

World Sustainable Development Outlook 2020

CORONAVIRUS

The management of pandemic
and the impact on Agenda 2030



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The Impact of the Coronavirus **Pandemic (COVID-19)** on Small and Medium Enterprises (SMEs) **in Libya**



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Abstract

Purpose

This paper examines the impact of the COVID-19 pandemic on small and medium-sized enterprises (SMEs) in Libya.

Design/Methodology/Approach

This is an exploratory study that adopted a snowball sampling method through a questionnaire designed on Google forms and electronically distributed. A total of 5,900 responses were obtained.

Findings

The findings of the paper show that the lockdown has significantly affected SMEs significantly in the execution of their usual activities. It is recommended that governments aid SMEs at this time to avoid their collapse and job losses, which in turn affect society and economy generally.

Originality/Value

The study provides a critical discussion about the challenges faced by SMEs in Libya during the lockdown period. Again, the study provides key guidelines and recommendations for adoption by policy makers.

Keywords

Coronavirus, COVID-19, Pandemic,
SMEs and Libya.



Introduction

During the 20th century, Small and Medium Enterprises (SMEs) played an important role in the majority of developed countries' economies. Bolton (1971), a report in the UK, is widely attributed to have been one of the first significant attempts by the government to develop an informed view of the nature of the SME sector and its role in the economy. Since then, many researchers have demonstrated the significant role of SMEs in both developed and developing economies in combatting unemployment and increasing the rate of economic growth and innovation (Eltaweel, 2011).

According to different perspectives of researchers, it is probably that market experiments in innovation have brought sweeping changes that primarily restructured markets and industries. Similarly, the non-classical view of economics states that innovation is strategically an aspect of business or division of investment decisions that create capacity to develop and improve product capacity. Innovation within SMEs has become a subject of much interest. Competitive pressures and globalisation have provided the impetus for innovation (Birchall et al., 1996). Around the world, innovation in SMEs faces the same obstacles: these are either financial, especially the limited access to external funding, or non-financial, related to know-how, marketing, accounting and other business aspects of management. The limited access to external funding, which is mainly represented in debt especially bank loans, is associated with the unattractiveness of SMEs from the creditor point of view. Bank loans require credit history, collateral and projections of future cash flows that are typically unavailable for SMEs.

In Libya, the exact number of SMEs is still unknown. In 2006, however, the Ministry of Trade and Economy estimated the number of small businesses in Libya at 180,000. However, some Libyan officials believe that there are many other unofficial or informal businesses, as SMEs often operate outside the

formal economy to avoid taxation and other fiscal and regulatory considerations (Elmansori and Arthur, 2014).

Numerous studies have found that countries can improve their economies through enhancing their SME sector (Eltaweel, 2011; Mac an Bhaird and Lucey, 2009; Marcketti and Kozar, 2007; Asiedu and Freeman, 2006; Meyer, 1998; Berry and Levy, 1994; SBRC, 1992; Dyson, 1990; Burns and Dewhurst, 1986; Gallagher and Stewart, 1986). They discovered that SMEs can play a significant role in terms of generating income, developing skills, absorbing labour, and alleviating poverty, increasing innovation and forming linkages between sectors that can be economically and geographically diverse.

The year 2020 began with many global and local events that people and businesses were not expecting. These included COVID-19, political tensions, and the oil price dropping significantly to unexpected levels. Among all these, COVID-19 has arguably impacted businesses the most in the past six months as compared to other mentioned factors.

According to the World Health Organization (WHO) (2020), coronaviruses are a large family of viruses that may cause illness in animals or humans. In humans, several coronaviruses are known to cause respiratory infections ranging from the common cold to more severe diseases such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). The most recently discovered coronavirus is COVID-19.

Since the coronavirus outbreak announced by governments, Libya's business activities have slowed dramatically. The researcher launched a survey on the "condition of micro, small and medium-sized enterprises (SMEs) amidst the coronavirus outbreak".

This paper therefore focuses on the impact of

the coronavirus pandemic on SMEs in Libya. Based on primary data that were gathered using questionnaires, this empirical paper aims to understand the impact of COVID-19 on SMEs in Libya. In addition, to ensure that policy measures are appropriately designed to meet their needs and addresses, the paper asks the question whether COVID-19 has any impact on the activities. This paper has been organised in the following

five sections: the first section is the introduction; the second section is the theoretical background of SMEs, followed by a discussion of the research methodology in the third section. The empirical results and the interpretation are presented in the fourth section, and finally, the last section summarises the main results and provides some recommendations.

Background of SMEs and Definition

In general terms, there is no standard definition of SMEs: instead the concept has been used in different contexts using various meanings. McMahon et al. (1993:9) stated that to define small firms there is “a vexing enduring difficulty”. The authors pointed out that small businesses are simpler to describe than to define in exact terms. Stokes and Wilson (2010), Wong and Aspinwall (2004), and Holmes and Gibson (2001) found that one important issue was how to define small businesses clearly, and how they can be differentiated from large firms.

The definitions used by federal and provincial governments, as well as by private parties, are usually based on qualitative or quantitative criteria, or on a mix of both. It could be argued that this is the ideal scenario for the purposes of defining and identifying SMEs. The most common qualitative aspects used to define the term include an SME's geographical scale or operations, degree of independence and type of management (Elmansori and Arthur, 2014).

SMEs differ significantly in size, organisation and type of activity. The complexity and structure of the management of an undertaking also serves to discern SMEs from larger entities. Usually, large enterprises tend to be managed by skilled professional people who are usually charged with hierarchical authority. Administrative roles are also divided up according to the company's operational functions (traditionally: production, sales, financing and marketing). Conversely, SMEs are frequently administered by personal or direct management (Balzat and Hanusch, 2004). The concept of personal or direct management in SMEs refers to persons



who usually own and operate the undertaking and do not receive remuneration in the form of a salary for the services they render to the entity (SMEs).

SMEs are commercial companies, industrial or specified other and have a small number of workers and a moderate income record. Another such term is MSMEs, the acronym for micro, small and medium enterprises. In this case, it also includes smaller firms such as sole proprietorships. The definition of SMEs varies by country. In Argentina, for example, companies are ranked according to their annual sales and area (an industrial SME can have a turnover that, in other economic sectors, would place the company among the largest). In other countries, the concept of the SME is associated with the number of employees, i.e., between 1 and 10 employees for micro, and between 11 and 50 for SME. Awang (2004) argues that these figures, however, may vary according to region. Defining SMEs can be confusing in certain criteria. For instance, on the one hand definitions based on turnover alone must be adjusted in terms

of inflation. On the other hand, there are some businesses that have a number of workers that may be considered small although they have high turnover. Curran and Blackburn (2000:9) found that the number employed in an enterprise are extremely popular with researchers and policy-makers alike. Nevertheless, while being highly popular and very easy to use, these figures need some care when adopted. They also explained that financial turnover is used as an alternative and apparently attractive measure of size. Despite the number of employees being one of the most widely employed criteria, it needs to be used with some care, for instance, treating a part-time worker as the equal of half a full-time worker. Moreover, from country to country the number of employees used varies according to the objective of the definition. For example, one industry may define businesses as small but this does not mean that all other manufacturers have the same standard to define their small businesses (Eltaweel, 2011).

Bolton (1971) suggested that to be defined as small, the annual turnover of a company must not exceed £200,000. According to the United Nations Development Programme (2011), MENA SMEs were defined as shown in the Table 1 below:

Table 1: Standard Definitions of SMEs across MENA

Country	Small	Medium
Egypt	5 to 14 employees	15 to 49 employees
Lebanon	10 to 49 employees	50 to 99 employees
Oman	6 to 20 employees	21 to 100 employees
Jordan	5 to 19 employees	20 to 99 employees
UAE	10 to 49 employees	50 to 499 employees
Tunisia	11 to 49 employees	50 to 99 employees
*Libya	Fewer than 25 employees	Fewer than 50 employees

Source: Jordan Human Development Report, 2011. United Nations Development Programme (Amman-Jordan). National Council for Economic Development – Libya 2011.

SMEs have specific needs that must be met by the State or Government. Such companies generate huge revenues for each country and are also one of the main drivers of employment. However, because of their size, they need protection and incentives to compete against large corporations. Credit lines with special conditions, tax benefits and free consulting are some of the tools that are offered by the state for SMEs to develop.

Research Methodology

As a result of the difficulties in contacting all SMEs in Libya, the ‘snowball’ sampling approach was used; this means that a number of SMEs that fit the definition were asked to complete the questionnaire, then the participants forwarded the questionnaire to others they know matching the same definition (Welch, 1975). Using the snowball sampling method contributed towards achieving a significant 5,900 responses via the use of Google forms. The questionnaire was developed in Arabic and later translated into English for distribution (the translation was checked by a specialist in the English language who speaks and writes both languages excellently). This is because the official language of Libya is Arabic and the owners of SMEs might not be English literate. In order to ascertain the validity of the research instrument used, a panel of experienced academics were

consulted and modifications to the questionnaire design were made according to their constructive recommendations. The sequence and wording of some of the questions were changed to make them more understandable and relevant to the dimensions being studied, and some scales were modified to better match the purposes of the research.

The face validity of the questionnaire was therefore improved (Elmansori and Arthur, 2014) according to the research needs of the targeted firms. The questionnaire data collection process took place from March 2020 to June 2020: the questionnaires were sent to the selected firms during this period. However, due to the recent lockdown in Libya, the deadline for returning completed questionnaires was extended to 15 June 2020.



Data Analysis and Findings

The majority of participants are service enterprises with 45%, followed by construction enterprises with 39%. The rest is made up of agriculture-based enterprises at 16%.

The questionnaire asked about the resumption of business and, as shown in Figure 1, the majority were expecting activity to return in a month, 30% expected within 2 weeks, and only 22% had expected activity to stop for more than 3 months.

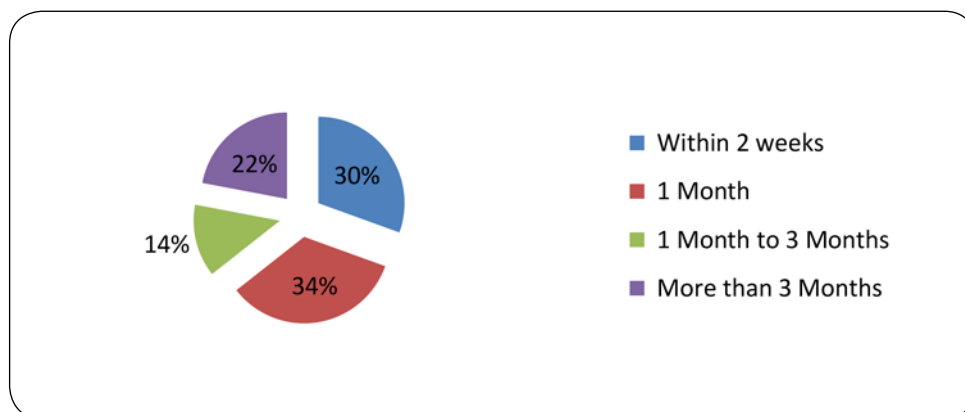


Figure 1: The expectation time for the company business recovery

Source: Designed by the author

It can be seen from Figure 2 that most responses indicated that 41% of respondents said that more than 75% of their employees were unable to work because of the lockdown, while the second was 36% who have lost 25% of their employees.

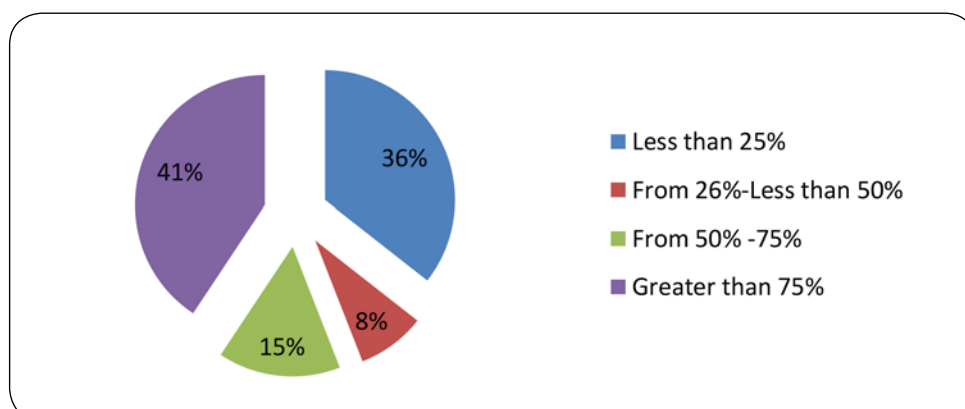


Figure 2: The percentage of the company's employees who are unable to work due to the pandemic

Source: Designed by the author

In a question about financial problems for the companies during the outbreak, Figure 3 shows that 34% of respondents stated that the most important financial problems for their companies during the lockdown was paying staff wages and social security charges. This was followed by payment of rent at 28%, personal expenses at 22%, other expenses at 12%, with the repayment of loans last with 4%. This indicates that SMEs are not receiving sufficient support from financial institutions.

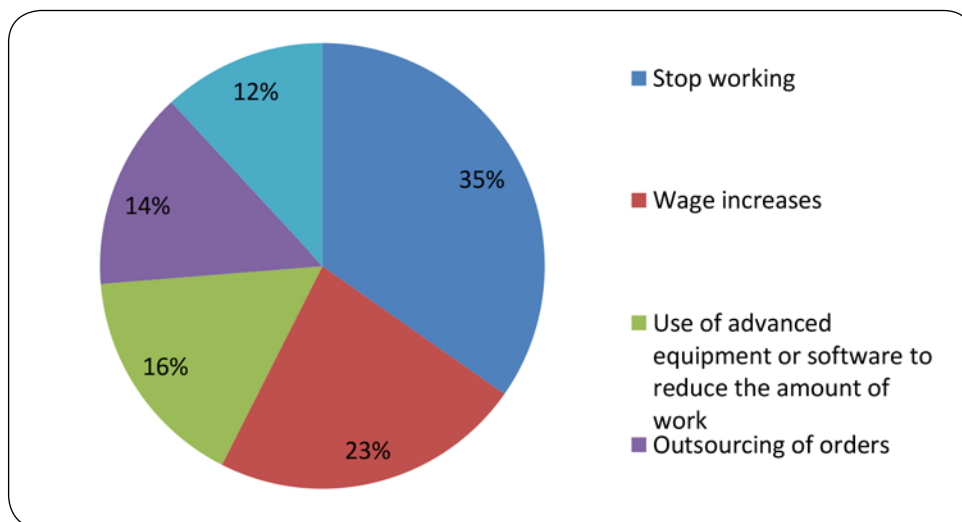


Figure 3: The percentage of the most important financial problems for companies during the lockdown

Source: Designed by the author

The analysis from Figure 4 shows that 4,200 of the SMEs in the sample (about 72%) had either laid off staff or were considering doing so, while only 1,700 companies were not considering this course of action.

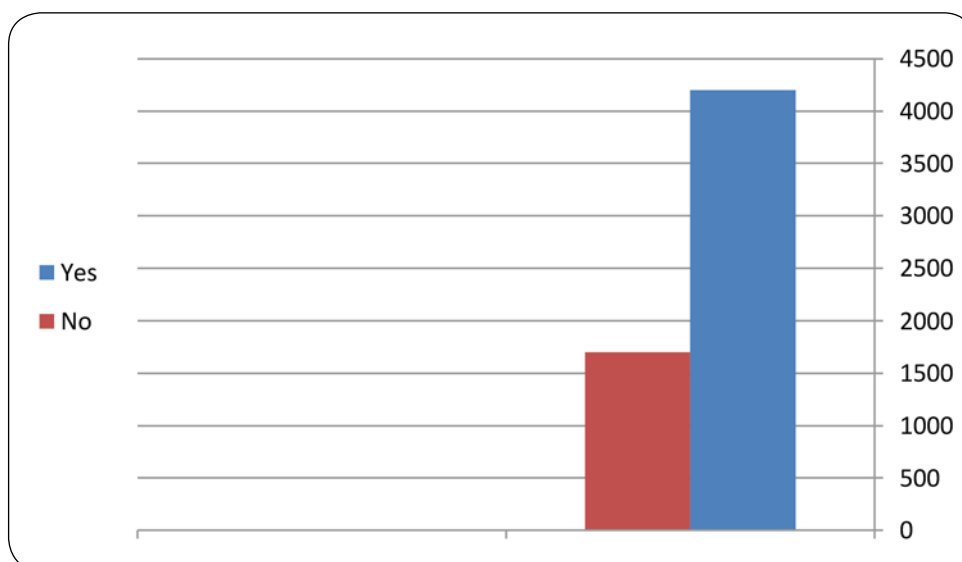


Figure 4: Because of the pandemic, “is your company currently considering layoffs, or has already done some?”

Source: Designed by the author

Based on the survey sample, a reduction of operating costs (e.g., layoffs and salary reductions) with 41%, was ranked first as a priority in alternatives to cash flow for their business during the lockdown. The second was companies that had no cash flow shortfalls problems in their business, 15% of the research sample had loans from families or friends, and 8% were taking loans from commercial banks; this showed a lack of loans from commercial banks.

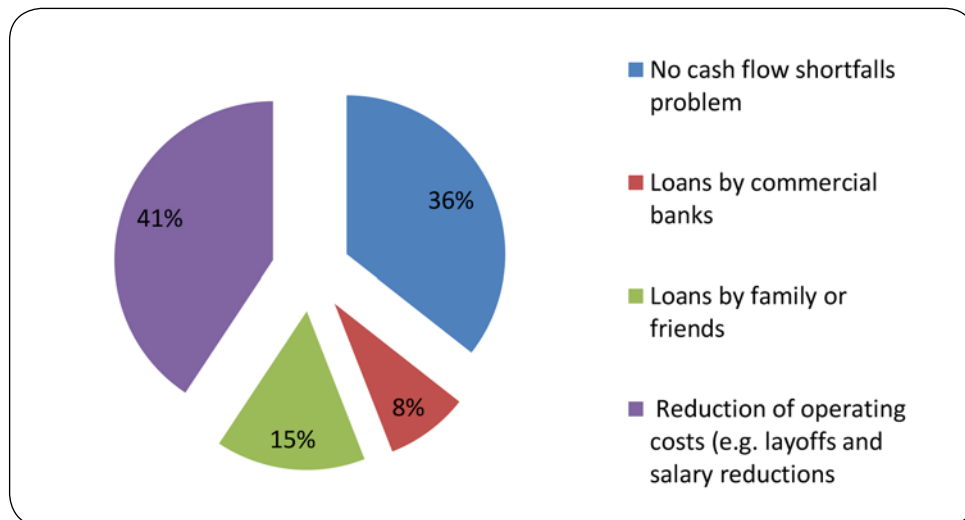


Figure 5: Alternatives to cash flow

Source: Designed by the author

Figure 6 demonstrates that 35% of the respondents thought that the main means by which the company considered dealing with the shortage of workers was to stop work, increasing wages was ranked second by 23%, followed by the use of advanced equipment or programmes to reduce the amount of work, outsourcing orders and lack of workers decreased by 14% and 12%, respectively.

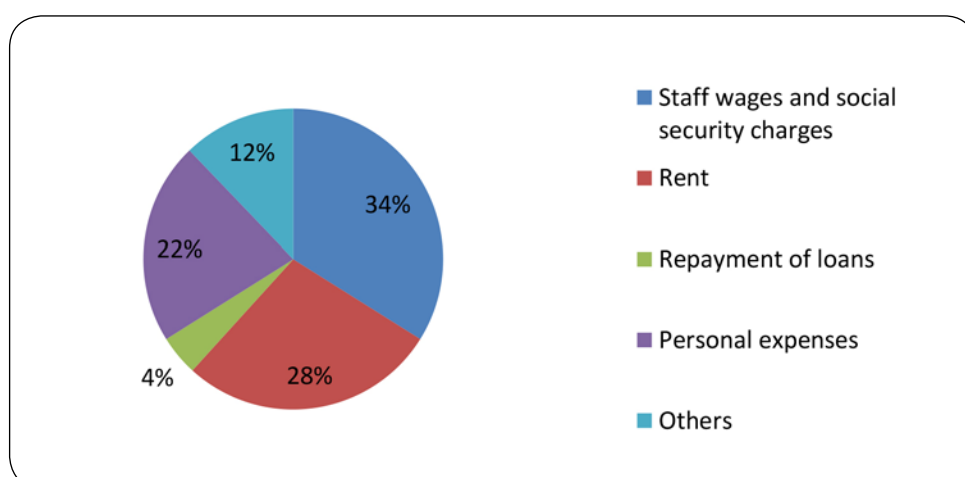


Figure 6: The main means by which the company considering dealing with the shortage of workers

Source: Designed by the author

Conclusions and Recommendations



The importance of SMEs and their role in alleviating poverty, diversifying economic activity, and creating opportunities, must not be ignored. Several countries have proven the success of using SME growth and development as a means for economic development. In many countries around the world, SMEs are becoming a topic of major strategic importance, due to their role in revitalising the economy and reducing unemployment. This heightened concern is of particular significance to countries that depend on oil and are seeking to diversify their economic base, such as Libya. However, it is widely recognised that the SME sector faces more difficulties during the lockdown period caused by the COVID-19 pandemic.

The paper examined the impact of COVID-19 on SMEs in Libya; it was found that COVID-19 has had significant impact on SMEs. In addition, it found that policy measures must be appropriately designed to meet SME needs, and address the question regarding whether the coronavirus has any impact on activities. The questionnaire shows that the majority of SME owners did not expect their businesses to stop for more than three months, and many respondents believed that more than 75% of their employees were unable to work due to the lockdown.

The findings found that the most important financial problems for companies during the lockdown was paying staff wages, while a reduction of operating costs (e.g., layoffs and salary reductions) with 41% was ranked first as a priority in alternatives to cash flow for their business during the lockdown. Paying commercial loan instalments was not an impediment because the commercial banks were not interested in granting loans to SMEs.

SMEs often have difficulty in obtaining the necessary financial resources to effectively expand/grow their businesses. Like other developing countries, Libya has weak access to traditional growth capital; most SMEs in Libya use their savings or obtain funds from other partners or their families. Even where there is awareness, many Libyan SMEs have a cautious attitude towards the issue of interest. However, the emergence of Islamic finance should make a significant difference in eliminating this obstacle (interest). Underlying all this is an even more fundamental issue that concerns the relevant knowledge and availability of Islamic funding.

Recommendations

The findings of this paper indicate that stakeholders in the SME process, including SME owners, financiers and banks, and the government should design new policies and strategies to overcome the challenges confronted by SMEs and finance providers. Therefore, the following recommendations should be presented:

- Governments can help SMEs at this time, reducing taxes or awarding cash grants, loans, or any type of financial aid for enterprises that have stopped working during the lockdown;
- Opening channels of communication with funding institutions, and encouraging them to support the sector;
- Establishing a platform for home services professionals to use for receiving bookings and quotation requests for jobs including cleaning, disinfection, plumbing, electrical, aircon servicing, renovations, handyman services, and interior design.

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Biography

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