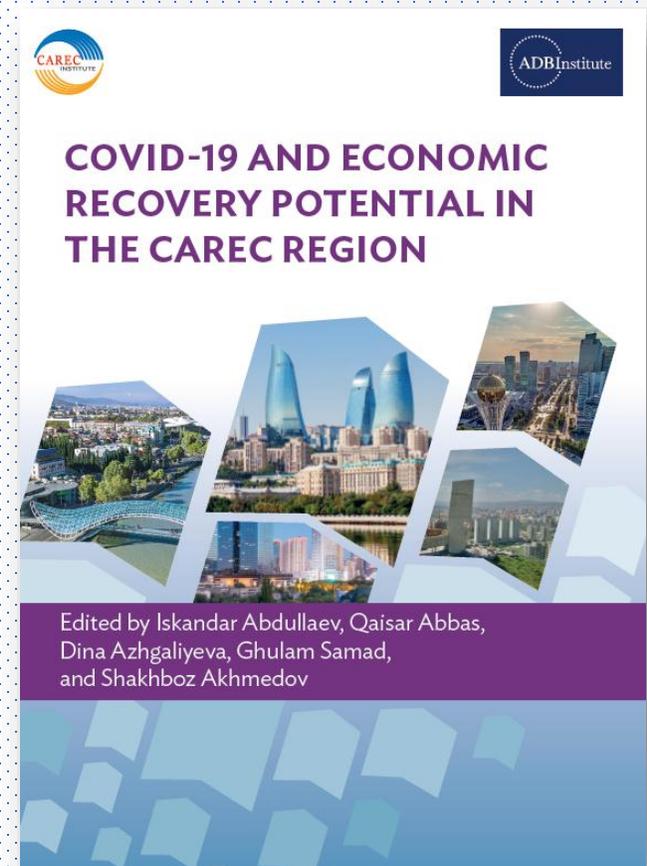




Launch of the CAREC Institute Annual Book

Part II - Economic Dynamics and the COVID-19 Pandemic



Part II - Economic Dynamics and the COVID-19 Pandemic

- Chapter 4 – Debt and Debt Sustainability in the CAREC region

Naseem Faraz, Ghulam Samad & Qaisar Abbas

- Chapter 5 – Impact of COVID-19 on Small and Medium-Sized Enterprises in Central Asia: Coping Strategies, Government Responses, and Policy Options

Falendra Kumar Sudan

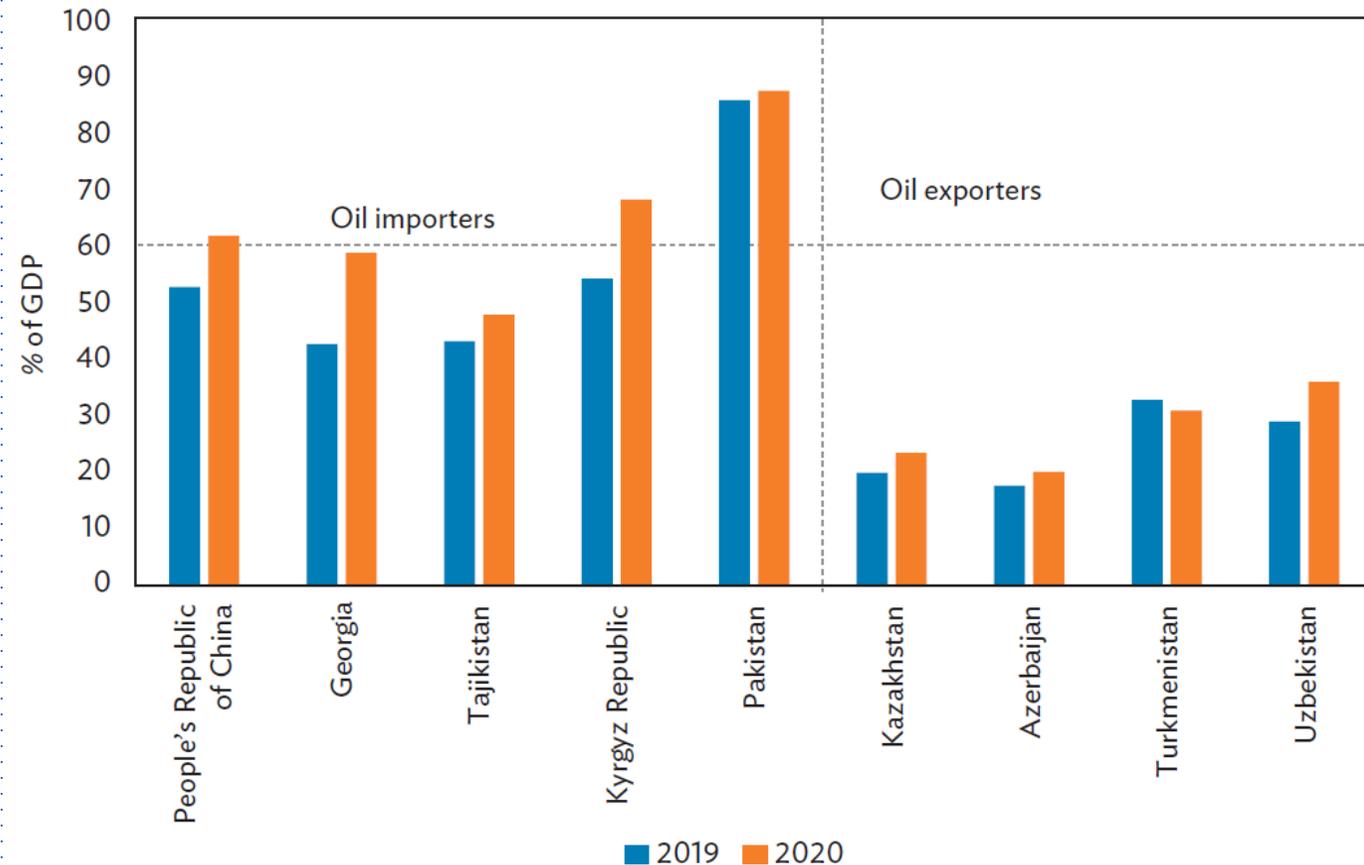
- Chapter 6 – What Determines the Adaptation of Enterprises to COVID-19 in CAREC Member Countries? Empirical Evidence from Azerbaijan, Georgia, Kazakhstan and Mongolia

Dina Azhgaliyeva, Ranjeeta Mishra, Long Q. Trinh, & Peter Morgan

Debt and Debt Sustainability in the CAREC region

- Since 2010, the total debt has climbed to 60% of GDP. COVID-19 amplified debt accumulation in the CAREC region.
- The overall risk of debt distress for **Pakistan, Afghanistan, and Tajikistan** is high, whereas the **Kyrgyz Republic's** overall risk of debt distress is moderate, and that of **Uzbekistan**, is low.
- The debt indicators of Uzbekistan, Turkmenistan, and Kazakhstan remain below the relevant threshold set by the FRDL of 60% of GDP.
- Debt accumulating factors: Current Account Balance, Exchange Rate, Grants, FDI.

Figure 4.1: Debt-to-GDP in CAREC Countries



Debt and Debt Sustainability in the CAREC region

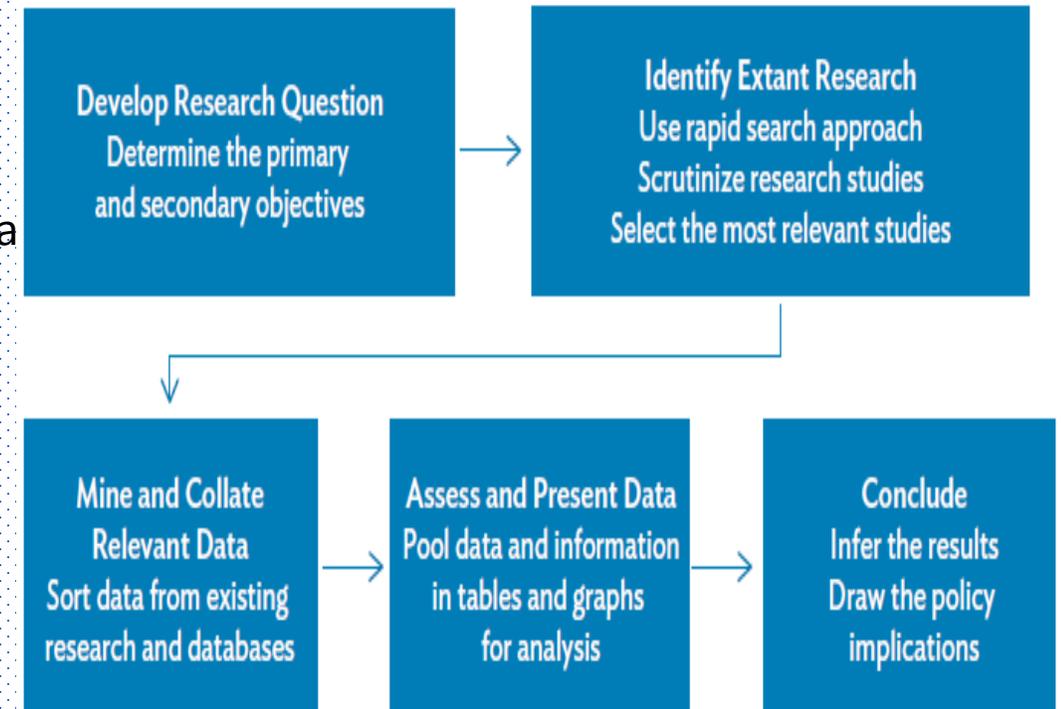
FINDINGS

- History and the COVID-19 era show that for most of the CAREC countries, debt has been accumulated. Debt service is one of the important factors contributing to debt accumulation depending on the size and structure of the economy.
- Current account deficits and exchange rate fluctuations are contributing to debt accumulation
- Debt accumulation that subsequently adversely impacts economic growth, employment and inflation in most of the CAREC region
- The CAREC region also did not attract sufficient FDI to overcome trade deficits and reserve depletion, which has contributed further pressure on the country's balance of payments.
- To overcome the COVID-19 and fiscal crisis CAREC countries need to have sound debt management and debt transparency mechanisms.
- Reinforcement of monetary, exchange rate, and fiscal policies frameworks can safeguard CAREC countries' debt sustainability.

Impact of COVID-19 on SMEs in Central Asia: Coping Strategies, Government Responses, and Policy Options

- Analyzes the impact of the COVID-19 pandemic on SMEs
- Reveals that the pandemic created simultaneous supply and demand shocks
- **Meta-type methodology** was used to integrate and evaluate research information from heterogeneous studies and databases. **Descriptive method** used for content analysis to triangulate the data and information from multiple sources.
- The study confirms that SMEs are unlikely to revert to a **pre-crisis situation** in the immediate aftermath
- SMEs should **adapt to “new normal”** supported by government incentives to scale up for more inclusive growth focusing on **education, digitalization, trade facilitation, inclusiveness, resilience, and sustainability.**
- **Regional cooperation** is essential to foster the agile and resilient strategies for sustainable SMEs.

Figure 5.1: Research Framework



Impact of COVID-19 on Small and Medium-Sized Enterprises in Central Asia: Coping Strategies, Government Responses, and Policy Options



FINDINGS AND POLICY RECOMMENDATIONS

- SMEs will need **extended governmental support** for recovery.
- **Regional cooperation** in improvement of **transportation infrastructure** can be highly beneficial for **agro- and-horticulture** based SMEs in Central Asian economies
- Governments should embrace a **holistic education approach** by integrating all relevant stakeholders to address the future market needs.
- **Localized capability-building** of SMEs should be in place to better understand regional differences in local markets, distinct business environment, and diverse institutional regimes, and to reorient the business models by embracing a regional strategy specific to Central Asia.
- **Supply chain resilience and agility** should be driven by **moving away from GVCs to regional value chains (RVCs)** to reduce supply chain vulnerabilities by strengthening regional networks
- **SMEs' digital value chains** should be improved and strengthened diligently to unleash the new technologies for greater resilience and agility to respond to regional market needs

What Determines the Adaptation of Enterprises to COVID-19 in CAREC Member Countries? Empirical Evidence from Azerbaijan, Georgia, Kazakhstan and Mongolia



- Chapter tries to close empirical data gap in the analysis of the pandemic's impact on businesses by using the **World Bank's COVID-19 Follow-Up Enterprise Survey** for four CAREC economies: Azerbaijan, Georgia, Kazakhstan, and Mongolia.
- Using a **probit model**, authors assessed how different factors, including firm characteristics and government policy, affected the probability that a firm would be able to adjust its activities to the changed conditions.
- The average of the stringency index is used to evaluate the impact of pandemic conditions on firm adaptability

$$P(y_i = 1 \mid x_i) = F(\beta_0 + \beta_1 \text{Stringency Index} + \dots + \beta_k x_k) \quad (1)$$

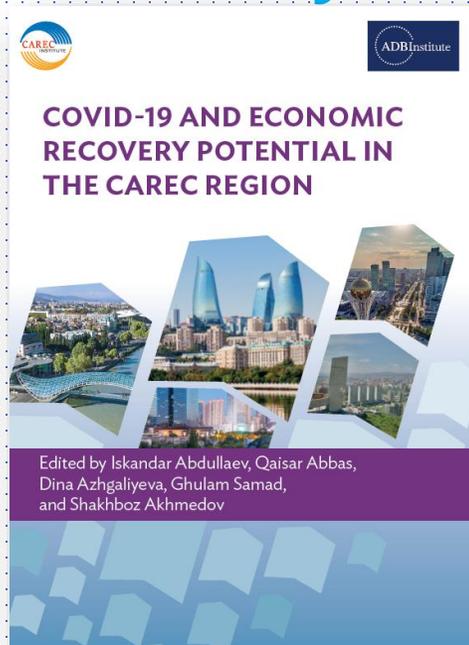
What Determines the Adaptation of Enterprises to COVID-19 in CAREC Member Countries? Empirical Evidence from Azerbaijan, Georgia, Kazakhstan and Mongolia



FINDINGS

- On average, 37% of the firms adjusted or transformed their production and service delivery. The largest share of firms that have adjusted business activities is from Azerbaijan (around 60%).
- The proportion of firms that have managed to transform their production and/or service delivery in the pandemic increased, on average, from 29% to 46% and 44% in 2021 and in the second wave, respectively.
- If the firm has adopted a strategy, has its own website, and is younger, the probability of production adaptability increases significantly.
- Receiving government support and being located in the capital city significantly increases the likelihood of production adaptability by an average of about 10% in the 2021 subsamples.
- Firms that had introduced any new/improved process during the last 3 years appeared to have transformed their production as a response to COVID-19 and increased production adaptability by 7%–10%.

Thank you



More at: <https://www.carecinstitute.org/publications/covid-19-and-economic-recovery-potential-in-the-carec-region/>