
Problems of Small and Medium Enterprises in Central Asia During the Covid-19 Crisis

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Abstract

The article is devoted to the problems and perspectives of small and medium enterprises (SME) in Central Asia in the conditions of the COVID-19 crisis. The article presents a brief analysis of the situation in the SME sector, characterized by an increase in temporary unemployment, a sharp decline in household incomes, and an acceleration of trends towards an increase in poverty and inequality. States have to deal with disruptions to regional ties affecting supply chains, remittances and financial flows. There are assessments of the leading international institutions - the World Bank (WB), ADB, OECD concerning the GDP losses of the Central Asian countries, including the damage caused by SME's. There is an analysis of the activities of SME's in the countries of the region, the contribution of SME's to the economies of the region. There are forecasted estimates of the decline in SME's, the aggravation of social problems as a result of a decrease in the volume of remittances of labor migrants and an increase in the level of unemployment and poverty. Anti-crisis plans and measures of the governments of the region's countries to support SME's are described. The article presented conclusions and recommendations for supporting small and medium entrepreneurship.

Keywords: Central Asia; small and medium enterprises; SME; GDP; economies; unemployment; poverty; anti-crisis plans.

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1. Introduction

During the fight against the coronavirus epidemic majority of industrial areas, cities and factories were closed, export and import supplies were interrupted, and a huge number of small and medium-sized enterprises (SME's) around the world were on the brink of survival. Today, globally, small and medium-sized businesses provide 20% of world GDP and 25% of employment. The stagnation affected such service sectors of the economy as tourism, transport, trade, catering, housing and communal services, recreation and entertainment and others. The closure and temporary stoppage of many small and medium-sized businesses led to an increase in temporary unemployment in the indicated sectors of the economy, a sharp decline in household incomes, and an acceleration of trends towards an increase in poverty and inequality. The quarantine measures exacerbated the situation in small and medium-sized businesses (SME's), which had previously experienced problems. Thus, according to the 2019 OECD Report, the development of entrepreneurship in the poorly diversified economies of Central Asia, in particular small business, faces various barriers, including weak transport, institutional and regulatory infrastructure. Today, small and medium-sized businesses (SMB) in the countries of the region are among the most vulnerable sectors from the introduction of quarantine measures [1]. Among the tasks set up in this article there is a brief analysis in charge of the research related to the situation in SME's in the countries of the region that under threat with sharp decrease of enterprises in the real sector of the economy. There is an acute issue of the shortage of components and raw materials that are not produced in the countries of the region, which means that the production of export-oriented industries practically stops. It reviews both the interruption of many domestic and international supply chains and dependence of the countries of the region on imports of many types of goods, and discusses how the measures on their support fit into the national policies. The national government facing interruptions in the receipt of revenues from economic activities and in the payment of taxes, have to undertake urgent measures on the SME's support. This research is aimed to describe the situation related a significant deterioration in business activity in the real sector of the economy of the the countries of Central Asia, especially, in the most vulnerable sectors in the economy which are retail and services. Special attention is given to the anti-crisis action plans, developed and implemented by the governments of the states of the region and the review of these strategies. The research presents analysis of the best examples of world practice to accelerate the recovery from the crisis and the recommendations in the field of anti-crisis economic management.

1.1. Materials and methods

Starting a study of the problems of small and medium businesses in Central Asia in the conditions of the Covid-19 crisis, it should be first clarified the tasks, materials, sources, and methods. The first guideline to be taken into account is the situation in the SME, to define the main tasks. At this stage, it is difficult to assess the real GDP losses of Central Asian countries, including the damage caused to SME's, the scale of which will depend on the actions of the governments to protect their economies. The governmental policy toward SME should be formed to maintain its contribution into economic development. Second, the methods of study of SME are necessary to use in order to study situations that arise under the influence of other entities (competitors and the state). During the study of the literature for writing this article, the main directions and methods of SME's support have been determined. Through a systematic collection of data on the activities of the SME it be

possible to conduct current and especially future analyses on the impact of the corona crisis on entrepreneurship, effectiveness of SME, and finally economic development. To this extent, the common views of academicians, specialists from technological parks, and policy experts are crucial. The comparative and historical method makes it possible to identify the origin and tendency of the subject of research. The analytical method provides the analysis of theoretical sources on the problem. The focus of this article is to present quantitative and qualitative methods of the analysis of the supportive measures of SME's development and to raise awareness on the importance of systematic data collection and analysis. Among the methods and directions have been highlighted: 1) analysis of the activities of SME, especially in terms of indicator of effectiveness for economic development of the country, since SME's products and services with high value attract more investors; 2) evaluation of the operational and financial activities of enterprises with the aim of improving their activities; 3) assessment of the private-public partnership. It is important to clarify the process of support for small businesses amid COVID-19. There are descriptions of this process by several sources. The OECD indicates evidence on the COVID-19 crisis impacts on SME's from business surveys severe disruptions and concerns among small businesses. The combination of the Coronavirus pandemic and the policy measures of lockdown and quarantine introduced in response has a drastic effect on the cash flows and solvency of businesses in the countries of the region affected, and in particular on small, and medium-sized enterprises (SME's), which generally have had less own resources and no access to external finance except through their banks. Fairlie (2020), for example, estimated that the number of active business owners in the United States plummeted by 3,3 million USD or 22% over the crucial two-month window from February to April 2020 [2]. Foroohar (2020) noted, that the drop in business owners was the largest on record, and losses were felt across nearly all industries and even for incorporated businesses. That means, that Wall Street is no longer supporting Main Street businesses that create the jobs for the middle and working class [3]. Charles Goodhart resumed, if a country was to avert an economic collapse, with a large proportion of its SME population being forced to shut up shop, the need was to get external financial assistance to them, and quickly [4]. Oliver Wyman (2020_ noted that in the midst of the pandemic horror surrounding us, it is difficult to focus on the economic and financial policy choices facing our leaders. However, it is also necessary to do so, in order to reduce the total damage. The economic policy response should combine massive quantities of fiscal stimulus with major monetary policy actions to provide further stimulus and to ensure acceptable levels of liquidity in the markets and the larger economy [5]. According to the Asian Development Bank (ADB) Report, the region will face a stronger economic downturn than during the 2008-2009 global financial crisis, and the fall in oil prices in 2014-2015. Currently, states have to deal with disruptions of regional ties affecting supply chains, remittances and financial flows [6]. The World Bank Report emphasized that the protracted COVID19 pandemic will negatively impact the economies of Central Asian states and will lead to a significant decrease in foreign trade and internal economic shocks and an increase in poverty level. In this regard, a decline in GDP is predicted in all countries of the region. According to the World Bank's prognosis, in Kazakhstan, the economy will be decreased by 3% in 2020 and receive a slight recovery by 2,5% in 2021. Real GDP growth in Kyrgyzstan in 2020 may be negative (-4%); however, by 2021, the country's economy will recover to growth of 5,6%, which is higher than in 2017-2019. The economy of Tajikistan in 2020 will decline to a negative indicator (-2%); an increase is expected to reach 3,7% in 2021. Turkmenistan will stop at zero in 2020 and grow to 4% in 2021. It is worth noting that Uzbekistan is the only country in the region where a decline in GDP is not predicted in 2020, but an increase of 1,5%; in 2021, growth

will be 6,6% [7]. In the Republic of Kazakhstan, the share of SME's in the economy at the beginning of 2020 was 29,5%, there were 1,3 million SME's. The number of people employed in SME activities was 3,2 million people, which exceeds 30% of the country's active population. More than 85% of SME's are engaged in non-resource industries, in sectors with low added value: wholesale and retail trade, agriculture, services, as well as construction, transport [8]. According to the analysis of national experts, the decline in SMEs in the first half of 2020 in Kazakhstan was 72%. In the manufacturing sector, business activity has slowed down 20 times. Wholesale and retail trade showed a decline of 50% to 90%. In 36 spheres of activity of SME's, the volume of sales decreased by 20 times or more. National experts expect that in 2020, up to a third of small businesses in Kazakhstan may close due to low purchasing power of the population, and, accordingly, 1,5 million people may lose their jobs [9]. In Uzbekistan, in 2019, the share of small business in the country's economy was about 60%. Small business employs 10,5 million people or 78,3% of the employed population of the country. The pandemic has led to an increase in the number of unemployed in the country. According to preliminary estimates of the Ministry of Labor of the Republic of Uzbekistan, it affected the incomes of about 450 thousand families. So, in 2019, there were more than 19 million citizens of working age in the country, but only 13,54 million were employed, of which 7,84 million people work unofficially [10]. As a result of the coronavirus epidemic, Uzbekistan is under a double blow: the drop in demand and business activity is accompanied by a significant reduction in the volume of remittances from labor migrants. According to the Central Bank of Uzbekistan, international transfers are the main source of both primary and secondary income of the population of the republic. The total volume of remittances of labor migrants to Uzbekistan in 2019 amounted to 6,4 billion USD. The World Bank predicts a sharp decline in remittances from labor migrants to 30% and an increase in the level of poverty in Uzbekistan, despite measures of support from the government. In Kyrgyzstan, in 2019, the share of SME's in the economy amounted to 41,5% of GDP. The country's economy was hit hard by a sharp drop in revenue from three major sources. The sewing industry, which employs 200-300 thousand people, has experienced a downturn due to the closure of borders and a drop in demand for products from neighboring countries. The second major item of budget revenues is remittances of labor migrants, which decreased by 40-45% in the first half of 2020. In 2018, the receipts of labor migrants amounted to 2,7 billion USD or 33,6% of the country's GDP. The re-export of goods from China, which is also a significant budget item, was temporarily stopped. The largest markets "Dordoi" and "Karasu" were closed, tens of thousands of people were left without work and sources of income. The IMF estimates that at least 1,8 million people in Kyrgyzstan are on unpaid leave or have lost their jobs [11]. In Tajikistan, in 2019 the share of SME's is 70% of GDP. Moreover, in recent years, due to the crisis, the share of SME's is decreasing. Among the reasons for this reduction: high competition in the retail market, small-scale production, services, in which small businesses cannot withstand competition with large business, large retail chains. Judicial illiteracy, lack of financial and material resources, lack of access to bank loans are among other reasons for the termination of entrepreneurial activity. Poverty also contributes to the persistence of low domestic demand for products and services of SME's. Thus, in Tajikistan, 17% of the population lives on less than one dollar a day. In the first half of 2020, there was a sharp decline in remittances of labor migrants by 45-50%. In 2019, labor migrants transferred 2,7 billion to Tajikistan, which is equal to 31% of the country's GDP. According to national experts, in the first half of 2020, about 60% of migrants were left without sources of livelihood [12]. International institutions, such as the UN, IMF, World Bank, OECD welcomed the actions taken by the states of the region at the national level. The

World Bank allocated 370 million USD to Central Asia to support the economy and population during the pandemic. Uzbekistan received most of these funds, 312 million USD. Kazakhstan received 10 million USD, Tajikistan - 11,3 million USD, Kyrgyzstan - 21 million USD. In the current situation, government support for SMEs plays a key role in the resumption of enterprises and industries, an increase in production volumes, the modernization of their own technologies, the creation of favorable conditions for the development of the industry and the attraction of new investments, which will allow to stabilize the economy in the medium term, carry out its full diversification and gain independence from imports, save and increase the number of jobs [13]. All Central Asian states have developed specific economic measures to support entrepreneurship. Countries with more stable budgets have formulated anti-crisis packages. Thus, Kazakhstan adopted an anti-crisis plan in the amount of 13 billion USD, or 8% of GDP; Uzbekistan - in the amount of 950 million euros or 1,5% of GDP. Governments in the region have provided tax breaks and tax holidays for SME's. Measures were taken to provide social protection and subsidies to the population. The anti-crisis package of the Republic of Kazakhstan includes measures to support SMEs and protect the population, cash payments to self-employed and those who have lost their jobs due to quarantine, additional costs to strengthen the health sector and measures to support employment and business. Business support measures in the amount of 2,4 billion USD include tax cuts and tax incentives to support businesses in sectors of the economy. The government of Uzbekistan has developed an anti-crisis plan in the amount of more than 1 billion USD. These funds were allocated from the Anti-Crisis Fund and funds from international financial institutions in the amount of about 250 million USD. In these conditions, the anti-crisis package focuses on four areas: containing the spread of coronavirus, supporting business, expanding social protection measures for the population and ensuring the continuous functioning of the financial sector. At the same time, the priorities of state policy include employment, supporting business, creating new jobs, supporting families and increasing the income of the population. Measures were taken to attract in 2020 external borrowings in the amount of up to 1 billion USD through concessional loans from international financial institutions and other sources to ensure financing of the budget and the anti-crisis fund, as well as additional funds to finance measures to support enterprises in the real sector of the economy, exporters and commercial banks [14]. Kyrgyzstan does not have sufficient financial reserves to support SMEs during the crisis in the framework of the Program for the Development and Support of SMEs for 2019-2023. The republic has received emergency funding from the IMF in the amount of 120 million USD to mitigate the immediate economic impact of the pandemic. In addition, the IMF is financing an Action Plan to reduce the impact of external risks on the national economy and has approved an immediate debt relief to the government. The EU will provide assistance in the amount of 48 million euros. External financing also includes: assistance from the EBRD and the Russian Development Fund of Kyrgyzstan for concessional financing of SME's [15]. Tajikistan, with a significant budget deficit of 3,8% of GDP, according to ADB, is unlikely to be able to offer an anti-crisis program to stimulate the economy, as countries around the world do. The state does not have sufficient reserves to carry out measures to rescue SMEs, such as exempting enterprises and entrepreneurs from taxes, paying off losses to entrepreneurs, and maintaining salaries for employees during their temporary unemployment. The country has not developed a business support program during the period of quarantine and crisis after the pandemic, following the example of other states [16].

1.2. Results and Discussion

Thus, the situation in SME's in the countries of the region threatens with sharp decrease or even the disappearance of enterprises in the real sector of the economy and individual industries in the countries of the region. There is an acute issue of the shortage of components and raw materials that are not produced in the countries of the region, which means that the production of export-oriented industries practically stops. Many supply chains, both domestically and internationally, have collapsed. The current crisis has highlighted the obvious dependence of the region's countries on imports of many types of goods. There are interruptions in the receipt of revenues from economic activities and, accordingly, in the payment of taxes. The decline in the selling price for commodity positions such as oil, gas and metals, and the associated devaluation expectations and foreign exchange risks of banks make the already expensive lending of second-tier banks unaffordable. Many small and medium-sized enterprises will be forced to close as a result of prolonged quarantine. This will entail massive layoffs, which in the conditions of the countries of the region, where up to 70% of the population do not have savings in the form of a safety cushion, will eventually lead to an increase in the volume of loans to the population, which is already high, and an increase in poverty and inequality.

1.3. Conclusions

- In general, in the countries of Central Asia during the crisis in the first half of 2020, there was a significant deterioration in business activity in the real sector of the economy.
- The most vulnerable actors in the economy are SMEs, retail and services.
- The main area of employment is a low-productivity service sector that does not produce products with high added value.
- Most of the governments of the region have developed and implemented anti-crisis action plans, and start to review development strategies.

1.4. Recommendations

The countries of the region should study the experience of advanced countries in the field of anti-crisis economic management, analyze and implement the best examples of world practice to accelerate the recovery from the crisis and ensure long-term sustainable development of the country's economy. Proceeding from the anti-crisis measures taken by the governments of the countries of the region, it is necessary to focus on solving the following problems: to facilitate access to business financing; to increased competitiveness and to facilitate market entry; to solve institutional problems; to increase government support for SMEs; to reduce local government interference and related issues; to eliminate the shortage of qualified personnel and to increase the culture of entrepreneurship.

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