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OF ARMENIA

# 🏠 Assessing the Impact of COVID-19 on Companies in Armenia

10/22/2021



▶ **Assessing the Impact  
of COVID-19 on Companies  
in Armenia**

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First published 2021

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Managing conflicts and disasters:  
Assessing the Impact of COVID-19 on Companies in Armenia.- Moscow: ILO 2020.

English edition

ISBN: (print)  
(web pdf)

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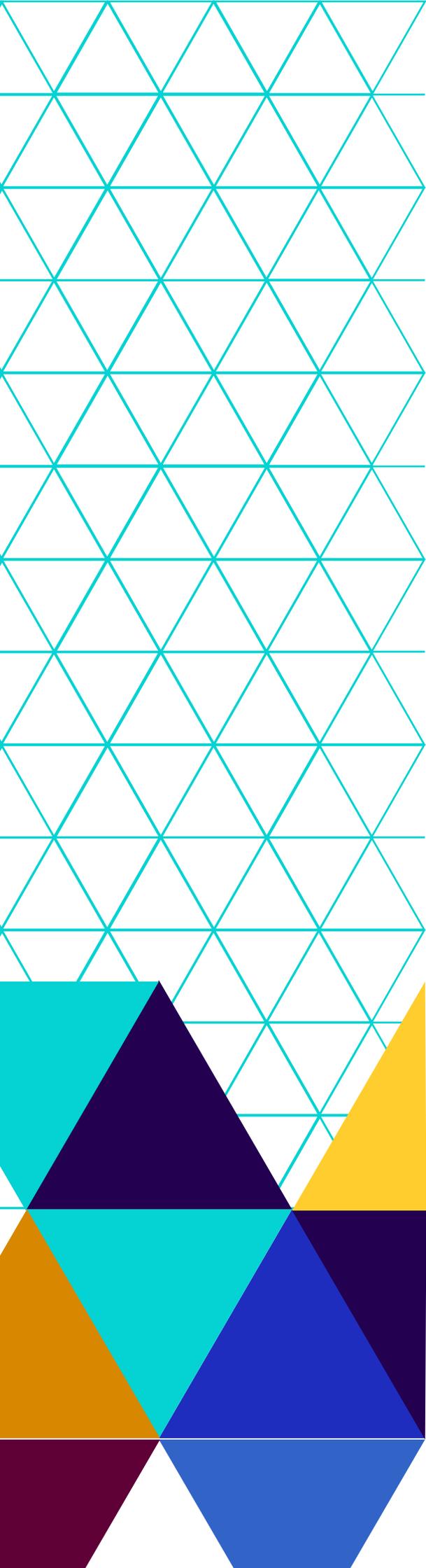
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## ▶ 1. Introduction

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The Armenian economy has been severely affected by the COVID-19 pandemic and military hostilities. The GDP dropped by 7.6% in 2020 reflecting the decline in services and trade. Annual inflation accelerated to 5.8% in March 2021 amid recent global food inflation and dram depreciation. The fiscal deficit widened to around 5.5% of GDP in 2020, reflecting the impact of government support to vulnerable firms and households and higher health spending, with government debt ending 2020 at about 63.5% of GDP.<sup>1</sup>

As in majority of the countries, the Armenian economy felt huge impact of COVID 19 pandemic on business sector in the previous period. That is obvious, not just according to statistical data, but also according to survey results showing that half of the companies had some kind of problems connected to pandemic.

In order to facilitate influence of the crises, the Government of Armenia introduce various set of measures to support citizens, employers and the business sector. Overall, as in majority countries, these measures were focused on short term support and without detailed economical analyses of the impact of these measures.

Based on that it is obvious that the Armenian private sector needs much more attention and much more support from the Government in order to keep the current status, but also to keep sustainability of its work.

These measures can be created just through good cooperation between all relevant stakeholders. Practice showed that in time of any crises, the dialog and cooperation between all stakeholders in country created the best solutions.

However, what kind of support enterprises need is not always clear. An enterprise survey can be a useful tool to collect data about enterprises and to better understand what kind of assistance they might need. This report analyses situation and state of companies in the country within the situation of pandemic, analyses current situation, measures that companies undertake but also measures needed to be provided by the Government to reduce the influence of pandemic on their activities. Also, focus of the report is on informal economy and reduction of informal economy in the country.

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<sup>1</sup> <https://www.imf.org/en/News/Articles/2021/04/21/pr21111-armenia-imf-staff-concludes-visit-to-republic-of-armenia>

## ▶ 2. Methodology

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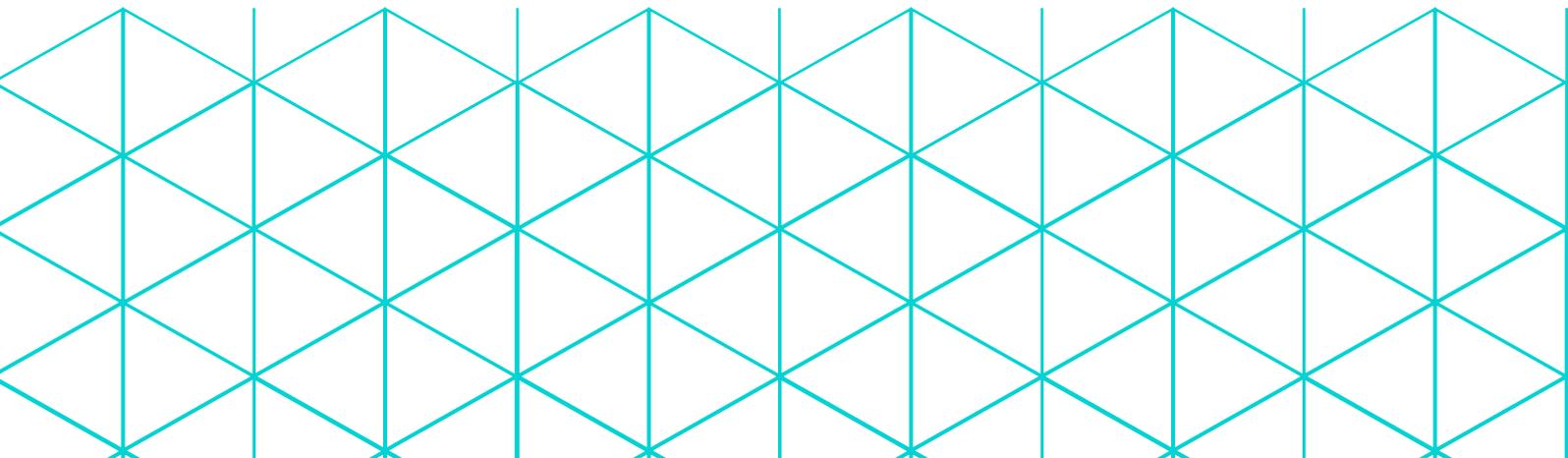
Considering that physical contact between people should be currently minimized, a self-administered online survey designed to be completed by a respondent without intervention of an interviewer is currently among the most suitable ways to administer a survey. Self-administered surveys are safe, cheap and can reach many enterprises in short time. Disadvantages include a low response rate as the survey might not reach the right recipient (outdated email-address, spam folder, etc.) or the recipients might not return the survey on time or at all. Data quality might also suffer as recipients might skip or misunderstand questions.

In this context, an agency from Armenia was engaged to collect at least 500 answers from companies around Armenia. To create representative sample, the agency, together with ILO had daily monitoring of answers to ensure that the sample is representative regarding the size of companies, sectors but also to cover all important geographical areas of Armenia.

For this purpose, the survey used the ILO SCORE Global Covid-19 Enterprise Survey methodology implemented in majority of the countries. Based on that methodology, which was adopted for Armenia, a questionnaire was created to cover following areas:

- ▶ How is the business impacted by the Covid-19 crisis?
- ▶ How are companies dealing with the occupational safety and health challenge?
- ▶ How are enterprise responding to the crisis?
- ▶ What support do companies need?
- ▶ Level and existence of Informal economy.

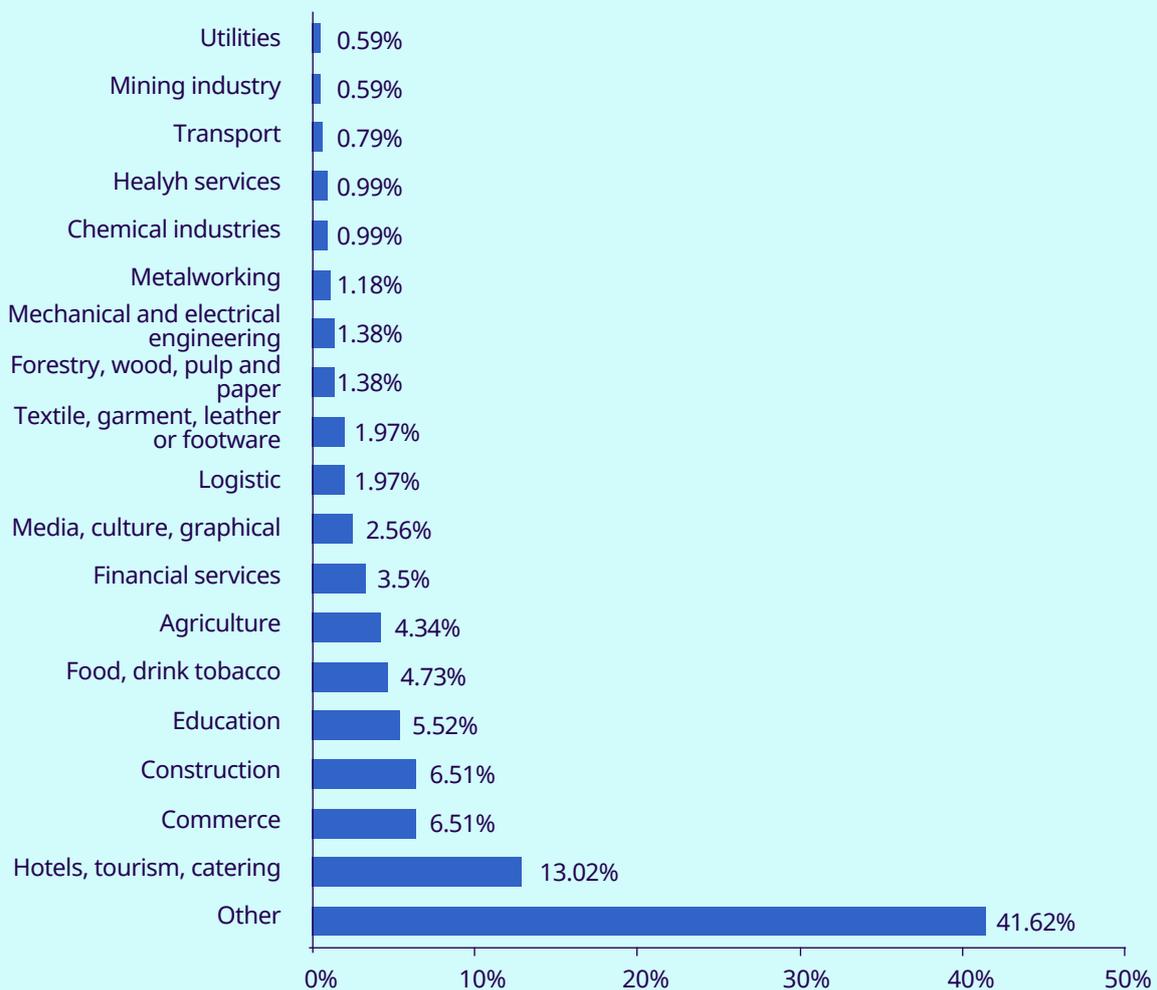
After the online process in order to create detail analysis, the statistical software SPSS is used for raw data analysis. Besides the basic descriptive statistic, we used cross tabulation and other statistical indicators.



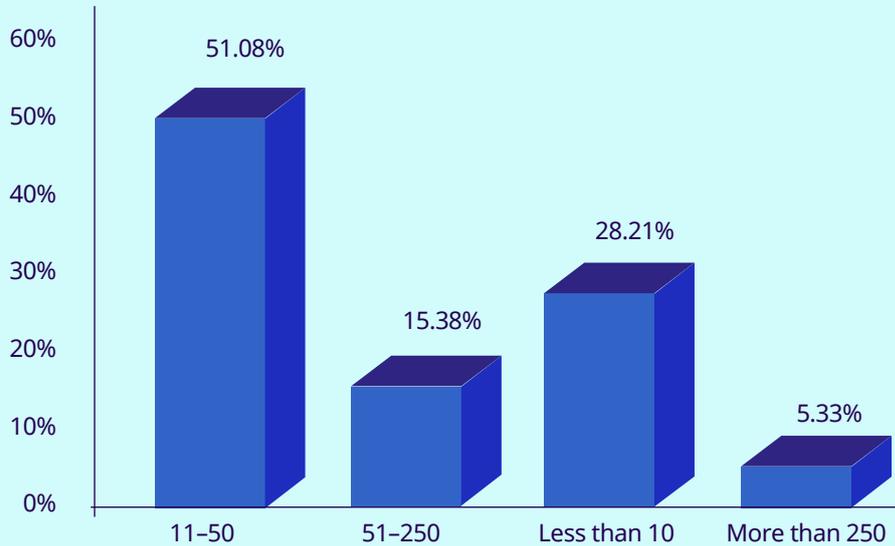
### ▶ 3. Sample

The survey of small and medium-sized enterprises of Armenia was conducted in April - September 2021 with the coverage of 507 respondents.

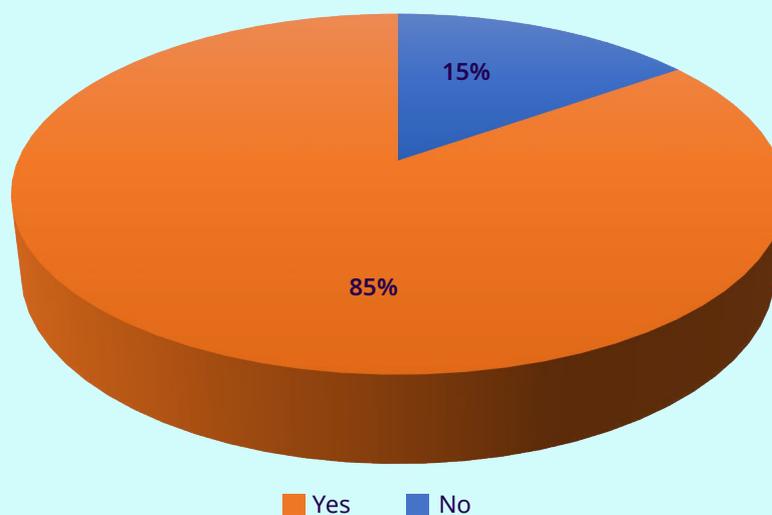
**Picture 1: Sample by industry**



Among 58% of the respondents: 13% work in the hospitality sphere, tourism and catering, employees of commerce and construction areas form 7% each, 6% work in education, 5% of the respondents are the employees of the food, drink and tobacco spheres, 4% - in agriculture. A certain number of respondents represented such industries as financial service (3%), media (3%), logistics (2%), textile (2%), forestry (1%), mechanical and electrical engineering (1%), metalworking (1%), chemical industry (1%), health services (1%), transport (1%), mining (1%) and utilities (1%).

**Picture 2: Size of company**

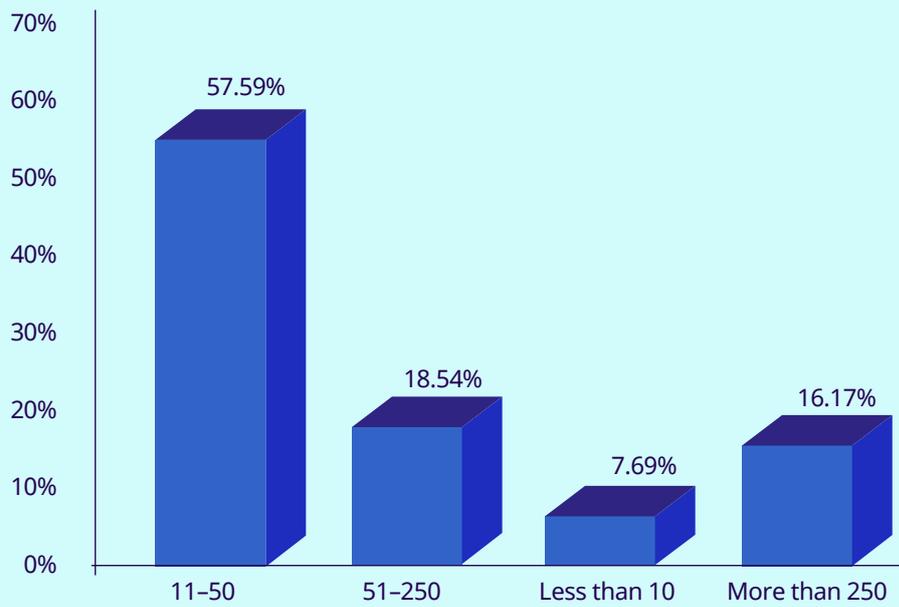
According to the Picture, more than a half of the respondents (51%) work at small enterprises with 11-50 employees, 28% of the respondents belong to micro-enterprises with less than 10 people in staff, 15% represent enterprises with 51-250 employees. And only 6% of the respondents work at medium-sized enterprises with more than 250 employees.

**Picture 3: Are company exporting?**

Only 15% of respondent's companies export their products, and 85% work for the domestic market without exporting.

As for the company's ownership, 74% of respondents work for private individuals (58% men and 16% women) and only 8% - at publicly owned companies.

**Picture 4: Ownership of the company**

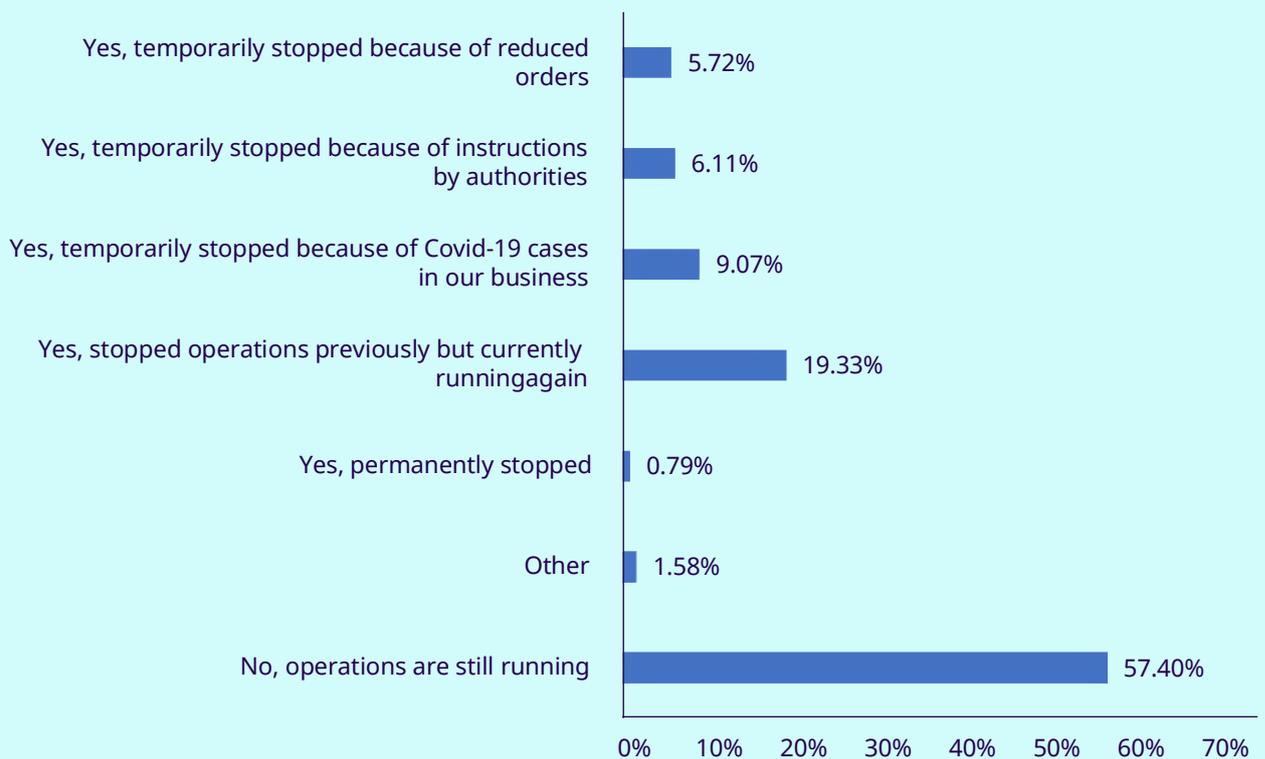


## ▶ 4. Result of the survey

### ▶ 4.1. How is business impacted by the COVID-19 crisis and dealing with the occupational safety and health challenge?

The COVID-19 crisis has had a significant impact on the functioning of small and medium-sized enterprises. According to the survey, almost 70% of employees in the companies surveyed were infected by the virus. Nevertheless, 57% of the respondents noted that despite the crisis, their businesses continue to function, and operations are still running. 19% underlined that there was a stop, but now operations are running again, and 21% noted that operations were temporarily stopped because of different reasons and haven't started yet (COVID-19 cases – 9%, reduced orders and instructions of authorities – 6% each). And only 1% of the respondents answered that their work was permanently stopped.

**Picture 5: Have you stopped operations because of the current crisis?**



Looking on the size of the company, it can be concluded that more than a half of the respondents of all types of enterprises admitted that operations in their companies are still running. And those whose work was totally stopped were from the companies with 11-50 employees.

**Table 1: Operation during the COVID-19 pandemic by size of companies**

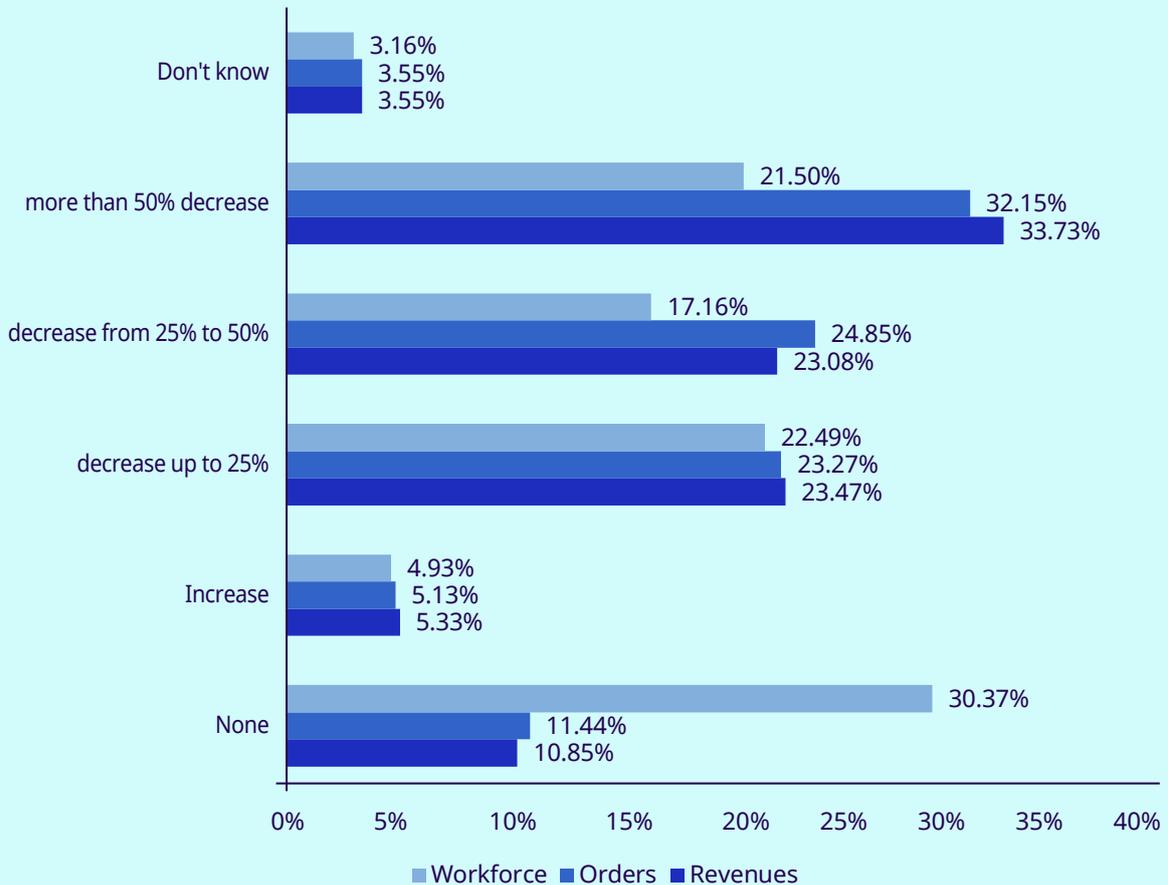
	Less than 10	11-50	51-250	More than 250
No, operations are still running	55.94%	50.97%	70.51%	88.89%
Yes, permanently stopped	0.00%	1.54%	0.00%	0.00%
Yes, stopped operations previously but currently running again	21.68%	21.62%	12.82%	3.70%
Yes, temporarily stopped because of Covid-19 cases in our business	6.99%	12.74%	3.85%	0.00%
Yes, temporarily stopped because of instructions by authorities	6.99%	6.56%	3.85%	3.70%
Yes, temporarily stopped because of reduced orders	6.99%	5.79%	5.13%	0.00%
Other	1.40%	0.77%	3.85%	3.70%

The impact of COVID-19 on the work of enterprises in Armenia is strong, based on survey results. Thus, some of the respondents underline neutral and even increase in workforce, revenues and orders:

- ▶ No changes: workforce – 30% of the respondents, revenues and orders – 11% of the respondents each;
- ▶ increase: workforce, revenues and orders – 5% of the respondents each.

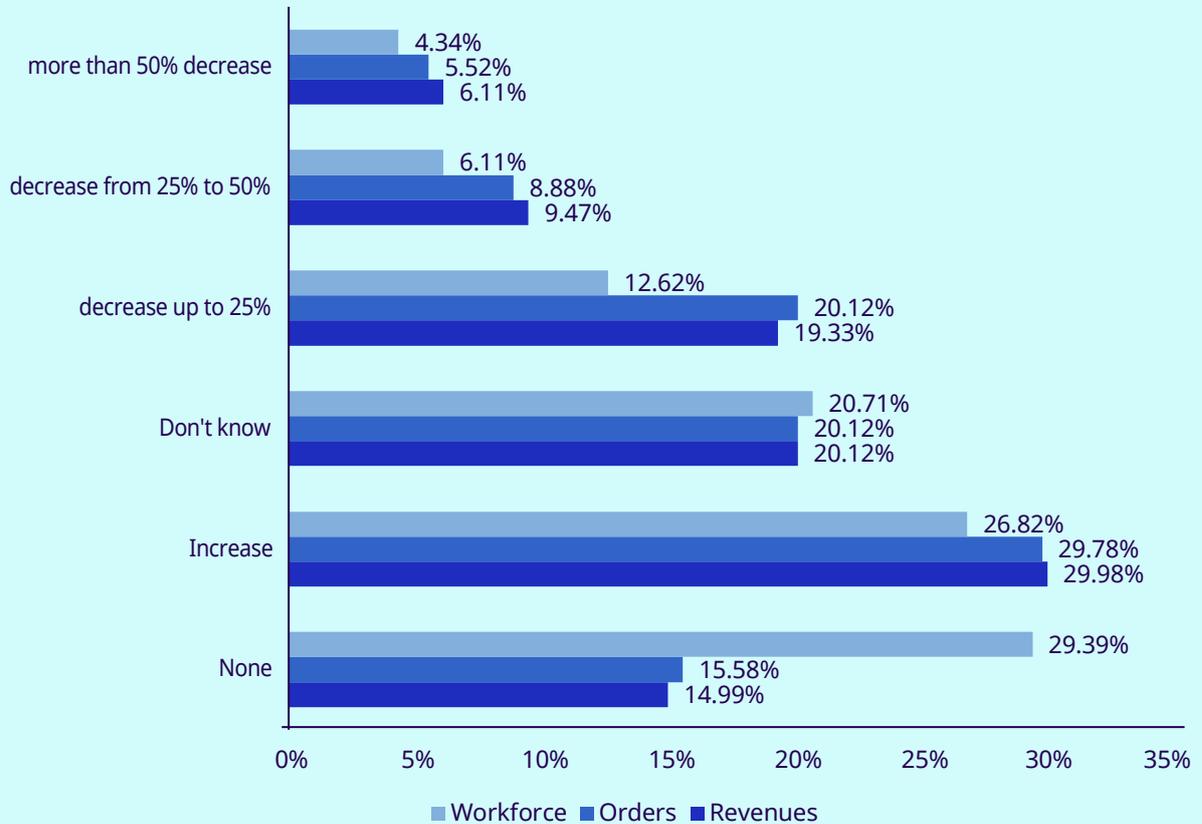
Most significant decrease in these indicators (50–100%) was admitted by nearly the third of the respondents (34% – in revenues, 32% – in orders, 22% – in workforce). If we summarize the influence of pandemic, we can say that more than 80% of the companies in Armenia had decrease of revenues, and the percentage is almost the same when we talk about decrease of orders, and 60% of the companies answered that they felt decrease in workforce.

Picture 6: What has been the impact of COVID-19 on your business until now?

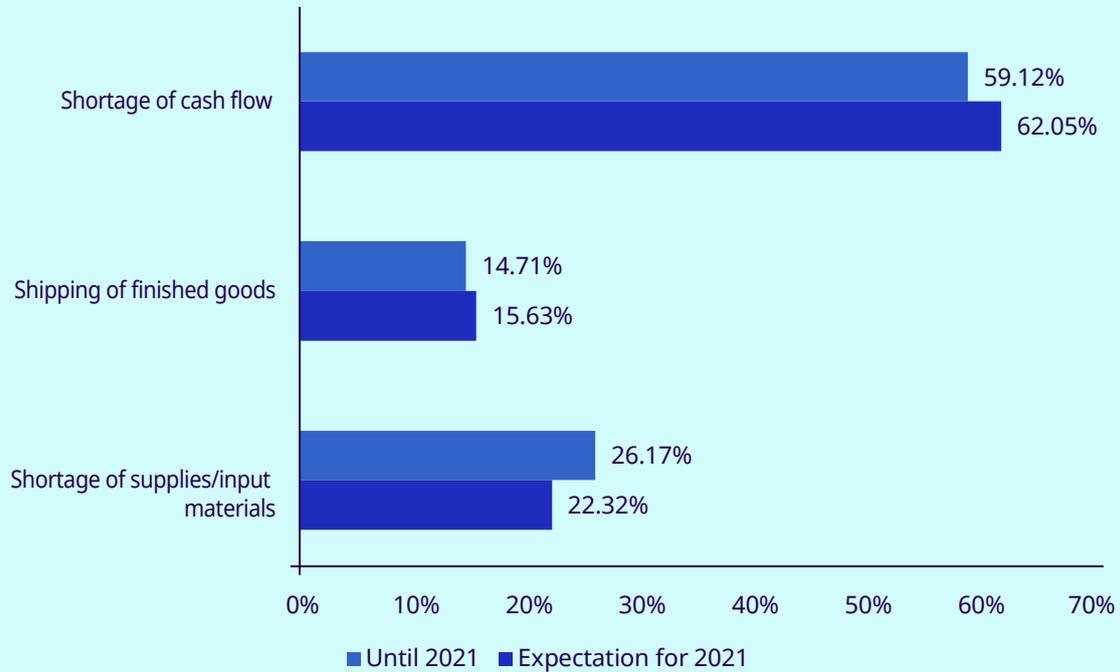


Despite such estimates, expectations of the respondents for 2021 are rather optimistic: the major part of them hope to have in increase or no changes in revenues (30% and 15%), orders (30% and 16%) and workforce (27% and 30%). Also, about 20% of the respondents predict small decrease up to 25% in revenues and orders and 13% - in workforce. Moreover, it is really important to mention that around 20% of companies don't know what will happen until the end of 2021, what show that still there are doubts regarding following period and situation with pandemic in the country. And this creates not so good environment for doing business in the country.

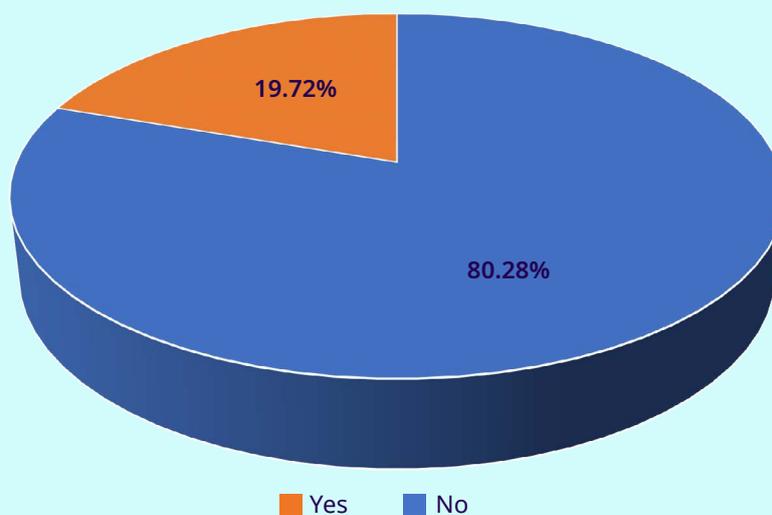
Picture 7: What impact of COVID-19 on your business do you expect for 2021?



According to respondents the main difficulty during COVID-19 pandemic was the shortage of cash flow (59% of the respondents), and expectations about it for 2021 are even worse (62% of responses). Then respondents mentioned the shortage of supplies/input materials (26%), but they are more optimistic about it for 2021 (22% see it as a potential difficulty). And the third difficulty is the shipping of finished goods which, according to the respondents, is going to be nearly the same (15% and 16% of responses).

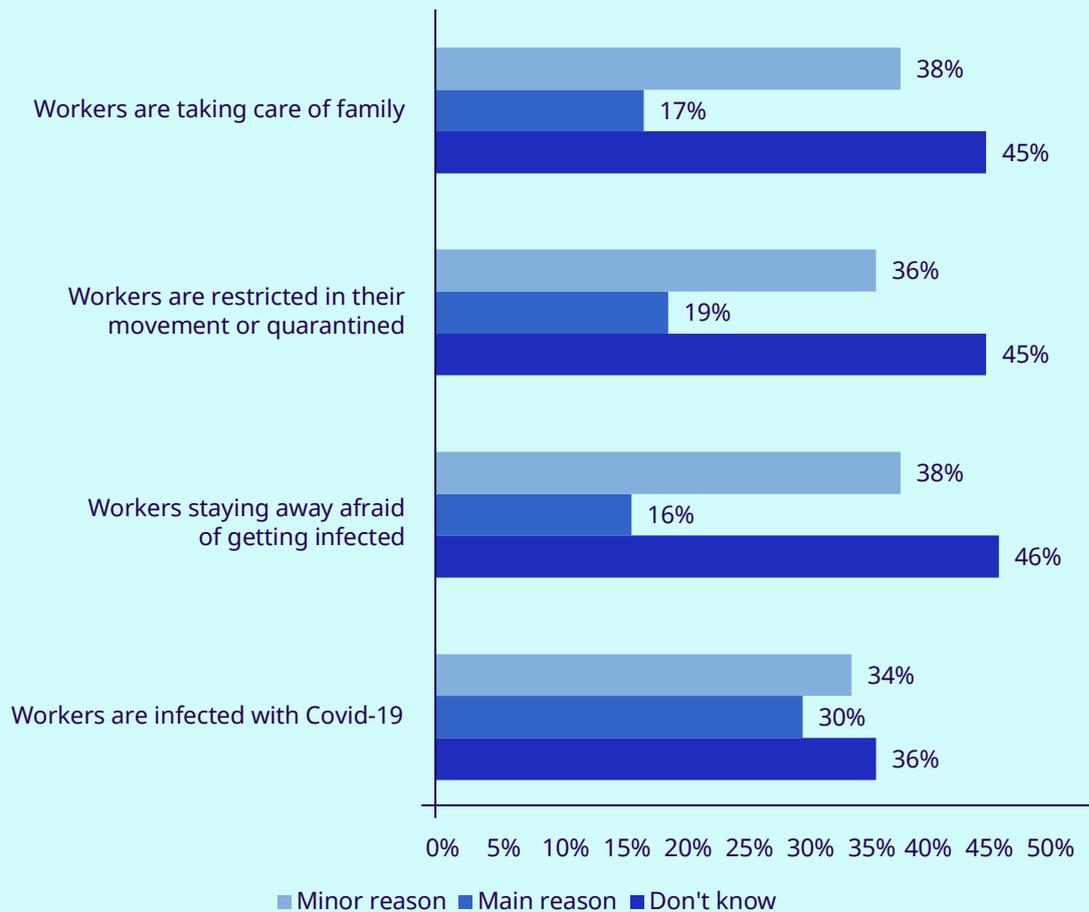
**Picture 8: Main difficulties during COVID-19 pandemic and expected difficulties until and for 2021**

It is clear that companies expect to recover a bit in 2021, but still, it is obvious that there are huge challenges for this period. And these challenges are mainly focused on lack of cash, what shows that Armenian economy is still struggling with recovery and need stronger measures and support.

**Picture 9: Do you face shortage in workforce?**

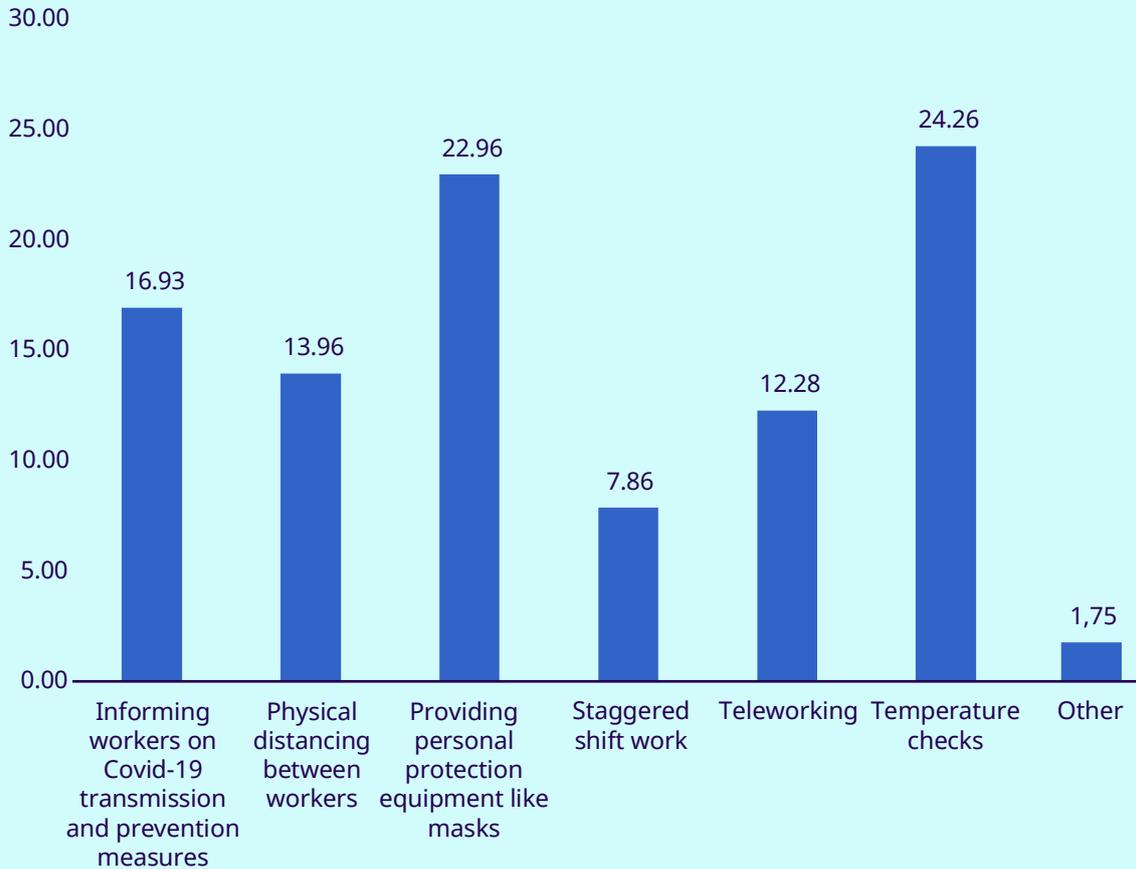
It was not easy for the respondents to classify the reasons of shortages, because more than 80% of them answered that they didn't face it, that is why the answer "Do not know" dominate on the next Picture.

**Picture 10: What kind of shortages?**



Companies named the following reason for having problems with workers: infection of employees with COVID19 (30% named this as the primary reason, 34% called it secondary); employees do not go to work for fear of getting infected (16% and 38%); due to restrictions on freedom of movement or quarantine (19% and 36%, respectively); due to the fact that employees have to take care of family members (17% and 38%, respectively).

Picture 11: What companies do to protect workers from being infected?

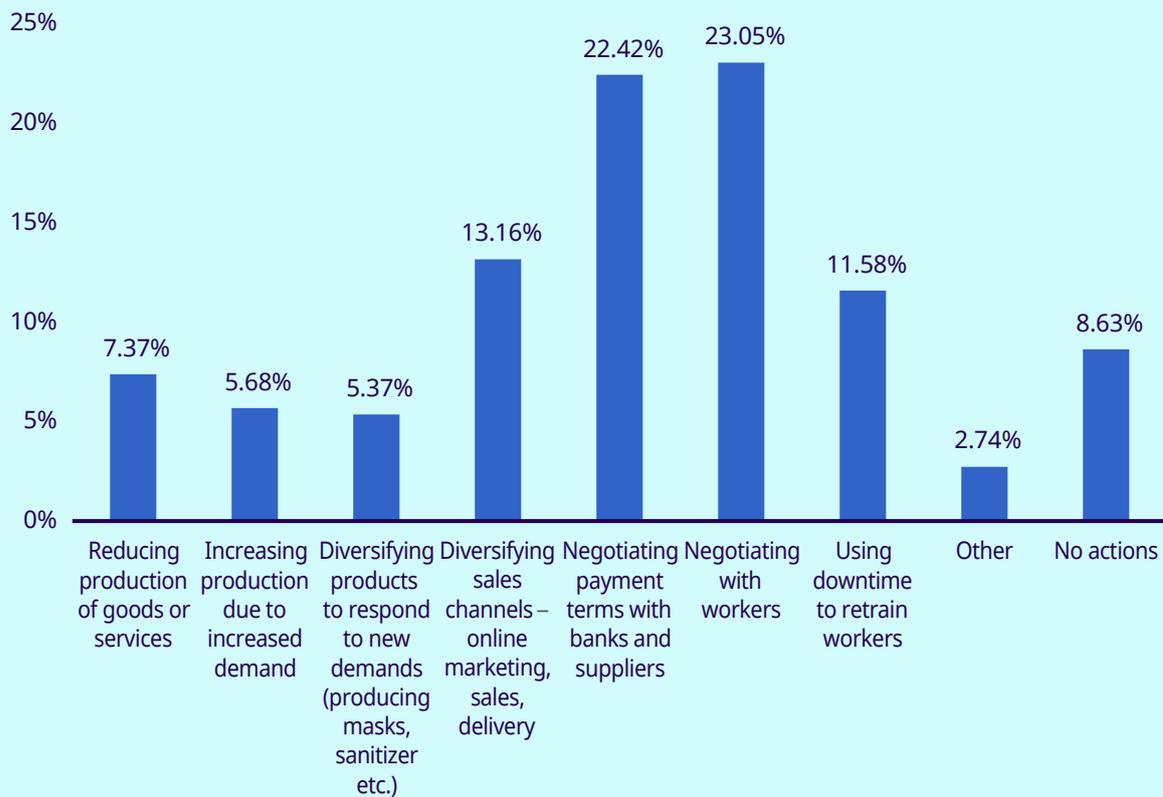


Respondents noted a wide range of COVID-19 protection measures used at enterprises, and it is good that the majority notes such, so called “active” measures as “body temperature control” – 24% and “providing personal protection equipment like masks” – 23%. Moreover, informing employees about the ways of spreading COVID-19 and protection measures (17%), ensuring a safe physical distance between employees (14%) and teleworking (12%) were also implemented.

## ► 4.2. How do enterprises respond to the crisis?

The measures currently being taken at companies in Armenia mentioned by respondents showed that enterprises are actively looking for ways to overcome the difficulties due to COVID-19 pandemic.

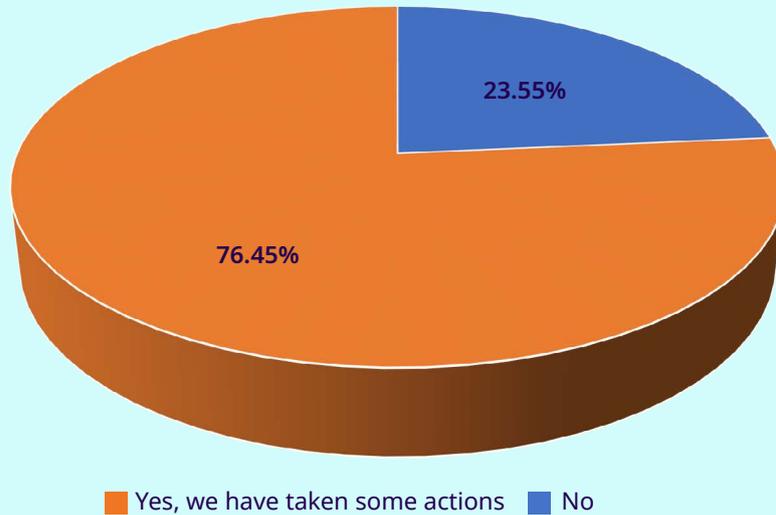
**Picture 12: What action companies implement to reduce influence of COVID?**



The companies mentioned the following measures implemented in the current period: 19.68% of companies noted negotiations with workers, 22% - negotiations with banks and suppliers about payment terms, 13% of the respondents answered that they coped with diversification of sales channels – online marketing, sales, delivery and 12% admitted that companies used downtime to retrain workers.

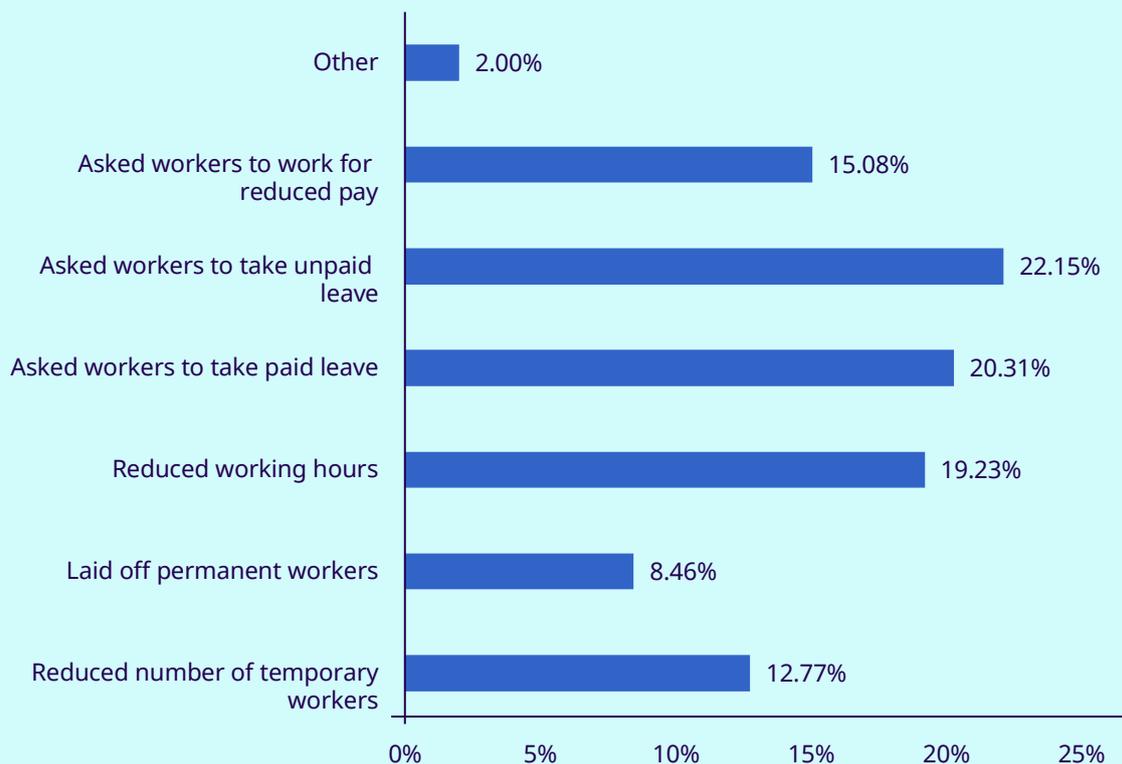
24% of the respondents stated that their companies didn't have idle workers due to reduced operations.

Picture 13: Do you have idle workers due to reduced operations?



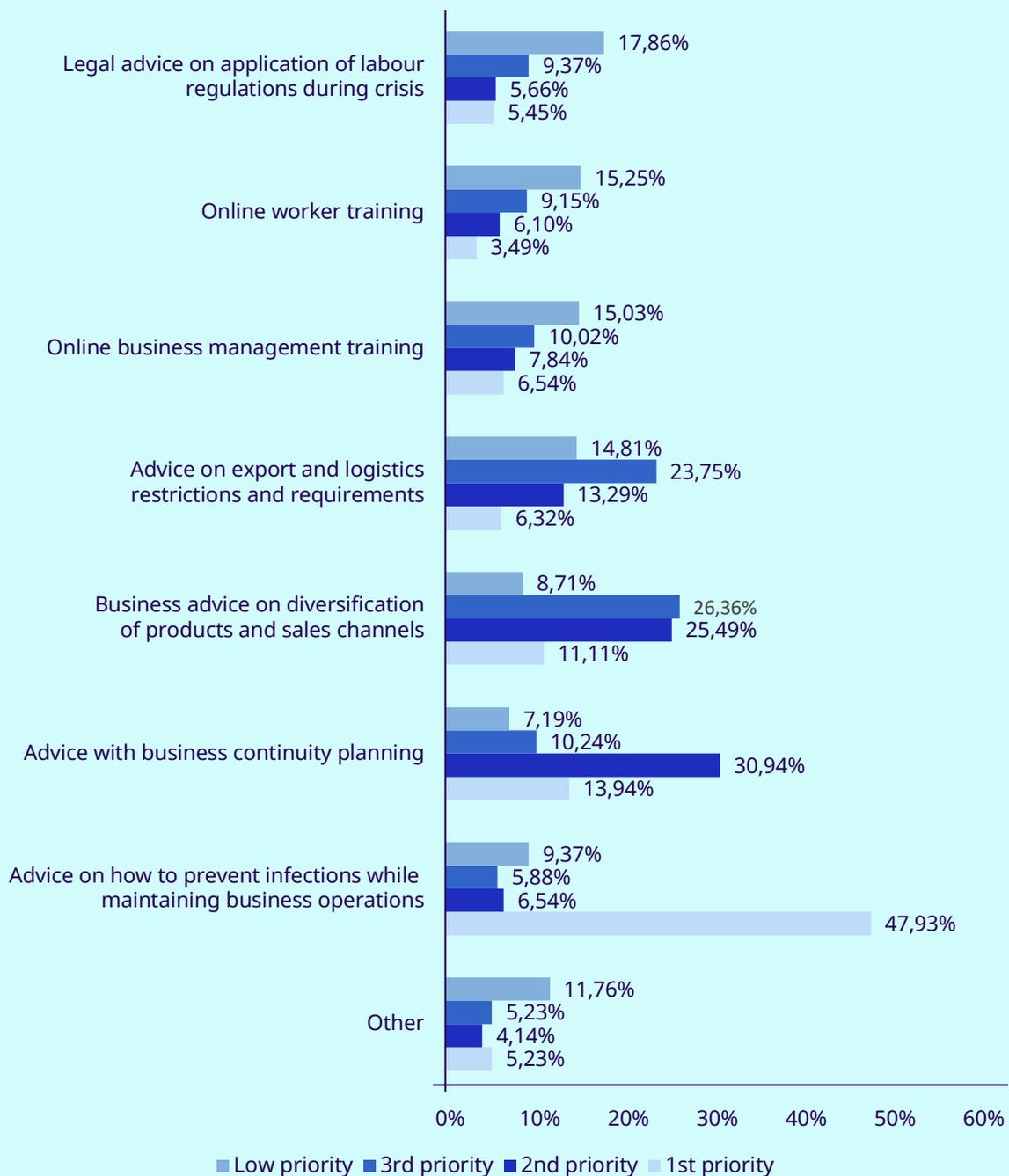
When the answer was positive (in 76% of cases) respondents mentioned these taken actions: sending employees on unpaid and paid leave (22% and 20%, respectively), reduction of working hours (19%) and reduction of wages (15%). It is really important to mention, that based on these data, we can say that Armenian companies tried during the pandemic to keep workforce, even they had huge problems in their business.

Picture 14: Measures taken by companies



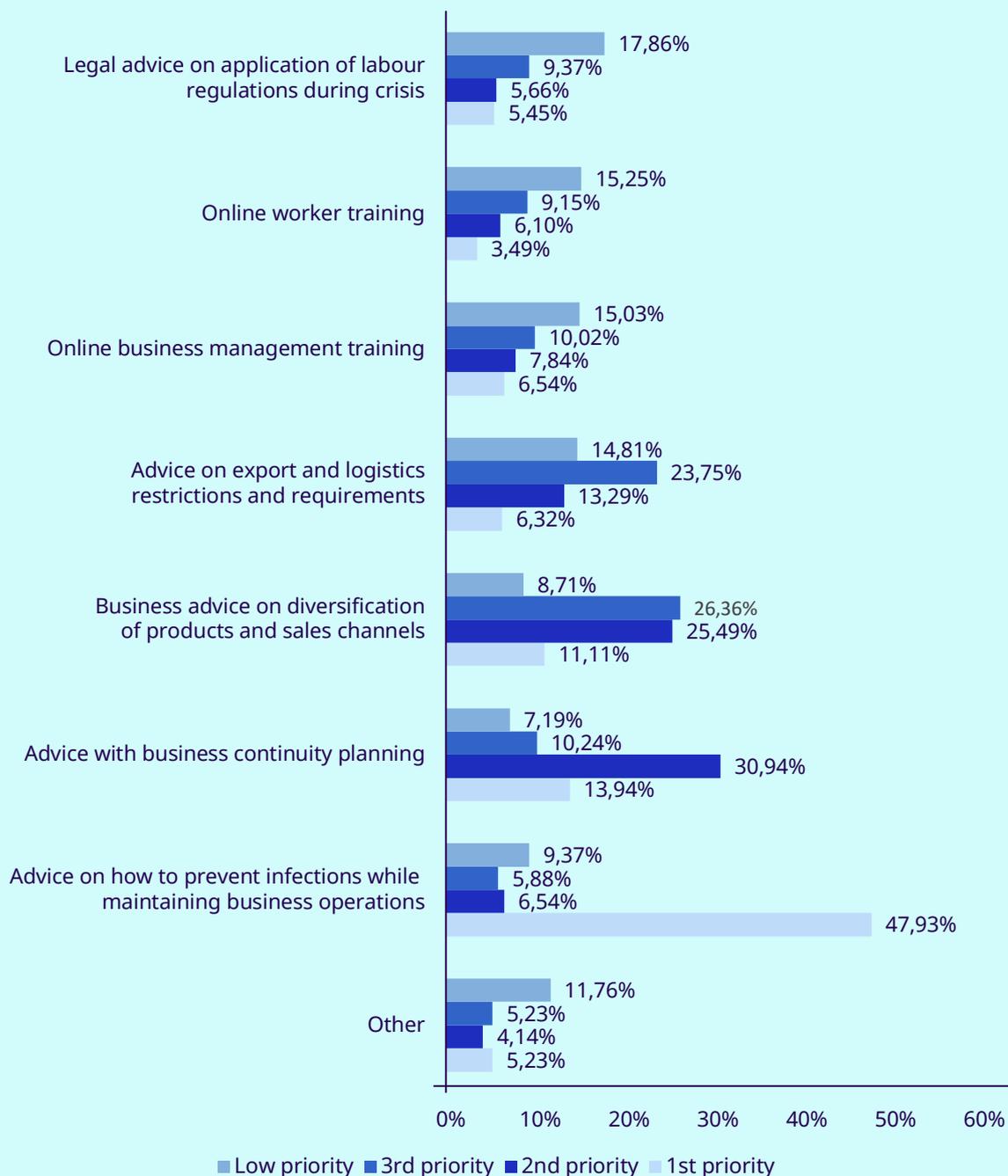
According to the survey results, the most preferable business development services are: advice on measures to protect against infection while continuing work (48% put it in the first place and 7% in the second), advice on planning continuous business activities (14% and 31%, respectively), advice on product diversification and sales channels (11% and 25%), advice on restrictions and requirements for export and logistics (6% and 13%). Distance learning services for managers and employees, as well as consultations on the application of labor legislation during the crisis, was recognized from small percentage of companies in survey.

**Picture 15: What business development services do you need?**



When answering the question about what the government should do to improve state of companies, respondents indicated more information on transmission and spread of the virus as 1st priority measure in 32% of cases and supplies of personal protection equipment like masks, thermometers, etc. as a 2nd priority measure in 23% of cases. Other important measures that companies would like the government to implement are access to cash/short-term finance (and it is very consistent due to the shortage of cash flow) and price controls of critical goods.

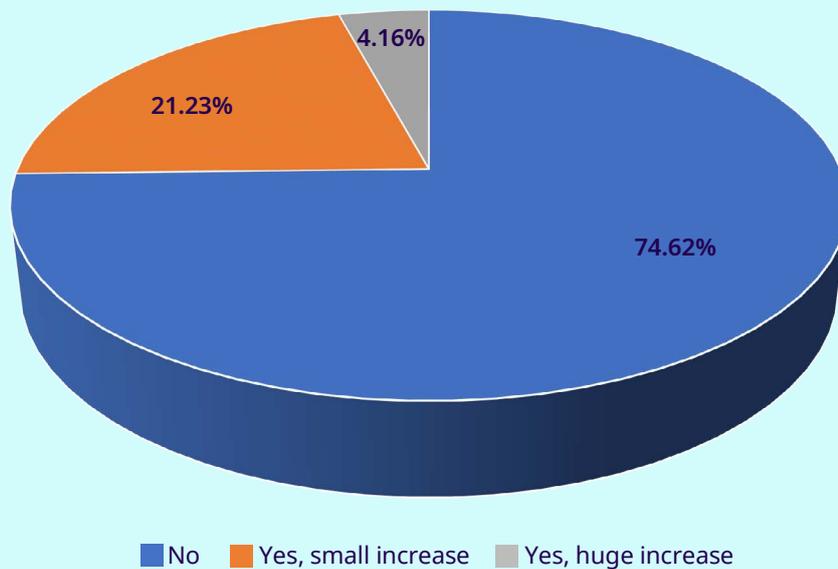
**Picture 16: What the government should do to improve state of companies?**



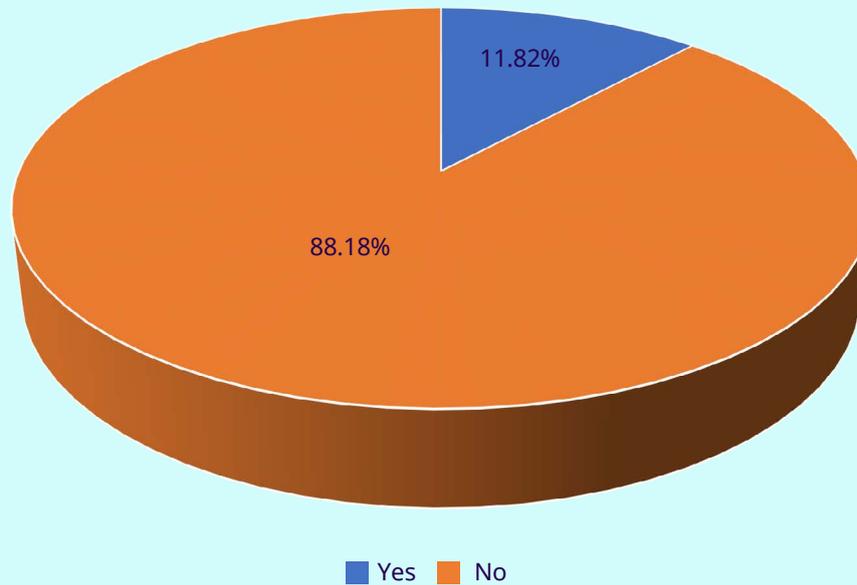
### ▶ 4.3. Informal economy

Almost 75% of the respondents underlined that there is no significant increase of informal economy in the country, but 25% argue that there is a rise, and it can be considered as small (21%) and even huge (4%).

Picture 17: Due to COVID crises, do you see increase of informal economy in country?



And this percentage seems quite logical since Armenia did not experience a severe workforce shortage even during the pandemic, which means that jobs were preserved as much as possible, so many people do not need to switch to the informal sector. But on the other side, this data gives clear information to decision makers that companies need stronger support to be in formal zone of doing business.

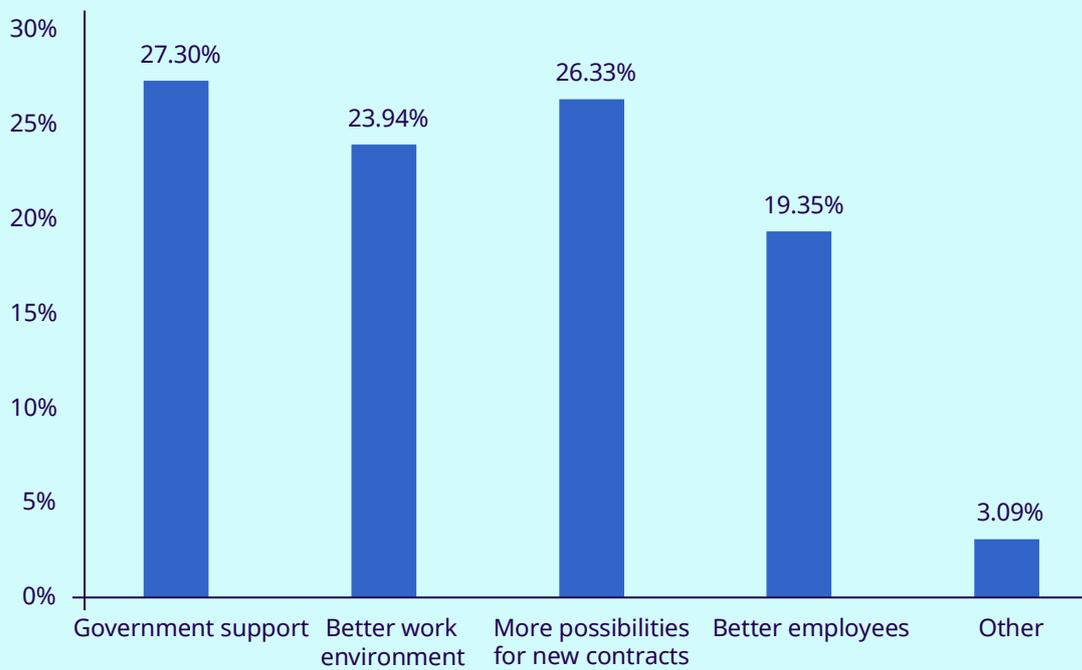
**Picture 18: Have you ever thought to go to informal sector?**

Even a small share of respondents thinks to go to informal sector, it is clear that this problem can be a challenge for Armenia in the following period. Because of that, and based on recommendation of companies, the government should work more to improve business environment.

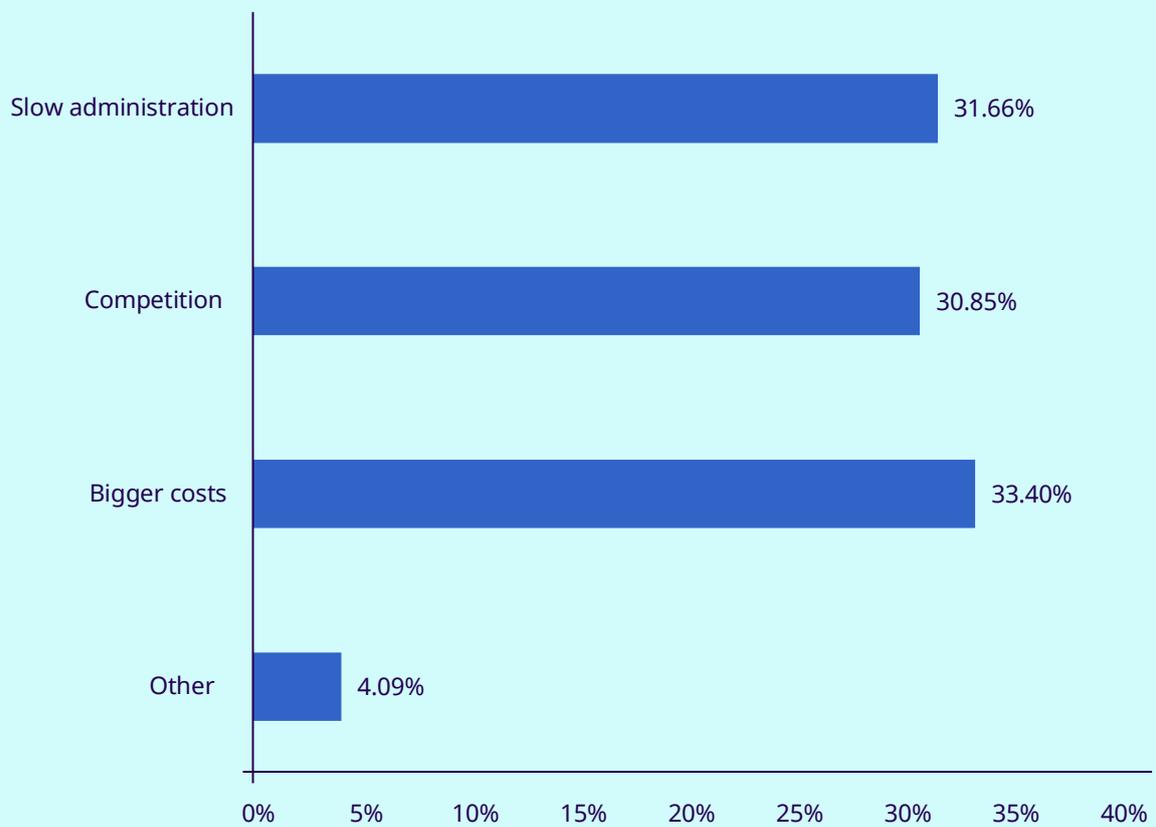
Speaking about the reasons for the desire to move to the informal sector, respondents note following:

- ▶ It is less risky;
- ▶ Tax burden;
- ▶ Unpredictable situation;
- ▶ Lack of cash;
- ▶ Interest rates;
- ▶ Cost reduction;
- ▶ Small market, unfair competition;
- ▶ Administrative burden.

The following Pictures present views of participants regarding business opportunities and challenges.

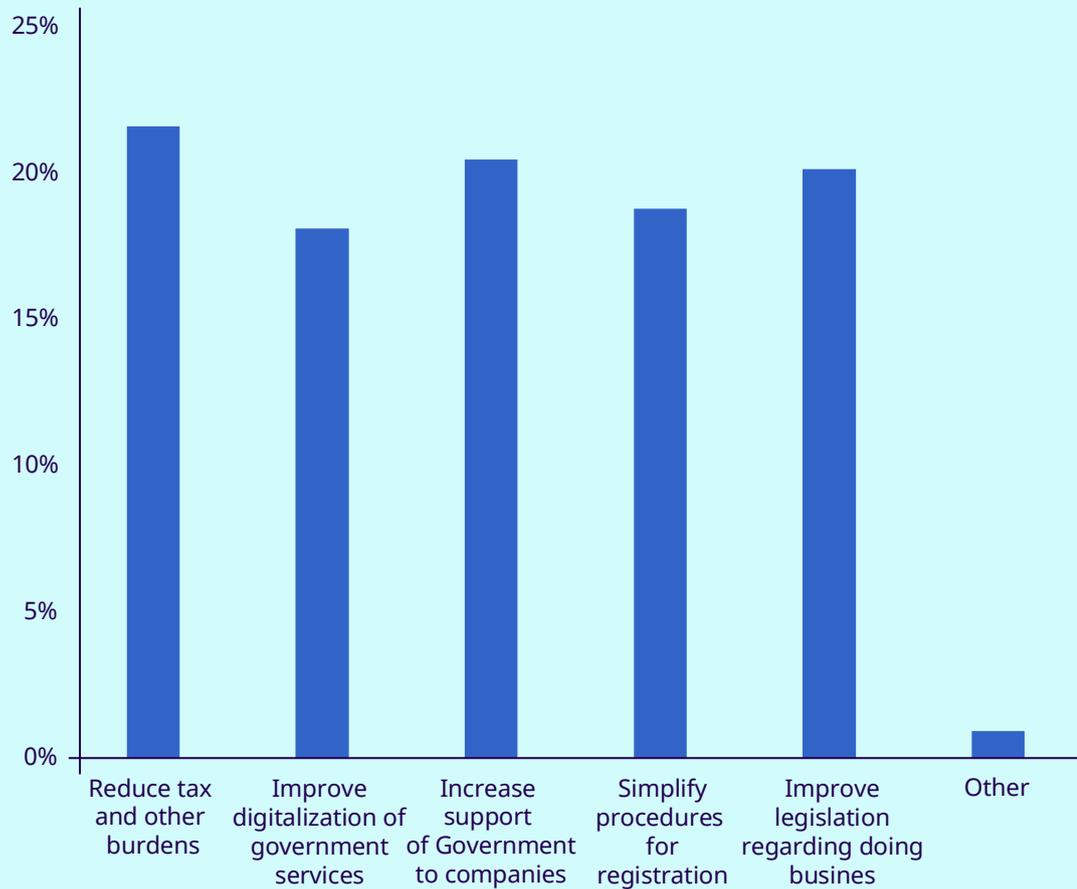
**Picture 19: What are opportunities of business formalization?**

Most of the respondents indicated government support (27%) and more possibilities for the new contracts (26%) as the main opportunities of business formalization in Armenia. Moreover, better work environment was also mentioned by 24% of the respondents.

**Picture 20: What is the biggest weakness of business formalization?**

33% of the respondents note that the bigger cost of business formalization is its biggest weakness along with slow administration (32%) and competition (31%). One of the alternative opinions is that the biggest weakness is in no startup support.

Companies also suggested ways forward and how the situation can be resolved and the share of informal economy can be reduced.

**Picture 21: What should the government do to increase formalization of companies?**

As a first measure to increase companies' formalization in country, respondents recognize reduction of taxes and other burdens (21.6%) as well as increase of the government support (financial and non-financial) to companies (20.5%). Then 20.2% of the respondents mention that improving of the legislation regarding doing business is needed. Also, the respondents underline importance of simplifying procedures of the registration (18.8%) and improving digitalization of the government services (18.1%).

## ▶ 5. Recommendations and conclusions

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Needless to say, that a majority (79%) of the respondents work for companies with less than 50 employees, suggesting that it was easier for them to control the spread of the virus. Probably, this is why a large proportion of companies paid attention to traditional methods of protection against the virus: temperature checks, providing personal protection equipment like masks, physical distancing between workers, etc.

Moreover, 68% of respondents reported the presence of COVID-19 infection among their workers, but interestingly, more than 80% of the respondents emphasized that there was no workforce shortage in their companies. Perhaps even being infected with the virus or having to take care of infected family members, workers were able to do their work remotely, which significantly alleviated workforce shortages.

One of the main difficulties due to COVID-19 pandemic the respondents underline the shortage of cash flow and the projection for 2021 is even worse.

As for the government support the enterprises noted that they would like to have more information on transmission and spread of the virus, supplies of personal protection equipment like masks, thermometers, etc., deferring payments of utilities, social security contributions, loans or taxes. Of course, taxes reduction is one of the most popular form of the government support in many countries.

As some of the recommendation for improvement of business sector and support in recovery process we can name following:

- ▶ Improve business legislation, in order to support enterprises environment to be more affordable and much more attractive for new companies, especially focusing on taxation system in order to make it much more affordable to existing companies but also to new companies.
- ▶ Improve communication with companies and EOs in order to create new and innovative financial models of financing SMEs in order to overcome COVID19 pandemic influence;
- ▶ New financial models should be followed with additional non-financial services, focusing on support in start of the business but also support in doing business, constant education provided to companies;
- ▶ Create education programs to support digital transformation of the companies in the country, and improve knowledge of companies regarding needs to make digital transition. Also, it is important to work more on digital skills of all companies in the country;
- ▶ Create measures to support protection of workers, providing guidelines on safety at work, providing personal protective equipment to companies, etc.;
- ▶ It is important to continue with stimulating measures in social insurance, utilities and similar costs;

Nevertheless, the situation with moving to the informal sector is not dramatic, but government control and measures should be taken to prevent possible extension of the informal economy within the country. According to the survey results, reduction of taxes and other burdens and more heavy government support are the best ways of business formalization, what is a clear signal for the government to work more on improvement of business sector in country.

Based on that, there are some recommendations to tackle informal economy in the country:

- ▶ The government should continue its measures in order to reduce the level of informal economy, focusing on taxation system and other burdens that companies pay;
- ▶ It is extremely important to include employers' organizations and other companies in the decision-making process and to stimulate participation of all stakeholders in this process;
- ▶ It would be useful to make promotional events in order to present benefits of business formalization, and to talk directly to potential new enterprises, which now do they work in informal sector;
- ▶ Improve the government support to companies in order to stimulate formalization of informal companies, improve communication with informal companies, provide more educational programs and services that can support companies in the startup phase but also in first stages of their operation;
- ▶ Also, it is necessary to implement the revision of the whole legislation connected to doing business in the country in order to support sustainable enterprises.

