Building the resilience of SMEs in Serbia

Findings and Recommendations for Enhanced SME Resilience
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1. Background

Micro, small and medium enterprises (SMEs) – which include entrepreneurs, smallholder farmers and cooperatives – form the basis of local, national and global economies. It is estimated that there are more than 160 million registered SMEs in the world – or, according to the World Bank, 400-500 million when unregistered SMEs are taken into account. Making up over 90 per cent of all companies, SMEs are the world’s biggest employers and largest contributors to GDP.

The SME sector is also a vital part of Serbia’s economy. According to data issued by the Ministry of Economy, in 2018 SMEs made up approximately 99.9 per cent of all active enterprises and employed almost two thirds of workers in the non-financial sector, contributing 57.5 per cent of non-financial sector GDP.¹ SMEs account for around 33.6 per cent of Serbia’s total GDP and around 44.2 per cent of registered employment. In terms of size, micro-enterprises are dominant, making up around 96.3 of SMEs.

The SME sector directly contributes to social well-being through income and earnings, as well as taxes and contributions paid by employers, which are particularly significant for local budgets, pensions and health insurance funds. In addition to providing employment, SMEs provide a wide array of services and products. They are also flexible and quick to adapt to, adopt and generate innovations, new technologies and knowledge. SMEs provide valuable inputs for the growth and development of communities. Due to the significant role they play in society, SMEs are important catalysts for building resilience.

At the same time, SMEs are extremely sensitive to disasters because of their limited human and technical capacity, and low capital value (which directly limits their financial capabilities). Studies² have shown that when a disaster occurs, 40-60 per cent of SMEs go out of business, while the rest struggle to survive in the wake of the crisis. The vulnerability of SMEs was highlighted during the COVID-19 pandemic, when SMEs were the most adversely affected type of business (USAID and PKS³). During the pandemic many economic operators in Serbia also faced additional risks from natural disasters such as floods and hail, as well as technological or cyber risks.

There is therefore a strong case for developing an understanding risks SMEs face and enhancing their capacity for building long-term resilience and preparing for disasters. Currently, there is no publicly available information on the levels of resilience of Serbian SMEs to disasters. Thus, it is important to develop a preliminary understanding of the main challenges SMEs are facing, particularly in terms of managing risk, investing in resilience, and preparing for, responding to and recovering from disasters and their cascading impacts. To this end, the United Nations Office for Disaster Risk Reduction in collaboration with the Serbian Chamber of Commerce, created the ‘Building resilience of SMEs to disasters’ initiative. The purpose of the initiative is to provide initial information – based on the findings of a recent survey conducted by the initiative and a national dialogue with key stakeholders, with

² Financial Services and General Government Appropriations for 2014
³ ‘Overcoming the crisis together’ - Survey assessing the impact of COVID-19 on doing business, Belgrade, July 2020, CCIS and USAID
the aim of developing policies, recommendations and best practices for building the long-term resilience of SMEs.

2. Findings

The findings presented in this section was drawn from the data obtained from a qualitative and quantitative survey of more than 500 SMEs (with a variety of ownership structures and sectoral affiliations – see Figure 1.)

Figure 1. Ownership and sectoral affiliation of surveyed SMEs

To evaluate the resilience of SMEs to crises and identify realistic guidelines and recommendations for DRR – including an awareness of the environment in which SMEs operate – the findings from the survey were categorized into the following themes:

- SMEs and disaster risks
- Dependence on utilities and supply chains
- SME preparedness levels
- The impact of COVID-19 on SMEs
- The obstacles to building long-term disaster resilience

This report also draws on findings from a workshop with key stakeholders, which included 57 representatives from 31 organizations.

2.1 SMEs and disaster risks

When disaster strikes, SMEs are usually hit harder, suffer longer and are slower to recover than larger businesses. To better protect communities and ensure that economic gains are not lost, the risks to SMEs must be addressed. To assess these risks and the levels of awareness among SMEs of the wider environment in which they operate, an analysis of risk perception and the impact of disasters on SME businesses was conducted, as well as the way in which they overcame these adverse impacts.
Box 1. Statement from a micro-enterprise

“When you ask me what hazards we face, all of the listed events represent a hazard; the question is what is happening now. The pandemic is currently the biggest hazard because we are living through it. Ten years ago, it was earthquakes, twenty years ago conflicts, every year there are floods, hail...”

Respondent 1

Two thirds of SMEs stated that epidemics pose one of the most significant risks to their business, regardless of the region and the economic sector they work in (Figure 2). For almost one third of SMEs, one of the most significant risks is extreme weather events (such as storms, hail), followed by floods (around 27%). Almost one fifth of SMEs (22.7%) stated that cyber incidents (such as cybercrime or IT scams) posed a serious risk. One in every five SMEs also declared false information to be one of the greatest risks.

Figure 2. In your view, which of the following risks are significant for your business?

There are no great differences in the perceptions of SMEs working in different regions. That said, extreme weather events and floods appear to pose the greatest risk to SMEs in the Sumadija and western regions, while cyber incidents and false information pose a greater risk in the Belgrade region. From a sectoral point of view, cyber incidents and false information pose a greater threat to SMEs working in the service sector, while SMEs in the agricultural sector perceive extreme weather events, droughts and floods as a greater risk to their business.

4 During the interviews, some interviewees preferred to remain anonymous. They will be referred to as ‘Respondent’ followed by consecutive numbers for each anonymous respondent.

5 This includes inaccurate or misleading information.
When looking at the disasters that have occurred in the last five years, ‘epidemics’ have generally had the greatest impact on SMEs in Serbia, regardless of the region or sector (Figure 3). However, 14 per cent of SMEs stated that none of the listed risks have affected their business during this period. The majority of the latter work in the Belgrade region and in the service sector.

Figure 3. In the last five years, which of the following has your business been affected by?

- Epidemics: 63%
- Extreme weather events: 21%
- False information: 21%
- Floods: 15%
- Other: 14%
- Drought: 11%
- Extreme temperatures: 11%
- Ecological disasters: 10%
- Cyber incidents: 6%
- Animal- and plant-related epidemics: 4%
- Industrial accidents: 3%
- Landslides: 3%
- Traffic accidents: 3%
- Conflict: 1%
- Earthquakes: 1%
- Explosions: 1%
- Oil spills: 1%
- Nuclear explosions: 1%
- Wildfires: 1%

It is interesting to note that smallholder farmers reported that in the last five years their businesses have been affected more by droughts, extreme weather conditions (storms, hail) and floods than by epidemics (including COVID-19). Smallholder farmers also report that plant- and animal-related epidemics, as well as extreme temperatures, have had a significant impact on their business.

Regardless of their region or sector of work, around half of SMEs stated that the adverse event impacted their business primarily by reducing sales or revenue (Figure 4). A significant number also reported a reduction in productivity and an inability to maintain business activity for longer than a few days at a time.

Figure 4. What was the impact of the event on your business?

- Reduced sales / loss of income: 55%
- Reduced productivity: 40%
- Inability to maintain business activity for more than a few days: 30%
- Loss of assets: 19%
- Physical damage to property: 12%
Most SMEs stated that the impact of the event on their business lasted for more than a month, while for one fifth of SMEs the impact lasted for less than a month (Figure 5). From a sectoral point of view, a greater number of SMEs from the service sector stated that the impact of the event on their business lasted longer than one month. As far as regional distribution is concerned, fewer SMEs from the southern and eastern regions stated that the impact of the event on their business lasted longer than a month, primarily because the agriculture sector makes up a significant share of the economy in these regions.

Figure 5. Impact duration

The most common response to the impacts of an adverse event was to take out a bank loan or borrow money from friends or family (Figure 6). It is worth noting that only 12 per cent of SMEs stated that they had used insurance to cover their costs. For this reason, it is important to devote particular attention to an 'analysis' of the products offered by insurance companies in Serbia, particularly those that relate to the risk of extreme events.

Figure 6. How did you respond to these impacts?

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6 This is likely because the COVID-19 pandemic had less of an adverse impact on agriculture than on other sectors (such as tourism).
When asked about future risks, SMEs stated that the greatest risk to their business is likely to be from epidemics (Figure 7). This is no surprise given that the survey took place during the COVID-19 pandemic. The current uncertainty and fear of disease – both in terms of the practical and psychological impact on individuals and companies – has significantly influenced the perception of future risks.

**Figure 7. Which of the hazard(s) below is most likely to have an impact on your business in the future?**

**Figure 8. Comparison between previous, current and future risks**
2.2 Dependence on utilities and supply chains

The survey shows that SMEs depend heavily on utilities and supply chains. The need for infrastructure improvement depends on how developed a municipality is and which sector it belongs to: for small, underdeveloped municipalities the key problem is electrification, while for larger ones the main challenge is digitalization. The survey also identified the importance of local public utility companies (such as waterworks and sewerage companies) for the resilience of SMEs.

2.2.1 Dependence of SMEs on utilities

The survey shows that SMEs rely heavily on utilities (Figure 9), primarily electricity (around 90%), followed by the Internet (as much as 85%), telecommunication services (80%) and water (71%). A regional analysis shows that SMEs from the Belgrade region – where service sector SMEs are more prevalent – depend significantly more on the availability and quality of electricity and the Internet compared to other regions. Sector affiliation also influences the need for utilities. For instance, SMEs from the service sector rely more on Internet and electricity services, while SMEs working in the agriculture sector rely more heavily on electricity and water.

Figure 9. Which utility sector do you need to operate?

Interviews with SMEs in the qualitative survey showed that SMEs from small, undeveloped municipalities consider electrification to be one of the key challenges, as many have experienced problems with erratic power supply. This is particularly a problem during natural hazards. In addition, many SMEs do not have a backup power supply and often apply only modest flood protection measures.

SMEs also point out the limited regulation of water management and the lack of coordination with public companies responsible for managing waterways at the national level. This makes it difficult to organize joint investment at the local level in resilience and prevention measures for protection against floods (for example, clearing vegetation from river banks and dredging riverbeds).
Box 2. Maxima Lucani Company Case

The company, Maxima Lucani, reported that in the last five years they have suffered floods almost every year, sometimes twice a year. In the last two years, the State has invested significant funds in building an embankment, which mitigated the impact of the flood in 2020, but floods have continued to occur. Local entrepreneurs came together to procure equipment for building a pumping station, purchase an emergency power unit, and train personnel at the power station to handle the unit in the event of a flood. The local companies contributed according to their financial means, as well as an estimate of their vulnerability to floods. The remaining challenges include deciding on who should manage the pumping station, determining who owns the resources and how to communicate with the Cacak city authorities in emergency situations, as well as establishing information, action and communication protocols.

2.2.2 Dependence on supply chains

The survey indicates that SMEs rely heavily on supply chains and, as such, their capacity to recovery depends on other SMEs downstream or upstream in the value chain. This is why it is important to carry out stress tests and adopt resilience-building measures for the whole value chain.

Value chains – which are made up of an integrated network of suppliers, producers and distributors – have a significant effect on SMEs as they allow for better market access and support the “internationalization” and growth of SMEs, primarily due to the lower costs compared to those faced by individual small-scale producers entering the market. Cooperation with other companies upstream and downstream in the value chain improves the efficiency of small enterprises as it facilitates information flow, technology transfer and learning opportunities. Integration into one value chain enables enterprises to integrate into others, which increases business stability. However, integration into value chains not only provides benefits but also introduces risks. The COVID-19 pandemic has exposed the vulnerability of SMEs involved in the most severely affected value chains (e.g. the automobile industry and tourism value chains).

Figure 10. Supply chain dependencies

<table>
<thead>
<tr>
<th>Which sector are you suppliers from?</th>
<th>Which sector are you buyers from?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry (energy, metal, plastic etc)</td>
<td>Trade</td>
</tr>
<tr>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Trade</td>
<td>Construction</td>
</tr>
<tr>
<td>15%</td>
<td>16%</td>
</tr>
<tr>
<td>Construction</td>
<td>IT sector</td>
</tr>
<tr>
<td>13%</td>
<td>10%</td>
</tr>
<tr>
<td>IT sector</td>
<td>Food</td>
</tr>
<tr>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>

7 The process of designing products so that they can be readily used or consumed in multiple countries.
The largest number of SMEs stated that their business depended most on suppliers in the 'heavy industry' sector (19%) – which includes the energy, rubber and plastics industry, the chemical industry, the metal and steel processing industry, paper processing and the automobile industry – followed by trade (15%), construction (13%), the IT sector (10%) and the food and beverage sector (9%) (Figure 10). On the other hand, a larger number of the SMEs’ customers operate in the trade sector (18%), followed by construction (16%), ‘heavy’ industry (14%), the food and beverage sector (11%) and tourism (10%).

Figure 11. Regional distribution of raspberry producers in Serbia

Small enterprises are especially vulnerable to risks and hazards, and the impacts of these can have significant consequences for the wider value chain. In the agriculture sector, for example, raspberries are considered a crucial strategic product in Serbia as they are the most dominant export product (with an export value of between €250 and €300 million per year). Serbia contributes more than a third of the total production of raspberries in Europe – around 33 per cent. Raspberries are produced by more than 80,000 small family plantations, which are predominantly concentrated in western Serbia, particularly in the towns of Arilje and Ivanjica. This has a direct influence on social well-being as a significant part of the population in this region works in raspberry production. Around 200 small, medium and large enterprises in Serbia are involved in fruit exports, with raspberries making up the greatest share. In 2020, business operators in the towns of Arilje and Ivanjica were exposed to extreme weather events (storms and hail), which destroyed a significant proportion of the raspberry crop, followed by floods which destroyed over 1,000 hectares of raspberry plants. This was further compounded by the COVID-19 pandemic, which had a lasting impact throughout 2020. This had a direct effect on prices on the European raspberry market, with significant consequences for the value chain of the fruit company, Agroparner, which exports 6,500 tons a year of processed fruit, of which raspberries constitute the greatest share. The supply chain for this company includes 980 small plantations. The effects of multiple hazards had a significant impact on the entire chain and the 1,000 plus families connected to it.

The findings above show that the disaster resilience of small enterprises, especially in the agriculture and industry value chains, has a significant effect on production, exports, income and employment – income from raspberries, for example, is often the only source of revenue for a large number of families in rural areas. This is why it is particularly important to build resilience across the entire value chain. To mitigate the negative impact of multiple simultaneous hazards (or the cascading effects), an evaluation of various scenarios and the introduction of a stress test for the whole value chain is essential. This would help to identify appropriate measures for financial support aimed at strengthening the resilience of value chains.
To build the resilience of SMEs it is important to stress test both SMEs and the value chain, as well as produce business continuity plans for key risks. For SMEs, a stress test involves a ‘break even’ analysis. This involves analysing the critical factors for business in the case of an adverse event; different scenarios are identified to help understand how severe these factors can become before the company is unable to pay its employees or other expenses such as taxes. The idea of a stress test is to determine the level of vulnerability and identify what businesses can do to intervene.

**Box 3. Resilient Champions**

The Agropartner company was founded in 1990 and employs 110 workers. The company produces around 6,500 tons of frozen fruit a year. Agropartner’s clients include supermarkets, food service companies, manufacturers (juices, jams, yogurt), pastry shops and bakeries. The main export markets are the UK, France, Belgium, Japan, Chile, Denmark and Poland. Through trade intermediaries, the company’s products also end up on the Chinese, Korean and US markets.

The company’s business model rests on a sustainable connection between more than 980 small plantations, on the one hand, and very demanding buyers, on the other. It transfers knowledge to agricultural producers with a view to making safe, high-quality products, ensuring control in all production phases in the supply chain (growing and picking, receiving and processing, packaging and distribution) in line with all food safety standard requirements: BRC, IFS, Global Gap, ISO 9001 and 14001, HACCP, OHSAS 18001. The company also meets BSCI and SMETA SEDEX ethical business requirements.

The greatest risk to the company is the flooding of the Bjelica river, which has caused great damage to the local municipality over the years. So far, Agropartner investments in flood protection have involved clearing the canals around the facilities, installing drainage grills and pipes to collect surface water, and creating embankments to store machines and plastic crates. The facilities have numerous clearly marked evacuation points. Every year, together with the Agency for Safety and Health at Work, the company conducts practical drills on how to act in crisis and emergency situations (floods, fires, evacuations, etc.) as people’s safety is a priority. The company has established a procedure and teams for managing emergency situations, as well as measures and assets for protecting against floods and fires. Once a month, a check is conducted of all the critical points in the event of a flood, and to ensure that all the emergency equipment is functioning properly (tools, boots, raincoats, lamps, pumps, hydrant hoses, sand-filled jute sacks, fire alarm systems, etc.). All the equipment and goods at the storage facility are insured against basic risks and the risk of fire and floods.

To reduce the risk of flooding and protect the business, storage and processing facilities, the company plans to build a flood defence system – a protective wall at the work units in Krstac and Vica – as well as procure sludge pumps for water extraction in the event of an extensive rise in water levels. Incentives for investing in preventative measures and long-term resilience would accelerate the implementation of the company’s plans.

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8 In accordance with Hazard Analysis Critical Control Point (HACCP) principles
2.3 Levels of SME preparedness

The preparedness of SMEs is crucial to their resilience, and has a particular effect on the speed of recovery from a disaster. The level of preparedness is based on, among other things, an analysis of disaster risks, on whether an enterprise has plans/strategies for dealing with the identified risks, business continuity plans based, insurance against disasters, and a knowledge of potentially helpful initiatives. The findings from the survey indicate that the level of preparedness among SMEs is low and that awareness of existing incentives is limited. The greatest problem is an overly optimistic outlook ("I can’t be that unlucky – it won’t happen to me") which means that SMEs often ignore the risks and are reluctant to invest in preventative measures.

The key challenges to capacity-building for SME resilience identified during the survey are: the lack of plans/strategies for dealing with risks, and the limited training, particularly for employees, on how to act in the event of a hazard. SMEs also lack the necessary resources, capacity and risk awareness, as well as an awareness of the potential impacts on their business. In addition, SMEs have difficulty in identifying appropriate measures to help them mitigate the effects of a disaster.

Around 45 per cent of SMEs stated that in the event of a disaster, they could get help from a bank or other financial institution (this predominantly involves the Development Fund of the Republic of Serbia). Only 17.5 per cent stated that they would be able to get support from their local government (Figure 12). There were no significant differences between SMEs in different regions or different sectors. However, there are differences between the different types of economic operators. For example, smallholder farmers and local public companies have the highest expectations when it comes to support from local and national administrations.

Figure 12. In case of a disaster, which of the following organizations/networks would you be able to get support from?

Findings from the qualitative research stage conducted at the beginning of this study show that insurance is not widely recognized as a means of ‘investing in SME resilience’ or that ‘insurance products’ dealing with disaster prevention are not available on the market – or that when such services are available, SMEs are deterred by high prices and a lack of trust. This may be why almost half of the SMEs stated that they do not have adequate insurance to help...
recover from a disaster, while a quarter reported that they only have partial insurance (Figure 13). Only a mere 17 per cent stated that they are fully insured. Insurance (partial or total) is most prevalent among local government municipal enterprises.9

Figure 13. Does your business have appropriate insurance to help recover from a disaster?

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<th></th>
<th></th>
<th>53%</th>
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<tbody>
<tr>
<td>Yes - full insurance</td>
<td>17%</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Yes - partial insurance</td>
<td>30%</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>No</td>
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These results indicate that SMEs may not have enough information on the insurance products available, that the products offered by insurance companies may not cover disasters, that the cost of insurance is too high, or that SMEs do not trust that the insurance will adequately cover any damage incurred.

Since SMEs see insurance premiums as a cost and not a risk management tool, work needs to be done on educating business entities on the value of insurance. In parallel, insurance companies need to adopt a more targeted approach and customize their insurance products. This could include the wider promotion and implementation of insurance against natural and other hazards, in a gradual manner and with adequate support from the State – for example, through the introduction of certain forms of compulsory insurance, as is the practice in some other countries.

The ‘Law on reconstruction following natural and other hazards’ outlines the procedures for reconstruction and allocating aid to citizens, business entities and local government bodies following a disaster. This support only covers damage that is not otherwise covered by insurance. The general impression is that SMEs are not aware of this regulation, both in terms of the opportunities for obtaining financial support and the procedures for exercising their right to aid. There is therefore a need for a series of informative training sessions that explain the rights and obligations of businesses, as well as what they can expect in support from the State, as set out in the regulations.

Figure 14. If you have insurance, what does it cover?

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<th></th>
<th>69%</th>
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<tr>
<td>Property damage</td>
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<td></td>
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<tr>
<td>Equipment damage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss of raw materials</td>
<td>22%</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Business interruptions</td>
<td>6%</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Cyber incidents</td>
<td></td>
<td></td>
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</table>

9 Public companies that carry out basic business activities such as water supply, cleaning, waste collection and parking.
Of those SMEs that stated that they have insurance, a significant number have insurance against property damage (69%) and against damage to equipment (67%). However, only 22 per cent of SMEs are insured against loss of raw materials and goods, and as few as 6 per cent have insurance against business interruptions. Only 1 per cent of SMEs stated that they are insured against cyber incidents, even though 6 per cent of them have faced the risk of a cyber-attacks in the last five years. Accelerating the application of digital technologies will increase the risks of cyber incidents; it is therefore necessary to develop enhanced cyber risk insurance products.

In addition, almost 74 per cent of SMEs stated that there are no incentives for investing in resilience – such as tax incentives, improved access to loans, or reductions in insurance premiums provided by the national/local administration or other stakeholders. Only 14 per cent of SMEs were aware of any incentives, while around 11 per cent of them did not answer this question.

In response to the question about risk assessment, only 30 per cent of SMEs stated that they have knowledge of the tools that can be used to better understand potential risks, while over 58 per cent of them were unaware that such tools exist. Around 44 per cent of SMEs perform risk assessments before making new investments, while a quarter of SMEs only do so at the request of a bank or other financial institution. A fourth of SMEs do not conduct risk assessments before making new investments.

When examining risk assessment, there are examples of good practice from the past that have achieved positive results. A number of local governments established civil protection mechanisms with designated communication channels and modes of operation, which functioned effectively as DRR systems.

It is recommended that digital tools be included in risk assessments and used to inform all relevant stakeholders about hazards and prevention measures, and protocols during an emergency event and the recovery in its wake. This would also facilitate the participation of SMEs in the development of strategies and action plans at local self-government level.

The private sector should also be more involved in identifying and analyzing disaster risks. Another recommendation (from the workshop discussion) is to establish mechanisms for joint action by all stakeholders within the same community. Everyone should play a role in risk prevention and building resilience to future disasters in all communities. Work on prevention and DRR should be done not only by the national and local authorities, but also by businesses, entrepreneurs and individuals. The emphasis should be on joint action but also considering individual responsibility for all.
As noted above, only 44 per cent of SMEs regularly conduct risk assessments before venturing into new investments. A similar proportion (46%) stated that they possess plans/strategies for dealing with identified risks (e.g. they possess a business continuity plan). However, half (54%) of them stated that they have no such plans or strategies (Figure 14). Of those SMEs with plans/strategies in place for dealing with identified risks, around 31 per cent have informed their employees about these plans, while 25 per cent of them regularly conduct drills for their employees.

Significantly, as much as 94 per cent of SMEs are not aware of any initiatives that could help them protect their businesses from disasters, or their company does not participate in such initiatives (Figure 17). This leads us to the conclusion that there are not enough of these types of initiatives and projects and that the few that do exist are not adequately communicated to SMEs.

A large proportion of SMEs (37%) stated that they receive information on emergencies and DRR from the Chamber of Commerce, while around 30 per cent get their information from newspapers, radio and television. A smaller number of SMEs reported that they receive information on emergency planning from their local administration (18.3%) or the national administration (16.7%). Others get their information from other local companies (12%) or friends and family (9%). A number of companies also list social networks as a source of information.

As expected, smallholder farmers point to the importance of professional agricultural services as sources of information on DRR. Most local public companies cited their local administration as a source of information, while most entrepreneurs get their information via radio or TV.

It is worrying that almost a fifth of SMEs stated that they do not make use of any information sources. There is, therefore, an apparent need for SME information mechanisms for dealing with DRR and emergency situations, which should include the division of responsibilities,
communication channels and modalities. Using digital tools and platforms and communication technologies, together with adequate training for all participants on how to use them (e.g. local institutions and their employees, SMEs and their employees, the wider population) would help to disseminate knowledge and ensure a more timely reaction to disasters.

2.4 Impact of the COVID-19 pandemic on business

Due to its duration, and the level of uncertainty and fear that it created, the COVID-19 pandemic has had a lasting impact. The full consequences have yet to be seen as the pandemic is still ongoing. The survey was conducted during the height of the pandemic when it was inflicting the greatest damage on SMEs. During this period (November-December 2020), according to Chamber of Commerce data, more employees from SMEs contracted COVID-19 than those from other types of businesses.

This section goes on to analyse the impact of COVID-19 on SMEs, as well as the availability of various forms of aid from local, national and international bodies for recovery from the direct impacts of the pandemic. The fear caused by this disease is reflected most in the answers about the perceptions of the impact on business in general, the impact of adverse events in the last five years, and perceptions of the most likely impacts on future business.

As expected, an extremely high number of SMEs, as much as 84 per cent, stated that the COVID-19 pandemic had a negative effect on their business (Figure 18). Only a small number stated that the COVID-19 pandemic did not have a negative impact or did not answer this question. This shows that, for a number of SMEs, these crises may represent an opportunity and have a positive effect on their growth.

![Figure 18. Has COVID-19 negatively affected your business?](image1)

![Figure 19. Have you received any support from local, national or international bodies to help recover from the negative impacts of COVID-19?](image2)
Around 66 per cent of SMEs stated that they have received assistance from either local, national or international bodies to help recover from the direct impact of the COVID 19 pandemic, while 34 per cent stated that they did not receive (or did not use) any support (Figure 19). These include local public companies which are excluded from the national support programme but which were adversely impacted by the pandemic.

2.5 The obstacles to building long-term disaster resilience

Although they are important catalysts for resilience, SMEs face numerous challenges related to DRR. These challenges can be grouped into the following categories: lack of resources and capacity; lack of risk awareness; insufficient communication with local and national authorities; and lack of incentives and support for building resilience. The most common bottlenecks for recovery after a disaster are: uncertainty and lengthy bureaucratic procedures; the lack of a regulatory framework for recovery; and a lack of physical resources.

Box 4. Statement from Floriva Ivanjica

“We have been flooded every year for the last six years. We are powerless because we are unable to obtain even a single building permit until the highway has been finished.”

More than half of the SMEs (57%) have not received any assistance from local, national or international entities for improving long-term resilience. A number of SMEs stated that they were not aware of any support for improving long-term resilience to pandemics and other disasters.

Of those SMEs that answered this question, most stated that they had obtained support relating to entrepreneurship, innovation and start-ups (31 SMEs); 20 SMEs stated that they had received support for remote working and digitalization, and another 20 had received support for networking with other organizations on best practices. In addition, 17 SMEs reported that they had received support for finding new alternative markets, while an equal number had received support for training and re-employment.

Box 5. Statement from Maxima Lucani

“The flood warning system needs to be improved, because the local government notified us many times that there was going to be a flood. Our company then started to apply flood protection measures by moving critical raw materials, but the flood did not materialize. This happened ten times; the eleventh time, when the local government notified us again about possible flooding, we made the decision not to move the raw materials, but this time the flood came and destroyed a part of our critical materials. This has motivated us to start working together with other companies to invest in additional infrastructure and equipment for flood protection.”
For a community to become resilient, all stakeholders need to work together, including individuals, entrepreneurs and local authorities. It is also necessary for neighbouring local governments to collaborate in order to enhance shared infrastructure. A good example of this is the ‘inter-municipality cooperation on joint civil protection activities and prevention of all hazards in river basins’. River basin agreements provide a framework for local government joint action in the basins of the following rivers: the Western Morava, Great Morava, Kolubara, the Drina river and a part of the Danube (in the Banat region). A total of 65 local governments collaborate through these inter-municipality cooperation agreements.

The Public Investment Management Office has developed a digital platform, the integrated emergency situation management system, which contains all the local government DRR reference documents. It is essential that SMEs are taught how to use the available information on strategies, plans and disaster risk assessment.

It is important to note that a register of disaster risks is being developed by the Sector for Emergency Situations, the Public Investment Management Office and the Republic Geodetic Authority in order to insert all risks of natural and other hazards into the register.

The key challenges reported by SMEs in this area were: a lack of incentives such as tax rebates, improved access to loans, and reductions in insurance premiums for investments in resilience; the limited availability of resources for investing in long-term resilience; a lack of information on initiatives and projects that can help protect a business from disasters; and the limited use of insurance to cover disaster risks (Figure 20).

The analysis above indicates that the key preconditions for investing in measures to protect SMEs from disasters include providing the minimum necessary resources for capacity-building, raising awareness of risks and their potential impacts on businesses, and introducing and raising awareness of incentives.

Around 59 per cent see uncertainty and lengthy bureaucratic procedures as a major bottleneck during post-disaster recovery, while around 37 per cent of SMEs believe that a lack of a regulatory framework for initiatives and recovery is a significant hinderance. A quarter of SMEs believe that a lack of physical resources is a major obstacle (Figure 21).

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10 http://www.siuvs.rs/
To overcome the main identified obstacles and bottlenecks, it is clear that the future focus should be on: building the capacity for resilience at the SME level; establishing financing and incentives tailored to SMEs; and developing policies and environments that enhance the implementation of regulations at all levels, as well as enhanced cooperation, awareness-raising and training using modern digital technologies.

3. Recommendations

Based on the findings of the survey of more than 500 SMEs doing business in the Republic of Serbia, as well as from the workshop with key stakeholders on the topic "Building SME disaster resilience – challenges and recommendations", key recommendations have been drawn up for enhancing disaster of SMEs to disasters, both at the local and national level.

3.1 Measures that SMEs can take to enhance disaster resilience

- Raise awareness of the importance of disaster risks and the potential impact on businesses through training, the exchange of good practices (promoting ‘resilience champions’), and networking with international partners and other organizations to share lessons learned.

- Enhance knowledge, skills and practices for compiling a register of risks, producing risk matrices, measuring and ranking risks, and developing systematic preventative and reactive measures.

- Develop an information mechanism with other SMEs and key stakeholders for DRR and emergency response, including organizational and communication procedures.

- Set up a systemic approach to the planning and integrated management of risks, including liquidity management, crisis communication management, crisis management law, crisis HR and value chain management.

- Set up a systemic approach to the planning of and allocation of resources to ‘emergency funds’ and the planning and undertaking of investments in preventative measures, independently or in collaboration with other SMEs that have the same or similar assessed disaster risks.

- Increase investment in different types of insurance (so-called minimum insurance to cover
damages to property and equipment, loss of materials and goods), particularly insurance against disruptions to business as a result of disasters or the introduction of new technologies (e.g. cyber risks).

- Introduce new business models both for individual SMEs and value chains (such as the digitalization of priority business processes, e-commerce, etc.) that enable businesses to recover more swiftly from disasters and prepare more efficiently for new crises.

- Enhance financial and digital literacy.

- Stress test SMEs and value chains, and prepare business continuity plans for key risks. For SMEs, stress tests involve a ‘break even’ analysis.

### 3.2 Measures that public policymakers should adopt to enhance SMEs resilience

- Secure incentives tailored to SMEs for investing in preventative measures for protection from disasters and building long-term resilience through, for example, the provision of liquidity loans, guarantee schemes and microfinance tools.

- Establish savings incentives through ‘rainy day’ funds (a number of businesses invest from their own resources). ‘Emergency funds’ need to be systemically organized and incentivized (for example, provide tax exemptions based on amounts invested in disaster prevention funds).

- Develop financial and non-financial incentives for investing in long-term sustainability (support for digitalization and telecommuting, finding new alternative markets, introducing innovation and diversification of products/services and operations, etc.)

- Provide support for SME investments that contribute to the reduction of harmful impacts or hazardous events, such as investing in the reduction of CO₂ emissions, or green economy and circular economy approaches.

- Assess the availability of different ‘risk insurance products’, identify State-level barriers to setting up new forms of risk insurance, and consider the introduction of compulsory insurance against disaster risk, as well as the potential for ‘mutual insurance’ funds.

- Develop incentives for subsidizing risk insurance (e.g. adopt the good practice employed by the Ministry of Agriculture for other sectors).

- Engage SMEs in the development of policies through local, national and multisectoral platforms and peer-to-peer networks, or include SMEs in the definition of policies, strategies and plans for local and national DRR, in the development of a risk register and in assessments of potential impacts on SME businesses.

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The Ministry of Agriculture has a well-established system of incentives for investment in insurance against natural disasters for farmers and SMEs. A similar scheme could be adopted by the Ministry of the Economy to encourage investment in reducing the risk of cyber incidents.
Consider the opportunities for expanding the regulatory framework so that it not only includes post-disaster recovery but also preventative measures and investments in long-term resilience, as well as modalities and funds for financing these measures.

- Raise local government awareness of the importance of SMEs for community resilience by encouraging collaboration with local SMEs aimed at strengthening common capacities and investments in resilience. Promote cooperation between neighbouring local governments in planning and investing in the upgrading of key infrastructure (such as electricity, the Internet, waste management etc.).

- Set up a mechanism for communication, coordination and information-sharing in the event of a disaster, inform SMEs and communities about the plans and include SMEs in periodic training on how to act in an emergency through simulated emergency drills.

- Strengthen the resilience of local public companies that manage waterworks and sewerage infrastructure. Build pumping stations and emergency power systems, and provide training on how to manage these.

4. Conclusion

SMEs in Serbia have faced a variety of hazards in the past, such as international conflicts, earthquakes, floods, fires, droughts, extreme temperatures, extreme weather events (such as storms or hail), global crises such as the global economic crisis of 2008, and, most recently, the COVID-19 pandemic. The pandemic has shown that a systemic approach is needed when investing in resilience. Since the path to sustainable and resilient recovery is not simple, it is important to understand the challenges that SMEs face and to create policies and mechanisms that will help them build resilient businesses. The pandemic has shown that going back to 'business-as-usual' is not an option and the recovery should lead to building better, greener and more resilient systems than before.

As part of the research qualitative and quantitative surveys were conducted with over 500 SMEs. In addition, the findings of the report include the outcomes of a workshop with key stakeholders, which included 57 representatives from 31 organizations in Serbia. The key findings of the survey indicated that there are ‘resilient’ SMEs, but that they remain ‘isolated’ from the wider DRR system. Furthermore, there is a lack of engagement in the development of both national strategies, and action plans and measures for local communities in which they operate.

The discussion with key stakeholders showed that while the State has adopted significant regulatory and systemic measures, many SMEs are not aware of them or do not use them to protect themselves and recover from disasters. However, the COVID-19 crisis has created opportunities for positive changes. For example, the Serbian Government has developed an economic support programme for alleviating the impact of the COVID-19 pandemic, along with a support programme for investments in the long-term resilience of national institutions. While there are no concrete measures in place for SMEs yet, it is clear that a support framework for building long-term resilience of SMEs to disasters could be formed on the basis of the good practices developed during the pandemic.
While the government and policymakers can develop measures, such as creating incentives tailored to SMEs for investing in prevention and building long-term resilience as well as establishing incentives for risk insurance, SMEs can already take action geared towards resilience-building. There are two main recommendations that SMEs can already include in their work. First, enhancing knowledge, skills and practices related to disaster risk reduction. Second, setting up a systemic approach to the planning and integrated management of risks.

The research showed that good practices in resilience-building with SMEs already exists. Furthermore, there is strong interest from SMEs in strengthening resilience, which provides a good foundation for closer collaboration and knowledge sharing between SMEs.