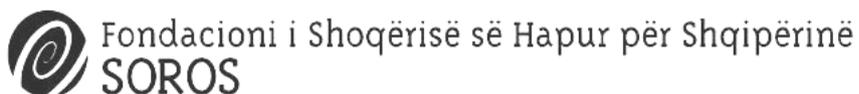




**SOCIAL DIMENSIONS OF THE GLOBAL CRISIS IN
ALBANIA
THE FASON INDUSTRY AS A CASE STUDY**

June 2010



*This report was financed by the **Open Society Foundation for Albania – Soros Foundation**. The findings, interpretations and conclusions expressed herein are those of the authors and do not necessarily reflect the view of the **Open Society Foundation for Albania** or those of the **Open Society Foundations**.*

Executive Summary

This report analyzes and explains the impact and consequences of the economic crisis in Albanian economy and social dimension, with particular focus on the “fason industry”¹. After reviewing the main literature on the topic, the study provides empirical data on the crisis effects.

The Albanian economy has been affected directly from the world economic depression, even though the country notched a GDP growth rate of 3% in 2009. The Social Dimension of Global Crisis in Albania report by ACIT explores the official statistics of the Albanian economy, as well as the international organizations reports like IMF and EBRD. It shows that the drop in macroeconomic figures such as the employment rate, private consumption, remittances and exports are clear consequences of the fact the small-open Albanian economy has been directly affected by the crisis with delayed impact on the real economy, compared to the rest of the region.

The survey conducted with 77 *fason* companies shows that 57% of them experienced a fall in value of sales in 2009 compared to 2008. The situation has not improved in the first quarter of 2010 contrary to official figures which indicate resurgent Albanian exports. The survey results show that 65% of the companies asked experienced a fall in volume as well as value of sales in Q1 of 2010 compared to 2009. As per profit and loss 16% of the companies asked, report having experienced financial loss in the first quarter of 2010 compared to the same period in 2009 while more than 35% report a decrease in profits.

71% of the companies interviewed maintain that the fall in foreign demand has been the most important contributor to their fall in sales. The survey results indicate that 36% of companies asked see contractual breaches from foreign companies as another important factor affecting their sales.

The companies have responded to the fall in sales by searching for new markets and new suppliers of raw materials, looking for new foreign partners and investing in new technology. They maintain that the most effective measure has been the search for new markets, while the least effective seems to be a reduction in workers’ wages.

The social impact of the fall in sales in *fason* companies has been captured by a second survey addressed at 225 employees of this industry group. The survey results show that the number of people who experienced a fall in monthly income in the first three months of 2010 almost doubled compared to 2009, amounting to 46% of the respondents. The social impact of the crisis seems to be severe for this category of workers. According to the survey results, 71% report having experienced either a little or a considerable fall in their living standards in Q1 2010. 42% experienced a fall in their livings standards so that they can hardly meet daily expenses for food and electricity.

¹The term “fason industry” is used in Albania to refer to the inward processing industries of textile, garments and footwear manufacturing. The partial, or fully finished products are almost always exported to other countries and not sold in the country and represent a major portion of the country’s exports.

1. Background and Scope of the Study

Starting as a financial sector crisis of the American economy, and soon reaching global proportions, the world financial crisis assumed the features of a deep, all-encompassing economic crisis. From the beginning it was obvious that the Albanian economy would not escape its influence, the European Commission expressed this widely held belief when it declared: *“With increasing evidence that no country will remain immune from this crisis, domestic authorities (in Balkan countries) are gradually realizing that the drastic change in their growth trajectory will challenge current planning assumptions and policies, and require a new policy mix.”*²

As in other countries, initially the symptoms of the crisis in Albania (May-June 2008) manifested themselves in the financial sector. Soon thereafter the sectors of the real economy began to experience negative effects from the slowdown of economic activity and the drop in demand, fluctuation of the exchange rate and financing difficulties. The industrial sector in general and the inward processing industries in particular, commerce and services, mining and refinement of minerals, started to show dropping performance indicators and augmented the pressure on the authorities for protective and supportive measures. It is true that the symptoms of the crisis initially showed up on the macro-fiscal indicators, yet today even simple, not in depth analysis indicates that the crisis is present in each person’s life. Nonetheless the conversion cycle from economic crisis to social problems remains almost completely unaddressed; be it at the study level, or the actual interventions that are needed. The exploration of the characteristics, size, structure, and depth of the crisis for the Albanian society through methods and practices suggested by contemporary research is only half of the job. The other half, undoubtedly the most difficult part, will be to identify “social areas” under special risk, raise awareness amongst stakeholders (decision-makers at the local and central level, civil society, and media) and formulate priority intervention measures aimed at alleviating the effects of the crisis. These measures will of course need to mobilize all interested actors – including the affected social communities.

This study aims to explore the situation of the Albanian fashion industry in relation to the global recession, clarify the negative effects transmission mechanisms, identify the social range of problems caused by this impact, and offer suggestions on policies intended to protect the most affected groups. Due to its general characteristics, the fashion industry is seen as a good proxy for the overall Albanian economy; hence the study offers an analytical basis to assist the policymakers, so that the public debate can be focused on finding alternatives and specific interventions with the aim of alleviating the direct economic and social consequences of the global economic crisis.

^{2 2} The Western Balkans in Transition, EC, Directorate-General for Economic and Financial Affairs, European Economy, Occasional Papers 46| May 2009

2. Methodology

Preliminary findings from desk research were used to sketch out the key issues affecting the Albanian economy and their social impact. Two separate questionnaires were then compiled based on these findings in order to conduct a survey in three districts of Albania: Tirana, Korça and Shkodra.

The first questionnaire aimed at measuring the economic impact on Albanian enterprises of the fashion industry, covering 77 businesses. Understanding how this sector of the economy has performed with regards to sales and production capacity during the crisis is of crucial importance due to the industry's characteristics, especially its reliance on low cost labour and its intensive relationships with international partners. The decrease in foreign demand, increased regional competition, higher costs of production and increased costs of production have been the major variables that have adversely affected the production capacities of this industry.

To clearly delineate the profitability determinants of the targeted companies the survey accounted for different factors such as changes in the sales volumes or sale prices, changes in key input costs such as energy and raw materials, or fiscal changes, including increases in the official minimum wage. Of equally important concern were measures undertaken by the companies in response to the crisis and any specific demands made towards the government in the form of crisis assistance. Also given the importance of this sector in the labour market, it was important to measure how the employment situation in 2009 has changed as compared to the previous year.

The second questionnaire was designed to measure the social impact of the global crisis. The survey involved 225 individuals, in an attempt to estimate whether the global crisis has had an effect on the living standards of the Albanian workers. Considering the importance of remittances, it was of interest to investigate whether the decrease in remittances has been translated into lower living standards, which would undoubtedly also be affected by other variables such as prices of goods and services, other family income and public services.

3. The Global Crisis and the Albanian Economy

The impact of the global economic crisis has varied significantly across the world. The developments in the financial sector in 2008 and 2009 did not affect directly many developing countries as their exposure to toxic assets was minimal. However, by early 2009 there were clear signs that the financial crisis had indirectly affected many transition economies of Eastern Europe. By the end of 2009 the effects became much more severe with countries such as Lithuania, Estonia, Serbia and Ukraine recording negative real GDP growth of -18.4%, -13.2%, -4% and -14% respectively.

The impact on the Albanian economy, one of the poorest in Europe, is yet to be determined and it is expected that the full extent of the crisis will not be felt until a later moment due to the lack of full integration in the global markets. At first glance the Albanian economy seems to have performed well in the past year; according to EBRD figures the average growth rate of the economies of South Eastern Europe at the beginning of the crisis was 6.5% with Albania growing at 6.8%, 0.3% faster than the regional average. The Albanian economy seems to have escaped relatively unscathed even in 2009, when the impact of the global crisis was felt in many developing countries. Figures from the EBRD show that in 2009 the average growth rate of the South Eastern European countries was -6.2%; whilst Albania registered a positive growth rate of 3%³. This led the IMF to conclude that *‘in the face of strong headwinds, the Albanian economy has weathered the global crisis fairly well so far’* where *‘sound economic policies and Albania’s still limited integration into global markets have helped to mitigate the negative impacts of the global financial crisis’*⁴.

Table 1. Growth in the region.

Growth in real GDP (in per cent)													
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
												Estimate	Projection
South-eastern Europe													
Albania	-10.9	8.6	13.2	6.5	7.9	4.2	5.8	5.7	5.7	5.4	6.0	6.8	3.0
Bosnia and Herzegovina	37.0	15.6	9.6	5.5	4.3	5.5	3.0	6.3	3.9	6.7	6.8	5.4	-3.1
Bulgaria	-5.8	4.0	2.3	5.4	4.1	4.5	5.0	6.6	6.2	6.3	6.2	6.0	-6.0
FYR Macedonia	1.4	3.4	4.3	4.5	-4.5	0.9	2.8	4.1	4.1	4.0	5.9	4.9	-1.6
Montenegro	4.2	4.0	-6.7	3.1	1.1	1.9	2.5	4.4	4.2	8.6	10.7	7.5	-4.1
Romania	-8.1	-4.8	-1.1	2.1	5.7	5.1	5.2	8.5	4.2	7.9	6.0	7.1	-8.0
Serbia	10.1	1.9	-18.0	5.2	5.1	4.5	2.4	9.3	6.3	5.5	6.9	5.4	-4.0
Average ^f	-0.2	0.1	-2.5	3.9	4.8	4.7	4.5	7.8	4.9	7.0	6.3	6.5	-6.2

Private Consumption

Bank of Albania figures indicate that private consumption appears to have decreased in 2009 due to the increase in unemployment, the reduction of remittances, credit for consumption,

³ EBRD 2009 Transition Report

⁴ IMF Preliminary Report 2010

and increased insecurity during 2009. In particular, the retail trade index recorded negative annual growth in the first quarter of this year, a slight increase in the second quarter and it fell by 2.3 percent in the third quarter. Based on qualitative data from surveys, the consumer confidence indicator, after a slight improvement in the second quarter, recorded a decline in the third quarter of 2009.⁵ Bank of Albania maintains that other factors such as the slowdown of aggregate demand, low level of business confidence, the low rate of capacity utilization as well as the constrained credit conditions have contributed to the contraction of private investment in 2009. They show that imports of capital goods, which is considered as a good measurement of investment in the economy, has suffered an annual decline of 12.8 percent in the period from January to November 2009.

Fason Industry

The fason industry (active processing of textiles and shoes) is one of the most important sectors in the Albanian Economy, having grown progressively in the past years as a result of the Albanian labour market being well suited to production processes that rely on labour intensive processes, producing goods intended for export in EU markets. As a result of this, the textile industry tops the light industries' list of employment figures with more than 100 shoe and leather companies operating in the country and producing up to 1.2 million pairs of shoes per month⁶. Albania's leather goods industry, comprised mostly of footwear producers, contributes significantly to the country's production, export sales and employment, making Albania the second largest exporter of shoes to Italy. Labor costs in the shoe and leather sector in Albania at \$180-300 per month are a fraction of the wages in Italy and in. The majority of the workers in the industry are women and girls who have very low qualifications and it is this group that has suffered the most from the crisis with the industry reportedly laying off thousands of its workers⁷ in the first three months of 2009, out of the 66 thousand officially employed.

Retail Sector

The volume of retail sales recorded a decline of 3 percent during the last quarter of 2009, with the same period of 2008, according to the governmental Institute of Statistics (INSTAT). The decline in retail sales was accompanied by reductions in the number of employees in this sector by 3.5 percent. The strongest decline was registered in the sales of clothing and shoes. According to data collected by INSTAT, Albanians spent 23 percent less on clothes in the last quarter of 2009 while the clothes retail sales decline was followed almost to the same extent by the decline in the number of employees in this sector around 23% less in the last quarter of 2009 compared to the third quarter of 2008⁸. Retail stores have a great importance for employment in Albania, statistics from the Ministry of Labor point out that a considerable

⁵ Bank of Albania, 2010,. Report on the Second Half of 2009 Monetary Policy Department,.

⁶ UNDP (2005), Albania Shoe and Leather Sector a New Inward Investment Opportunities.

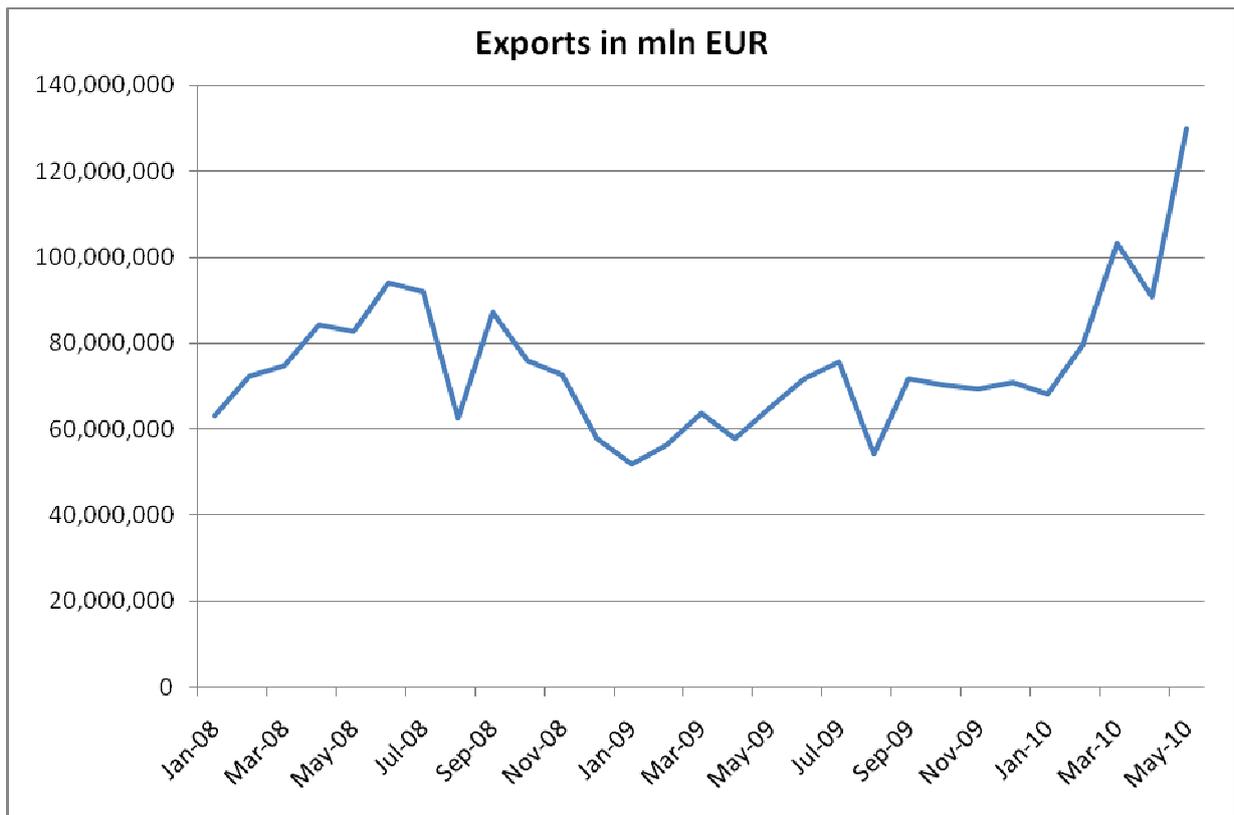
⁷ Gazeta Shqip 2 April 2010 "Eksportet, vijon kriza e fasonistëve".

⁸ Albania, 28 Novemebr 2009, Varfëria, bie niveli i konsumit, shitjet me pakicë ulen me 2.9 për qind.

number of people live with income from retail sales, either as self-employed or as employees. The decline of sales in retail goods is the first in many years in Albania, with the decrease in remittances viewed as the main reason for the fall of the purchasing power in the country.

Exports

The global crisis negatively affected Albanian exports from its very beginning. Bank of Albania of Albania figures indicate that for the period of January - November 2009 exports totaled 573 million Euro, with a decline of 19.2% compared to the same period of 2008. Amongst the sectors and products that suffered the greatest declines were minerals such as chromium, copper, steel and iron. Weakening global demand has significantly affected exports; Albania’s main export destination markets are Greece and Italy and their recent weak economic performance has had a direct impact on demand for Fason goods and minerals. Exports in the "raw materials" and "processed goods" categories have experienced the main effect, recording a decrease of 24 and 33 percent respectively in annual terms. Meanwhile, the other group with a great weight in exports "Other Goods processed", recorded an annual decline of around 5 percent. The combined weight of these three categories for the period in question is about 77 percent of total exports.



Inward processing exports amounted to 65,308 mln ALL in 2009, from 67,370 mln ALL in 2008, registering the first decrease in absolute value⁹. Textile products account for 27.4

⁹ ACIT, Albania 2009 Trade Report,

percent of total exports in 2009. Even though textile products exports decreased by 5 percent, their relative share to total export flows increased by 0.7 percentage points, emphasizing once again the importance of this industry in the Albanian economy. Footwear products on the other hand represent 19.4 percent of total exports.

Remittances

Over the past two decades, Albania has experienced high migration rates, up to 40% of the working-age population is estimated to be currently living and working abroad¹⁰. In years past this sizable immigrant community has sent back substantial amounts of funds to the country peaking in 2007 at 951.7 million Euros and contributing 15% of GDP in the last 10 years¹¹. Nonetheless the financial crisis brought about lower remittances in 2009; according to the Bank of Albania in the first three quarters of 2009 remittances were estimated at about 582 million EURO, 38 million EURO less than the same period a year ago. In this context, the economic troubles in Greece which hosts the largest community of Albanian emigrants become even more sensitive as remittances constitute a significant source of income for many families in Albania.

A survey conducted by BOA indicated that an estimated 190 thousand families out of a total of 728 thousand households receive money from abroad in the form of remittances. The average annual inflow of remittances to Albanian families is estimated at approximately 1,900 EURO with not much geographical variation. The income from remittances in rural areas represents about 64% of the total annual remittance in Albania¹². Based on these data, according to World Bank (WB), if the remittances were to stop completely, almost 35% of Albanians would be reduced to living in poverty (defined as living on less than 2 dollars a day)¹³.

BOA figures show that migrant remittances represent a critical source of income for families, occupying approximately 40.7% of average monthly income. In rural areas, the impact is more pronounced and the proportion is estimated at 45.7 percent.

The effect of remittances on economies is complex. In the case of Albania, these flows represent a source of income to meet consumer needs and improve living conditions, as well as a potential source for financing investments and creating new jobs. On the other hand, remittances can create pressures on the labour market by leading to addiction and encouraging long-term unemployment. Obviously however, the 19 percent decline in remittances in the first half of 2009 over the same period of 2007 has had a considerable negative impact on households' budgets and the exchange rate.

¹⁰ Bank of Albania, 2010,. Report on the Second Half of 2009 Monetary Policy Department.

¹¹ Ministry of Finance of the Republic of Albania figures, Second preparatory conference to the 17th OSCE economic and environmental forum, Tirana, 16-17 March 2009

¹² Economic Bulletin, Bank of Albania, Sept 2009, Vol12, nr 3

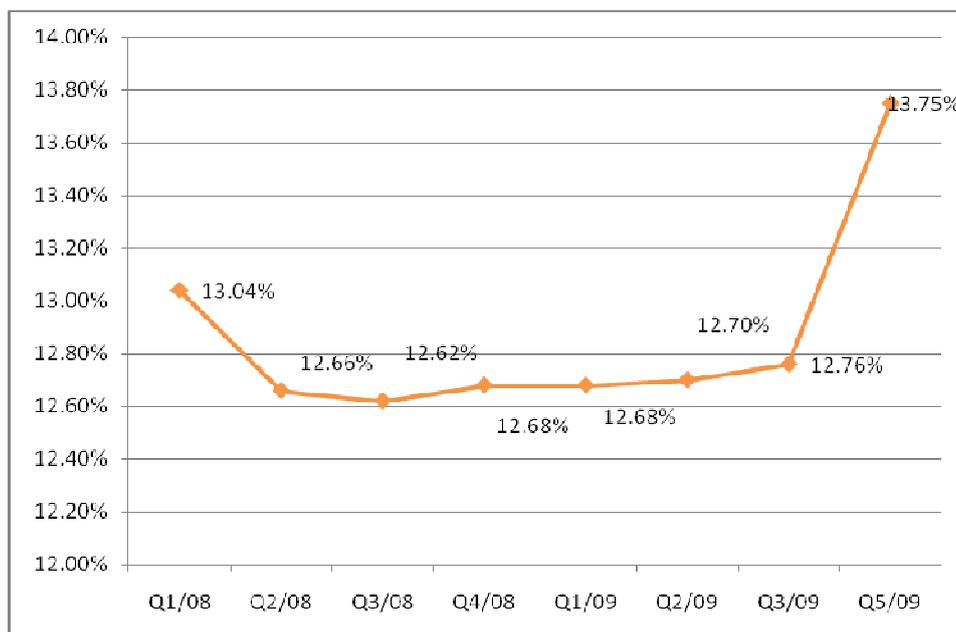
¹³ Bizneset shqiptare: Si po ndikohemi nga kriza greke. MONITOR, 17 February 2010.

Employment in Albania

According to INSTAT the unemployment level during the Q4 2009 in Albania reached 13.75%. This suggests that the Albanian economy is experiencing the effects of the global recession with some delay, as the average unemployment level in the first three quarters of 2009 was 12.7%. According to official data the unemployment level in Albania remained stable during 2008 and 2009; however it is interesting to note that according to INSTAT the Labour Force in Q4 of 2009 was almost 71 thousand workers less than in Q3 of 2009. This sudden fall in the labour force is not explained by INSTAT and at about 6.3% of the total labour force is by far the largest seen in the past two years. If we do calculate the unemployment level in Q4 of 2009 using the total labour force as in Q3, the unemployment rate jumps to a staggering 19.24%.¹⁴

Despite this, during the first six months of 2009 the salaries in Albania increased by about 5.6%. This was mainly attributed to the public sector increases while in the private sector the wages remained almost unchanged. According to the Bank of Albania the private sector responded to the global crisis by freezing pay rises for its employees. The public sector on the other hand benefited from an increase in salaries in May 2009 a month before the general elections in Albania.

Graph 2. Level of unemployment



Economic Activity

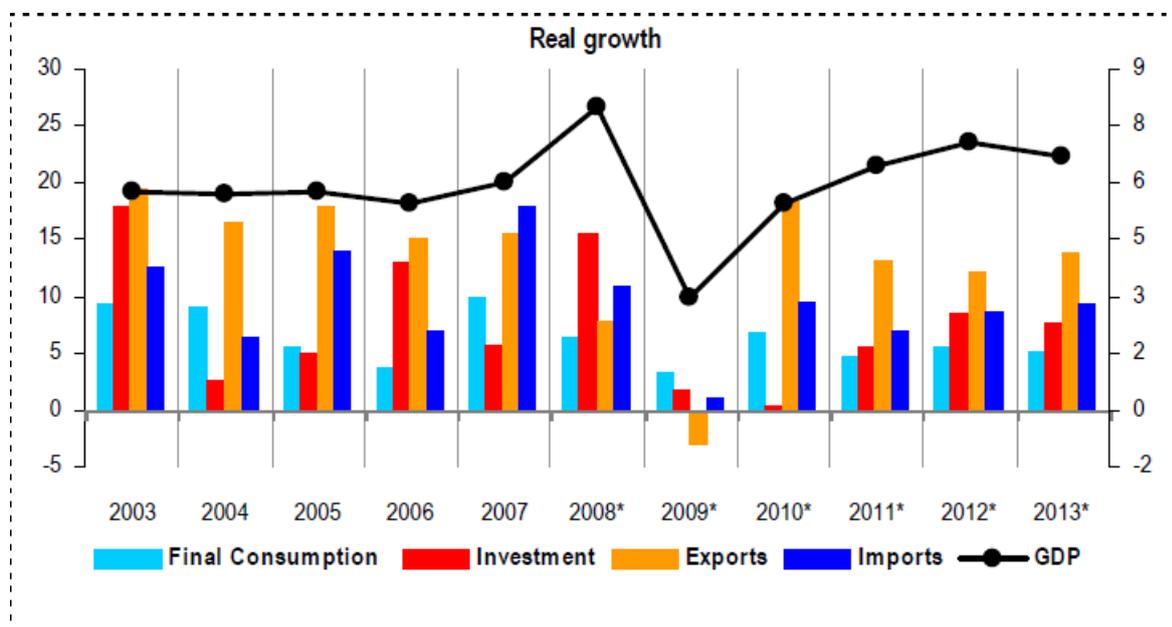
As pointed out earlier the growth rate of the Albanian economy has slowed to 3%. Despite a positive growth rate, the Albanian economy remains one of the poorest in Europe, and any slowdown of the economy is likely to affect population groups and different sectors of the

¹⁴ Author's Calculation

economy disproportionately. According to INSTAT the sectors of the economy that were fared negatively in the third Quarter of 2009 compared to the same quarter of 2008 were the industry and construction sector with -4.5% and -0.7% respectively. Many analysts have pointed out that the industry sector has suffered from a fall in exports and the fall in mineral prices in the international market. INSTAT states that the volume of industrial production in the third quarter 2009 decreased by 1.9 percent compared to the third quarter of 2008 and at the same time the number of employees in the industry sector decreased by 1.4 percent. The construction sector on the other hand seems to be suffering from the fall in new home buyers due the reduction in bank lending. The fall in new credit has been attributed to the current crisis where bad loans have increased to 10.48% from 6.64%¹⁵.

However, while the fiscal stimulus was beneficial in 2008 and 2009 it has now become a risk, as it aggravates already existing vulnerabilities. The fiscal deficit, which hovered around 3 percent of GDP up to 2007, has climbed to some 7 percent as sharp government expenditure growth has outpaced revenue collection—though privatization receipts limited the amount to be borrowed. This was an important factor in propelling public debt to close to 60 percent of GDP¹⁶. “It is therefore essential that quick progress be made in redressing internal and external imbalances. According to the IMF both revenue increases and expenditure cuts should be on the agenda. The government has proposed in the new Medium Term Macroeconomic Framework—a temporary free in spending of some 30 billion Albanian Lek or 2.5 percent of GDP”¹⁷. The impact of these cuts is yet to be established, especially since the public sector remains the most important sector of the labour market in Albania.

Graph 3. Macroeconomic indicators



¹⁵ Bank of Albania, Financial Stability Report, 2009

¹⁶ IMF Preliminary Report, February 2010

¹⁷ IMF Preliminary Report, February 2010

4. Companies' survey: performance and the crisis impact.

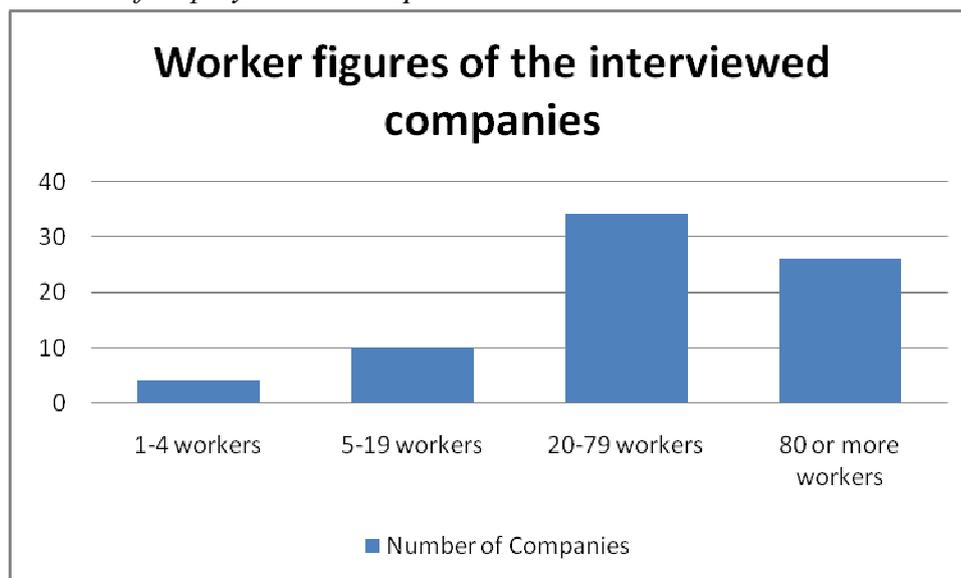
Description of the Sample

The survey was designed so as to gather the necessary information from 77 representative fason companies in Albania to estimate the impact of the financial crisis on their operations. It was conducted in April-May 2010, seeking information on 2009 and the first quarter of 2010.

Given the importance of the capital city of Tirana, and the high level of concentration of this industry in the city, almost half of the companies in the survey were selected from this area. Shkodra and Korca are two other regions with substantial fason activity, thus the remaining companies were selected from these regions. The selection also aimed to follow up on official figures from the Ministry of Labour indicating that a large number of fason companies in Korca and Shkodra had resorted to partial or full closure of their operations¹⁸.

Almost 88% of the companies of the sample specialise in the textile and shoes industry, with textile processing representing the lion's share. Almost $\frac{3}{4}$ of the companies employed a considerable number of workers, with the majority employing 20-79 persons.

Graph 5. Number of employers and companies



According to a report from the Bank of Albania in 2009 most of the companies in Albania operated at 67% of their capacity, 10% lower than the previous year. This finding is in line with the survey results which show that the average fall in operating capacities in 2009 was 15%. When asked about their experience concerning their operating capacities during 2009, almost half of the companies report that they have faced a reduction in their operation capacity.

Given that the effects of the global crisis have had an immediate depressing impact on the Albanian exports it was important to measure how exposed these companies have been to the

¹⁸ Statistical Buletin 2009, Ministry of Labour

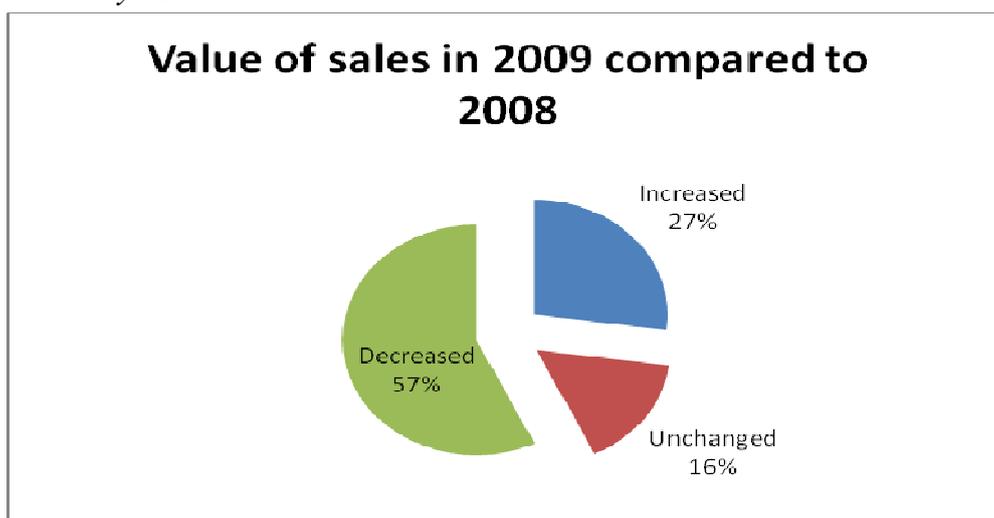
fall in foreign demand. Of the 77 companies surveyed, 54 of them produced 80-100% of their goods for export only, highlighting once more the vulnerability of the fason industry to external demand shocks.

The survey indicates that the fason industry has achieved a certain level of experience and continuity, with almost 45% of the companies reporting that they have been in business for seven or more years. Given that the world financial crisis is the worst in many decades, this means that the fason companies operating in Albania have never before faced these kinds of difficulties.

Sales

Faced with falling foreign demand most of the companies operating in the fason industry have experienced a drop in their sales. According to the survey results, 57% of the companies experienced a fall in their value of sales during 2009 when compared to the same period in 2008. 27% reported to have experienced increased value of sales during the same period while 16% of the total reported no change in sales.

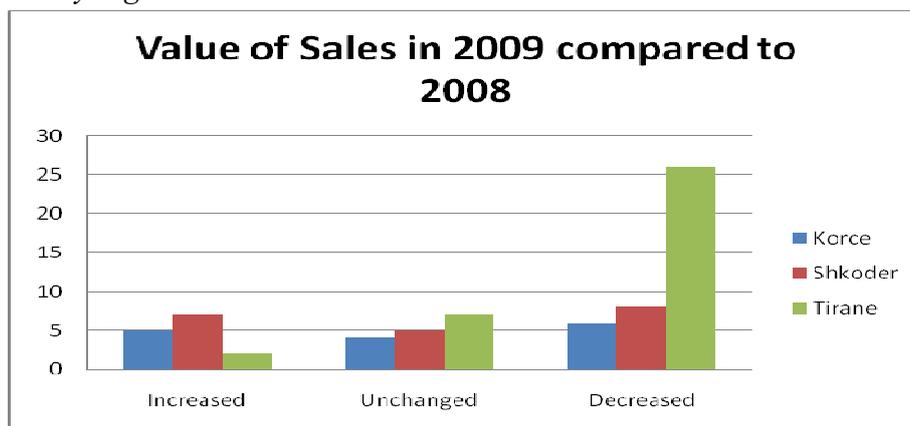
Graph 6. Sales dynamics



The crisis seems to have had little negative impact on companies operating in Korca, despite its proximity to Greece. 5 companies report having experienced no change in the value of sales in 2009 compared to 2008, 6 companies actually report increased sales and only four companies report a fall in value of sales. Companies operating in Shkodra report similar results to those in Korca region albeit slightly worse, with 9 companies experiencing increased sales and 11 of them experiencing a reduction in sales.

It is interesting to see that the most affected companies are those operating in Tirana. The gap between the companies that experienced decrease in sales and those that had increased sales is substantial with 25 out of 35 companies reporting a decrease in sales, 6 reporting no change and only 4 companies reporting an increase in sales.

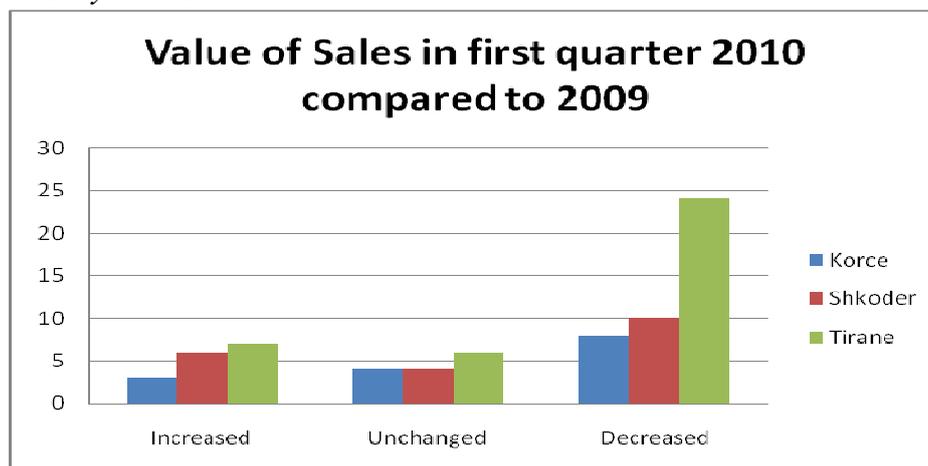
Graph 7. Sales by region



In contrast to official figures, which describe a resurgent foreign demand¹⁹, our survey shows that sales of fason products have dropped. The figures show that 65% of the companies report that their volume- as well as their value- of sales decreased in the first quarter of 2010. Just in the first quarter of 2010 the number of companies reporting decreased sales increased by 8%, vs. the number of companies reporting the same experience for 2009.

The first quarter of 2010 reflects a worsening climate for the companies in Korca and Shkodra compared to the first quarter of 2009²⁰. For instance in Korca the number of companies that experienced a drop in sales doubled from 4 companies to 8. While the companies in Tirana and Shkodra do not indicate any changes in their sales compared to the 2009 period.

Graph 8. Sales Dynamics in 2010



Profit and Loss

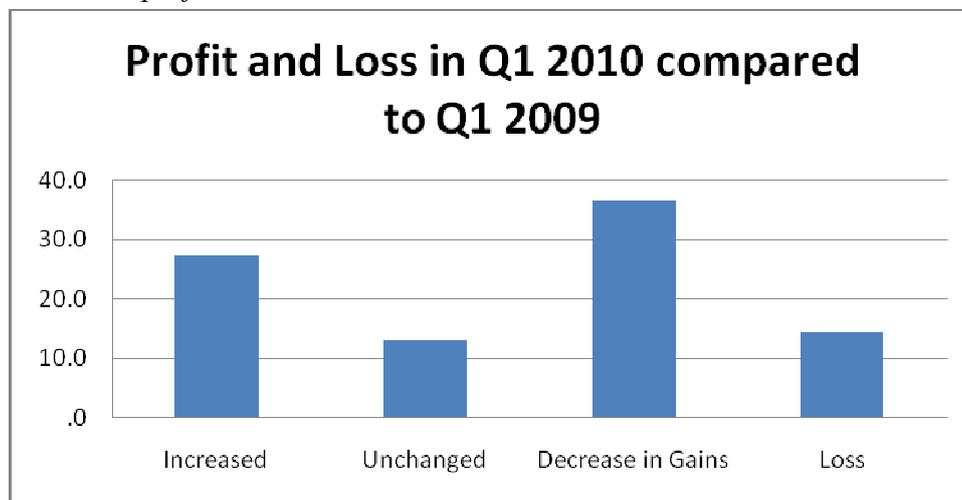
¹⁹ INSTAT reports an increase of 60.5% if exports in April 2010 compared to April 2009.

²⁰ We have chosen the first quarter of 2009 and not the last quarter of 2009 for the comparison, in order to eliminate for any seasonal adjustments to the demand and sales.

The companies were asked on whether their company experienced an increase in profits during 2009. The question sought to provide a better view of the companies' performance given that a fall in sales does not necessarily mean a fall in profits, which may be affected by factors such as a fall in operating costs or increases in product prices. The survey results show that half of the companies had increased financial gains during 2009 while 21% experienced a decrease in profits.

The situation in the first quarter of 2010 is less optimistic; with more than half of the companies (56%) reporting decreasing profits and only 30% of them recording a profit. It is important to note that the number of companies in the red has increased substantially in the first quarter, with 16% reporting a loss.

Graph 9. Financial performance



In order to understand the measures that the government needs to take in economic hardship we looked into the reasons the companies believe have contributed to the fall in sales. The questions asked were formulated in order to estimate the factors as identified in the desk research. As already shown almost three quarters of the companies asked exported 80-100% of their goods. It is therefore hardly a surprise that the companies point out that the drop in foreign demand has been the most important factor in depressing their sales during 2009.

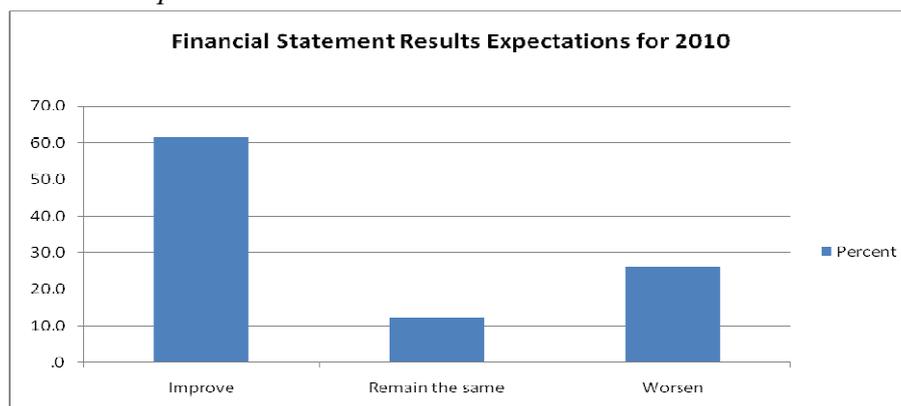
- According to our survey the most important factor that has contributed to their fall in sales has been the drop in foreign demand. The survey shows that 55 out of 77 companies, or 71%, believe this to be the main contributor to the fall in the sales.
- Almost 36% maintain that a decrease in the supply of raw materials from the ordering company is an important factor. The table shows that this is not a problem for the companies operating in Korca and Shkodra. However the results show that almost half the companies asked in Tirana are affected by this.

- 34% report that contractual breaches from the ordering company are a problem. The Albanian companies complain that the ordering companies often breach or cancel their contractual agreements. The table below points out that companies operating in Shkodra are more exposed to this kind of problem, while in Korca this problem is almost inexistent for the 15 companies asked. However, off the records, some of the fason companies in Korca declared that several companies in their district had to close because of these breaches.
- 29 out of 77 companies report that rising cost of production and operational costs are important in explaining the worsening financial results. This is more significant for Shkodra where 12 out of 22 are negatively affected from these costs. The raise of some costs has also been an important factor for the operation decrease, for example, the rising costs of electricity and fuel, social contribution and minimum wage. These are seen as the two contributors to rising costs of production.
- Different to expectations the companies do not report liquidity as a major issue in explaining the fall in sales. Only 22 out of 77, or 28% maintain this has reduced their capacity to meet payment obligation. Also these companies do not perceive domestic and regional competition as problematic.

Expectations

Despite the negative experience of the first quarter most companies are optimistic that they will increase their operation capacities and improve their financial standing during 2010. The majority, almost 62%, believe that during 2010 they will improve their financial results and only 26% think that they will experience a loss.

Graph 10. Financial expectations.



The Companies Response and reaction to the fall in Demand

An important part of the survey was finding out from the companies how they reacted and what measures, if any they undertook to counter the effects of the crisis. Various alternatives

were reported, quite interesting and helpful in better understanding the situation of this industry.

- Search for new Markets

Albanian fason companies export most of their goods to neighbouring countries such as Italy and Greece which have been affected significantly from the world financial crisis. The need to search for new markets is therefore understandable and the survey shows that this is fact the most important and immediate step that the companies have undertaken. 47 companies report that they have searched for new markets to sell their goods; out of these 40 report that this measure has been efficient.

- Search for different suppliers of raw materials

In order to reduce operating and production costs a number of the companies are looking for new suppliers of raw materials. 25 companies have resorted to this measure, however 16 of them report that it has not been effective in offsetting the fall in demand.

- Search for new foreign partners

As has previously shown the Albanian fason companies have experienced difficulties in enforcing contractual obligations to foreign collaborators. For this reason it is understandable their need to search for new foreign co-partners. 41 companies say that this measure has been beneficial and helpful.

- Invest in new technology

40 companies have embarked on investing in new investments so as to improve productivity and profitability. 13 companies report that this step has aided them in facing the fall in demand, 17 say that it has helped them a bit and 10 say that this has not helped them.

- Improve their marketing strategy and the quality of their goods

26 companies say that this has been beneficial; only 2 companies report that it has not helped them.

- Reduction in Employment

In order to meet the fall in demand some companies have reduced the number of workers. 23 companies reported that they have taken this as a necessary measure and that it had proven positive. However, 20 other companies say that this has not been positive and 3 say that this has aided them a bit.

- Reduction in workers' wages

The wages in the fason industry are already close to the minimum wage so there is little room for downward pressure. 31 companies report that this measure has not helped them, only 5 count this as a positive measure.

- Sought new credit

36 companies report having sought new credit from the banking sector, however many have experienced difficulties in obtaining credit from banks.

The Companies Demands from the Government

When asked how the government and public authorities can help their business activities to better face the crisis, the companies had quite clear ideas outlined below:

- International Marketing

When asked if they required international support from the government especially concerned with international marketing, 49 out of 77 companies answered positively. Companies are now aware of the necessity of expanding their markets and searching for new partners. The medium and long term dependence from markets that proved to be at risk (such as Greece and Italy), encouraged them to seek for other collaborations.

- Fiscal Reform

43% of them answered that they would welcome fiscal policy changes from the government. This was mainly related to tax and social security payments and contribution rates.

- Credit Support

46% of companies reported that the crisis showed that credit support remains a salient issue for their business activities. They ask that the State help them with financial and credit support schemes in order to improve their competitiveness and productivity.

- Training of new Workers

19 out 77 companies said they would need government assistance for finding and training new workers. As it is still an unstable labour market for their field, courses and professional schools would help sensitively the consolidation of their labour market and thus permit the long term investments.

- Elimination of the “reference” salaries

Companies claim that the monthly social and health insurance contributions for employees should not be based on the reference salary system set up by the government, but rather on the actual salaries, which are easily accessible. Businesses have embraced the legal obligation to pay salaries through banking channels and the government can easily check on the monthly pay outs. Salaries contribute up to 80% of the operating costs.

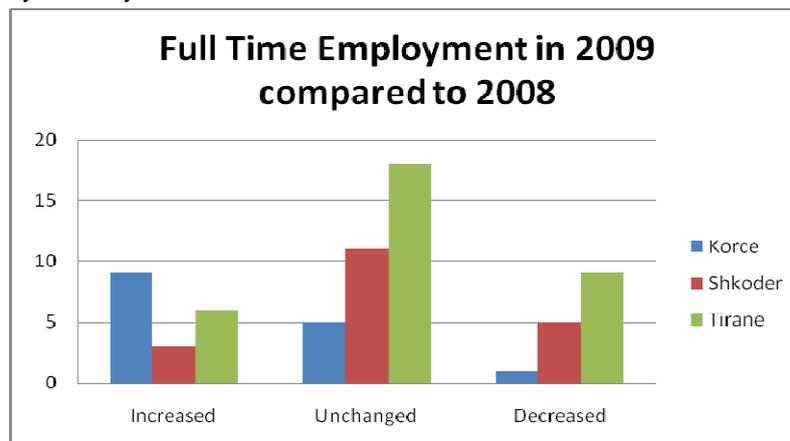
5. Workers' survey: measuring the social impact.

The fason industry relies primarily on female employees. The survey confirmed this as the composition of the workforce of most companies was 80-100 % female. While some companies report that their workforce includes up to 20% of Roma minority workers, the majority of the companies either had no Roma employed or declined to answer to this question.

The workers seem to have a relatively stable working contract. 75% of the companies reported to have a one year contract with their workers, subject to renewal according to the law. The companies seem to prefer less short term contracts and even special contractual services with self employed women.

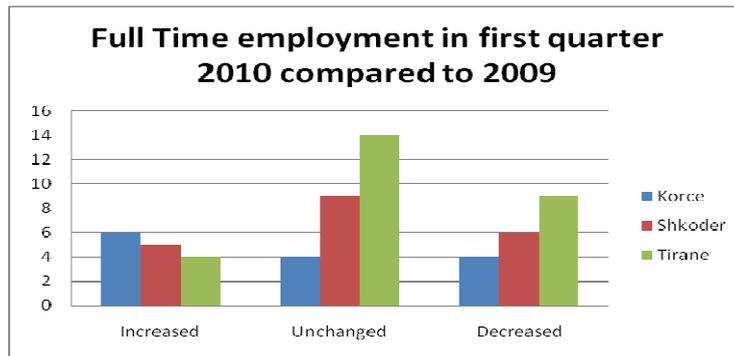
Almost 50% of the companies report that they have not resorted to firing people with one year contracts in the face of hardship, 27% report having increased the number of workers during 2009 and 22% claim that they have reduced the number of employees. Specifically 1 out of 15 companies in Korca said that they had reduced employment in 2009, 5 out of 19 in Shkodra, and only 9 out of 27 in Tirana.

Graph 11. Employment dynamics



However, when asked whether employment had fallen or increased during the first quarter of 2010, compared to 2009, 31% reported to have laid off more workers. 24% said they had increased the number of workers while 44% said that they had not taken any measures yet. The geographic dispersion of the companies that had reduced their employment headcount in the first quarter of 2010 was 4 companies in Korca, 6 in Shkodra and 9 in Tirana.

Graph 12. Employment in the first quarter 2010



Description of the sample

The sample for individuals/workers sought to maintain a similar proportional representation of the cities of Tirana, Shkodra and Korca as was the case with the sample for the companies. Therefore Tirana has the largest share of the population sample with 117 individuals interviewed or 51.8% of the total. The rest of the sample was 60 individuals from Shkodra and 48 from Korca, 27% and 21.2% of the total respectively. The total sample consisted of 225 individuals.

82.3% of the individuals live in relatively small households consisting of 3-5 family members where the majority, 34%, lived in four member households. Larger families of 6-7 members are less significant representing only 14% of the sample. Given that 70% of the individuals were 19-40 years old and the fact that the sample consists of 3-5 family members than it is no surprise that more than 70% of the households had only 2 people of working age. Also only 30% had one or two pensioners as members of their household.

As was mentioned above, the fason companies employ primarily female workers. This is reflected in the sample composition where 81% were female respondents. Most of the factories are allocated in rural areas and the workers have little qualifications which makes the consequences of the economic crisis especially dire for them given that they find it harder to cushion the difficulties with additional income from alternate activities.

Job description and qualifications

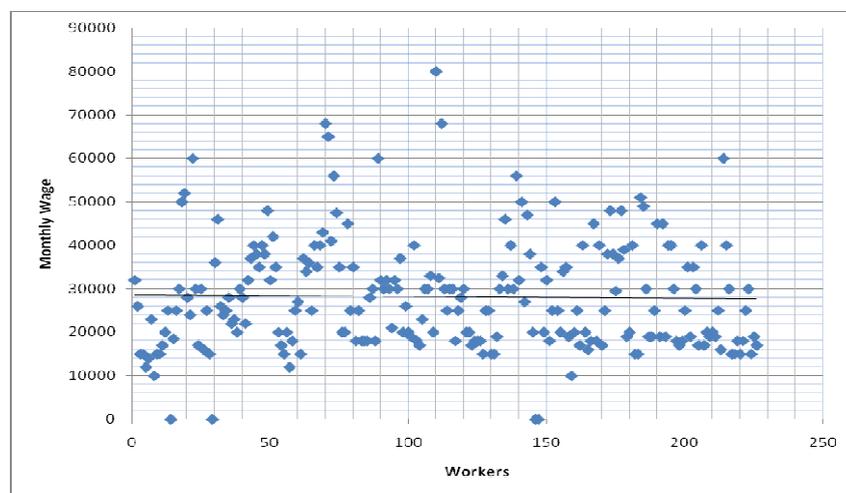
The majority of the people asked were factory workers involved either in textile or shoes industry. 103 out 225 people asked were simple factory workers. 32 out of 225 were machinists and 15 work as seamstresses. The rest consisted of accountants (6), mechanics (10), drivers, technicians etc.

Generally the workers in the fason industry have very low qualification. Of the 225 people asked 24.8% had completed only elementary school education, 37.6% had finished high school education, 23% had completed professional high school education and 12.7% had finished their university studies.

Income

When asked about their monthly personal income, 220 out of the 225 individuals asked reported incomes ranging from 10,000 Albanian Lek to 50,000 Albanian Lek (approximately 100 to 500 USD at current exchange rates). Only 5 individuals reported earning more than 50,000 Albanian Lek per month. The average wage of the respondents is 28,000 Albanian Lek (approximately 280 USD). However, more than 56% reported a monthly income lower than the average. It is important to note that 25% of the respondents report a monthly income lower or equal to 18,000 Lek per month, with 35 people reporting an income lower than the national legal minimum wage.

Graph 12. Monthly wages



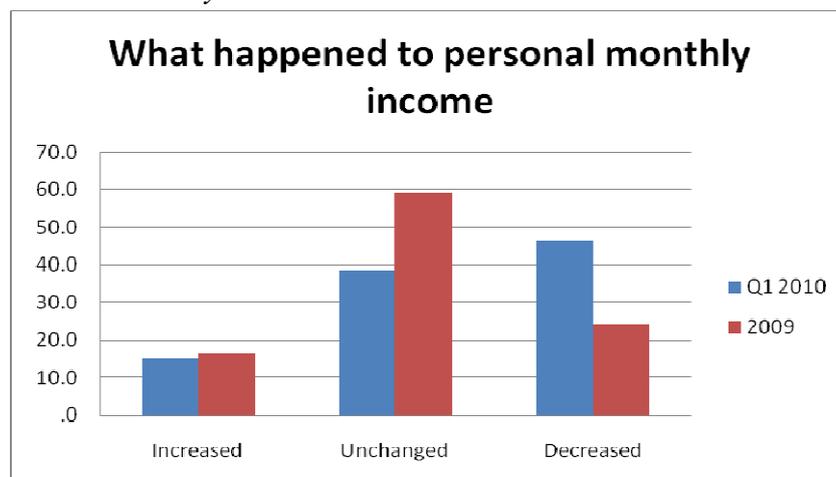
When compared to the average wage in the public sector for the year 2007, which stood at 33,750 Lek, the average wage of the sample is substantially lower with almost 80% of the sample receiving monthly wages lower than the average for the public sector in 2007.

The number of people that report having an alternative source of income is very limited. Therefore when asked if they worked in a second job, 93% answered that they did not have a second job. And as it has already been pointed out these workers do not have family members working abroad which abolish remittances as an alternative source of income.

Developments in 2009

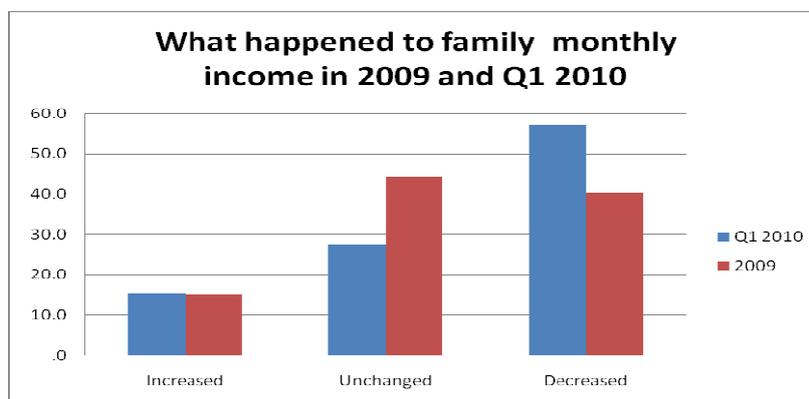
When asked if there were any changes to their personal income during 2009 compared to 2008, 60% replied that they had remained stable with no changes while 24% replied to have experienced a decrease in their income. Only 16% replied to have had a rise in their income levels.

Graph 13. Personal income dynamics.



Amongst those workers that experienced a fall in income, the average monthly income fell by more than 17% compared to 2008. On the other side, workers that reported an increase reported that their income was on average 13% higher than in 2008. These numbers were also reflected in their household income.

Graph 14. Family income dynamics



Developments in the first quarter of 2010

In the first quarter of 2010 the percentage of the people that experienced a fall in monthly income almost doubled to 46% of the respondents. The percentage of workers reporting increases in monthly income remained the same.

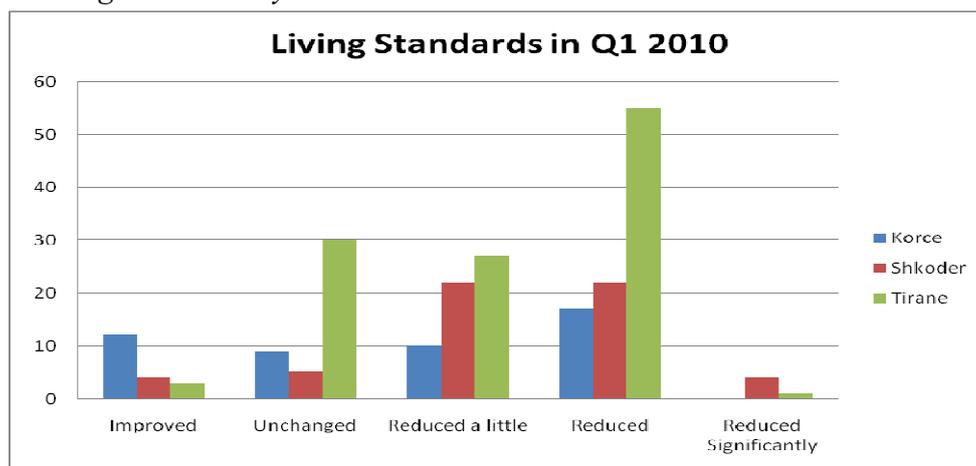
The average reduction in income in the first quarter of 2010 is 18%. Some even reported to have experienced a reduction of up to 50% of their previous income. More than half reported to have experienced a 10% fall in income.

The workers were asked to give the reasons why they had experienced a change in their family monthly income. The most important factor appears to have been an income reduction of other members of their families. 106 respondents (43%) replied positively to this question while 94 of them reported that the fall in their own personal income is an important factor explaining the decline in family income. Less frequent were other factors such as a fall in social benefits, reported by 16% of the respondents, or the retirement of a family member reported by 15% of the workers.

Standards of Living

It is striking to see that most workers have faced falling living standards in the past year. Only a minority of 9% say that they have experienced increased living standards while 20% say that there have been no changes in their living standards. 71% report having experienced either a little or a considerable fall in their livings standards. When asked if they had experienced a fall in their living standards so that they can hardly meet daily expenses for food and electricity, 42% replied positively to this question with another 27% reporting that they have experienced a little fall in their standards of living.

Graph 15. Living standards dynamics.



The fall in living standards would seem to be caused primarily by the decrease in the workers monthly income. However, the results point out that only 29% of the workers think that the fall in family income explains best the fall in their livings standards. More than 82% of the workers think that the reason that they are facing a fall in their living standards is mainly due to the increases in the prices of daily consumable goods such as food. Also when asked if their living standards had fallen due to the rise in public services like electricity and water, 82.7% replied that this had gravely affected their living standards. Another factor contributing to the fall in living standards is the rise in the costs of public health services where 61% thought this to be an issue.

Responses and reactions to falling standards of living

When asked if they had resorted to using the banking sector to seek consumer credit, 85% replied negatively and only 15% said that they had attempted to obtain credit. Only 23% replied that they had not needed the consumer credit while 17% of the workers did not reply. 137 workers or 60% reported that they had felt the need for the consumable credit but factors like high interest rates and refusal from the banks have not allowed them to access the banking market. For example, 32% replied that they were deterred from high interest rates and had not applied for credit in order to reduce the negative impact of the fall in their living standards. 7.6% had been refused a credit from the banks while 23% replied that despite being in need for consumer credit they had resorted to lowering the daily expenses in order to meet the rises in costs. When asked if they had looked for alternative sources of income 28.3% replied that they had asked for loans from family members and 33% said that they had bought daily consumable goods relying on “debtors list”, a form of store debt.

It is interesting to note that when asked if they saw emigration as a potential source towards improving their living standards, more than 73% replied positively. The survey also shows the low level of information on the visa liberalization process. Although government public advertisement and information notes have been spread through the media on the meaning of visa liberalization, almost 66% state that they would emigrate to EU countries if a visa liberalisation would come into force, permitting free travel (although not free movement of labor).

6. Conclusions

The effects of the global economic crisis have been transmitted to the Albanian economy. The survey results point out that the *fason* industry has experienced a fall in sales in 2009 as well as in the first quarter of 2010. Given the nature of the difficulties they face we believe that the expertise as well as the support of the government is needed to overcome the difficulties they face as a result of external shocks. This industry employs more than 80,000 workers and the crisis in the industry is likely to have a multiplier effect on the rest of the economy.

The current economic crisis has greatly exposed the reliance of the *fason* industry on foreign demand. The government should engage with the industry to support them in international marketing efforts to actively search for new potential markets. This measure would also fend off any regional competition and allow the Albanian *fason* industry to maintain its market position. The diversification of the market should be supported both by government institutions and other non governmental agencies.

The *fason* industry uses old technology which greatly reduces their production effectiveness and therefore output capacities. The representatives of the *fason* industry point out the banks unwillingness to provide them with credit for new investment as a major hurdle. They ask the government to provide them with credit at favourable rates, since they view the Albanian financial market as very costly. Financial facilitation schemes should be adopted in order to improve businesses access to finance and thus increase their performance and productivity.

The government needs to carry out extensive and detailed research on the social effects of the economic downturn in Albania. This would enable it to properly channel financial aid to those most affected people at a time of financial difficulties. As the survey results shows, a considerable number of the people asked face difficulties in meeting everyday expenditure. Governmental poverty reduction programs should be revamped and integrated in a comprehensive and updated strategy in order to deal with the current conditions brought on by the crisis, and the decrease in the living standards.