

Assessing the Policy Response Amidst Covid-19 in Albania: a Firm Level Investigation

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Abstract: During the pandemic crises of Covid-19 all life sectors were altered. In this framework an adequate the policy response was needed. Our paper focuses on the analyses of the level of financial governmental support on Small and Medium Enterprises (SME) and its economic performance impact in Albania. To answer the research question, we use data for Albania from Enterprise Surveys (ES) follow up for the period 2020. The survey was a shared project of the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group (WBG). The questions included in the dataset contribute to understanding what firms experience in the private sector with a particular attention on their response to Covid-19 pandemic challenges. Collected data are based on firms' experiences and enterprises' perceptions of the environment in which they operate.

To realize the empirical analysis the dependent variable is the SME performance. In our paper the enterprise performance is measured in terms of sales, employees, and fixed assets growth. On the other side, the vector of independent variables is composed of enterprise characteristics such as enterprise age, size, ownership structure, legal status, access to formal banking services, gender ownership, and other composed variables. Moreover, to capture the level of governmental support SMEs, we will focus the following ES questions: Whether enterprises received support in the form of (1) cash transfers, (2) deferral of payments, (3) wage subsidies, or (4) some other form. Preliminary empirical research results shed light on the positive effect of government support on enterprises' performance. However, the magnitude and statistical significance are different and give several political implications in support of enterprise development.

Keywords: Firm Performance, Entrepreneurship, Governmental Support.

Jel Classification: L25, L26, J23, L21.

1. INTRODUCTION

The pandemic of Covid-19 impacted all aspects of living almost everywhere. In this context due to the economic crises in all sectors of economy, government support measures were released to support households and enterprises. The global pandemic crises have acted as a catalysator for enterprises to face the pressure of the outbreak. Government measures in response to the pandemic affected enterprises activity by decreasing the production capacity, disrupting flows of exports and imports, and seriously pressuring the service sector operation. In this context digitalization and activities related to the online opportunities may help firms to overcome obstacles and find new opportunities of doing business (Papadopoulos et al., 2020; Ratten, 2021, Kalaj et al., 2022).

The financial support has become crucial during the challenges of the pandemic Covid-19 in terms of enterprises survive and find new and innovative ways of doing business.

Much research attention has been dedicated to the developed countries and still is needed to be done in emerging economies such as Albania. Traditionally, enterprises in developing countries such as Albania have encountered higher barriers in connecting and in obtaining access to information from markets (Curraj, 2017; Abedini & Hani, 2017; Balla, 2020). Therefore, it is important to study the microeconomic relationship between governmental support and enterprise's economic performance.

The rest of the paper is organized as follows. The next subsection frames the general environment of Albanian enterprises. The second section presents a literature review on the link between governmental support and enterprises' performance while the third section includes description of data and methodology. Conclusions and discussions are summarized in the last section of the study.

1.1. Description of Albanian Enterprise Environment

Enterprises in Albania cope with obstacles and challenges in their endeavor. According to the World Bank (2021) the rank of Albania declined to 82 in 2019 from 63 in 2018. Most problematic factors affecting the business environment in Albania are corruption, fiscal policy concerns, issues related

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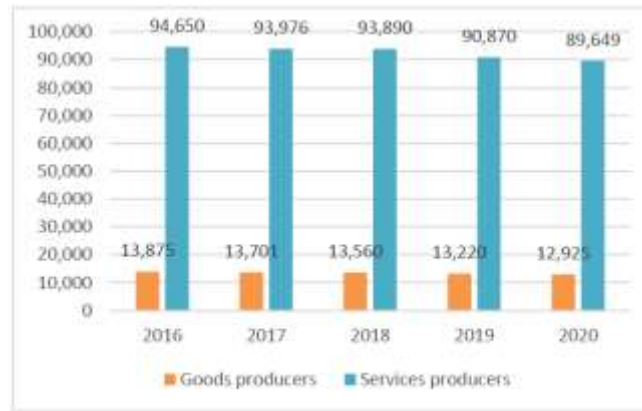


Fig. (1). Number of enterprises.

Source: INSTAT, 2022.

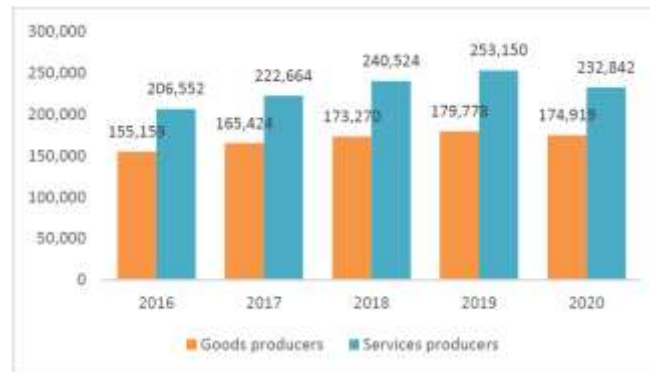


Fig. (2). Annual average number of employees.

Source: INSTAT, 2022.



Fig. (3). Contribution in the annual turnover growth, 2019-2020.

Source: INSTAT, 2022.

to trained workforce, access to finance, and government bureaucracy (IDRA, 2017; Kalaj & Merko, 2020; Valbona et al., 2021, Kalaj E., 2022).

According to the Institute of Statistics of Albania (2022) the number of active enterprises declined by 1.5 percent in comparison to 2019, the time trends are represented in Figure 1. While the number of average employees divided by sectors is shown in Fig. (2). In 2020 there has been a decrease of 5.1 percent in the number of average employees compared to 2019.

During the period 2019 to 2020 due to the global pandemic lockdown of Covid-19 there is a decrease by 5.1 percent in 2020 in comparison to 2019, see Fig. (3). The only sector

representing a positive turnover growth by 0.5 percent is the construction sector (INSTAT, 2022).

According to INSTAT (2022), the largest number of enterprises are concentrated in the central part of the country, more precisely municipality of Tirana, while the lowest number of enterprises is registered in the municipality of Pustec. Female-owned enterprises are 25.5 percent, with women leading mainly micro enterprises (1-4 employed). Most of foreign partners around 77.8 percent are from Greece and Italy in the foreign and joint enterprises. While in Fig. (4) we can notice the distribution of employees among the different sectors for the size class enterprises. Micro-enterprises have the highest percentage of employment rate



Fig. (4). Structure of employment by economic activity of enterprises, 2020.

Source: INSTAT, 2022.

Table 1. Share of Firms Receiving COVID-19 Pandemic-Related Government Support (%).

	All Firms	Small Firms	Medium Firms	Large Firms	Manuf. Firms	Service Firms
Percent firms that received/expect to receive national or local govt assistance	47.6	52.0	35.2	49.9	53.5	45.4
If received or expect gov assistance, percent that received wage subsidies	87.5	89.9	83.2	74.0	85.5	88.4
If received or expect gov assistance, percent that received deferral of payments	20.4	20.2	20.4	22.9	21.9	19.8

Source: INSTAT, 2022.

in accommodation and food services sector by 69.7 %, a sector heavily affected by the pandemic crisis. Small enterprises have the highest percentage of employment rate in construction sector, and medium-sized enterprises have the highest employment rate in the manufacturing industry.

Various measures aimed at alleviating the economic effects of Covid-19 pandemic were put in place by local, national, and international organizations. Table 1 illustrates the share of firms that received or expected to receive any national or local government support, including but not limited to cash transfers, deferral of payments, or wage subsidies.

Pandemic affected both demand and supply from the economic point of view. During Covid-19 pandemic albanian government implemented different support measures targeted at protecting the population and enterprises. These measures included: welfare benefits to individuals, protection for vulnerable people, financial support and guarantees for enterprises, home education support (UN, 2020). Moreover, the local institutions such as municipalities took actions in supporting local enterprise, farmers to enhance local economic development activities in overall. (Toto et al., 2020)

2. LITERATURE REVIEW

Among the variety of factors affecting the enterprises' performance according to the literature the governmental support maybe considered central especially during economic shocks. Mainly research has investigated on the effect of financial shocks on large enterprises however small and medium enterprises tend to be more unstable in front of shock.

In the perspective of pandemic uncertainty increased with governments around the world trying to maintain the business continuity, to save jobs, and provide the foundation for a fast recovery by avoiding permanent closures. Recently, empirical research has been conducted to investigate the behaviors of entrepreneurs in times of crises and have presented useful implications for overcoming them (Domi & Krasniqi, 2019; Ratten, 2020; Kalaj et al., 2022).

According to Adian, et al., (2020) SMEs sales decrease more if compared to large firms in the same sector and country. For their study they use Follow-up Enterprise Survey from 13 countries. The demand shock tend to be less dangerous for faster growing enterprises, but they are more subjected to international trade chaos. Their empirical results show that financial services support is crucial during pandemic shocks.

Using data collected from entrepreneurs interviews Mucha, (2020) focuses on the effects of the covid-19 pandemic on family businesses in North Macedonia. Their study concentrated in capturing and analyzes the strategies used by Albanian entrepreneurs to overcome this crises condition. The results show that women entrepreneurs during the crises have adopted more defensive strategy if compared to men entrepreneurs using more offensive approach. During the pandemic, women entrepreneurs have experienced lower incomes, labor productivity, and costumers. Findings show that the sector of textile and services have suffered lower financial results.

Morgan et al., (2020) analysed the bright and dark sides in reaction to external shocks like the COVID-19 pandemic

Table 2. Description of Variables.

Dependent Variable	Source	Description
Sales growth	Covid-19 follow-up	Change in enterprises sales for the last completed month with the same month in 2019
Employment growth		Change in enterprises employment for the last completed month with the same month in 2019
Explanatory variables		Description
Age	WBG ES 2019	Number of years that the establishment has been in operations.
Size		Number of full-time employees
Manufacturing		Equals to 1 if establishment is in the manufacturing sector.
Retail		Equals to 1 if establishment is in the retail sector.
Services		Equals to 1 if establishment is in the service sector.
Exporter		Equals to 1 if establishment directly exporting at least 10 percent of annual sales
Foreign ownership		Equals to 1 if establishment has at least 10 percent of foreign ownership
Female ownership		Equals to 1 if establishment’s top manager is a woman
Website		Equals to 1 if establishment uses website for business related activities
Finance		Equals to 1 if establishment using bank loans to finance working capital
Location		Equals to 1 if establishment is in the capital
Wage subsidy	Covid-19 follow-up	Equal to 1 if enterprises received or expect gov assistance, in terms of wage subsidies
Cash transfer	Covid-19 follow-up	Equal to 1 if enterprises received or expect gov assistance, in terms of cash transfers
Deferral of payments	Covid-19 follow-up	Equal to 1 if enterprises received or expect gov assistance, in terms of deferral of payments

based on the notion of opportunity. In their review the authors suggest arbitrage and innovation as methods of occasions during shocks. They discover that after the crises, new enterprises may be better positioned to engage in arbitrage opportunities, while existing enterprises should focus on innovation. However, existing enterprises may encounter more difficulties when engage in arbitrage because of resource shortage and stakeholder obligations. On the other side, new enterprises can exploit on arbitrage since it requires a significant investment in opportunity selection.

In the Albania context of enterprises dealing with pandemic crises we can refer to the study of Kalaj et al., (2022). Their study shed light on the role of digitalisation and its impact on their performance. The paper draws on an econometric analysis of Follow-up Enterprise Survey data from WB. The authors conclude that, while the impact of digitalisation during Covid-19 pandemic on performance is positive and statistically significant, there is a need to understand better what this means in practice.

Since the crisis may bring together challenges and opportunities, it is important to better understand these developments and give policy implications. This is the reason of the paper in the next sections to better understand the role and effectiveness of governmental support to the private sector during pandemic in the Albanian environment.

3. DATA AND METHODOLOGY

In this study we use two different sources of data the World Bank Enterprise Survey of 2019 merged with the ES follow-

up on Covid-19 for Albania. These short surveys follow the baseline ES of 2019 that contains 377 interviews conducted from January to May 2019 (WB, 2019). This dataset is designed to provide information on the impact and adjustments that pandemic has brought for the re-interviewed enterprises.

The data are collected in the period between June 5 – June 26, 2020. All registered establishments with five or more employees are the target group. The enterprises are engaged in the following activities: manufacturing, construction sector, service sector, transport, storage, and communication sector, and information technology. The response rate is 92 percent, 344 enterprises. All variables are described in table 2.

Our paper uses these specific questions to study governmental support to enterprises. ES questionnaires focus on the following questions: whether enterprises received support in the form of (1) cash transfers, (2) deferral of payments, (3) wage subsidies, or (4) some other form. To investigate the impact of governmental support and give answer to our research questions we use the following model:

$$Y_i = \beta_0 + \beta_1 Wage\ sub_i + \beta_2 Transfer_i + \beta_3 Deferral_i + \gamma X_i + \mu_i \tag{1}$$

where:

Y_i is one of the components of performance of the firms measured in terms of sales growth, employment growth, closure, and production adjustment.

Wage subsidies, *Cash transfers* and *Deferral of payments* are dummy variables to indicate the type of government support to enterprises,

X_i is vector of variables including: the size, age, status, foreign ownership, location, exporter, and female-ownership etc.

The econometric results of the regression for sales growth, and employment growth are shown in Table 3. As we can notice from the coefficients deferral of payments tend to be statistically significant and impact both sales growth and employment growth. Furthermore, wage subsidies have positive and statistically significant effect on the employment growth.

Table 3. Empirical Results.

Firms Performance	Sales Growth (1)	Employment Growth (2)
Wage subsidies	0.601 (1.67)	0.042** (2.67)
Cash transfers	1.31 (0.01)	0.128 (0.42)
Deferral of payments	0.117* (4.31)	0.051** (5.46)
Small	0.086 (0.26)	0.048 (0.14)
Medium	0.118 (0.36)	0.293 (0.85)
Manufacturing	-0.453 (-1.36)	0.0225 (0.07)
Retail	-0.182 (-0.57)	-0.123 (-0.43)
Sole proprietorship	0.279 (0.70)	0.643* (2.01)
Foreign owned	0.913* (2.15)	0.134 (0.33)
Exporter	0.481** (10.61)	0.260** (9.35)
Female owned	0.260 (0.84)	0.434 (1.60)
R^2	0.43	0.68
N	345	345

*** p<.01, ** p<.05, * p<.1.

According to the results shown in table 3 enterprises obtain government support in terms of deferral of payments

exhibit higher sales growth and employment growth than others, and the result is statistically significant, but the magnitude is relatively low. Quite contradictory is the not statistically result when we investigate the role of financial cash transfers to the firms.

Female ownership does not mean statistically higher sales growth or labor productivity. Nevertheless, coefficients have positive signs meaning that there is space for further analyses. Interesting is the positive result for foreign and exporter enterprises. These results give various policy implications on the role and effectiveness of government support in the enterprise performance during periods of shocks such as pandemic.

4. CONCLUSION

This paper is focused on the analyses of the role of governmental support of Albanian enterprises during the pandemic crises of Covid-19. To give answer to the research questions, the study relies on two different sources of data the World Bank Enterprise Survey of 2019 merged with the ES follow-up on Covid-19 for Albania. These data are collected in the period between June 5 – June 26, 2020.

In our study enterprises performance is measured in terms of sales growth and labor productivity. Empirical results show that governmental support affect enterprise performance in a statistically significant way. The effect is positive and statistically significant when it comes to sales growth, employment growth in response to Covid-19 pandemic crises. However, in the study we have used three different variables as proxy for governmental support such as the wage subsidy, cash transfers, and deferral of payments. The later tend to be the most effective among the governmental measures.

The research contributes to the recently growing literature of enterprise performance during the pandemic crises and the role public sector must overcome financial shocks. It provides a useful frame for the policy formulation. Albanian governments should concentrate their policies toward increasing and financing the innovative activities of enterprises. Literature and experience show that the weakness of the private sector in Albania consists not only in limited resources, but also in a relatively low level of innovation. However, additional research is needed to better understand in there are lagged effects of governmental support in the private sector.

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CONFLICTS OF INTEREST/COMPETING INTERESTS

Include appropriate disclosures.

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