

CAREC INSTITUTE RESEARCH CONFERENCE

4-5 March 2021

Session Four

Industries and Enterprises for Restart and Recovery

Speaker: Dr. Falendra Kumar Sudan

Professor of Economics, University of Jammu, India



IMPACT OF COVID-19 ON SMALL AND MEDIUM-SIZED ENTERPRISES IN CENTRAL ASIA: COPING STRATEGIES, GOVERNMENT RESPONSES AND POLICY OPTIONS

Falendra Kumar Sudan

University of Jammu, India

INTRODUCTION

- SMEs have been affected through three main COVID-19 pandemic induced transmission channels:
 - direct impact through decline in consumption of goods and services,
 - indirect impact through financial market shocks, and
 - supply-side disruptions due to lockdown measures

OBJECTIVES AND METHODOLOGY

- The paper has analyzed
 - how SMEs across the Central Asia have been affected by the COVID-19 pandemic,
 - explored the coping strategies adopted by SMEs in the Central Asian countries,
 - described the role of governments' policies and stimulus measures to support SMEs to cope with the pandemic, and
 - drawn policy options for a 'new normal' resilient, digital, inclusive and sustainable SMEs in the region
- Secondary data and information
 - various national and international publications of the
 - ADB, OECD, World Bank and country reports of the governments of Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan
- using content analysis and data triangulation method and
- analyzed through a deductive content analysis technique

IMPACT OF COVID-19 PANDEMIC ON SMEs

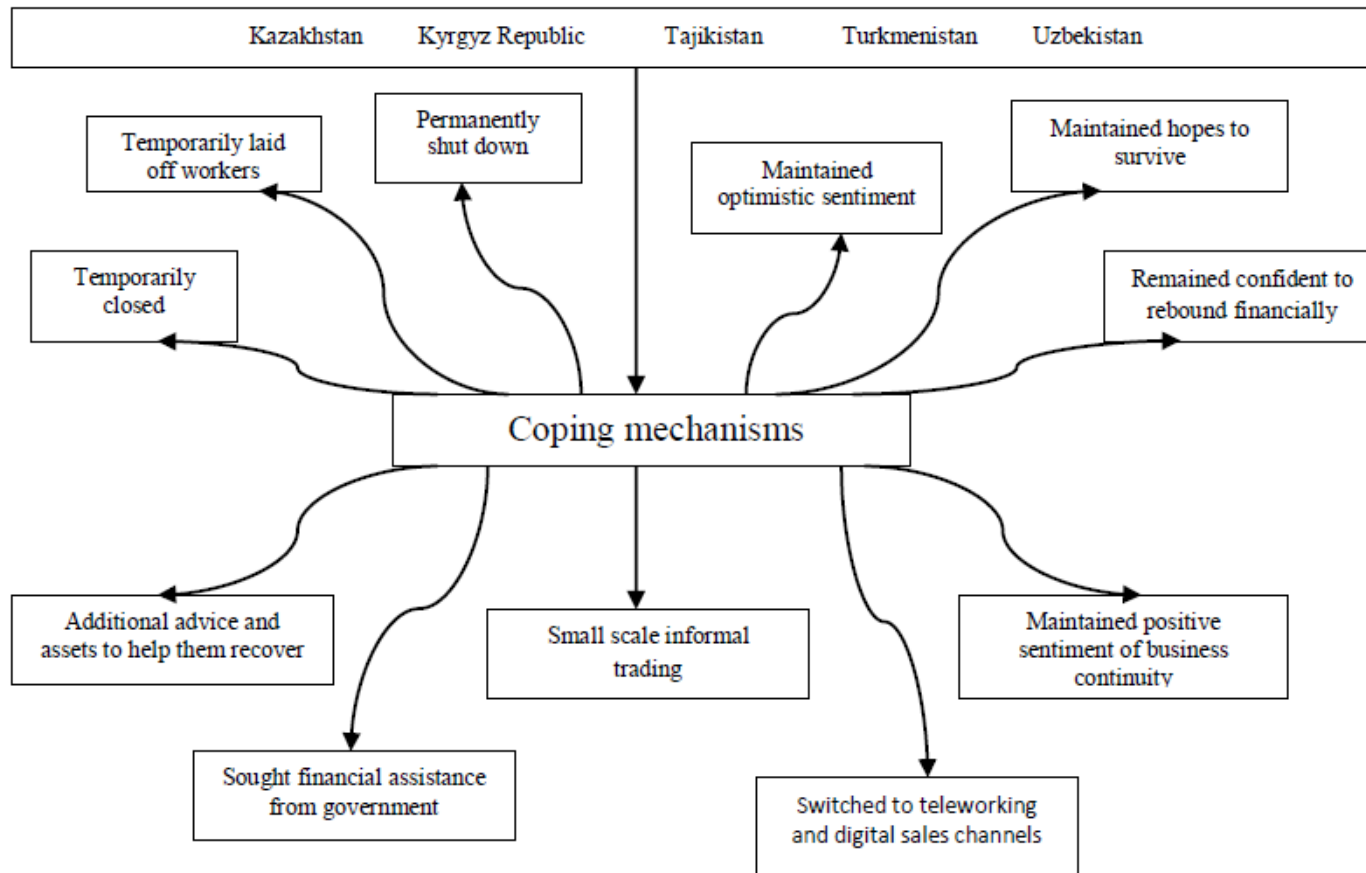
- SMEs in the Central Asian region have been impacted through both
 - internal factors (such as lockdown induced business disruptions, lower consumption and impact on real economy), and
 - external factors (such as volatile international market prices, border closures and trade restrictions)
- Suspended business operations
 - SMEs: Uzbekistan (80%); Kazakhstan (70%)
 - Self-employed workers: Kazakhstan (>70%)
- Completely closed their operations during the lockdown
- about 2.2% of SMEs in Kazakhstan
- Worst affected SMEs
 - trade, tourism and catering sectors (Kazakhstan)
 - transport, tourism, retail, and finance sectors (Tajikistan)

IMPACT OF COVID-19 PANDEMIC ON SMEs

- SMEs hard hit by the pandemic in Central Asian economies
 - transport, manufacturing, construction, wholesale and retail trade, hospitality, food services, real estate, professional services, and other personal services
- Faced high risks of lay off due to lockdown measures
 - hospitality, tourism, and transport, wholesale and retail trade, and repairs
- SMEs impacted through SCDs in international trade
 - office equipment, electronics, chemicals, petroleum and plastic sectors
- Most SMEs severely affected due to operational and liquidity constraints
- Extended restrictions led to liquidation of many SMEs in retail, cultural and leisure activities
- Many SMEs experienced bankruptcies
 - led to substantial closures of businesses in wholesale and retail, professional services, transportation and storage, information and communication and construction sectors

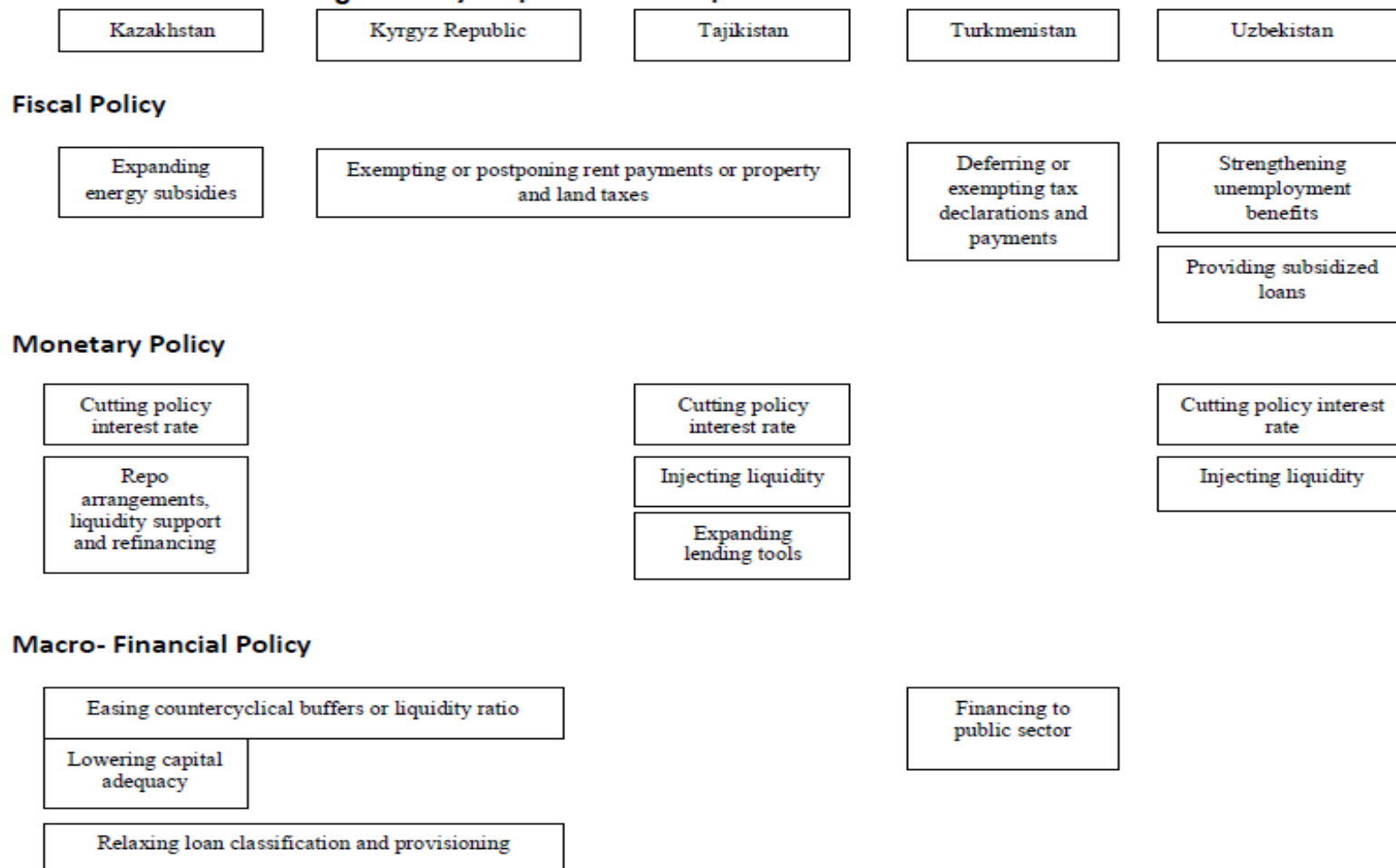
COPING STRATEGIES ADOPTED BY SMEs

Fig.1 Coping mechanisms adopted by SMEs



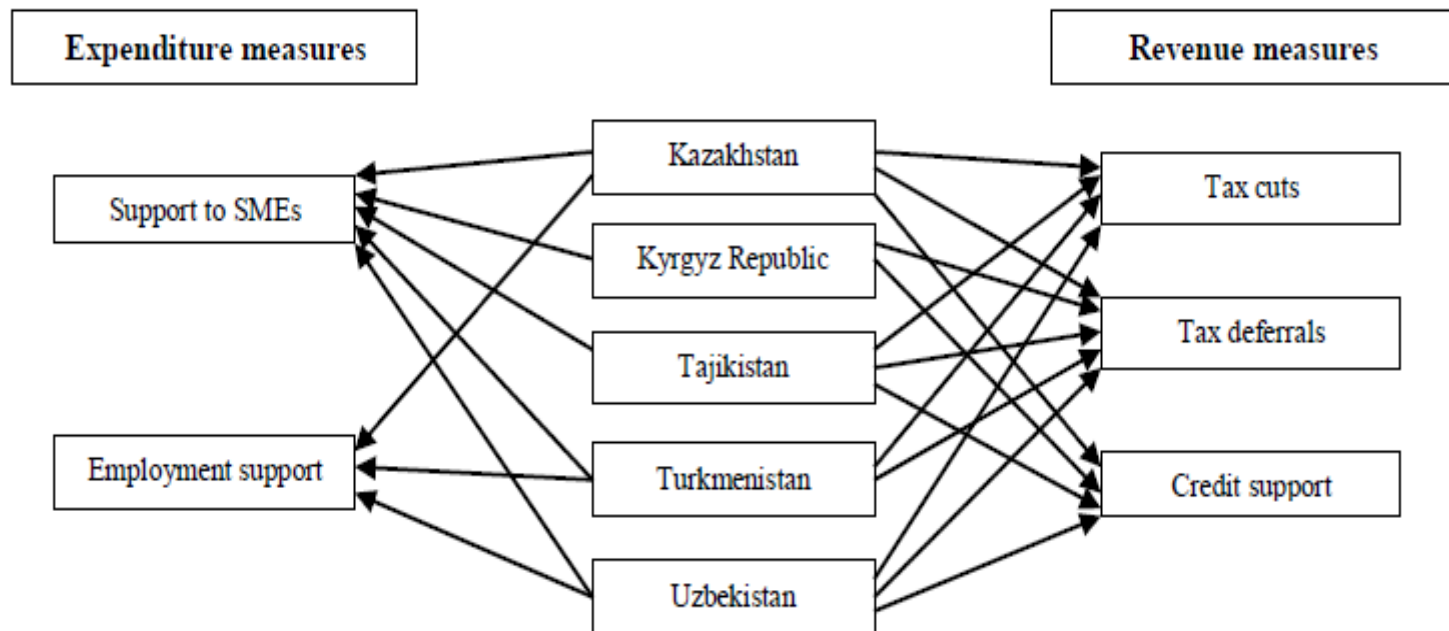
COUNTRY-SPECIFIC POLICY RESPONSES TO SUPPORT SMEs

Fig. 2 Policy responses to the pandemic in Central Asia



COUNTRY-SPECIFIC POLICY RESPONSES TO SUPPORT SMEs

Fig.3 Economic support packages to SMEs



COUNTRY-SPECIFIC POLICY RESPONSES TO SUPPORT SMEs

Fig. 4 Policy responses to support SMEs in Central Asia

Kazakhstan	Kyrgyz Republic	Tajikistan	Turkmenistan	Uzbekistan
Suspension of principal debt and fees	Structural fiscal reforms	Tax break	Resource mobilization from international financial institutions	Extended guarantees and compensations for interest expenses
Soft loan programme	Credit holidays and reducing interest rates	Suspended surcharge for late payment of taxes	Expanding functions of regional support business centres	Additional infrastructural projects
Deferred tax payments	Deferrals of interest on disbursed loans	Exempted rent payment on government property	Concessional loans to pay tax arrears	Interest-free liquidity loans
Loan guarantee schemes	Suspension of late payment of fees	Suspended penalties on payment of social tax	Reduction of social insurance tax rate	Compensating transport expenses in foreign trade
Relaxed public budget rules	Tax holidays and lifting of fines	Sole entrepreneurs exempted from all taxes	Trade loans in export-import operations	Supporting quality deterioration of loan portfolio
Lump sum social benefit payments	Preferential loans and subsidies	Preferentially loanable funds	Preferential loans	Reduced minimum social tax payment
Preferential loans to private entrepreneurs	Exemptions of property and land taxes	Priority in government procurement	Loan repayment deferrals	Deferral for payment of property and utility taxes
Financial assistance to create jobs	Discounts on state-owned property and utility bills			Suspended tax audits of businesses
Tax measures for stabilizing economy	Loan repayment at pre-crisis exchange			Deferral for payment of debt
Financial assistance to create jobs	Subsidized credit to banks for soft loans			
	Reduced social contributions			
	Extended deadline to submit tax declarations and suspended audits			

POLICY IMPLICATIONS

- SMEs and policymakers are shifting their focus to the post-pandemic 'new normal' economy. Therefore, SMEs should adapt to this 'new normal' economy spurred by government incentives. Governments can support SMEs resilience by providing investment subsidies in risk mitigating technologies, trade diversification and regional economic integration.
- Employment creation and/or retention should be considered as an additional criterion for financial support to SMEs. Export promotion and trade facilitation efforts should be the basis of cheap credits to SMEs. Greater formalization of labour standards, contracts, job safety, domestic and export markets' technical regulations and sanitary and phytosanitary measures should be mandatory for extending government support to SMEs. This requires necessary incentives to invest in skills training or upgrading of workers.
- Long-term economic recovery through export promotion requires high competitiveness, economic diversification, and reductions in resource intensities.
- All these policy measures require robust cooperation and regional integration along with substantial aid and support from international financial institutions.