

THE IMPACT OF THE COVID-19 PANDEMIC ON ENTERPRISES IN ALBANIA



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Tirana, 2020

ABOUT THE SURVEY

The outbreak of the COVID-19 pandemic and related containment measures have caused significant losses and disruptions to the Albanian business sector, which was still recovering after the devastating consequences of the earthquake of November 2019. BiznesAlbania, with the technical support of the International Labour Organization (ILO) and in partnership with the European Bank for Reconstruction and Development (EBRD), conducted an enterprise survey to assess the impact of the COVID-19 pandemic on the activity of enterprises in Albania.

Methodology:

The on-line survey was developed based on the ILO Enterprise Survey Tool: Assessing the needs of enterprises resulting from COVID-19. The assessment involved 278 enterprises which responded to the survey between 14 and 30 April 2020.

The report summarises the key findings of the survey and proposes a number of recommendations based on most urgent needs of enterprises in Albania.

All data are presented through two dimensions: by overall impact and sector. The sectoral analysis covers eight sectors: food and beverage; hospitality; retail/ sales; construction; textiles, leather and apparel; agriculture/ farming/ fishing; information and communication; and transportation and transportation equipment. The sectors were selected based on strategic importance, vulnerability to the crisis and representation in the sample.

¹ The survey adapted the ILO standard classification on enterprise size to enable a global assessment of the impact of COVID-19 on enterprises. Microenterprises are defined as enterprises with up to ten employees, small enterprises are those that have 10–100 employees, medium-sized enterprises are those with 100–250 employees, and large enterprises are those with 251 employees or more. The responses to the survey, however, did not sufficiently represent medium-sized and large enterprises. Micro and small enterprises consisted of up to 94 per cent of the total sample size. This report, therefore, does not provide detailed analysis by enterprise size.

² The transportation sector will serve as an illustration only, given that the sample size was insufficient.

KEY HIGHLIGHTS

The crisis has created unprecedented operational challenges for 76 per cent of surveyed enterprises. Near one third of enterprises reported a complete shutdown of their operations, whereas almost 40 per cent remained partially operational at the time of the survey. Another 7 per cent had to adjust to a fully remote working mode to be able to maintain business operations. The hardest-hit sectors, in which the vast majority of businesses temporarily suspended operations were hospitality (78 per cent), transportation (63 per cent) and textiles (43 per cent).

Prolonged lockdown measures would pose a serious threat to the sustainability of 83 per cent of surveyed enterprises. One fifth of enterprises anticipated they would be able to operate for only 1–8 weeks and another one fifth anticipated they could operate for 2–3 months. Some 16 per cent anticipated they could survive for 3–6 months, whereas another 9 per cent indicated that their business could remain open for the next six months to one year, and 7 per cent anticipated they could operate for more than one year. Given the constraints on their operations, enterprises in the transportation, textile and hospitality sectors showed the weakest durability with 63 per cent, 24 per cent and 21 per cent respectively anticipating that their business continuity would be cut after one week.

Falling consumer demand and disrupted supply are straining the finances of enterprises. More than half of enterprises surveyed assessed the revenue decline at 50 per cent or more, whereas for more than one fifth the revenue dropped between 20 and 50 per cent. A relatively small proportion (9 per cent) assessed the revenue decline as low (up to 20 per cent) and 3 per cent noted a positive impact of the crisis on their businesses. By sector, highest shares of enterprises noting a decline of 50 per cent or more in revenue were in hospitality (72 per cent), construction (67 per cent), transportation (57 per cent), food and beverage (56 per cent) and retail/sales (56 per cent).

More than a quarter of enterprises surveyed do not have access to any funding, whereas 27 per cent rely on loans and grants to overcome the challenges resulting from the COVID-19 crisis. On average, 30 per cent of enterprises have their own cash savings. The highest shares of enterprises by sector that lacked any type of funding were in food and beverage (49 per cent), textiles (48 per cent), agriculture (44 per cent) and hospitality (41 per cent). Sectors with the largest access to loans and grants were transportation (57 per cent), agriculture (44 per cent) and construction (38 per cent). At the same time, the largest shares of enterprises that had cash reserves were in the information and communication (50 per cent), retail/sales (48 per cent) and food and beverage (37 per cent) sectors.

Alarmingly, more than 40 per cent of enterprises surveyed dismissed workers due to COVID-19. Of enterprises that dismissed workers, almost a half dismissed one third of their workers, while more than 30 per cent dismissed between 1 and 5 per cent of workers. By sector, the largest shares of enterprises that had already significantly reduced their workforce were in hospitality (75 per cent), transportation (63 per cent), textiles (62 per cent) and agriculture (60 per cent).

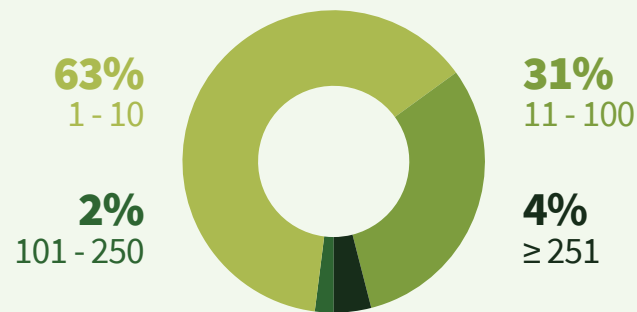
If the restrictions related to COVID-19 are maintained, the prospects of job cuts are worrying with a staggering 52 per cent of enterprises signalling that they will be forced to resort to layoffs. These enterprises operate in sectors that were most severely hit by the crisis and already released a significant share of workers, namely hospitality (78 per cent), transportation (71 per cent), textiles (67 per cent), food and beverage (57 per cent) and agriculture (55 per cent).

Despite current challenges the largest share of enterprises (92 per cent) are expressing readiness to fully resume operations. Almost 30 per cent of enterprises would need 1–3 months to fully restore operations, while almost 20 per cent would require more than six months. Some 18 per cent anticipated that it would take 1–4 weeks to complete recovery efforts and another 17 per cent expected that their business activity could be resumed in less than one week.

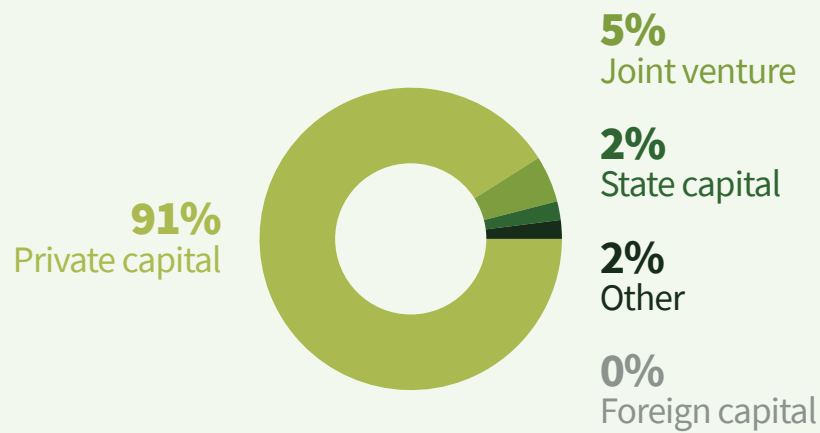
Policy recommendations stemming from the survey are aimed at supporting businesses to keep their operations afloat and maintain the workforce. These include financial/tax relief measures for enterprises, access to liquidity (cheap or interest free loans), wage subsidies and deferral of VAT payments, among other things. At the same time, the report proposes a number of sector-specific recommendations and highlights the need to review the current financial aid packages for businesses in the most affected sectors, including textiles, hospitality and tourism, agriculture and others.

PROFILE OF RESPONDENT ENTERPRISES

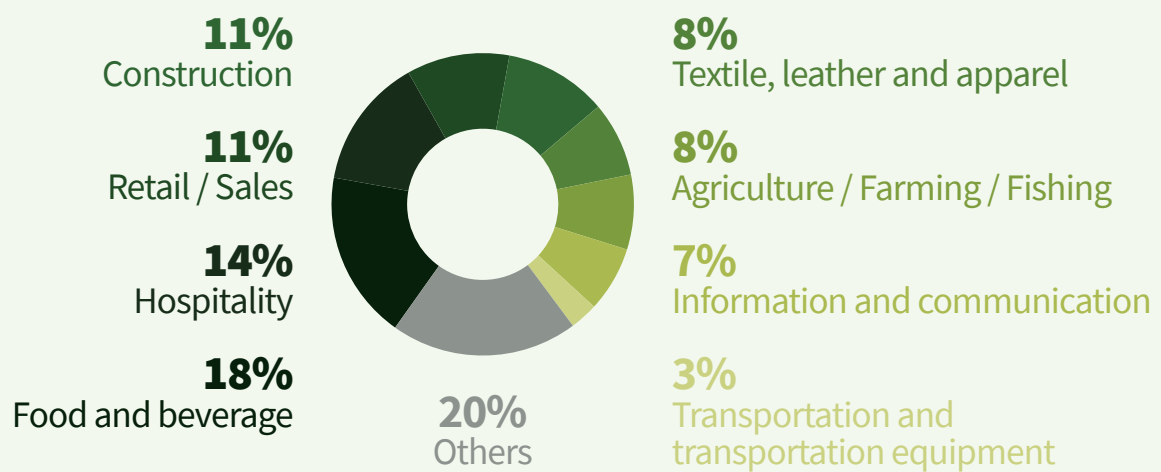
Distribution of surveyed enterprises by size



Distribution of surveyed enterprises by type of ownership



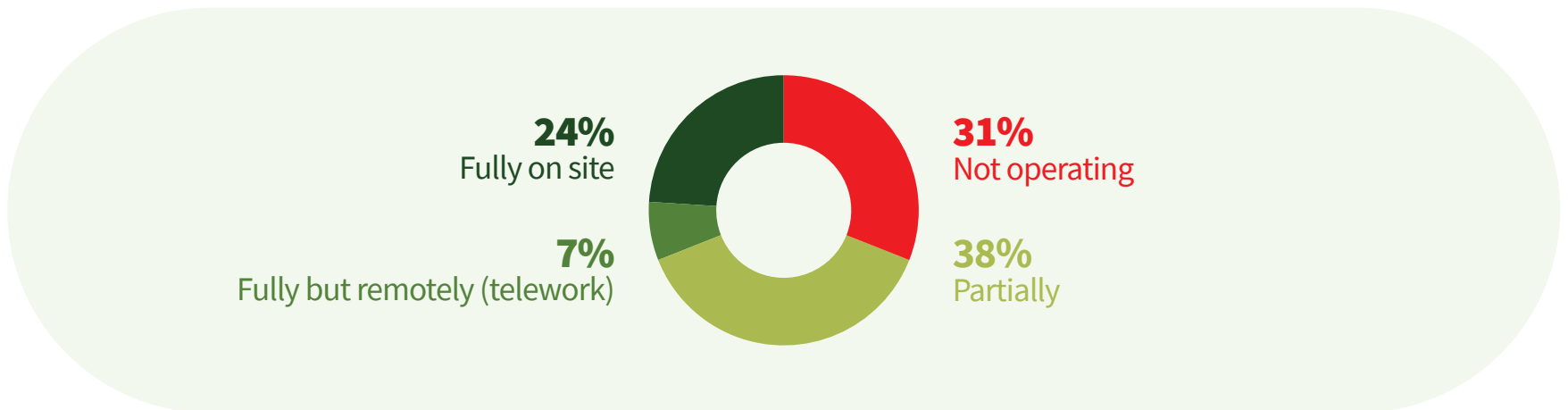
Distribution of surveyed enterprises by sector of operation



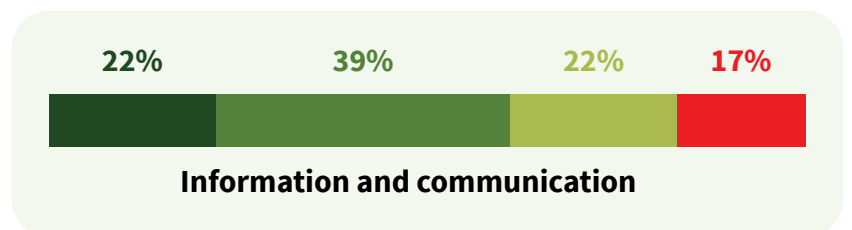
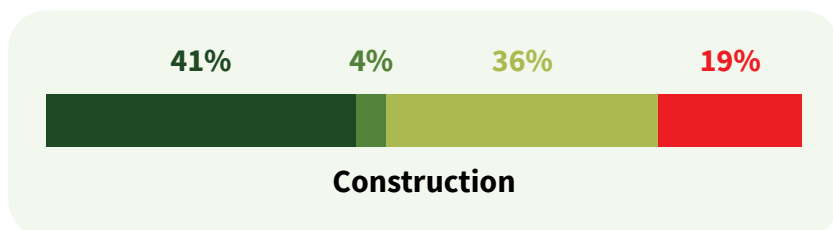
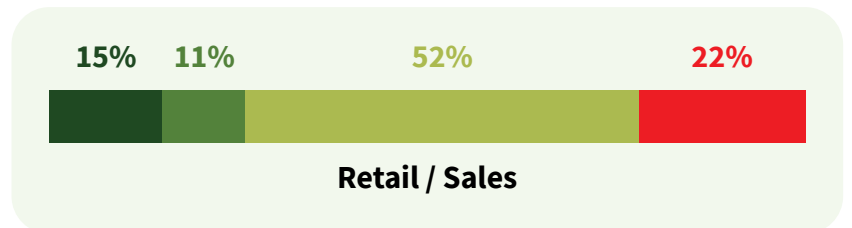
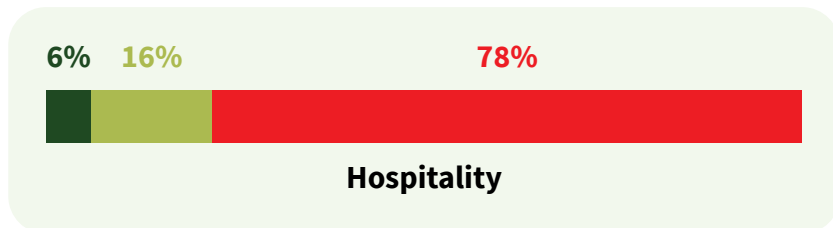
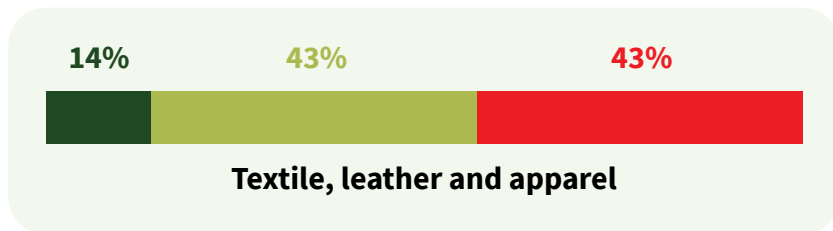
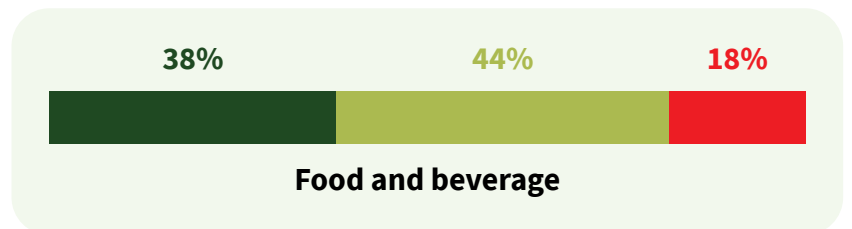
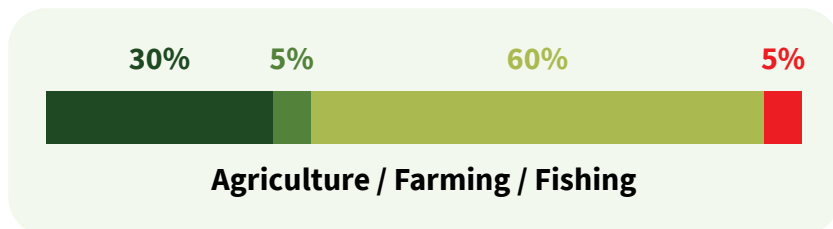
IMPACT ON BUSINESS OPERATIONS

Is your enterprise currently in operation?

Nearly one third of enterprises surveyed were not in operation whereas almost 40 per cent were operating partially at the time of the survey. Slightly less than one third of enterprises were operating at full capacity, either on site (24 per cent) or remotely (7 per cent).

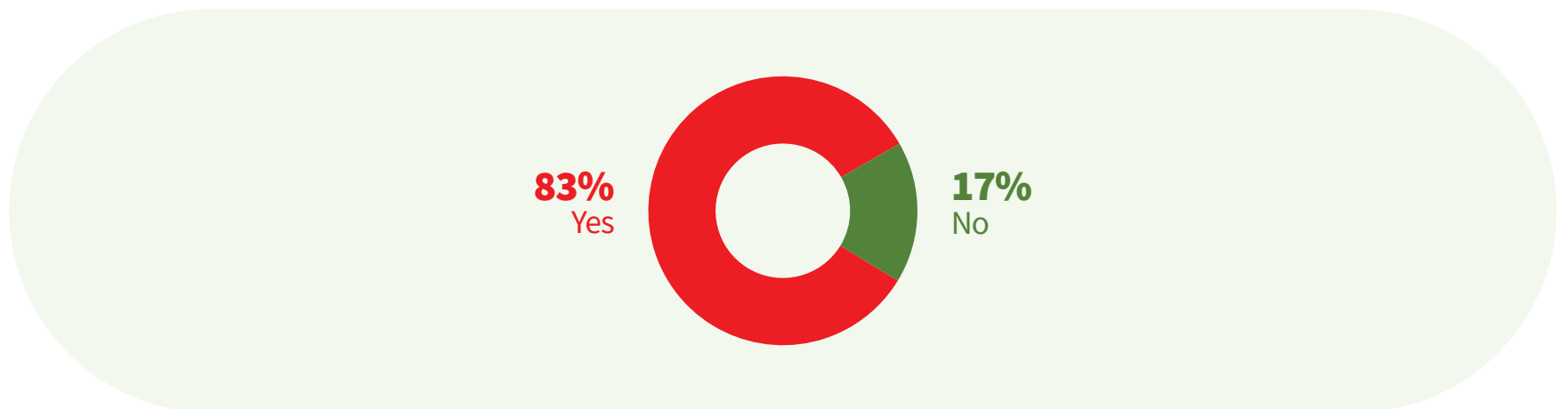


Analysed by sector, the highest shares of enterprises not operating were in hospitality (78 per cent) and transportation (63 per cent), which had to shut down due to restrictions imposed under the state of emergency. Collapsing supply chains and low consumer demand have seriously impacted the textile sector as well, which is the third hardest-hit sector, with 43 per cent of enterprises reporting a complete shutdown. When it comes to retail/ sales, food and beverage, construction and information and communication sectors, on average less than one fifth of enterprises were not in operation. The agriculture sector appears to be least affected. Agricultural activities were almost in full swing with only 5 per cent of enterprises shut down.

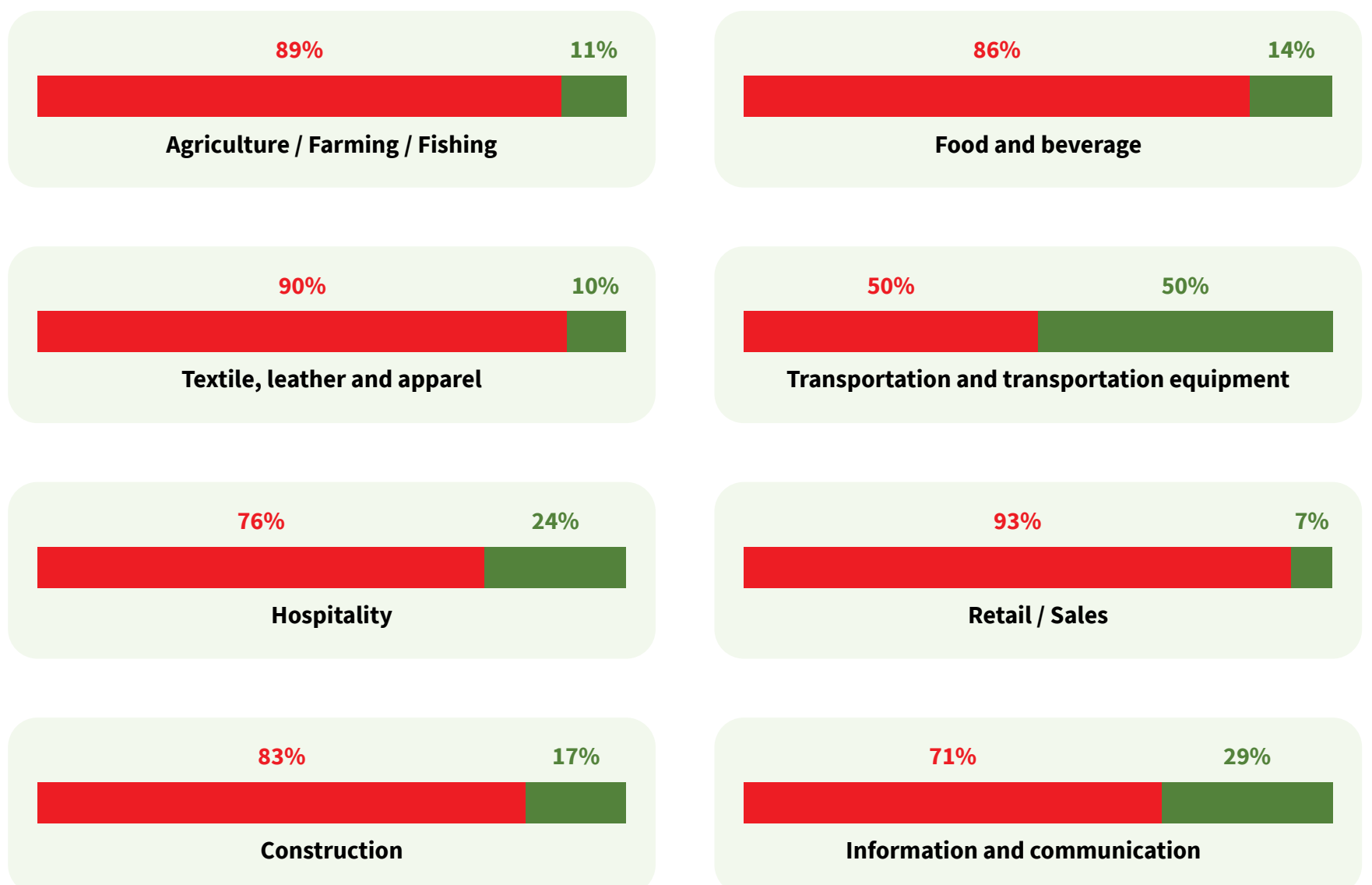


Did you change your business operations or service delivery to protect your enterprise against COVID-19?

To alleviate the consequences of the pandemic, a vast majority of surveyed enterprises (83 per cent) had to change their business operations. Enterprises had to adjust to the new conditions imposed by the Government (such as physical distancing, wearing protective masks, sanitation of premises etc.) to keep their operations running to the extent possible.

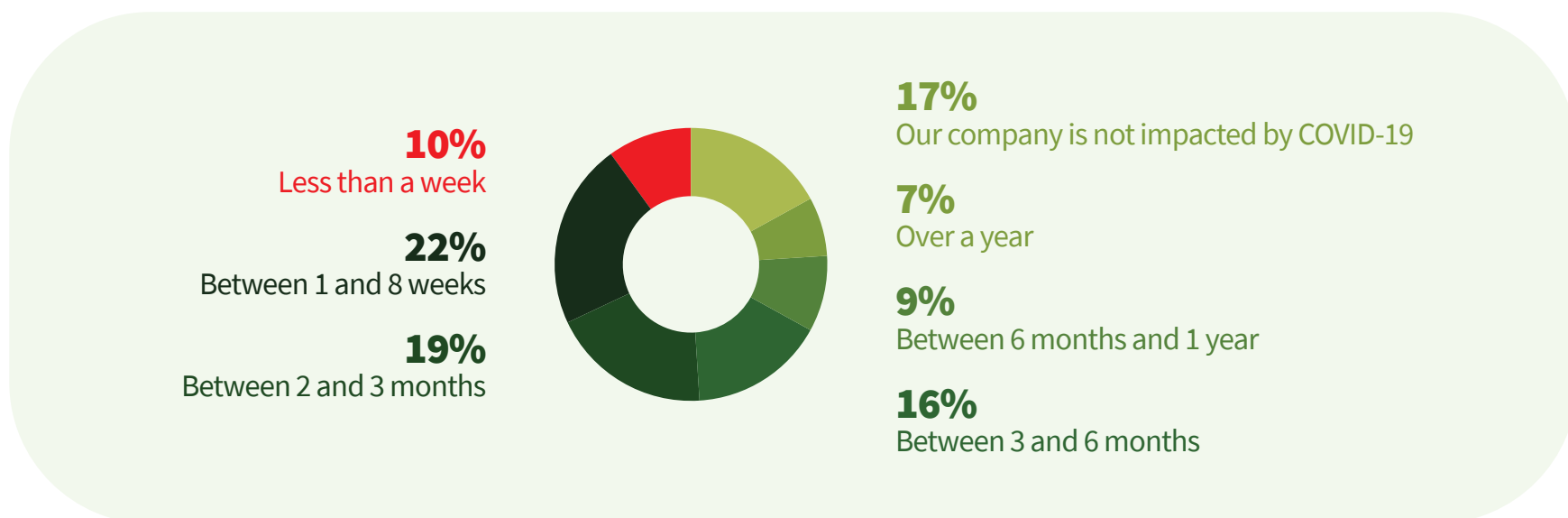


Differences across the sectors are not very significant. On average, nearly 90 per cent of surveyed enterprises in the agriculture, food and beverage, textile, retail/ sales and construction sectors adjusted their operations. However, in the hospitality and information and communication sectors, enterprises have shown a lower level of flexibility, with 24 per cent and 29 per cent respectively reporting that they did not make any changes to their operations. The surveyed enterprises in the transportation sector, in view of its specificity, were the least likely to change their operations, with half of the enterprises reporting that they did not make any changes in their business operations and service delivery.

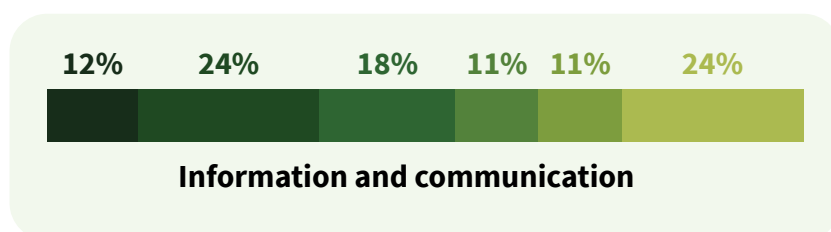
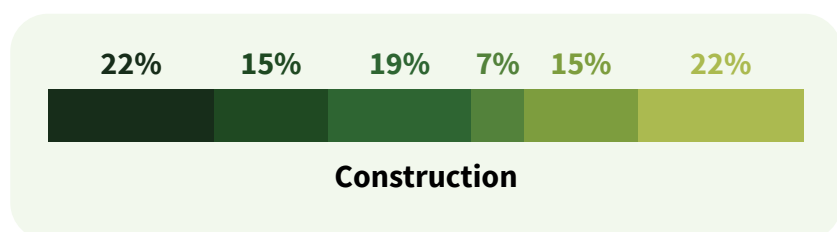
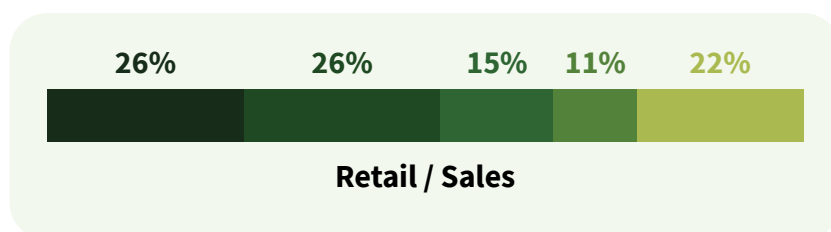
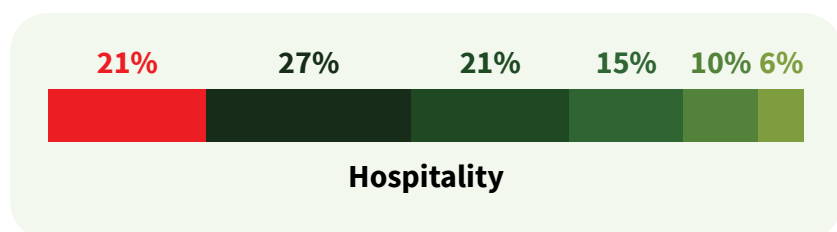
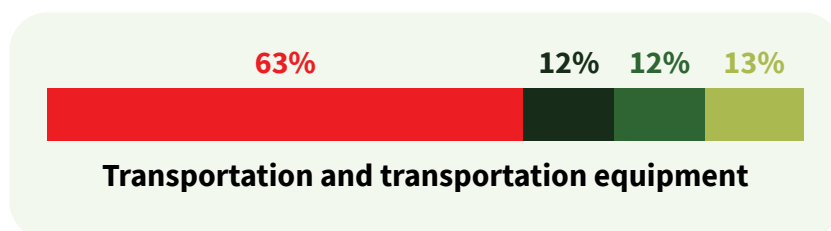
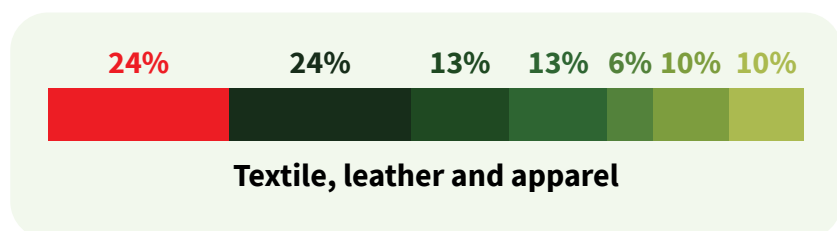
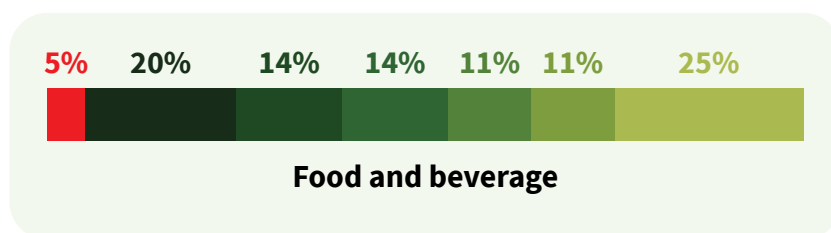
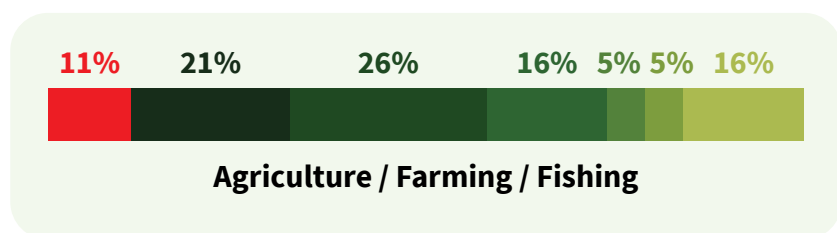


If the current restrictions continue, how long will your business be viable?

Alarming, more than one fifth of enterprises surveyed anticipated they would be able to operate for only 1–8 weeks under the current restrictions, while another one fifth expected their business would be viable for 2–3 months. Some 16 per cent of enterprises reported that they would survive for 3–6 months whereas another 16 per cent indicated that their business could remain open for the next six months to one year (9 per cent) or for more than one year (7 per cent). In all, 17 per cent of surveyed enterprises were not impacted by the COVID-19 pandemic.

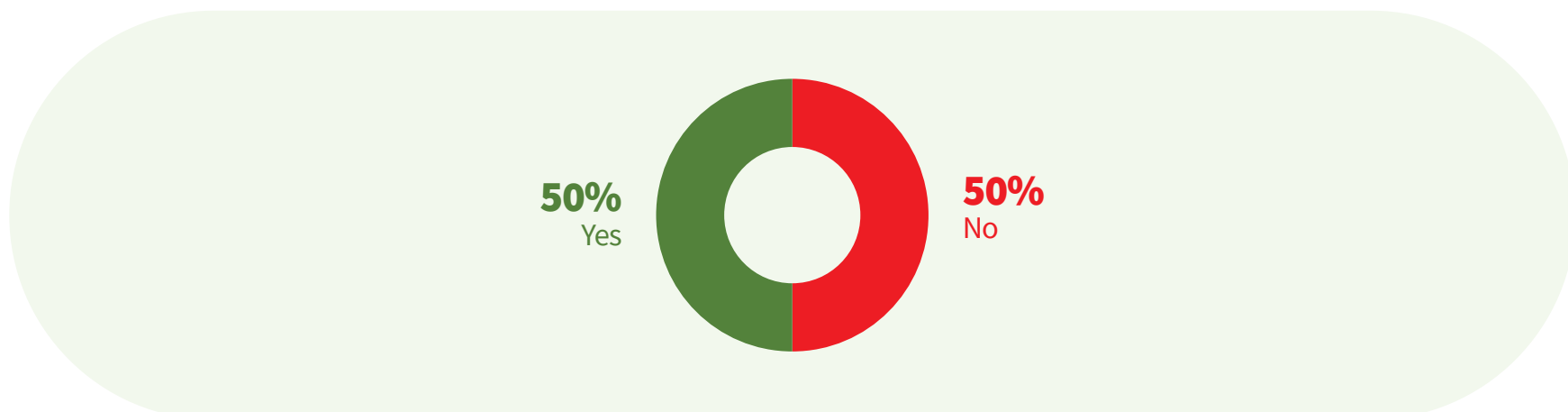


Moderate levels of durability for the next 2–3 months were exhibited by the agriculture, food and beverage, retail/ sales, construction, and information and communication sectors. In contrast, enterprises in the transportation, textile and hospitality sectors showed the weakest durability. It is particularly worrisome that 63 per cent of enterprises in the transportation sector responded that they would be able to hold up for only one week. The share of vulnerable enterprises in the textile and hospitality sectors is also significant with 24 and 21 per cent respectively anticipating that their business continuity will be cut after one week. These sectors also showed the lowest share of enterprises confirming they were unaffected by the crisis, at 13 per cent in the transportation sector and 10 per cent in the textile sector, and none of the enterprises in the hospitality sector reporting that they were not impacted by the crisis.

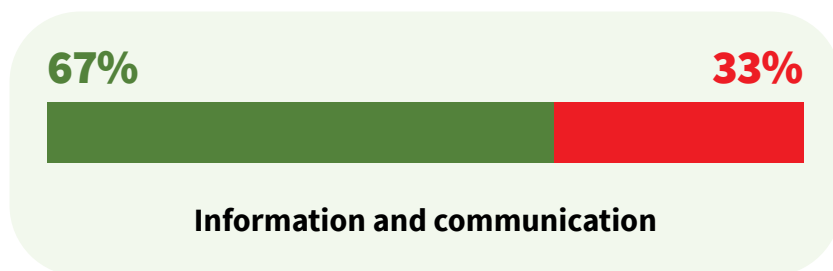
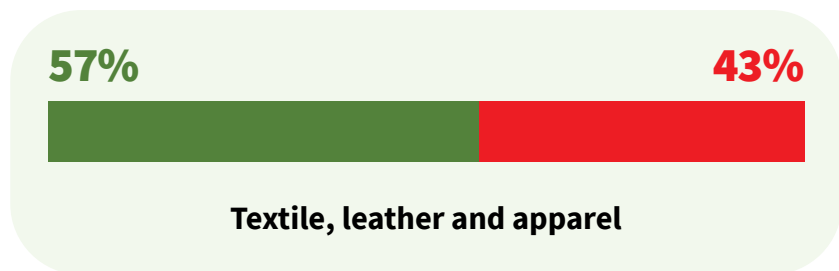


Does your enterprise have a written business continuity plan?

Only 50 per cent of enterprises surveyed responded that they had a written business continuity plan. There is a discrepancy by sector in terms of preparedness to deal with potential threats to business continuity.

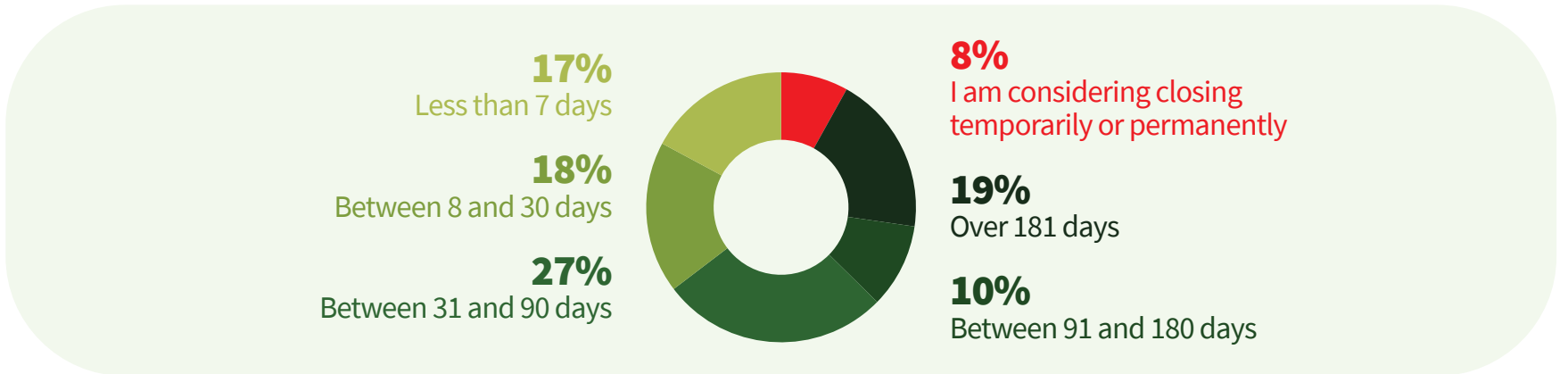


The highest shares of enterprises that were without a continuity plan were in hospitality (66 per cent), transportation (63 per cent), construction (63 per cent) and retail/ sales (59 per cent). By contrast, the majority of surveyed enterprises in the food and beverage, information and communication, textile and agriculture sectors responded that they had a plan to deal with potential threats to their business.

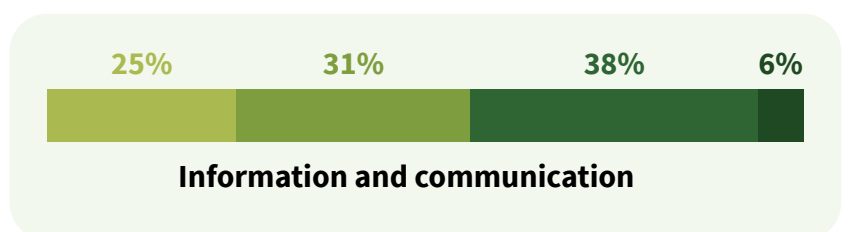
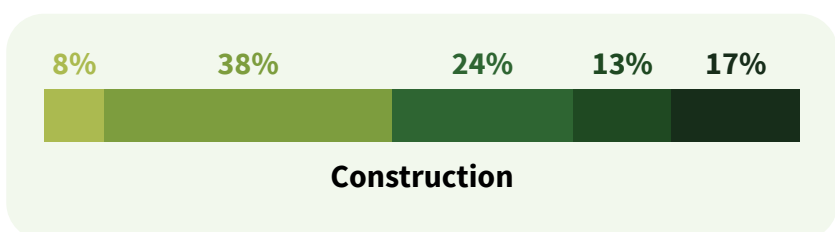
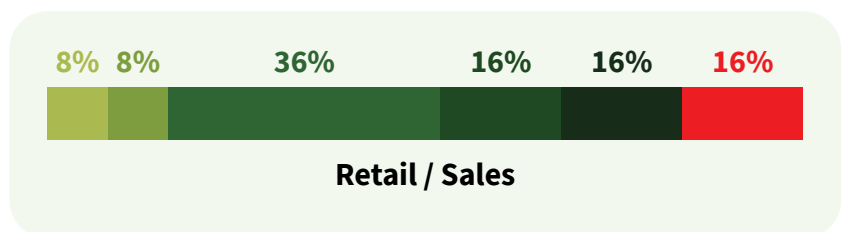
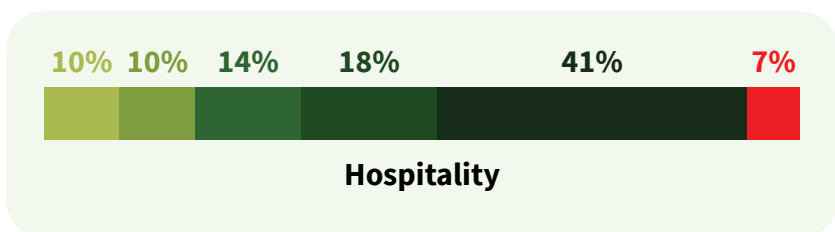
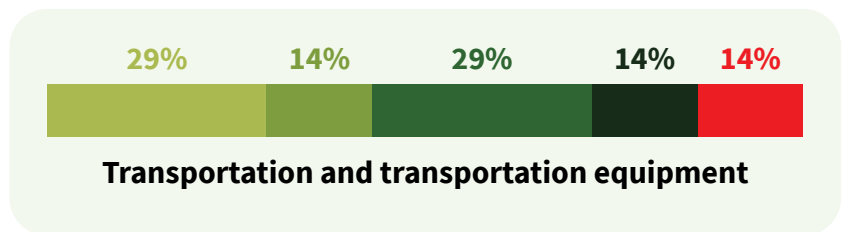
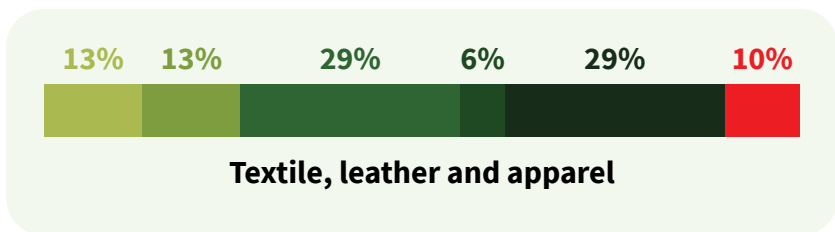
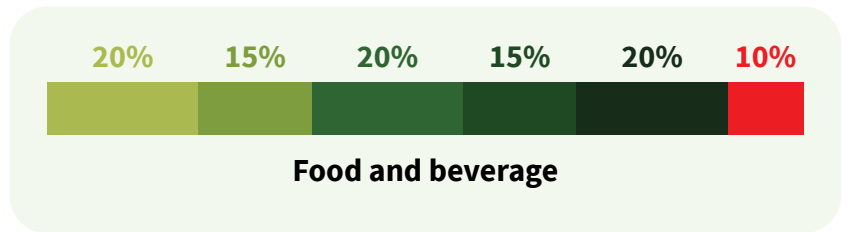
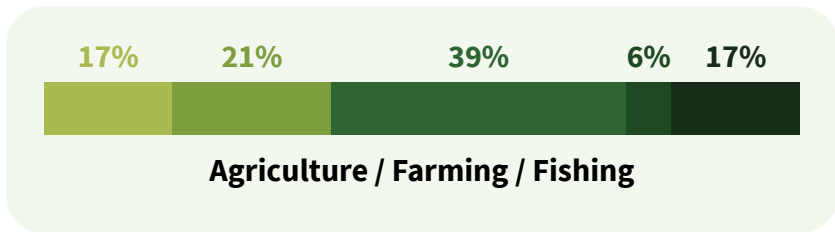


How long would it take your enterprise to fully restore operations?

Almost 30 per cent of enterprises surveyed would need 1–3 months to fully restore operations, while almost 20 per cent would require more than six months. Some 18 per cent anticipated that it would take 1–4 weeks to complete recovery efforts and another 17 per cent expected that their business activity could resume in less than one week. In all, 8 per cent of respondents were considering closing their businesses temporarily or permanently.



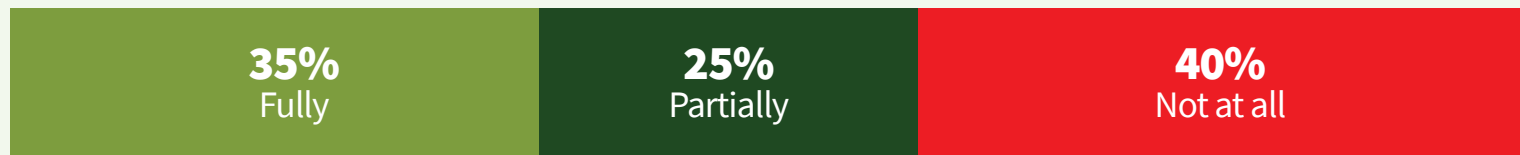
On the one hand, sectors including hospitality (41 per cent) and textiles (29 per cent) had the largest percentages of enterprises indicating a long recovery period of more than six months. On the other hand, sectors with the highest share of enterprises indicating that they could fully restore operations within one week were transportation (29 per cent), information and communication (25 per cent), food and beverage (20 per cent) and agriculture (17 per cent). At the same time, 16 per cent of enterprises in retail/ sales, 14 per cent in transportation, 10 per cent each in food and beverage and textiles, and 7 per cent in hospitality were considering closing temporarily or permanently. Thus, the ability of surveyed enterprises to recover varies across sectors, and even among different segments within sectors, depending on the impact of the crisis on their business activity and restrictions imposed during the state of emergency. The hardest-hit sectors, such as hospitality, transportation and textiles, would need a longer recovery period whereas the information and communication sector anticipated a relatively quick recovery. The perception of enterprises in agriculture, food and beverage and retail/ sales varies considerably depending on their type of business activity and position in the value chains.



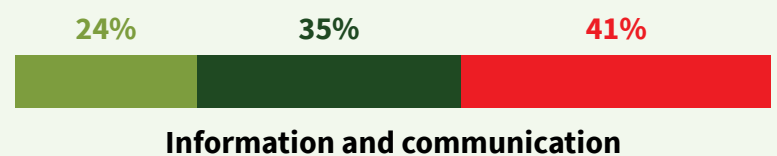
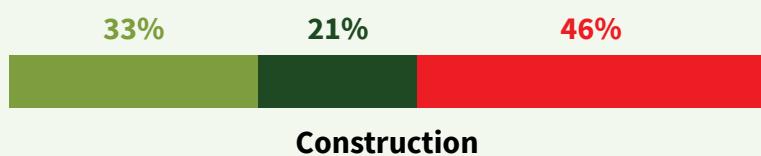
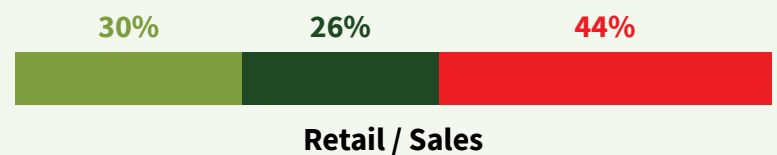
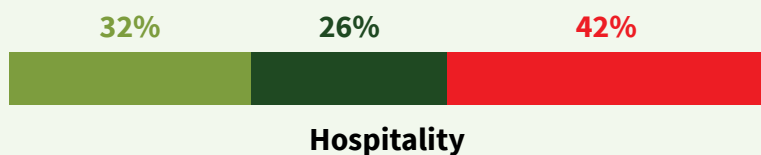
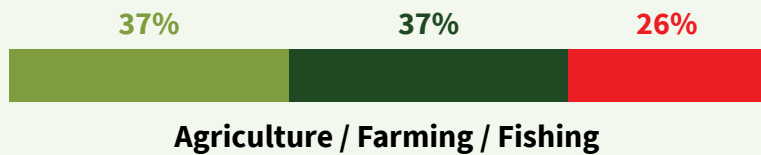
FINANCIAL IMPACT ON ENTERPRISES

Was your business insured before the COVID-19 crisis occurred?

Only 35 per cent of businesses were insured before the crisis occurred; 26 per cent were insured partially and 40 per cent were not covered by any type of insurance.

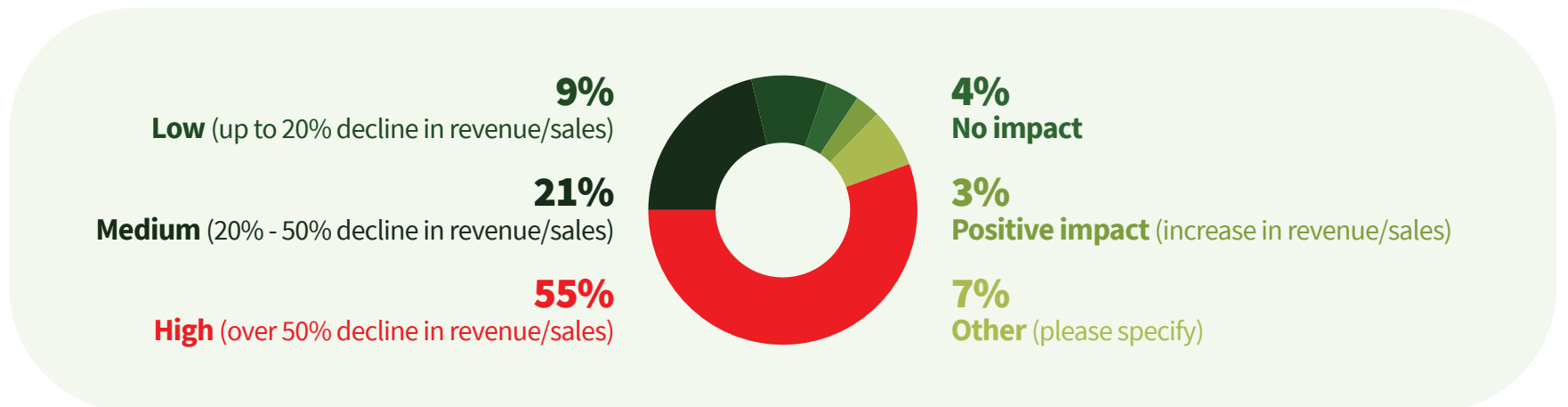


The sectoral breakdown shows a near replica of the overall situation in food and beverage, hospitality, retail/ sales, construction and information and communication, where around 32 per cent of surveyed enterprises were fully covered by insurance, slightly more than a quarter were only partly insured and more than 40 per cent were not insured at all. The textile and agriculture sectors portray a slightly different picture with a higher share of enterprises, namely more than 70 per cent, covered either fully or partially by insurance. In contrast, the share of insured enterprises in the transportation sector is below the sectoral average, with 50 of enterprises not covered by any type of insurance.

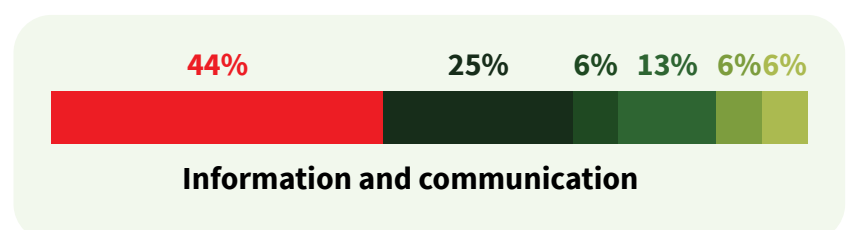
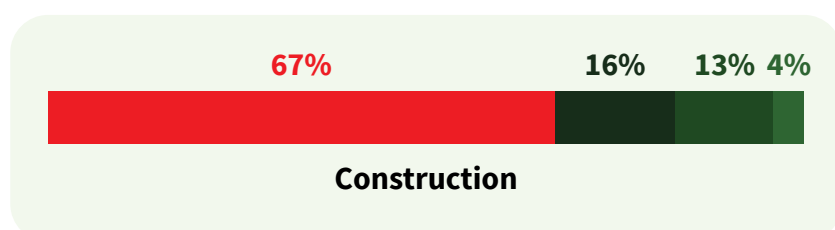
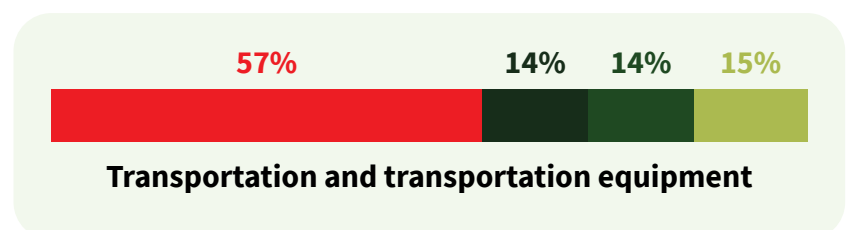
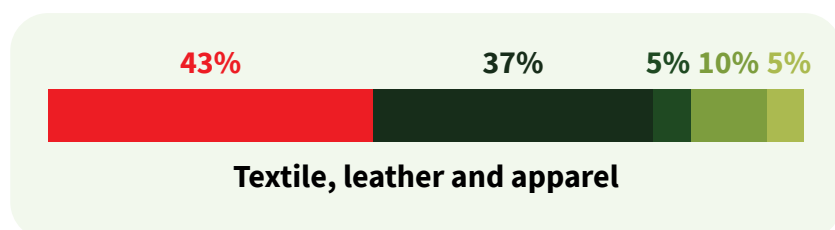
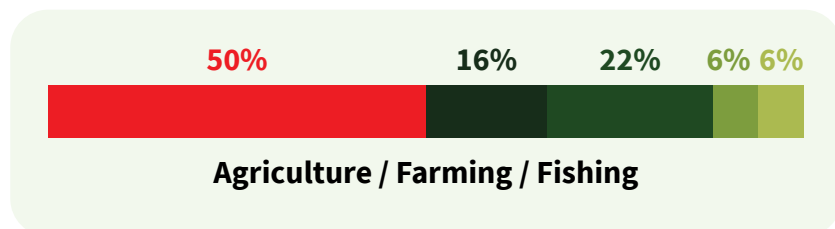


What has been the level of financial impact (revenue or sales) on your business and disruption to business operations?

More than half of enterprises surveyed assessed the financial impact of the crisis on their business as high (over 50 per cent decline in revenue/sales), whereas more than one fifth assessed it as medium (20 to 50 per cent decline). A relatively small proportion (9 per cent) assessed the financial impact as low (up to 20 per cent decline) and 3 per cent noted a positive impact of the crisis on their business.

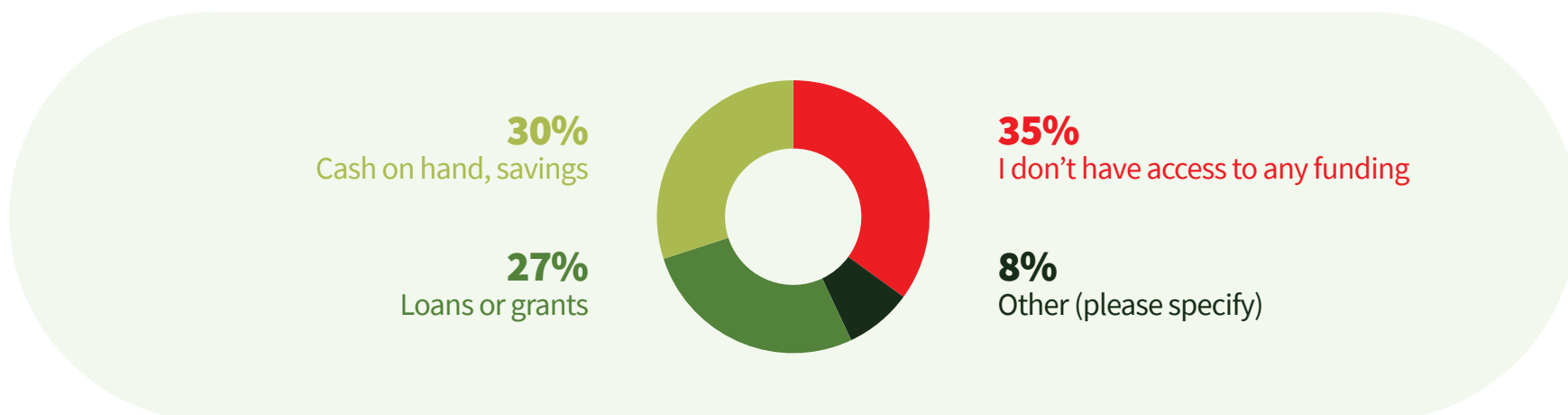


The sectoral analysis shows that the highest share of enterprises that experienced a high impact on revenue/sales were in hospitality (72 per cent), construction (67 per cent), transportation (57 per cent), food and beverage (56 per cent) and retail/ sales (56 per cent). A slightly lower share of enterprises reported a high impact in agriculture (50 per cent), textiles (43 per cent) and information and communication (44 per cent). A relatively low share of outliers exists in the survey responses, where some sectors noted an increase in sales/ revenues. These include enterprises in agriculture (6 per cent), food and beverage (5 per cent), textiles (10 per cent) and information and communication (6 per cent).

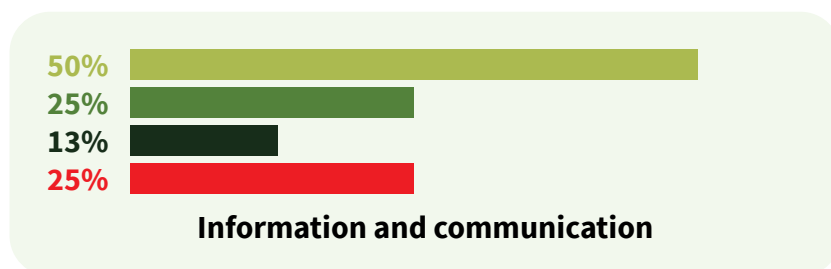
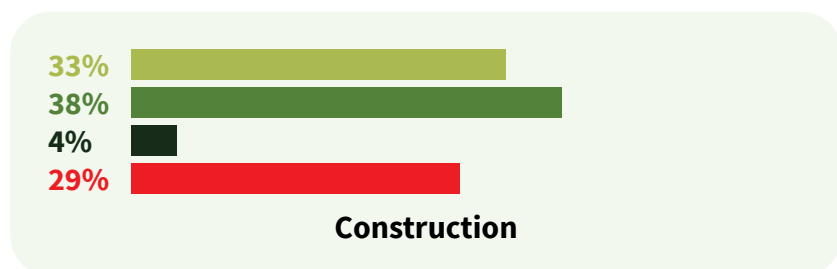
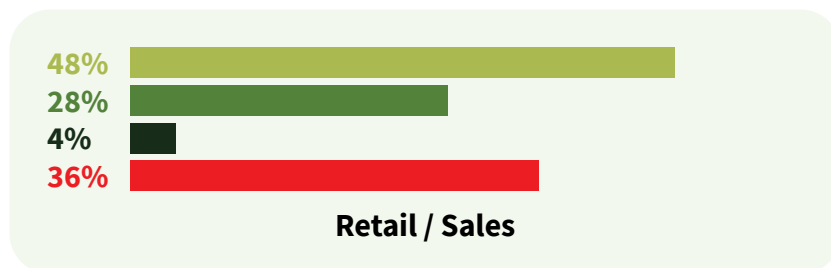
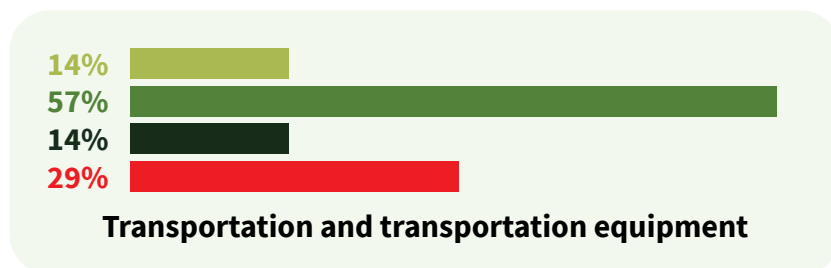
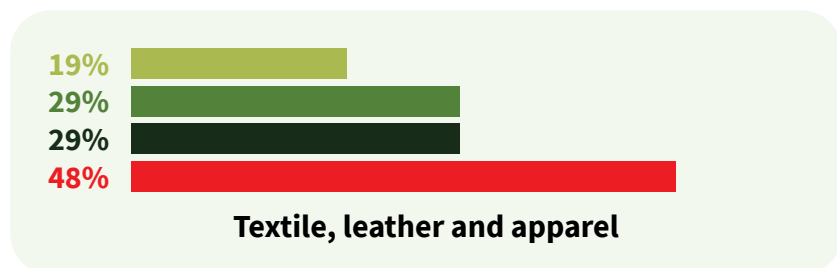
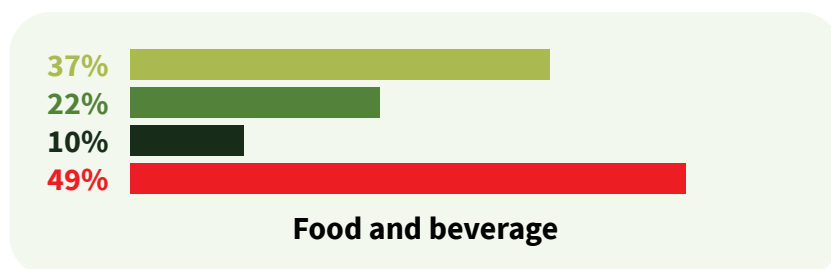


Do you have own funding (e.g. cash on hand, savings) or access to alternative/external sources (e.g. loans or grants) of funding to help the business recover?

On average, 35 per cent of enterprises surveyed did not have access to any funding, whereas 27 per cent were relying on loans and grants to help their businesses recover. In contrast, 30 per cent of enterprises had their own cash or savings.



By sector, the highest shares of enterprises that lacked any type of funding were in food and beverage (49 per cent), textiles (48 per cent), agriculture (44 per cent) and hospitality (41 per cent). The remaining sectors reflect the overall perception, with some 30 percent of enterprises reporting liquidity shortages. Sectors with the largest share of enterprises with access to loans and grants were transportation (57 per cent), agriculture (44 per cent) and construction (38 per cent). At the same time, the largest shares of enterprises that reportedly had cash on hand were in information and communication (50 per cent), retail/ sales (48 per cent) and food and beverage (37 per cent).

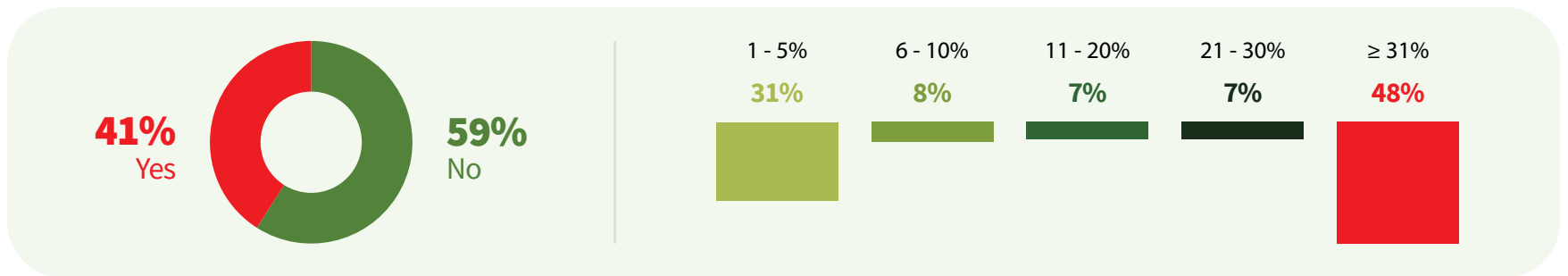


IMPACT ON LABOUR FORCE

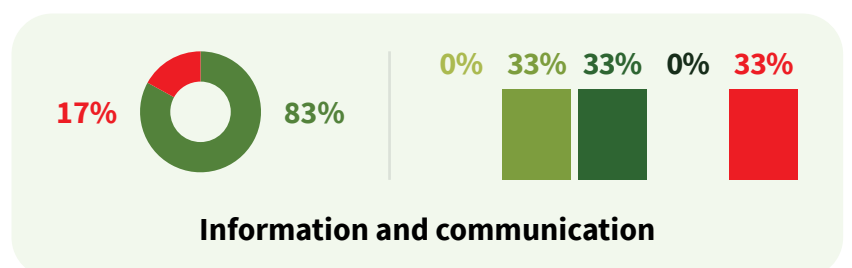
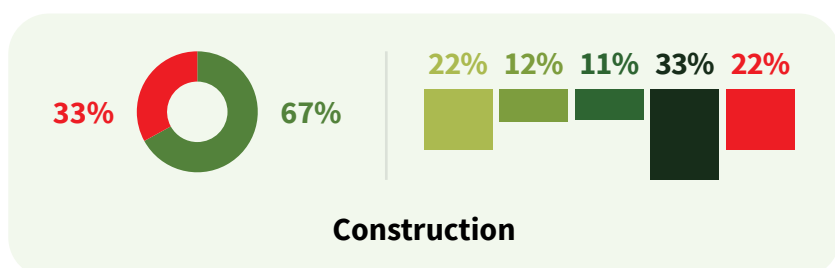
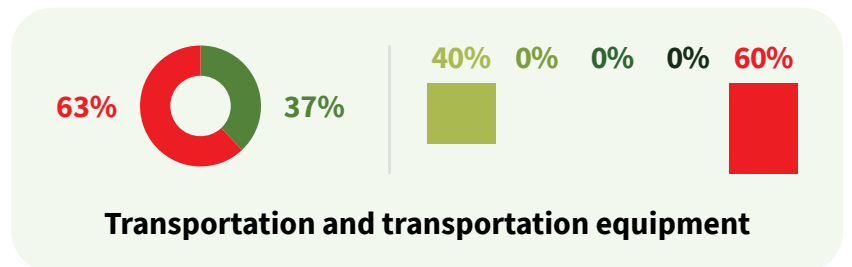
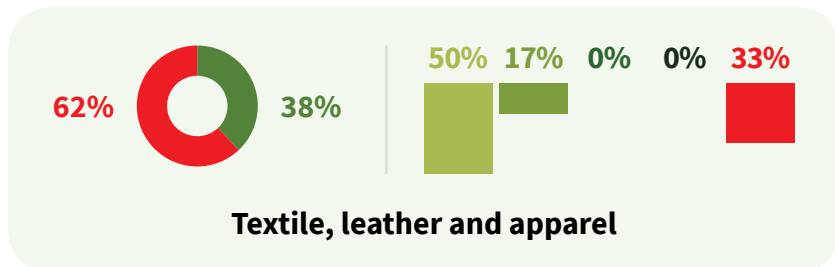
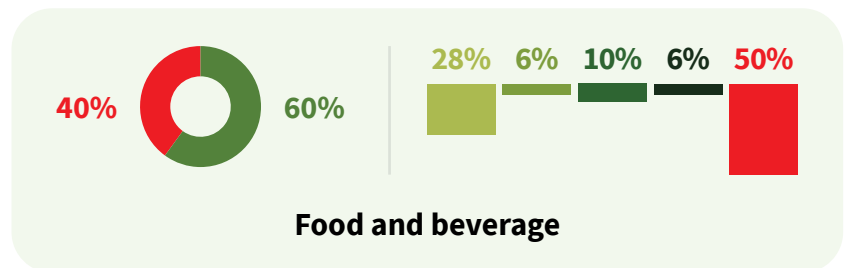
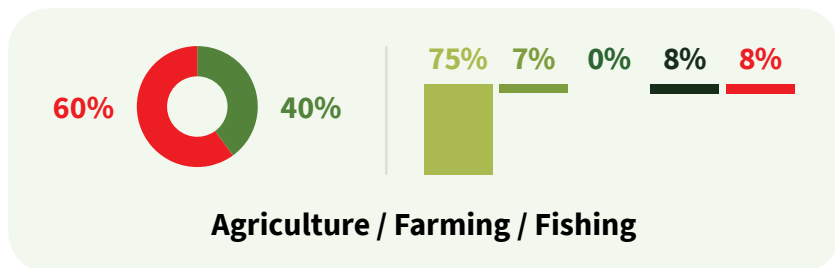
Have you dismissed any workers due to COVID-19?

If yes, what percentage of your workforce have you dismissed?

Alarming, more than 40 per cent of enterprises surveyed dismissed workers due to COVID-19, while almost 60 per cent were able to retain them. Of the enterprises that dismissed workers, almost half dismissed more than 31 per cent of their workers, while more than 30 per cent dismissed 1–5 per cent of workers. In addition, 7 per cent of enterprises dismissed 11–20 per cent of their workers, while a further 7 per cent dismissed 21–30 per cent of their workers. Another 8 per cent dismissed a relatively smaller share of workers at 6–10 per cent.



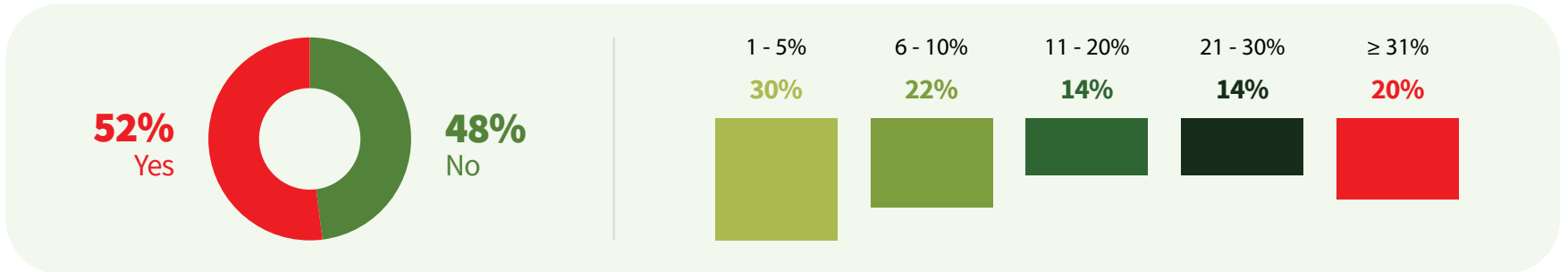
The sectoral analysis shows that enterprises undertaking significant workforce reduction are in hospitality (75 per cent), transportation (63 per cent), textiles (62 per cent) and agriculture (60 per cent). The share of enterprises that were forced to lay off workers is staggering. Specifically, the share of enterprises that had to dismiss more than 30 per cent of their workforce stands at 80 per cent in retail/ sales, 74 per cent in hospitality, 60 per cent in transportation and 50 per cent in food and beverage. In the construction sector, 33 per cent of enterprises indicated a dismissal rate of 21–30 per cent of their workforce. The vast majority of enterprises in the agriculture sector (75 per cent) had to dismiss 1–5 per cent of workers, as did 50 per cent of enterprises in the textile sector, 40 per cent in transportation, 28 per cent in food and beverage, 22 per cent in construction and 20 per cent in retail/ sales.



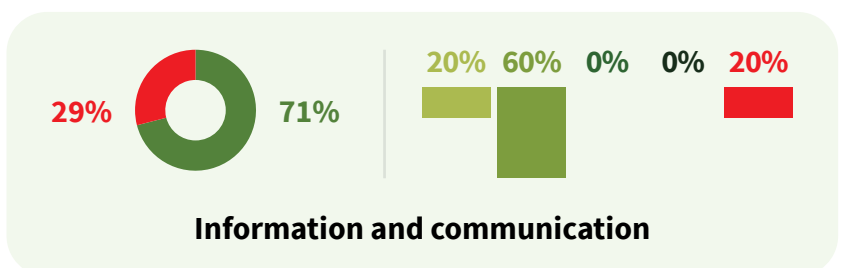
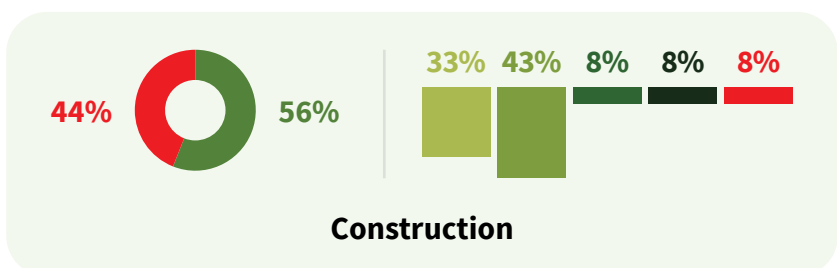
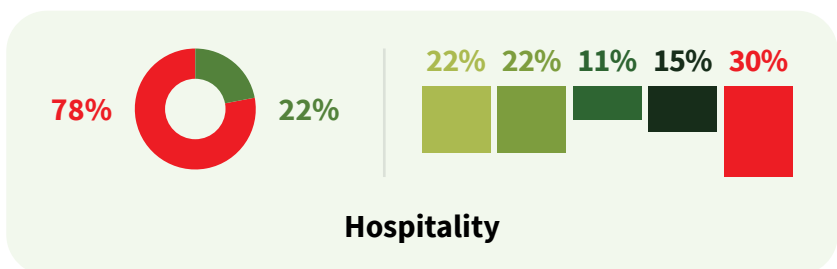
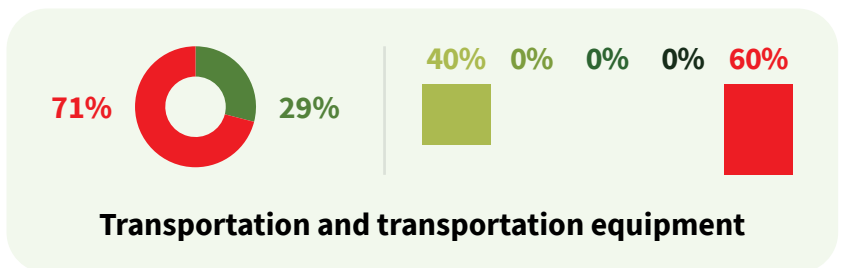
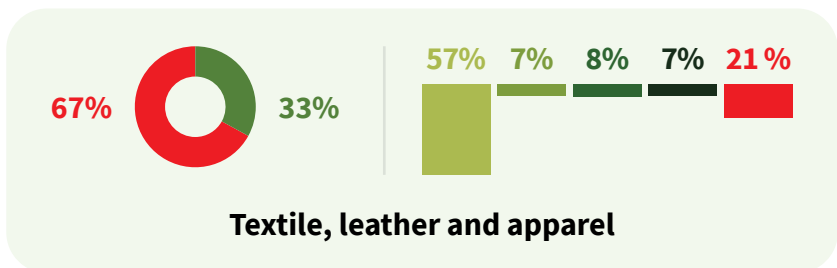
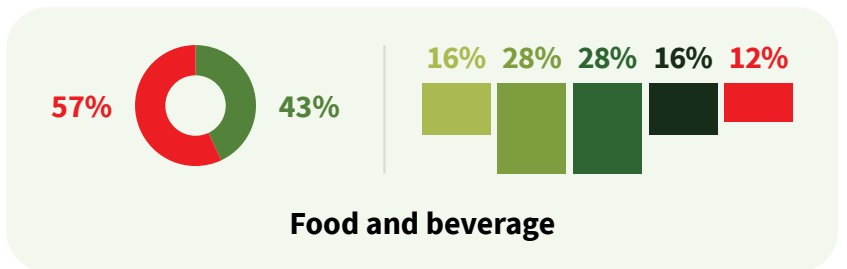
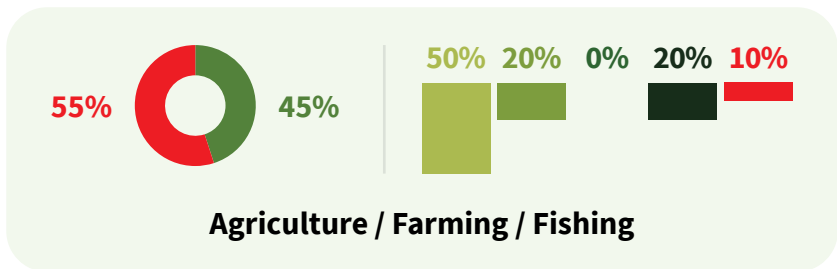
Do you plan to dismiss any workers due to COVID-19?

If yes, what percentage of your workforce do you plan to release in the next quarter?

If the restrictions continue, the prospects of job cuts are worrying with 52 per cent of surveyed enterprises signalling that they will be forced to resort to layoffs. Among these enterprises, one fifth planned to dismiss more than 30 per cent of their workers, while 14 per cent planned to dismiss 21–30 per cent of their workers and another 14 per cent planned to dismiss 11–20 per cent of their workers. Some 30 per cent of enterprises planned to dismiss a smaller proportion of their workforce, between 1 and 5 per cent.



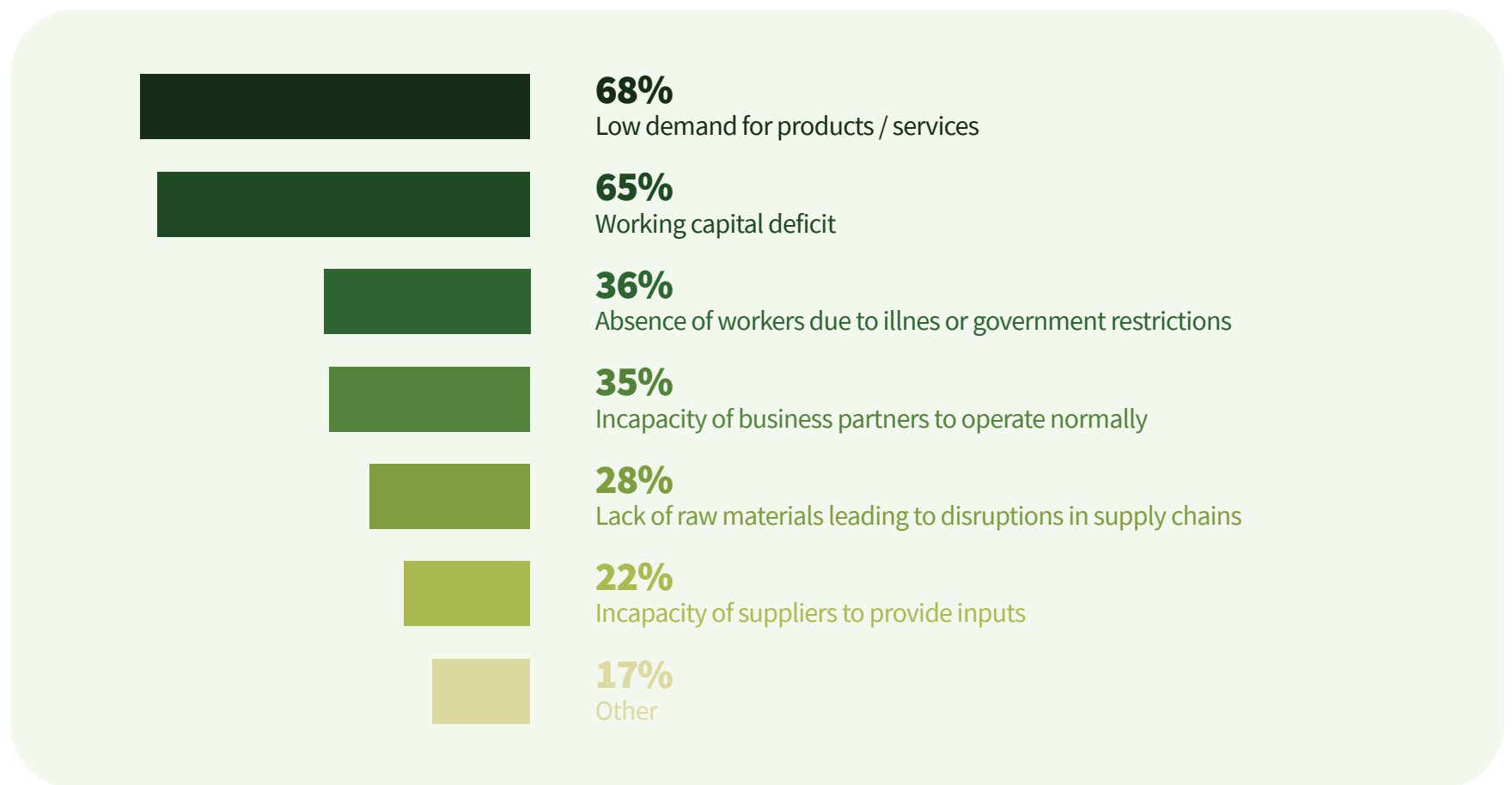
Looking to the future, the prospects of job cuts are worrying. By sector, the highest share of enterprises that planned to dismiss workers are in hospitality (78 per cent), transportation (71 per cent), textiles (67), food and beverage (57 per cent) and agriculture (55 per cent). Overall, the percentage of workers that might be dismissed varies across all sectors and within sectors. The sectors with the highest share of enterprises that might be forced to dismiss more than one third of their workforce are transportation (60 per cent), hospitality (30 per cent), textiles (21 per cent), retail/ sales (20 per cent) and information and communication (20 per cent). Enterprises that planned to dismiss 1–5 per cent of their workforce were most prevalent in the textile (57 per cent), agriculture (50 per cent), transportation (40 per cent) and construction (33 per cent) sectors.



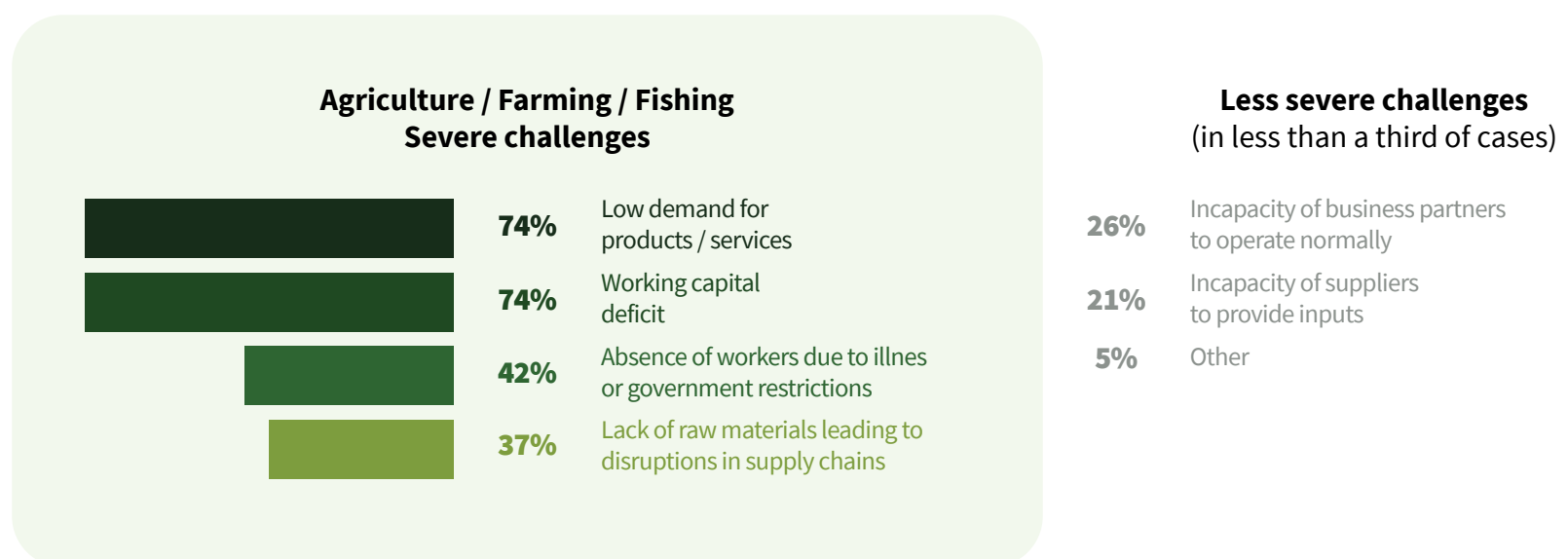
MAIN CHALLENGES FACED BY ENTERPRISES DUE TO COVID-19

Which are the main challenges your enterprise currently faces resulting from COVID-19?

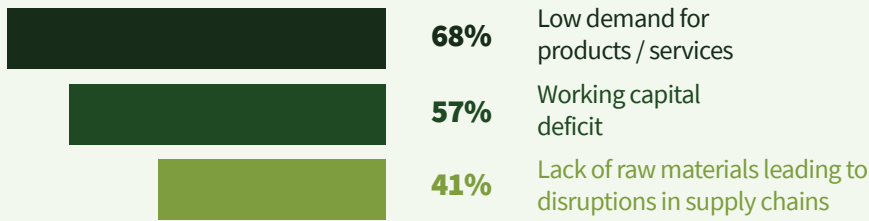
Overall, the most severe challenges faced by enterprises are: low demand for products and services (68 per cent), working capital deficit (65 per cent) and absence of workers due to illness and government restrictions (36 per cent), followed closely by the incapacity of business partners to operate normally (35 per cent).



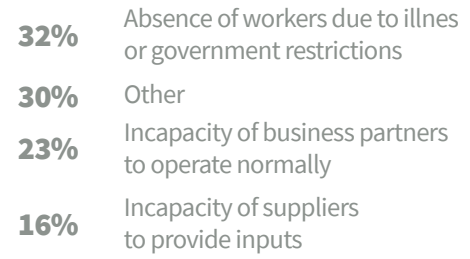
Results by sector:



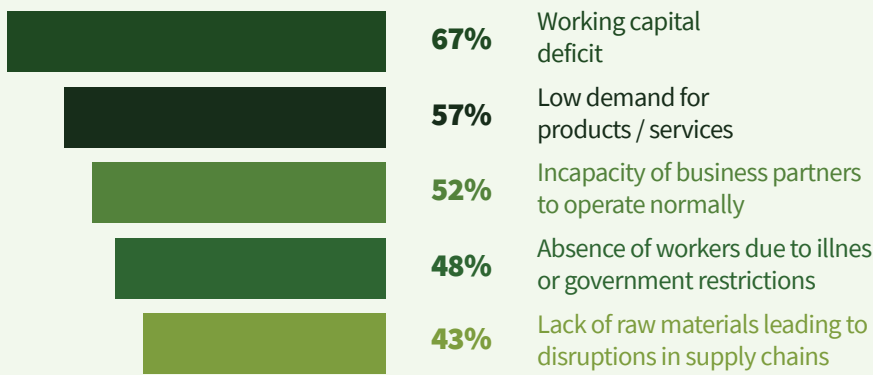
**Food and beverage
Severe challenges**



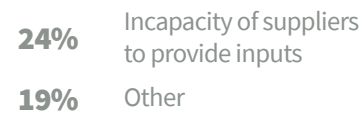
**Less severe challenges
(in less than a third of cases)**



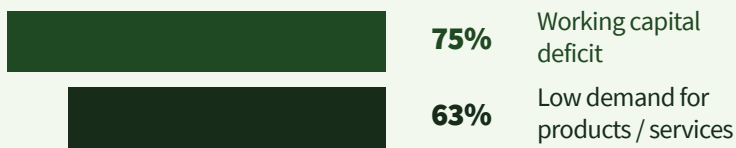
**Textile, leather and apparel
Severe challenges**



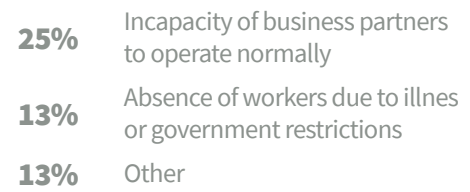
**Less severe challenges
(in less than a third of cases)**



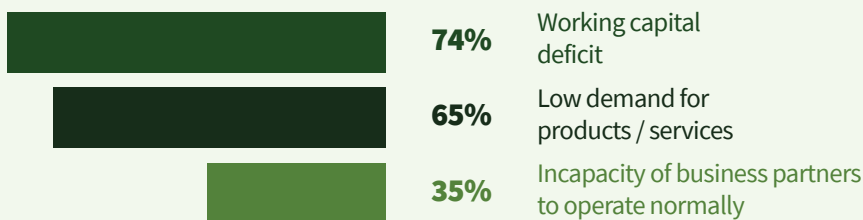
**Transportation and transportation equipment
Severe challenges**



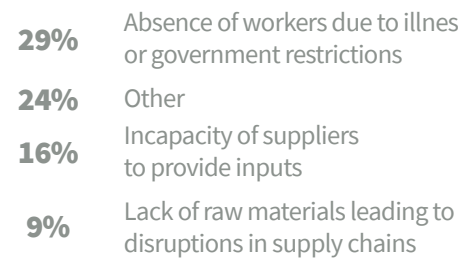
**Less severe challenges
(in less than a third of cases)**



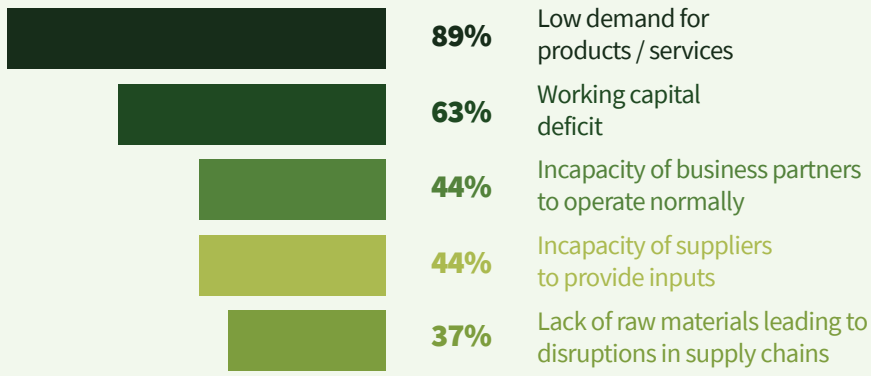
**Hospitality
Severe challenges**



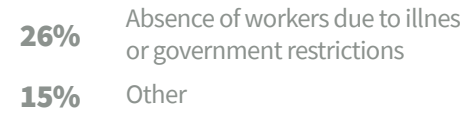
**Less severe challenges
(in less than a third of cases)**



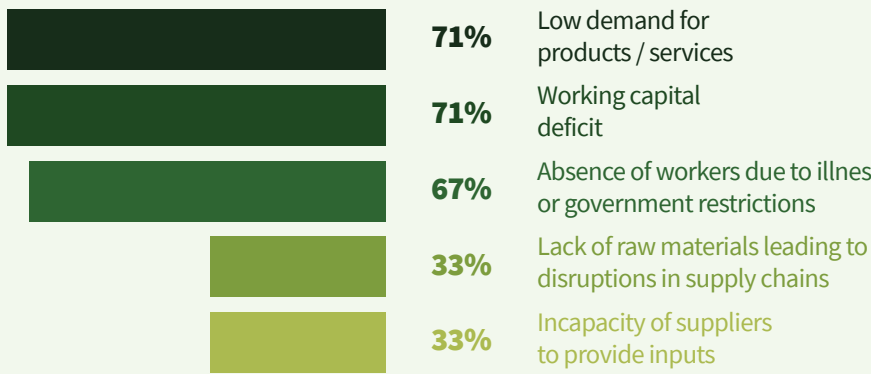
Retail & sales
Severe challenges



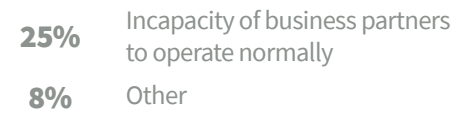
Less severe challenges
(in less than a third of cases)



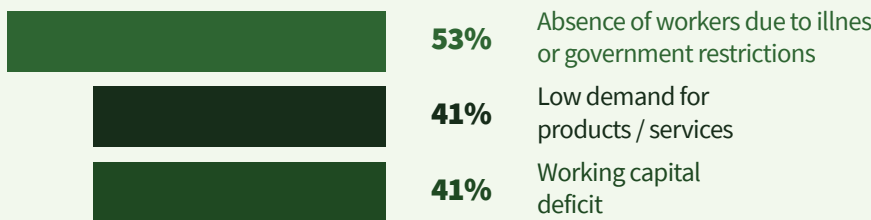
Construction
Severe challenges



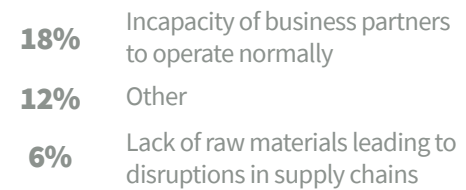
Less severe challenges
(in less than a third of cases)



Information and communication
Severe challenges



Less severe challenges
(in less than a third of cases)



RECOMMENDATIONS

The COVID-19 pandemic has had a devastating effect on Albanian enterprises and employment. The Government of Albania has adopted a series of measures, including two sovereign guarantee funds to keep the economy running and support enterprises to navigate the crisis.

In April 2020, the Government approved the first \$100 million sovereign guarantee fund enabling enterprises to access overdrafts in the banking system to pay employees' wages for up to three months with an interest rate capped at 2.85 per cent. The Government will bear the interest costs. The second \$150 million sovereign guarantee fund provided loans for enterprises, including small and medium-sized enterprises that were tax-compliant and solvent before the pandemic, with the Government guaranteeing 60 per cent of the loan value.

Enterprises operating in tourism, custom (façon) manufacturing and call centres with an annual turnover of up to 14 million Albanian lek (ALL) will no longer be required to settle remaining instalments for income tax or simplified income tax prepayments for April–December 2020. Enterprises with an annual turnover of more than 14 million ALL will no longer be required to set instalments for income tax prepayments for April–September 2020.

Albanian enterprises welcomed these measures, but there are still issues to consider. BiznesAlbania proposes the following recommendations for the consideration of the Government of Albania. These recommendations that stem from the survey would enable enterprises, workers and their families to face the challenges resulting from COVID-19.

Low interest loans: The interest rate must be 0 (zero) per cent in the first year and the payment of the loan principal must be postponed for one year. Agreements with the banks should be reviewed given the hesitation of the banking sector to provide loans for employees' wages. Further financial assistance is needed to ease liquidity shortages consisting of quick loans with soft terms and long-term repayment plans, among other things.

Wage subsidies: The second sovereign guarantee fund should be used for the gradual activation of the economy and granting loans to enterprises that resume work. Larger enterprises need grants in the form of cash to pay their employees.

Tax relief measures for the most severely affected sectors: The deadline for tax payment should be extended for three months for enterprises in sectors that are most affected, including hospitality and tourism, construction, textiles and leather. The support for recovery should align with the level of disruption suffered by enterprises.

In the tourism sector, each accommodation unit should establish a COVID-19 coordinator, who will be trained by competent authorities on all procedures and preventive measures to be taken. The coordinator will then train his or her staff. The coordinator should draft an internal regulation in accordance with the national protocols, assign specific tasks to the staff and take measures to supply the necessary tools and manage the logistics. In any case, all staff must be equipped with personal protective equipment. The Government should provide interest-free financial guarantees for all contracts that are postponed until 2021. In addition, the Government should establish a mechanism to motivate locals to spend their holidays in Albania.

In the agricultural sector, the Government of Albania must significantly increase grant funding for all Albanian farmers who have suffered significant losses due to COVID-19.

In the transportation sector, import-export procedures must be accelerated. The procedures were reportedly very slow, which created additional challenges for transportation enterprises.

In the textile sector, all orders for the production of clothes and shoes for the police, the army and institutions whose employees wear a uniform should be given to the façon manufacturers operating in Albania to help them survive.

In the information and communication sector, enterprises should conduct COVID-19 awareness raising campaigns. Subsidies should be granted to enterprises providing free Internet access to students attending online classes who cannot afford to pay Internet subscription fees.

Business opening protocols should be developed in consultation with business associations and with the intention to accelerate recovery and minimize enterprise costs.

Public transport: Public and intercity transit was banned during the state of emergency causing serious challenges to the movement of employees and disruptions to business operations. Immediate measures should be taken to prepare for and manage another transit ban that may be enacted if there is a resurgence in COVID-19 cases.

Public-private dialogue for COVID-19 recovery: The financial aid package for enterprises, including those in the most affected sectors, such as façon manufacturers, hospitality and tourism, and agribusiness, should be reviewed and adapted to their specific needs.

BiznesAlbania - Union of Albanian Business

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