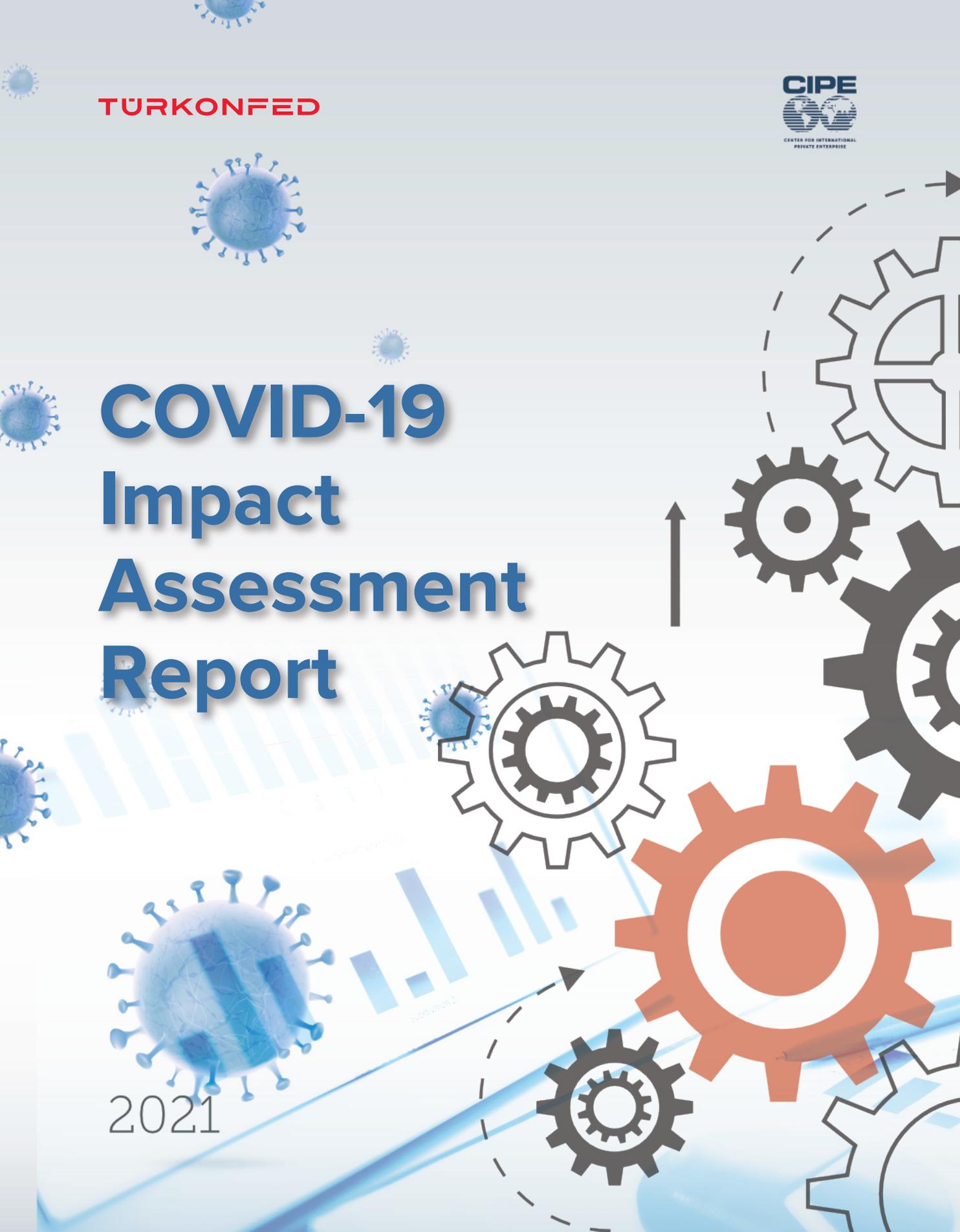


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COVID-19 Impact Assessment Report

2021



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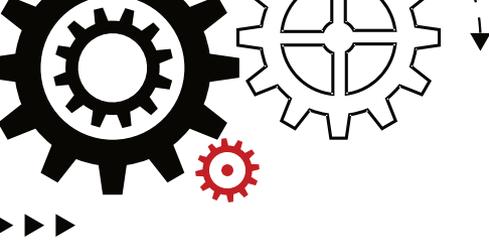
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COVID-19 Impact Assessment Report

2021



1. Executive Summary

- The purpose of our online survey conducted between December 2020-January 2021 was to make a general enquiry among our members in order to have an idea about the impacts of the pandemic. The survey findings, which are not based on a representative sample, consist only of descriptive statistics specific to the companies participating in the survey.
- In terms of the impacts of the pandemic, it was observed that the survey findings differ by the sectors in which the participating companies operate. While companies operating in manufacturing sectors, except machinery and textiles, differ relatively from other sectors positively, accommodation and food services stand out as the most negatively affected sector by the pandemic.
- The sector most in need of state support to combat the impacts of the pandemic is the accommodation and food services sector. As the negative impact of the pandemic increases, so does the need for state support. The most important of these support requests are for increasing incentives and financial resources, and granting support to craftsmen and SMEs.
- The participating companies have a high perception of risk for the upcoming period. Decrease in customer demand stands out as the biggest risk factor. Examining the sectoral breakdown of risk perception, we see that companies with the lowest risk perception are the ones that carry out professional and technical service activities, while the sector with the highest risk perception is the machinery-manufacturing sector. The leading risk is the disruptions in the supply chain.
- Approximately 90 percent of the companies participating in the survey and operating in the machinery manufacturing sector reported that they had problems in the supply chain during the pandemic. Machinery and other manufacturing sectors are among the sectors suffering the most from supply issues for various reasons.



2. Background

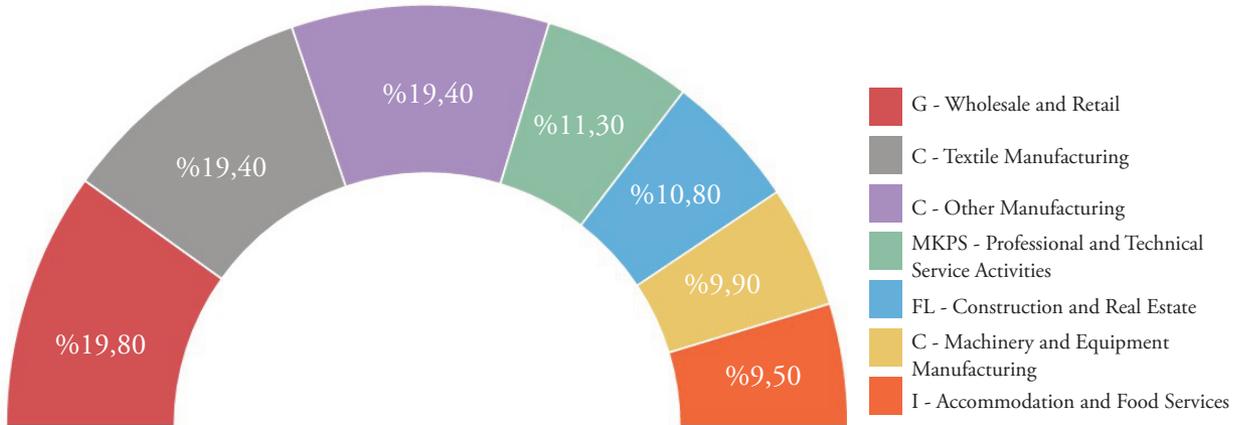
Among the various measures taken for combating the pandemic was the shutdown and suspension of some sectoral operations. The businesses that were shutdown or subject to restrictions between March and June 2020 was mostly the ones operating in accommodation and food services. According to a modeling study by Serdar Sayan and Ayla Alkan,¹ the production loss caused by these shutdowns in the Turkish economy is \$13 billion.

It is observed that the impacts of the pandemic on businesses differ by the sector. Although the pandemic affected the entire economy, some companies suffered relatively more. Two of the most impacted sectors are the accommodation and food services sector. According to the results of a recent survey conducted by TÜSİAD,² almost half of the companies operating in the accommodation and food services sector have a hard time making their compulsory payments, while this rate is only 7 percent for the manufacturing industry. According to the findings of the same survey, almost 80 percent of the companies in the accommodation and food services sector benefited from the short-time work allowance. According to a report published by KPMG,³ the negative economic effects of the pandemic were relatively less felt in the energy, pharmaceutical, chemical and industrial production sectors. According to the same report, companies operating in the industry-production sectors feel the biggest impact of the pandemic in decrease in sales and disruptions in the supply chain while the service sectors feel it the most in decrease in sales and liquidity problems.

3. Survey and Sampling

The purpose of this survey is to get a feeling of the impact of COVID-19 on our member companies and the industries in which they operate. 252 members answered our online survey, which was conducted between December 2020 and January 2021. Figure 1 shows the sectoral distribution of the companies in the sample used for the analysis presented in this report according to the NACE codes.

Figure 1 - Sectoral Breakdown of the Companies



¹https://www.tepav.org.tr/upload/mce/2020/tarisma_tebbligleri/covid19_salginina_karsi_kapanmanin_turkiye_ekonomisine_maliyetinin_yenilikci_bir_arz_yonlu_girdicikti_yaklasimiyla_kestirimi.pdf

²<https://tusiad.org/tr/tum/item/10586-covid-19-krizinin-i-sletmeler-uzerindeki-etkilerinin-anket-sonuclari-aciklandi>

³<https://assets.kpmg/content/dam/kpmg/tr/pdf/2020/04/is-dunyasi-gozunden-covid-19-un-etkileri-anketi.pdf>



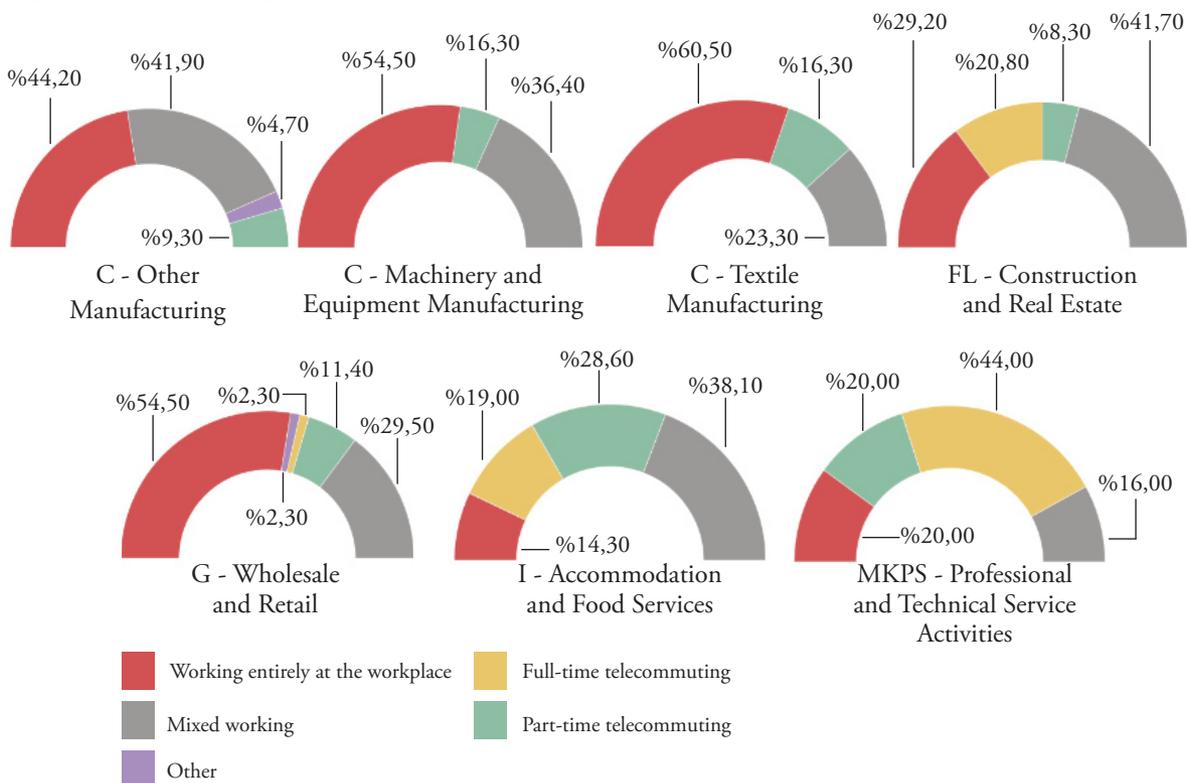
In our survey, various questions were asked to understand the impacts of the pandemic. Firstly, we asked companies that what are the impacts of the pandemic on their usual working practices, their operating and financing situation, their supply chains and what strategies they developed to cope with these effects. In addition, the expectations of the companies from the business associations and the government’s economic policies were examined in the fight against the pandemic. Since the survey is not based on a representative sample, it is not possible to make a sweeping statements for the sectors. Therefore, the findings presented in our survey are only evaluations specific to the companies that responded to the survey.

4. Findings

4.1. Working Practices

Figure 2 shows how the working patterns of the companies (by their sectors) that responded to our survey are affected. As expected, approximately 80 percent of the companies engaged in professional and technical services have either partially or completely stopped working at the workplace, while approximately half of the companies operating in the manufacturing sector have continued to work at their workplace. In the manufacturing companies that switched to mixed working or part-time telecommuting, this was the case mainly for white-collar workers.

Figure 2 - Work arrangements during the pandemic

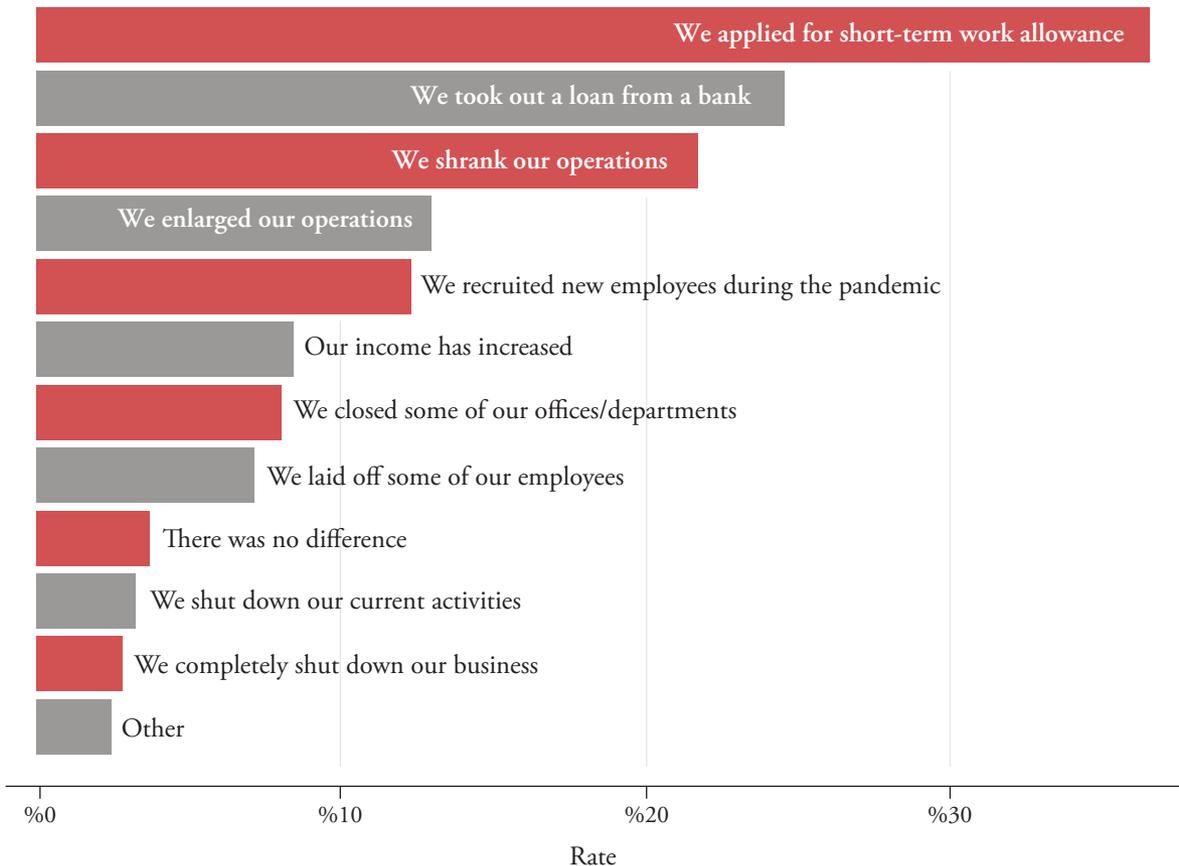




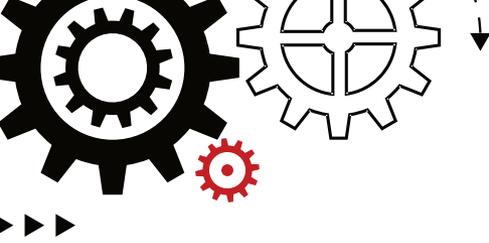
4.2. Impacts of the Pandemic

The impacts of the pandemic differ among the companies that answered our survey. For example, about 40 percent of the companies applied for short-time work allowances, about one-fifth downsized their operations, about a quarter took out a loan, and about 8 percent laid off their employees. On the other hand, about 27 percent of the employers participating in the survey mentioned at least one positive effect of the pandemic on their businesses. Approximately 12 percent of our members who participated in the survey stated that they have recruited new employees, and again approximately 12 percent of them expanded their operations and increased their income. The rate of those who state that they are not affected by the pandemic is only about 4 percent. Figure 3 summarizes the rate of exposure to the pandemic of the companies that answered our survey.

Figure 3 - Impacts of the pandemic



A divergence is also observed in the sectoral breakdown of the impacts of the pandemic. We see that 40 percent of the companies that responded to our survey and operating in the textile industry, and approximately one-third of those operating in the accommodation and services sector downsized their



operations. On the other hand, for the companies in the machinery and non-textile manufacturing sectors (other manufacturing), this rate is only 9 percent (see Figure 4). Of the participating companies in the other manufacturing sectors, approximately 16 percent stated that they expanded their operations, while approximately a quarter of them recruited new employees during the pandemic. Examining the ratio of the companies (by sectors) taking out a loan, we see that companies operating in the wholesale and retail trade and in the accommodation-services sector are the leaders in this regard (see Figure 5). When we look at the rates by sectors, the sector that applied the most for short-time work allowance was the accommodation-services sector. Among the respondents in our survey, approximately 68 percent of the accommodation-services sector applied for short-time work allowance (Figure 6).

We have prepared an index to measure the overall impact of the pandemic on sectors with all its different aspects⁴. Figure 7 shows the sectoral breakdown of this index. Among the companies responded to our survey, while other manufacturing sector and construction and real estate sector differ statistically from the sample average significantly, the companies operating in the textile and accommodation-food service sectors are negatively differentiated. For example, 40 percent of the companies operating in other manufacturing sectors stated that the pandemic had at least one positive effect. There are only three companies in our sample that states at least one positive impact from the accommodation-services sector.

Figure 4 - Operation Downsizing

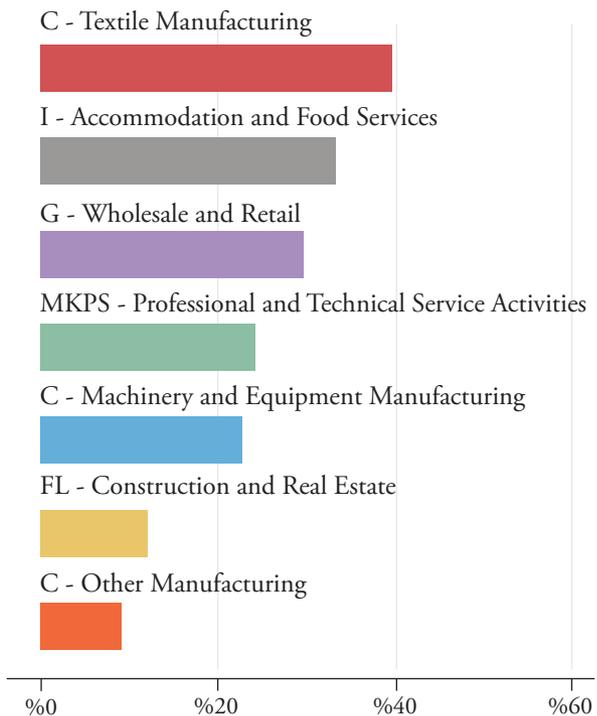
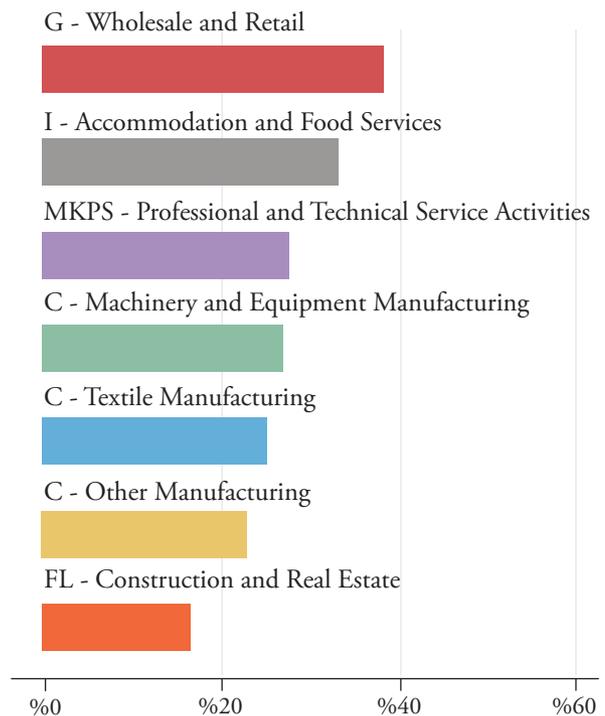


Figure 5 - Loan Borrowing



⁴Two-parameter item response theory measurement was used.

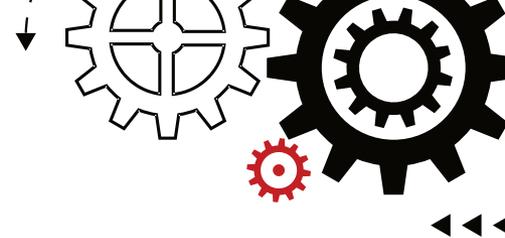


Figure 6 - Work Allowance

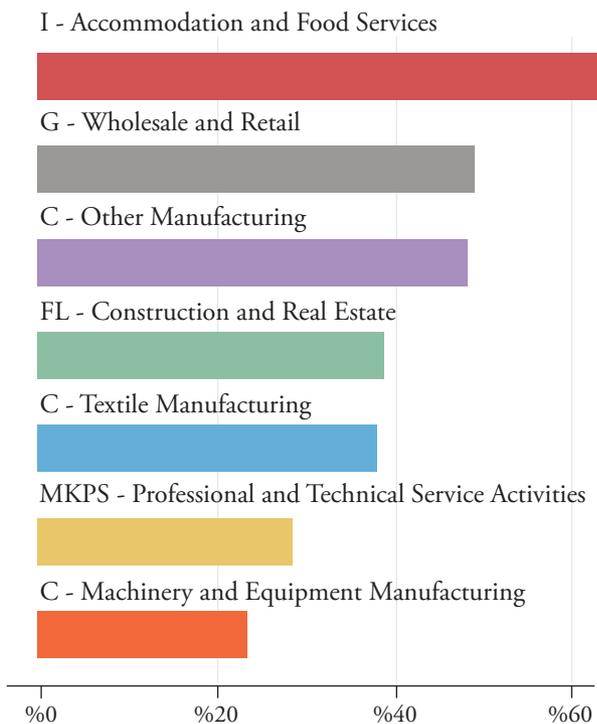
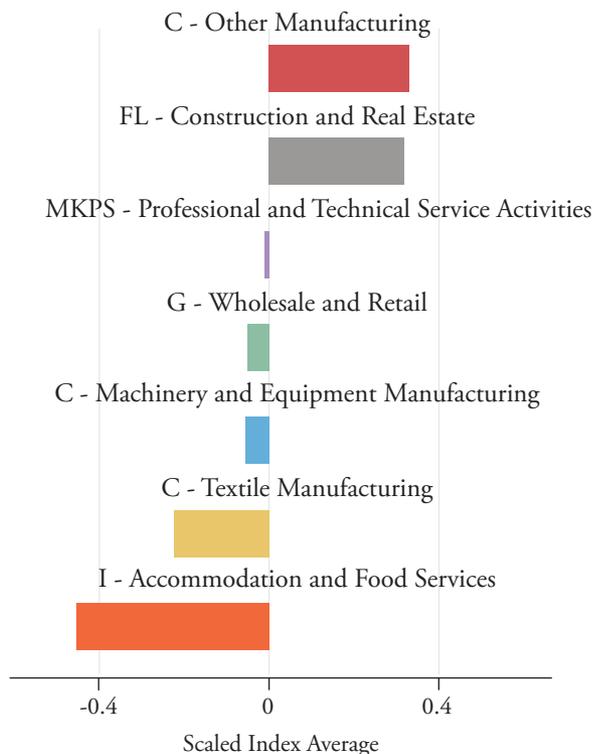


Figure 7 - Impact of Pandemic



4.3. What Companies Need to Fight Against the Impacts of the Pandemic?

The companies need support on various matters in combating the pandemic. The most important one of these is to increase in economic incentives and financial resources. 60 percent of the companies participating in our survey stated that they need increase in incentives and financial resources. Apart from this, approximately 45 percent of the companies participating in our survey stated that they needed grant funding to craftsmen and SMEs, while approximately 42 percent stated that VAT rates should be reduced (see Figure 8).

Looking at the breakdown of needs by sectors, we see that companies operating in the accommodation-services sector are proportionally leading in almost every field of need. Approximately 80 percent of the companies participating in our survey and operating in these sectors stated that they needed an increase in the incentives and financial resources, 62 percent stated that they needed grant funding, and 57 percent stated that they want to defer their loan payments to banks (Figure 11).

Considering all these different needs, we prepared an index to measure the sectors' overall need for state support⁵. Figure 9 shows the sectoral breakdown of this index. The accommodation-services sector,

⁵Two-parameter item response theory measurement was used.



which needs state support the most, differs statistically significantly from the sample average. On the other hand, construction-real estate and other manufacturing sectors stand out as the least in need of state support in a relatively and statistically significant way. When we compare the impact and need index scores, we see that as the positive impact of the pandemic increases, the need for state support decreases (Figure 10).

Figure 8 - The need for state support

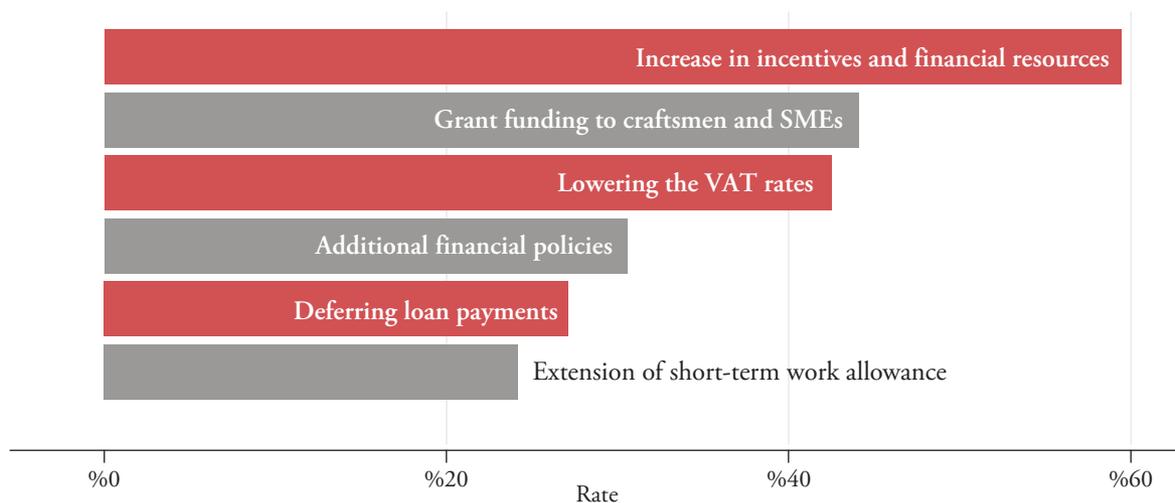


Figure 9 - The need for state support

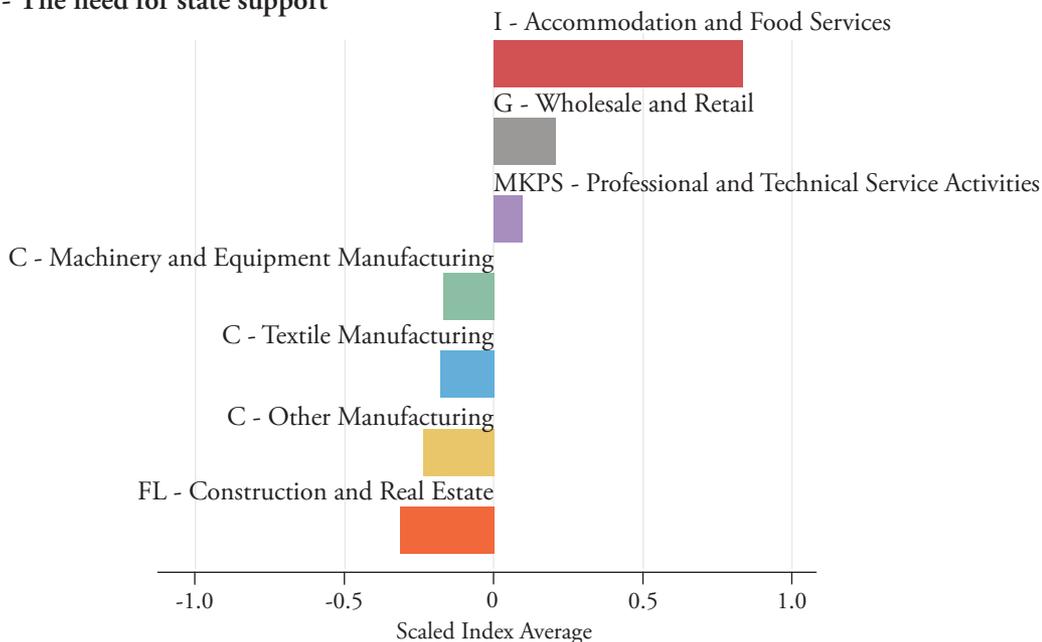




Figure 10

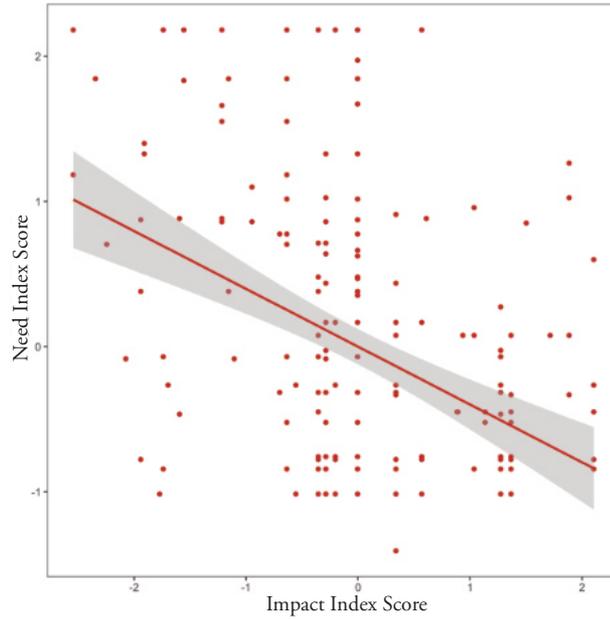
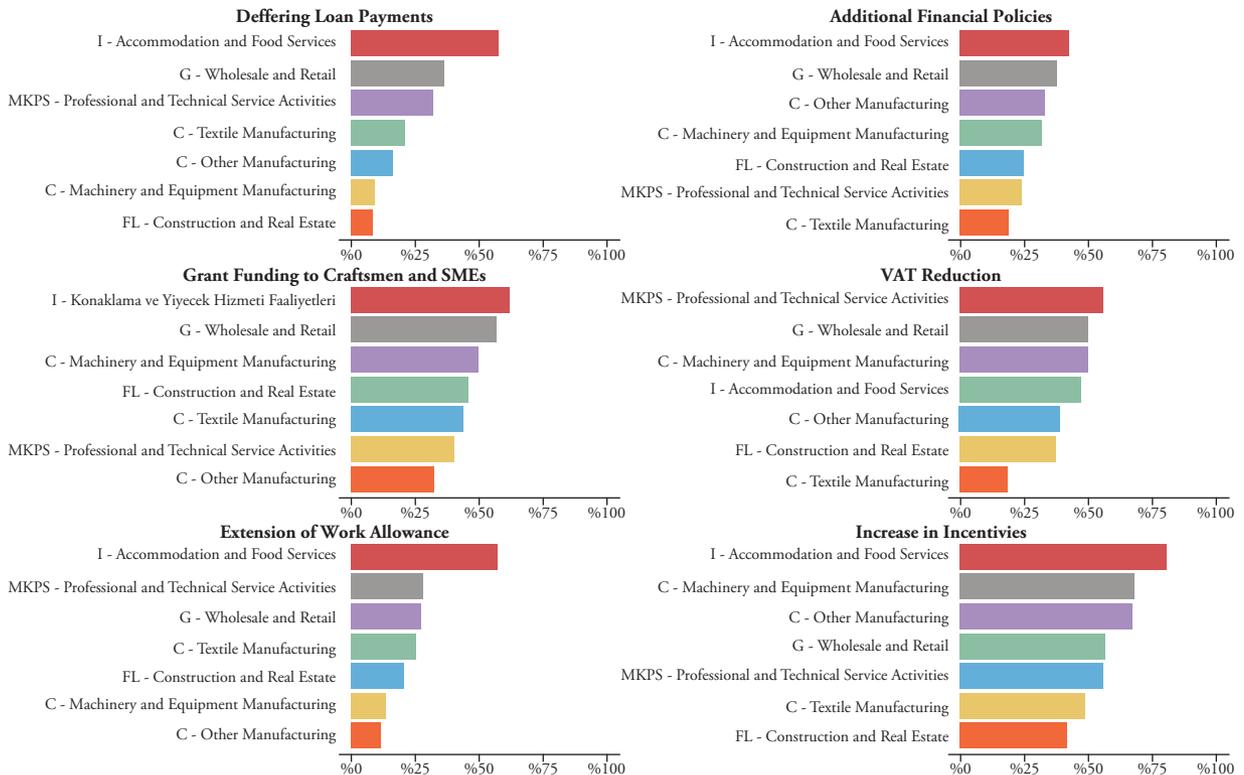


Figure 11 - What Companies Need to Fight Against the Impacts of the Pandemic?

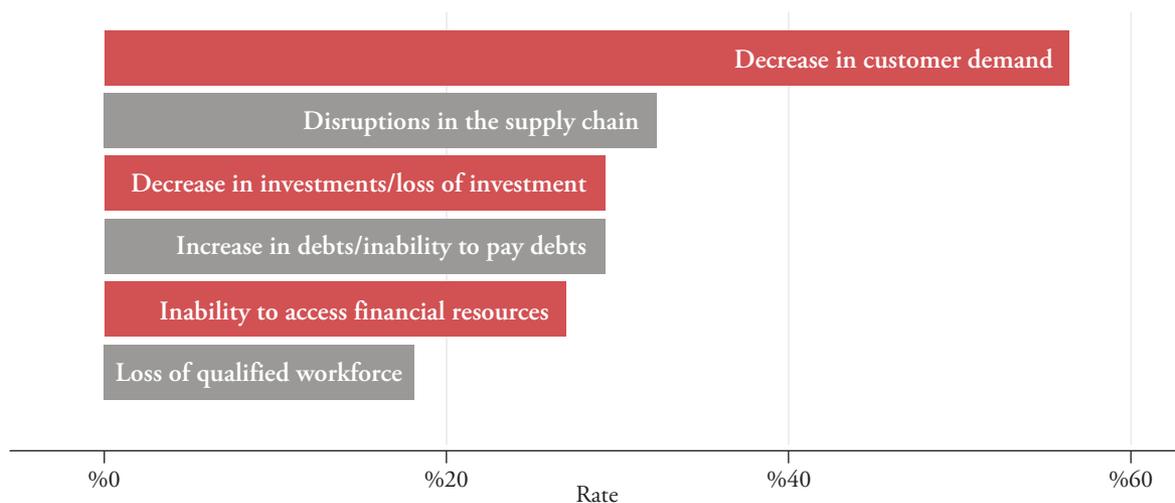




4.4. Perception of risk

The participating companies have a high perception of risk for the upcoming period. Almost all of the companies in our sample stated that they anticipate at least one risk factor for the next period. The leading one is the reduction in customer demand: 60 percent of the companies consider this as a risk factor. This is followed by the risk of disruption in the supply chain with a rate of 35 percent (Figure 12).

Figure 12 - Perception of risk



Evaluating the risk perception by the sectors, we see that the risk factors differ. Among the respondents to our survey, the accommodation-services sector has the highest risk perception in terms of not paying debts proportionally, a decrease in demand and inability to access financial resources. Approximately 70 percent of the companies operating in this sector consider the decrease in customer demand as a risk, while 62 percent are worried about the increase in their debts or not being able to pay their debts in the upcoming period. On the other hand, the machinery and equipment manufacturing sector has the highest risk perception in terms of possible disruptions in the supply chain and the loss of qualified workforce. Among the companies participating in our survey, approximately 60 percent of the companies operating in this sector consider disruptions in the supply chain as a possible risk in the upcoming period, while approximately 35 percent are concerned about the loss of qualified workforce. In addition, almost half of them considers the loss of investment as a possible risk (Figure 13).

Considering all these different risk factors, we prepared an index to compare the general risk perceptions of the sectors⁶. Figure 14 summarizes the results of such index. The companies operating in the machinery manufacturing sector and participating in our survey differ from the sample average in a statistically significant way due to the high risk perception. On the other hand, the companies carrying

⁶Two-parameter item response theory measurement was used.



out professional and technical service activities have a lower risk perception for the upcoming period compared to the sample average.

We will take a closer look at the risk perception towards the supply chain and the measures taken by companies, due to the differentiation in the risk perception of the machinery manufacturing sector, which does not differ from the sample average in terms of being affected by the pandemic or needing state support.

Figure 13 - Perception of risk by industry

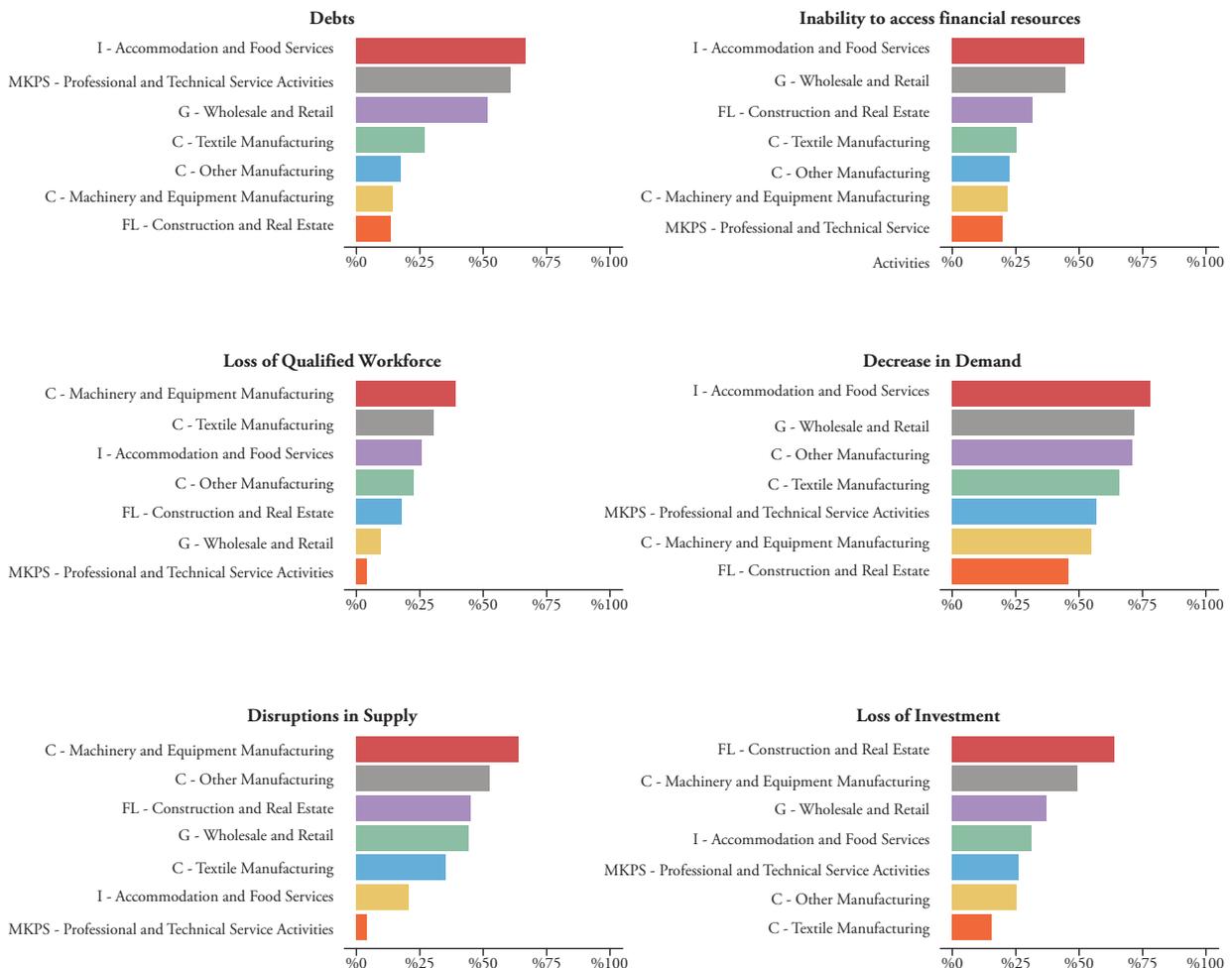
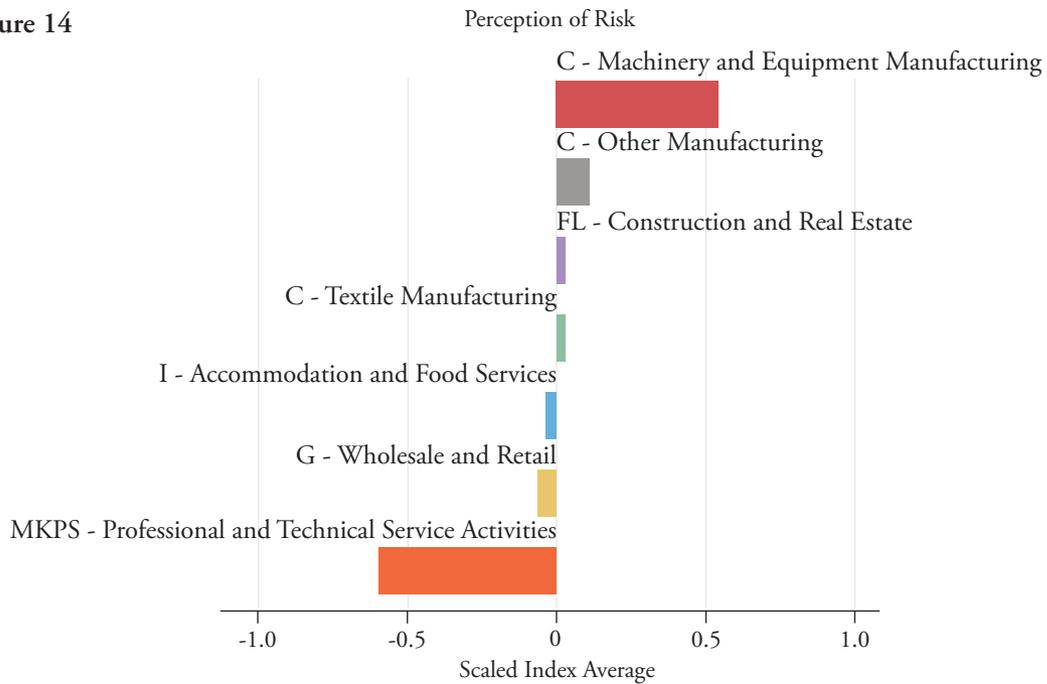




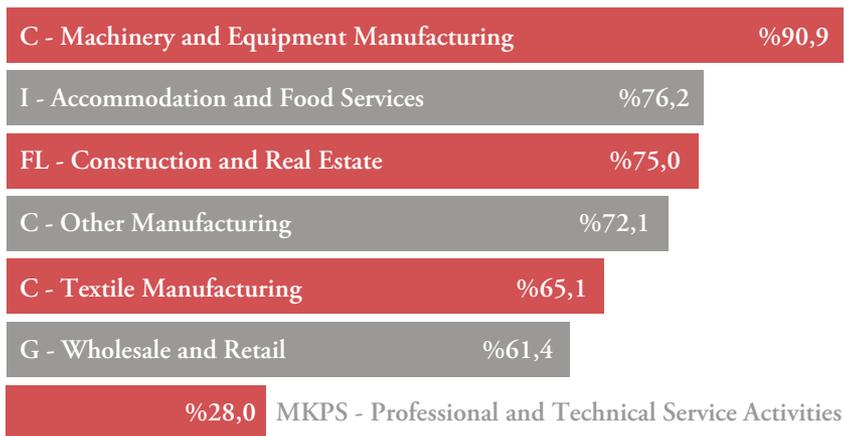
Figure 14



4.5. Supply Issues

Examining the rate of companies that have problems in the supply chain due to various reasons during the pandemic, we see that the machine manufacturing sector is the sector facing issues the most. Approximately 91 percent of the companies participating in our survey and operating in this sector encountered a problem in the supply chain during the pandemic. This is followed by the accommodation-services sector with 76 percent and the construction-real estate sector with 75 percent (Figure 15).

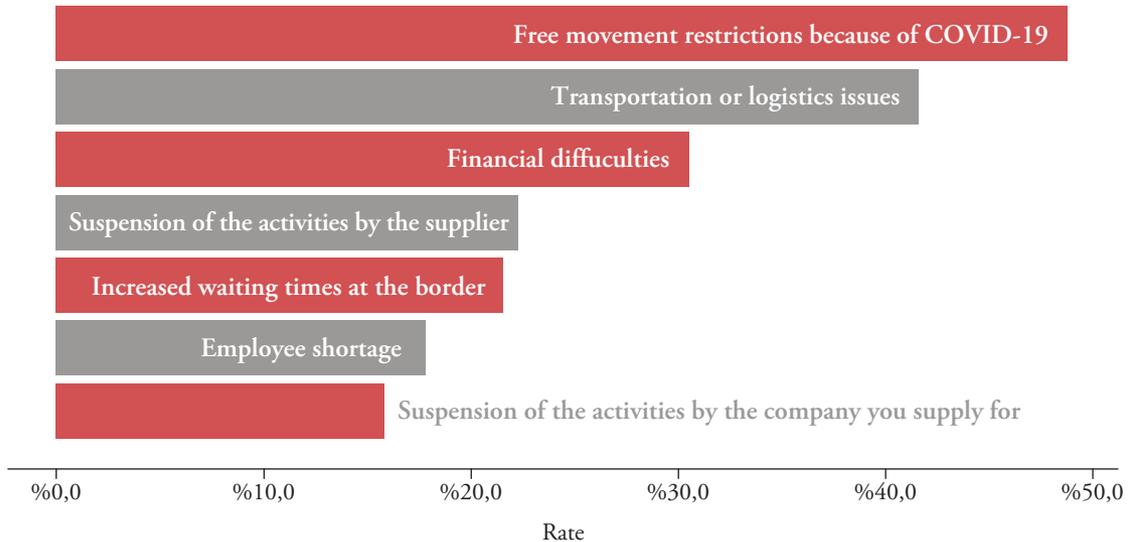
Figure 15 - Disruptions in supply by industries





Companies have encountered various problems in the supply chain. The leading one is undoubtedly the shutdown due to the pandemic; almost half of the companies reported disruptions in supply chains as a result of measures taken against the pandemic. This is followed by disruptions in transportation or logistics and the financial difficulties (Figure 16).

Figure 16 - Supply chain issues



Examining the sectoral breakdown of the disruptions in the supply chain, we see differentiation between the sectors. The machinery manufacturing sector suffers the most in terms of supply issues. For example, while approximately 70 percent of the companies participating in our survey and operating in this sector had problems in the supply chain in terms of transportation and logistics, approximately 40 percent encountered problems in the supply chain due to waiting times at the border and approximately 40 percent due to the suspension of the activities of their suppliers. On the other hand, looking at the companies that have stated that financial difficulties play an important role in disruptions in the supply chain, almost half of companies operating in the accommodation-services sector point out that they suffer from this issue (Figure 17).

Considering all these problems experienced in the supply chains for various reasons, we prepared an index to compare the supply issues of the sectors⁷. Figure 18 summarizes the results of such index. The participating companies operating in machinery manufacturing and other manufacturing sectors differ from the sample average in a statistically significant way in terms of issues in the supply chain. On the other hand, the supply issues of the companies that carry out professional and technical service activities are lower than the sample average due to the nature of the sector.

⁷Two-parameter item response theory measurement was used.

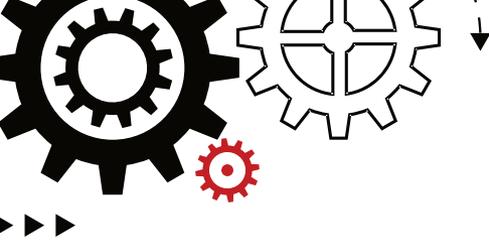
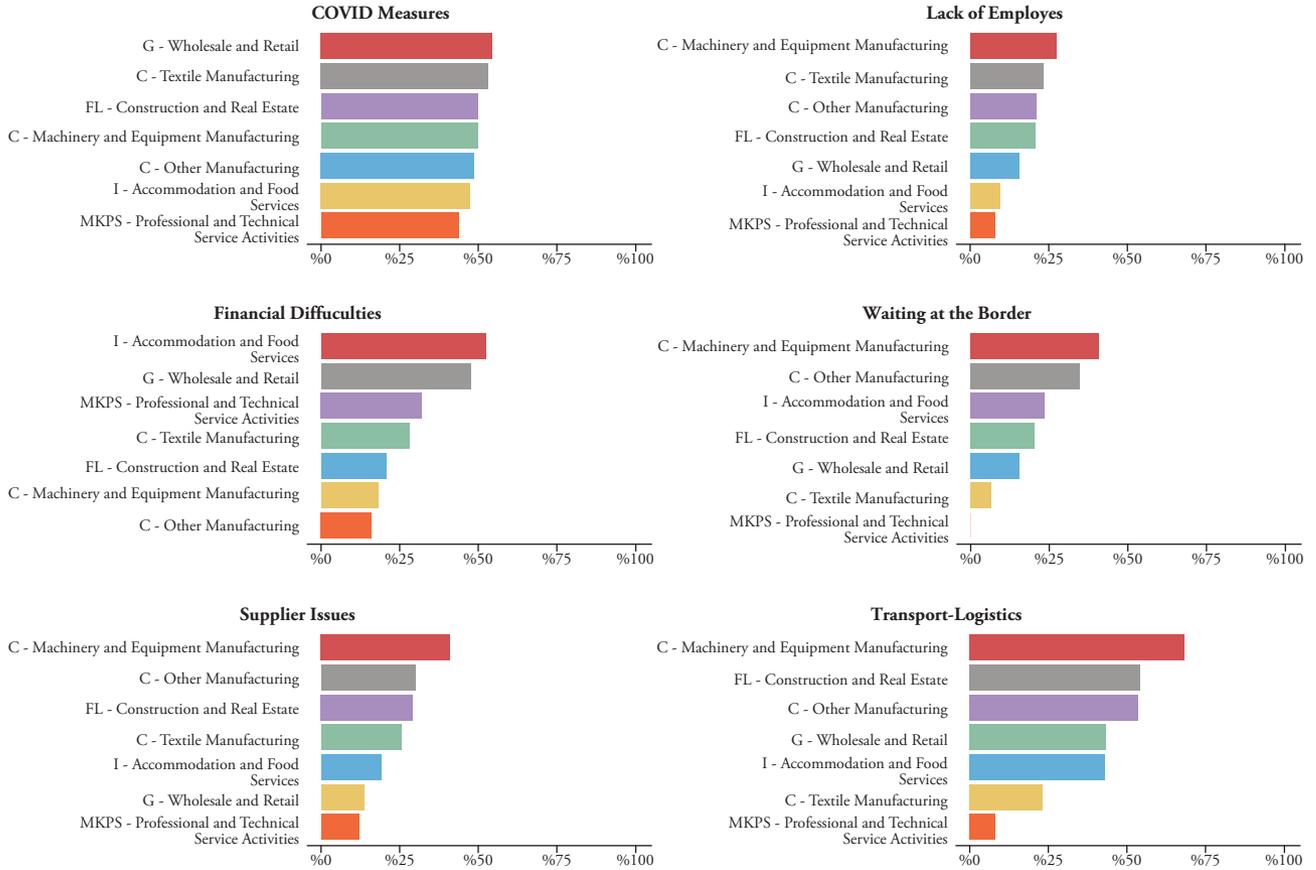


Figure 17 - Supply issues by industry



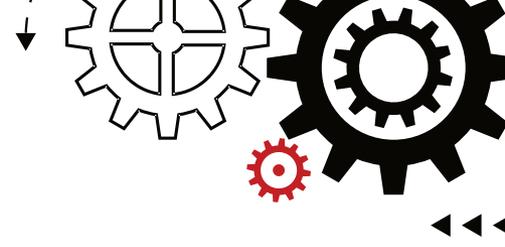
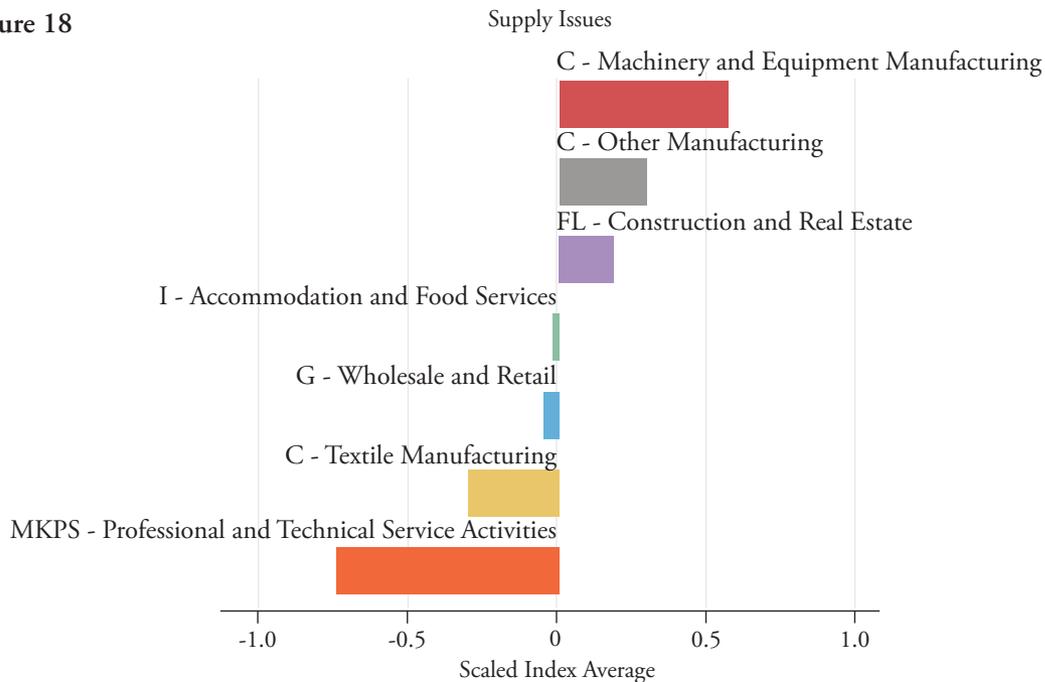
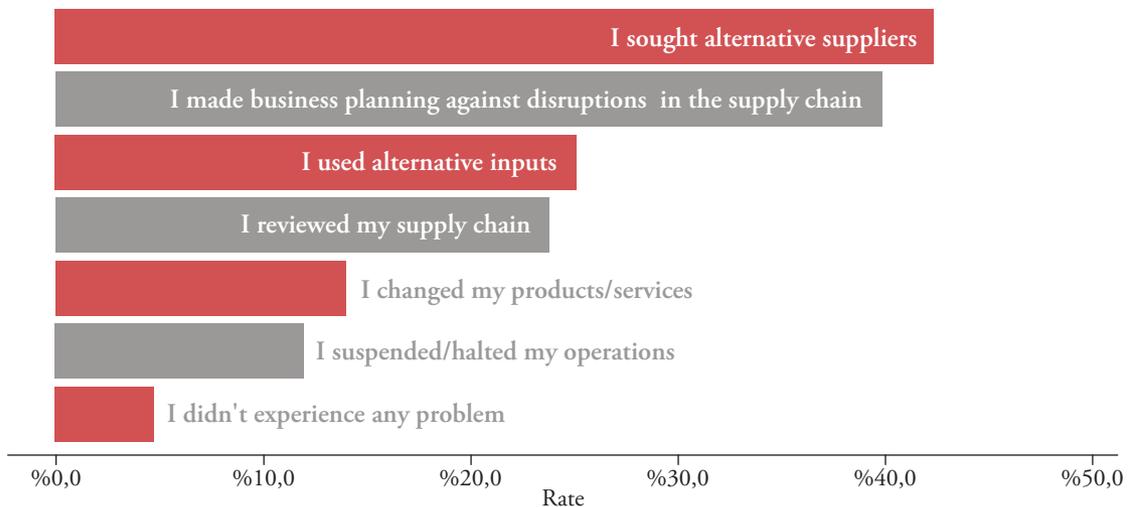


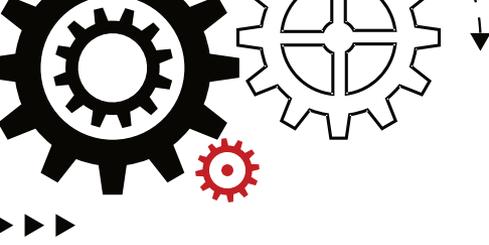
Figure 18



The companies have taken various measures to solve the issues in the supply chain. Approximately 42 percent of the companies sought alternative suppliers, while approximately 40 percent reviewed their business plans (Figure 19). Examining the machinery manufacturing sector specifically, we see the same trend; a significant number of companies operating in that sector either sought alternative suppliers or reviewed their business planning.

Figure 19 - Solutions for supply issues





5. Lessons and Recommendations

Expectations of the company representatives participating in our survey from policy-making processes in combating the pandemic can be listed as follows:

1. Production-oriented economic policies that will increase sustainable development and competitiveness should be developed and local development dynamics should be supported.
2. Economic policy-making processes should be transparent, impartial and accountable. Exchange rate and inflation increase should be prevented.
3. The business world, non-governmental organizations, academia and other stakeholders should participate in the economy-making processes.

One of the most important lessons and insights that can be drawn from the pandemic is that especially in such large-scale external shock situations, the NGOs representing the private sector should be more integrated into the policy-making processes. Although the economy in general was adversely affected at the beginning of the pandemic, the ways and degrees of the effects changed in time, and as a result, the expectations of the companies from the policy-making processes began to diverge. The NGOs representing the private sector with their analysis of the problems and needs of different sectors and stakeholder meetings have tried to contribute to the policy-making processes for these differentiated needs. One of the most important expectations of our members who participated in our survey is that the sector representatives would be more involved in these policy-making processes and advocate by carrying out studies on the problems of the sectors they operate in.



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