

SME's financing challenges and effects of Covid-19 pandemic (An Albanian reflection)

BLISARD ZANI¹

ENI NUMANI²

DORINA KRIPA³

*Department of Finance, Faculty of Economy
University of Tirana, Albania*

Abstract

Small and medium enterprises contribute an important extent to the global economy, comprising over 90% of the companies worldwide according to reported data by World Bank. They have a significant importance in boosting employment, generating the majority of jobs in developing countries. However, these companies face several challenges and obstacles compared to larger firms, in terms of financing and responding to market fluctuations. Cross-country studies provide evidences that SMEs have lower access to external financing from financial institutions and face higher transactions costs and higher risk premiums. The Covid-19 pandemic presented multiple challenges to SMEs worldwide, such as financial instability, low liquidity levels, staff shortage and higher credit risks. Therefore, there is an increased interest in studying the impact of the pandemic on SMEs to evaluate the extent to which the financial sources and other indicators were affected. Given the importance of the subject, this study aims to provide evidence for the Albanian economy in identifying financial challenges experienced by small and medium enterprises during the last three years, due to the pandemic effects. The primary data for this study was gathered by conducting surveys with SMEs operating in cities of Tirana, Durres, Shkoder, Vlore, Elbasan, Korce and Berat in Albania. The objective of the questionnaire is to assess the effect of the pandemic on enterprises income, the number of employees, and to address the challenges that SMEs foresee in the future.

Keywords: small and medium enterprises, financing sources, debt, internal funds, staff shortage.

1. INTRODUCTION

The last three decades has shown an astounding developing situation of the economic activity of small-medium enterprises (hereby referring as SME's) in Albania. The latest figures offered by the Albanian institute of statistics affirm that almost 99.8% of all SME's are actively operating and contributing to the economy. Due to their importance, the study of small-medium enterprises brings an added value to the contemporary studies held in Albania. In addition, the pandemic situation created new innovative ways of financing the SME's activities, meanwhile facing new challenges. SME's have experienced staff shortage, higher demand for outsource financing, and other economic transformations.

¹ blisard.zani@unitir.edu.al

² Corresponding author: eninumani@feut.edu.al

³ dorinakripa@feut.edu.al

In the context of economic activity financing, small-medium enterprises in Albania in the last three years have changed their traditional way of financing. In the first years, the vast majority of SME's have often been financed by the own capital of the owners, with neglecting percentage financed by short-term loans, mortgage loans and other liabilities. Nowadays, the Covid-19 created a shortage of capital, leading the SMEs in other financing activities. As shown in this paper, during the pandemic period, the percentage of loans and other financing opportunities grew significantly. These financing budgets were mostly used to reconcile the main activities such as inventory purchasing, liabilities payment, short-term loans installments, etc.

Covid-19 revealed a weak financial status of small-medium enterprises in Albania. A lot of businesses failed to have a sustainable financial statement, leading in difficult situation through the first months of the pandemic situation. Due to drastic restrictions about the economic activities, small-medium enterprises were almost totally closed for more than three months. This period had also further impact in sales, turnover, staff liabilities, etc. However, the government tended to help the SMEs with additional decrees providing a suspension in tax payments, granting a primary three months “*war salary*” (with conditions of extending in need), other special agreements with banks to postpone some installments, etc. These measures alleviated the overall economic activity of the small-medium enterprises.

This paper analyzes the financing process of the SMEs in Albania during the last three years, the founding sources, the use of capital, etc. In addition, the quantitative methods measure the financial effect of Covid-19 pandemic situation in annual turnover rate, staff shortage, total sales revenues, changes in chain supply, etc. The SMEs have also argued the financial solutions to face the Covid-19 situation, and the overall challenges in the near future. Moreover, the SMEs are requested to evaluate the efficiency of the “financial help package” offered by the government.

2. LITERATURE REVIEW

Numerous studies have analyzed the variables and factors that have impacted the financial stability of small-medium enterprises. Furthermore, latest studies have also empirically observed a different financial situation of SMEs during the Covid-19 pandemic situation. Gerald et. al. has analyzed the importance of the strategic agility of SMEs during Covid-19. They emphasize that additional awareness is required for the financial challenges of SMEs during the pandemic (Emejulu, Obijanu, & Chukwunonso, 2020). In this logic, Sriyono et. al. has also noticed that financing coming from non-banks when the Covid-19 pandemic conditions are very beneficial for small-medium enterprises, and small-medium enterprises are still able to compete globally. (Sriyono, Biduri, & Proyogi, 2021).

Due to the low levels of capital in possession, SMEs have requested many times a supporting scheme from governments, as a fast and efficient solution for financing. These schemes were used in various countries in Europe, Latin America, Asia, etc. Evidences from other countries confirm the same situation of SMEs. In United Kingdom and Ireland, an increased demand was observed for loans and other borrowing instruments required from government (Calabrese, Cowling, & Liu, 2022). The same situation was noticed in the financial system in overall. Meanwhile, Wang et al. has studied the support of the Chinese government for SMEs during pandemic situation challenges (Wang, Goh, Sonette, & Jang, 2021). They affirm that the government should better intervene in the interest loan rates determination and in loan

supporting schemes. The Spanish experience is in the same logic line as other countries mentioned above. Catalan et. al emphasizes that public administrations may use guarantee schemes as instruments to improve SME access to financing while limiting the burden on the public budget. (Corredera Catalán, Pietro, & Trujillo-Ponce, 2021). Albanian governments, with an emergency decree of council of ministers decided that self-employed and other categories of employees will temporarily benefit a “war salary” to combat the effects of the first months during pandemic situation. (CM, 2020).

Covid-19 created also new challenges of decision making related to economic recovery determinants. These determinants were noticed by some authors like Liu, Dilanchev and others. They affirm that i.e., the opening of a café (that is also a typical SME in Albania) has an asymmetric information and institutional theory regarding funding a café. These findings are essential for business leaders and policymakers concerned with the financial health of small and medium-sized enterprises. (Liu, Dilanchiev, Xu, & Hajiyeva, 2022). In addition, Covid-19 has also affected sales, production, employers, turnover, and other aspects of a small-medium enterprise. Ozcan et. al. has analyzed the effects of Covid-19 in SMEs employability. Moreover, these effects were more present in sectors like accommodation and food services, transportation, recreation, and other services. (Kalemli-Ozcan, Gourinchas, Penciakova, & Sander, 2020). Kalogiannidis affirms that the impact of the pandemic on the small business and employees have changed the overall business policies facing economic imbalance (Kalogiannidis, 2020).

As empirical evidence, Dai et al. brings the effects of Covid-19 pandemic situation in SMEs performance. They concluded that COVID-19 landed a heavy toll on SMEs, especially in sales, turnover and the overall financial situation (Dai, et al., 2021). This can be a generalized conclusion, due to the fact that China has a significant number of SMEs with direct impact in global economy. A slowing down process in economic activities of SMEs was observed during the pandemic situation. This is confirmed also by a latest study conducted by Syriopoulos. In fact, SMEs with their limited ability to counterattack the involved risks and afford the costs due to the slowed down business activities and were faced difficult problems of the lack of funds and liquidity, employees, customers, and technology (Syriopoulos, 2020).

The technology also plays a crucial role in developing new strategies and exploring modern solutions in increasing the efficiency of SMEs. As latest studies show, technology can help some economic processes and can serve as a catalyzer to increase the overall turnover. Indriatsuti and Fuad concluded that during covid-19 condition, online business resulted more sustainable in their business and that can take place now and, in the future, (Indriastuti & Fuad, 2020). Kumar and Ayedee also affirm that technology can be the best solution to overcome problems during Covid-19 breakdown (Kumar & Ayedee, 2021). It was found that Covid-19 pandemic has affected all business sectors in several ways. Technology adoption has a critical role for business survival during the Covid-19 crises especially with small businesses. Very limited research has been conducted on the adoption of different technologies during the Covid-19 lockdowns (Abed, 2022).

The future framework of SMEs seems to focus in three different sectors: sustainable development, e-commerce, and digitalization of business processes. In developing countries, SMEs need to address these topics, especially the e-commerce problem. This is more challenging because the e-commerce can generate additional contribution into sales increasing. (Kapurubandara & Lawson, 2007). In addition, in developing countries, SMEs need to upgrade their economic activity and there are

necessary preconditions, resources and strategies that need to be put together to ensure the successful integration and growth (upgrading) of these SMEs within global value chains. (Epede & Wang, 2022). Moreover, SMEs economic activities should also be analyzed under sustainable development goals. Latest studies show that although SMEs are interested in sustainable development, power dynamics impede their understanding and implementation of SDGs guidelines (Smith, Discetti, Bellucci, & Acuti, 2022).

3. METHODOLOGY

This study analyses primary data which have been gathered using a questionnaire which aims:

- to study how enterprises have been financed during the last years and for what purpose these resources have been mainly used,
- to see how enterprises have been affected by the covid-19 pandemic and what has been its effect on income and the number of employees,
- to identify the challenges that the activity of these companies is expected to face in the future.

The target of the questionnaire are micro, small and medium enterprises. The questionnaire is distributed in the districts of Tirana, Durres, Shkoder, Vlore, Elbasan, Korce and Berat, which have the largest number of SMEs according to the official data of INSTAT. The focus of the questionnaire are enterprises which are operating for more than three years, so they have overcome the initial startup phase and have low financial risk. The questionnaire consists of 23 open and closed questions and is distributed to enterprises that operate in all sectors of economy, except the financial sector, to have a representative sample of the sectoral composition of the economy in our country.

The final questionnaire includes the following sections:

Section I: General interviewee information

Section II: General company information

Section III: Identifying the needs of enterprises in relation to securing funding sources and following sustainable funding policies

Section IV: Financial challenges and risks faced by enterprises in post-pandemic conditions of Covid 19.

In person and online data collection methods was used. The database was scanned for missing information and outliers, which have been removed and the final complete sample comprised 304 questionnaires.

4. RESULTS AND DISCUSSION

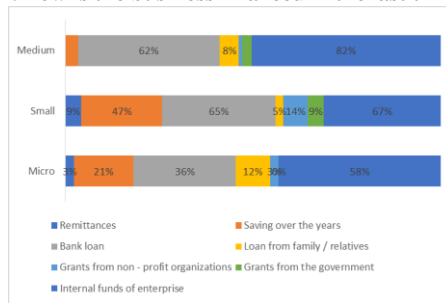
The results of the first two sections of the questionnaire revealed general information on the interviewee and the enterprise. The highest number of questionnaires was completed in Tirana (24.3%) which is the city with the largest number of SMEs in our country, followed by Durres (17.1%), Berat (15.8%), Korçe (13.2%), Vlore (10.5%), Elbasan (9.9%) and Shkoder (9.2%). Referring to the sectoral distribution the highest response rate is from enterprises that operate in the trade (25.7%), industry (15.8%), accommodation (11.8%), and other services (11.8%) sectors. Based on the size of

enterprises, the total sample contained 48.7% medium enterprises, 29.6% small enterprises, and 21.7% micro enterprises. The average enterprise age was 16.5 years.

4.1 Needs of enterprises for funding sources and challenges for sustainable funding policies

To finance their activity, companies have used mostly internal funds and bank loans during the last three years. As it can be noticed in Figure 1, medium-size businesses have more opportunities for internal funds, because their profit is higher than the profit generated by micro and small businesses. On the other hand, micro and small businesses have also used the owners' savings over the years as a source of financing. This happens because these businesses are mainly family businesses. Regarding financing through bank loans, micro businesses have more difficulties in using this source, due to the high interest rate and numerous bureaucracies in the application process.

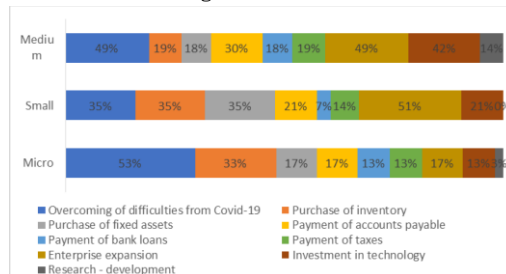
Figure 1: How is the business financed in the last three years?



Source: Authors calculations

Regarding the purpose of using financing sources (Figure 2), it is noted that micro businesses have engaged them to overcome the difficulties encountered by the Covid-19 pandemic and to purchase inventory. This means that the main goal of these businesses during the last three years has been the survival and continuation of the operational activity. The approach followed by small businesses is slightly different because the majority of them has been focused on business expansion. After that, the financing sources have been used for overcoming the Covid 19 consequences and for the continuation of operational activity (inventory purchase and repayment of obligations to suppliers).

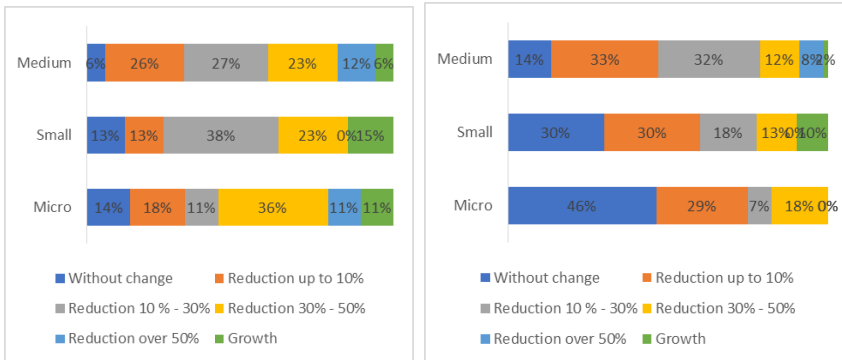
Figure 2: Activities where financing sources have been used in the last three years



Source: Authors calculations

The results of the questionnaire show that the pandemic has affected the activity of all three types of businesses. According to the responses, the most affected businesses are the medium (88%) and small (81%) ones. Micro businesses (71%) have been less affected. Figure 3 below gives a presentation of the impact on business revenues and staff number per each category. As it can be seen, the level of income has been more affected by the pandemic (businesses that have suffered a decrease in income range from 76% to 88%) compared to the decrease number of staff (businesses that have suffered a reduction in human resources vary from 54% to 85%).

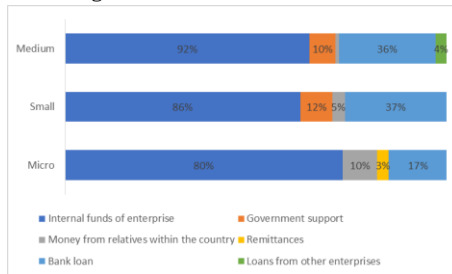
Figure 3: Impact of Covid-19 on business revenue and staff number



Source: Authors calculations

As mentioned above, businesses have mostly used the internal funds and less bank loans (with the support of the government through the sovereign guarantee) to overcome the problems derived by the pandemic. Meanwhile, in Figure 4 is evident that, even though the Albanian government approved two financial packages during the pandemic period, the aid given to the business in a direct way is evaluated at low levels.

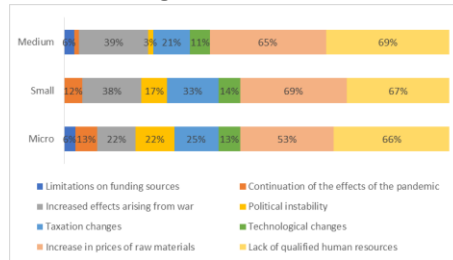
Figure 4: Funding sources used to overcome Covid-19 situation



Source: Authors calculations

After a difficult financial period caused by the pandemic, businesses managed to recover and become more optimistic for the future, due to the increase in market demand for products and services. The situation created by covid-19 is considered to be left behind by businesses, but on the other hand, they expect that in the future they will face, among other things, two other major problems: (i) the continuous increase in the price of raw materials, that directly affects the increase in operating costs, and (ii) the lack of qualified labor force, as a result of the increased emigration.

Figure 5: Main challenges for the businesses in the next year



Source: Authors calculations

5. CONCLUSIONS

This study analysis the challenges faced by small and medium-sized enterprises in Albania in obtaining financing in debt and equity, as a significant parameter for their growth and profitability. The study uses primary data by surveying companies in primary cities of the country, with the higher concentration of businesses. Despite the fact that SMEs provide an important source of employment in Albanian labor market, they receive limited external funding by financial institutions compared to large firms and face a financing gap. To finance their activity, companies have used mostly internal funds and bank loans during the last three years. The pandemic Covid-19 presented serious challenges for SMEs in Albania, with consequences in their financial stability, access to debt financing, shortage of staff and management of payment balances.

According to the study conducted, it turns out that the most affected from the pandemic effects are medium businesses (88%) and small businesses (81%), and to a lesser extent micro businesses (71%). On the other hand, the Covid-19 pandemic has had a more negative impact on the level of income than on the number of staff. Businesses that have experienced a decrease in income vary from 76% to 88%, meanwhile businesses that have experienced a reduction in human resources vary from 54 % to 85%. In response to the financial difficulties encountered during the pandemic period, businesses have mostly used internal funds and to a fewer extent bank loans (with the support of the government through the sovereign guarantee).

While local and central governments have taken actions in recent years to soften the effects of pandemic on small and medium enterprises, the support given to the business in a direct way is reported to be at low levels. Further measures are expected in order to have a significant effect on the business parameters. The focus should be on increasing SME resilience when facing potential future crisis, and in enhancing SME access to the financial instruments suited to their needs. Despite the evident negative impact of Covid-19 on SMEs financing, the pandemic highlights the need to restructure SMEs support systems from public and private institutions.

REFERENCES

1. Abed, S. S. (2022). A literature review exploring the role of technology in business survival during the Covid-19 lockdowns. *International Journal of Organizational Analysis*, ISSN: 1934-8835.
2. Calabrese, R., Cowling, M., & Liu, W. (2022). Understanding the Dynamics of UK Covid-19 SME Financing. *Journal of Management*, 657-677; Vol. 33, 657–677 (2022) Doi: 10.1111/1467-8551.12576.
3. CM, C. o. (2020). *Decree No. 254, dt. 27.03.2020 "On determinating the measure of support salaries"*. Tirana, Albania: Official Journal of the Republic of Albania.

4. Corredera Catalán, F., Pietro, F. d., & Trujillo-Ponce, A. (2021). Post-COVID-19 SME financing constraints and the credit guarantee scheme solution in Spain. *Journal of Banking Regulation*, 250 - 260, SPRINGER.
5. Dai, R., Feng, H., Hu, J., Jin, Q., Li, H., Wang, R., . . . Zhang, X. (2021). The impact of COVID-19 on small and medium-sized enterprises (SMEs): Evidence from two-wave phone surveys in China. *China Economic Review*, Volume 67, June 2021, 101607, <https://doi.org/10.1016/j.chieco.2021.101607>.
6. Emejulu, G., Obijanu, A., & Chukwunonso, N. (2020). Strategic agility and performance of SMEs in the phase of Covid-19 pandemic. *International Journal of Financial, Accounting and Management (IJFAM)*, 41-50, Vol. 40, No.1, <https://doi.org/10.35912/ijfam.v2i1.163>.
7. Epede, M. B., & Wang, D. (2022). Global value chain linkages: An integrative review of the opportunities and challenges for SMEs in developing countries. *International Business Review*, Volume 31, Issue 5, October 2022, 101993.
8. Indriastuti, M., & Fuad, K. (2020). Impact of Covid-19 on Digital Transformation and Sustainability in Small and Medium Enterprises (SMEs): A Conceptual Framework. *Conference on Complex, Intelligent, and Software Intensive Systems*, 471-476, SPRINGER.
9. Kalemli-Ozcan, S., Gourinchas, P.-O., Penciakova, V., & Sander, N. (2020). *COVID-19 and SME Failures*. Volume 2020: Issue 207, ISBN: 9781513557748, 55, <https://doi.org/10.5089/9781513557748.001>: International Monetary Fund.
10. Kalogiannidis, S. (2020). Covid Impact on Small Business. *International Journal of Social Science and Economics Invention I*, ISSN: 2455-6289.
11. Kapurubandara, M., & Lawson, R. (2007). eMergence: Merging and Emerging Technologies, Processes, and Institutions. *Bled 2007 Proceedings* (pp. 485 - 499). Bled, Slovenia: Association for Information Systems, <http://aisel.aisnet.org/bled2007>.
12. Kumar, A., & Ayedee, N. (2021). Technology Adoption: A Solution for SMEs to Overcome Problems during COVID-19. *Forthcoming, Academy of Marketing Studies Journal*, Volume 25, Issue 1.
13. Liu, Y., Dilanchiev, A., Xu, K., & Hajiyeva, A. M. (2022). Financing SMEs and business development as new post Covid-19 economic recovery determinants. *Economic Analysis and Policy*, Volume 76, December 2022, Pages 554-567, <https://doi.org/10.1016/j.eap.2022.09.006>.
14. Smith, H., Discetti, R., Bellucci, M., & Acuti, D. (2022). SMEs engagement with the Sustainable Development Goals: A power perspective. *Journal of Business Research*, Volume 149, October 2022, Pages 112-122.
15. Sriyono, Biduri, S., & Proyogi, B. (2021). Acceleration of performance recovery and competitiveness through non-banking financing in SMEs based on green economy: impact of Covid-19 pandemic. *Journal of Innovation and Entrepreneurship*, Article No. 27, SPRINGER.
16. Syriopoulos, K. (2020). THE IMPACT OF COVID-19 ON ENTREPRENEURSHIP AND SMEs. *Journal of the International Academy for Case Studies*, Volume 26, Issue 2.
17. Wang, S. S., Goh, J., Sonette, D., & Jang, E. J. (2021). 3. Government support for SMEs in response to COVID-19: theoretical model using Wang transform. *China Finance Review International*, ISSN: 2044 - 1398.

Funding

This research paper is financed by the University of Tirana.