Covid-19 and the Impact on Cyprus' SMEs Tourism Enterprises: Lessons to be Learned

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Abstract: The objective of this work is to identify the major lessons learned from the Cyprus's tourism Small & Medium Enterprises (SMEs), following the recent Covid-19 pandemic. Further, the purpose was to reach out to SMEs owners, managers, and entrepreneurs in order to identify specific issues during and after Covid-19 pandemic, such as management practices in terms of acquiring professional assistance, applying online sales, their opinion about the measures applied by the Republic of Cyprus, and the European Union, as well their knowledge about the Recovery and Resilience Plan (RRP). A quantitative research method and a probability sampling methods have been applied. The research has reached out to SMEs with the valuable assistance of the Cyprus Chamber of Commerce and Industry (CCCI). Lack of access to financial support and professional assistance, and poor knowledge of the RRP, calling for a more effective communication approach by the national authorities has been identified. Tourism's SMEs sustainable development is highly influenced by acquiring the relevant assistance, calling for all stakeholders to apply the appropriate practices and measure in order to enhance Tourism's SMEs sustainable development.

Keywords: Republic of Cyprus, Tourism, SMEs, Innovation, Sustainability, Covid-19, RRP

1. Introduction

The Covid-19 emergence has led to a massive impact on global economy, creating concerns over its sustainability and ability for innovation (Song and Zhou, 2020) and a sharp fall of global economy (Mou, 2020). For the Cyprus economy, the impact of Covid-19 has been massive as the country has experienced its worst economic performance since the banking and financial meltdown in 2013 (IMF, 2021). Several controversial policies by the national authorities have created problems for the country's SMEs, with the tourism industry to experience major problems considering that it is the largest industry in the country Kakoullis et al. (2021). Consecutive lockdowns imposed by national authorities led to negative impacts on several industries and businesses, especially those with limited ability to overcome challenges (Verschuur, Koks and Hall, 2021; Rahman et al, 2021). The pandemic's impact on tourism has also led to social problems, such as life-quality in several countries, especially those dependent on tourism (UNWTO, 2021). Despite positive signs the problems remain as the recovery pace is slow, causing concerns in terms of arrivals and revenue. Such fluctuations are clearly revealing tourism industry's sensitivity and how sudden crises can lead to a greater level of uncertainty (UNWTO, 2022). The pandemic has triggered the development of policies by national governments to support businesses that have been affected by lockdowns. However, focus has been paid on specific areas such as employment, innovation, regulative aid, inclusive emergency packages, governance, promoting demand, sustainable development planning, and strategic marketing (Kreiner and Ram, 2020). Therefore, the objective of this research is to identify the challenges related to the Cyprus' SMEs related to the above issues.

The current articles followed the analysis of extensive literature review from credible resources in order to provide the appropriate scientific background (Snyder, 2019). Following the Quantitative research methodology, the research has applied a statistical analysis using IBM.SPSS Statistics 25 for Windows. A set of conclusions, recommendations, and limitations have been applied in order to ensure a comprehensive approach, and enable future research.

2. Literature Review

2.1 The Role of SMEs in the Cyprus and European Union Economy

Defining SMEs has been a challenge as this is influenced by several factors, such as the size of the country's economy and industry (Cacciolatti and Lee, 2015). The European Commission (2022) realizes this challenge, as a major driver for SMEs in obtaining financial support though targeted programs designed by the Union, as they constitute the backbone of its entire economy, providing opportunities for innovation and entrepreneurship. The European Commission (2022) outlines the relevant parameters on which SMEs are defined, with these enterprises to be divided into three subcategories; namely medium-sized, small and micro.

SMEs play a key-role in the development of European Union (EU) economy as they contribute €4.357 trillion, creating opportunities for innovation and entrepreneurship. EU SMEs are highly affected by several factors such as the need for innovation that will enable them to overcome competition and take advantage of the opportunities provided. Innovation for SMEs is influenced by several key-drivers such as Research & Development (R&D), networking, and access to edge Information Technology (IT) (Hervás-Oliver et al, 2021). SMEs have played a significant role during economic crisis, creating opportunities for entrepreneurship and innovation, especially in countries that have experienced economic decline (Južnik Rotar, Kontošić Pamić and Bojnec, 2019). The Cyprus' economy is highly benefited by the SMEs' operations, as the latter contribute 75.5% of the country's GDP, employing 82.6% of the country's workforce (European Commission, 2023). The country's SMEs are highly affected by innovation investments, hence, the collaboration between both the public and private institutions is considered as of a vital importance (Masouras et al., 2021).

2.2 Access to Financial Support

Gaining access to financial support is essential for sustainable development and innovation for SMEs, especially for those businesses operating within a responsible environment, enabling them to attract external investments (Durst and Wolfgang, 2021). A major problem confronted by SMEs refers to the high percentage of Non-Performing Loans (NPL). Considering SMEs' impact on national economies, failure to obtain financial support will potentially holdback innovation (Shihadeh, Gamage and Hannoon, 2019). Poor political decisions constitute a major obstacle in obtaining financial support by SMEs, hence, requiring more practical measures (Ghosh, 2022). Recent problems related to inflation and high interest rates have caused concerns over the EU's SMEs to obtain valuable access to financial support and overcome their cashflow challenges (Boccaletti et al., 2024). Poor policies developed by the EU have become a major concern in relation to the Union's SME, hence, negatively impacting their competitiveness (Batrancea et al., 2022).

SMEs in advanced tourism economies such as Spain face serious problems in obtaining access to financial support. This is mainly due to lack of providing financial statements revealing their profitability and ability to pay back their loans. This requires from the tourism' SMEs to operate in a more professional manner, especially following financial crises, therefore, create opportunities to become more resilient and innovative (Moya-Martínez and Del Pozo-Rubio, 2021). Similar are the problems in the emerging tourism country of Vietnam, in which tourism SMEs are facing obstacles in accessing financial support. These obstacles have intensified during the pandemic, forcing tourism SMEs, to search not only for formal, but sadly, informal financing (Van Song et al, 2022).

> *H_1: The majority of tourism SMEs in the ROC is facing difficulties in obtaining financial support from banking institutions.*

2.3 Inflation and Tourism

Inflation in Tourism is influenced by several external factors such as pandemics, economic crises, wars, armed conflicts, and other hazards, that lead to a major negative impact on the industry's businesses, especially those that do not possess the relevant knowhow and financial capability to overcome problems. The European Central Bank (ECB) (Lis and Nordeman, 2021) provide some important insight and suggest that consecutive lockdowns and other related measures by national governments have led to a massive impact on tourism-related services with inflation to have deteriorated in the industry.

Inflation in tourism and other related services has hit the lower-income classes, with this being visible in several regions across the world, with the SMEs suffering from such consequences due to lack of cashflow and access to funding (Gössling and Schweiggart, 2022). Overcoming these challenges requires from all businesses to ensure innovation, product, and service diversification. This approach can enable them to ease the inflation problems and increase their resilience (Rogerson, 2021). The negative inflation consequences have also hit West African Economic and Monetary Union (WAEMU). This calls for policy-makers to implement measures that will overcome the pandemic's spillovers (Coulibaly, 2021).

> *H_2: The majority of tourism SMEs in the ROC is concerned about the Inflation consequences.*

2.4 Government Assistance

The problems of limited access to financial support from SMEs start from poor governmental schemes, especially during difficult times, with the problems to be identified in operations such as supply chain and HR, (OECD, 2021). The role of Public and Private Partnerships (PPP) can potentially mitigate the negative impact of the absence of governmental support (Corredera-Catalán, di Pietro and Trujillo-Ponce, 2021). The benefits of PPP and government assistance in the tourism SMEs has been clearly visible during the recent pandemic (Turkson et all., 2021; Kousi, Mitsi and Simos, 2021). For SMEs in developing countries, such as Cyprus, governmental support constitutes a major mediator for establishing a competitive advantage and improvement of operational performance and productivity (Jayeola et al., 2022).

2.5 Republic of Cyprus (ROC) and the Recovery and Resilience Plan (RRP)

The problems developed in EU economy have forced the Union to take a comprehensive approach towards resolving the extensive negative consequences, with the Recovery & Resilience Facility to be an important tool. The European Commission (EC, 2022) clarifies that *"As part of a wide-ranging response, the aim of the Recovery and Resilience Facility is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions."*

For the fragile Cyprus economy that has in recent years experienced serious problems such as the 2013 banking system meltdown (Clerides, 2014) which was, sadly, enhanced by banking mismanagement and governmental failures to control the upcoming domino effect leading the country to high risk (Brown et al, 2018), the RRP is considered to be a life-saving tool with the government paying attention to its effective implementation and it is based on five major pillars (public health, green economy, competitiveness, digitalization, and HR).

The Cyprus RRP refers extensively to the tourism sector, focuses on its positive impact, however it points out the negative dimensions and states that *"Cyprus's travel and tourism sector is currently reliant on international visitors and specifically the tourism receipts from two countries which account for two-thirds of total visitors. The lack of diversification in the number of countries that travel to Cyprus could expose the country to a demand shock due to economic, social and political developments"* (RRP, p. 20).

> *H_3: The majority of tourism SMEs in the ROC has limited knowledge about the country's RRP.*
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> *H_4: The majority of tourism SMEs in the ROC has not acquired professional assistance to restructure their businesses.*
>
> *H_5: SMEs that have acquired professional assistance are more likely to develop their online sales compared to those that have not acquired professional assistance.*

3. Methodology

The researchers provided a Questionnaire of 21 questions, with a pilot Questionnaire (20) to have been provided, with minor changes to have been made, mainly in terms of wording. The Questionnaire was based on previous research and adjusted to the needs of the current work. This research applied Quantitative research method through the support of the Cyprus Chamber of Commerce and Industry (CCCI) and a non-probability sampling method has been applied. The sample covered the entire ROC territory, with attention to be paid on the four major tourist regions, namely Pafos, Larnaca, Limassol, and Famagusta). The targeted research audience is the SMEs owners within the country's tourism industry. 258 questionnaires were distributed with 207 answers; a total 80.23% response rate. All data collected were analysed using IBM.SPSS Statistics 25 for Windows in order to enable greater analysis (Saleh, 2023).

4. Statistical Analysis

Data were analysed using IBM.SPSS Statistics 25 for Windows. For the purposes of this study, a sample of 207 participants were selected. Follow Table 1 presents the frequency and percentage distribution for the participants demographic characteristics. Regarding gender at the sample of the 207 participants (business owners and/or managers, and/or entrepreneurs), 149 (72%) were male and 58 (28%) were female, revealing that most business owners within the ROC are males, complying with the official statistics. Regarding age groups, 60 (29%) were between 34-41 years old, 51 (24,6%) were between 42-49, 44 (21,3%) were between 26-33, 42 (20,3%) were above 50 and 10 (4,8%) were between 18-25. Regarding the district of operation of the sample, 65 participants (31,4%) were in Pafos, 47 participants (22,7%) in Limassol, 41 participants (19,8%) in Larnaca, 38 participants (18,4%) in Famagusta and 16 participants (7,7%) in Nicosia. Further, regarding the area of operations (Question 4) of the sample of the 207 participants, 145 (70%) were in urban areas and 62 (30%)

in rural areas. The distribution is in alignment with the population distribution within the ROC, consequently, there is a comprehensive overview of geographical participation.

When the participants were asked about the degree of SMEs' difficulty to obtain financial support from a banking institution 55,6% find it very difficult/difficult, 22,2% find it neutral, and 20,7% find it easy/very easy. As a result, 115 participants (55,6%) confronted serious problems in relation to getting access to financial support to overcome existing problems and possibly finance new operations therefore, Hypothesis 1 is accepted.

Regarding the degree of someone's belief that the current inflation will affect Cyprus' Tourism development 61.5% expressed the concern that the current inflation shall very highly/highly influence the Cyprus tourism development a4,8% expressed the opinion that inflation shall not affect the tourism operations. This reveals SMEs' concerns over the sector's future and their ability to overcome possible problems, thus raising the need for further national support, therefore, Hypothesis 2 is accepted.

Regarding the degree of someone's awareness of the Cyprus RRP 68% replied negatively and only 19% replied negatively, therefore, Hypothesis 3 is accepted. This creates serious concerns over SMEs' ability to inform themselves about such important issues that would to a great degree ease the problem of getting access to financial support.

When the participants were asked whether someone during and/or after Covid period has acquired professional assistance to restructure their business, 72,5%) responded negatively while 27,5% responded positively. These answers can be combined with Question 21 which is related to whether SMEs have developed their online sales in which 58,5% responded positively while 40,6%) responded negatively. Despite the two results not being fully compatible, it is an obvious fact that SMEs have taken advantage of the opportunity to expand their sales network by developing their own skills through social media and other online means. Therefore, Hypotheses 4 and 5 are accepted.

In addition, when the participants were asked according to the degree of someone's belief that the Cyprus Deputy Ministry of Tourism responds to the challenges of SMEs in the Tourism sector, 100 participants (48,3%) rated the second lowest and only 21 (10,1%) rated the second highest scale. Importantly, none of the participants has answered that have a full positive opinion over the Ministry's support. The overall participants' perception is that there is poor assistance, hence, creating serious concerns over the governmental support which requires substantial improvement.

Table 1: Frequency and percentage distribution for the demographic variables of the Participant characteristics

Demographic Variable	Category	N	Percentage
Gender	Female	58	28.0%
	Male	149	72.0%
	Total	207	100.0%
Age	18-25	10	4.8%
	26-33	44	21.3%
	34-41	60	29.0%
	42-49	51	24.6%
	50+	42	20.3%
	Total	207	100.0%
District of Operations	Nicosia	16	7.7%
	Limassol	47	22.7%
	Larnaca	41	19.8%
	Pafos	65	31.4%
	Famagusta	38	18.4%
	Total	207	100.0%

Demographic Variable	Category	N	Percentage
Area of Operations	Rural	62	30%
	Urban	145	70%
	Total	207	100.0%
Professional Assistance Acquirement	Yes	57	27.5%
	No	150	72.5%
	Total	207	100.0%
Type of Business	Pub/Bar	4	1.9%
	Restaurant	32	15.5%
	Traditional Tavern	15	7.2%
	Souvenir Shop	30	14.5%
	Watersports	18	8.7%
	Car hire/rent	20	9.7%
	Mini markets	16	7.7%
	Retail	30	14.5%
	Apartments for Rent	8	3.9%
	Other	33	15.9%
	Total	207	100%
Knowledge of RRP **From 1 to 5 (1 being the lowest level and 5 being the highest level), to which level are you aware of the Cyprus Recovery and Resilience Plan (RRP)?**	1	74	35.7%
	2	66	31.9%
	3	27	3.0%
	4	30	14.5%
	5	9	4%
	Total	206	99.5%
	Missing Values	1	0.5%
	Total	207	100.0%
ROC Deputy Ministry of Tourism Response	1	35	16.9%
	2	100	48.3%
	3	51	24.6%
	4	21	10.1%
	5	0	0%
	Total	207	100.0%
SMEs Inflation Concerns	1	0	0%
	2	10	4.8%
	3	69	33.3%
	4	73	35.3%
	5	54	26.1%
	Total	206	99.5%
	Missing Values	1	0.5%
	Total	207	100.0%
Access to Financial Support from Banking	Very Easy	3	1.4%
	Easy	40	19.3%

Demographic Variable	Category	N	Percentage
Institution	Neutral	46	22.2%
	Difficult	53	25.6%
	Very Difficult	62	30.0%
	Total	204	98.6%
	Missing Values	3	1.4%
	Total	207	100.0%

Further, Table 2 reveals that there is a statistically significant relationship and frequency between whether someone has acquired professional assistance to restructure his/her business and whether they develop their online sales (p<0,001). More specifically, those who develop their online sales were more likely to acquire assistance (36,4%) compared to those who did not develop their online sales (15,5%).

Table 2: Comparison of Acquiring Professional Assistance and On-line Sales

Chi-Square Tests						
	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	11,608[a]	2	,003	,002		
Likelihood Ratio	12,633	2	,002	,001		
Fisher's Exact Test	11,454			,002		
Linear-by-Linear Association	8,552[b]	1	,003	,004	,002	,002
N of Valid Cases	207					

a. 2 cells (33,3%) have expected count less than 5. The minimum expected count is 55.

b. The standardized statistic is 2,924.

5. Discussion

The EU SBA Act (2011) identifies the obstacles confronted by SMEs to obtain access to the relevant financial/funding support. Further, the Act raises the importance for SMEs to gain such support, calling for the national governments to enable this through the development of specific programs, e-government, and e-procurement. Therefore, the research results are in full alignment with the EU preliminary identifications.

Spanish tourism has confronted serious problems during the pandemic, such access to financial support and poor innovation (Corredera-Catalán et al, 2021). Yao and Liu (2023) identify that China's SMEs, especially those operating within the vulnerable tourism sector have been incredibly affected in terms of obtaining financial support. Arcuri and Pisani (2023) identified the negative effects of Covid-19 on Italy's SMEs, with access to funding opportunities to have been hurt dramatically. The authors have identified that SMEs that have implemented more sustainable policies, including those related to green economy, realized improved financial results and increased their opportunities in obtaining access to financing leading to innovation. Such findings are in consistency with previous research in Italy in regards to the financial performance and access to financial support by Italian SMEs, that have hurt the country's overall macroeconomic goals (Di Bartolomeo, D'Imperio and Felici, F. 2022). The European Economic and Social Committee (2022) adds to the previous findings related to Italy's SMEs during the pandemic and suggests that companies that have strategically focused on digital transformation and/or transition experience increased opportunities to enjoy a sustainable economic growth in the turbulent post-pandemic era.

Brexit has led to a massive impact on UK's SMEs as uncertainty had prevailed. This was enhanced by limited governmental support creating further problems over the country's sustainable development (Sindakis and Aggarwal, 2022). For the country's SMEs, Brexit concerns were increased due to continuous lockdowns and inability to obtain financial support, especially at the pandemic's initial stages. Such problems were only eased as a result of the government's support through the British Business Bank which provided £5 billion, assisting SMEs to overcome problems (Assefa, 2023).

6. Conclusions

The objective of the current research was to identify the lessons learned by the Cyprus' tourism SMEs, following the recent pandemic. This quantitative research of 207 questionnaires focuses on delivering the appropriate assistance to both internal and external stakeholder and contribute to the existing literature. The pandemic outbreak has led to serious impacts on the operations of the country's SMEs, with the access to financial support to remain a serious concern. This is added to the recent financial problems confronted in the country as a result of the banking and financial crisis which led the country's economy into a deep recession. SMEs' owners are seriously concerned over the acquired support by the national authorities, especially the Deputy Ministry of Tourism. The role of the government of the Republic of Cyprus has been evaluated as a negative one, as the pandemic has brought tourism industry before a new reality which the government did not handle in the best possible way. The pandemic was an opportunity for SMEs to acquire professional support by a substantial percentage (47,3%), and improve their online sales (84,5%). SMEs are also facing serious problems in obtaining access to financial support, an issue that is holding them back from developing their operations and becoming more competitive and innovative. Tourism industry entrepreneurs can use these results in order to identify threats and opportunities for future investments.

7. Recommendations

Tourism SMEs are considered as the backbone of the island's national economy, especially since the country has gone through consecutive economic and health crises that have created high level of uncertainty. Such uncertainty must be eased in order to enable tourism SMEs to overcome problems and become a source of innovation. The official authorities must take strategic decisions in order to ensure that these challenges shall be eased, hence, providing them the ability to become key-players in the sector's sustainable development. The RRP constitutes a powerful tool in the hands of the national authorities that need to ensure that this will be transferred towards the country's SMEs, with the tourism sector to be considered as a top priority within the specific plan. Lack of full use of the RRP will only increase the problems and create further concerns over the industry's sustainable development. Considering the repeated recommendations provided by EU's SBA Fact Sheets, focus on RRP's success should constitute a necessity rather than an option for the country's national authorities. The Deputy Ministry of Tourism's role, as the official body that possesses the legitimate power to provide support as well as to implement strategies that will substantially enhance the sector's SMEs performance and sustainable development, is of a crucial importance. Findings are indeed worrying, calling for the Deputy Ministry to take actions towards not only in regard to policy making, but most importantly, toward increasing its communication with SMEs. SMEs should focus more on acquiring information to ensure that they will have improved opportunities for financing and innovation. Information about national and EU funding opportunities, such as RRP can easily be obtained, hence, SMEs should work closer with the both the authorities and Chambers to eliminate the problem.

Limitations

The current research faces specific limitations that are mainly concerned with the sample size and confidence level, the Questionnaire formulation, the data collection method. Lack of previous academic research on the topic also in the ROC create limitations, therefore, further research can contribute towards the results' credibility.

Disclaimer

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Appendix: Questionnaire

Question 1: Gender
Male
Female
Question 2: Age
18-25
26-33
34-41
42-49
50+
Question 3: District of Operations
Nicosia
Limassol
Pafos
Larnaca
Famagusta
Question 4: Area of Operations
Urban
Rural
Question 5: Type of Business
Pub/Bar

Restaurant Traditional Tavern Souvenir Shop Watersports Car hire/Rent Retail Apartments for Rent Other
Question 6: How many people work in your business? 1-5 6-10 11-15 16-20 21+
Question 7: How many years has your business been operating? 1-5 6-10 11+
Question 8: What is your opinion about the Cyprus Government's measures in relation to the Tourism Industry during the Covid-19 period? Strongly Positive Positive Neutral Negative Strongly Negative
Question 9: What is your opinion about the European Union's measures in relation to the Tourism Industry during the Covid-19 period? Strongly Positive Positive Neutral Negative Strongly Negative
Question 10: Has your business faced financial problems during the Covid-19 period? Yes No I prefer not to say
Question 11: If you have answered Yes in Question 10, to which level these problems were (1 being the lowest level and 5 being the highest level)? 1 2 3 4 5
Question 12: During the Covid-19 period the Revenue of my business has: Increased over 20% Increased between 11-20%

Increased between 1-10% No Change Decreased between 1-10% Decreased between 11-20% Decreased over 20%
Question 13: Have you received financial support from the Government? Yes No I prefer not to say
Question 14: If you have answered Yes in Question 13, to which level this financial support has supported your business (1 being the lowest level and 5 being the highest level)? 1 2 3 4 5
Question 15: If I need financial support from a banking institution, I find it: Very difficult Difficult Neutral Easy Very easy
Question 16: During the Covid-19 period, did you lay off any of your employees, and if Yes, how many employees did you lay off? 1-3 4-6 7-10 11+ I did not lay off any employees
Question 17: From 1 to 5 (1 being the lowest level and 5 being the highest level), to which level are you aware of the Cyprus Recovery and Resilience Plan (RRP)? 1 2 3 4 5
Question 18: From 1 to 5 (1 being the lowest level and 5 being the highest level), to which level do you believe that the Cyprus Deputy Ministry of Tourism responds to the challenges of SMEs in the Tourism sector? 1 2 3 4 5
Question 19: From 1 to 5 (1 being the lowest level and 5 being the highest level), to which level do you believe that the current Inflation will affect Cyprus' Tourism development? 1

2 3 4 5
Question 20: During and/or after the Covid-19 period I have acquired professional assistance in order to restructure my business: Yes No I prefer not to say
Question 21: During and/or after the Covid-19 period I have developed my online sales: 1 2 3 4 5