

Assessing Covid-19 pandemic impact on Albanian SMEs

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Introduction

The pandemic hit Albania when the economic situation was already in turmoil after the severe earthquake of November 2019, the strongest in four decades. The losses and damages from this natural disaster amounted to the level of 6.7 percent of GDP. Real GDP growth in 2020 was expected at 3.5 percent, according to the main international financial institutions, as a result of internal consumption, investments, and tourism. When the post-earthquake reconstruction had just commenced, the country has been severely impacted by the global pandemic of coronavirus.

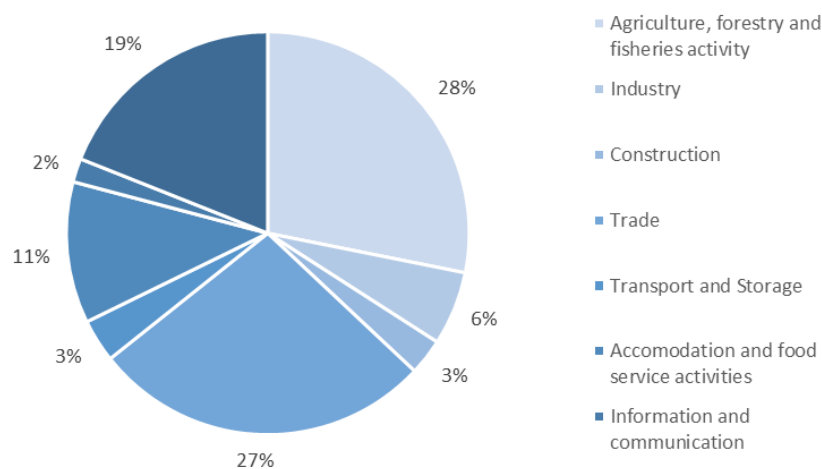
To slow the spread of the novel coronavirus, governments worldwide imposed strict containment measures. These included confinement and lockdowns, travel restrictions and bans, the prohibition of large gatherings, and temporary shutdowns of schools and economic activities. Taken to protect public health in a time of crisis, these measures, directly and indirectly, affected economic prospects.

In March 2020 Albanian government closed all country's borders and forced a massive shutdown of all major economic activities.

Given the mounting challenges of the twin shocks, economic activity in Albania was projected to contract sharply in 2020 ranging from -5% according to the International Monetary Fund (IMF) to -9%, according to the European Bank for Reconstruction and Development (EBRD).

Small companies tend to be most vulnerable during an economic crisis, in part because they have fewer resources with which to adapt to a changing context. Official statistical data show that in Albania, 89% of enterprises are micro-businesses with 1-4 employees, while big enterprises with 50 and more employees represent only 1.2 % of total enterprises. The highest number of SMEs is engaged in agriculture, trade, and accommodation.

Figure 1. Active enterprises by economic activities in 2019



Source: INSTAT (2019)

Referring the findings of the Survey “Impact of the coronavirus pandemic on the Business in Albania” such sectors as accommodation, foodservice activities and tourism are the most affected from imposed government restrictions on business activities. For the second quarter more than 85% of the above mentioned sectors related SMEs totally or partly stopped their operation. Agriculture sector appeared to be the least affected with 24% of enterprises continuing their work and 57% just partially halting their activity.

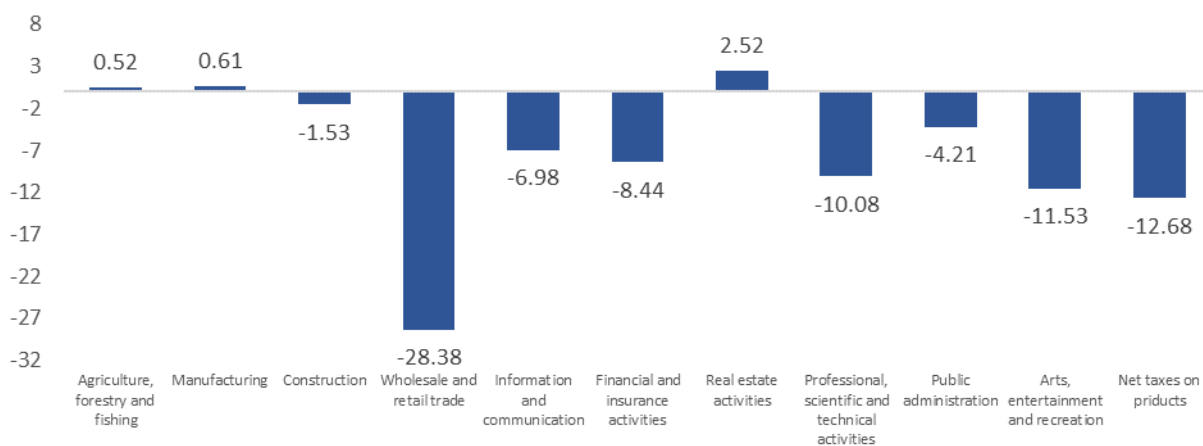
Participants in the survey stated that regardless of size or sector, 80% of companies estimated more than 20% decline of their annual turnover.

A changing sectorial landscape contributing to growth

The second quarter of 2020 reflected the hard hit on the economic activity caused by the Covid-19 pandemic. Compared to the previous quarter, the first of 2020, the GDP decreased by 8.80 %. Most dramatic decrease of 28% was noticed in the sectors of Wholesale Retail and Trade. The economic activity group of Information and Communication had a quarterly decrease of 6.98 %. Financial and insurance activity decreased by 8.44 %. While the group of Professional and Administrative services appeared to decrease by 10.08 %.

At the same time, three economic sectors demonstrated a slight rise. Thus, Agriculture, Forestry and Fishing activity had an increase by 0.52 % when compared to the first quarter of 2020. The group of Industry, Electricity and Water appeared to increase by 0.61 %, while Real estate activity appeared to increase by 2.52 %.

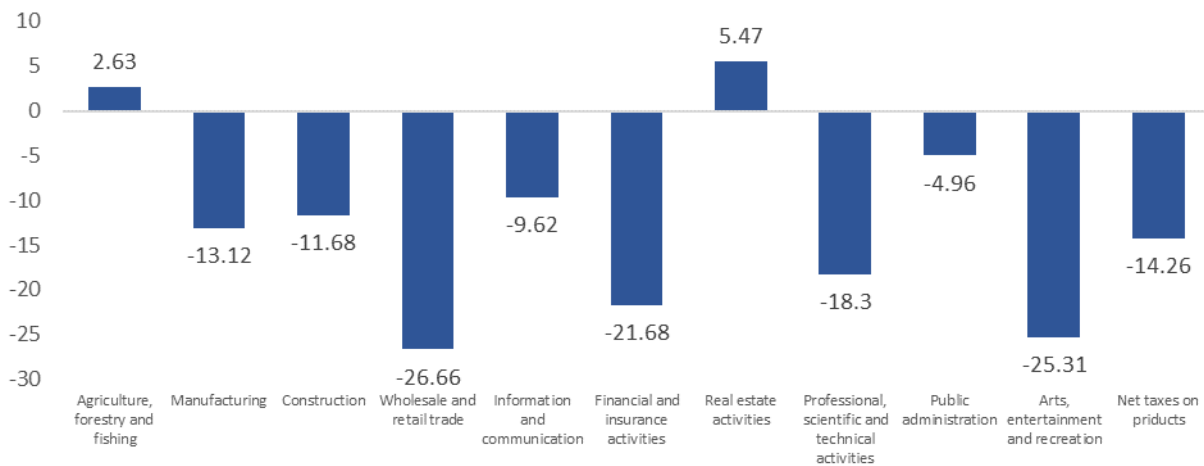
Figure 2. Changes to the preceding quarter of 2020 for the main branches of the economy, (Q2_2020/Q1_2020) in%



Source: INSTAT (2020)

If to compare the second quarter of 2020 to the same quarter of 2019, Gross Domestic Product (GDP) in volume terms has decreased by 10.23 %. All economic branches except Agriculture, and Real estate activities had a negative dynamic. Trade, Transport, Accommodation and Food service had a decrease of 26.35%. The Information and Communication activity group appeared with decrease of 9.05%. Financial and Insurance activity marked a decrease of 21.68%. Group of Professional Activities and Administrative Services has shown a decrease of 19.45%.

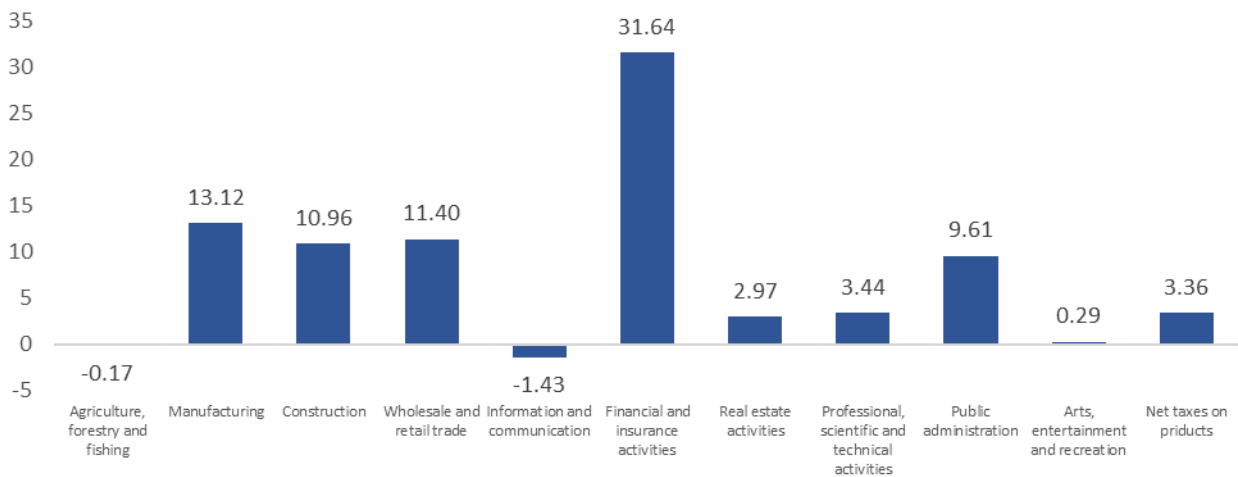
Figure 3. Changes to the same quarter of 2019 for the main branches of the economy, (Q2_2020/Q2_2019) in%



Source: INSTAT (2020)

Notwithstanding, situation in third quarter started to stabilize confidently. Regarding the changes to the previous quarter, second quarter 2020, the indicator of Gross Domestic Product increased by 9.77 %. Group of Industry, Electricity and Water increased by 13.12 %. Construction activity had an increase by 10.96 %. The Group of Trade, Transport, Accommodation and Food Services increased by 11.40 %. Education and Health increased by 9.61 %. The groups of Arts, entertainment and recreation services, other services decreased by 0.29 %. Net Taxes on products increased by 3.36 %.

Figure 4. Changes to the preceding quarter of 2020 for the main branches of the economy, (Q3_2020/Q2_2020) in%



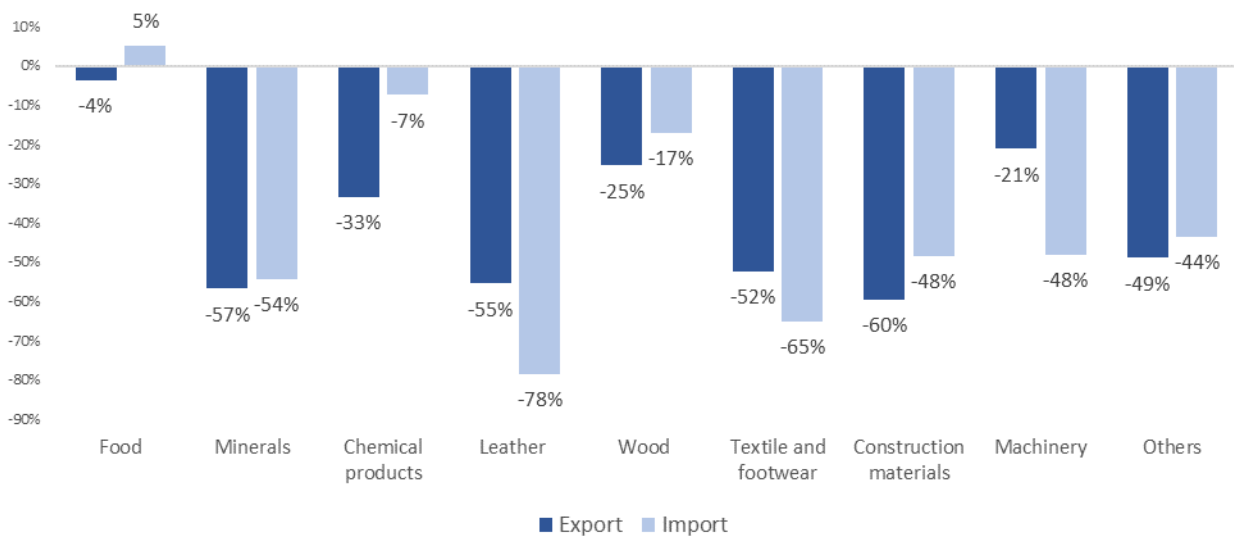
Source: INSTAT (2020)

Changes in international trade context

The COVID-19 pandemic prompted regional collaboration after demonstrating how interconnected and interdependent regional economies are. Key areas for regional collaboration vary from trade to food systems, and from policy coordination to connectivity.

In April of 2020, the export of goods for the textile group and shoes fell by over 50% comparing to same month of 2019. And about 78% of import of leather and leather products and 65% of Textile. It is worth to mention that a distinguished characteristic of the sector is the high dependence from the Italian market, where 72% of the total exports of textiles and footwear are directed. Germany as an exports destination of Albanian products counts for only 10 percent.

Figure 5. Change in foreign trade by group of goods (April 2020/April 2019)

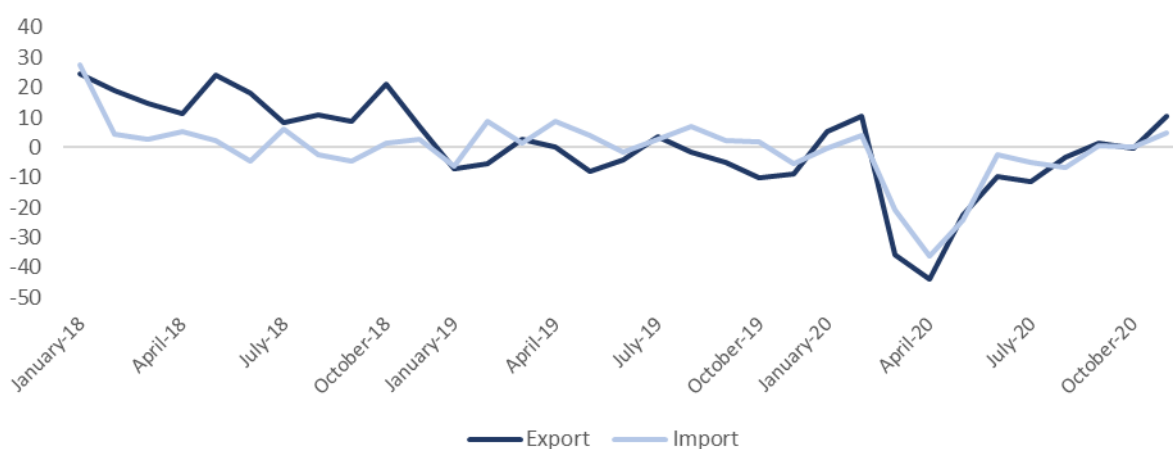


Source: INSTAT (2020)

In April 2020 the value of exports was 15 billion ALL, decreasing by 44.4% compared with the same period of the previous year and by 16.5 % compared with March 2020. The value of imports was ALL 36 billion, decreasing by 36.7% compared with the same period of previous year and by 18.3 % compared with March 2020. In April the trade deficit is ALL 21 billion, decreasing by 29.9 % compared with April 2019 and by 19.5 % compared with March2020.

When analyzing May 2020, the value of export increased by 43.8 % and the value of import increased by 22.9 % compared to April 2020.

Figure 6. Annual change in commodity trade (%)



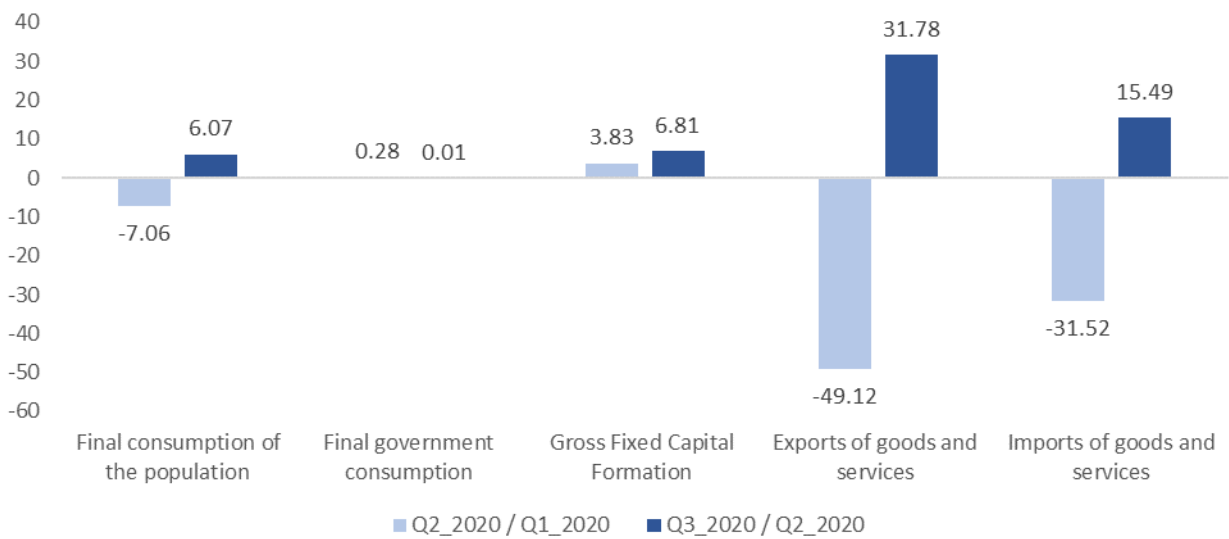
Source: INSTAT (2020)

The Albanian economy has experienced negative repercussions caused by the shutdown, supply chain disruption and depressed demand over 2020, and currently, the cycle has moved to the recovery phase.

If we make a resume of the year, second quarter brought the highest fall in exports and imports of goods and services for the period. In comparison with the previous quarter the final consumption of the population decreased by 7.06% compared to the first quarter of 2020. Exports of goods and services decreased by 49.12%, whilst imports of goods and services decreased by 31.52%.

In the third quarter of 2020 all the GDP components demonstrated significant rise. Consumption of the population increased by 6.07% compared to the second quarter of 2020. The gross fixed capital formation component increased by 6.81%. Exports of goods and services increased by 31.78% whereas imports of goods and services increased by 15.49%.

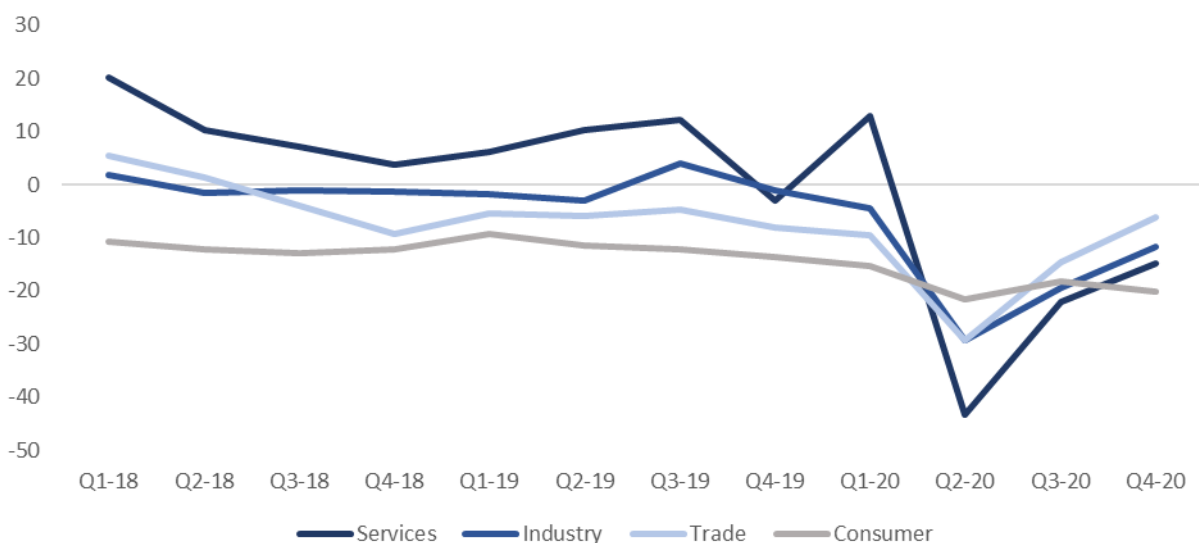
Figure 7. Components of GDP expenditures, seasonally adjusted in %



Source: INSTAT (2020)

The data obtained from the Business Confidence Surveys are used by the Bank of Albania to measure entrepreneurs' sentiment about production expectations, employment, order books and stocks of finished products. While the Consumer Confidence Indicator survey serves to measure consumers' sentiment about the current and future financial situation; general economic situation and purchase and savings opportunities. In this part of the analysis focus is on interpreting the finding of these surveys to provide a meaning for the rationale behind the private sector dynamics for the period.

Figure 8. Business and Consumer Confidence Indicators



Source: Bank of Albania (2020)

Albania's business indicators experienced a sudden fall on the lowest level in business morale since on record in the second quarter of 2020, due to the coronavirus crisis. Sentiment weakened regarding the financial situation and expectations over employment deteriorated increasing substantially the pessimism of economic agents on the economy.

However, from the third quarter we can observe a stable improvement for all these indicators, as coronavirus-induced restrictions were gradually lifted. Moreover, the Trade Confidence Indicator in the fourth quarter of 2020 returned to the before pandemic level. More precisely: Services Confidence Indicator (SCI) increased by 7.1 percentage points during the fourth quarter. The SCI performance reflected the surge in two components of the indicator, namely the balance of business performance and in the balance of demand. Other balances of the survey also improved such as the financial situation, expectations for employment over the next three months and the capacity utilization rate. Nevertheless, enterprises in the service industry continue to be affected by several varying factors in the fourth quarter of 2020, on the back of international uncertainties and challenges to the economic landscape.

The Industry Confidence Indicator (ICI) increased by 7.7 percentage points during 2020 Q4. The quarterly improvement of ICI was attributable to the increased production balance and in order books. Financial situation and the capacity utilization rate improved as well.

The Trade Confidence Indicator(TCI) increased by 8.5 percentage points during the fourth quarter. The improvement in TCI reflected mainly the increase in the balance of business performance.

Other balances of the survey, such as the financial situation, employment and expectations for the business situation over the next three months also improved.

Albania's Consumer Confidence Indicator (CCI) dropped to -21.8 in the second quarter of 2020 from an upwardly revised -15.4 in the previous period. It was the lowest reading on record, as the coronavirus pandemic hit sentiment. The CCI increased by 3.3 points from the previous period to -18.3 in the third quarter of 2020, as the pandemic shock from the coronavirus outbreak eased. Still, the indicator remained below pre-pandemic levels. Moreover, CCI fell by 2.0 percentage points during the fourth quarter. The performance of CCI reflected the fall in three of its four constituent components, namely the balance of major purchases and the two balance the expected overall economic situation and expected financial situation of the household.

Main challenges for SMEs and related Government Response

Regarding Survey Findings "Impact of the coronavirus pandemic on the Business in Albania", the main challenges faced by all companies despite the size in Albania would be defined as a shortage of clients (24%) and lack of liquidity (17%). Despite the serious liquidity shortage, to ensure the continuity of their business activities, about 69 percent of firms planned to either use their own revenue reserves or to cut costs, only 20 percent planned to take out bank loans as their first option.

Supply shocks were not as serious as to demand shocks. While only 8 percent of surveyed firms still operated at full capacity, companies did not consider negative supply shocks to be as serious as lower demand, and the Consumer Confidence Indicator movement in the last quarter of 2020 confirms this concern.

In response to COVID-19 to help SMEs cope with the short-term financial risks and long-term business implications governments around the world are taking policy actions. Albanian government response mainly was focused on loan guarantee, while SMEs prefer grants or equity to loans - they tend to rely more on equity financing and government support to tackle cash flow shortages. This preference is mainly based on uncertainty over repayments, complicated process, limited flexibility on loan terms and because they lacked the acceptable collateral and/or standardized financial statements required.

Another problem is a lack of awareness of the existence of assistance programs among SMEs. In times of crisis such as the current COVID-19 pandemic and its economic and social repercussions, transparency of public governance matters more than ever.

All economic sectors are considered to be negatively impacted and in order to reduce layoffs, prevent bankruptcy, encourage investment and help economies get back on their feet as soon as possible in the aftermath of the crisis is needed to focus on an integrated resilience strategy for SMEs.

By observing recent economic data, it could be noticed that the immediate obstacles are easing as the economy enters in the Recovery phase, shifting their focus to steepening the curve of the economic recovery and to mitigating the broader impacts of the crisis. In this moment it is important to focus on different recovering strategies recommended that also find application in the situation of Albanian SME's such as:

- Intensify digital transformation in SMEs by promoting the adoption of teleworking practices and ICT technologies among SMEs. These would help SMEs manage remote working, digital payment options, and protect their business with increased cybersecurity. Supporting the adoption of digital technologies and practices will not only help SMEs overcome the immediate challenges caused by Covid-19, but will also enable SMEs to strengthen their post-crisis competitiveness.
- Provide income replacement to employees incapable to work from home, regulations should be adapted to ensure that quarantined workers have access to paid sick leave and that non-standard workers in quarantine receive support.
- Redouble efforts to overcome tariff barriers and make it cheaper and easier for people to stay connected to jobs and markets: Reducing tariffs, in particular, those imposed on basic supplies whose shortage could lead to a runaway price is paramount. Imposing costs on firms and consumers through tariffs not only increases the already present suffering from lost income, but also forces more public aid to support firms and consumers

SME responses and resilience strategies

Small and Medium enterprises are the most affected businesses by Covid-19 and in crisis time they can't afford to stay put, they must adapt in an agile manner or collapse, because of financial difficulties.

Taking advantage of this, the crisis presents an opportunity for SMEs to forge a digital business strategy, adjust in modes of production or service delivery, which can likely range from higher online interactions with customers and digital marketing to a gradual adoption of digital payments.

The current situation of the pandemic in a global level and in Albania as well is testing the ability of businesses to cope with pressure, also because the future may hold in a different era of trade, technological and environmental disruption. This highlights potential strategies that will allow small businesses to survive while coping with domestic market challenges in Albania and beyond.

Resilience.

Resiliency during the pandemic has entailed strategies such as shifting the sales mix towards online channels, sourcing from new suppliers or learning to telework. Diversification is a

valuable risk management strategy, whether for production, purchasing or sales. Meanwhile, sourcing from multiple suppliers increases the chances that production can continue no matter

what. New partners can be found through business matchmaking events supported by Europe Enterprise Network.

Agility.

This may include customizing or proposing new products or business models according to new market trends. For example, touristic agencies primarily focused on international tourism, can switch on local touristic destinations and local tourists.

Digital Technology

Cash payments and paper-based documents, such as invoices, became a thing of the past. E-commerce and E-payment systems should be in the focus.

The beginning of the end of the pandemic seems to have started and Albanian SMEs have to position themselves in a certain way to benefit from eventual return to normality. It is true that survival of the fittest has become the basic selection mechanism in a market economy under pressure, but in order to survive this small and medium enterprises in Albania have to start applying agile management strategies, cutting costs and optimizing their efficiency in operations. Participation in interactive business driven networks such as Europe Enterprise Network will be essential to broaden opportunities for growth and create new perspectives for ambitious SME's.