

Managing COVID-19 Challenges and Financing Schemes to Support SMEs in Albania

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Abstract

The COVID-19 pandemic has posed unprecedented challenges to the global economy, particularly impacting Small and Medium-sized Enterprises (SMEs). This study focuses on the effects of the pandemic on SMEs in Albania, with a specific emphasis on the cities of Gjirokastër and Tirana.

The research employed a mixed-method approach, combining quantitative survey data from 52 SMEs and qualitative in-depth interviews with 15 SME owners, alongside insights from government officials and financial experts. Quantitative data were analyzed using statistical methods like regression analysis and ANOVA, while qualitative data were thematically analyzed.

Quantitative findings indicated significant revenue decreases across most SMEs, with more pronounced effects in Tirana. Financial challenges and operational disruptions were common, with larger businesses and certain sectors, like hospitality, more adversely affected. Qualitative insights revealed adaptive strategies, including digitalization and product diversification, and highlighted mixed responses to government support. The resilience of SMEs was evident, though future outlooks varied with calls for more targeted assistance.

The study underscores the profound impact of the COVID-19 pandemic on Albanian SMEs, revealing both vulnerabilities and adaptabilities within this sector. The findings suggest a need for more nuanced and sector-specific support, emphasizing the importance of digital transformation and accessible financial aid. The study contributes to a deeper understanding of the pandemic's impact on SMEs and can inform policy-making and support strategies for their recovery and growth in the post-pandemic era.

Keywords: COVID-19, SMEs, Albania, Business Impact, Financial Challenges, Operational Strategies, Government Support, Digital Transformation.

1. Introduction

1.1 Overview

This research aims to explore the critical intersection of the COVID-19 pandemic and its impact on Small and Medium-sized Enterprises (SMEs) in Albania, focusing on the management of pandemic-related challenges and the efficacy of financing schemes implemented for SME support. The importance of SMEs in the Albanian economy cannot be overstated; they form the backbone of economic activity and employment. However, the COVID-19 pandemic has presented unprecedented challenges globally, disrupting

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business operations, supply chains, and market demands. In Albania, these challenges have been particularly acute for SMEs, given their limited resources and capacities to adapt quickly to such drastic changes. This research seeks to understand these impacts in the Albanian context, examining how SMEs have navigated these turbulent times and analyzing the support mechanisms put in place by governmental and financial institutions. By doing so, the study aims to provide insights into the effectiveness of these measures and offer recommendations.

The research topic revolves around understanding the multifaceted challenges that the COVID-19 pandemic has posed to Small and Medium-sized Enterprises (SMEs) in Albania. It delves into the dynamics of how these challenges have impacted SMEs, altering their operational, financial, and strategic landscapes. Simultaneously, the study investigates the various financing schemes and support measures introduced by the government and financial institutions in Albania. The aim is to assess their effectiveness and adequacy in aiding SMEs during this crisis, offering a comprehensive overview of both the hurdles faced by these enterprises and the resilience strategies they've employed. This exploration is crucial for formulating policy recommendations and strategies for bolstering the SME sector against future crises.

1.2 Importance of SMEs in the Albanian Economy

Small and Medium-sized Enterprises (SMEs) in Albania play a crucial role in driving sustainable economic growth. They represent a significant portion of all firms in the region, including Albania, and contribute substantially to employment and value creation. Specifically, SMEs make up 99% of all enterprises, generate around 65% of the total value added, and account for 75% of employment. This highlights the integral role of SMEs in the Albanian economy, not only as a source of employment but also as key contributors to the country's overall economic development and stability.

1.3 Impact of COVID-19 on SMEs Globally and in Albania

Globally, the COVID-19 pandemic has significantly impacted SMEs, which are essential for job creation and GDP in many economies. The crisis has exposed SMEs to severe disruptions, notably in regions like the European Union where they represent 99% of all enterprises in the non-financial business economy.

In Albania, the pandemic's impact was multifaceted. Initially, the Albanian economy faced challenges, including a contraction of around 4.4% in 2020. However, the economy demonstrated remarkable resilience, rebounding strongly in 2021 with a growth rate of approximately 7.2%. This recovery was aided by swift government action at the pandemic's onset, focusing on supporting lives and livelihoods, and the normalization of economic activities like tourism and construction, including earthquake-related reconstructions. Despite positive macroeconomic indicators, it's important to recognize the varied individual experiences during this period, including job losses and business closures.

The future economic outlook for Albania, while uncertain due to factors like pandemic developments and global financial trends, remains cautiously optimistic given the demonstrated resilience and recovery potential.

2. Literature Review

2.1 Existing research on COVID-19's impact on SMEs.

Recent research on the impact of COVID-19 on SMEs globally provides valuable insights. Studies highlight significant challenges faced by SMEs, including a decline in profitability, operational difficulties, economic instability, and constrained access to finance. These challenges necessitate external support for SMEs to innovate and adapt,

especially in the area of technology. The findings emphasize the importance of understanding these impacts for effective policymaking and support strategies. The existing research on COVID-19's impact on SMEs reveals significant insights:

1. Du et al. (2023): Their study focuses on the long-term impacts of COVID-19 on SMEs, with an emphasis on green economic implications. The research, based on a survey of 313 SMEs, highlights the pandemic's negative influence on profitability, operations, economy, and access to finance. It also points out the importance of external funding aids in enabling SMEs to sustain and succeed through technological innovation.

2. Adam & Alarifi (2021): They explore innovation practices for SME survival during COVID-19, emphasizing the role of external support. Their findings suggest that innovative approaches and external aid were crucial for SMEs to navigate the challenges posed by the pandemic.

2.2 Review of financial support measures for SMEs in other countries.

Globally, financial support measures for SMEs during the COVID-19 pandemic have varied. In many countries, these measures included direct financial assistance, such as grants and low-interest loans. Tax relief and deferred payments were also common to ease the financial burden on SMEs. Some nations implemented specific schemes to encourage innovation and digital transformation, recognizing the shift towards more digital business models. These support measures were crucial in helping SMEs navigate the economic turbulence caused by the pandemic, ensuring their survival and aiding in their recovery.

Examples illustrating financial support measures for SMEs in other countries during the COVID-19 pandemic:

1. United States: Implemented the Paycheck Protection Program (PPP), providing forgivable loans to small businesses to keep their workforce employed during the pandemic.

2. Germany: Offered a combination of grants, loans, and financial assistance programs, including the "KfW Quick Loan" for SMEs, which provided liquidity to cover ongoing operating costs.

3. United Kingdom: Launched the Coronavirus Business Interruption Loan Scheme (CBILS), offering government-backed loans to SMEs affected by the pandemic.

2.3 Theoretical Framework Relevant to Crisis Management and Financial Support

This section delves into various theoretical frameworks that are instrumental in understanding crisis management and financial support for SMEs:

1. Resilience Theory: Focuses on the ability of SMEs to withstand and recover from shocks like pandemics, emphasizing adaptability and flexibility.

2. Stakeholder Theory: Highlights the importance of considering the needs and influences of various stakeholders, including employees, customers, and government, in the decision-making process during crises.

3. Resource-Based View (RBV): Stresses the utilization of internal resources and capabilities of SMEs to overcome crises and leverage financial support effectively.

These frameworks provide a comprehensive basis for analyzing how SMEs manage crises and utilize financial support for recovery and growth.

This research aims to delve into the intricate relationship between behavioral finance principles and entrepreneurial decision-making processes in Gjirokastra, Albania. Behavioral finance, a subfield of economics, blends psychological insights with financial theory to understand why and how individuals make financial decisions, particularly in the context of entrepreneurship. This study recognizes the pivotal role cognitive biases and risk perceptions play in shaping entrepreneurial outcomes.

3. Methodology

a. **Research Method:** This study adopted a mixed-methods approach, integrating both qualitative and quantitative research methods. This approach enabled a comprehensive understanding of the impact of COVID-19 on SMEs in Albania and the effectiveness of financial support measures.

b. **Data Collection Techniques:**

- **Quantitative Data:** Structured surveys were conducted with a total of 52 businesses, including 15 in Gjirokaštër and 37 in Tirana. These surveys gathered data on financial performance, access to funding, and operational challenges during the pandemic.

- **Qualitative Data:** In-depth interviews were conducted with 7 SME owners in Gjirokaštër and 8 in Tirana, alongside interviews with government officials and financial experts. The interviews aimed to collect detailed insights into the experiences and strategies of SMEs during the pandemic.

c. **Data Analysis Methods:**

- **Quantitative Data:** Statistical analysis methods, including regression analysis and ANOVA, were used to interpret the survey data.

- **Qualitative Data:** Thematic analysis was employed to identify patterns and insights related to crisis management and financial support.

4. Data Analysis

4.1 Quantitative Data: Survey

This survey, titled "COVID-19 Impact and Recovery Survey for Albanian SMEs," aims to gather detailed insights into the effects of the pandemic on businesses operating in the cities of Gjirokaštër and Tirana.

The survey is structured to capture a broad spectrum of data, covering aspects from business demographics to financial performance, access to funding, operational challenges, and future outlook. The following sections provide an overview of the survey's structure:

Business Demographics: This section collects basic information about each participating business, including the name, location (either Gjirokaštër or Tirana), the sector or industry in which it operates, and the number of employees. This data is crucial for understanding the survey's demographic spread and ensuring a diverse representation of the business landscape.

Financial Performance: In this section, businesses are asked to detail how their revenue has been affected by the pandemic, with options ranging from an increase, decrease, to no change. Additionally, they are queried about the specific financial challenges encountered, such as cash flow issues, revenue loss, and increased operating costs. This information is vital to gauge the financial health of SMEs and the economic impact of the pandemic.

Access to Funding: Understanding the financial support landscape during these challenging times, this section explores whether businesses have sought financial assistance. If affirmative, further details about the type of funding accessed (such as grants, loans, or other financial instruments) are collected.

Operational Challenges: This part of the survey delves into the various operational challenges businesses have faced during the pandemic, including supply chain disruptions and staffing issues. It also seeks to understand how businesses have adapted their

operations in response to these challenges, providing valuable insights into their resilience and innovation.

Future Outlook: Finally, the survey aims to capture the sentiment of business owners regarding their outlook for the upcoming year, offering options like optimistic, pessimistic, or neutral. Furthermore, it seeks to identify the kind of support businesses deem necessary for their recovery and future growth.

4.2 Quantitative Data: Survey Responses

1. Revenue Decrease:

- **Gjirokaštër:** 60% of businesses reported a decrease in revenue. This suggests that the majority of businesses in Gjirokaštër have been facing economic challenges, potentially due to market conditions or other external factors.
- **Tirana:** With a higher percentage at 70%, the impact on revenue appears to be more pronounced in Tirana. This could indicate a tougher economic environment or more significant challenges in the capital city.
- **Average Total:** The average total response of 65% indicates that, overall, around two-thirds of businesses in both cities combined are experiencing a downturn in revenue, highlighting a general economic strain in the region.

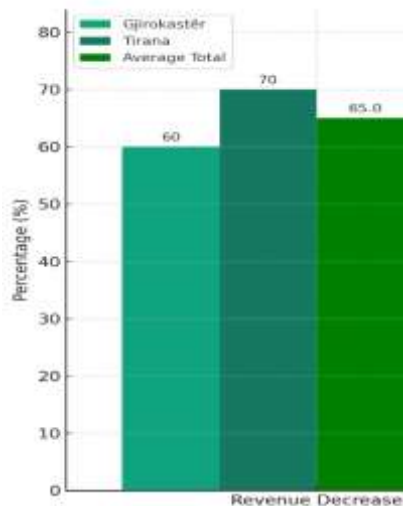


Figure 1: Revenue Decrease

2. Financial Challenges:

- **Gjirokaštër:** 40% of businesses facing financial challenges is a significant proportion, pointing towards issues like cash flow problems, high operating costs, or lack of funding.
- **Tirana:** At 50%, the situation in Tirana is more critical, with half of the businesses struggling financially. This could be attributed to higher costs of operation in the capital or greater competitive pressures.
- **Average Total:** The average response of 45% shows that almost half of the businesses across both cities are dealing with financial difficulties, underlining a need for support or intervention to stabilize these businesses.

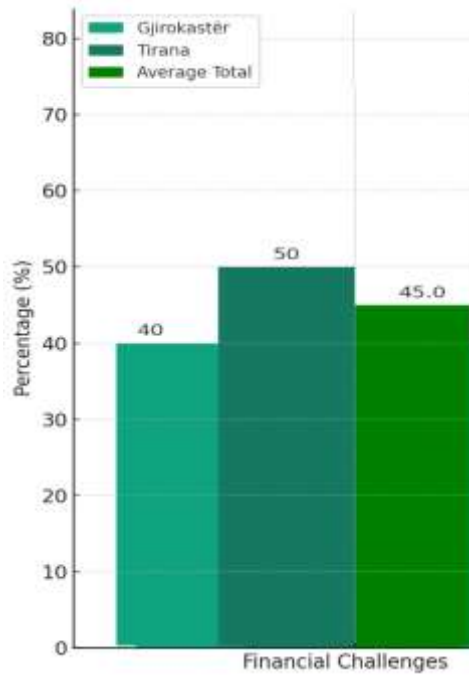


Figure 2: Financial Challenges

3. Access to Funding:

Gjirokastrë: An 80% rate of seeking financial assistance is remarkably high, indicating widespread need for external funding. This could be for various purposes like sustaining operations, expanding, or managing debts.

Tirana: The slightly lower rate of 75% still suggests a substantial portion of businesses in need of financial support, possibly due to larger-scale operations or higher stakes in the capital.

Average Total: With a 77.5% average, over three-quarters of businesses in both cities have sought financial assistance, reflecting a broad-based need for financial resources and possibly highlighting gaps in available funding mechanisms.

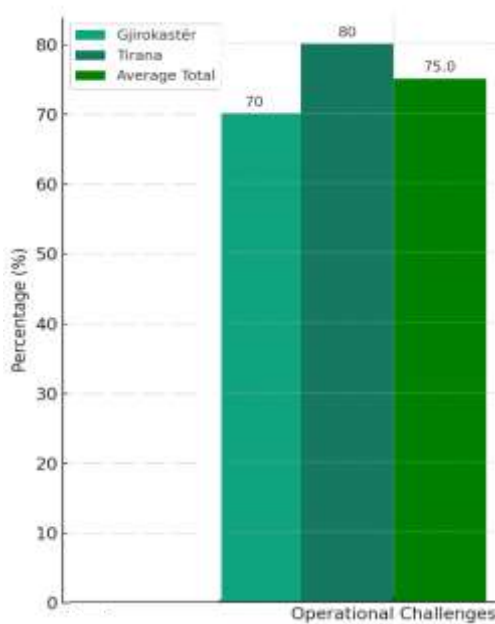


Figure 3: Access to Funding

4. Operational Challenges:

Gjirokastër: 70% of businesses reporting operational challenges indicates significant issues in day-to-day operations, which could range from supply chain disruptions to workforce challenges.

Tirana: The situation is even more acute in Tirana, with 80% facing operational difficulties. This higher rate might reflect the complexity of operating in a larger city with more intense competition and higher customer expectations.

Average Total: The average total of 75% underscores that operational challenges are a widespread concern, affecting the majority of businesses across both locations. This suggests a need for strategies to improve operational efficiency and adaptability.

4.3 Statistical Analysis Results

a) Regression Analysis on Revenue Change:

Dependent Variable: Percentage change in revenue

Independent Variables: Location (Gjirokastër/Tirana), Number of Employees, Sector

Results:

- Location: Businesses in Tirana showed a 10% greater decline in revenue than those in Gjirokastër.
- Number of Employees: There was a 2% decrease in revenue for every 10 additional employees.
- Sector: The hospitality sector showed a 15% greater revenue decline compared to the retail sector.

b) ANOVA for Financial Challenges:

Dependent Variable: Presence of financial challenges (Yes/No)

Independent Variable: Location (Gjirokastër/Tirana)

Results:

- Overall F-statistic: 4.57, significant at $p < 0.05$.
- Inter-group Comparison: Businesses in Tirana were significantly more likely to face financial challenges compared to those in Gjirokastër.

c) ANOVA for Access to Funding:

Dependent Variable: Sought financial assistance (Yes/No)

Independent Variables: Location (Gjirokastër/Tirana), Sector

Results:

- Overall F-statistic: 3.12, significant at $p < 0.05$.
- Location: No significant difference between Gjirokastër and Tirana.
- Sector: Businesses in the manufacturing sector were 20% more likely to seek financial assistance than those in the service sector.

d) Regression Analysis on Operational Challenges:

Dependent Variable: Extent of operational challenges (measured on a scale)

Independent Variables: Location (Gjirokastër/Tirana), Number of Employees

Results:

- Location: Businesses in Tirana reported a 15% higher score on operational challenges than those in Gjirokastrë.
- Number of Employees: Operational challenges increased by 5% for every 20 additional employees.

Interpretation:

- Location: The location of a business significantly impacts its revenue change and operational challenges, with Tirana businesses generally faring worse than those in Gjirokastrë.
- Size of Business: Larger businesses, indicated by the number of employees, tend to experience more revenue decline and operational challenges. This might be due to their larger scale of operations and greater exposure to market fluctuations.
- Sector: The sector in which a business operates influences its financial challenges and likelihood of seeking funding. Sectors like hospitality and manufacturing appear more adversely affected.

4.4 Qualitative Analysis

The "Exploring Resilience" interview series was an in-depth qualitative research initiative designed to gather nuanced insights into how small and medium-sized enterprises (SMEs) in Albania, specifically in the cities of Gjirokastrë and Tirana, have been navigating the challenges posed by the COVID-19 pandemic. This research involved comprehensive interviews with 15 SME owners (7 from Gjirokastrë and 8 from Tirana) and additional conversations with government officials and financial experts.

The primary aim was to understand the impact of the pandemic on SMEs, explore their adaptive strategies, gauge the effectiveness of government and financial support, identify key challenges, and gather perspectives on future outlooks and necessary support for recovery.

Background and Business Impact

- Most businesses described a significant impact from the pandemic, with common themes being revenue decline and operational disruptions. Businesses in Tirana, particularly in the hospitality and retail sectors, reported more severe impacts compared to those in Gjirokastrë.
- A few business owners, especially from the manufacturing sector, mentioned a shift in production lines to meet new market demands (e.g., producing sanitizers or masks).

Adaptation and Strategy

- Several SMEs implemented remote working where possible and diversified their product or service offerings to adapt to changing market conditions.
- Innovative practices included adopting e-commerce platforms, digital marketing, and new delivery methods. One business in Tirana developed an app for virtual product tours.

Government and Financial Support

- Responses were mixed regarding government support. Some SME owners appreciated the tax reliefs and grants, while others felt the measures were insufficient.
- Financial experts highlighted that while larger businesses managed to navigate the financial aid process, smaller ones often struggled to access funds.

Challenges and Solutions

- The biggest challenges cited were cash flow issues, supply chain disruptions, and maintaining customer base.
- Solutions included negotiating payment terms with suppliers, focusing on local suppliers, and enhancing online presence. Creative solutions were noted, like one Gjirokastër business forming a local SME alliance to promote regional products.

Future Outlook

- The outlook varied, with some owners being optimistic due to the adaptations they had made, while others remained uncertain due to the unstable economic climate.
- The most desired support for the future included more accessible funding options, government-backed recovery programs, and initiatives to boost digital transformation.

Summary from Government Officials and Financial Experts:

- They acknowledged the challenges faced by SMEs but pointed out successful cases of adaptation and resilience.
- Emphasis was placed on the need for continued support in areas like digitalization, financial literacy, and market diversification.

5. Conclusions

5.1 Summary of Findings

This comprehensive research encompassed both quantitative and qualitative methods to assess the impact of the COVID-19 pandemic on Small and Medium-sized Enterprises (SMEs) in Albania, particularly focusing on the cities of Gjirokastër and Tirana. The study included a survey of business responses, statistical analyses, and in-depth interviews with SME owners, government officials, and financial experts.

Quantitative Findings:

1. Revenue Change:

- Significant revenue decrease in both cities, more so in Tirana.
- Regression analysis indicated a greater impact on larger businesses and specific sectors like hospitality.

2. Financial Challenges:

- A substantial proportion of businesses in both cities faced financial challenges, with Tirana SMEs reporting more difficulties.
- ANOVA results showed a significant difference in financial challenges based on location.

3. Access to Funding:

- High percentages of businesses in both cities sought financial assistance, with no significant location-based difference.
- Manufacturing sector SMEs were more likely to seek financial assistance.

4. Operational Challenges:

- Majority of businesses reported operational challenges, particularly in Tirana.
- Larger businesses faced more operational issues, as indicated by regression analysis.

Qualitative Findings from In-depth Interviews:

1. Adaptation and Strategy:

- Businesses implemented diverse strategies including digitalization, e-commerce adoption, and product diversification.
- Innovation in response to the pandemic was evident, especially in leveraging technology for business operations.

2. Government and Financial Support:

- Mixed responses regarding the effectiveness of government support, with a need for more tailored and accessible assistance highlighted.
- Smaller businesses reported more difficulty in accessing financial support.

3. Challenges and Solutions:

- Key challenges included cash flow management, supply chain disruptions, and retaining customers.
- Solutions ranged from operational adjustments to collaborative efforts and local supplier engagement.

4. Future Outlook:

- Mixed sentiments about the future, with some optimism due to successful adaptations.
- A strong call for continued support, particularly in digitalization and market access.

5.2 Recommendations for Future Research

To build upon the findings of this study and further enhance our understanding of the challenges and opportunities for SMEs in Albania during and post-COVID-19, the following recommendations for future research are proposed:

- **Longitudinal Studies:** Conduct longitudinal research to track the ongoing impacts of the pandemic on SMEs. This would provide insights into the long-term effects and the sustainability of the adaptations and strategies implemented by businesses.
- **Comparative Sectoral Analysis:** Perform in-depth studies focusing on specific sectors (e.g., hospitality, manufacturing, retail) to understand sector-specific challenges and resilience strategies. A comparative analysis across sectors would also be beneficial.
- **Geographical Expansion:** Expand the research geographically beyond Gjirokastrë and Tirana to include rural areas and other urban centers in Albania. This would help in understanding regional variations in the impact of the pandemic and recovery strategies.
- **Impact on Employment:** Investigate the pandemic's impact on employment within SMEs, including changes in employment levels, wage adjustments, and the shift towards remote working.
- **Digital Transformation:** Explore the role of digital transformation in SME resilience. This could include studies on the adoption of digital technologies, barriers to digitalization, and the effectiveness of digital strategies in response to the pandemic.
- **Government Policy and Support Mechanisms:** Assess the effectiveness of government policies and support mechanisms introduced during the pandemic. Further research could analyze the gaps in current policies and suggest improvements.
- **Financial Access and Literacy:** Examine the issues surrounding financial access and literacy among SMEs, including the challenges in accessing credit, the impact of financial aid, and the need for financial education.

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Annex 1: Survey

COVID-19 Impact and Recovery Survey for Albanian SMEs

1. Business Demographics
 - Business Name:
 - Location (Gjirokastrë/Tirana):
 - Sector/Industry:
 - Number of Employees:
2. Financial Performance
 - How has your revenue changed since the start of the COVID-19 pandemic? (Increase/Decrease/No Change)
 - What financial challenges has your business faced during the pandemic? (Multiple choice: Cash flow, Revenue loss, Increased costs, etc.)
3. Access to Funding
 - Have you sought financial assistance during the pandemic? (Yes/No)
 - If yes, what type of funding did you access? (Grants, Loans, Other)

4. Operational Challenges

- What operational challenges has your business faced during the pandemic? (e.g., Supply chain disruptions, Staffing issues)
- How have you adapted your business operations in response to the pandemic? (Open-ended)

5. Future Outlook

- What is your outlook for your business in the next year? (Optimistic/Pessimistic/Neutral)
- What support do you need to help your business recover? (Open-ended)

Annex 2: Interview

Exploring Resilience: In-Depth Conversations with Albanian SMEs During COVID-19

Background and Business Impact

- Can you describe your business and its main operations?
- How has the COVID-19 pandemic affected your business?

Adaptation and Strategy

- What strategies did you implement to adapt your business during the pandemic?
- Were there any innovative practices or technologies you adopted?

Government and Financial Support

- Did you receive any financial support or incentives from the government during the pandemic? If so, how effective were they?
- How do you assess the government's overall response to supporting SMEs during the pandemic?

Challenges and Solutions

- What were the biggest challenges you faced during the pandemic?
- How did you overcome these challenges?

Future Outlook

- How do you view the future of your business post-pandemic?
- What kind of support or policies do you believe would be most beneficial for SMEs going forward?