

Rapid assessment of the impact of the global economic crisis on the apparel and footwear industry in Albania



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Table of Contents

Executive Summary	6
Part 1 Background	9
The Global Context: Increasing Competition	9
The Albanian Context.....	9
Part 2 Impact of the crisis	15
Overview of the crisis impact on Albanian economy and transmission channels.....	15
Impact of the crisis on the apparel and footwear sectors.....	17
Labour market.....	19
Impact of the global crisis on the apparel and footwear sector (focus groups and survey results). 21	
Assessment Methodology.....	21
Limitations of the research	23
Sample composition.....	24
Performance of companies at the onset of global economic crisis.....	25
Financial performance	26
Trends in business performance and value addition.....	28
Business performance.....	29
Business drivers	30
Access to financing.....	31
Labour Market Impact	31
Skills and Remuneration	32
Training	35
The impact of the crisis on sector employment	35
Demand and Training Needs.....	37
PART 3 Mitigation capabilities of private actors and the government	39
Government measures	39
Sector's measures	41
SWOT Analysis of the Albanian Apparel and Footwear Industry.....	42
Part 4 Conclusions and recommendations	45
Responses to the crisis.....	45
Short term measures	47
Medium – long term measures.....	48
Works Cited	49

Index of tables and figures

Figure 1. Export performance 1993 – 2008	10
Figure 2. Top destinations for Albanian apparel and footwear products within EU27	10
Figure 3. Textile trade with the EU: Imports of raw material and re-exports	12
Figure 4. Product share in value of apparel and footwear exports.....	13
Figure 5. Sector share in value of Albanian apparel and footwear exports	14
Figure 6. Industrial output turnover and Value Added performance.....	16
Figure 7. Imports of apparel (SITC 84) and footwear (SITC 85) in EU 27	17
Figure 8. Trends in apparel exports to Italy: month to month 08 -09	18
Figure 9. Trends in footwear exports to Italy: month to month 08 -09	18
Figure 10. Share of Western Balkan countries in EU27 apparel imports.....	19
Figure 11. <i>Clustering the whole population of interest</i>	22
Figure 12. Sample composition by location and size of company (number of employees)	24
Figure 13. Number of companies by year of registration	25
Figure 14. Average turnover by year of registration.....	25
Figure 15. Average annual turnover change by area	26
Figure 16. Average annual percentage change in turnover by size of companies.....	27
Figure 17. Business performance during 2007 - 2009	29
Figure 18. Business drivers.....	30
Figure 19. Gender composition of workforce in sample	31
Figure 20. Gender breakdown of education levels of the labor force.....	32
Figure 21. Average monthly wages (2006).....	33
Figure 22. Remuneration by skill level.....	34
Table 1. RCA values between WB and EU 15	11
Table 2. Degree of openness of Albanian economy	15
Table 3. Employment and unemployment	20
Table 4. Gender breakdown by sector and position.....	32

List of Abbreviations and Acronyms

EIU	Economist Intelligence Unit
EU	European Union
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
FYR Macedonia	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
IMF	International Monetary Fund
INSTAT	Institute of Statistics Albania
LFS	Labour Force Survey
MoLSA&EO	Ministry of Labour Social Affairs and Equal Opportunities
NES	National Employment Service
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium Enterprise
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax
WB	World Bank

Executive Summary

The objective of this study is to undertake a rapid assessment of the impact of the global financial and economic crises in the apparel and footwear industry in Albania. An appropriate approach and methodology was initially articulated focusing on identifying and analyzing how the financial crisis has influenced the sector and what the consequences of such crisis were on the Albanian textile and footwear sector, with particular emphasis on its repercussions for employment in the sector.

The apparel and footwear industry flourished in Albania during early 90's when Italian companies started to explore the Albanian market. After gradually testing the variety and quantity of product lines, many Albanian enterprises were established and grew from small units into large consolidated companies. The development and specialization of processing industry in Albania was strongly built upon two important comparative advantages (i) relatively cheap and abundant labour force and (ii) proximity to important world markets of apparel and footwear. The sector is very important to the domestic economy, despite the view that it generates low value addition.

It is widely believed that the sector dynamics have been heavily influenced by international demand contraction, liquidity shortages and weak financial performance of many of the outsourcing companies in Italy and Greece. The way the sector started developing and clustering led by input supplies and regional specialization, created a good starting point for greater value addition and for more capital and knowledge transfer.

The textile and footwear sector is the only sector with a positive trade balance in the Albanian economy. The trade surplus, amounting to approximately EUR 70 million in 2008, has continuously increased through the years, despite the fact that industry exports are largely produced with imported inputs. Apparel and footwear exports have risen in absolute value and till today represent the largest export sector in the Albanian economy. They accounted for 43% of total exports in 2008, or approximately EUR 375 million; and apparel and footwear products represent six of the ten top export commodities of Albania during 2006 - 2008.

Despite the importance of the clothing and footwear sector as a driver of Albanian exports, its size in the economy is significantly modest in real terms. This happens primarily because *Albanian firms are engaged in low value added activities*. The profit margins they operate with are very low and such enterprises are faced with increasing competition, pressure to keep down contract prices and labour costs, as well as tighter schedules and higher flexibility demands. In these circumstances, *Albanian apparel enterprises are just price takers and have high uncertainties in terms of the future of their contracting*, as their main competitive advantage in the global market is the proximity to the EU market and the low labour costs, given the labour intensive processes most Albanian enterprises engage in.

The apparel and footwear industry is one of the sectors of the Albanian economy most affected by the global economic downturn, primarily due to its export oriented nature and large exposure to the European markets. *The onset of the global crisis coincided with a time of structural shifts in global trade patterns in the textile and apparel industry in particular*. As a result, Albania along with its Western Balkan neighbors started to face increasing

competition from cost effective competitors such as China and India, while global changes in the retail sector induced the consolidation of big buyer chains and imposed downward pressure on contract prices.

The boosting industrial activity during recent years was primarily driven by strong demand in the EU markets. During 2008 and 2009 all of Albania's major trade patterns were in recession, which brought about sharp shrinkages in aggregate demand in these markets. It is believed that *this industrial sector has suffered from negative shocks such as cuts in orders or delays in payments and wider social negative consequences*. As can be noticed from the findings of the study, the scale of the impacts varies widely across enterprises – as it depends on many characteristics such as size and status, stages of the process, origins of its orders, location and regional characteristics of labour supply or other supply side factors.

The majority of enterprises were not prepared to face the consequences of the crisis and the significant drop in the production levels of this industry was mainly demonstrated in the following aspects: (i) reduction in the number of contracts; (ii) new contracts with less favourable terms (i.e. lower prices for units and payment terms); (iii) termination of contracts and difficulties in acquiring contracts from new customers.

The study shows that the impact of the crisis was harder for smaller companies, which experienced the steepest turnover declines. Small enterprises appear to be not flexible to adapt to the market trends in terms of finding new customers, eventually declining in their activity that in certain cases led to closure. This also has to do with the fact that being relatively small production units they have considerable administrative costs.

There are however, enterprises that in 2009 report a significant increase in the volume of activity due to certain measures they took. These measures include investments towards the closed production cycle and the identification of new markets. This is the typical case of companies that have managed to move up the value chain and as such are less vulnerable to external shocks. Furthermore, some of the enterprises that have managed to do well during 2007 – 2009 seem to have contractual arrangements with powerful suppliers, who impose strong criteria in terms of quality, quantity and timely production and they often bring their own supervisors that verify the required standards of production. They investigate management techniques, capacity of assets, the overall quality of work environment (hygiene, lighting, and air conditioning), and the level of training and employee satisfaction. Those Albanian enterprises that have enjoyed a long history of decent contractual relations have not been affected by the crisis.

The apparel and footwear labour force is known to be *dominated by female employees*. According to the Institute of Statistics, more than 80% of employees in the apparel and footwear sector are women; whereas the National Employment Service reports this share to be as much as 91.7% of the overall number of the employed in the apparel and footwear sectors.

The workforce plays a key role due to the *labour-intensive nature of production*. *Wages in the sector remain among the lowest in the Albanian economy, and have consistently been aligned with minimum wage levels*. Social insurance is generally paid based on the minimum wage and is considered as a burden for the companies that have been experienced decrease of production volume. This originates from the fact that while the salaries of workers can be

adjusted to reflect lower production levels, social insurance continues to be paid at pre-crisis levels based on the minimum wage.

In this sector preference is given to on the job training and intensive short-term courses. As a large *majority of employees in this sector are low skilled and come from urban outskirts in difficult economic conditions*, this is considered an opportunity, which leads to stable income. The lack of skilled workers indicates the need for training of employees in specific work processes. Specifically, the findings point out the *need for training of line supervisors, on maintenance, and organisational and management skills*.

Part 1 Background

The Global Context: Increasing Competition

The apparel and footwear industries are among the most globally integrated industries in the world and contribute important shares of the economy in many developing countries. Indeed, as other labour-intensive industries, apparel and footwear are often the driving sectors for the integration into the global market of developing countries.

The apparel and footwear industries have undergone significant changes in the recent years, having profound implications for the economies of developing countries. The apparel industry in particular has gradually started moving from managed trade to full-scale competition since the end of the last stage of the Multi Fibre Arrangement (MFA) quota phase-out in 2005, resulting in the reorganization of supply and sourcing patterns worldwide. Intensified competition has contributed to a downward pressure on prices and upgrading of technology, followed by a trend of consolidation of suppliers and vertical and horizontal integration.

At the same time, the internationalization of retail stores and brands; the globalization of the fashion industry and the proliferation of apparel and footwear products targeted at different consumer segments worldwide have resulted in an even more competitive global market, increasingly driven by consideration such as time to market; and more value-added services; rather than merely production costs.

Thus, the apparel and footwear industries remain mainly buyer-driven commodity chains. As retailers and buyers in the major markets continue to outsource increasingly more aspects of the production processes, pressure to lower costs – including contract prices and labour costs intensifies. This makes developing economies and especially the main actors of the industry largely vulnerable to possible changes in market conditions, trade shocks and changes in aggregate demand in the developed economies.

The Albanian Context

The apparel and footwear manufacturing industry have emerged as one of the most successful sectors of the Albanian economy, becoming a significant contributor to industrial production, exports and foreign exchange, as well as employment.

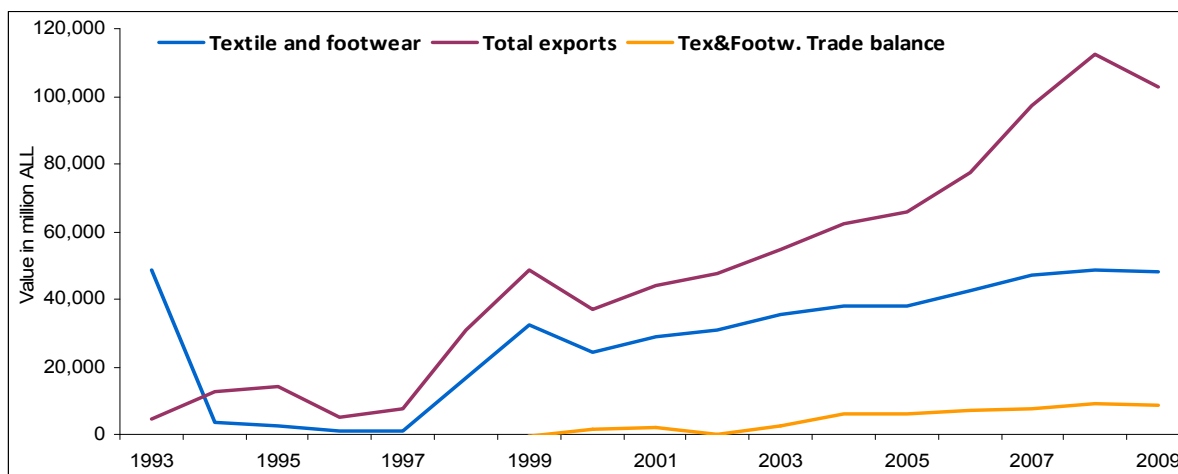
The contribution of the textile and footwear industry in the Albanian economy has been substantial. According to INSTAT¹, during 2008 the sector was accountable for more than 15% of total industrial output in the country, or 17% of manufacturing production. Furthermore, apparel and footwear products have been one of the main export categories for the country since the early 90s, representing an average of 59% of total Albanian exports in the last decade². Since reaching the peak of 67% of total Albanian exports in 1999, the sector's relative weight has gradually declined, to a 43% share of exports in 2008. However, apparel and footwear exports have risen in absolute value and till today remain the largest

¹ Foreign Trade by group commodities 1993 – 2009, www.instat.gov.al

² Ibid.

export sector in the Albanian economy, reaching a value of nearly EUR 375 million in 2008.³ Apparel and footwear products represent six of the ten top export commodities of Albania during 2006 - 2008.⁴

Figure 1. Export performance 1993 – 2008

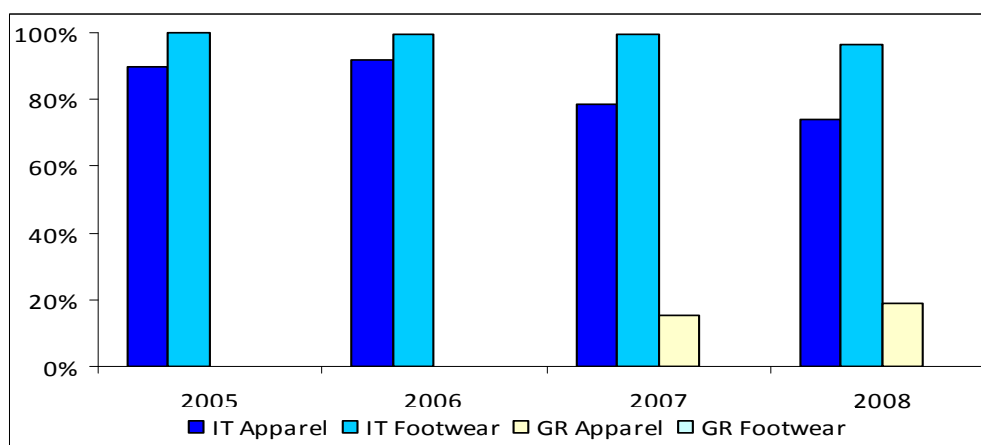


Source: INSTAT

The textile and footwear sector is the only sector with a positive trade balance in the Albanian economy. The trade surplus, amounting to approximately EUR 70 million in 2008, has constantly increased throughout the years, despite the fact that industry exports mainly rely on imported inputs.

The main destinations of apparel and footwear products are almost all in the EU, and are dominated by Italy and Greece. However, the USA has started to emerge as an increasingly important export destination for Albanian apparel and footwear products. Nevertheless, Italy remains by far the most important trading partner in the sector, outweighing all other EU states: in 2008 it imported EUR 255 million, or 83% of total Albanian apparel and footwear exports to the EU27. Greece, the second most important trading partner of Albania imported EUR 35 million in 2008, mostly in apparel products.⁵

Figure 2. Top destinations for Albanian apparel and footwear products within EU27



Source: Eurostat, ec.europa.eu/eurostat

³ Ibid.

⁴ Comtrade, 4 digit heading of Harmonized System 2002.

⁵ Eurostat.

The EU is Albania's most important trading partner for apparel and footwear products. The revealed competitive advantage (RCA) between the EU-27 and Albania in 2008 is 4.5⁶, indicating that the sector is highly attractive for the Albanian economy and will remain such in the coming years. The RCA between Albania and EU-15 is even higher at 6.26, indicating stronger trade relations with the "traditional" EU countries.

In particular, in the apparel sector, it appears that Albania's comparative advantage has slightly increased over the years, up from 5.6 back in 2005. In addition, it is higher than the RCA for most Western Balkan countries, with the exception of Kosovo.

Table 1. RCA values between WB and EU 15

	2005	2007
Albania	5.63	6.05
B&H	2.63	2.33
Croatia	2.84	2.61
Kosovo	6.64	6.95
FYROM	0.06	0.04
Serbia	2.01	2.48

Source: OECD (2009) Competitiveness and Private Sector Development, Sector Specific Sources of Competitiveness in the Western Balkans

There are around 330 companies currently operating in the apparel and footwear sector, employing around 22 thousand employees, or approximately 2.7% of the total workforce in the private sector, according to official data⁷. Detailed official employment data on the sector are unfortunately not available. However, according to the Institute of Statistics Annual Enterprise Survey, there were 21,730 people employed in the textile and footwear sector in 2008, of which 80% were women. The data seems to be backed by results of the Labour Force Survey⁸ – according to the LFS 2007, there were more than 30 thousand employees in 2007, of which more than 80% were women. Indeed, female employment in the apparel sector alone was overwhelming: more than 97% of the workforce. The highest concentration of employment is, as expected, around Tirana, where 44% of those employed reside, followed by Durres, Korce, and Shkoder, with 29%, 12%, and 7% of total employment respectively.

The majority of the enterprises operating in the sector are domestically owned, although Italian and Greek firms used to dominate the sector during the early years of the expansion of the industry. Apparel and footwear enterprises are located mostly in the economic area surrounding capital Tirana, but also in central Albania Durres, Fier, Berat, north – Shkoder, Lezhe; south – Vlore, Sarande and Gjirokaster, and east, in Korce. The majority of employment in the sector consists of low skilled workers, typically young females.

In spite of the size of the textile and footwear industry in Albania, and its significant share in the country's exports, the industry does not seem to have attracted large FDI flows. FDI

⁶ Calculations for 2008 based on data from Eurostat using the Balassa-Samuels index.

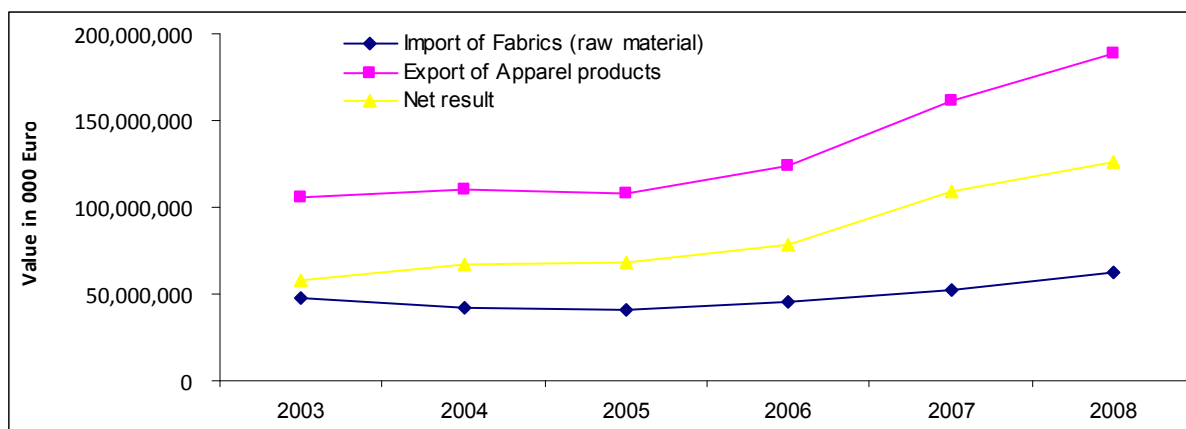
⁷ Data from the General Tax Directorate and INSTAT, 2008.

⁸ The apparel and footwear employee sub-sample is not strictly representative of the whole sector nationwide, therefore any results exclusive of the sector are to be interpreted with great caution.

stocks in the apparel industry in 2004 amounted to EUR 112 mil, representing about 11% of total FDI stocks in manufacturing⁹. This is partly attributed to the fact that the majority of firms operating in the sector are in fact locally owned. Nevertheless, despite the continuous increase of FDI levels during the recent years, the majority of capital inflows seem to have been directed to other sectors. Indeed, the textile and footwear sector in Albania is dominated by mostly labour intensive activities, resulting in high levels of employment and low capital intake.

A value addition analysis, taking into account the difference of gross output with initial input factors and consumption is not possible given the data at hand. However, a closer look at import – export data reveals a strong increasing trend in imports of textile and footwear articles as well. If we accept the difference between imports and export as a proxy for value added, it is clear that import patterns have generally followed export performance over the years, indicating that the industry is still dominated by low value added activities.¹⁰ According to the National Strategy for Business and Development (2007-2013), more than 70% of Albanian apparel and footwear products are in fact re-exports, using original imported material. This conclusion seems to be backed by data from the Structural Enterprise Survey carried out by INSTAT. The total value addition by enterprises in the apparel and footwear sectors was approximately EUR 70 million in 2008, up from roughly EUR 60 million in 2007. This represents less than a 0.5% share in the annual GDP, or total value added in the economy, and is significantly lower than the 6% share of total value added for the Western Balkans region.¹¹

Figure 3. Textile trade with the EU: Imports of raw material and re-exports



Source: Eurostat

Thus, it is clear that despite the importance of the clothing and footwear sector as a driver of Albanian exports, its size in the economy is significantly modest in real terms. This happens primarily because Albanian firms are engaged in low value added activities. This is characteristic of the apparel sector in particular, where the overwhelming majority of firms are “cut-make-trim” operators, i.e. are engaged in outward processing trade (OPT). OPT (Gereffi and Memedovic 2003) is the practice where companies export fabrics, or unfinished

⁹ UNIDO/in OECD 2009.

¹⁰ This analysis is very approximate, as it fails to take into consideration the share of textile (especially apparel) and footwear imports that are destined for the local market, which has likely boosted given the positive trends of economic growth and welfare as well as purchasing power in the recent years.

¹¹ Source: OECD

garments to be processed in Albania and then re-import them. Therefore, the profit margins they operate with are very low and such enterprises are faced with increasing competition, pressure to keep down contract prices and labour costs, as well as tighter delivery schedules and higher flexibility demands. Under these circumstances, Albanian apparel enterprises are just price takers and have high uncertainties in terms of the future of their contracting, as their main competitive advantage in the global market is the proximity to the EU market. As such, they remain highly vulnerable not only to possible demand shocks in the European market, but also theoretically vulnerable to outside competition, especially “cheap labour” countries with increasing access to global markets, such as China, or from the Western Balkans countries. Apparel enterprises should make efforts to move up the value chain and provide more value added services, in order to increase their profit margins.

International production systems

Assembly is a form of industrial subcontracting, in which garment sewing plants are provided with imported inputs for assembly, most commonly in export processing zones (EPZs).

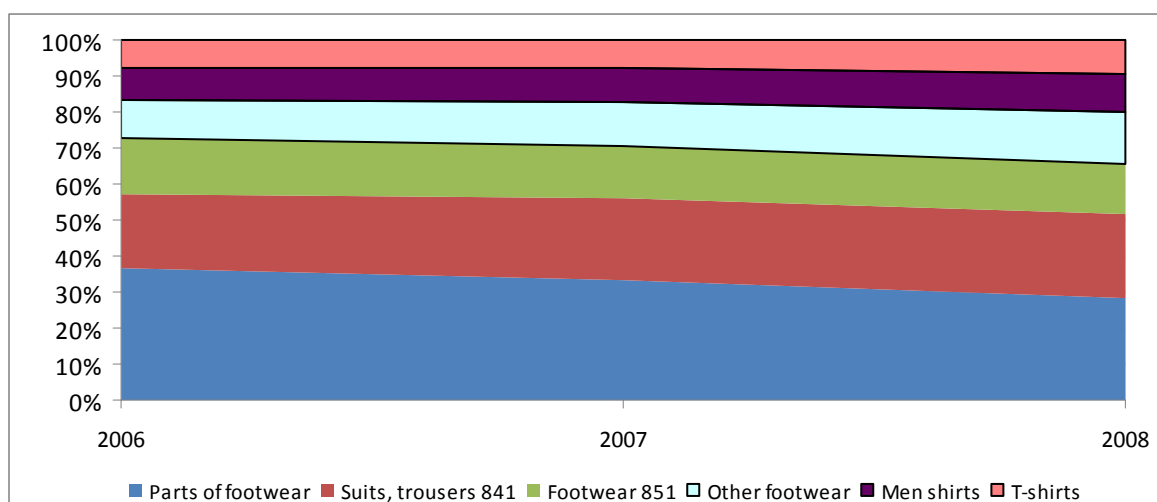
Original equipment manufacturing (OEM) is a form of commercial subcontracting. The supplying firm makes a product according to a design specified by the buyer; the product is sold under the buyer’s brand name; the supplier and buyer are separate firms; and the buyer lacks control over distribution.

Original brand name manufacturing (OBM) is the upgrading by manufacturers from the production expertise of OEM to first the design and then the sale of their own brand products.

Source: Type of apparel manufacturers, Gereffi and Memedovic (2003)

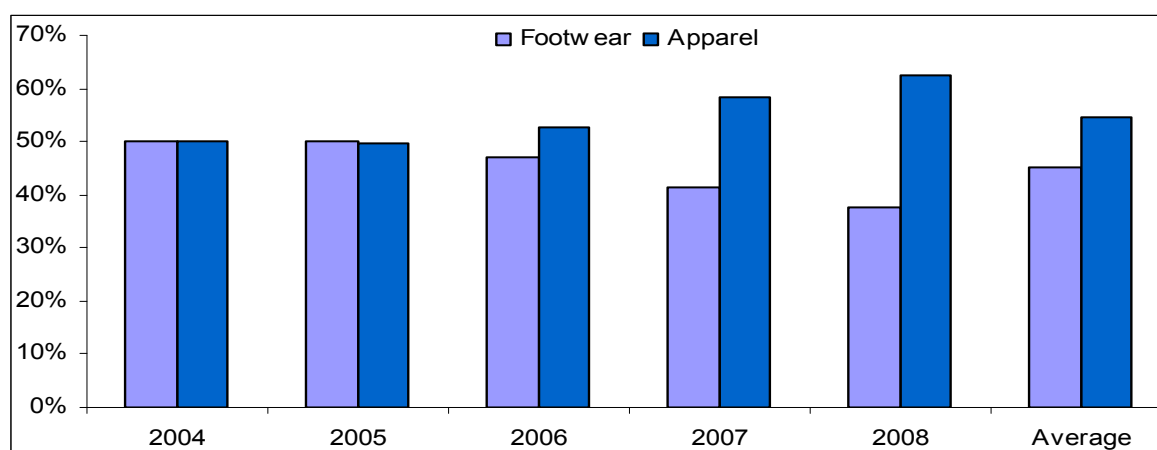
The situation is slightly more positive in the footwear subsector, where it appears that companies are engaged in more value added activities. Indeed, the footwear sector has accounted for more than 45% of the total apparel and footwear exports in the 2004 – 2008, albeit its relative importance has been declining due to the faster pace of growth in the apparel subsector.

Figure 4. Product share in value of apparel and footwear exports



Source: Comtrade

Figure 5. Sector share in value of Albanian apparel and footwear exports



Source: Comtrade

The majority of footwear enterprises are engaged in more value added activities and produce a wide range of products. The bulk of the trade in the footwear sector is with the EU27, and particularly Italy, which takes up almost 100% of the footwear trade with the EU. Furthermore, footwear enterprises are more consolidated and the market seems to be one step ahead in the value chain as opposed to apparel. Indeed, the number of footwear enterprises in Albania is less than approximately one third of apparel firms, yet their aggregate exports are slightly less than half of those in the apparel sector. Furthermore, various footwear firms already report engaging in original brand name manufacturing.

The key success factors of the Albanian apparel and footwear industry are, as mentioned above, the proximity to EU markets as well as the low labour costs, given the labour intensive processes most Albanian enterprises engage in. In fact, wages in the sector remain among the lowest in the Albanian economy, and have consistently been aligned with minimum wage levels. The majority of employees in the sector are low skilled workers, who receive on the job training and otherwise have no employment opportunities. According to the INSTAT Enterprise Survey (2008), the average level of wage in the sector was 19 thousand ALL, or less than EUR 150, which appears to be one of the lowest in the region. Low labour costs, coupled with low transport costs due to export market proximity and relatively short lead times will remain the primary success factors for the Albanian industry.

Part 2 Impact of the crisis

Overview of the crisis impact on Albanian economy and transmission channels

Albania has shown a strong track record of economic growth in the recent years, at an average rate of 5.3% GDP growth between 2000-08¹². GDP growth continued in 2009, despite pessimistic expectations and preliminary estimates indicate that Albania has preserved a very good pace of economic growth also in 2009, amounting to 4.9% in the first three quarters of 2009 (INSTAT estimates). The global economic downturn appears to have bypassed Albania with modest impacts. According to experts, this was partly due to the relatively low level of openness of the Albanian economy; however, a series of structural reforms undertaken by the government since early 2007 have also played an important role.

Table 2. Degree of openness of Albanian economy

	2000	2004	2005	2006	2007	2008
<i>Exports</i>	37,037	62,121	65,818	77,405	97,171	112,572
<i>Imports</i>	157,109	236,072	262,191	299,147	376,194	439,894
<i>GDP</i>	903,110	1,280,648	1,401,806	1,525,496	1,744,671	1,949,762
<i>Degree of openness (X+I)% GDP</i>	21.5%	23.3%	23.4%	24.7%	27.1%	28.3%

Data from Bank of Albania, www.bankofalbania.org

Yet, the economic crisis presents serious challenges for the economy, which are expected to be further reiterated in 2010. The first impacts were felt in the slowdown of capital inflow and investments, which had been supporting the positive economic growth. A series of major foreign investment projects are said to be held back for an indefinite time, given the financing difficulties in the European markets. Exports have declined in the recent months due to steep decline in consumer demand in the EU markets. However, the Economist Intelligence Unit in its 2009 report forecasts real GDP to grow by 3.5% in 2010 and 5% in 2011, following an estimated growth of 2.5% in 2009. According to EIU, the average inflation is expected to be around 3% in the forecast period, while the current-account deficit is expected to decline to the equivalent of around 7.5% of GDP in 2010-11.

The original financial crisis has by now been translated into a serious economic crisis, and is being exported to Albania through a series of transmission mechanisms or drivers. For the purpose of this study we have identified and briefly analyzed six key transmission mechanisms that have influenced the global crisis:

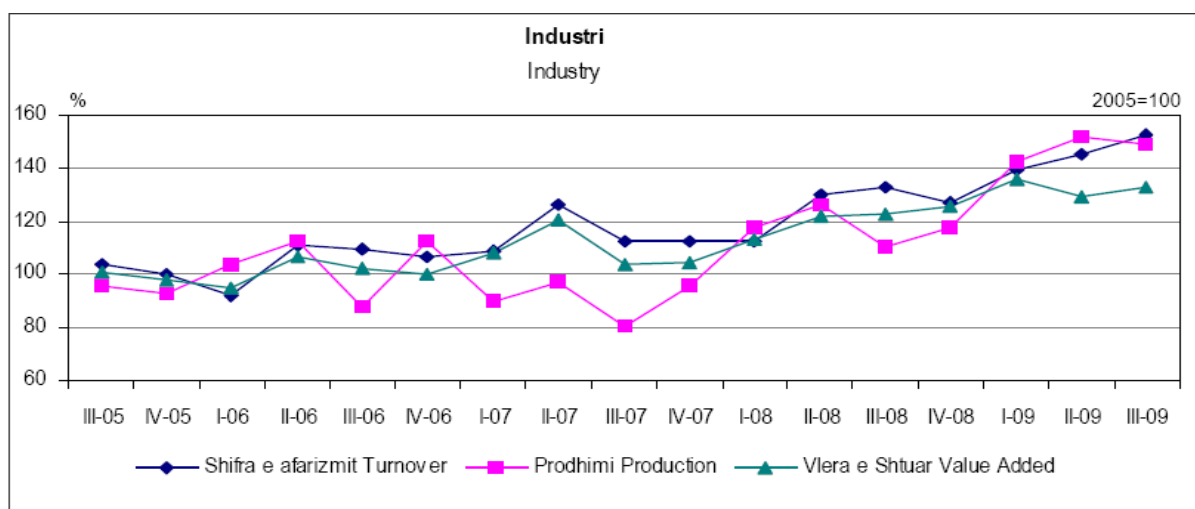
Trade Export growth slowed considerably since January 2009, reaching the lowest point in June of 2009; as the recession hit Albania's main trading partners in the EU – namely Italy, Germany and Greece. Exports during the first half of 2009 were approximately 20% lower than the same period of the previous year; however, they picked up during July, and October 2009 marked the first higher export value as opposed to the previous year. The most hardly hit sectors were the extracting industry exports, due to falling demand and commodity prices in the international market. According to INSTAT, exports of the light industry, including

¹² Source: World Bank, World Development Indicators 2008, Tables 2.1, 4.1, 6.1.

textile and footwear, experienced some decline, although they also picked up towards the end of last year. Imports also declined, in a similar fashion as for exports, by more than 10% in January 2009, as opposed to January 2008. However, INSTAT data for 2009 indicate that the total value of exports in the textile and footwear was only 1.3% less than exports of the same period in 2008 (for imports the difference was -0.7%).

Industrial output Industrial output also contracted in late 2008 and early 2009, but picked up in the third quarter 2009, at 35% higher than the third quarter of 2008. The extracting industry was most hardly hit, followed by manufacturing industries, including textile and footwear. Although the industrial production grew towards the end of 2009, its contribution to the GDP growth for 2009 was practically zero, according to the Bank of Albania.

Figure 6. Industrial output turnover and Value Added performance



Source: INSTAT, in Short Term Statistics, Third Quarter 2009

Capital inflows (Remittances and FDI) Remittances from Albanian emigrants in the developed economies form a significant proportion of GDP, contributing to development and to poverty alleviation. Remittance flows experienced a sharp decline starting in 2008. However, EIU predicts that given that import demand in countries such as Italy and Greece is expected to grow, so will remittances from Albanian migrant workers. Furthermore, FDIs, which grew during 2009¹³, are also expected to pick up during the next few years, given Albania's good economic performance as well as ongoing projects, mainly in the energy sector.

Inflation and exchange rate shocks Given the trade shocks during 2008 and 2009, and in addition to a fall in remittance inflows, the Albanian economy suffered from the scarcity of foreign currency, resulting in the depreciation of Albanian Lek (ALL) and higher inflation. However, according to the Bank of Albania, inflation will continue to be moderate during the first half of 2010.

Access to financing Most of the banking sector in Albania is dominated by foreign commercial banks. Given the heavy exposure of the parent companies, most banks in Albania contracted lending to the economy. The growth of credit slowed down from the 20% growth at the end of the second quarter, despite the central bank's calling for the banks to encourage

¹³ The state owned OSSH (Transmission System Operator) was acquired by Czech energy group CEZ; as well as the Albanian government sold its equity in the mobile operator AMC to main shareholder, the Greek Cosmote.

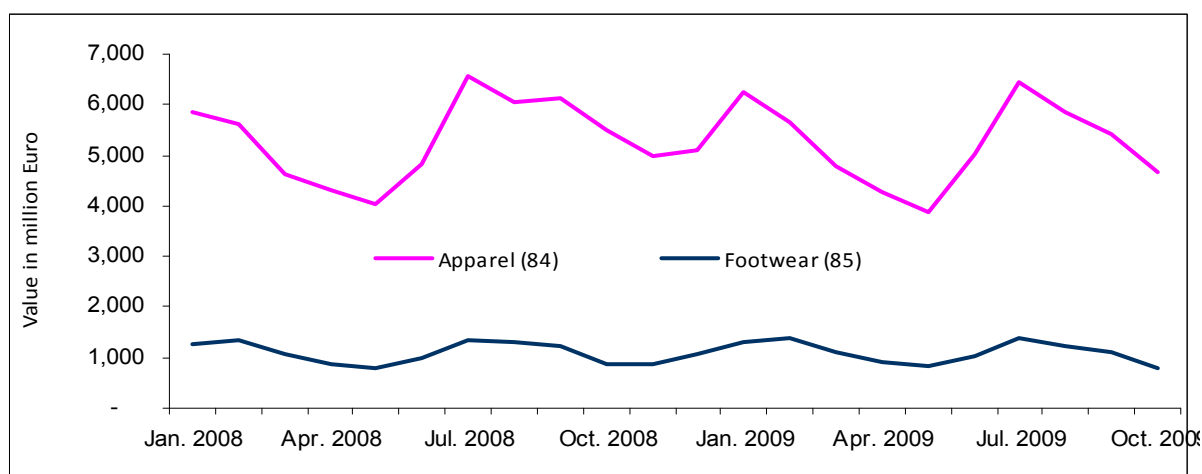
lending. This was not positive for the economy, given that credit had supported growth for some time; however, credit demand has also faltered, given that businesses were awaiting to see the turnout of the global crisis.

Impact of the crisis on the apparel and footwear sectors

The boosting industrial activity during recent years was primarily driven by strong demand in the EU markets. During 2008 and 2009 all of Albania's major trade partners were in recession, which brought about sharp shrinkages in aggregate demand in these markets. The crisis was exported to Albania, which saw its volume of trade and industrial output fall during 2008 and the first half of 2009.

Sales in the apparel and footwear sector fell as a consequence to the global economic downturn. In the European market the textiles and clothing sector were severely affected by the economic crisis¹⁴. Production and consumption levels have experienced a sharp decline from June 2008 to June 2009. Since July 2009 a gradual return to prior levels can be observed. Exports of textile products have decreased by around 20%, whereas trade in clothing products has decreased by 15% in comparison to 2008 figures.¹⁵

Figure 7. Imports of apparel (SITC 84) and footwear (SITC 85) in EU 27



Source: Eurostat (Feb 2010)

The apparel and footwear sector experienced a sharp decrease in the Italian and Greek markets as well, Albania's main trading partners for the sector. Italy's apparel imports fell steadily at an average of -4.3% on a month to month basis between February and May 2009, picking up slightly during June and July 2009. However they slumped significantly from September to November 2009, when the value of global apparel imports to Italy was respectively -12.4% and -12.7% as opposed to the same periods of last year.

The same pattern was noticeable in the Italian footwear sector, which dominates the Albanian footwear industry. Global imports into Italy fell steadily by since March 2009 and recorded

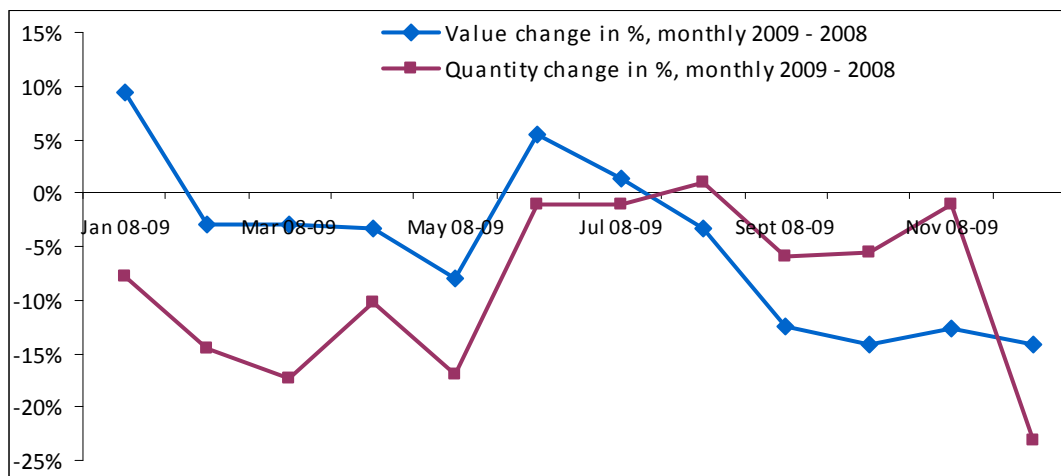
¹⁴ European Commission Trade: http://ec.europa.eu/trade/creating-opportunities/economic-sectors/industrial-goods/textiles-and-footwear/index_en.htm

¹⁵Ibid.

the steepest fall November 09, when imports of footwear were 17.6 lower than in November of the previous year.

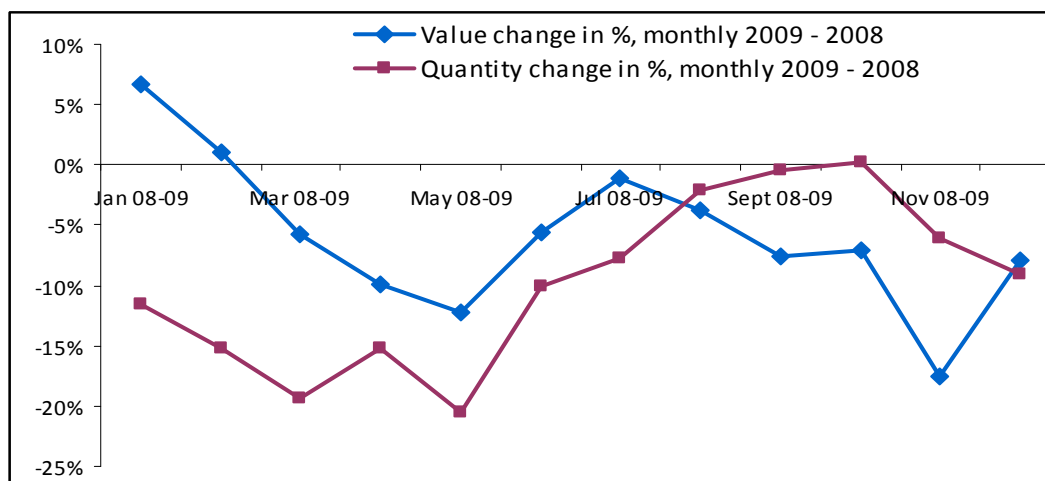
It is interesting to note however, that the decline in the quantity of Italian imports of apparel and footwear was not always as steep as the decline in value of imports, indicating that the economic downturn has resulted in downward pressure on contract prices. In particular starting from mid 2009 there appears to be a clear trend of sharply decreasing import values, whereas the quantity of goods imported has decreased by less in both sectors.

Figure 8. Trends in apparel exports to Italy: month to month 08 -09



Source: Eurostat

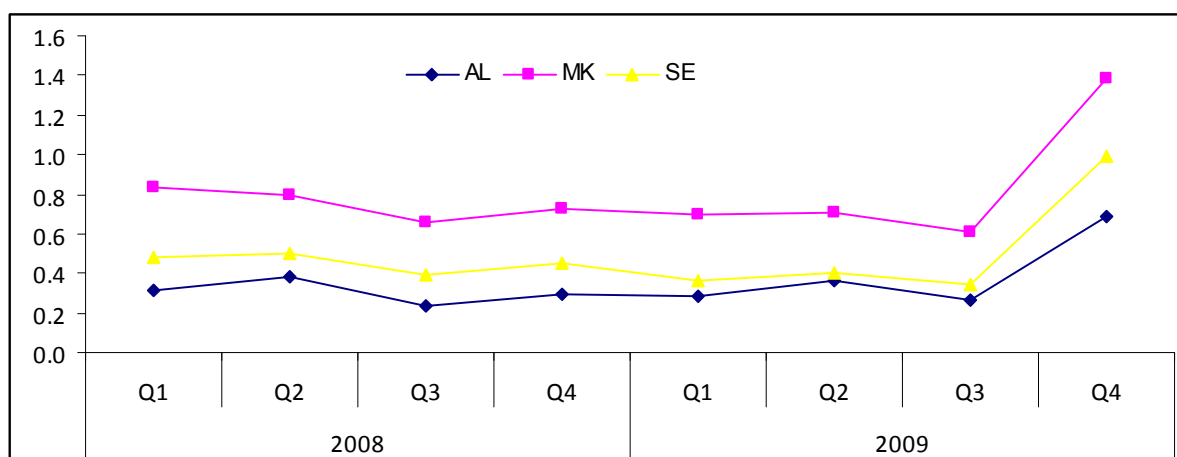
Figure 9. Trends in footwear exports to Italy: month to month 08 -09



Source: Eurostat

As regards Albania, a slowdown in the growth of Albanian exports in the apparel and footwear category was noticed during the first half of 2005, in response to increased competition from China, as a result of the end of the last stage of the MFA quota phase-out. Yet, the subsequent re-imposition of quotas by the EU and the USA in the second half of 2005, allowed for Albania to recover.

Figure 10. Share of Western Balkan countries in EU27 apparel imports



Source: Eurostat. Data for Albania, Macedonia and Serbia, years 2008 and 2009 by quarters.

The volume of trade with EU slowed down since the end of 2007. Exports to the European Union in the textile and footwear category marked a considerable decline in mid 2008, although the sector showed signs of recovery in the last quarter of 2009. It appears that Albania's neighbours, sharing the same competitive advantage in the apparel and footwear sector have experienced the same trends in their exports to the EU – although both Serbia and Macedonia have a larger market share and seem to have experienced less shrinkage in terms of the volume of trade than Albania.

In particular, the volume of Albanian trade with Greece appears to have declined more in relative terms than exports to Italy (-22%, as opposed to -5% with Italy in Jan – Nov 2009), probably due to the troubled political and economic environment that has hit Greece amidst the recession.

Labour market

The Albanian labour market has undergone massive changes since the early 1990s. By 2005, the main employment sector was private agriculture, but its contribution to the national GDP declined due to constraints in land sizes, limited use of modern inputs, poor infrastructure and low market access, weak processing capacity and the absence of a proper land market. Agriculture accounted for 22 percent of the GDP during the same year.

The current estimated size of the informal economy varies between 30 and 50 percent of the gross domestic product (GDP), and fiscal evasion is estimated at 11 percent of GDP. The informal sector remains large in Albania and the majority of small businesses operate on the fringe of the formalised system. Various para-legal mechanisms, such as unregistered contracts, have been developed in the country to cope with this situation, but challenges remain. Some of the most commonly identified characteristics of this informality in Albania are its unusually high levels in the modern sector compared to the traditional sector and its diversity mainly across agriculture, with trends of growth in construction and services. The most substantial consequences are amongst paid labour, with very low levels of wages compared with the formal modern sector (and no enforcement of minimum wage standards), often unsafe or unhealthy working conditions, lack of contractual obligations and ensuing uncertainty for both employer and employee, evasion and confusion in labour tax payments

and reporting. Unemployment is stated to be at around 13% (LFS 2008)¹⁶ and administrative data for the first half of 2009 confirm a stable unemployment situation.

Table 3. Employment and unemployment

	2008				2009	
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Labour force	1,080.1	1,105.9	1,110.0	1,115.6	1,114.2	1,114.2
Employed	939.3	965.9	969.9	974.1	972.9	972.8
State sector	166.8	166.6	166.6	166.5	166.6	166.5
Private sector, urban	230.6	230.8	234.8	239.0	237.7	237.8
Private sector, rural	542.0	568.6	568.6	568.6	568.6	568.6
Unemployed	140.8	140.0	140.1	141.5	141.3	141.3
Unemployment rate (%)	13.04	12.66	12.62	12.68	12.68	12.70

Source: INSTAT, Konjunktura, second quarter 2009

However, available survey and other data do illustrate some important characteristics of the unemployed, such as age, gender, and schooling. Key factors to be noted from the perspective of national capacity development are the youthfulness of the unemployed, and the fact that although education level is in general inversely related to the probability of unemployment, a significant number of the unemployed have higher education, while the majority have only elementary education.

It is important to understand these characteristics if a) youth unemployment is to be stemmed through better human resources development (education, training, health and labour policies) and if b) national capacity, across all sectors, is to be enhanced.

According to LFS 2008, the unemployment rate is higher for the age group up to 30 years old. This indicator is higher for women in the 30-49 age group whereas the situation reverses in favour of men for the age group 55 years and older. Furthermore, unemployment among people over 40 years old continues to be high because the professional training of this age group often does not correspond to the market demands. There is a suggested link between the level of unemployment and level of knowledge and education. For the same year, employees from the 15-64 age group that have completed the elementary education represent 49.4% of the active labour force of the same education level, while the employment rate for people with secondary and higher education is respectively 55.6% and 75.1%.

¹⁶ INSTAT 2008

This points to the need for higher qualification of workers with elementary or secondary school education, as well as training to raise the professional skills of those unemployed in order to meet the market demands.

The trade union representatives maintained that the working conditions in this industry are very poor and health and safety standards are not usually respected. Despite a few positive cases in this respect mainly referring to large enterprises, trade unions have received a number of appeals from the workers mainly complaining about working conditions (health and safety standards), working hours and salaries.

Impact of the global crisis on the apparel and footwear sector (focus groups and survey results)

The objective of this study is to undertake a rapid assessment of the impact of the global financial and economic crises in the apparel and footwear industry in Albania. An appropriate approach and methodology was initially articulated focusing on identifying and analyzing how the financial crisis has influenced the sector and what the consequences of such crisis were on the Albanian textile and footwear sector, with particular emphasis on its repercussions for employment in the sector.

The development and specialization of processing industry in Albania was strongly built upon two important comparative advantages (i) relatively cheap and abundant labour force and (ii) proximity to important world markets of apparel and footwear. The sector is very important to the domestic economy, despite the view that it generates low value addition. It is widely believed that the sector dynamics have been heavily influenced by international demand contraction, liquidity shortages and weak financial performance of many of the outsourcing companies in Italy and Greece. The way the sector started developing and clustering led by input supplies and regional specialization, created a good starting point for greater value addition and for more capital and knowledge transfer.

Different actors sustain that this industrial sector has suffered from negative shocks such as cuts in orders or delays in payments and wider social negative consequences while they have failed to support their arguments by empirical data and evidence. However, as will be noticed from the findings of the study, the scale of the impacts varies widely across enterprises - as it depends on many characteristics such as size and status, stages of the process, origins of its orders, location and regional characteristics of labour supply or other supply side factors.

Assessment Methodology

The assessment approach was based on three main components: (i) a combined methodology of *desk research* and *face-to-face in-depth interviews* with business executives; (ii) a *survey of 100 enterprises active in the sector*; and (iii) *focus groups*, in Korce, Tirane and Berat, as part of the qualitative research targeting the apparel and footwear industry in the country.

A review of the relevant literature and data was carried out in order to construct a picture of the current business activities of the targeted industrial sectors in Albania, including information collection from INSTAT, the General Taxation Department and the Customs Department with the aim of analyzing the import and export flows of the sector. The project team also looked at the impact of the crisis on the Albanian economy in general and the textile and footwear sector in particular. A set of indicators was selected to measure a

company's performance and indicate downturns in its activity, including financial indicators, management, market share and market position, social indicators as employment contribution or knowledge transfer and innovation etc. Interviews with company executives and other industry representatives were carried out to confirm the accuracy of these indicators.

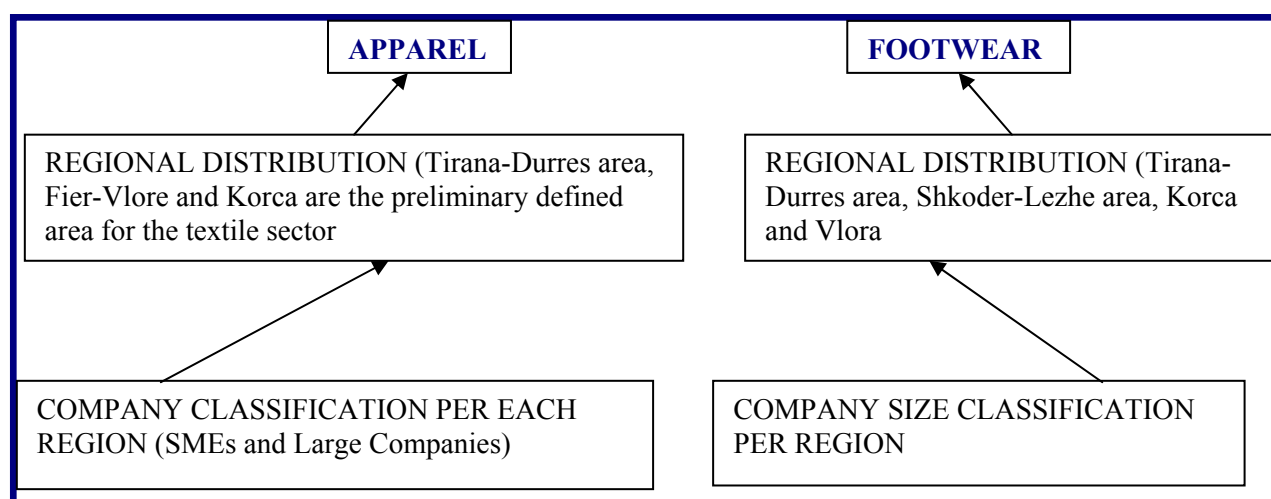
The findings of the first component served as inputs to drafting the questions and finalizing the survey's questionnaire. The questionnaire was designed to be dynamic in order to measure pre and post crisis performance indicators. It had three main parts – the first focused on measuring financial and management indicators, the second explored the effect of financial crisis in terms of employment trends and consequences, and the last one focused on the sector's access to markets and financing.

Survey of enterprises active in the sector. A multi-stage sampling technique in generating the sample of 120 companies was used. The multi-stage sample selection procedure involved probabilistic methods of sample selection combined within population strata or clusters defined by the structure of features that characterize the population of interest.

The active processing sector is mainly represented by apparel manufacturing and footwear production. The sector is concentrated in some areas of the country, and the business characteristics depend largely on the type of relations with outsourcing companies. The size of the enterprise plays an important role in shaping the company's relation with its partners and progressing in the value chain of the industry. Taking all these factors into account, population clustering was applied followed by a probabilistic sample selection from the cluster.

The primary information, which consists of the total list of companies operating in this sector, was clustered based on sector pertinence, apparel or footwear, followed by regional distribution and size of company (turnover, number of employees).

Figure 11. Clustering the whole population of interest



The first stage of information processing was followed by the sample selection, which was a probabilistic one. The number of the representatives for each strata within a cluster was proportional to the share of each strata of the total cluster, while cluster size was proportional to the cluster share on the whole population. A top-down calculation method was applied based on the following simple statistical formula for each cluster:

$$\text{Cluster } i = \left(\frac{\text{Number of companies in Cluster (i)}}{\text{Total Number of companies}} \right) * (\text{Total Sample Size})$$

_, where _

$i \in \{\text{textile, footwear}\}$

At the second stage of clustering, the numbers of companies selected per region were calculated as follows:

(Cluster) (i,r) = ((Number of Companies of Cluster (i) in the region (r))/Total Number of companies of cluster (i) in region(r))*(Total Sample size), where $i \in \{\text{textile, footwear}\}$, while r – represents regions.

The same proportional distribution was applied for the last clustering of the population, that based on company size and this multi stage procedure defined the number of companies that were selected at stratum. A random selection through the SPSS, random number selection procedure, was then applied to form the whole sample. The sample was estimated at 120, assuming a high non-respondent rate due to the sensitivity of information. This sample included a number of 10 randomly selected companies for a questionnaire check. Questionnaires were completed by face to face interviews. The indicators derived were corrected for any sampling errors, while the analysis was based on dynamic changes of indicators as well as the characteristics of different clusters. From the fieldwork the sample was modified, using the same methodology for the replacement of the unsuccessful enterprises. Consequently, out of 149 companies, 3 were closed and 53 were not found either because they had changed location, or because they had temporarily suspended business operations and/or other reasons. Final valid interviews were 90.

The last component, the focus group discussions were organized in Berat (covering Berat and Fier area) Korca and Tirana (covering also Durres).¹⁷ Participants were selected business representatives from both sectors. This exercise served to gather qualitative data on the sector and also validate the findings from the survey. Most importantly, focus groups helped the team get more in-depth information on the social impact of the crisis in the sector and specifically for entrepreneurs, employees and their families.

Limitations of the research

The survey failed to reach and interview enterprises that had closed down due to the crisis, which may have brought about a small underestimate on the impact of the crisis on the sector and employment. Furthermore, the social dimension and labour market impact were captured only through the employers and not the employees. However, we tried to fill in this gap through the three focus groups organized in Berat, Tirane and Korca with a mixed group of participants selected by the following criteria: position, gender, age and status of business.

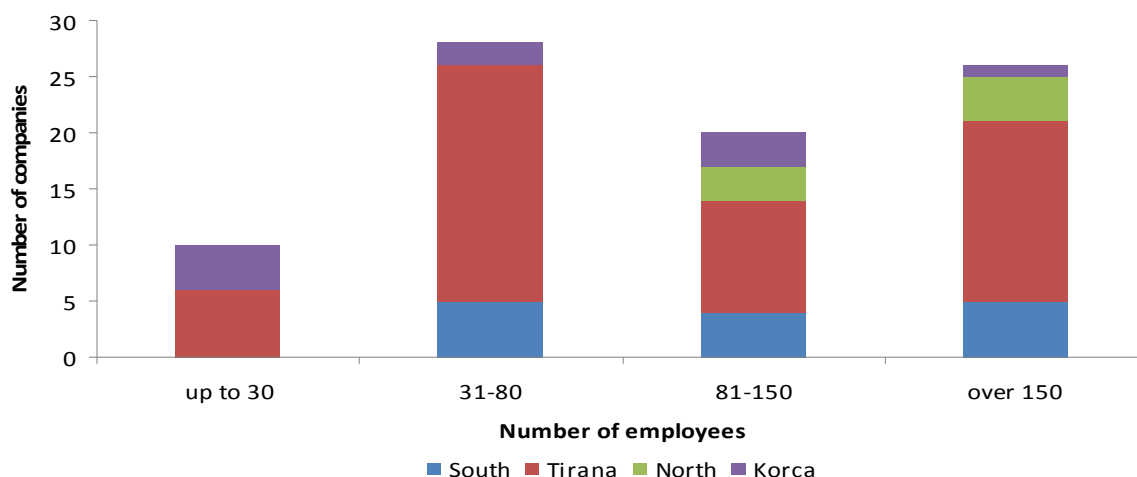
Finally, the sample provided a good coverage of the active labour market in the sectors, as the total number of employees of the selected sample of enterprises (11,000 employees) represents almost half of the total active labour employment force (22,000 employees).

¹⁷ Initially it was planned to hold a focus group in Shkodra, which was not feasible due to the flooding that occurred in the area at the time of focus groups. Instead, the focus group was held in Berat. This change has not impacted the final outcome of the study, as the area was covered during the quantitative research part and the issues put forward in the other focus groups and interviews with industry representatives are believed to have been exhaustive.

Sample composition

For analysis purposes the survey sample was grouped into four main categories, according to the geographic location of enterprises interviewed: Tirana area, including Tirana, Durrës and Fushë Krujë, home to the largest number of interviewed companies - 64% of the total; South – including companies in Berat, Vlorë and Lushnjë, accounting for 16% of the sample; Korce in the east representing 12% and North: Shkodër and Lac, constituting 8% of the total sample.

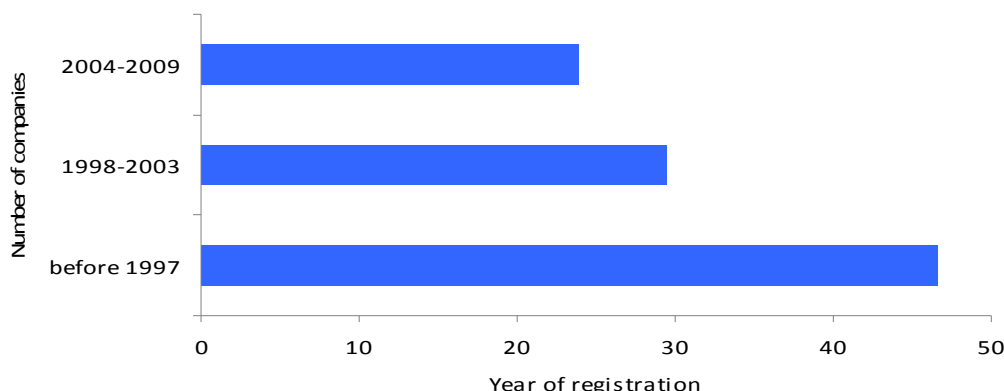
Figure 12. Sample composition by location and size of company (number of employees)



Furthermore, companies were grouped into four categories according to the number of employees, namely companies employing less than 30 workers; 31 – 80 workers; 81 – 150 workers and companies employing over 150 workers. The northern area has the highest concentration of large companies, followed by the economic area around Tirana. On the other hand, the Korce area, as well as the south, is characterized mostly by small and medium size enterprises.

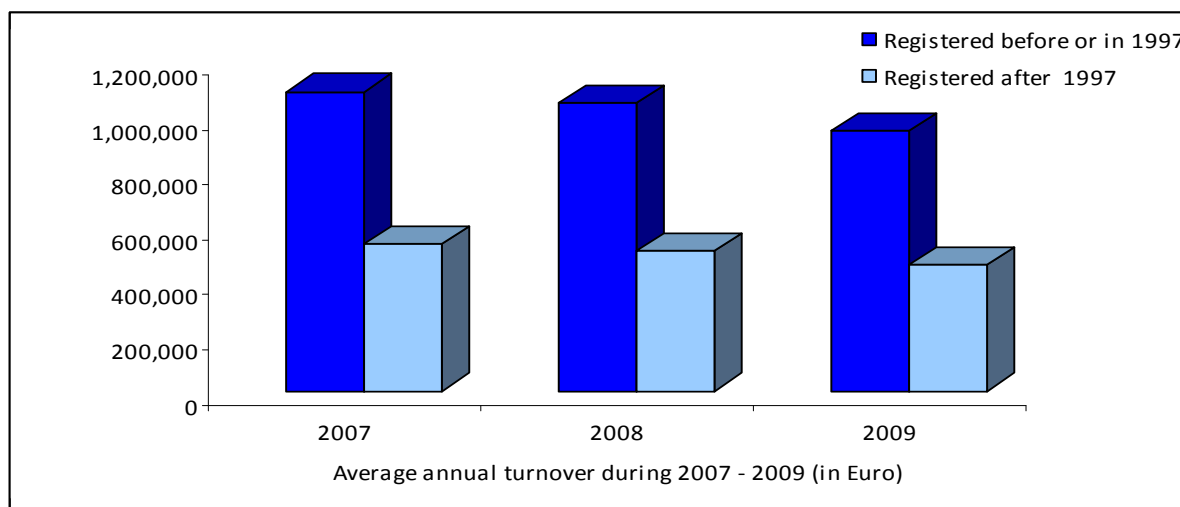
The majority of companies in the sample have been established in the early 90s – around 47% were established before 1997, having more than 12 years of activity. Approximately 30% of enterprises in the sample were established between 1998 and 2003, with the remainder 24% being relatively young companies, having started operations in or after 2004.

Figure 13. Number of companies by year of registration



The structure of capital ownership is also interesting: the overwhelming majority (87%) of companies are either domestically or foreign owned and only 13% of companies have mixed capital. Furthermore, 67% of companies were owned fully by Albanian shareholders – they service international companies through contractual arrangements. The number of years in operation appears to be related to the performance of the companies – the average turnover of companies established before 1997 is almost twice as high as the average turnover of companies established after 1997. This fact is reflected over the three years taken in consideration in our study.

Figure 14. Average turnover by year of registration



Performance of companies at the onset of global economic crisis

The apparel and footwear industry flourished in Albania during the 1993 – 1996 period. Italian companies were the first ones to explore the Albanian market. After gradually testing the variety and quantity of product lines they paved the way for newcomers in the market - production expanded, and many Albanian enterprises were established and grew from small units into large consolidated companies. The sector picked up quickly after the 1997 crisis and enjoyed a relative stability during the 2002 – 2007 period. During this time, businesses expanded as they were working with powerful ordering companies – according to industry representatives the growth was driven by high demand in the receiving markets and companies often had to dispatch two shipments of products per week.

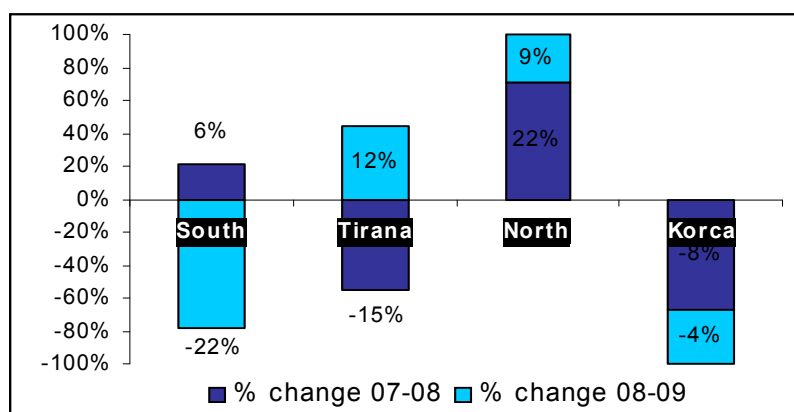
Currently, this order-based industry is believed to be one of the most affected sectors by the global economic crisis, due to its high level of integration in the global markets. The majority of enterprises were not prepared to face the consequences of the crisis and the significant drop in the production levels of this industry was mainly demonstrated in the following aspects:

- (i) reduction in the number of contracts;
- (ii) new contracts with less favourable terms (i.e. lower prices for units and payment terms);
- (iii) termination of contracts and difficulties in acquiring contracts from new customers.

Financial performance

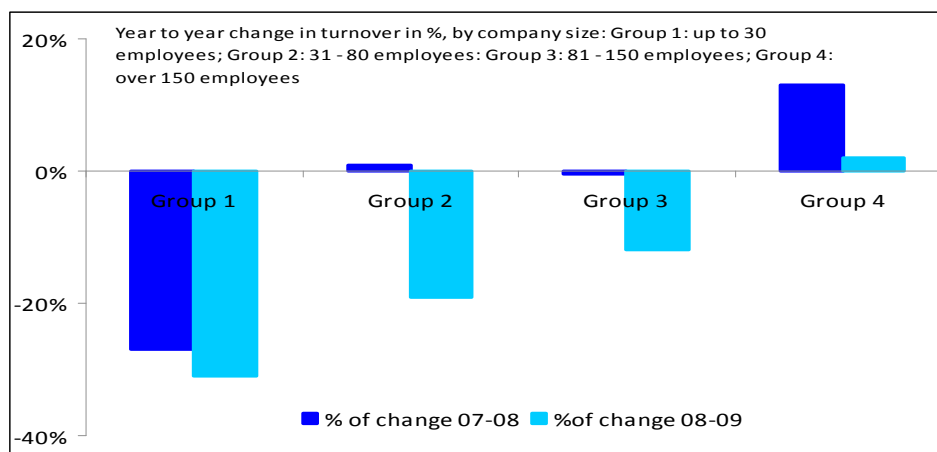
According to the survey results, the reported turnover declined between 2007 and 2009 in the majority of companies, despite the fact that many showed signs of recovery during 2009, when the reported turnover was higher than the previous year. The survey results indicate that the period was rather positive for companies located in the northern area, which seem to have managed to boost sales and turnover. A decline in the average turnover was noticed in 2008 in companies in the Tirana and southern regions, which later picked up in 2009. Korca based companies, operating mainly with Greek buyers have suffered a considerable decline in the reported volume of work and were the only ones to have failed to pick up during 2009.

Figure 15. Average annual turnover change by area



Survey results are supported by focus group representatives. According to them, signs of a slow down started in 2006 – 2007 and reached the lowest point during 2009 – companies were faced with scarcity of buyer’s orders, coupled with the downward trend in contract prices. The financial position of sourcing companies has also become a problem, which in turn is reflected in liquidity shortages for Albanian enterprises. Industry representatives reported that clients are delaying payments or are negotiating longer payment periods which in some cases go up to 180 business days from the day of merchandise delivery. Furthermore, an increased number of contractual breaches has been noted, with buyers refusing to withdraw and/or settle orders. These are all hardships that may lead to continued reduction of production and further closures. According to participants in focus group discussions, the sector has experienced a steep decline both in terms of the workload as well as turnover.

Figure 16. Average annual percentage change in turnover by size of companies



Results are interesting also in terms of the turnover performance by company size – as anticipated in view of general global trends in the sector; the impact of the economic crisis on larger companies has been less detrimental than for smaller ones. Indeed, the largest companies – employing over 150 workers have reported positive growth during 2008 and 2009. The results were to be expected as bigger companies are usually more consolidated in the market, and are faced with lower uncertainties with regards to future contracting. The impact of the crisis was harder for smaller companies, which experienced the steepest turnover declines. Small companies, that represent 16% of the total sample, have suffered a significant decline in the annual turnover (30%), whereas for companies with 31-80 employees and those with 81 – 150 employees, the decline amounted to 19% and 12% respectively. It is worth noting that the observed decline in the small enterprises group started in 2008 whereas for the middle two groups the decline becomes apparent in 2009 after a steady 2008.

Further probing in the focus groups and the results of the survey in an attempt to better understand the impact of the crisis on the sector, confirm these *two main development tendencies*. *The first tendency* relates to small enterprises, whose activity eventually declined leading to closure in some cases. Smaller size enterprises were inexperienced; not flexible enough to adapt to market trends in terms of finding new customers; as well as the relatively high administrative costs proved more burdensome for these small production units.

The crisis in Albania as everywhere in the world is largely affecting the population with low incomes which is then reflected in lower consumption levels or the consumption of cheaper products. Textile and footwear owners in Berat believe that products of mass consumption produced in China are very competitive. Therefore, Albanian enterprises that specialise in these products face great difficulties. In the region of Korca, direct competition in this sector comes from the Macedonian companies that apparently have better work conditions, larger factories and display a higher level of technology that is attractive to potential customers.

The second tendency identifies enterprises that in 2009 report a significant increase in the volume of activity due to certain measures they took. These measures include investments towards the closed production cycle and the identification of new markets mainly noted for large enterprises with long experience.¹⁸ This is the typical case of companies that have managed to move up the value chain and as such are less vulnerable to external shocks.

¹⁸ One enterprise reported a 100% increase of production compared with 2008 and foresees to have another 50% increase in 2010.

According to survey results the majority of companies that have improved their results by 2009 have also managed to increase their efficiency. A tendency of higher labour productivity – defined as turnover generated per employee - has become visible across the interviewed enterprises, which is more typical for larger companies.

Furthermore, some of the enterprises that have managed to do well during the 2007 – 2009 period seem to have contractual arrangements with powerful suppliers, who impose strong criteria in terms of quality, quantity and timely production and they often bring their own supervisors that verify the required standards of production. They investigate management techniques, capacity of assets, the overall quality of work environment (hygiene, lighting, and air conditioning), and the level of training and employee satisfaction. Those Albanian enterprises that have enjoyed a long history of decent contractual relations have not been affected by the crisis. Following adaptation or internal modifications, they managed to secure the stability in the market access.

Trends in business performance and value addition

The crisis in the sector in Albania started as a result of the crisis in the sourcing countries. Albanian enterprises that worked with successful international companies have continued business as usual. Large enterprises with advanced technology and good management techniques have been more flexible in getting new customers and companies from different countries. Although in small numbers, enterprises that function with a closed production cycle have been able to attract lucrative contracts with international well known brands. Therefore, the closed production cycle is considered a very important factor for stability and business sustainability.

Companies that produce for the domestic market or those that are able to market their own products have been at a favourable position to deal with the impact of the crisis. The general opinion is that the size of enterprises, numbers of employees or years they have been active have not necessarily been the only factors determining the impact of the crisis. Additional factors that have been determinant in this respect include:

- (i) the management of production;
- (ii) technology levels;
- (iii) the quality of production;
- (iv) the professional level of employees and especially the production line managers and marketing specialists;
- (v) capacity to produce in a closed cycle;
- (vi) ability to prepare regular work contracts;
- (vii) finding serious partners;
- (viii) capacity to invest towards expansion or better orientation of production towards larger quantity or newer products.

For the purpose of this study a better understanding of the added value that companies are generating in their activity is necessary. In order to measure the added value, the number of production processes that every company performs has been taken into consideration.

The companies performing the larger number of processes are considered as generating the highest value added domestically. The analysis shows a positive correlation between the volume of turnover and the number of processes carried out by companies. The average turnover of companies carrying out at least 4 or 5 processes in the apparel sector and 9

processes in the footwear sector was higher than the average turnover of the remaining companies. Naturally, larger companies are more likely to carry out more processes and have higher turnovers. Typically companies produce finished/ ready made garments, and only a very small portion of respondents indicate production of semi finished goods. This phenomenon is more visible in the footwear sector, where roughly the same number of companies producing semi-finished and finished products is observed.

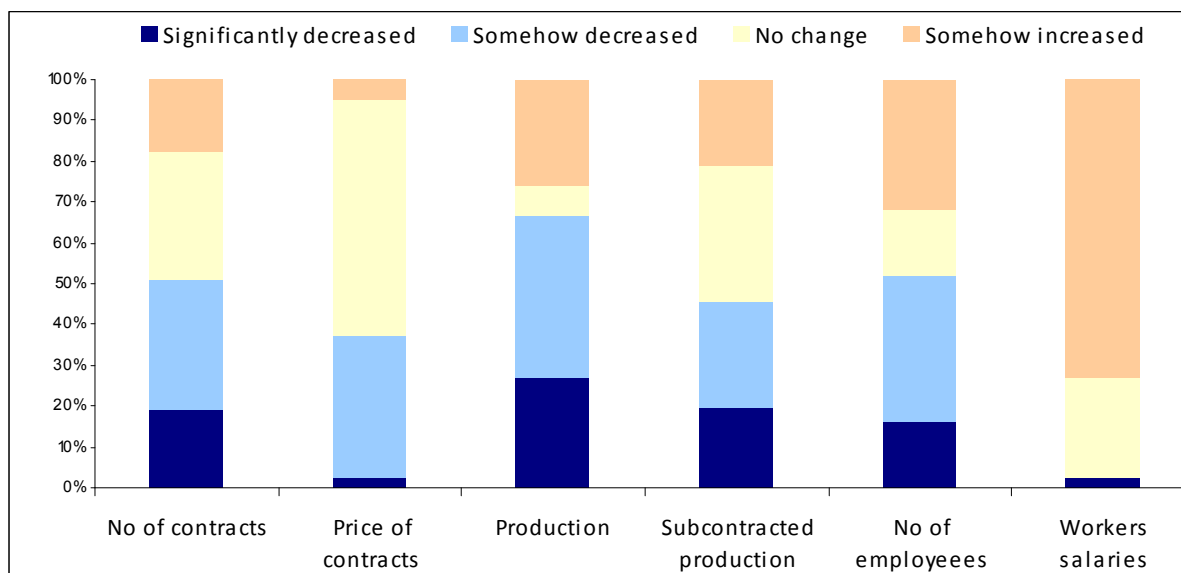
During the 2007-09 period companies in the sector have generally improved their performance. The main driver of the aggregate growth of the sector is the extremely positive results achieved by large companies which report an increased turnover from 2008 to 2009 by 7%. Large companies in the sector represent also 50% of the total companies that complete the highest number of processes.

Business performance

Companies have faced difficulties over the last year as 18% of them have affirmed that the *number of contracts* has significantly decreased. Overall, for almost 71% of companies the situation with contracts has either remained the same or worsened. In total, only a very modest number, just 1%, has been able to significantly benefit during the global economic crisis and an additional 18% have enjoyed some degree of benefits.

Results show that the *price of contracts* has been stable in 57% of the cases and it has decreased somehow in 36% of the cases. This further highlights the financial hardship faced by apparel and footwear manufacturers. On the other hand only 7% of the sample have benefited from higher prices most likely by accessing a higher end market.

Figure 17. Business performance during 2007 - 2009

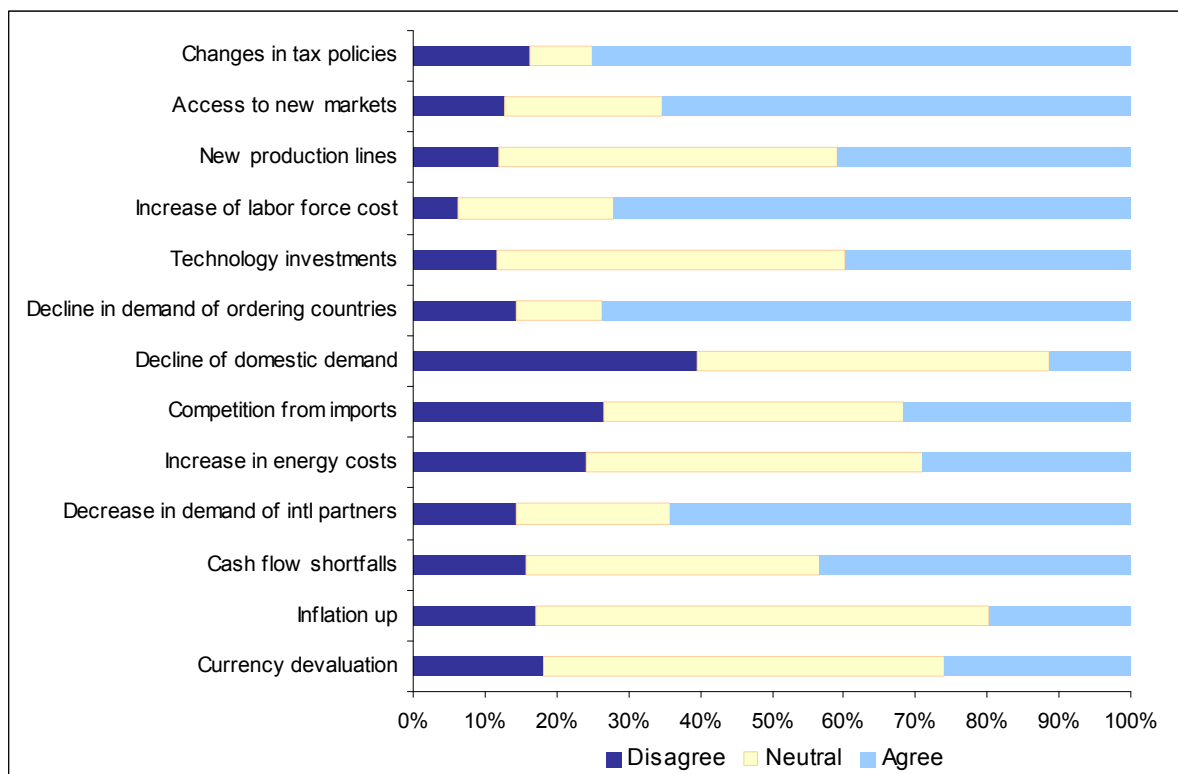


The *volume of business in terms of quantity of production* has mostly dropped in 63% of the interviewed companies while the reduction is significant in 25% of them. There is however a significant portion, around 30%, that has noticed the volume of their production increased over the year. In terms of subcontracted work, more than 42% have significantly or somehow reduced their volume of subcontracts, whereas about 28% have been quite successful in increasing the volume of subcontracted work.

Companies confirm that in the majority of cases (60%) *business performance* has deteriorated, while just 9% say that it has improved significantly. However, a respectable number (22%) has still experienced a slight improvement in their business performance.

Business drivers

Figure 18. Business drivers



Currency fluctuations have left the majority of the companies indifferent in their business as almost 56% have remained neutral to the currency devaluation. That said, the remaining is divided between those who have noticed an effect of the currency devaluation (26%) and those who have not (18%). As in the previous case, the majority of the companies (63%) remain of an indifferent opinion regarding the effect of inflation on their business. The remaining is divided almost equally between those that believe that inflation has afflicted their business 19% and the others 17% that do not notice any difference. Cash flow shortfalls have been a problem for many companies (43%) even though there is also a large number that remain neutral to the problem. However, the problem is quite present as only 15% of the companies do not consider this to be a problem.

63% of the companies consider the decrease of demand from international partners as an important negative effect in their business, 21% remain neutral while 14% agree that the decrease has not been that important. 42% of the companies remain neutral to the competition from imports followed by those 32% that agree that it is a problem. Only 26% do not agree that this constitutes a problem.

Almost half of the companies (49%) remain neutral to the negative effect of the decline in the domestic demand followed by those that do not consider this a problem 40% out of which have even a strong negative opinion. On the other hand, only 11% believe that this is a

problem. However, the absolute majority (74%) believe that this factor is an important one. On the other hand, nearly half of the companies (47%) are neutral to the need for new production lines but still 41% of them believe that it is an important factor.

The *access to new markets* is an important issue for about 65% of companies and just 22% remain neutral. Only 13% disagree with the importance of this issue. The absolute majority 75% believe that changes in tax policies are an important issue in face of only 16% that do not consider it as such. At the same time, around 47% of companies remain indifferent to the effect of the increase of the energy cost in their business. On the other hand, 29% agree that it has an effect while the remaining 24% disagree.

Access to financing

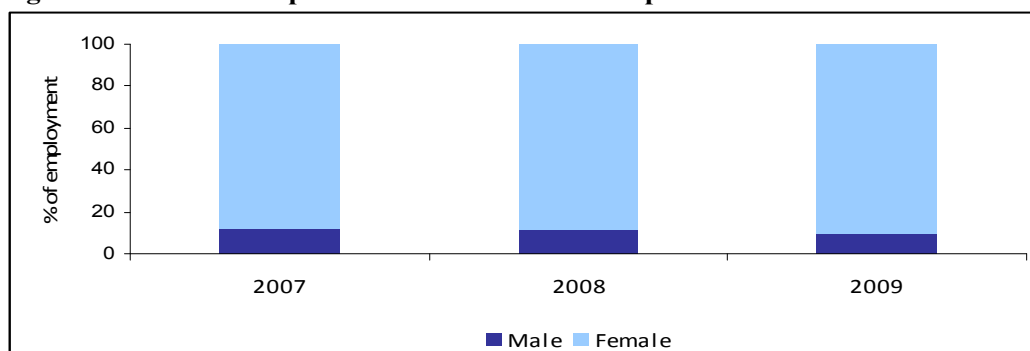
The majority of enterprises in the sample report they did not apply for financing during the period of study. Among those who did, the relative majority has borrowed for increasing investments and to obtain liquidity. Almost half of companies (45%) have not experienced any difficulty on the payments of the existing credit lines, while 25% have on the contrary faced problems. However, 30% of the companies have not applied for rescheduling or renewing their existing credit. Half of the companies that have answered to the question have admitted that they faced difficulties in obtaining new credit. 21% declare to have not faced problems, while 29% have not applied. Only 6% declare that the absence of collateral was an impediment for them to receive a bank loan.

Labour Market Impact

The apparel and footwear sector in Albania is very important for the economy due to the large share of employment and its considerable share in the volume of exports. As stated from the focus groups participants, employees in this sector come from urban outskirts.

The processing industry labour force is known to be dominated by female employees. According to our survey, their share to the total employment in the apparel and footwear sector represents more than 90%. This figure is in line with the data from the National Employment Service that states that women constitute 91.7% of the overall number of the employed in the apparel and footwear sectors¹⁹.

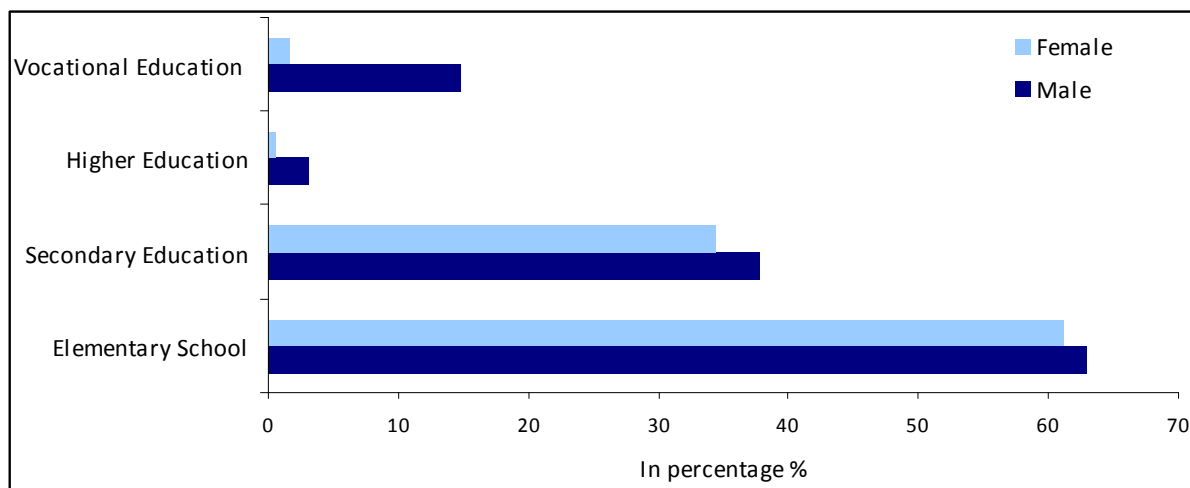
Figure 19. Gender composition of workforce in sample



¹⁹ National Employment Center (2008) Annual Activity Report www.shkp.gov.al - accessed on January 28, 2010.

The labour workforce in the sector is characterized by employees who have completed only elementary education. The survey findings further indicate that the male labour force possesses a slightly higher level of education compared to the female workforce in terms of secondary education, vocational education and university degrees. The largest gap between the two genders is noticeable in the vocational education as just 1.6% of the female workforce has a vocational education degree compared to about 15% of the males. Less striking, the difference is also present in terms of higher education with 0.6% female employees having a university degree compared to 3.2% males.

Figure 20. Gender breakdown of education levels of the labor force



The considerable difference in the level of education between the male and female workforce in the industry may also be attributed to the positions that men and women respectively hold in the sector. In the apparel sector the overwhelming majority of workers employed in production processes were female, whereas men filled mostly managing positions. This difference was not as striking in the footwear sector, where there was a larger portion of men employed in direct production. Nevertheless in general men had higher positions than women in both sectors.

Table 4. Gender breakdown by sector and position

	Production	Management	Top management
Apparel - 5488 employees			
Female	88%	3.5%	0.9%
Male	4.5%	1.4%	0.7%
Shoes - 4989 employees			
Female	80%	2.5%	1.5%
Male	15.3%	0.9%	0.6%

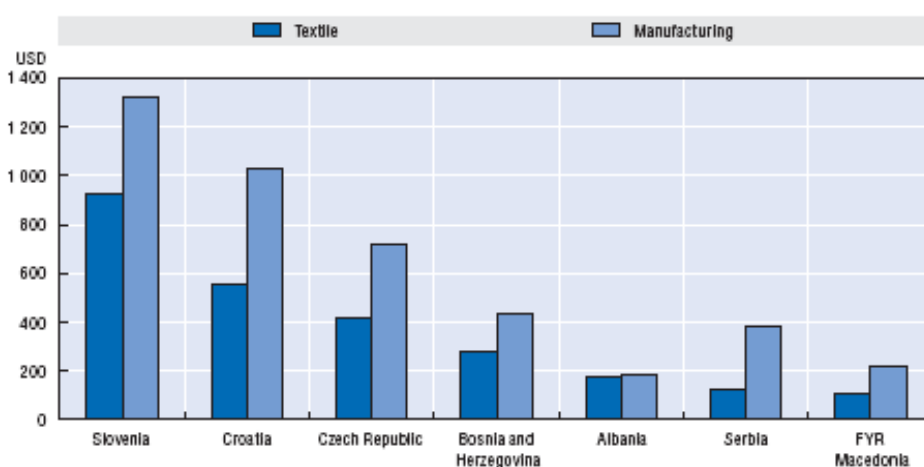
Skills and Remuneration

According to the survey, almost 80% of the companies declare that their trained workforce receives not more than 20,000 lek/month (app. 200 USD per month). Management positions

receive a higher salary - 20,000 to 35,000 lek/month while top management or high administration officials receive more than 35,000 lek/month in nearly 80% of the companies. The survey shows that the remuneration of employees is mostly done on a piece-rate basis, as almost 88% of employees are paid according to their efficiency compared to those who receive a fixed salary.

All companies report to pay salaries in monthly arrears and any overtime work is paid together with the monthly salaries. They declare that wages are based on the minimum monthly wage as set by the Law. These figures for Albania are also confirmed by an ILO study for the average monthly wages in the countries of Western Balkans²⁰. It is clear that Albania's wage structure in the textile and manufacturing sectors is one of the lowest in the region although in the textile sector average wages seems to be slightly higher than in Serbia and Macedonia (data of 2006).

Figure 21. Average monthly wages (2006)



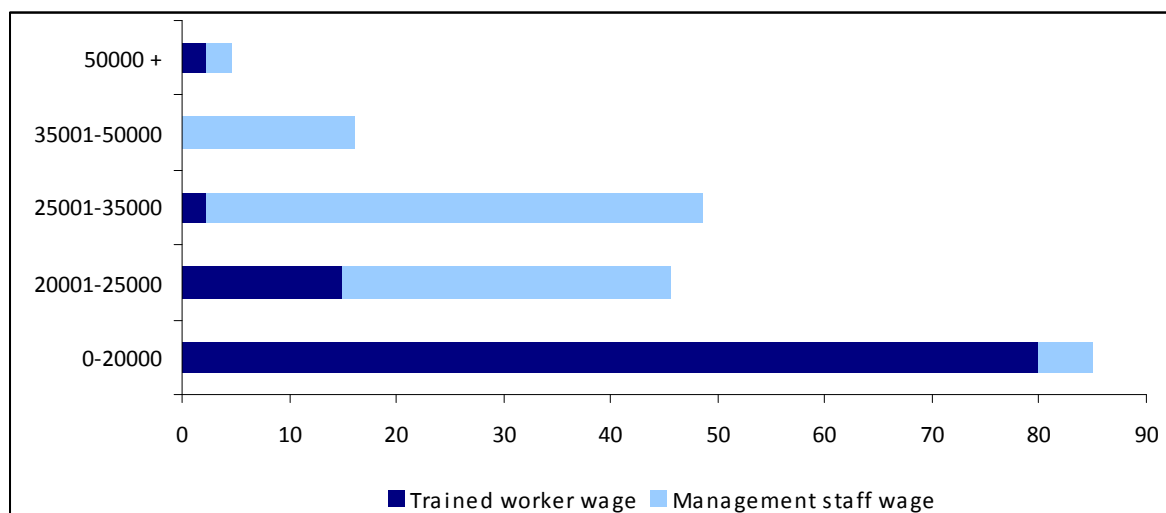
Source: LABORISTA (ILO) from OECD Competitiveness and Private sector development, Sector specific sources of competitiveness in Western Balkans (2009)

An interesting feature of the processing sector employment is that it remains stable over the course of the year. According to our survey, the number of temporary workers is just 3.6% of the permanent workforce. Generally, employees are all formally contracted as the sector is under the continuous scrutiny of the labour and tax inspectorates. The law stipulates that any newly hired employee should be declared 48 hours before the start. Any departure should also be declared. This mechanism is believed to have cost implications for enterprises as they would need to have dedicated personnel to deal with these time consuming administrative issues. It is interesting to note that employees in this sector seldom leave their jobs and this mainly happens when they get married to an emigrant and move away. There are also cases when qualified employees leave from one enterprise to another due to better pay.

As mentioned above, most of the employed people in this sector are women. According to focus group discussions, the main reason behind this is low salaries and the very nature of work. As salaries are below the living wage, work in this sector is not attractive for men. The tradition of textile work for women during the communist regime may also play a part in this gender bias in the sector. However, a few men are present in certain aspects of work in the sector such as maintenance, transport and packaging.

²⁰ LABORISTA (ILO) from OECD Competitiveness and Private sector development, Sector specific sources of competitiveness in Western Balkans (2009)

Figure 22. Remuneration by skill level



Entrepreneurs are responsible for paying social insurance to employees according to their profile and position, including the newly recruited unskilled employees. However, entrepreneurs maintain that social insurance payments for new unskilled employees needs to be partially subsidized by the government as they do not have proper qualifications and are not fully capable to be effective in their work from the beginning. Interestingly enough, almost all respondents report that they employ workers on permanent contracts and employment is almost 100% formal. Indeed, the fact that the average workers salary range in the minimum legal levels (as determined CoM decision on minimum wages per sector of economy), which indicates that indeed, if not earlier, a large share of the sector’s employment may have been formalized then. However, the Confederation of Trade Unions and the Union of Independent Trade Unions confirm the persistence of home based family work, mainly present in the footwear industry due to the nature of handmade processes, depending on the need and quantity of orders. Usually external workers are part of the workforce but belong to the group of workers whose social insurance contributions are not paid for.

Data from the survey is validated also by the results of the Enterprise Survey of INSTAT, according to which the average wage in both sectors (apparel and footwear) was ALL 16,800 and 18,800 respectively in 2007 and 2008. The Labour Force Survey sheds further light on average wage levels in the sector. According to 2008 data, the average net wage in the textile and footwear sectors was ALL 20,000 for male and 17,000 for female workers.

It is worth noting that all data are indicative on little informality in the sector. Survey results and focus group participants indicate that workers are duly employed and social insurance payments are regularly made. In addition, according to LFS 2007 and 2008, more than 90% of workers report being employed on regular contract and paying social insurance.

Industry associations such as the National Chamber of Apparel and Footwear claim that the industry employs over 100 thousand workers, or over 10% of the country’s overall employment. However, none of the administrative or other research data validates this figure. Indeed, several sources suggest that levels of employment may fluctuate around 30 thousand employees maximum, whereas official data report 22-26 thousand employees in the sector (INSTAT and MoLSA&EO respectively). On the other hand, trade unions sustain that it is difficult to assess the total number of employees due to several factors: existence of small and informal companies, external home based workers (in the footwear sector) and possibly

undeclared workers in registered companies. One trade union representative estimated the total number of workers in these two sectors to a maximum of 40 thousand.²¹

Training

The survey analysis indicates that companies consider training as an important tool for successful performance. Almost 80% of the companies declare that employees are trained before starting work. Entrepreneurs report that training is offered mostly on the job (76 %) and they pay particular attention to the retention of those workers that are experienced and trained, as they serve as a permanent nucleus for the training of newcomers. Contractors also pay attention and provide training to around 40% of companies. About 24% of companies report contracting external experts to conduct training for their employees.

The sector is lacking qualified technical and engineering personnel as the secondary and higher education in the country is not able to fulfil the needs of this industry for qualified personnel. Many survey respondents report serious difficulties in finding appropriate product line managers, who could be able to supervise and organize production processes. Despite training delivered in-house, anecdotal evidence shows that only a few workers manage to go beyond the elementary skills of machinery operation and processing skills and fail to master production process management skills. While there are university students that graduate with very good results, they display no practical applicable knowledge. In other countries, universities provide particular degrees that serve the market needs and advanced technology. Universities do not have direct links with private enterprises. While enterprises explore new technologies, universities can support them with qualified students.

Entrepreneurs confirm that labour force mobility within the sector does not seem to have any relationship with the workers' performance. This means that other companies in the sector do not offer better positions and higher salaries to those with good performance. Entrepreneurs declare that working conditions, irregular payments and excessive overtime are not related with the mobility within the sector. As a great majority of employees are women, entrepreneurs confirm that the main reasons to leave the job are marriage and emigration.

The impact of the crisis on sector employment

According to the survey, the employment rate has experienced a declining trend over the period 2007-2009. Survey results show *a slight decrease of 3 % from 2007 to 2008 but the drop becomes more significant in 2009 to almost 9%*. If we analyse employment by age groups we notice that the *16-29 years old employees represent the largest share with about 60% of the total*. It is important to emphasise that the share of 16-29 years' old employees has slightly increased during 2007-09 to almost 63%. Indeed, according to trade union representatives, the preferred workforce in the sector is under 35 years old.

Results confirm that *companies have reduced the number of employees due to difficult economic conditions caused by increasing prices and lower volume of production. Almost 50% of companies have reduced their workforce while 15% have remained stable*. It is interesting however that *30% have increased the number of employees* reinforcing the argument made earlier that the sector has seen two different trends during the period under

²¹ Interviews with representatives of the Confederation of Trade Unions and the Union of Independent Trade Unions, April 2010.

scrutiny. Trade union representatives stated that they did not have any indication of massive layoffs due to the crisis.

Around 90 percent of employees work and get paid on a daily norm basis. They get paid for the extra units they produce. The normal working hours are in accordance with the Labour Code – 8 hours a day. However, due to the crisis *working hours are shorter now and some companies have had to lay off several employees.*

Apart from those businesses that have closed, enterprises try to keep employees (mainly the qualified ones) at work by having them work shorter hours a week, but paying the social insurance contributions for them.

A common phenomenon as described by the trade union representatives is the transferral of orders to smaller and often informal enterprises. They argue that some companies tend to subcontract considerable shares of their orders to smaller, often informal enterprises. These subcontracted enterprises appear to have been more affected by the global crisis, although there is no evidence in support of this argument.

Why is it so difficult to assess the level of employment and job losses in the textile and clothing industry?

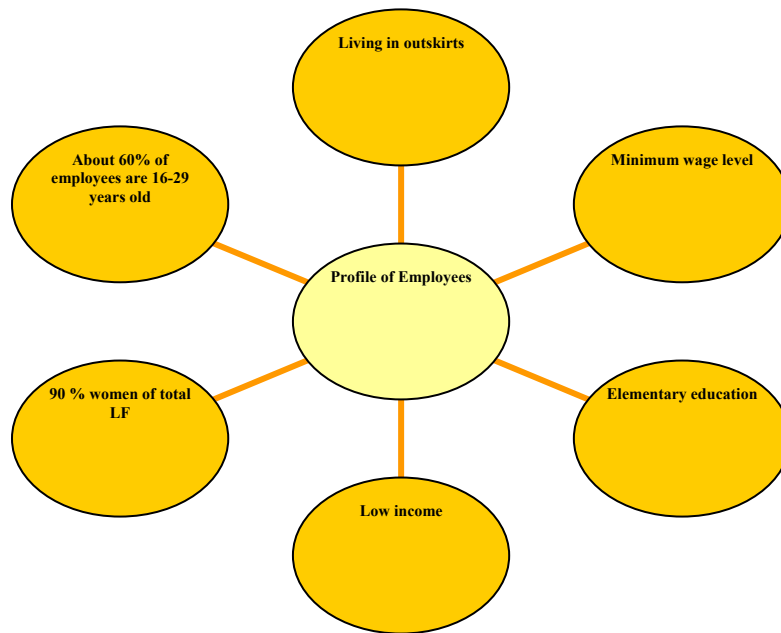
Employment in the textile and clothing industry includes both large, formal sector enterprises and smaller, unregistered factories. Many workers are employed on short-term contracts. Figures are few for the total number of factories operating and people employed in the sector in many developing countries, let alone the number of jobs lost. Often it has been difficult to assess how many workers are unemployed and how many are temporarily laid off, or on extended seasonal leave.

Source: Forstater M., ILO Sectoral Coverage of the global economic crisis, Implications of the global financial and economic crisis on the textile and clothing sector, 2009

The contracted labour force is being *paid social insurance contributions based on the real salary which in most cases matches the minimum wage level* as set by the government. At this stage, due to a lower volume of work, entrepreneurs maintain that social insurance based on the minimum wage is currently high and constitutes a burden for the companies. This particularly problematic in cases of shocks that affect the volume of work. While the *salaries of workers can be adjusted to reflect lower production levels, social insurance continues to be paid at pre-crisis levels* based on the minimum wage. In addition, enterprise managers emphasise the burden they face during the probation or training stage, as they are obliged to make social insurance payments for their employees. The largest share of lay-offs during this period seems to have affected typically untrained workers on temporary contracts.

Interestingly and yet surprisingly enough, the overwhelming majority of companies, 71%, declare that they were able to somehow increase salaries during the crisis period. This however might be also a result of the government decision to increase the minimum salary during the course of the year, which encouraged companies to enforce the law and declare that a large number of employees receive the minimum salary.

Work Force Profile; Vulnerability aspects



Group age: 16-29 years old employees represent the largest share with about 60% of the total showing also a 3% if increase during 2007-2009.

Gender: Women over 90 % of sector workforce, while women of 16-34 years old group age represent 89% of total workforce.

Living standards: The employees appear to come from low income families living in outskirts.

Education: majority of employees have completed only the elementary education; male labour force demonstrates a slightly higher level of education compared to the women.

Wage: over 90% of the employees are declared at minimum wage level.

Employment turnover: A declining trend in industry's employment is noted over the period 2007-2009; namely by 3 % from 2007 to 2008 to 9% in 2009.

Demand and Training Needs

According to the data from the National Employment Service (NES) Annual Report 2008²², the apparel industry represents the sector with the highest number of vacancies. The abundance in vacancies is partially due to the instability of the labour force or expansion of production activities. Furthermore, vacancies are reportedly difficult to fill as a large number of job seekers are older than 45 years old (30%) and unskilled, while the industry demands younger skilled workers. Low salaries and unfavourable working conditions are often the cause for refusal. NES has assisted in filling nearly 42% of the vacancies.

The same source shows that in 2008 there were 9540 employees in the textile sector compared to 6913 for 2007. However, this sector is characterized from a fluctuating workforce with many workers moving in and out of employment due to the order based nature of this sector. According to NES, this phenomenon is more visible in the regions of Shkodra, Vlora and Fier.

²² National Employment Center (2008) Annual Activity Report www.shkp.gov.al - accessed on January 28, 2010)

It is important to note that overall survey results indicate only slight differences in total employment in the apparel and footwear sector. However, the survey captures only employment in total and it was not possible to trace mobility of individual workers. Total employment figures in the sector seem to have remained stable. However, in line with the NES study (2008), interviews with industry representatives lead us to assumptions that there may have been internal mobility within the sector, mostly affecting the unskilled workers.

Training needs

For the apparel and footwear sector, the workforce plays a key role due to the labour-intensive nature of production. In this sector preference is given to on the job training and intensive short-term courses. As the great majority of employees in this sector comes from the rural areas, characterised by difficult economic conditions, this is considered an opportunity, which leads to stable income.

NES²³ possesses data with regards to the training needs relevant for the sector. For instance the 2008 NES annual report indicates that the demand for stitching skills for footwear, constituted more than 7 percent of the training demand (332 number of workers for leather stitching and shoe cutter skills). This demand comes mainly from enterprises in Tirana (59%) and Shkodra (33%). While the same source states that for the apparel industry the highest skill demand appears to be for tailoring (for 1270 employees) and cutting (for 153 employees) processes from the total needs of the processing industry (for about 1986 number of employees)²⁴. Additional skills for the sector as registered by NES include apparel and leather cutting skills, ironing and packaging.

The survey and focus groups discussions complement these findings. Indeed, as a lack of skilled workers is observed, there is a need for training for employees in specific work processes. Specifically, there is a need for training for line supervisors, on maintenance, and organisational and management skills. Training is also needed for the management staff of these enterprises. Courses for training in basic processes can be organized and would alleviate the need for experts with experience and knowledge in these processes. While some would argue that this training can be better offered by companies as it is currently done on the job, the provision of training by public institutions will be a welcome measure. Although in certain occasions, ordering companies provide also their own training, the provision of training by public institutions would also serve for instilling broader work skills and capabilities beyond the work processes. New technologies also raise the demand for qualified people and public institutions are best placed to ensure this. Additional set of skills that have been pointed out as requiring proper training are marketing and negotiation skills, finance and accounting. Therefore, it is clear that more training for the workers in the sector is necessary and more support from government structures is needed. The majority of entrepreneurs had not cooperated with the local employment offices and appeared to be sceptic for such cooperation in the future.

²³ ibid

²⁴ ibid

PART 3 Mitigation capabilities of private actors and the government

Government measures

The Albanian government appeared to be quite self-confident towards the level of impact that the crisis might have in Albania. Although, public officials have often been under pressure from the media and the opposition about the plans and capacities for tackling any possible problems deriving from the global crisis, however a comprehensive plan was still lacking. On the other hand, public officials especially from ministries of Finance and Economy have been quick to reassure the public about Albania's situation trying to avoid a situation of panic.

Although every year a reserve fund and a contingency budget line are foreseen in the annual budget, to address any urgent situation originating from the crisis, no discussion has taken place on how these funds could be used and if there is a concrete plan annexed to this budget in time of need. On the other hand, the government has demonstrated a good will and commitment to improving the business environment and several steps have already been undertaken in these direction. Furthermore the public investment programme is also believed to serve as a relief agent to any pressures from the crisis. Indeed, public investments are the most notable ones in the annual budget: infrastructure investments amounted to 70% of total public investments in the 2009 budget.

Albania's Parliament Commission for Economy passed a draft law for the reduction by 5% of the social insurance contribution for the employer, from the current 20% (combined employer-employee pension contributions currently amount to 29.5%). After discussions with the IMF, the government agreed to apply the decision starting from the 1st of May 2009. The reduction by 5% is translated into 50 million USD less for the coffers, a quantity that will remain in the hands of investors and employers. This policy that aims to provide a fiscal relief for the businesses is expected to lower the informality of the labour market as business may start to declare truthfully the real salaries of their employees including here the uninsured ones.

In 2008, the government took several measures in the promotion of employment in the production sector through vocational education training. A decision of the Council of Ministers (dated 16.01.2008) on "The programme of employment through on the job training" defines the curricula for the footwear sector. Other earlier decisions had to do with encouraging unemployed jobseekers holders of a university degree (2006) and female unemployed jobseekers (2003). According to the National Employment Service during 2008, a total of 131 private subjects and non-profit organisations were licensed for vocational education training – out of which 58 were newly established. All these measures are in line with the sectoral strategy on employment and vocational education training (2007 – 2013). Another positive action is the implementation for the first time of employment promotion measures in the field of manufacturing, and shifting the focus away from courses such as hairdressing. For small enterprises government subsidies are up to 70% and for small enterprises subsidies are to the level of 50% with the understanding that the number of attained trained employees increased from 20% to 50%. Furthermore, a package of stimulus initiatives including public investment, fiscal measures. and social support have been broadly

articulated with the intention to inject certain strength to Albania's economy in light of the impact of the global economic crisis

Stimulus Package Initiatives	Measures	Indicative Impact
Public infrastructure investments	Major public investments in order to boost demand (70% of state budget)	Increasing liquidity in the market, boosting demand for consumer goods; boosting labour demand. Improved infrastructure possibly leading to better transport linkages with region; integration in regional markets; access to new markets
SME credit guarantee fund	Setting up a credit guarantee fund of 200mil ALL for exporting companies; as of mid-2007, valid for 6 years	Increase opportunities for technologic upgrading and moving up the value chain; increase access to finance for working capital; Form of injecting liquidity in the market, stimulating investment and labour force demand
VAT reimbursement	Shorten time for reimbursement of VAT for material inputs in production	Increase liquidity in the sector, beneficial for company cash flow; less delays in settlements of wages
Government endorsement for training programmes	Employment promotion programme through financial support for vocation education programmes – National Employment Service	Subsidize training costs for jobseekers contracted by the enterprises for about 6 months with 70% for small and medium companies and 50% for large ones.
Encouraging employment of vulnerable jobseekers	Government subsidies for employer's contribution of social insurance costs/and or minimum wage costs for vulnerable jobseekers – as of 2008, valid for 5 years Periodic and annual market research carried out by NES; focusing on labour supply and demand NES acting as facilitators in the labour market for vulnerable jobseekers in particular	Increase opportunities of employment; and better targeting for vulnerable jobseekers Establishing a bridge between labour supply and demand; assessing training and skill needs in order to design tailor training programmes Investing in skill enhancement; bridging skill gaps
Reduction of employers' social insurance contribution rate	Reduction in 2008 of employers share of social insurance contribution by half	Increasing labour demand and labour supply in formal sector; formalization of labour market

Sector's measures

Generally, all enterprises working in the sector have felt the impact of the crisis, however, larger companies were in a better position to bear the consequences of the crisis. According to the focus groups, the most successful entrepreneurs realized that moving towards the closed production cycle was the answer for sustainability. As is often the case, the crisis led to the restructuring of the sector – following the onset of the crisis, companies seem to have improved their efficiency by increasing labour productivity.

They believe that the government also needs to provide support for the promotion and marketing of Albanian products abroad. In addition, they maintain that the government needs to gather detailed information on the apparel and footwear industry with regards to the production line and business potential so a better marketing of Albanian products can be ensured through investment promotion agencies like Albinvest. Such information can be made accessible to potential investors as entrepreneurs have the feeling that informal enterprises with poor capacities and unreliable business structures damage the image of the industry and distort the price scheme. These enterprises were the ones most affected by the global crisis and continue to face difficulties. The large and more consolidated enterprises have asked the government to tackle informality in the sector, to review taxes and duties and to offer unemployment benefits to employees that lose their jobs.

The survey provides some additional details. For instance, the answers to the question regarding the way enterprises have dealt with any difficulties as a result of the crisis can be grouped as follows:

- Additional professional training has been offered by both internal specialists as well as contractors
- Paying more attention to improving contractual relations and investments in technology
- In cases of difficulty there have been redundancies
- Increasing the number of contracts, increasing the quality of production, introducing new models and lowering the costs
- As a lack of customers is noticed, adapt to the market demands and find new orders
- Turning to the bank for loans and support
- Frequent contacts with government programmes and international consultants from donors in Albania
- Influence through the association for a better implementation of laws

To the question whether there is any measure that entrepreneurs would like the government to take in order to alleviate the effect of the crisis on the sector, they responded with a rather comprehensive list of proposals:

- Suspension of the obligation to declare 48 hours in advance the recruitment of new employees as well as in the case of lay-offs.
- Faster and easier reimbursement of VAT
- As companies train their unskilled employees by themselves, the government can offer subsidies for social contributions for employees for a period of 3-4 months.

- Tax exemption can be introduced for the sector for a certain period of time (3 - 5 years) or for new businesses or investments in new production lines.
- The government needs to pay more attention to the vocational education training.
- The government can offer incentives for production, international marketing and market information
- Lower energy prices and lower social security payments,
- Favourable fiscal policies such as introduction of VAT exemption for export related purchases and relieve employees from the 10 percent income tax.
- and legal protection for non-respected international contracts
- Government needs to provide guarantee funds for exports, fund a school for designers and management staff for the sector
- Furthermore the government can help with grants or soft loans for technological developments in the sector
- Provide protection from unfair competition and establish the sales unit price
- Help in findings new ordering companies from abroad
- Formulate policies on how to attract investment in the field of apparel and footwear industry
- Training costs need to be shared between companies employment projects

SWOT Analysis of the Albanian Apparel and Footwear Industry

Although the impact of the global crisis will continue to be present, in the coming years Albania will continue to be an attractive country for foreign investors. In the words of focus groups participants this is due to:

- Favourable geographic position
- High level of unemployment
- Difficulties for employment for the unqualified segment of the labour force especially women and girls.
- Young age of the cheap labour force
- Salaries still relatively lower compared to other countries in the region
- Due to proximity to developed countries the possibility of small, flexible and quick orders is still relevant for Albania
- Albania offers great potential for specialized products in small quantities

Strengths	Weaknesses
<ul style="list-style-type: none"> -Large global market for apparel and footwear -Established tradition -Good geographical coverage of the regions that attract local work force -Demonstrated a good flexibility and a high degree of adaptability to changes in the industry -Competitive costs of labour force, energy and transport costs compared to other countries in the region. - Proximity to EU markets and improved transport links - 0 custom duties and VAT - Language skills: Italian, Greek & English - Young labour force - Weak trade unions²⁵ 	<ul style="list-style-type: none"> -Lack of/ or obsolete technology and failure to upgrade them on time; -Limited access to financing and investment funds; -Lack of own products brands and sales networks on foreign markets; - Low value added activities - Low labour productivity - Lack of product design and marketing and managerial capacities. - Slow VAT reimbursement. - Longer custom times to clear import and export compared to other WB countries. -Lack of horizontal cooperation among domestic enterprises and of organization in the sector. - Lack of inventory control systems and presence in electronic data interchange
Opportunities	Threats
<ul style="list-style-type: none"> -Integration in the EU and EU markets -Increasing interest of foreign investors in the Albanian industry. -Growing awareness and interest for internal cooperation within this industry sector -Increasing attention in public-private cooperation and improvement of industry data and research -Important public investments in infrastructure and regional development. - Maturity in forming long term vision approach national policies; approving sectorial and cross cutting national strategies for national development to industry, labour market and employment promotion interventions. - Support from government to enhance the skills of 	<ul style="list-style-type: none"> -Growing requests for eco-labels and other conformity certifications or customer demands -A number of firms maintain expensive credits for updating the operations and overdrafts - Increasing concentration of retail sector - Dependency on imports for raw materials - Vulnerability to partners' economic situation - Competition from Asian countries as well as some very competitive regional countries (i.e. Turkey, Macedonia etc) - The sector is not considered yet to be of significant importance by the Government. Not only from the potential trade surplus generation but also as a sector that can contribute in engaging the active labour force.

²⁵ Weak trade unions are perceived as strength from the point of view of the industry and employers. However, the same may be considered as a weakness from the labour rights perspective.

the labour force through VET programmes and subventions through employment promotion programmes.	
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Part 4 Conclusions and recommendations

Responses to the crisis

The apparel and footwear industry is one of the sectors of the Albanian economy most affected by the global economic downturn, primarily due to its export oriented nature and large exposure to the European markets. The onset of the global crisis coincided with a time of structural shifts in global trade patterns in the textile and apparel industry in particular. As a result, Albania along with its Western Balkan neighbors started to face increasing competition from cost effective competitors such as China and India, while global changes in the retail sector induced the consolidation of big buyer chains and imposed downward pressure on contract prices.

The textile and footwear sector is the only sector with a positive trade balance in the Albanian economy. The trade surplus, amounting to approximately EUR 70 million in 2008, has continuously increased through the years, despite the fact that industry exports are largely produced with imported inputs. Apparel and footwear exports have risen in absolute value and till today represent the ***largest export sector*** in the Albanian economy.

Total value added produced by enterprises in the apparel and footwear sectors was approximately EUR 70 million in 2008, up from roughly EUR 60 million in 2007. Despite the importance of the clothing and footwear sector as a driver of Albanian exports, its ***size in the economy is significantly modest in real terms***. This happens primarily because Albanian firms are engaged in low value added activities. The profit margins they operate with are very low and such enterprises are faced with increasing competition, pressure to keep down contract prices and labour costs, as well as tighter schedules and higher flexibility demands. In these circumstances Albanian apparel and footwear enterprises are just ***price takers and have high uncertainties*** in terms of the future of their contracting, as their main competitive advantage in the global market is the proximity to the EU market and the low labour costs, given the labour intensive processes most Albanian enterprises engage in.

Apparel and footwear enterprises should make efforts to ***move up the value chain*** of production and marketing and provide more value added services, in order to increase their profit margins. Firms that have managed to ***work in closed production cycles were less likely to be affected by the crisis***. In addition, the ability of the firms to ***access new markets and clients, flexibility in terms of production as well as technology used were key factors for the success*** of enterprises in the sector. Larger companies were in average less likely to be hit by the crisis, and have indeed managed to ***increase turnover as well as labour productivity***.

As regards employment, in 2008 there were 21,730 people employed in the textile and footwear sector in 2008, of which 80% were women. The higher distribution of

employment is around capital Tirana, followed by Durres, Korce, and Shkoder. The majority of employment in the sector consists of low skilled workers, typically young females.

Wages in the sector remain among the lowest in the Albanian economy, and have consistently been aligned with minimum wage levels. The majority of employees in the sector are low skilled workers, who receive on the job training and have otherwise no other employment opportunities. According to the INSTAT Enterprise Survey (2008), the average level of wage in the sector was 19 thousand ALL, or less than EUR 150, which appears to be one of the lowest in the region. The average wage level is higher for men than women. However, men have higher education levels than women and are typically employed in higher positions.

Contrary to what is widely believed, *all data are indicative on little to no informality* in the sector. Workers are *duly employed and social insurance payments are regularly made*. The data of this study is confirmed by the Labour Force Survey of INSTAT 2007 and 2008, according to which more than 90% of workers report being employed on regular contract and paying social insurance.

Training needs remain high in the sector. All enterprises offer on the job training for new employees or when introducing new processes. They train considerable numbers of staff and although they face high administrative costs, are offered no benefits or temporary tax exemptions for staff under training. There is a lack of more qualified staff, such as production line managers, or designers. Such skills are very important for the competitiveness of enterprises and are considered as crucial for those looking to move on to closed production cycles and provide more value added services.

The impact of the crisis has not been as high as it has been argued. The crisis reached the peak during late 2008 and early 2009, but the sector had already started picking up by late 2009. The effects of the crisis were reflected mostly through the high uncertainty for the future, in terms of declining orders from the developed countries; downward pressure on prices as well as negotiation of other less favourable contract terms. The crisis was more challenging for smaller than for bigger companies; nevertheless it seems to have brought about internal structural changes in the industry, resulting in increased productivity rates as well as higher turnovers for most of the bigger companies. Those lagging behind seem to have realised the need for technology investments, moving on to closed production cycles; as well as expansion to new markets and higher end products.

In summary, the crisis effects were more of a perception than a reality. However, the sector should increase its competitiveness in order to be able to resist further shocks or increasing competition from neighbouring or other low production cost countries. The following are some measures that may be beneficial for the sector in the short – medium term.

Short term measures

Credit and trade finance. The Albanian Government has set up a credit guarantee fund offering support to exporting small and medium enterprises operating in the manufacturing sector and encouraging financial institutions to extend working capital loans to such enterprises at lower risk levels. This move is intended as an enhancer of liquidity in order to ease access to financing for export manufacturers (mainly in the textile and footwear sector); at a time when general credit to economy has contracted and the manufacturing sector experiences cash flow shortfalls. Further more, industry associations and government agencies should support companies in obtaining financing by informing them of possible sources of finance.

Tax and tax reimbursements. Delays in VAT reimbursement schedules for export manufacturers on input Vat paid in advance is one of the major obstacles identified by industry representatives. As a part of the measures intended to ease the impacts of the crisis, the government approved shorter deadlines for VAT reimbursements, in order to improve the sector's cash flow positions. However, anecdotal evidence indicates that there are still delays in settlement of such government arrears. If respected, the new deadlines for VAT reimbursement are expected to be highly beneficial for the industry.

Taxes and labor regulations. According to industry representatives, the minimum wages and the level of taxes on wages are too high and advocate in favor of lower levels. However, a word of caution is due in this regard: current levels of wages are very low – lowest in the region, but also very close to poverty levels. Furthermore, work conditions are in general very poor and employers should be investing more in creating appropriate and safe working environments. Whereas it is true that cost competitiveness is a crucial factor in determining success of apparel and footwear firms in the global markets, Albanian firms should look to enhancing productivity and engaging in more value added activities, rather than seeking to cut labor wages.

Temporary labor cuts. Low flexibility of the labor market is one of the factors that determines the ability of economy to adapt to structural changes. The Albanian labor market regulations are highly rigid and rigidity has proved to be crucial costs during crisis. Whereas firing regulations are liberal, notice times and related costs are relatively high. The trade off between the workers security and ability of firms to survive in the market in times of crisis is difficult to settle. However, temporary regulations may be put in place that allow for temporary layoffs of workers or other similar arrangements at reduced costs for the employers. Whatever solutions are considered, they should ensure respect for government commitments with regard to rights at work.

Promotion and higher visibility for the sector. The apparel and footwear industry should be more actively promoted as a target fore foreign investments. The Albanian agency for direct investment Albinvest or other public bodies should cooperate with industry associations and promote the local apparel and footwear sector; increase their internet presence; offer information and facilitate participation in trade fairs, etc.

Incentives for on the job trainings and employment. The recent initiatives undertaken by the government seem to be ineffective in terms of real impact on the market. Instead, the government and industry representatives should develop a dialogue on ways to enhance the sector and increase employment.

Medium – long term measures

Structural changes of the industry. The Albanian apparel and footwear sector has reached its peak and is slowing down. The economic crisis has been an opportunity for the reorganization of the sector, wiping out the inefficient entities and providing more room for growth for the survivors. In view of the increasing competition in the sector globally, Albanian firms need to prepare to engage in more value added services, away from simply assembly operations as is the case with the majority of firms now. Long term success will be possible if firms prepare to engage in OEM and OBM production. To that end a series of investments are necessary:

Technology upgrading: The sector is using mainly obsolete technology and capital investments are in place in order to upgrade the current technology and increase labor productivity.

Training and skill enhancement: The sector suffers from the lack of qualified labor force. Training needs were identified in a number of areas, including need for production managers; designers; etc. More efforts should be put into vocational training, preparing masters, technicians, designers and other professionals. Company costs for start up training would also be significantly reduced and labor productivity enhanced. Enhanced skills are needed in the higher management levels as well, where expert legal or accounting advice is lacking.

Industrial clusters. Analyze the possibilities of setting up clusters in this sector, especially in areas with a skilled labour force and high unemployment rate

Quality management and certification. Promote as an investment priority the introduction of quality management systems in the production process, as well as introduction of eco-labels and other requirement in the main host markets.

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