
CHALLENGES OF SMALL AND MEDIUM BUSINESSES DURING THE COVID-19 PANDEMIC

Merita Begolli Dauti

University ‘‘Haxhi Zeka’’, Kosovo, merita.begolli@unhz.eu

Rron Dauti

University ‘‘Haxhi Zeka’’, Kosovo, rron_dauti@hotmail.com

Abstract: Since small and medium enterprises (SMEs) have an important role in the overall socio-economic development of a country, besides promoting economic development and poverty alleviation, they also contribute to creating employment opportunities and improving living standards.

In Kosovo, the SMEs development can withstand challenges related to economic development, the effects of inequality, the high rate of unemployment, and enhance competitiveness and productivity while boosting revenue growth. In addition to the challenges that SMEs face during their development, the main challenges of SMEs in Kosovo today are the challenges resulting from the COVID-19 pandemic.

This study was conducted in 85 SMEs in Kosovo. The surveyed enterprises were from many sectors, including hotel/tourism, clothing, food and beverages, and they have a significant number of employees.

The COVID-19 pandemic has caused extensive damage to economies around the world. Restrictions on movement have reduced demand for goods and services, which is the biggest challenge of SMEs. There have also been supply-side shocks due to limited labor supply and difficulties in securing the raw material.

This study is an essential step in addressing a serious issue related to the country's economic life's paralysis due to the crisis caused by the Covid-19 pandemic.

Although the global economy is in danger, there is hope that this risk can be avoided by the government reacting to ensure monetary welfare for citizens and businesses during the pandemic.

Keywords: COVID-19 Pandemic, Small and Medium Enterprises (SMEs), Challenges, Supply, Demand.

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) play a significant role and contribute to economies, especially in developing countries. In a situation of crisis and increasing unemployment, these contributions are significant. The SMEs development in Kosovo might help meet the many challenges of economic development, the consequences of inequality, high unemployment rate, demographic growth, and the need for change. 98 percent of registered enterprises in Kosovo are SMEs and employ about 62 percent of the workforce nationally, and are a key factor in the creation of entrepreneurial values, making them a significant element of competitiveness and local economic development. According to KAS quarterly results, Kosovo's economic activity recorded an average growth of 4.06 percent in 2019, compared to 3.2 percent in 2017 and 3.8 percent in 2018 (KAS, 2019). Kosovo is now facing the economic and social crisis caused by the COVID-19 pandemic. Originating in Wuhan, China, the spread of COVID-19 has emerged as a global threat that has forced the closing of colleges, industries, social life, and limited freedom of travel, all in an attempt to combat the spread and prevention of the virus. Many sectors have been adversely affected by isolation, thereby decreasing the output and distribution of goods, causing a decline in turnover, and disrupting the supply chain in world markets (AmCham, 2020).

The first cases of COVID-19 infection in Kosovo emerged on 13 March 2020, the number of people infected has been steadily increasing since then. According to the National Institute of Public Health (NIPH), in Kosovo, there are 20.65 cases of coronavirus infected, 15.641 have been treated, and 697 died. Restrictive measures on citizens' movement and the closure of certain economic activities have caused economic shock, transmitted by external channels and domestic demand. The economic shock transmitted through external channels and domestic demand was caused by restrictive measures on people's movement and the closure of some economic activities. In particular, the Kosovo economy structure, which is highly dependent on foreign income (exports of services and remittances accounting for nearly one-third of GDP together), makes it very vulnerable to this shock. Global (2020, CBK). A Fiscal Emergency Package worth approximately EUR 179 million was approved by the Kosovo Government on March 30th, 2020 to support financially the businesses and people impacted by the pandemic. Four days later, the Ministry of Finance and Transfers also supported the Fiscal Emergency Package Operational Plan, which included procedures and eligibility requirements to assist particular groups of society directly impacted by the pandemic (GAP, 2020). The subsidies covered the private-sector salaries for two months, amounting to EUR 170 per month, with additional pension contribution subsidies for the same period. Registered informal employees received €130 per month for the first time. Employees earned €100 a month for two months in key industries such as food,

company vendors, pharmacies, and bakeries. More than 130,000 employees have earned wage subsidies since the outbreak of the pandemic (World Bank Group, 2020).

2. IMPACTS OF THE COVID-19 PANDEMIC, RECENT DEVELOPMENTS IN THE GLOBAL ECONOMY AND THE WESTERN BALKANS

Governments are increasing the provision of monetary welfare to people considering the apparent risk to the global economy and are ensuring that businesses have access to the funds needed to keep their staff employed during the pandemic. Kosovo's economy is expected to shrink by 8.8% in 2020, although the continuation of COVID-19 would have a negative effect on exports of services, private consumption, and investment. Remittances play an important role because the recession will be deeper without their development and the countercyclical fiscal policy reaction. The pandemic's impact is expected to stretch to 2021 (World Bank, 2020). Bosnia and Herzegovina have both been affected by the virus pandemic (COVID-19). There is a 3.2 percent fall in the actual GDP forecast in 2020, and a 3.0 percent recovery will occur in 2021.

During and after the ongoing crisis, tackling ongoing unemployment and firing private-sector employees would be the biggest challenge. The current crisis reinforces the need for the authorities to remain concentrated on and accelerate structural reforms to mitigate GDP loss (World Bank, 2020).

The earthquake of November 2019 and then the COVID-19 pandemic struck Albania's economy hard. Jobs and GDP are expected to shrink significantly in 2020, and external and fiscal balances are expected to deteriorate. Authorities responded rapidly by introducing anti-crisis initiatives, such as business credit, guarantee lines, and expanded social transfers for individuals. As the spread of the pandemic slows, it is expected that in 2021 there will be a gradual recovery of the economy due to the resumption of the reconstruction process from the consequences of the earthquake and the recovery of the global economy (World Bank, 2020). The pandemic influenced the Northern Macedonian economy as well: the already unfavourable outlook was further exacerbated by quarantine, broken supply chains, and the prolonged unfavourable epidemiological situation since the last summer. The effect on jobs and businesses has been somewhat mitigated by government-provided support services, although the fiscal space has narrowed as debt exceeds 60 percent of GDP. The short-term outlook after 2020 is positive, but with considerable risks: the pandemic eradication phase is not yet over, and companies, household incomes, and healthcare costs will be affected by the extended period of distance social policy (World Bank, 2020).

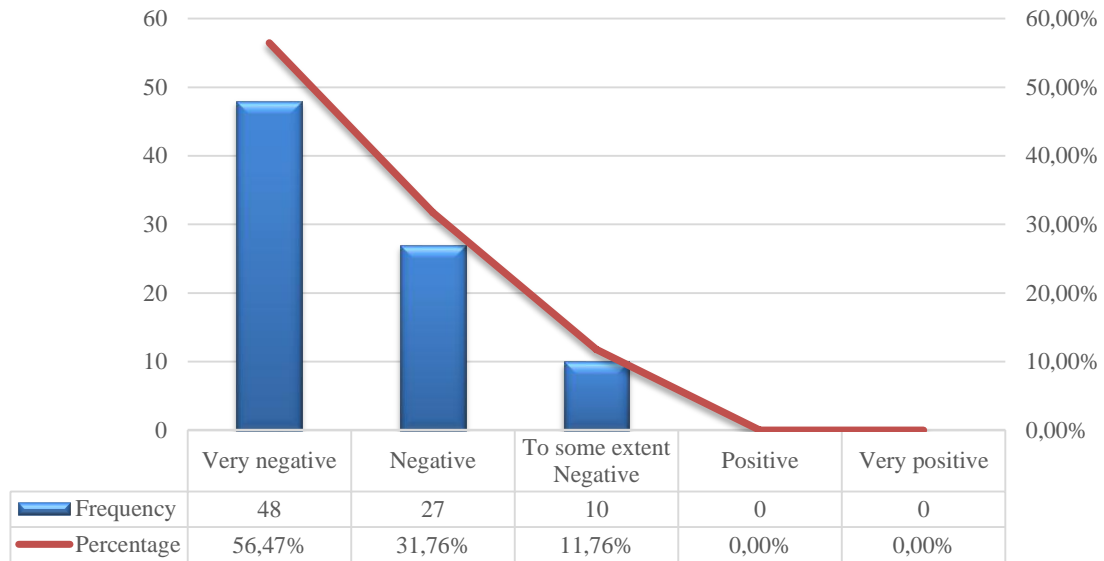
The crisis caused by COVID-19 exposed the shortcomings and general vulnerability of Montenegro's fiscal defence mechanisms to external shocks. It is estimated that the economy will shrink by around 12% by 2020, marking the worst recession in two decades. Recent results in terms of employment and poverty reduction have been reversed by the crisis, while salary subsidies and other crisis mitigation steps have so far avoided an increase in unemployment. The revenue loss is projected to raise the fiscal deficit to about 12 percent of GDP in 2020.

The economy is expected to grow strongly in 2021, but the total loss of GDP will only be compensated in 2022 (World Bank, 2020). After a substantial 4.2 percent growth in 2019, Serbia is facing a 3 percent recession in 2020 due to the crisis caused by COVID-19. Despite the slowdown in the economy, the unemployment rate was at an all-time low of 7.3 percent in the second quarter of 2020, thanks to the state fiscal stabilization program. Still, helping the economy survive, the pandemic came at a high price: fiscal stimulus measures now account for almost 13 percent of GDP, which will lead to a projected fiscal deficit of a 7.6 percent record. The deficit could increase further if some potential liabilities are realized, which would significantly increase public debt. Recovery is expected to begin in 2021, and growth will return to the previous trajectory in the medium term.

3. METHODOLOGY

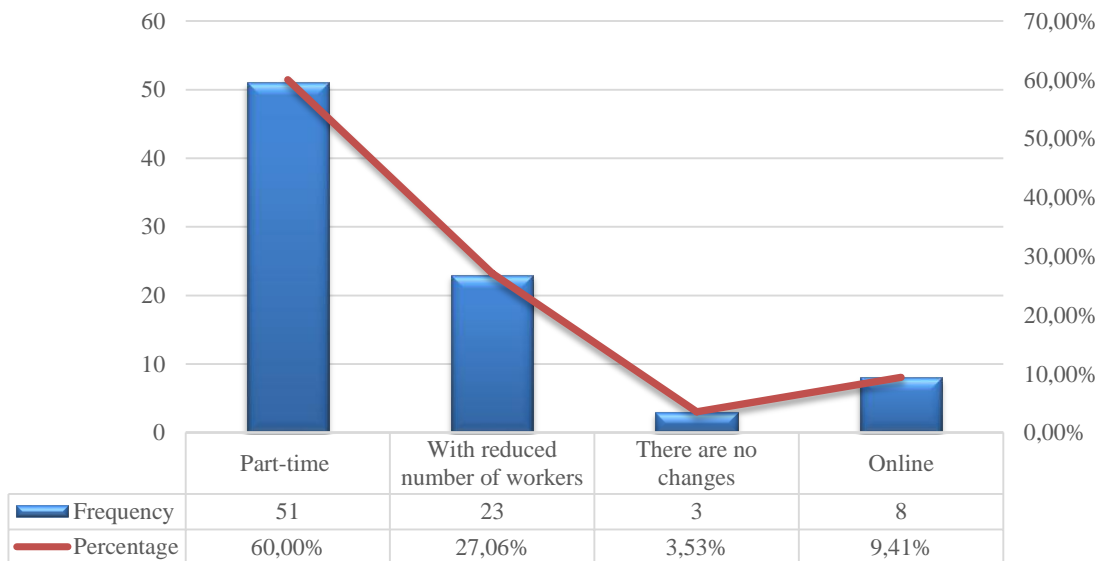
The method used in this paper is related to the research on how Kosovar SMEs are coping with the economic and social crisis caused by the COVID-19 pandemic. Using questionnaires, it has been possible to trace more in-depth into the problems of the surveyed businesses that appear throughout the research process than would be possible by applying a qualitative research perspective. A clearer picture is constructed from the analysis of the responses of the acquired enterprises. In order to provide essential data from Kosovar SMEs, accurate measurement tools were required for the questionnaires. In this respect, taking into account the potential sources of data available, and also the form of the evaluation required to address the challenges faced by small and medium-sized enterprises during the COVID-19 pandemic in Kosovo, the questionnaire has been used as the key research tool with a series of questions relating to this phenomenon. This study was conducted in 85 (SMEs) in Kosovo. The businesses surveyed are active in various industries, including hotels, textiles, food, pharmaceuticals, etc.

1. How would you assess the impact of the COVID-19 pandemic on your business activity?



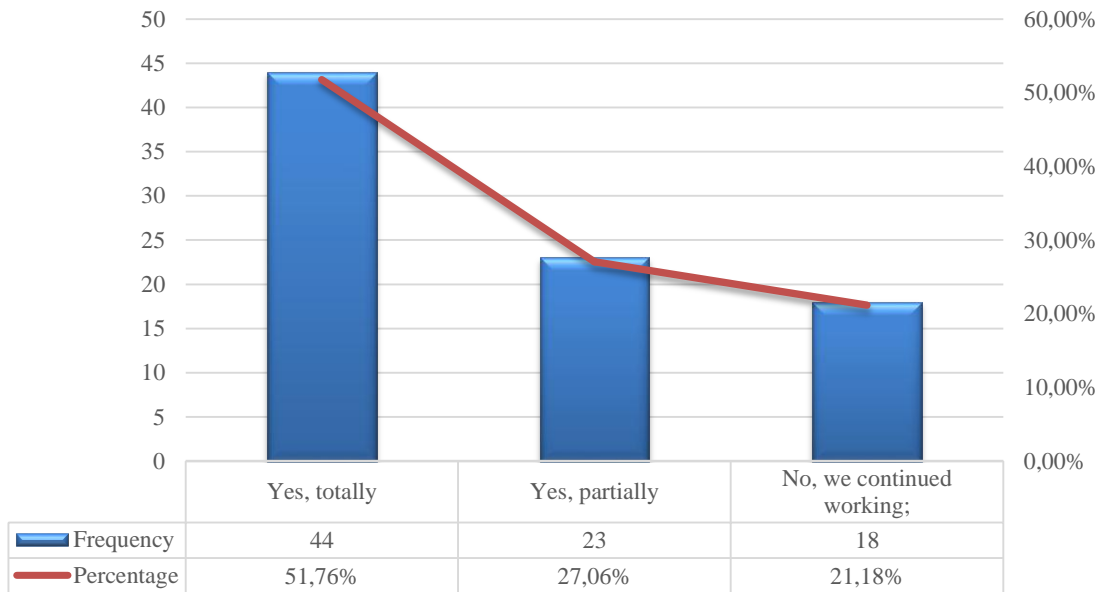
Graph one presents data showing the impact of the COVID19 pandemic on the activity of 85 businesses surveyed. The results show that: Out of a total of 85 businesses surveyed, 48 or 56.47% of them considered the impact of the COVID19 pandemic on their businesses to be very negative. While 27 or 31.76% of surveyed businesses have considered as negative the impact of the COVID-19 pandemic on their businesses. As well as out of the total number of businesses surveyed by 10 or 11.76 of them the impact of COVID19 has been considered negative to some extent and in terms of positive and very positive options there were no response from the respondents.

2. As a result of COVID-19, how does your company function during this period?



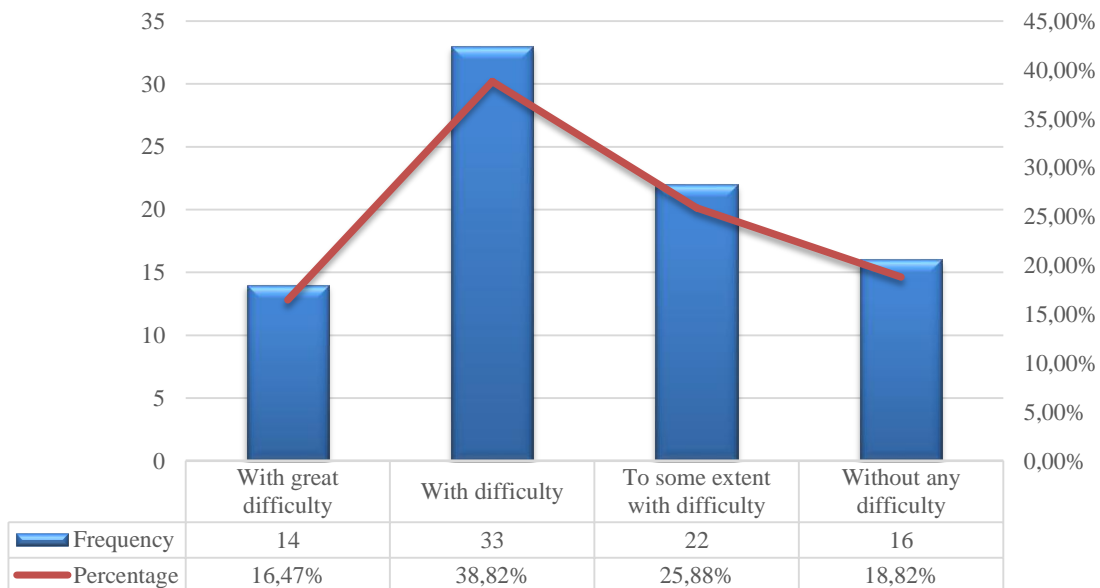
Graph two above shows the data indicating how the businesses operate during this timeframe as a result of COVID-19. From the analysis of the answers: 51 or 60.00 percent of businesses operate part-time. 23 or 27.06% businesses with a reduced number of employees. 3.53% of businesses with no changes, and 8 or 9.41% of them operate online.

3. When imposing COVID-19 measures, is the survival of your business at risk?



Graph three above presents the data indicating, during the COVID-19 measures, whether the survival of the businesses is at risk. The findings show that: 44 or 51.76 percent of the businesses surveyed are at risk. 23 or 27.06 percent of businesses replied that they are partially at risk of survival. Although 18 or 21.18% of businesses continue to work normally without risking their survival working under COVID-19 measures and restrictions.

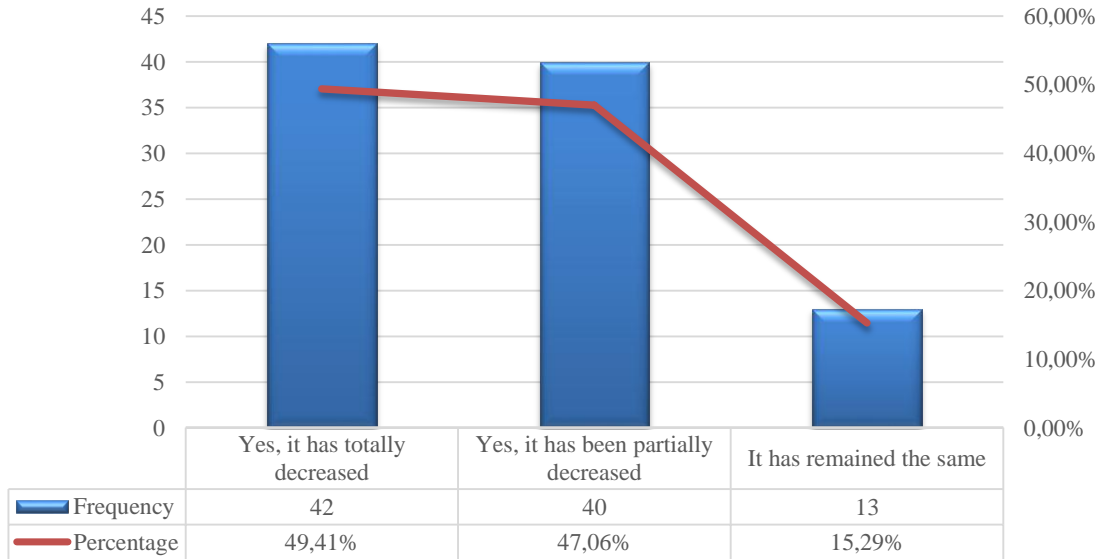
4. During this time, how does your company supply essential products?



Graph four above presents the data of the respondents for the question: During this time, how does your company supply essential products? From the analysis of the respondents' answers: 14 or 16.47% answered with great difficulty. 33 or 38.82% of the surveyed businesses answered with difficulty. 22 or 25.88% of the businesses

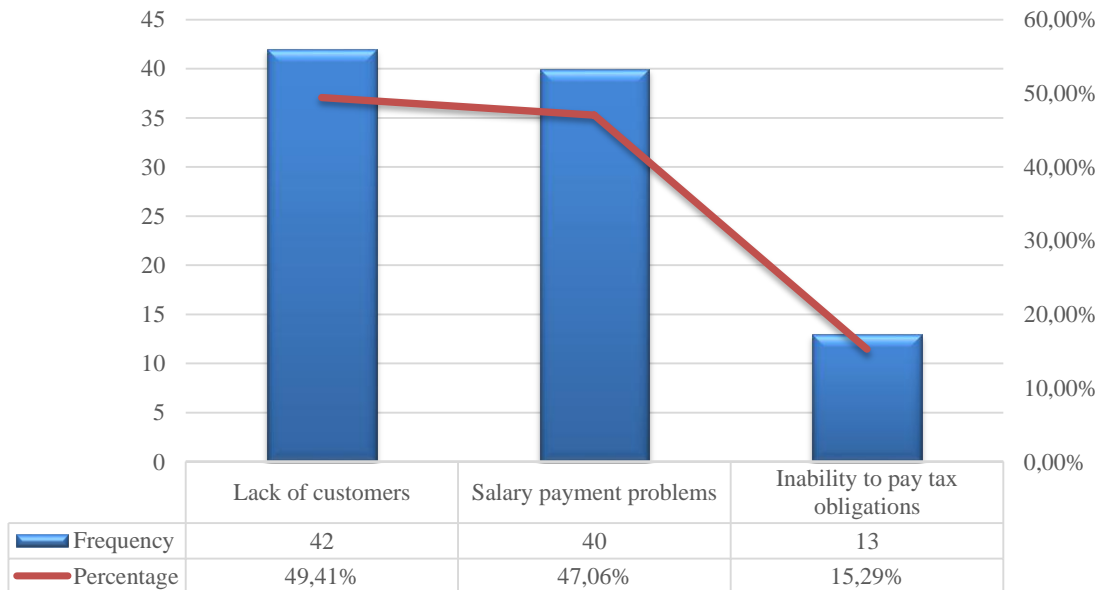
answered to some extent with difficulty, and 16% and 18.82% of the surveyed businesses answered without any difficulty.

5. When imposing COVID-19 measures, has the number of employees in your business decreased?

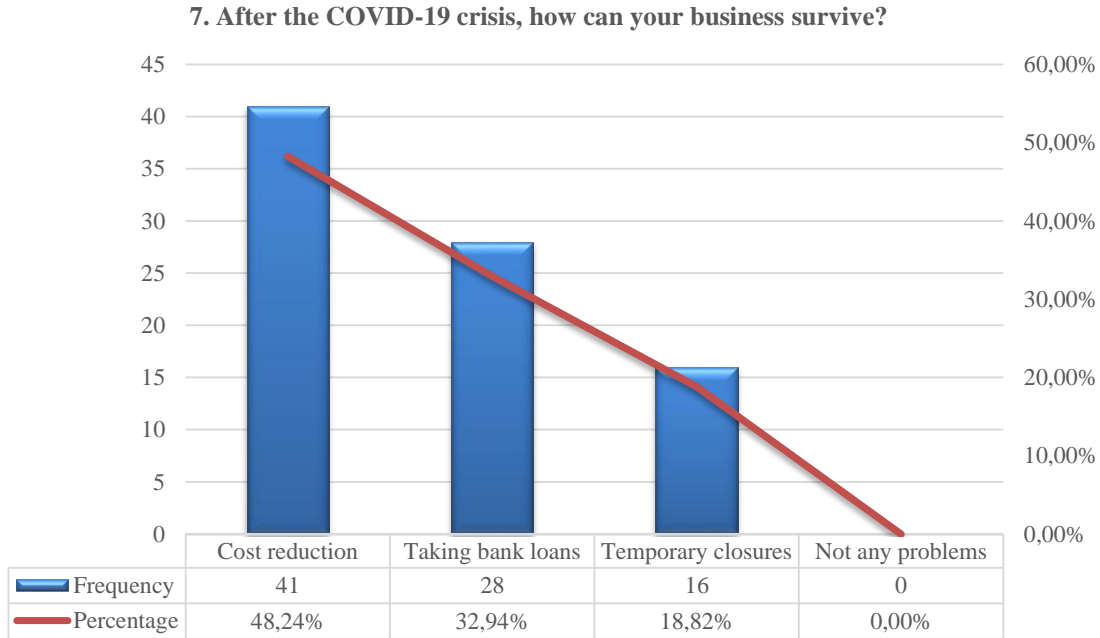


Graph five presents the data of the respondents of the question: When imposing COVID-19 measures, has the number of employees in your business decreased? Yes, totally decreased 42 or 49.41% responded. 40 or 47.06% of the surveyed businesses responded with Yes, partially, while 13 businesses or 15.29% did not have a reduction in the number of employees.

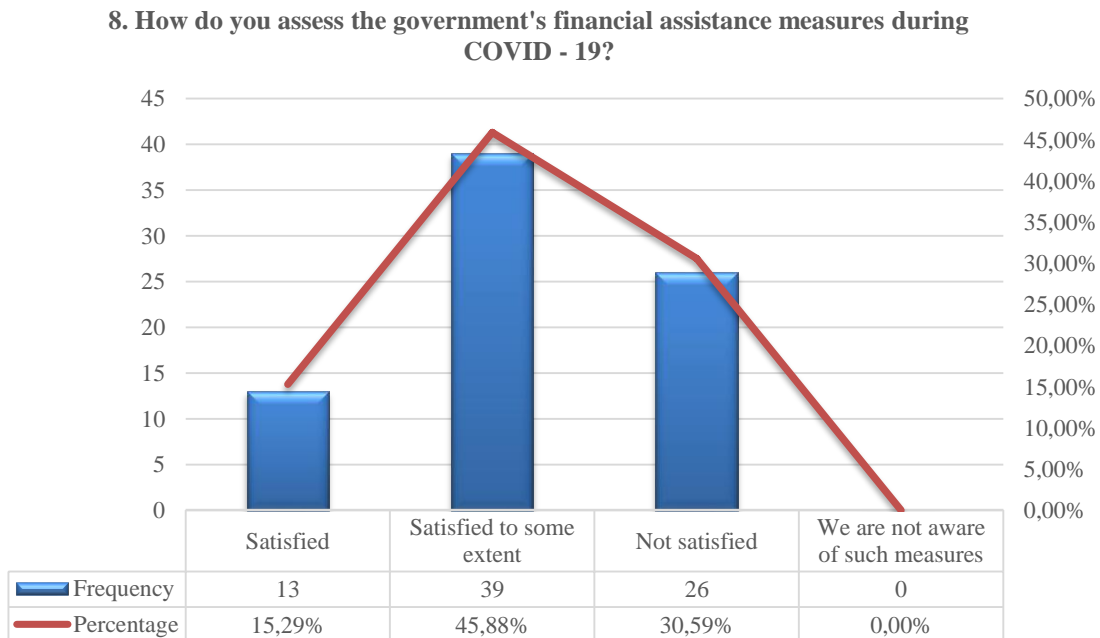
6. What were the difficulties facing COVID-19?



Graph six presents the data of the respondents of the question: What were the difficulties facing COVID-19? Out of a total of 85 surveyed businesses, 29 or 34.12% answered that they had a lack of customers. 27 or 31.76% had problems with the payment of salaries, while 29 or 34.12% of the surveyed businesses answered that they were unable to pay tax obligations.



Graph seven above shows the respondents' data on the question: How will your business survive after the COVID-19 crisis. From the analysis of the respondents' answers, we see that they answered as follows: Out of a total of 85 businesses surveyed, 41 or 48.24% answered that their survival would depend on cost reduction. 28 or 32.94%, their survival depends on bank loans. 16 or 18.82% stated that after the COVID-19 their businesses will be temporary closed. While there was no answer for the last option “not any problems”.



Graph eight above displays the respondents' data on the question: How do you assess the government's financial assistance measures? The respondents replied as follows: 13 or 15.29 percent of businesses were satisfied with government financial assistance. 39 or 45.88 percent were satisfied to some extent. 26 or 30.59 percent answered unsatisfied with the assistance, and 7 or 8.24 percent indicated that they were not informed of such measures.

4. CONCLUSION

In Kosovo, 98% of business entities are businesses in the SME category. Based on the responses of the respondents, it was noted that during the COVID-19 pandemic, major challenges are being faced by Kosovar SMEs. Out of a total of 85 businesses surveyed, 56.47 percent of them considered the impact of the COVID19 pandemic on their businesses to be very negative and 31.76 percent considered it as negative. As a consequence of the pandemic, 60% of businesses are operating part-time, while 27.06% with a reduced number of employees. Their survival was entirely at risk in 51.76 percent of businesses, while 27.06 percent had a partial survival risk. During this period, the businesses surveyed encountered difficulties in supplying essential products. During the COVID-19 measures, 49.41 percent of the businesses operate with a reduced number of employees. 34.12 percent replied that they had a shortage of customers, 31.76 percent responded to have problems with payment of salaries, 34.12 percent responded to the failure to pay their tax obligations. Other difficulties faced by businesses reached 34.12 percent. After the COVID-19 crisis, 48.24% businesses said that they would survive relied on cost reduction, 32.94% of their survival relied on bank loans, 18.82% said their businesses might be closed after the COVID-19 crisis. Concerning government measures for financial assistance to businesses forwarded to COVID-19, 15.29 percent of businesses were satisfied, 45.88 percent responded to some extent, whereas 30.59 percent declared as not satisfied, and 8.24 percent indicated that they were not been informed of such measures.

Finally, the findings showed that during this time of the COVID-19 pandemic, Kosovo businesses are facing major challenges, first in financial terms and with a reduction of working hours, then with a reduction of employees, supply problems, closure or bankruptcy, and with state financial assistance. Although there is a significant risk to small and medium businesses in Kosovo, there is reason to hope that this risk can be avoided by taking government measures to allow businesses access to the funds they need to retain the staff employed during throughout the pandemic.

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