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MSMEs: Trends and challenges

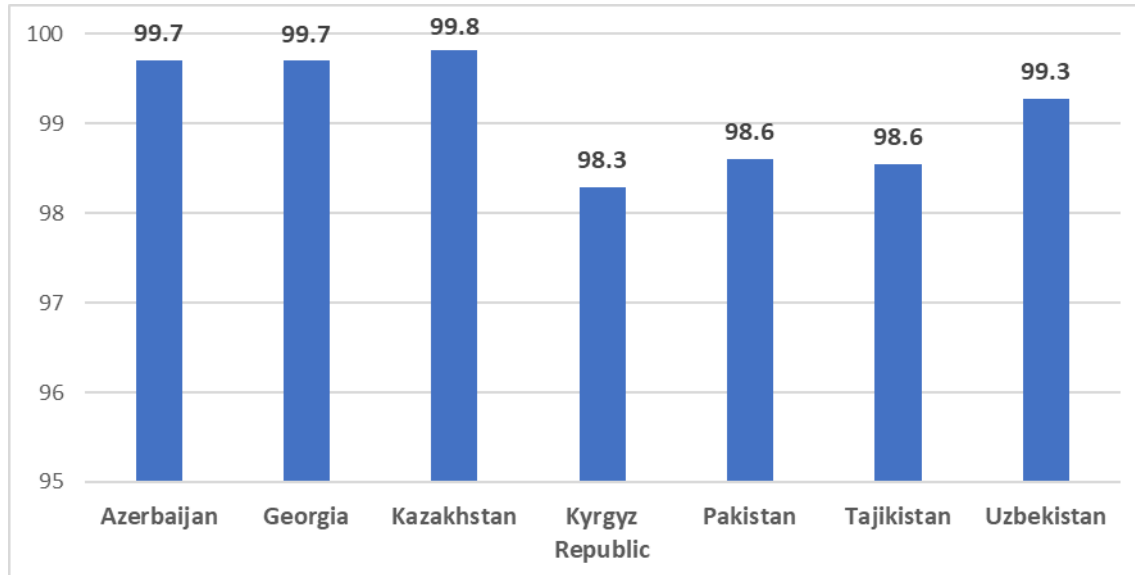
Unleashing the Potential of MSMEs in the CAREC Region: Recommendations for Overcoming Barriers to Finance

Kamalbek Karymshakov
Kyrgyz-Turkish Manas University

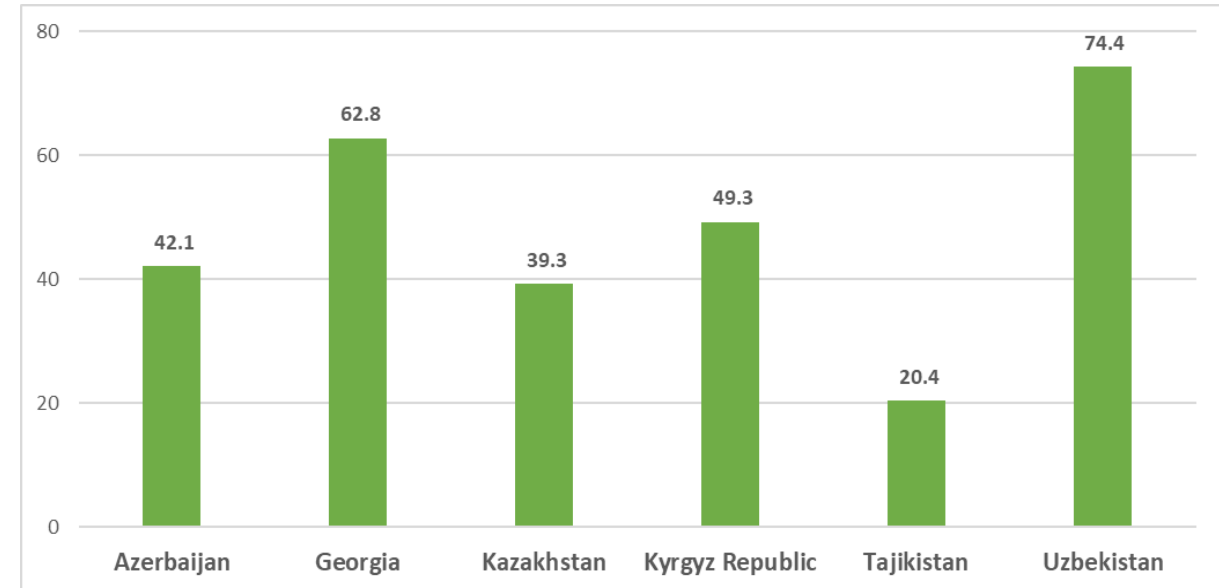
10 May 2023

MSMEs in CAREC economies

Number of MSMEs to Total (%)

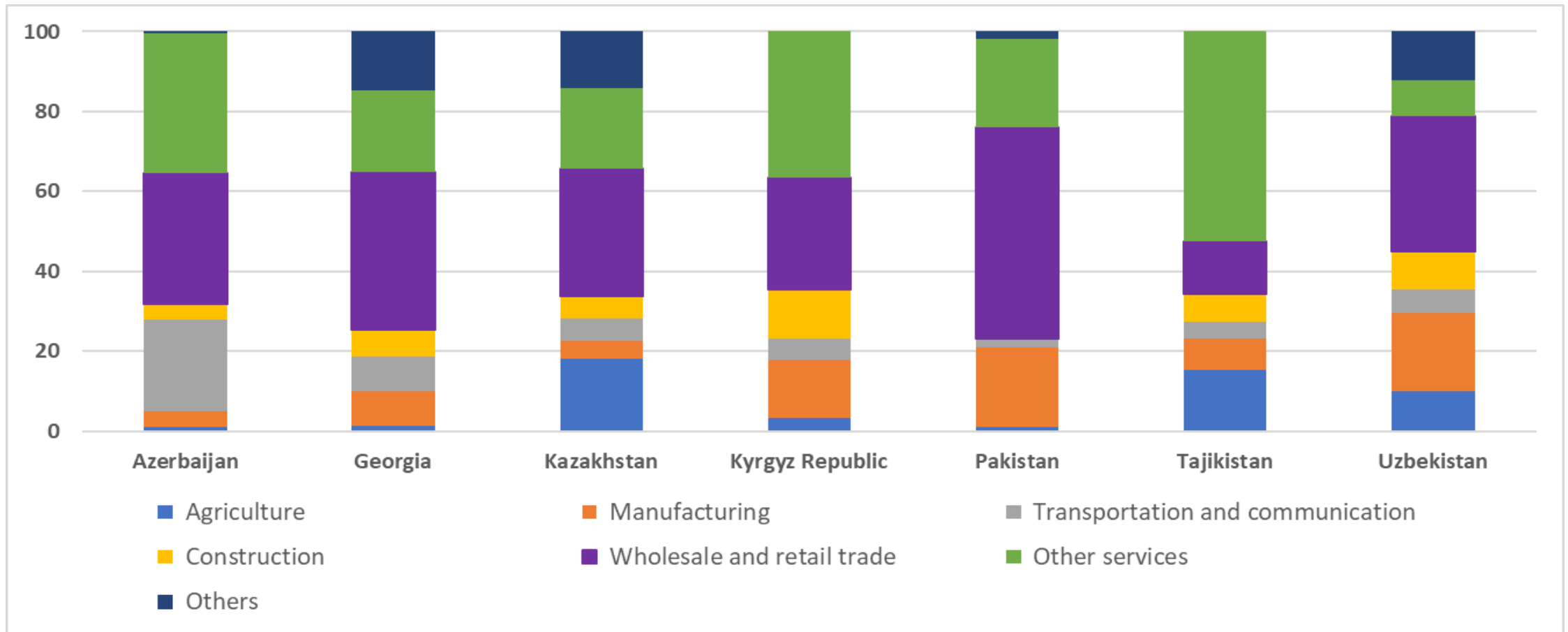


MSME Employees to Total (%)



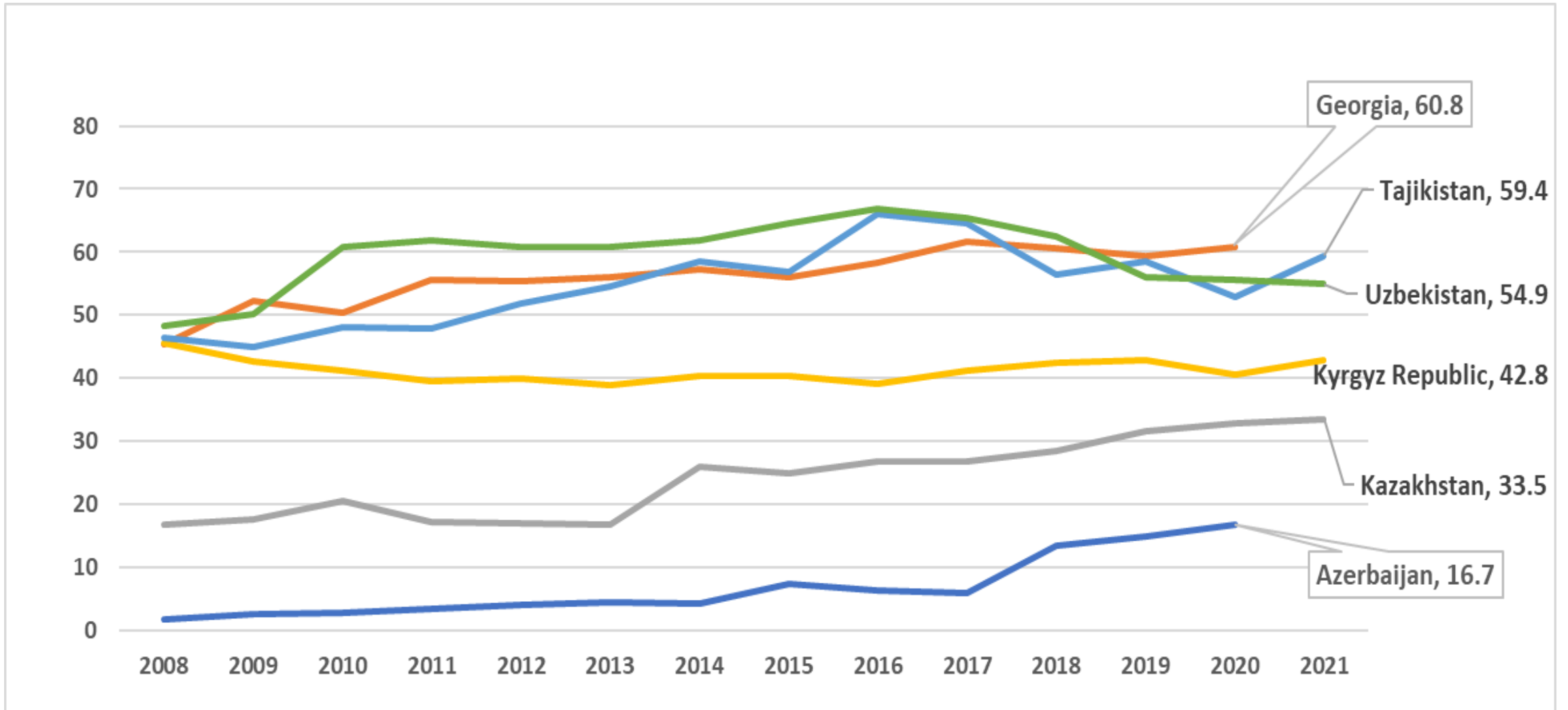
Source: ADB Asia SME Monitor 2022 database

MSMEs in CAREC economies



Source: ADB Asia SME Monitor 2022 database

Contribution to GDP



Source: ADB Asia SME Monitor 2022 database

MSMEs during the economic crisis: General expectations

- MSMEs are more flexible and adaptable than larger firms (size, private ownership, and flat hierarchical structures)
 - SMEs and individual enterprises may demonstrate a more dynamic tendency towards the introduction of innovation compared to large firms (Love and Roper 2015)
- Financial concerns:
 - Smaller firms faced disproportionately greater financial constraints (Apedo-Amah 2020; Juergensen et al. 2020)
 - However, micro and large firms could be more likely to face solvency issues, while SMEs showed lower insolvency rates (Guerini et al. 2020).
- Foreign capital
 - International firms were more resilient and adaptable to the COVID-19 pandemic than their counterparts, and were less likely to close and more likely to adopt measurements to continue production (Borino et al. 2021; Bachas et al. 2020).
- Labor force
 - Qualified labor can also be considered an important challenge for enterprises within the developing country context (Norek and Arenhardt 2015)

Empirical evidence

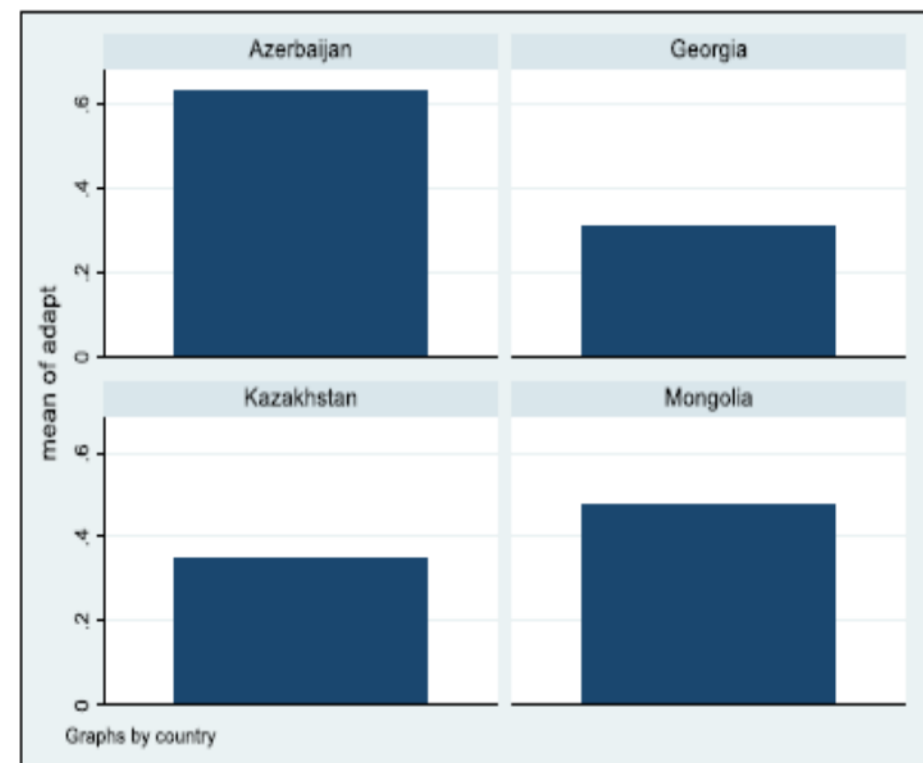
- Aseinov, D. Sulaimanova, B., Karymshakov, K., and Azhgaliyeva, D. “What Determines the Adaptation of Enterprises to COVID-19 in CAREC Member Countries? Empirical Evidence from Azerbaijan, Georgia, Kazakhstan, and Mongolia”, in “**COVID-19 and Economic Recovery Potential in the CAREC Region**”, Abdullaev et al. (ed.), CAREC Institute and Asian Development Bank Institute, Tokyo, 2022, 190-213.
- Karymshakov, K., Azhgaliyeva, D., Mishra, R., & Aseinov, D. (2022). **Evaluating Covid-19's impact on firm performance in the CAREC region using night-time light data: Azerbaijan, Georgia, Kazakhstan, and Mongolia** (No. 1332). ADBI Working Paper.

Country	Year of Baseline Survey	Follow-up Survey		Total
		Wave I	Wave II	
Azerbaijan	2019, 2020	105 (Apr, May 2021)		105
Georgia	2019, 2020	614 (Jun 2020)	589 (Oct, Nov 2020)	1,203
Kazakhstan	2019	871 (Jan–Mar 2021)		871
Mongolia	2018, 2019	314 (Aug 2020)	323 (Feb 2021)	637
Total		1,904	912	2,816

Industry	By sector				Total
	Azerbaijan	Georgia	Kazakhstan	Mongolia	
Food	0	260	138	0	398
Retail	34	237	104	195	570
Manufacturing	31	257	222	210	720
Metal, machinery, and equip. mineral	0	0	223	0	223
Services	40	445	184	232	901
Total	105	1,199	871	637	2,812

Source: World Bank Enterprise Survey (2021).

Share of Firms that Adapted (Adjusted or Converted) Production Due to COVID-19



Decrease in Sales, Demand, Working Hours, and Export Share (Wave 1 and Wave 2)



Note: There is no sample for wave 2 from Azerbaijan and Kazakhstan. The decrease in export share is only available from Georgia and Mongolia for wave 1.

Source: Own elaboration using data from the World Bank (2022).

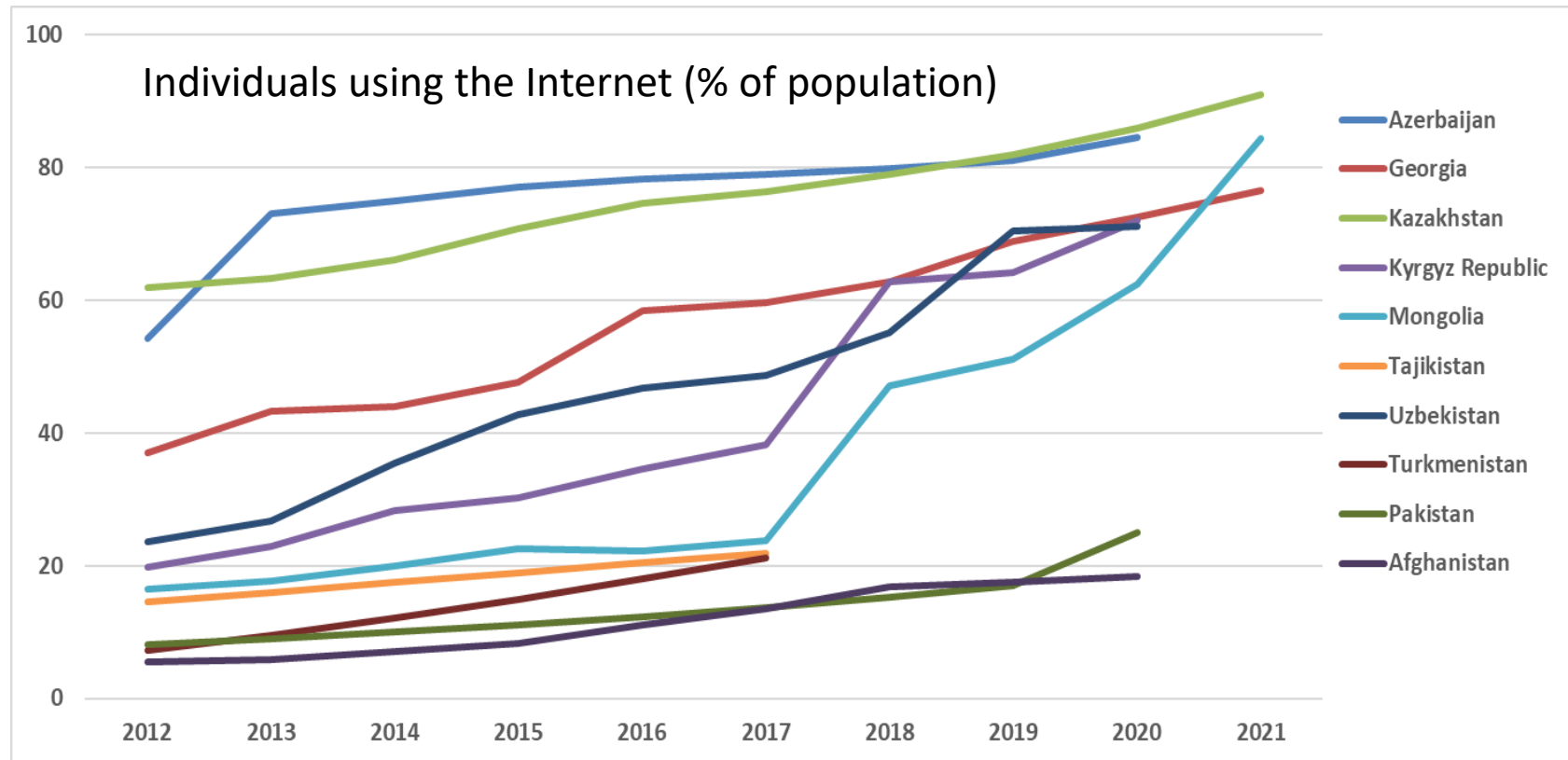
Key findings of two studies (1)

- Firms gradually adapted to the new realities
 - The strictness of “lockdown-style” government policies, i.e., the stringency index, does not harm firm performance on average
- If the firm has adopted a strategy (before COVID-19), has its own website, and is younger, then these significantly increase the probability of production adaptability
 - The presence of officially defined key performance indicators and more competitors is likely to have helped firms to maintain their performance, especially their demand and export share, during the pandemic.
- Receiving government support and being located in the capital city significantly increased the likelihood of production adaptability
- Firms with foreign-owned shares tended to adjust their production partially or completely in response to the COVID-19 outbreak.
- More innovative companies are more resilient to changing conditions

Key findings of two studies (2)

- The sales in the manufacturing, clothing, and service sectors are more likely to decline than those in the food sector
- Significant decline in the performance of firms operating in the service sector compared with the food sector
- Large firms are more likely to have a better performance than MSMEs

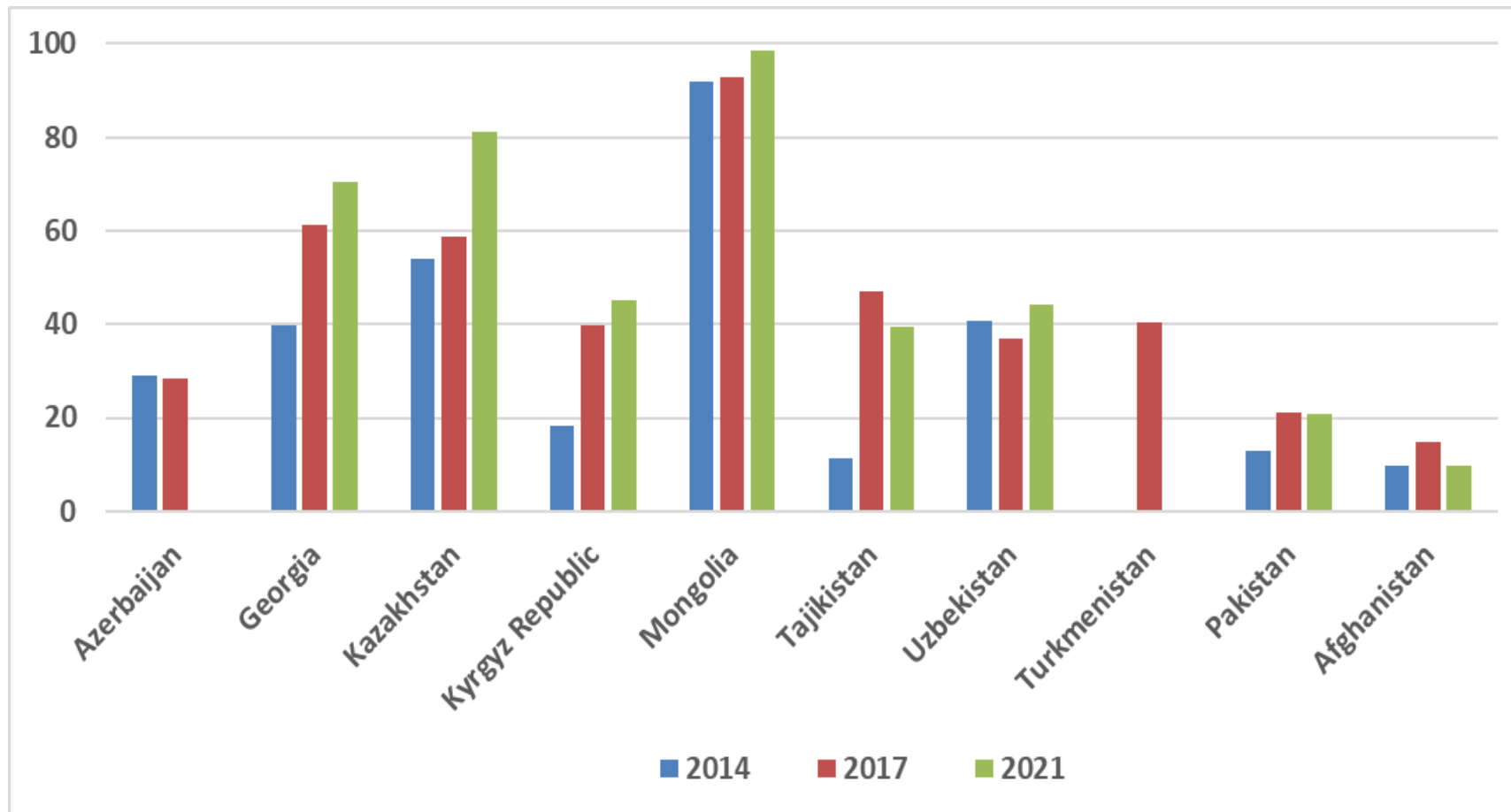
Rising trend of internet use



Source: World Bank, World Development Indicators

Digitalization and enhancing financial access

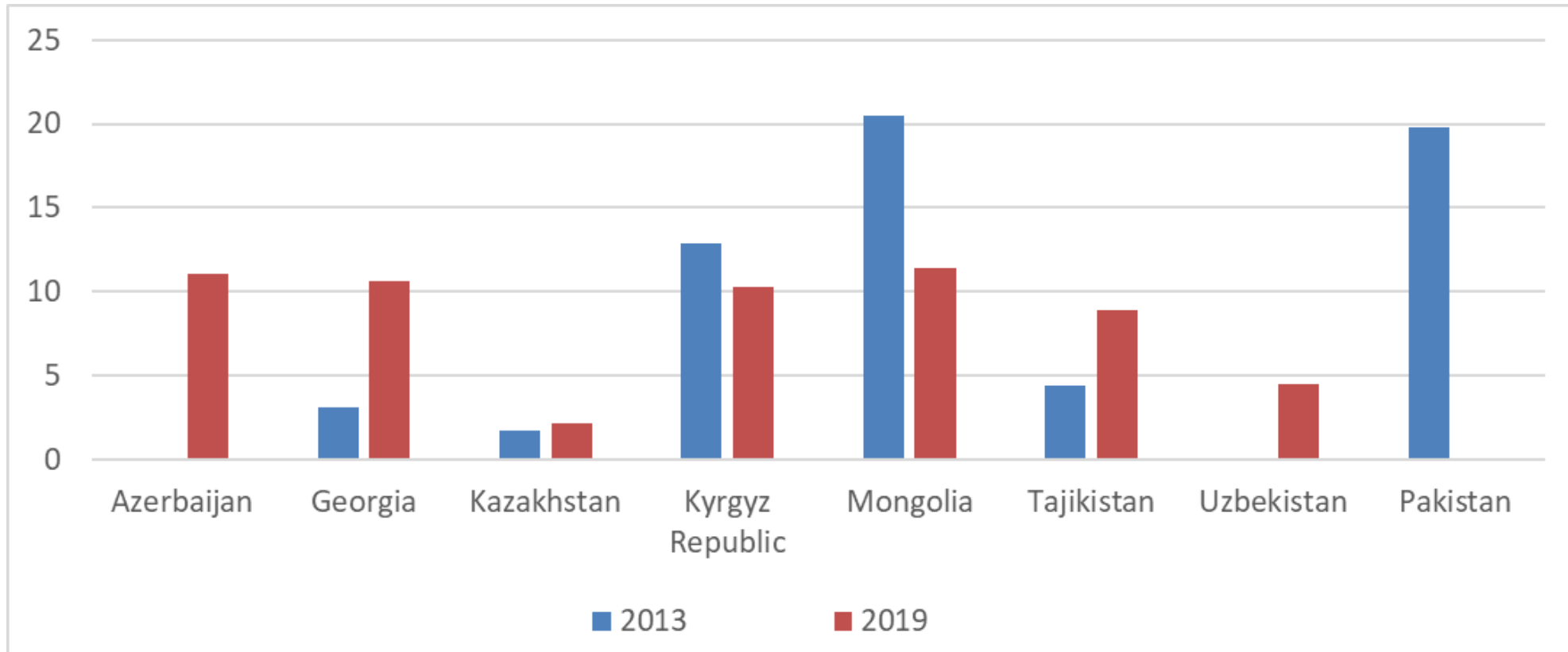
Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+)



Source: World Bank, World Development Indicators

Innovation - one of the fundamental factors for successful adaptation to new realities

Firms that spend on R&D (% of firms)



Source: World Bank, World Development Indicators

Challenges

- Supply chain disruptions
- Rising cost of living – cost of labor – cost of production
 - Labor shortages
- Digitalization: New opportunities vs digital gap
 - E-commerce
- Trade redirections

Policy area

- Regional cooperation
- Financial inclusion
- Digital infrastructure
 - Digital connectivity
 - Digital security
 - Digital skills