 and 80 per cent. Some 14 per cent anticipated a decline of more than 80 per cent for 2020, while another 14 per cent projected a decline up to 20 per cent. (Figure 23)

Figure 23. ***How do you project your revenue for the whole of 2020, compared to 2019 (all 12 months)? If you expect that your revenue will be lower, can you estimate by how much?*** All surveyed enterprises





ANNEX 1. Sectoral profiles

Retail or sales

Profile of surveyed enterprises

- A total of 58 retail/sales enterprises answered the survey, accounting for 19 per cent of total responses.

Impact of COVID-19 on enterprise operations

- Sixty-two per cent of retail/sales enterprises operated at full or slightly reduced capacity, either on site or remotely in Q4, compared to 32 per cent in Q2.
- All surveyed enterprises resumed operations in Q4. In contrast, 36 per cent of operations suspended their operations in Q2.
- However, the share of enterprises operating at significantly reduced capacity increased from 31 per cent in Q2 to 38 per cent in Q4.
- The most frequent challenges affecting enterprise operations were a significant decline in demand (76 per cent) and difficulties in settling obligations to suppliers (67 per cent).
- Fifty per cent of surveyed enterprises anticipated a full recovery and a further 31 per cent will implement additional cost cutting measures to complete recovery. Some 15 per cent anticipated considerable challenges or temporary business closure.

Financial impact of COVID-19

- Some 97 per cent of retail/sales enterprises experienced a decline in revenue compared to the same period of 2019.
- Some 75 per cent of enterprises reported a decline of 21–40 per cent.
- The average revenue loss for retail/ sales enterprises was 31 per cent, which is below the total average loss of 47 per cent across all enterprises surveyed.
- Some 55 per cent of enterprises used their own reserves and a further 41 per cent applied on the moratorium for debt payments to be able to cover the inconsistent/insufficient cash flow.

Impact of COVID-19 on the workforce

- About 50 per cent of enterprises reduced or completely froze the recruitment of new employees in order to optimize staff costs.
- More than a quarter of enterprises confirmed their plans to reduce the workforce in the near future.
- Some 79 per cent of enterprises expect their employees to work on site when the crisis is over and do not envision changes over the long-term.

Assessment of government support measures

- Among retail/sales enterprises, 79 per cent were not satisfied with the government measures; 31 per cent perceived them as totally inadequate and 48 per cent thought that they should have been better.
- The measures assessed most frequently as adequate were the following: wage subsidy (20 per cent), tax deferrals and incentives for new employment (18 per cent each).
- Some 79 per cent of enterprises need additional support measures during the crisis period.
- The most relevant support needed by retail/sales enterprises is liquidity loans via the Investment Development Fund of Montenegro (40 per cent) and wage subsidies (38 per cent).

Services

Profile of surveyed enterprises

- A total of 52 services enterprises answered the survey, accounting for 17 per cent of total responses.

Impact of COVID-19 on business operations

- During Q4, 58 per cent of service enterprises operated at full or slightly reduced capacity, either on site or remotely, which is not a significant improvement compared to Q2 when 53 per cent of enterprises did so.
- Services sector reported the highest share of enterprises not yet in operation (8 per cent) in Q4. Interestingly, the share of enterprises that were not operating in Q2 was 17 per cent, which was below the sectoral average.
- The share of enterprises operating at significantly reduced capacity has slightly increased from 31 per cent in Q2 to 35 per cent in Q4.
- The most frequent challenges disrupting enterprise operations were a significant decline in demand (60 per cent) and delay in customers' payments (48 per cent).
- Among surveyed enterprises, 38 per cent anticipated recovering fully, 32 per cent noted that additional cost cutting measures would be needed, 9 per cent anticipated significant difficulties or temporary business closure, while 3 per cent anticipated permanent business closure. Positively, 18 per cent of surveyed enterprises were fully operational.

Financial impact of COVID-19

- Among services enterprises, 88 per cent experienced a decline in revenue compared to the same period of 2019, 8 per cent reported no changes and 4 per cent experienced an increase in revenue.
- Some 48 per cent of enterprises reported a decline of 21–40 per cent and a further 20 per cent experienced a decline of 41–60 per cent.
- The average revenue loss for services enterprises was 39 per cent, which is below the total average loss of 47 per cent across all enterprises surveyed.
- Most enterprises (69 per cent) used their own reserves and lower but equal shares of enterprises (23 per cent each) applied for a commercial loan or moratorium on debt payments to address the inconsistent/insufficient cash flow.

Impact of COVID-19 on the workforce

- The most widespread measure taken with regard to workforce was reducing or freezing completely the recruitment of new staff (42 per cent)
- Some 27 per cent of enterprises confirmed their plans to downsize their workforce in the near future.
- Some 63 per cent of enterprises expect their employees to work on site when the crisis is over and do not envision changes in flexible/remote work arrangements over the long-term.

Assessment of government support measures

- Among services enterprises, 69 per cent were not satisfied with the government measures, of which 29 per cent assessed them as totally inadequate and 40 per cent had the perception that they should have been better.
- The measures assessed most frequently as adequate were the following: incentives for new employment (18 per cent) and financial support through the Investment Development Fund of Montenegro (16 per cent).
- Some 75 per cent of enterprises need additional support measures to sustain their operations.
- The most relevant support needed by services enterprises is wage subsidies (48 per cent) and tax deferrals (27 per cent).

HORECA

Profile of surveyed enterprises

- A total of 36 HORECA enterprises answered the survey, accounting for 12 per cent of total responses.

Impact of COVID-19 on enterprise operations

- Among HORECA enterprises, 51 per cent operated at full or slightly reduced capacity, either on site or remotely in Q4, compared to 25 per cent in Q2.
- The share of enterprise not in operation has dropped from 42 per cent in Q2 to 6 per cent in Q4.
- In contrast, 44 per cent of enterprises operated at significantly reduced capacity in Q4 compared to 33 per cent in Q2.
- The most frequent challenges disrupting enterprise operations were a significant decline in demand (74 per cent) and difficulties in settling obligations to suppliers (53 per cent).
- To restore operations, 56 per cent of enterprises would need to take additional cost cutting measures. Some 28 per cent anticipated a full recovery, while 17 per cent anticipated major challenges and were considering temporary closure.

Financial impact of COVID-19

- All surveyed HORECA enterprises reported a decline in revenue compared to the same period of 2019.
- Some 31 per cent of enterprises reported a decline of 61–80 per cent and a further 47 per cent experienced a decline above 80 per cent.
- The average revenue loss for HORECA enterprises was 73 per cent, which is significantly higher compared to the average loss of 47 per cent across all enterprises in the survey.
- Among HORECA enterprises, 61 per cent used their own reserves to cope with inconsistent/ insufficient cash flow and almost equal shares (more than 40 per cent) applied for a moratorium on debt payments or a loan at the Investment Development Fund of Montenegro.

Impact of COVID-19 on the workforce

- The most widespread measure taken with regard to workforce was reducing or completely freezing the recruitment of new staff (64 per cent).
- Some 53 per cent of HORECA enterprises plan to downsize their workforce in the coming period.
- Some 69 per cent of enterprises prefer their employees to work on site when the crisis is over and do not envisage using flexible/remote work arrangements over the long term.

Assessment of government support measures

- Among HORECA enterprises, 69 per cent were not satisfied with the government measures, of which 19 per cent assessed them as totally inadequate and 47 per cent thought they should have been better.
- Government measures assessed most frequently as business saving measures were the following: tax deferrals (50 per cent), wage subsidies (45 per cent), loans accessed via the Investment Development Fund of Montenegro (40 per cent).
- Most enterprises (83 per cent) need additional support measures to sustain their operations.
- The most relevant support measures needed by HORECA enterprises are wage subsidies (44 per cent), liquidity loans via Investment Development Fund of Montenegro (31 per cent) and tax deferrals (28 per cent).

Construction and real estate

Profile of surveyed enterprises

- A total of 21 construction and real estate enterprises answered the survey, accounting for 7 per cent of total responses.

Impact of COVID-19 on enterprise operations

- In all, 81 per cent of construction and real estate enterprises operated at full or slightly reduced capacity, either on site or remotely in Q4, compared to 76 per cent in Q2.
- The share of enterprises operating at significantly reduced capacity dropped from 24 per cent to 19, accounting for a relatively lower share across all surveyed enterprises (5 per cent).
- The most cited operational challenges were the drop in demand for products and services (67 per cent) and employee absenteeism due to illness or government orders (57 per cent).
- Half of enterprises anticipated a full recovery, 29 per cent would need to implement additional cost cutting measures and 14 per cent expected considerable challenges or temporary suspension of operations.

Financial impact of COVID-19

- Some 81 per cent of enterprises experienced a decline in revenue compared to the same period of 2019.
- Close to 30 per cent of enterprises reported a decline below 20 per cent and about 40 per cent experienced a decline ranging between 21 and 40 per cent.
- The average revenue loss reported by construction and real estate enterprises was 62 per cent, which is higher relative to average loss of 47 per cent across all surveyed enterprises.
- Some 81 per cent of enterprises used their own reserves to cope with insufficient cash flow, while nearly 30 per cent applied for a commercial loan.

Impact of COVID-19 on the workforce

- The most frequently used measure to optimize the workforce was reducing or completely freezing the recruitment of new staff.
- Some 14 per cent of enterprises anticipated downsizing their workforce in the coming period.
- Some 41 per cent of enterprises preferred their employees to work on site when the situation stabilizes and nearly a quarter will make at least some adjustments to current work arrangements to make it easier for employees to access remote work.

Assessment of government support measures

- Among construction and real estate enterprises, 61 per cent were not satisfied with the government measures, assessing them either as totally inadequate (38 per cent) or not good enough (29 per cent).
- Overall, construction and real estate enterprises did not rely much on government support. The measures assessed most frequently as generally adequate were the tax deferrals (13 per cent) and the moratorium on debt payments (12 per cent).
- Some 81 per cent of enterprises need additional support measures during the crisis period.
- The most relevant support measures for construction and real estate enterprises are wage subsidies (38 per cent) and liquidity loans (33 per cent).

Information and communication

Profile of surveyed enterprises

- A total of 18 information and communication enterprises answered the survey, accounting for 6 per cent of total responses.

Impact of COVID-19 on enterprise operations

- All surveyed information and communication enterprises operated at full or slightly reduced capacity, either on site or remotely in Q4. In contrast, equal shares (11 per cent) were not in operation or operated at significantly reduced capacity in Q2.
- Delay in customers' payments (67 per cent) and decline in demand (56 per cent) were the operational challenges cited most by enterprises in this sector.
- Some 42 per cent of enterprises in this sector expected to recover fully and 17 per cent would implement cost-cutting measures. Surprisingly, 8 per cent were considering permanent business closure. A quarter of enterprises were fully operational.

Financial impact of COVID-19

- Among information and communication enterprises, 67 per cent experienced a decline in revenue compared to the same period of 2019. The sector displayed the highest share of enterprises reporting an increase in revenue (17 per cent). A further 17 per cent reported no changes in the revenue levels.
- The average revenue loss was 32 per cent in this sector, which is significantly lower than the relative average loss of 47 per cent across all surveyed enterprises.
- The largest share of surveyed information and communication enterprises reported a decline in revenue of 21–40 per cent.
- Some 67 per cent of enterprises used their own reserves and 28 per cent applied for the moratorium on debt payments to cope with inconsistent/insufficient cash flow.

Impact of COVID-19 on the workforce

- The most widespread measures taken with regard to workforce was reducing costs for staff development.
- Some 28 per cent of enterprises confirmed their plans to downsize their workforce in the near future.
- Enterprises in information and communication demonstrated readiness to significantly increase flexible/remote working practices (22 per cent) or make at least some adjustments to current work arrangements to make it easier for employees to access remote work (22 per cent). Yet, a further 39 per cent expect their employees to work on site when the crisis is over.

Assessment of government support measures

- Among information and communication enterprises, 69 per cent were not satisfied with the government measures, of which 29 per cent assessed them as totally inadequate and 40 per cent had the perception that they should have been better.
- The moratorium on debt payments was assessed to have saved the enterprise by 22 per cent of respondents. Significantly lower shares of enterprises used other support measures.
- Some 61 per cent of enterprises need additional support measures during the crisis period.
- The most relevant support needed by information and communication enterprises is wage subsidies (48 per cent) and tax deferrals (27 per cent).

Food and beverage

Profile of surveyed enterprises

- A total of 17 food and beverage enterprises answered the survey, accounting for 6 per cent of total responses.

Impact of COVID-19 on business operations

- Among food and beverage enterprises, 76 per cent operated at full or slightly reduced capacity, either on site or remotely in Q4, compared to 65 per cent in Q2.
- Although all surveyed enterprises were in operation in Q4, which was not the case for 12 per cent of enterprises in Q2, the share of enterprises operating at very low capacity remained at the same level (24 per cent).
- The most frequent challenges affecting enterprise operations were a significant decline in demand (82 per cent), employee absenteeism and delayed customer payments (47 per cent each).
- Among surveyed enterprises, 63 per cent anticipated a full recovery and 37 per cent will continue cutting costs to be able to restore operations.

Financial impact of COVID-19 on enterprises

- In all, 94 per cent of food and beverage enterprises experienced a decline in revenue compared to the same period of 2019.
- Some 75 per cent reported a decline of 21–40 per cent.
- The average revenue loss for food and beverage enterprises was 31 per cent, which was below the average loss of 47 per cent across all enterprises in the survey.
- Equal shares of enterprises (53 per cent) relied on their own reserves or applied for the moratorium on debt payments to cope with inconsistent/insufficient cash flow. A further 35 per cent applied for a commercial loan.

Impact of COVID-19 on the workforce

- The most wide-spread measures taken with regard to workforce were reducing or completely freezing the recruitment of new staff (35 per cent).
- Among food and beverage enterprises, 12 per cent anticipated layoffs in the coming period.
- Some 71 per cent of enterprises expect their employees to work on site when the crisis is over.

Assessment of government support measures

- In all, 64 per cent of enterprises were not satisfied with the government measures, assessing them either as totally inadequate (35 per cent) or as insufficiently adequate (29 per cent).
- Surveyed enterprises reported that the following measures saved their business: tax deferrals (17 per cent) and subsidies for minimum wage (9 per cent).
- Almost all surveyed enterprises (94 per cent) need additional support measures during the crisis period.
- An overwhelming majority of enterprises (82 per cent) need primarily wage subsidies to be able to cope with the crisis.

Transportation and transportation equipment

Profile of surveyed enterprises

- A total of 15 transportation enterprises answered the survey, accounting for 5 per cent of total responses.

Impact of COVID-19 on business operations

- Although all surveyed enterprises were in operation, only 40 per cent operated at full capacity, while 60 per cent operated at significantly reduced capacity.
- Transportation enterprises reported severe operational disruptions in Q2, with 27 per cent of enterprises operating at full or slightly reduced capacity and a further 27 per cent operating at significantly reduced capacity, while 47 per cent suspended their operations.
- The most frequent challenges disrupting enterprise operations were a significant decline in demand (80 per cent), delay in customers' payments (67 per cent), difficulties in settling obligations to suppliers and inability to organize teleworking (60 per cent each).
- Half of surveyed enterprises anticipated significant challenges and temporary business closures. A quarter noted that they would take additional optimization measures. Only 17 per cent anticipated a complete recovery.

Financial impact of COVID-19

- All surveyed transportation enterprises experienced a decline in revenue in 2020 compared to the same period of 2019.
- Equal shares (33 per cent) reported a decline of 61–80 per cent and more than 80 per cent.
- The average loss for transportation enterprises was 62 per cent, above the average loss of 47 per cent across all enterprises in the survey.
- To cope with the inconsistent/insufficient cash flow equal shares of enterprises (67 per cent) used their own reserves or applied for the moratorium on debt payments.

Impact of COVID-19 on the workforce

- The most widespread measures taken with regard to workforce was reducing or freezing new recruitments.
- A quarter of enterprises had plans to downsize their workforce in the near future.
- In view of the specificity of their activities, 80 per cent of enterprises expect their employees to work on site when the crisis ends, and they do not envision changes in flexible/remote work arrangements over the long-term.

Assessment of government support measures

- In all, 67 per cent of transportation enterprises were not satisfied with government measures, comprising 20 per cent that assessed them as totally inadequate and 47 per cent that felt they should have been better.
- The financial support through Investment Development Fund of Montenegro and minimum wage subsidies were reported as saving the business of 20 per cent and 9 per cent of respondents respectively.
- Some 87 per cent of enterprises need additional support measures during the crisis period.
- The most relevant type of support needed by transportation enterprises is wage subsidies (60 per cent), tax deferrals (40 per cent) and liquidity loans (33 per cent).

Annex 2. Survey demographics and figures

Figure 1A. ***Distribution of surveyed enterprises by location***

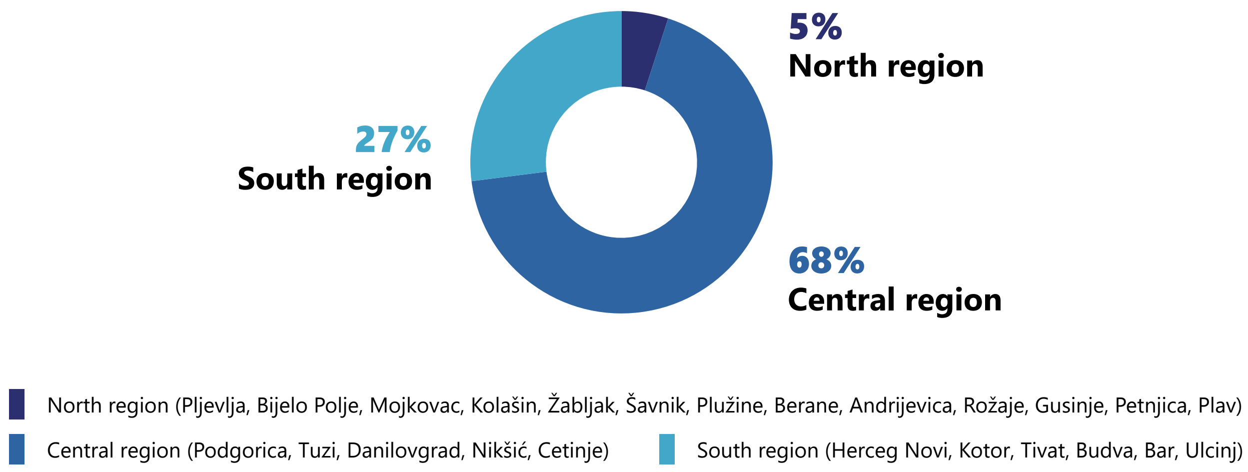


Figure 2A. ***Distribution of surveyed enterprises by type of ownership***

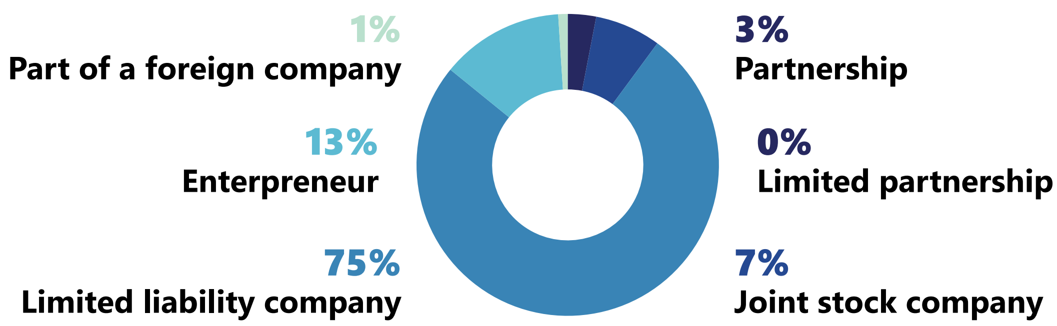


Figure 3A. ***Distribution of surveyed enterprises by size***

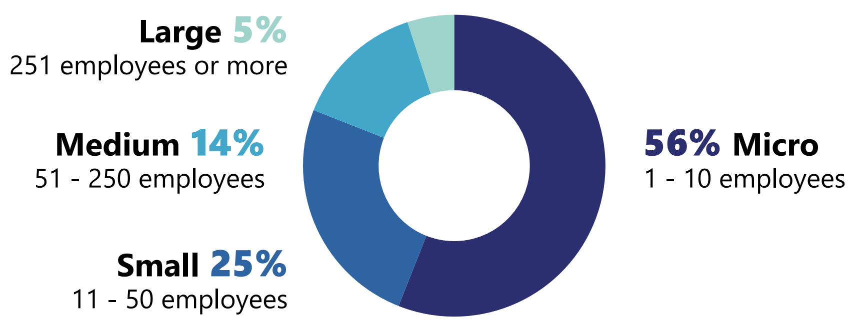
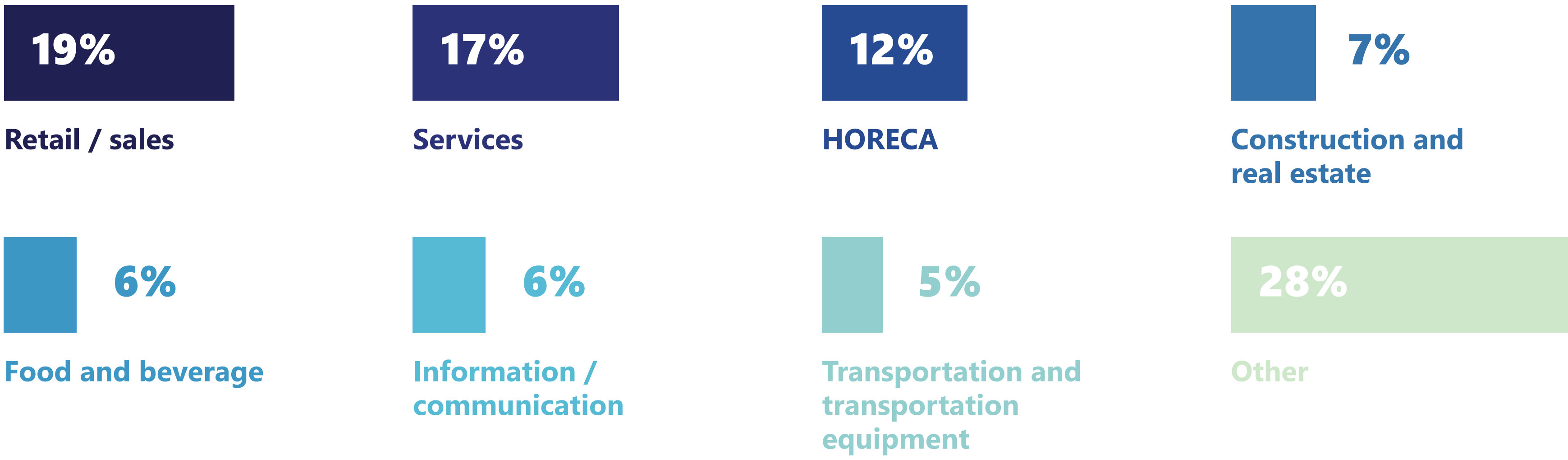


Figure 4A. ***Distribution of surveyed enterprises by sector***



Note: The sectoral analysis is based on the most representative sectors in the sample. Some of these sectors were merged together based on the similarities of their business activities as follows:

HORECA was created by merging Hotels and Tourism and Restaurants.

Construction and real estate were created by merging **construction** and **real estate**, since they share the same value chain.

Food and beverage was created by merging **agriculture** and **food and beverage production**, since they generally share the same agribusiness value chain.

Retail/sales, **services**, **information and communication** and **transportation** sectors are in their original form.

Sector '**Other**' comprises sectors with a lower representativity in the sample, namely chemicals and plastics; electronics and electrical equipment; financial or insurance activities; forestry/wood/paper production; metal fabrication and machinery; textile, leather and apparel; marketing; and crafts.

Figure 5A. ***Could you specify the level of operations in your company?*** All surveyed enterprises by sector

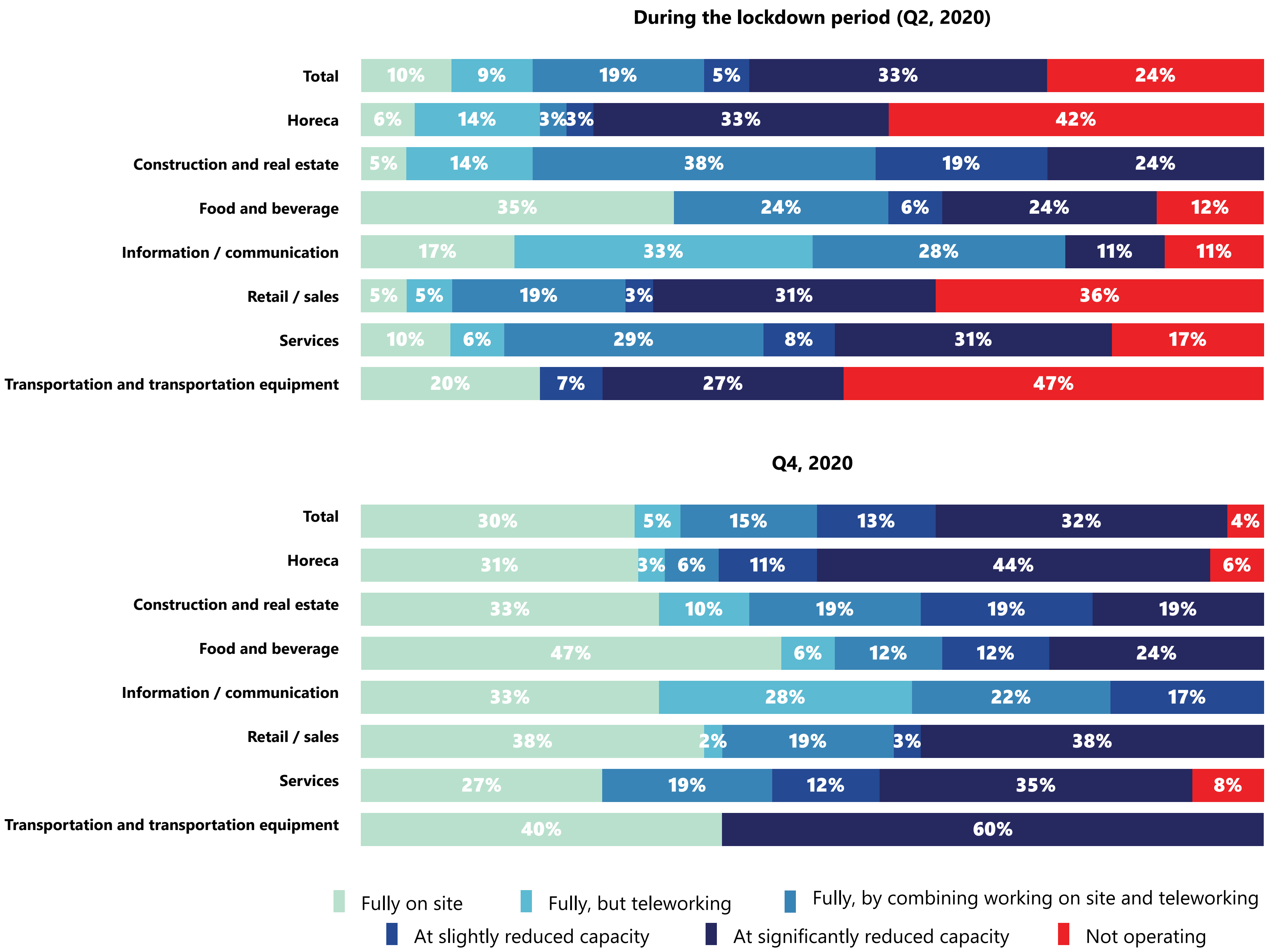


Figure 6A. ***What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?*** All survey enterprises by size

If your revenue has decreased, can you estimate by now much?

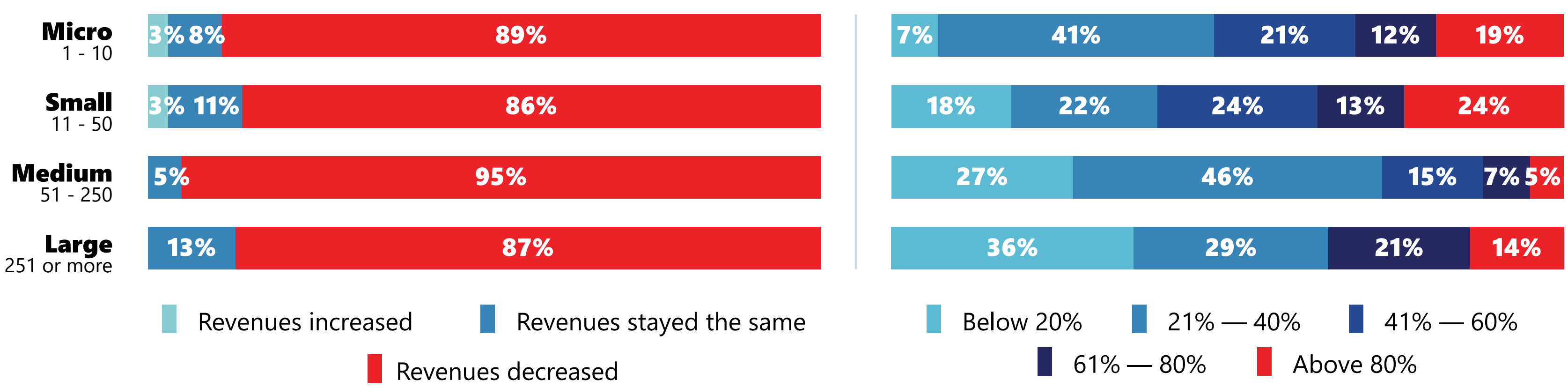
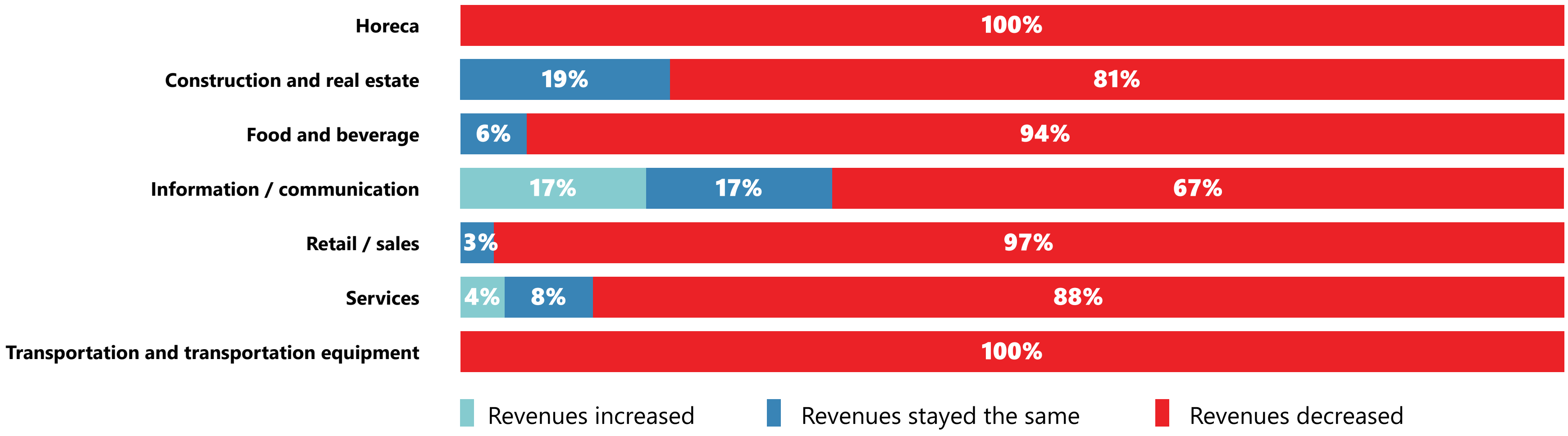


Figure 7A. ***What has been the impact of the COVID-19 crisis on your revenue so far, compared to the same period of 2019?*** All surveyed enterprises by sector



If your revenue has decreased, can you estimate by now much?

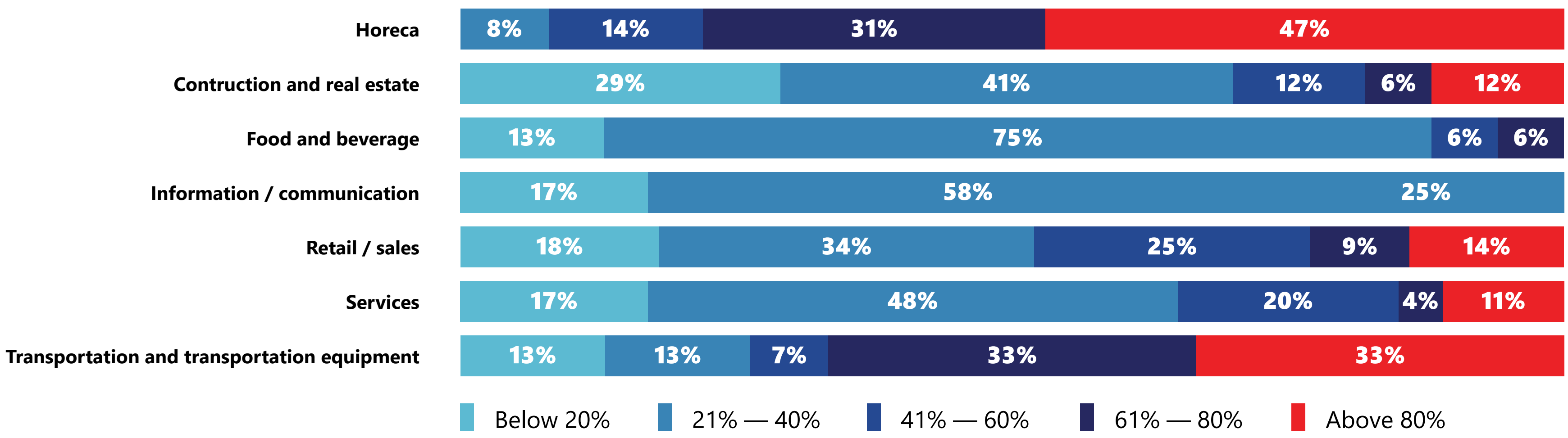
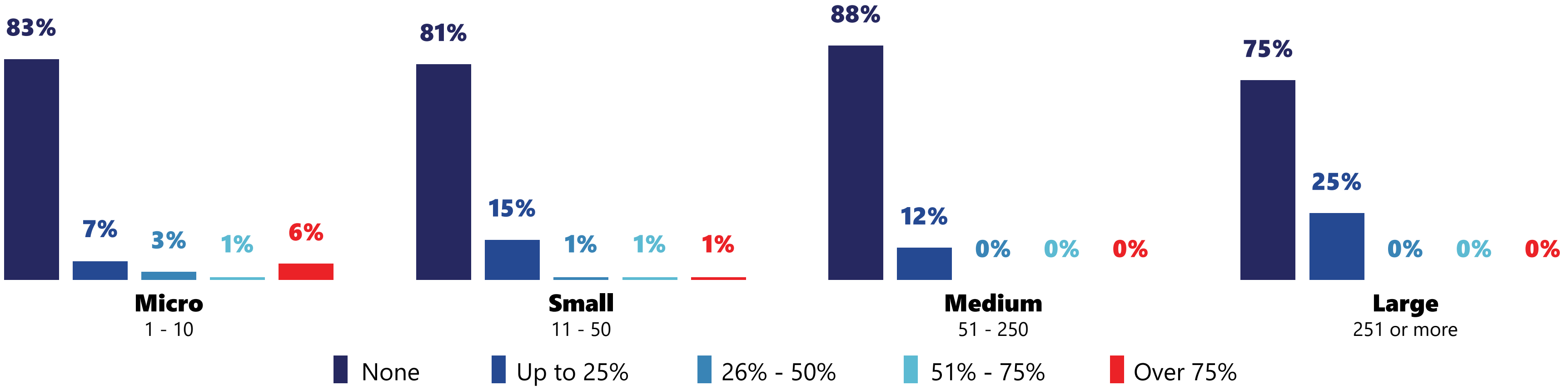
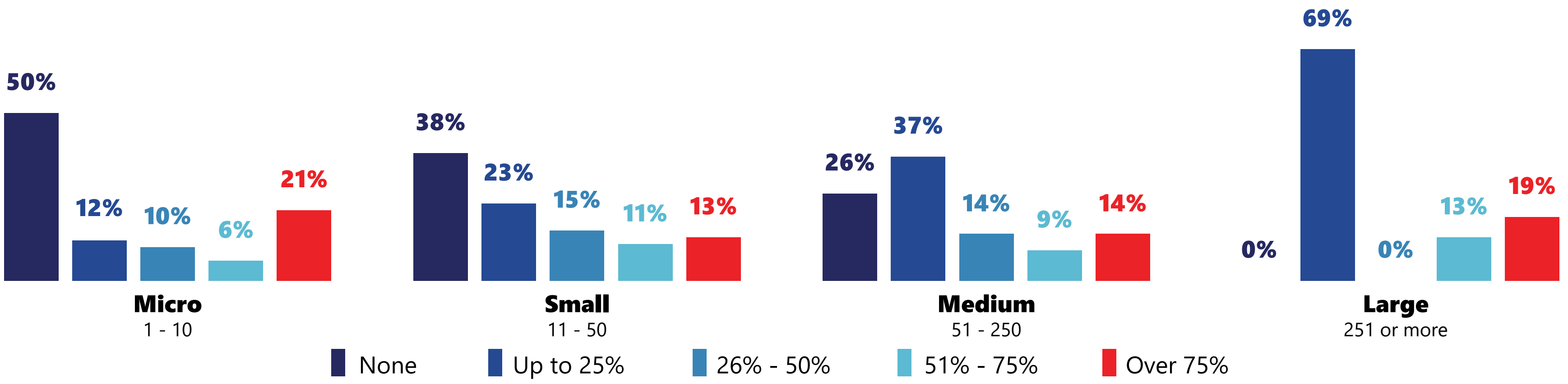


Figure 8A. ***What is the share of employees who teleworked (at least once per week)...?*** All surveyed enterprises by size

Prior to COVID-19



During the lockdown period (Q2, 2020)



After the lockdown period (Q3-Q4, 2020)

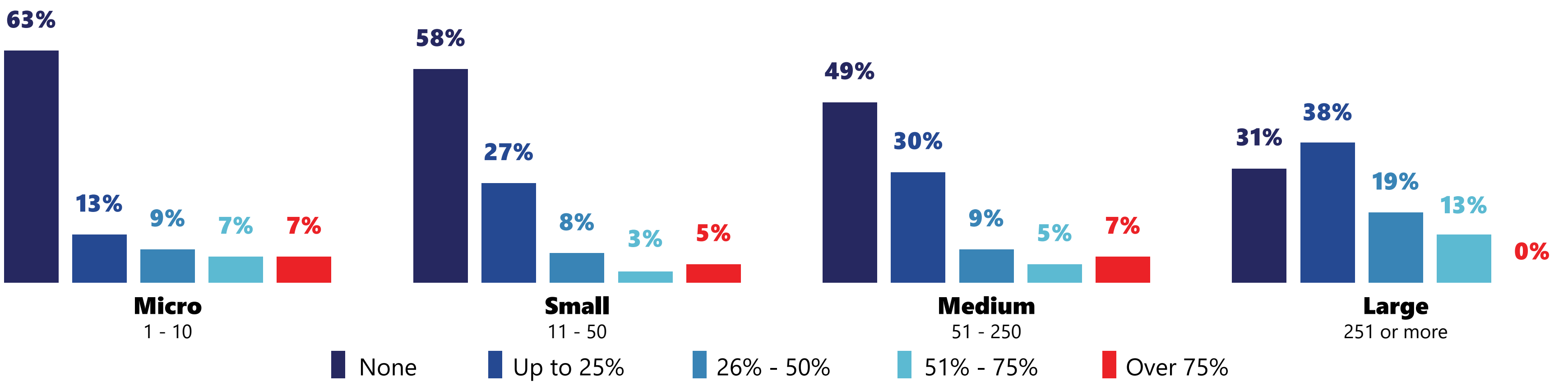


Figure 9A. ***After the COVID-19 crisis is over, do you envision changes to your flexible/remote working practices over the long-term?*** All surveyed enterprises by sector

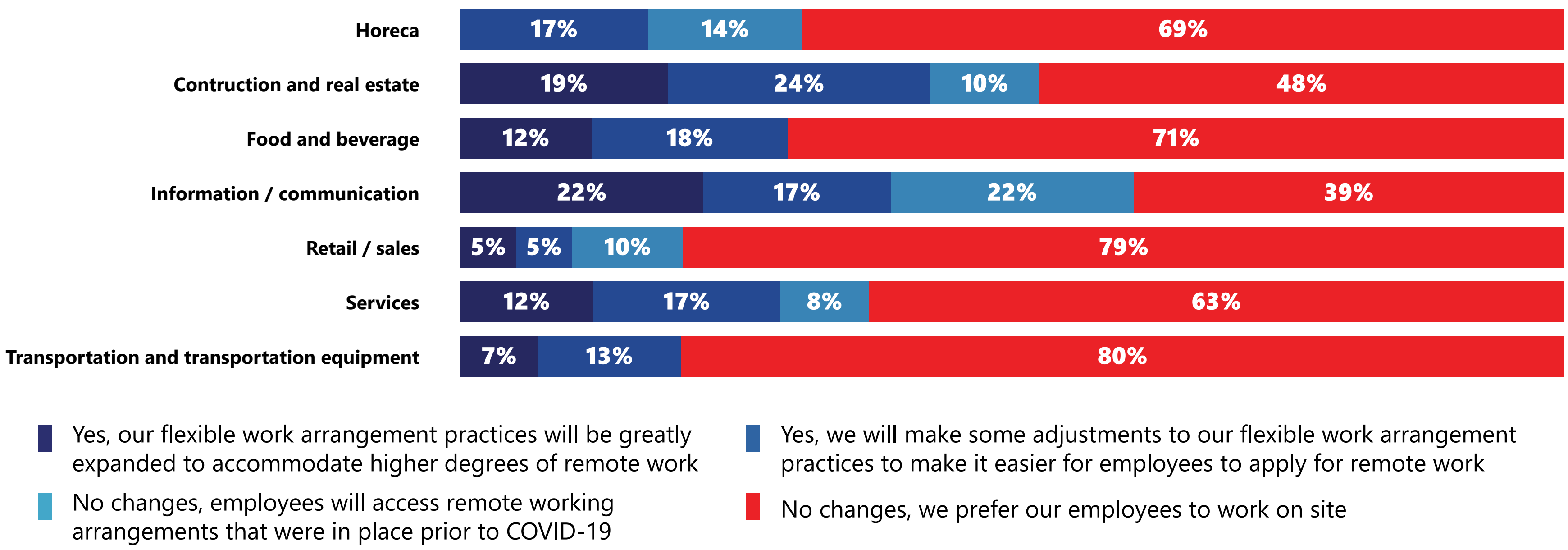


Figure 10A. ***What type of support does your enterprise require in order to have staff undertake telework arrangements more effectively?*** All surveyed enterprises by size

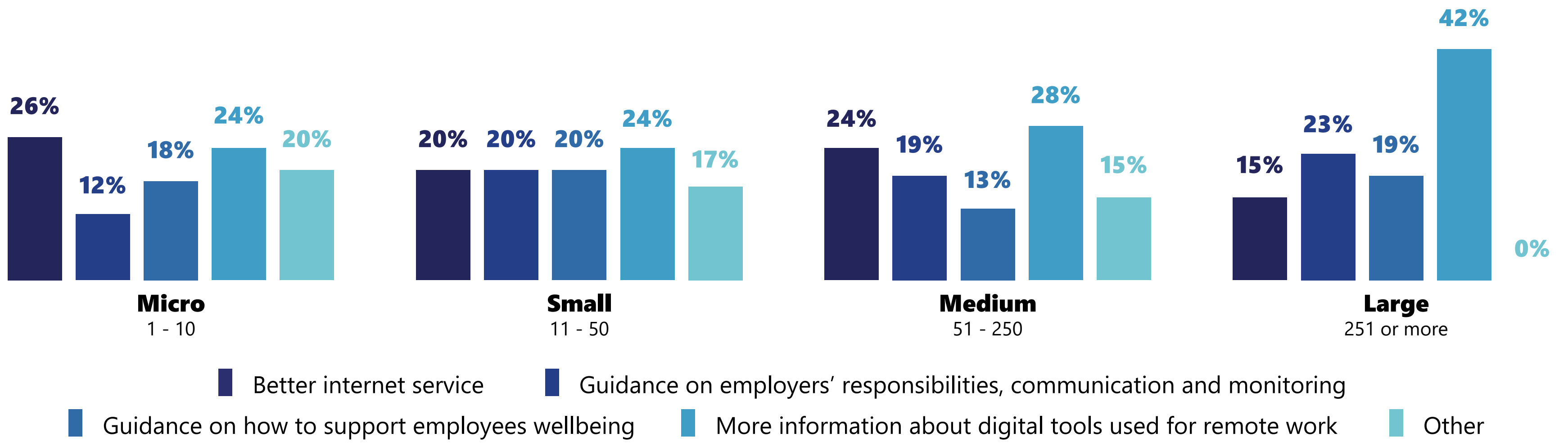


Figure 11A. ***What type of support does your enterprise require in order to have staff undertake telework arrangements more effectively?*** All surveyed enterprises by sector

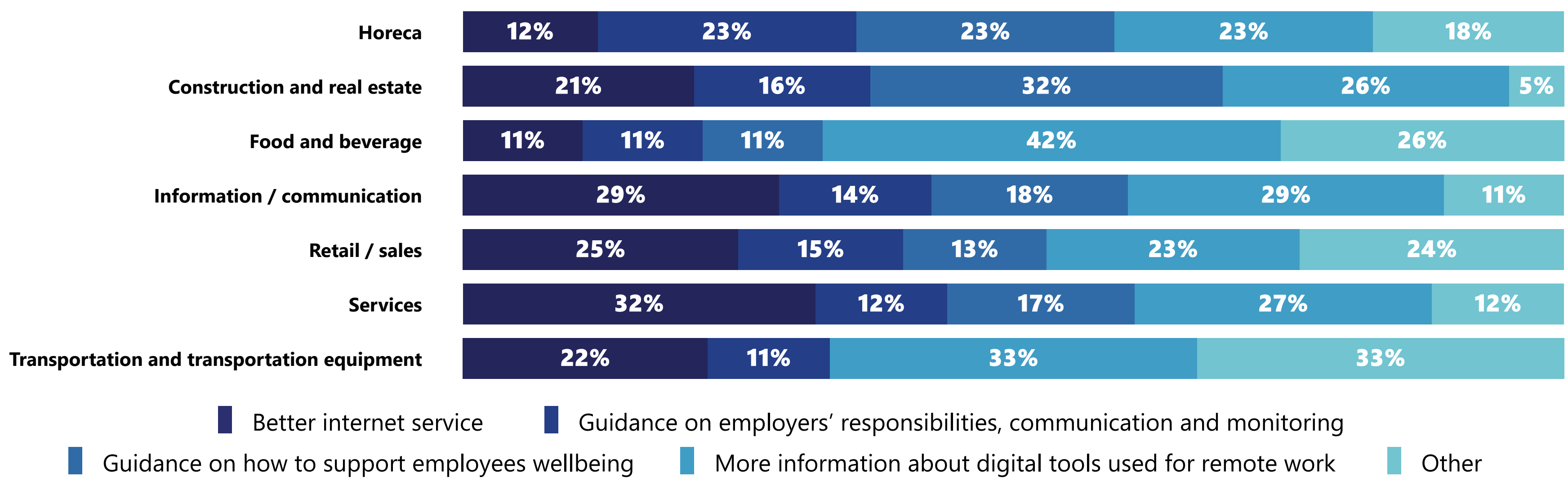


Figure 12A. ***Do you plan to dismiss employees in the coming period due to the consequences of the COVID-19 crisis?*** All surveyed enterprises by sector

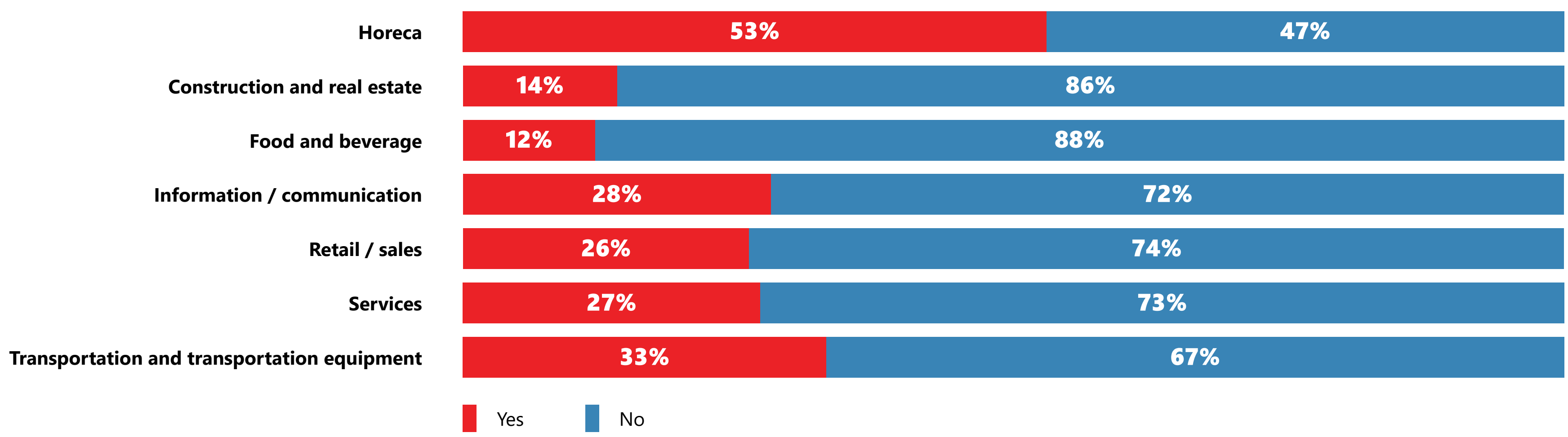


Figure 13A. ***Did your enterprise have a written business continuity plan prior to COVID-19?***

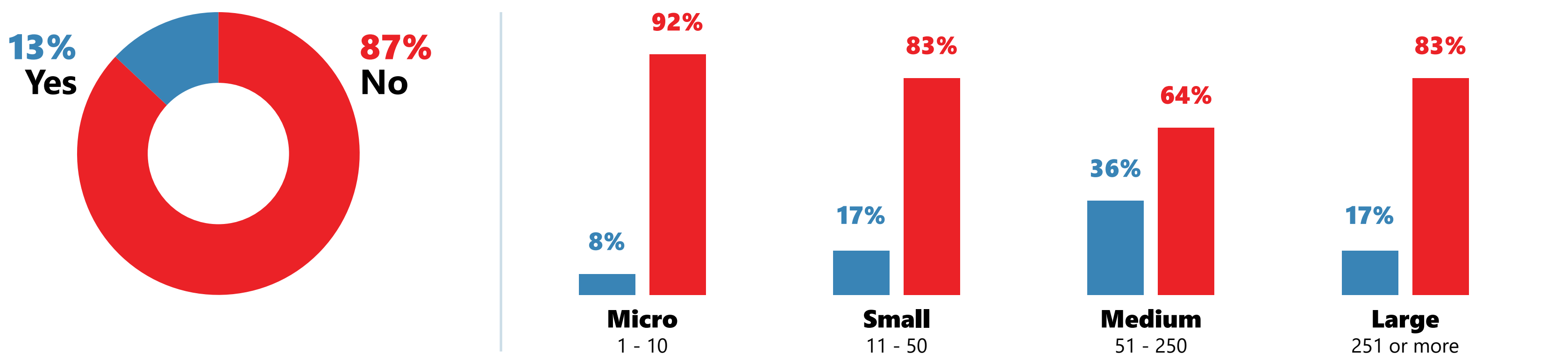


Figure 14A.

Did your enterprise have a written business continuity plan prior to COVID-19? All surveyed enterprises by sector

Did your enterprise develop a written business continuity plan following the COVID-19 outbreak?

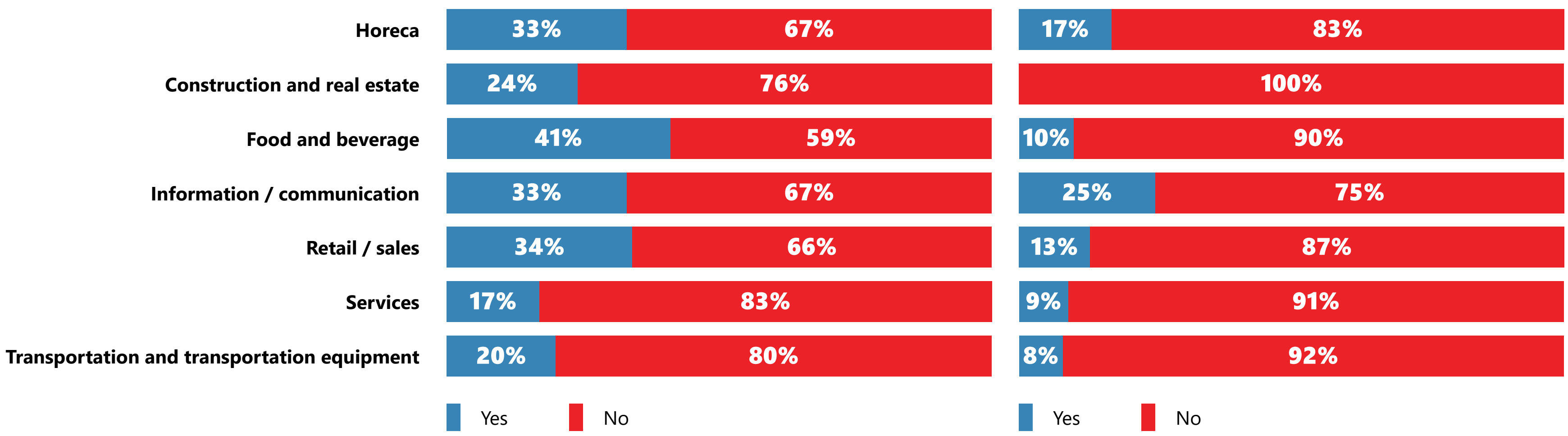


Table 1A. ***Which are the main operational challenges your enterprise currently faces resulting from COVID-19?*** All surveyed enterprises by sector

	Employees are absent from work due to illness or government orders	Inability to organize teleworking	Inability to implement physical distancing	Inability to procure protective equipment	Demand for our products / services is seriously affected	Our operating costs increased significantly	Our customers are late with payments	We have difficulties in settling obligations to our suppliers	Possibility to enter the gray business zone (informal business)	We did not face any of these challenges
Horeca	31%	28%	17%	0%	72%	39%	33%	53%	6%	0%
Construction and real estate	57%	14%	19%	5%	67%	48%	52%	48%	24%	0%
Food and beverage	47%	12%	0%	0%	82%	41%	47%	24%	6%	0%
Information / communication	33%	0%	11%	0%	56%	11%	67%	22%	17%	17%
Retail / sales	50%	35%	16%	0%	76%	33%	55%	67%	22%	2%
Services	23%	33%	21%	12%	60%	21%	48%	21%	10%	8%
Transportation and transportation equipment	53%	60%	27%	0%	80%	40%	67%	60%	13%	0%

Table 2A. ***How did you cover for the inconsistent/insufficient cash flow?*** All surveyed enterprises by sector

	We relied on our reserves	We applied for a commercial loan	We applied for a loan at the Investment Development Fund of Montenegro	We applied for a moratorium on debt payments	We did not have inconsistent / insufficient cash flow	Other
Horeca	61%	31%	42%	44%	3%	8%
Construction and real estate	81%	29%	14%	24%	5%	10%
Food and beverage	53%	35%	6%	53%	0%	0%
Information / communication	67%	6%	11%	28%	17%	0%
Retail / sales	55%	31%	35%	41%	3%	3%
Services	69%	23%	14%	23%	6%	6%
Transportation and transportation equipment	67%	20%	13%	67%	0%	13%

Figure 15A. ***Which are the main challenges your enterprise currently faces within its value chain?*** All surveyed enterprises by size

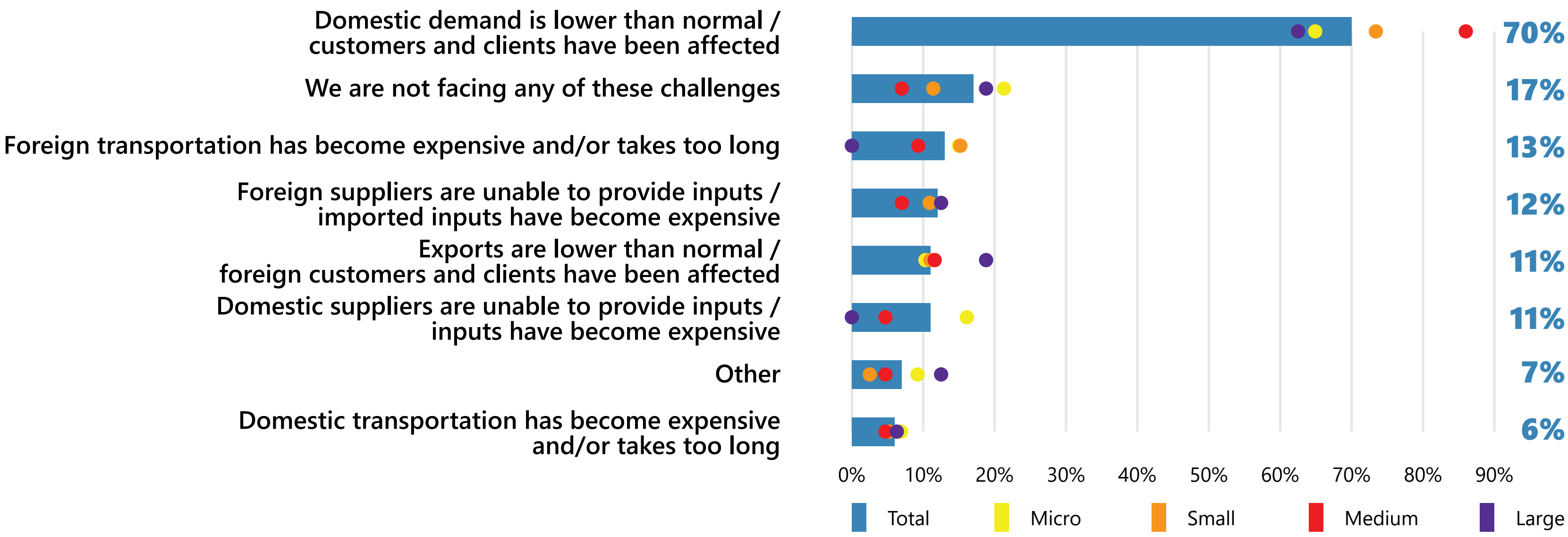


Table 3A. ***Which are the main challenges your enterprise currently faces within its value chain?*** All surveyed enterprises by sector

	Domestic suppliers are unable to provide inputs / inputs have become expensive	Foreign suppliers are unable to provide inputs / imported inputs have become expensive	Domestic demand is lower than normal / domestic customers and clients have been affected	Exports are lower than normal / foreign customers and clients have been affected	Domestic transportation has become expensive and/or takes too long	Foreign transportation has become expensive and/or takes too long	We are not facing any of these challenges
Horeca	8%	5%	55%	22%	5%	2%	22%
Construction and real estate	9%	9%	81%	14%	9%	9%	14%
Food and beverage	23%	11%	82%	23%	5%	5%	5%
Information / communication	16%	16%	55%	22%	0%	22%	27%
Retail / sales	10%	20%	89%	3%	8%	31%	6%
Services	5%	3%	61%	5%	7%	7%	25%
Transportation and transportation equipment	20%	6%	86%	20%	13%	13%	0%

Figure 16A. ***What is your assessment of the Government's economic measures in relations to your company's needs during the crisis?*** All surveyed enterprises by sector

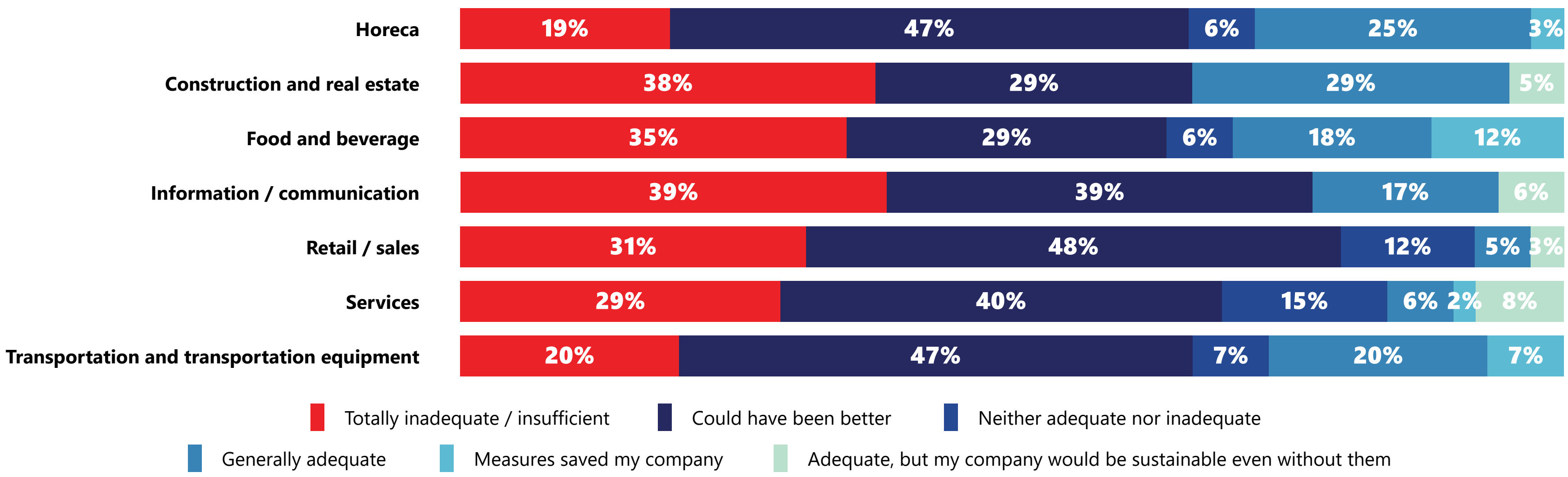


Figure 17A. ***Would your enterprise benefit from any other additional/new economic measure introduced by the government?*** All surveyed enterprises by sector

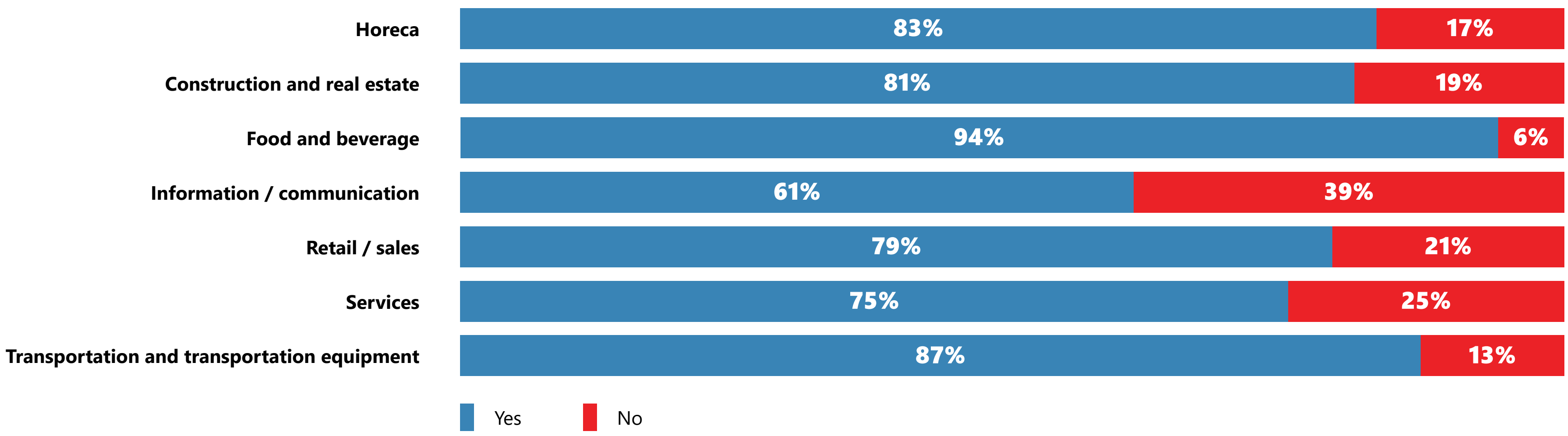


Figure 18A. ***What type of measures would significantly benefit your company's sustainability?*** All surveyed enterprises by size

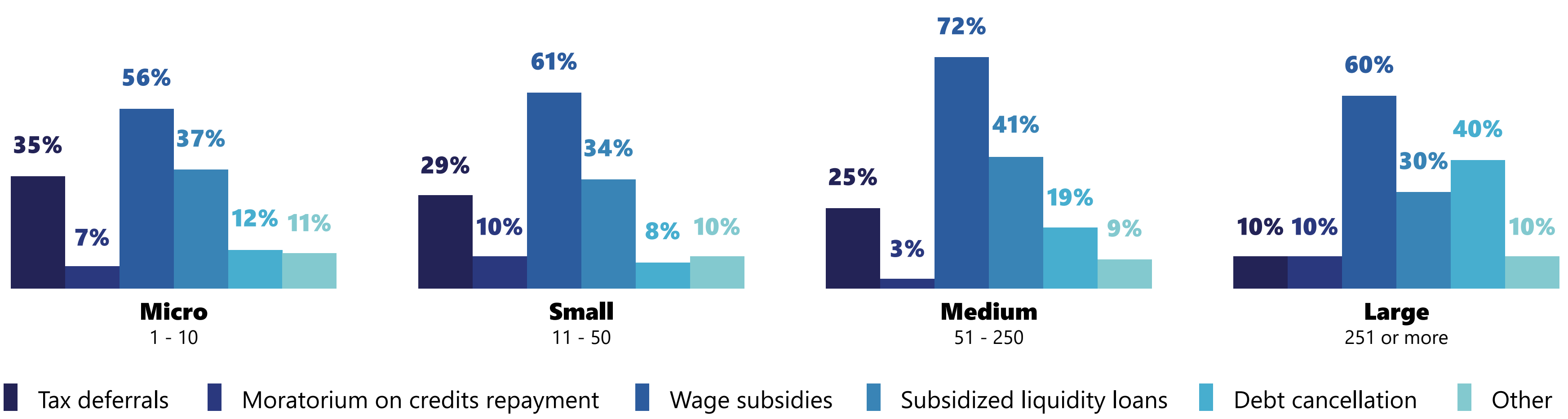


Figure 19A. ***What type of measures would significantly benefit your company's sustainability?*** All surveyed enterprises by sector

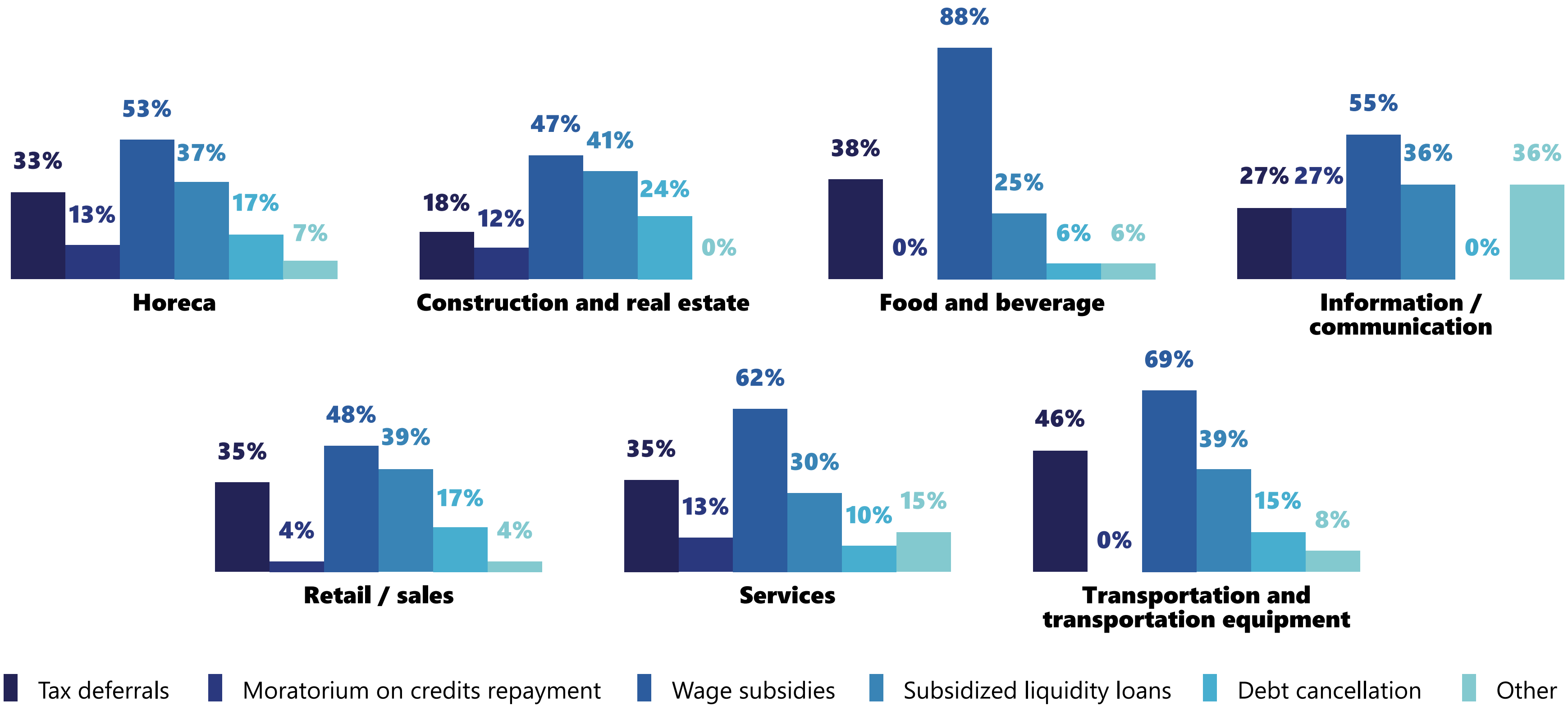
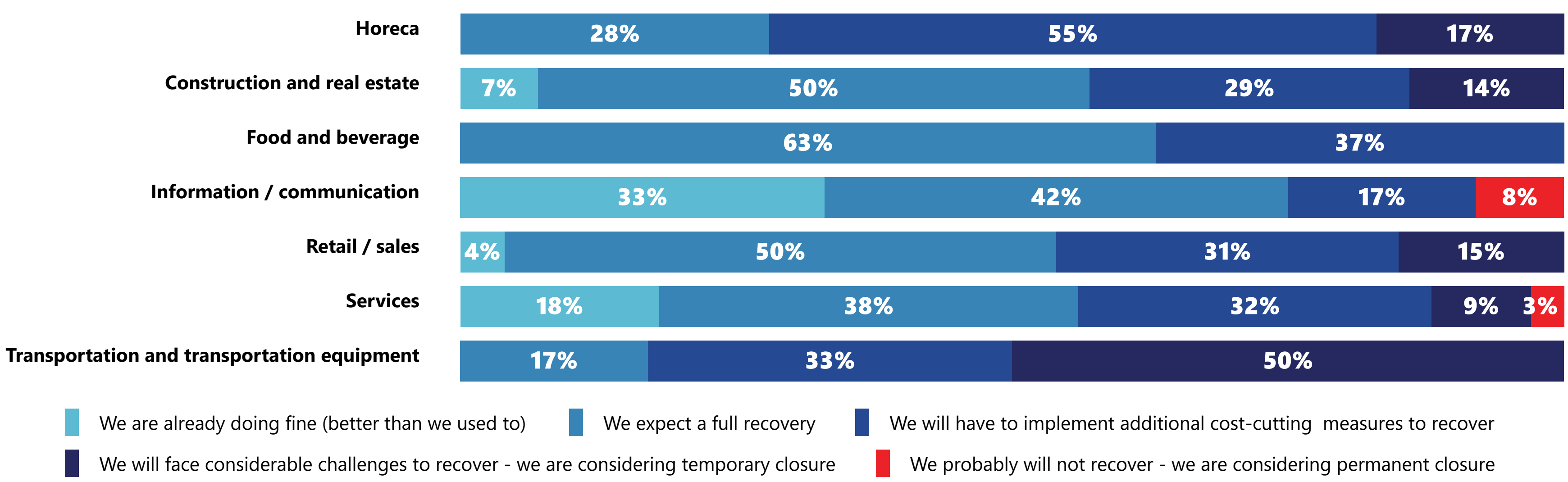


Figure 20A. ***Having in mind the current situation in your company (and sector), what expectations do you have for your enterprise recovery in a year (until 31 December 2021)?*** All surveyed enterprises by sector



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