

Cross-country policy comparison of supporting SMEs during the covid-19 pandemic: recovery strategies for SMEs in the economies of Central Asia

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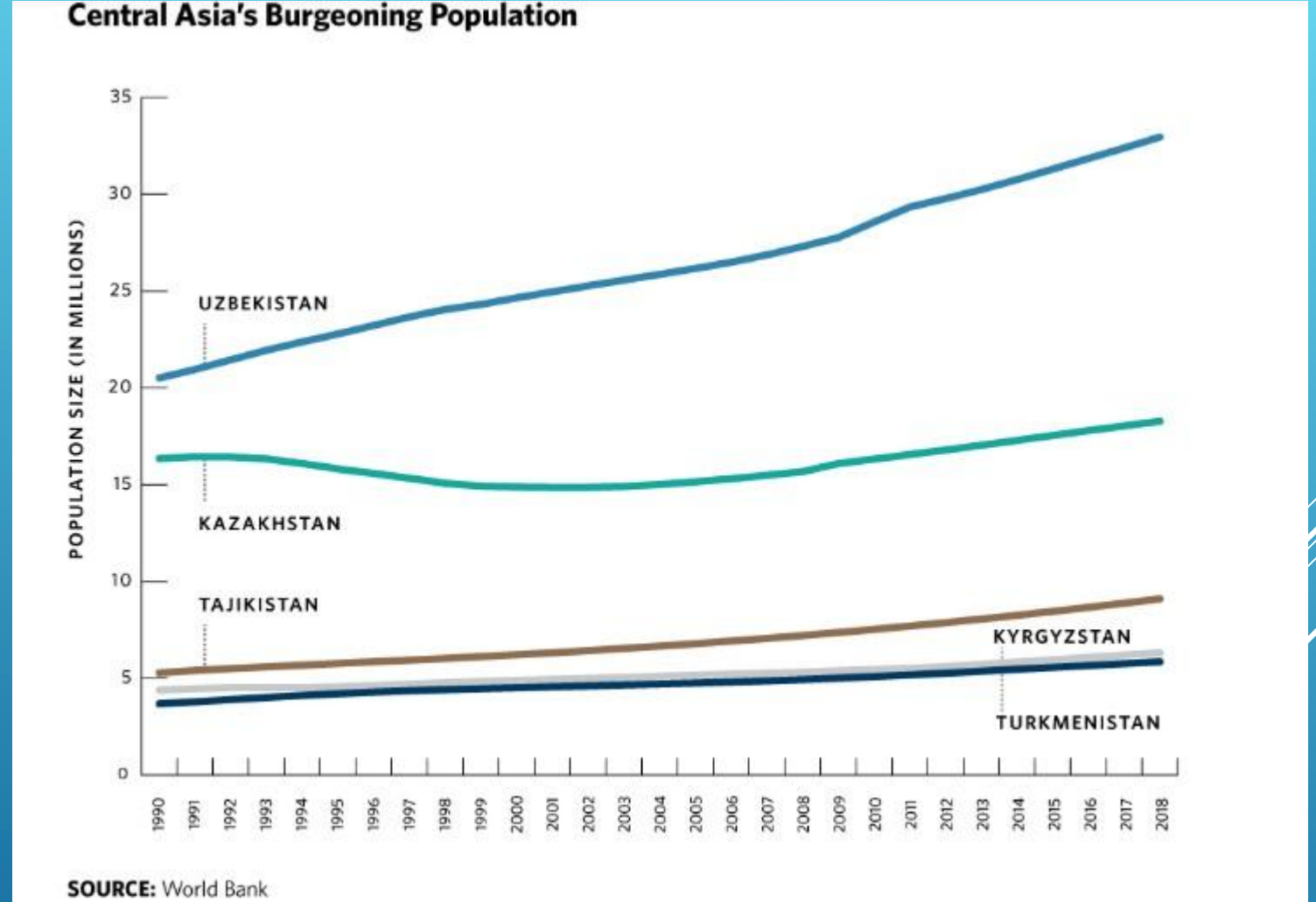
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Growing Population

In 2020, Central Asia had a population of 74 million—net increase of 19 million from 2000. Its estimated that the regional population will reach about 95 million by 2050.

1/3 population under 15 years old—median age 27.

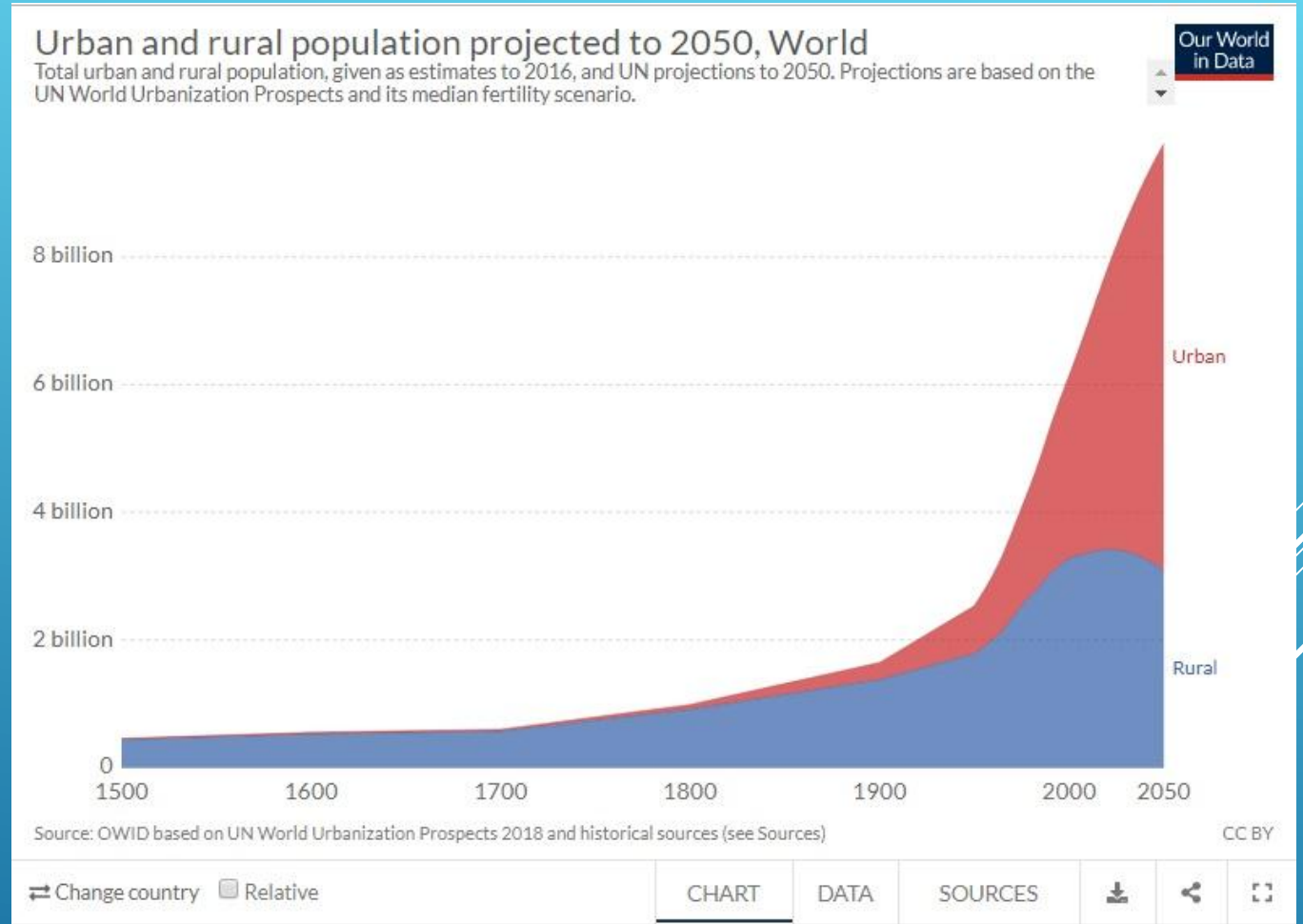


Source: <https://carnegieendowment.org/2019/10/18/societal-change-afoot-in-central-asia-pub-80086>

URBANIZATION

Central Asia is experiencing rapid urbanization for example its estimated by 70% of the population in Kazakhstan will live in urban areas by 2030.

Source: <https://www.unescap.org/sites/default/files/Urbanization-in-CA-ENG.pdf>



Source: <https://ourworldindata.org/grapher/urban-and-rural-population-2050>

SME's in Central Asia

SMEs represent more than 90% of total businesses in CA, but their contribution to GDP is between 25% and 41%, except in Uzbekistan, which is closer to OECD average of around 55%.

They employ 78% of the workforce in Uzbekistan, and only 38% in Kazakhstan. SMEs are mostly concentrated in low-value added sectors, especially agriculture and trade.

Source: https://www.oecd-ilibrary.org/development/enhancing-competitiveness-in-central-asia_9789264288133-en



Central Asia Emerging Trends AND COVID 19

- Increasingly young population;
- Migration from rural to urban areas;
- Strong economic growth;
- Employment reliant on SMEs and the public sector;
- COVID-19 hit and shut down most SMEs for months.



Emerging Trends Present a Need for Systems Thinking

Research Question: What was the economic impact of COVID-19 on SMEs in Central Asia?



SMEs Performance Review and support measures in Central Asian countries during the COVID-19 pandemic



Kazakhstan

The number of SMEs more than doubled between 2005 and 2019, and reached the number of 1 330 244 SMEs in 2019.

In 2005, SMEs generated 11% of Kazakhstan's GDP, and by 2019, this figure had risen to 31.7%.

The number of employees also has increased in the same period: in 2005 - 1 875 526 employees, whereas in 2019 - 3 448 727 people.

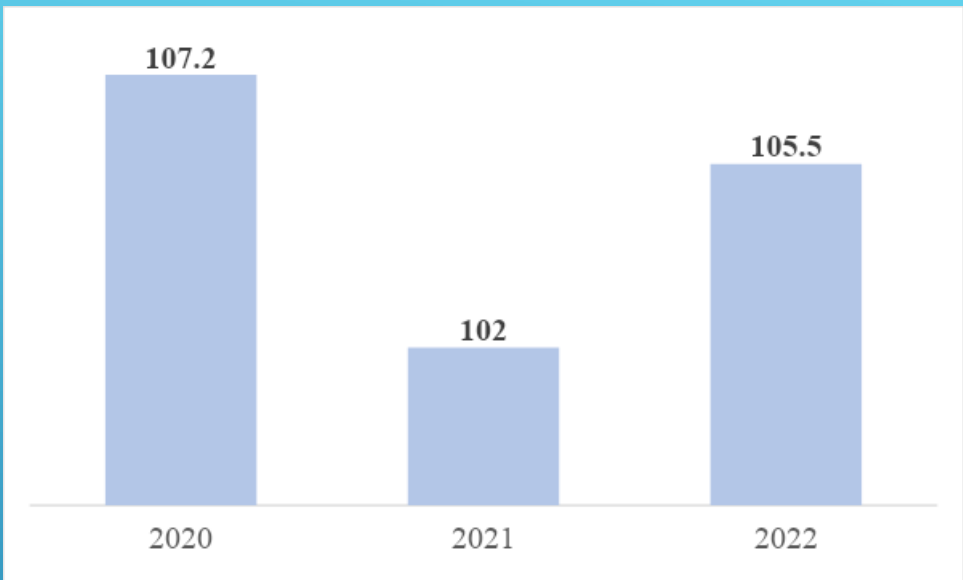


Figure 1. Number of operating SMEs in Kazakhstan, as a percentage of the corresponding period of the previous year

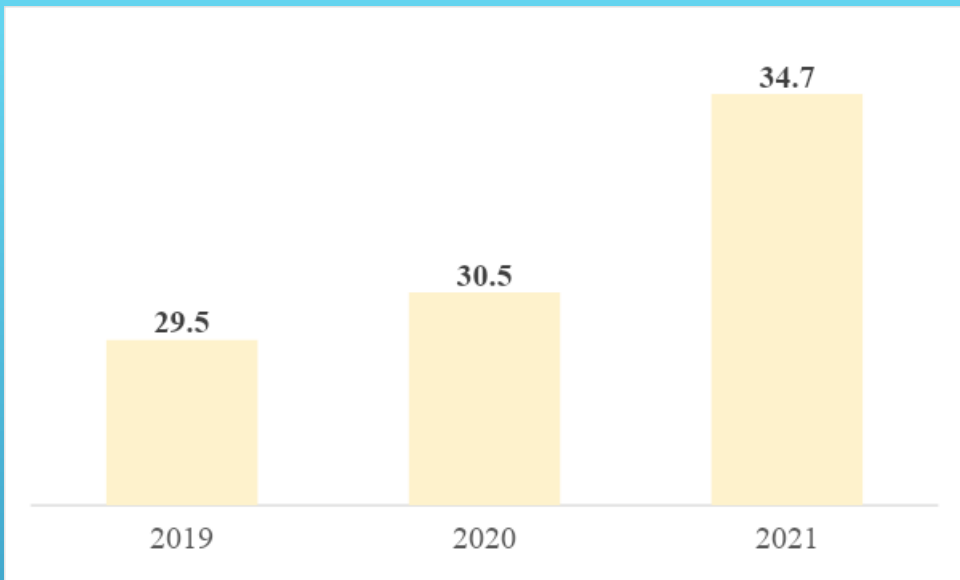


Figure 2. Share of SMEs in GDP in Kazakhstan, data for three quarters of the corresponding year, in percentage

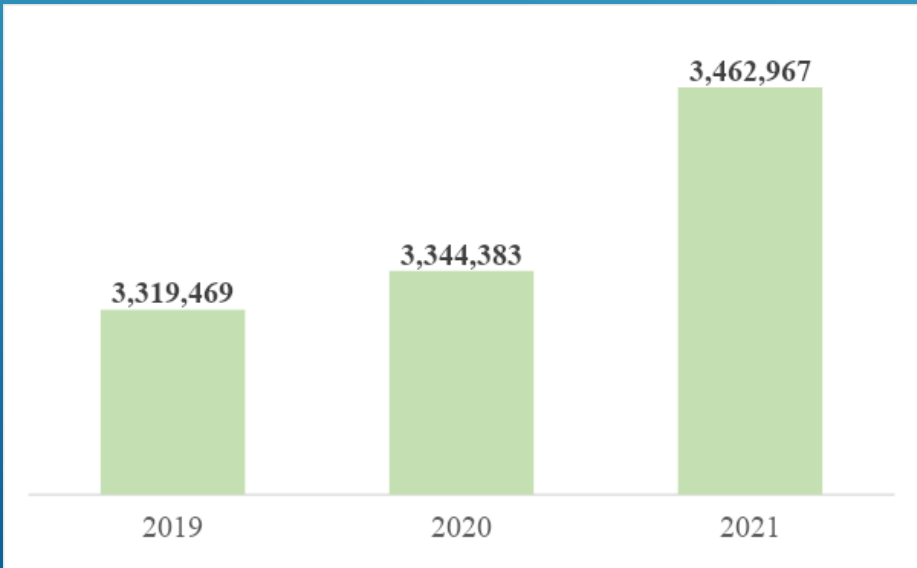


Figure 3. Number of people employed in SMEs in Kazakhstan, data for three quarters of the corresponding year

SMEs Performance Review and support measures in Central Asian countries during the COVID-19 pandemic

According to the CAREC Institute study, 86 percent of all surveyed SMEs in Kazakhstan had serious troubles with their business operations, ranging from 70 percent of manufacturing firms to 94 percent of services firms.

49 percent of SMEs had to temporarily stop their businesses.

Services and trade sectors were affected the most: 53 percent and 52 percent experienced the temporary closures respectively.

SMEs had a sales decline and had to reduce their permanent employee number.

54 percent of all SMEs and micro firms received external support. The most popular option reported (by 22% of companies) was **support from friends and families**.

Only 31 percent of SMEs received government support during the COVID-19 pandemic.

SMEs Performance Review and support measures in Central Asian countries during the COVID-19 pandemic

Kyrgyzstan



Compared to 2019, in 2020 the revenue level of SMEs decreased 8.5 percent.

In 2020 based on the results of the activities of small and medium-sized enterprises, firms in the following sectors became unprofitable: **industrial enterprises, professional, scientific and technical activities, organizations in the real estate business, cargo transportation and storage.**

At the same time, there was a revenue **increase in agriculture, forestry and fishing** by 1.7 times; in other service activities - by 1.5 times; **wholesale and retail trade**, as well as the **car and motorcycle repair services** - by two percent.

Kyrgyzstan provided various types of tax deferrals and conditions of determent of payment for SMEs. There was also an extension of the deadline for submitting reports, and cancellation of sanctions until July 1, 2020. Additionally, deferral of rental payments and on the budget loans were introduced.

SMEs Performance Review and support measures in Central Asian countries during the COVID-19 pandemic

Tajikistan



SMEs play a key role in the country's economy, but business owners suffer from the state regulatory policy pressure, which leads to high levels of informality in this sector.

The most common negative impacts on SMEs in Tajikistan include **firms' inability to pay off loans, pay taxes, produce goods or services, and pay workers' salaries.**

Overall, according to experts from UNECE, Tajikistan's economy and welfare were already unstable due to the economic shocks over the past decade, and the pandemic worsened the situation [41].

The Government of Tajikistan so far has adopted and started implementing the Action Plan to prevent and reduce the impact of potential risks of the pandemic crisis.

The Plan provides for the provision of tax incentives and tax holidays to vulnerable small and medium-sized businesses, the postponement of non-tax audits and the attraction of financial assistance from international financial institutions.

SMEs Performance Review and support measures in Central Asian countries during the COVID-19 pandemic

Uzbekistan



86 percent of all SMEs in Uzbekistan stated that the COVID-19 crisis had had a negative impact on their business operations (according to the CAREC Institute survey).

The firms operating in service sector suffered the most: 94 percent of all SMEs in this sector claimed to be negatively influenced by the pandemic.

Interesting fact is that a quarter of firms in the agricultural sector indicated that the crisis had had a positive impact on them.

Only 15 percent of all SMEs reported a decrease in the number of permanent employees, and 73 percent reported that there was no change.

The most common aid was national government support, but only 11 percent of organizations used it.

Up to 65 percent of SMEs stated that the government had provided adequate support to during the pandemic, with 75 percent of agricultural firms thinking in this way.

Table 1. The volume of key indicators of small and medium-sized businesses and private entrepreneurship in sectors of the economy in Uzbekistan

Indicators	2017	2018	2019	2020	2021
Industry (billion soums)	61367,8	87962,0	83344,2	103020,8	121719,2
Construction (billion Uzbek soums)	22469,4	37451,7	53960,9	63866,6	77762,0
Employment (thousand people)	10541,5	10128,8	10318,9	9865,7	-
Export (million US dollars)	2759,3	3810,8	4714,8	3100,9	3711186,6
Import (million US dollars)	7511,9	10916,2	14972,2	10943,3	12389011,2
Trade (billion Uzbek soums)	92973,0	114896,4	138920,7	164106,1	249493,3
Agriculture, forestry and fisheries (billion Uzbek soums)	152010,5	191759,2	219466,9	253238,2	307280,2
Services (billion Uzbek soums)	69212,7	84433,4	103106,6	114052,7	144812,7
Freight transportation (million tonns)	548,8	611,7	641,0	638,9	678,9
Freight turnover (million ton-km)	10444,4	11657,7	12152,3	12304,6	13108,1
Passenger transportation (million people)	5037,5	5242,6	5345,0	4904,8	5237,6
Passenger turnover (million people km)	111435,0	115335,2	117412,7	107766,7	114681,5

Source: <https://stat.uz/ru/ofitsialnaya-statistika/small-business-and-entrepreneurship>

Table 2. Share of small business and private entrepreneurship
in Uzbekistan, data for 2017-2021 (in %)

Indicators	2017	2018	2019	2020	2021
GDP	65,3	62,4	56,0	55,7	54,9
Industry	41,2	37,4	25,8	27,9	27,0
Construction	64,8	73,2	75,8	72,5	72,4
Employment	78,0	76,3	76,2	74,5	-
Export	22,0	27,2	27,0	20,5	22,3
Import	53,6	56,2	61,6	51,7	48,7

Source: <https://stat.uz/ru/ofitsialnaya-statistika/small-business-and-entrepreneurship>

CONCLUSION AND POLICY RECOMMENDATIONS



The growth is not what it used to be, it has slowed down. Government measures and lockdown policies have impacted activities of the SMEs across Central Asia.

Specific sectors that were affected include tourism, hospitality, services, construction and manufacturing (industry).

Governments of CA countries developed packages of measures to support SMEs and individual entrepreneurs, including **tax and financial measures, simplification of administrative procedures and requirements, suspension of inspections and audits.**

Emergency financial support programs, including **target loan portfolios, loan guarantees, special funds to support SMEs and entrepreneurs** became the central element of the anti-crisis packages.

CONCLUSION AND POLICY RECOMMENDATIONS (cont.)

There is a risk that inequalities (with women, migrants, informal workers and rural population) across the region might worsen. It is recommended that the governments of CA countries to further diversify its economy in order to lower its vulnerability towards negative economic shocks, and increase its support to SMEs, particularly with access to finance and development support, as well as export promotion.

The study reveals that there was a decrease in the growth rates of the number of SMEs and employees (in certain sectors) working at those firms, in 2020 and 2021 compared to 2019.

The governments of CA countries could address the development and promotion of entrepreneurial training programs and disciplines through training centers. The programs might include finding possible investors and mentors, sharing knowledge with other businesses, creating links with business associations, etc.



CONCLUSION AND POLICY RECOMMENDATIONS (cont.)

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The hardest hit sectors, especially transport, catering, hospitality and tourism, need to continue to receive further support: tax deferrals, financial assistance programs, until a full recovery.

Ultimately, the countries of Central Asia will need to implement structural economic reforms that are long overdue, improve the business legal environment, and shift to a more private sector-led growth model.



Thank you for your attention!

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