Debt Financing during COVID-19 in Albania: Businesses by Activity

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Abstract: The first months of 2020 changed life dynamics, both individually and globally. Concern about physical health was soon followed by concern about financial health. Companies, as the main contributors to society, faced a multitude of liabilities and costs, which they were not prepared for. The paralysis of economic activity inevitably led to a money supply deficit. This compelled governments, in cooperation with financial system agents, to alternate mechanisms that would hopefully curb the ‘domino’ effect but also inhibit a deep economic recession. The lack of liquidity to survive and operate throughout the pandemic was a prevailing problem of the time. This article, quite distinct from others, aims at analysing how businesses, by nature of the activity, used debt as an instrument to survive Covid-19. In addition to the analysis of the use of financial resources by third parties (in this period mainly bank loans), the authors study also their trend, before Covid-19, in the first wave and a year later under the presence of coronavirus.

1. INTRODUCTION

This century, in addition to the intensive development of technology, innovation and globalization, has also been marked by the presence of respiratory epidemics (SARS in 2002/2003, MERS in 2012 and Covid-19 in 2019) which threaten to restrain the life and development of global society. SARS-CoV-2 (Li et al, 2020), otherwise known as Covid-19, was rated as one of the harshest of all time with a rapid spread and severe socio-economic consequences. It all started in a Chinese province and then spread to 114 countries with the same intensity as the disease itself. The idea of the danger posed to health and socio-economic well-being was far-fetched for everyone until WHO (World Health Organization) declared Covid-19 a global pandemic (WHO, 2020). The first official patient in Albania was registered on March 9, 2020, alerting society to the presence of an unknown disease. Despite the restriction measures, in April of the same year, the country had the highest case fatality rate in Southeast Europe (Puca et al, 2020). The poor quality healthcare system brought the country to its knees. In addition to healthcare, society immediately felt the first risks threatening the economy. Many businesses closed their doors, shutting down their operations and drastically reducing their liquidity. This closure gave rise to difficulties for both the non-financial and financial sectors.

Developing countries have a high rate of debt dependency on the banking system, making businesses and individuals more vulnerable to macroeconomic factors and tight credit conditions (OECD, 2021). However, Albanian businesses, except large ones, are inclined towards internal financing or borrowing funds from family and friends to finance their operations (Kacollja et al., 2021). About 60% of businesses in Albania operate by using debts (Cani&Cani, 2020), but

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it is not enough. Access to financial resources is ranked as one of the most problematic factors for Albanian businesses, along with taxation and corruption (Kacollja et al., 2021). The pandemic inevitably aggravated their situation, but there is still no data referring to the present day, in particular, regarding businesses going back towards financial stability. Therefore, the purpose of this paper is to analyse whether debt levels for these businesses went back to normal a year after the onset of this severe virulence. For the purpose of carrying out this study, the authors have collected data from businesses for the period: before the pandemic; during lockdown due to the pandemic; after reopening, and in the presence of pandemics.

2. LITERATURE REVIEW

For both advanced economies and developing countries, the COVID-19 pandemic has reinforced the importance of business continuity planning for cash and debt management (Balibek, & Storkey, 2021). Nguyen & Dinh (2021) state that debt management is the most popular and effective tool to ensure the financial stability of companies during a crisis. In a critical assessment of banking theories, Stefano Sgambati (2019) provides some general criteria for distinguishing debt from leverage. According to his scheme, debt comprises borrowing to pay off expenses and pay off liabilities, while leverage stands for borrowing to invest in assets with the intent to make profits in the future. These definitions have intuitive appeal and can be illustrated with simple examples.

The decline in liquidity prompted the need to increase debt to cover costs and liabilities. However, this situation is fluid and uncertain making even short-term projections about the aftermath of the pandemic difficult (Baines & Hager 2021). Chiu et al (2021) go further by stating that excessive debt burdens may negatively affect the well-being of companies in the long-term perspective. At the same time, businesses, already desperate before the onset of the pandemic, now find themselves caught between a rock and a hard place, which is not good enough either to access debt markets nor to receive emergency financing (Baines & Hager 2021).

3. METHODOLOGY

Research methodology is a collective term for the structured process of conducting research. There are different methodologies used in different types of research and the term usually encompasses research design, data collection and analysis. Research methodologies are classified into qualitative and quantitative, thus establishing a great division among researchers (Onwuegbuzie and Leech, 2005). Miles and Huberman (1994) argue that qualitative research focuses on an in-depth examination of research issues while Harrison (2001) argues that quantitative design provides a broader understanding of the issues being researched. This paper makes use of the quantitative method of inferential statistics, the cross-quadratic distribution of variables and their comparison.

4. ANALYSIS OF RESULTS

The paper aims to analyse how businesses, by nature of the activity, used debt as an instrument to survive Covid-19. In order for the purpose, the focus of study, results and findings to be sequential in this paper, the analysis of exploratory data using statistical programs and techniques have been employed. During the analysis of the results and findings, the “Boxplot” graphical representation was applied, which is used to summarize and visually compare the data sets. The use of boxplots is intended to improve the interpretation of the data provided. Boxplots serve as a tool that can improve our reasoning for the quantitative information provided in this paper.
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For 2019, 75% of the total number of production businesses showed a debt ratio of up to 20%, while only 25% of them had a debt ratio of 20%-40%. The service and trading businesses at an extent of 100% had a debt ratio of 0%-20%, where 75% of them have a debt ratio of less than 10%. Mixed businesses, given their very nature, extend into a wider range of debt ratio values. 75% of them have a debt ratio of 0%-40%, while only 25% of them have a debt ratio ranging from 41%-60%.

Graph 1. Cross-sectional distribution of debt ratio for businesses by activity, 2019

Based on the graph of the cross-sectional distribution of debt ratio for 2020 as a pandemic year, it is evident that all types of businesses have experienced an increase in the debt ratio. Hence, the debt level in the production business has a significant increase, for all businesses of its kind. 100% of these businesses have a debt ratio of over 10%, while 75% of the debt ratio varies from 10% to 40%. 75% out of the total number of service and trade businesses have a debt ratio of 10%-20%.

Concerning mixed businesses, it was noted that while 25% of them had a debt ratio at the extent of 21%-60% in 2019, their number doubled to 50% in 2020.

Graph 2. Cross-sectional distribution of debt ratio for businesses by activity, 2020
For 2021, known as the year after the ‘closure’ due to Covid-2019, businesses attempt going towards the debt ratio equilibrium back to pre-pandemic debt levels. 50% of the production businesses managed to reduce the level of debt in the parameters of 2019.

Moreover, 25% of the service business stabilized the debt ratio (less than 10%) by joining 25% of businesses of this type, which maintained this level of debt even during the 2020 pandemic year. The trade business stands out as it stabilizes the debt ratio at the extent of less than 10%, with some negligible exceptions for statistical evaluation (4 outliers). Mixed businesses likewise are inclined towards balancing the debt ratio with the levels of 2019.

5. CONCLUSION

The damage caused by a crisis such as Covid-19 continues long after its end, for dimensions that vary from employees and their families to countries and around the world as well (Achim et al., 2021). One of the ultimate goals of any disaster situation is to return to “business as usual” (Reuter et al., 2018). However, cluster analysis may also be useful, grouping companies according to their sectoral sensitivity to the COVID-19 pandemic. From the graphical analysis of the boxplots, it is noted that almost all the analysed sectors maintain the same debt ratios as before the outbreak of the Covid-19 pandemic. This suggests that timely debt management is an effective tool in response to the rotating COVID-19 pandemic (Nguyen & Dinh 2021).

The results of our work are also of interest to policymakers as this pandemic continues to be unpredictable. The financial response of businesses to their recovery during Covid-2019 has been different in different sectors. Moreover, just like the governments of other countries, the government in our country needs to know how businesses react to the pandemic, which sectors of activity are most vulnerable to the effects of the crisis and the key financial management decisions they need to make during the crisis.

The current study has some limitations regarding the short analysis period and the truncated nature of the data. It would be of interest to have a more extensive dispersion of sectors and the use of concrete financial data provided by the financial statements of these businesses.
REFERENCES


