




Chapter

1

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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1.1 INTRODUCTION



Pictures from: <https://rabbit.bigbigwork.com/home>

Small and medium-size enterprises (SMEs) dominate Central Asian economies, representing more than 90 percent of total business and providing employment to thousands of people. Like other SMEs around the world, Central Asian businesses were impacted by the COVID-19 pandemic. A common public policy response to the pandemic has been to enforce the temporary closure of certain business activities. Quarantine and the disruption of inessential activities, as a measure to control the spread of the pandemic, has negatively affected national economies around the world. Government

support of businesses varied in different countries and regions. Each country had different policies during the pandemic to give financial support to enterprises and their workers. For example, some governments provided assistance by supporting workers who had been laid off. Some supported small business owners by paying a proportion of their wage income. Other countries had measures in place to provide tax relief for SMEs during the pandemic. Analyzing different country policies is useful, as it helps governments understand and therefore adopt the best practices to help the SME sector and progress towards economic recovery.

This chapter study makes a cross-country analysis to assess the effectiveness of current governmental policies to support enterprises in Central Asian countries in the context of the spread of the pandemic. The authors evaluate the support received by various SMEs during COVID-19, which provides additional insight into the problems experienced by SMEs and how they are dealing with the crisis. Moreover, this chapter includes analysis of current government relief programs in the Central Asian region. The authors carry out a cross-country policy analysis using qualitative research design methods. The content analysis method is used to analyze both primary and secondary source data from international organizations and local governments in Central Asia.

The results of this chapter support the development of strategic decisions that focus on SME recovery and sustainable growth during and after the pandemic. Research results illustrate which strategies are best for SMEs in relation to their economic survival at the time of the pandemic and adapt to the quickly changing environmental circumstances. Overall, this chapter aims to develop an enhanced understanding on how governments can support SMEs, to develop sustainability strategies to not only survive but to thrive once the pandemic passes.

The ongoing economic uncertainty owing to the pandemic has affected all countries of the world without exception, including the countries of Central Asia. The main challenges are a decrease in revenue, the risk of personnel infection, interruptions in supply chains, a lack of anti-crisis management, and uncertainty in the future. According to the UN data, about 90 percent of all enterprises in the world belong to the category of micro, small, and medium-size enterprises. They employ approximately 70 percent of the working population and account for 50 percent of global GDP (United Nations 2021). Large businesses, using their accumulated capital and assets, could adapt to new conditions during the coronavirus pandemic; whereas SMEs, owing to their small and medium size, were most at risk of bankruptcy. In this regard, the governments of almost all countries, including the Central Asian countries, urgently developed and implemented various measures to support SMEs.

Policy measures taken in connection with COVID-19 in various countries differ markedly from each other and largely reflect both the assessment of the situation by the government and its financial capabilities. Kazakhstan and Uzbekistan immediately responded to the crisis by imposing strict quarantine measures, closing borders, and preparing extensive anti-crisis packages (Flanders Investment & Trade 2022, UNESCAP 2022, Kurolova et al. 2021, ILO 2020a). As the crisis deepened, they took additional sanitary and fiscal measures. The Kyrgyz authorities also recognized the danger of the situation and reacted immediately (Dzushupov 2021); however, the scale of the response was limited by the capacity of the state budget, which is rapidly depleting, as well as a growing need for international emergency financial support. Tajikistan and Turkmenistan reported no or almost no cases of the disease and initially planned only a few measures such as limiting entry to the country, closing borders, and forcibly quarantining people arriving from abroad, which they then gradually refined (Pirogov 2020). According to official state statistics and WHO, no cases of COVID-19 have so far been registered in Turkmenistan (WHO 2022).

Given the critical part SMEs play in the economic wellbeing of the countries, it is essential to analyze how the crisis has affected SME performance in the region. The authors therefore carried out this analysis of the impact of COVID-19 on SMEs in Central Asia. Having a lack of relevant studies for this region, this analysis of the performance of SMEs in Central Asia with the occurrence of the pandemic, makes this study a valuable contribution to the existing research.

1.2 METHODOLOGY

The authors used the comparative case study method. The case considered for our research is the recovery strategies for SMEs in the economies of Central Asia, chosen because the region's economic and social characteristics are specific to Central Asia. According to George and Bennett, a case can be defined as a 'class of events,' such as a particular kind of economic system that the researcher decides to study in order to further the development of knowledge regarding the causes of likeness or difference within a particular class of events (George & Bennett 2005).

The comparative component of our case study was to compare strategies to support the ability of SMEs to cope with the economic impacts of COVID-19 within Central Asia. According to George and Bennett, a comparative method involves a non-statistical comparative analysis of a selected number of examples. Within the comparative case study field, we chose to use a controlled comparison whereby we specifically targeted COVID-19 recovery strategies in Central Asia between 2019 and 2022. This method is equivalent to an experiment and allowed us to draw causal inferences from the data.



1.2.1 Sampling methods

Review of primary and secondary source material:

In order to obtain validity for the proposition, we used data triangulation to increase the overall quality of the research (Yin 1994). This was done through the gathering of theoretical literature, archival records, and formal documentation. In addition to increasing the validity of the research, triangulation provided explanatory richness to the analysis (Yin 1994). The primary source material obtained comprised government reports and official correspondence with representatives from governmental institutions tasked with collecting data. Moreover, secondary source information was collected from academic articles, textbooks, reviews of legislation, and so on.

Rapid sampling technique:

Owing to the time urgency related to the formulation and development of effective strategies to combat the impacts of COVID-19 on SMEs in Central Asia, the authors used the rapid review technique. This was conducted so that the research results could be applied in a timely fashion. The authors used rapid review that evaluates what is already known about a policy and practice issue by applying systematic review methods. The search strategy was flexible, unbiased, and comprehensive. Recommendations for future practice and research were included. Since the topic of the paper is relatively new and emerging, and there is a lack of survey sources as well as a short timeframe for research, the rapid review method was conducted.

In the review process, the authors of this paper used a systematic review recommended by Jesson (Jesson et al. 2011), which included:

- Mapping the field through a scoping review;
- Comprehensive search;
- Write up.

At the beginning, the authors made a research plan with questions and keywords. The aim of the chapter was to make the cross-country policy comparison of supporting SMEs during the COVID-19 pandemic. The research questions formulated were as follows:

- What are the recovery strategies for SMEs in the economies of Central Asia?
- What are the main findings of the existing studies?

The following keywords were used: SMEs in Central Asia, COVID-19, SMEs during the COVID-19 pandemic, and SME support measures in Central Asian countries. The authors used inclusion and exclusion criteria. The inclusion criteria were: publications in the period 2020-2022, publications (research papers and articles from official sources) in English and Russian languages, focus on SMEs during the COVID-19 pandemic, and focus on the recovery strategies for SMEs in Central Asia.

To ensure that the review included papers from relevant journals, the authors included the following in the literature review: International Small Business Journal, International Journal of Disaster Risk Reduction, Malaysian Journal of Society and Space, Emerging Markets Finance and Trade, Journal of Business Venturing Insights, Journal of Business Research, Research in International Business and Finance, Small Business Economics Journal, National Tax Journal, Journal of Industrial and Business Economics, Central Asia Regional Economic Cooperation (CAREC) Institute official resources, Asian Development Bank official resources, PWC and KPMG resources, OECD data, National Statistics Agency of the Republic of Kazakhstan data, and other official information resources.

The authors went through the abstracts and sections of the articles to cover the scope of this study. This procedure uncovered about 40 articles and publications that contained the criteria set of the analysis. These papers were divided between the two authors, so that each author read about 20 papers and publications. The authors went through each piece of data and information entry together and discussed the content.



This joint discussion allowed the authors to make a cross-country policy comparison of supporting SMEs during the COVID-19 pandemic in Central Asian countries. It helped to clarify what is known about recovery strategies for SMEs in the economies of Central Asia.

In the final stage of the review process, the authors wrote up their findings and provided policy recommendations for the governments.

1.3 REVIEW OF LITERATURE

The outbreak of COVID-19 caused an economic crisis and affected businesses and industries all over the world. According to author Lu, China was the first country that felt the effects of the coronavirus; it overcame the effects and continued economic production (Lu et al. 2021). Research conducted by Lu L on the impact of the pandemic on SMEs in China, suggests public policies to help mitigate its negative effects. In February 2020, the authors examined the impact on 3,194 SMEs (out of 6,034) working in primary, manufacturing, wholesale and retail trade, hospitality, and new economy industries in Sichuan, China (Lu et al. 2021). The authors used online survey and follow-up interviews. Research results illustrated that the impact was different on various industry sectors: 'the primary industry sector was affected by poor logistics; the manufacturing industry sector had supply chain management problems; the wholesale and retail trade industry sector by the need to accelerate their online services; the hospitality industry sector (the most severely affected sector) by cashflow pressure; and the new economy industry sector by short-term pressures. Short-term revenue decline and an inability to resume work and production were common problems faced by all surveyed SMEs' (Lu et al. 2021). The main reasons SMEs were unable to reactivate work were: a lack of employees who

were confined by government regulations, a reduction in market demand, and a lack of preventative products. These findings from Sichuan (China) provide valuable references for global industry recovery.

Studies on the impact of the pandemic on SMEs in Malaysia also show that problems related to finance issues — such as, cashflow, access to stimulus packages, and risk of bankruptcy — were business challenges as well (Ratnasingam et al. 2020, Omar et al. 2020). However, besides these common problems, the pandemic influenced various sectors in different ways. Author Gu in their study of Jiangsu Province (China) showed that the hospitality industry, with accommodation and catering services, was seriously affected by the pandemic, and had crucial cashflow pressure (Gu et al. 2020). But supply chain management and product delivery were not notably influenced. However, the manufacturing industries had problems with the supply chain rather than financial challenges (Gu et al. 2020).

A study from Sweden included data collected from 456 SMEs in the Norrbotten region in March 2020, at the peak of the COVID-19 crisis (Thorgrena & Williams 2020). In March 2020, the chamber of commerce in Norrbotten gathered thorough data on the SMEs to understand how to help exposed SMEs, and provide accurate recommendations for the Swedish Minister for Trade (Thorgrena & Williams 2020). According to the study, the surveyed firms were from five industries: service companies (26.8 percent); tourism/cafés/restaurants (19.5 percent); manufacturing (12.7 percent); retail (12.9 percent); logistics and transportation (6.6 percent); and other (contractors and construction companies) (21.5 percent). Authors Thorgrena and Williams show that 'the long-term impact that firms thought the pandemic would have on their business were as follows: minimal = 4 percent; little = 26 percent; great = 47.8 percent; critical = 22.2 percent.' The authors were asking why 30 percent of companies supposed the pandemic would have minimal or little long-term effect on their business. Thorgrena and Williams emphasize that the data was

collected just after the first COVID-19 cases occurred in Sweden, and public discussion was then sharpened on how the crisis was influencing the hospitality, retail, and service industries. Research shows that, in general, despite the challenging times, SMEs were quite optimistic. This study also states that, within the time the pandemic occurred and beyond the data collection period, it was clear that many other industries would also be affected by the crisis, whether positively or negatively (Thorgrena & Williams 2020).

Author Fabian Eggers, in his analysis of small businesses in different countries worldwide, describes SMEs with low or unstable cashflow as notably vulnerable during crises, because they are struggling to retain their profitability during these hard times. Research reveals there is an interrelation between finance and strategy, especially entrepreneurial and market orientation in strategies (Eggers 2020). The study shows that entrepreneurial and market orientation together lead to flexible marketing efforts and are therefore crucial during the crisis. Furthermore, 'entrepreneurial orientation and market orientation can be grouped into an entrepreneurial marketing post-disaster business recovery framework, which underscores that seeking opportunities, organizing resources, creating customer value, and accepting risk are apparently different in a post-disaster context' (Eggers 2020).

In March 2020, governments worldwide started to take action to protect public health in the face of the global COVID-19 pandemic. These measures still exist and include social isolation, closure of public places, cancellation of events with more than ten people, and cessation of non-essential activities (Nicola et al. 2020, Saez et al. 2020). Other recommendations made by authorities include avoiding public transport and maintaining social distancing (Ali & Alharbi 2020). As a result, these limitations have reduced the economic activity of all kinds of enterprise. Countries with a strong economy are also significantly impacted. The quarantine caused a decrease in GDP of the United Kingdom by 3 percent (Nicola et al. 2020). It also increased the unemployment rate, forced businesses to cease trading, and caused more social inequality (Nicola et al. 2020, Blustein

et al. 2020, O'Connor et al. 2020). Studies show that strict containment measures had a serious effect on China's economy. Data from the National Bureau of Statistics on 17 April 2020 shows that China's first quarter GDP decreased by 6.8 percent — the first reduction in China's economy since 1992. In spite of the high rate of reopening of business and government activity to help SMEs to recover, the effects of the pandemic have not been terminated, as it is not yet fully under control in the world (Normile 2020).

Bartik et al., in their survey of more than 5,800 small businesses in the United States, discovered that 43 percent of small companies were temporarily closed by December 2020 (Bartik et al. 2020). Mass layoffs and closures have occurred, and businesses have reduced their employee counts by 40 percent (Bartik et al. 2020). The study also shows survival rate differences across industries. In-person industries — for instance, personal services or retail — showed lower prospects of overcoming the pandemic than professional services or other sectors that require minimal in-person contact (Bartik et al. 2020). Bartik also shows that one fifth of America's small business workers specialize in retail trade, leisure, and hospitality sectors, which are especially at risk during the pandemic. Predictably, the probability that firms will reopen after the crisis decreases as the crisis lasts longer (Bartik et al. 2020).

'In Latin America and other emerging economies, the negative influence of the pandemic is likely to be more serious because of additional issues like poor healthcare systems, misinformation about COVID-19, limited access to clean water and sanitation services, poverty and vulnerable ethnic groups, precarious job security, and so on!' (Burki 2020). Particularly, SMEs in developing countries are family-owned in most cases, and have the difficulty of economic burdens and uncertainty (Caballero-Morales 2021). Although government loan schemes have been developed to assist companies to get through the pandemic, these are not efficient as they require constant cashflow to keep workers, pay rent, and invest in their infrastructure (Caballero-Morales 2021).

In the CAREC Institute study on the impact of COVID-19 on SMEs in Pakistan, Uzbekistan, Kazakhstan, and Georgia, the authors surveyed SMEs (including micro businesses) within the period from December 2020 to January 2021; this generated data on company assessment of the economic impact of the pandemic, and the mechanisms developed to cope with difficulties. Companies compared their work at the end of 2020 with the situation before the pandemic, which helped to amass empirical data on the impact of COVID-19 (Weafer et al. 2021). This data provided information to governments about successful policy interventions. In particular, the research examined the impact of the COVID-19 pandemic on SMEs, which included data on sales (as well as online sales), employment, wages, cashflows, access to finance, support that SMEs received, and government support programs (Weafer et al. 2021). By using the technique developed by the United Nations Development Program (UNDP), survey results were accumulated in one overall score, which showed how companies in four countries dealt with the impact of the pandemic, and the Resilience Index was developed (Weafer et al. 2021), enabling cross-country comparison. From 64 percent to 89 percent of SMEs showed no, or poor, resilience to the effects of the COVID-19 pandemic (Weafer et al. 2021). Very few firms displayed strong resilience. In Uzbekistan and Kazakhstan, in particular, most SMEs indicated no, or poor, resilience: 64 percent and 77 percent respectively.

In general, the study shows that most SMEs in Pakistan, Uzbekistan, Kazakhstan, and Georgia were negatively affected by the pandemic. The primary effect was a significant decrease in demand owing to lockdown, workers not being able to go to their workplaces, and negative impacts on supply chains (Weafer et al. 2021). So, according to authors, it is not surprising that many companies experienced negative effects, and nine in ten investigated companies reported that their businesses were negatively affected, with the temporary closure of 60 percent of SMEs in Georgia, almost half of Pakistani and Kazakh SMEs, and a third of Uzbek companies (Weafer et al. 2021). The authors also concluded that, the smaller the firms, the more significantly they were affected.

Another study conducted by ADBI experts used data from four CAREC member countries: Azerbaijan, Georgia, Kazakhstan, and Mongolia (ADB Institute 2022). This research investigated factors that impacted the capability of companies to adjust production during the COVID-19 outbreak. The authors used the data gathered by the World Bank Group, which highlighted issues on COVID-19 and company behavior during the pandemic. A probit model was used to study how a variety of factors — such as company characteristics and government policy — influenced the possibility that a company will adjust its activities to the new conditions. The results indicated that those firms that successfully adapted to the pandemic crisis were young companies, foreign firms that were recently innovative, having female managers, a formal firm strategy, and their own website (ADB Institute 2022). Overall, the research findings indicate that firms are adapting to the new circumstances.

Overall, the research results of the previous studies show that most SMEs were severely affected by the crisis, and have faced issues such as supply chain disruption, decrease in demand, reduction in sales and profit, and so on. Central Asian enterprises are no exception and were hit hard by the pandemic. Despite high rates of economic growth in recent years, the level of GDP per capita and other indicators in the majority of Central Asian countries is at the average for developing countries (Mukhitdinova 2015).

Governments worldwide provided support programs as the economy shut down in order to slow the spread of the coronavirus (Bhutta et al. 2020). In the United States, the Paycheck Protection Program (PPP), which provides funds to small businesses, spent US\$650 billion at the beginning of the pandemic (Bhutta et al. 2020). The program administered by the Small Business Administration (SBA) issued loans to SMEs to help small businesses retain their employees (Fairlie & Fossen 2021). Overall, small businesses were provided with a total of 15 million loans or advances (Fairlie & Fossen 2021).

The German government's measures to protect businesses affected by the COVID-19 crisis comprised taxation support, state-supported work compensation for a short-term period, and loans provided by Kreditanstalt für Wiederaufbau (KfW) (PWC 2020). The UK government implemented the Coronavirus Job Retention Scheme (CJRS) to support company workers; this program covered 80 percent of employee salaries up to a £2,500 per month (Belitski et al. 2021). About 8.7 million employees took some time off at an estimated total cost of around £60 billion (Yue & Cowling 2021). In China, the government started supporting SMEs in February 2020 (Belitski et al. 2021). A package was presented by the government to support the digitalization of SMEs during the crisis (Belitski et al. 2021). Comprehensive policy measures were announced for SMEs in China. These included 'deferred tax payments for SMEs, reducing rent costs, waiving administrative fees, subsidizing R&D costs for SMEs, social insurance subsidies, subsidies for training and purchasing teleworking services, and additional funding to support SME loans' (KPMG 2020a).

Author Fabian Eggert denotes that many SMEs were not doing well in the short term because of existing issues such as 'little or no investment in improvements and knowledge of the market, lack of formal planning and demand forecasting, lack of managerial and technical skills, and limited economic resources' (Eggert 2020). These all make SMEs increasingly insecure when employees are quitting their jobs and there is a reduction in demand because competitors are entering the market (Eggert 2020). Other authors outline that in the context of the crisis, innovation helped to increase the organizational resilience of businesses and economic development in sectors like manufacturing and service (Forsman 2011, Uçaktürk et al. 2011, Nah & Siau 2020). And according to Eggert, the development of a methodology for improving SME performance can help enterprises to have increased flexibility and better relationships between their decision makers and their customers (Eggert 2020). Therefore, author Santiago-Omar Caballero-Morales proposes a methodology based on the following two aspects:

- 'Optimization: to improve the processes of SMEs and reduce waste and costs, as cost optimization is important for business survival and continuity;
- Innovation: for the development of new products that meet new market needs. The achievement of innovation cannot be affected without prior optimization of the processes' (Caballero-Morales 2021).

Juergensen outlines that SMEs can benefit from schemes of innovation support (Juergensen et al. 2020). Product and marketing innovations, in particular, are more advantageous for standalone SMEs. Marketing innovations might be useful to retain existing customers and attract new ones (Juergensen et al. 2020). Juergensen claims that 'for specialized suppliers, the main focus will need to be on process and organizational innovations, enabling them to compete on price and quality' (Juergensen et al. 2020). At the same time, 'more investments in entrepreneurship and startup support will turn critical to promote knowledge-based SMEs' (Juergensen et al. 2020).

Le et al. (2020), based on the research of Thanh Hoa province, in their study provide the model of policy-related factors from government action (at all levels) affecting the survival and development of SMEs (Le et al. 2020). The authors outline that, starting from December 2019 to the present day, the world is affected by the COVID-19 pandemic. The pandemic negatively influenced world and Vietnamese socioeconomic activities, including most industries and economic sectors (Le et al. 2020). The authors investigate the construction of a model focusing on: '(i) tax support policies; (ii) preferential bank policies, such as reducing interest rates and extending repayment periods; (iii) government capital support packages; (iv) insurance policies; (v) the actions of public administration; and (vi) the role of professional associations' (Le et al. 2020). Based on



the research, author Le provides the following recommendations (Le et al. 2020):

- 'Issue policies to reduce bank interest rates and extend the repayment period for businesses: this is one of the important solutions to help businesses overcome the pandemic, especially for SMEs with small scales, limited capital, and limited market share';
- 'Promptly deploy support packages to stabilize and recover production: timely support packages will create favorable conditions for enterprises to maintain production and business activities in the context of the market being seized owing to disruption in production chains';
- 'Proposal for tax exemption; the reduction of taxes, fees, and charges for businesses: the reduction of tax collection, or some fees and charges will contribute to reducing business costs';
- 'Suspend the payment of retirement and death insurance fund: in the immediate future, the policy should focus on two specific groups: (1) employees who have stopped work or quit their jobs owing to the COVID-19 pandemic: (2) enterprises affected by COVID-19 with more than 50 percent of employees having to be laid off or take time off, or over 50 percent of the total value being damaged owing to the COVID-19 pandemic';
- 'Strengthen supply and demand linkage, promote trade, and promote cooperation among enterprises through the role of professional associations: in the difficult period of the impact of the COVID-19 epidemic, cooperation among enterprises in the same industries or in production chains can be an important way to help businesses overcome the epidemic';
- 'Improve the proficiency of staff in the state administrative system: the research results show that the operational efficiency of the state administrative system plays an important role in supporting businesses to overcome the COVID-19 pandemic. Simplifying procedures also helps business to facilitate their operations' (Le et al. 2020).

1.4 MAIN INDICATORS OF SMES AND SUPPORT MEASURES IN CENTRAL ASIAN COUNTRIES

The economies of CA are defined as the five former Soviet republics of CA: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. After gaining independence in 1991, the countries of CA went through the transition to market economies and experienced substantial economic decline. SMEs contribute almost 90 percent of all businesses in Central Asia (OECD 2018). But SME contribution to GDP varies from 25 percent to 41 percent (OECD 2018). This figure is different in Uzbekistan, where it is closer to the OECD average of 55 percent (OECD 2018). SMEs employ 78 percent of the workforce in Uzbekistan and only 38 percent in Kazakhstan (OECD 2018). Generally, low-value added sectors, particularly agriculture and trade, are small businesses. There are a variety of obstacles to SME growth and development in the region; these are related to limited resources (financing) for SMEs and weak regulatory frameworks. But some governments in CA — for instance, in Kazakhstan — support SME access to finance through measures such as subsidized rate of interest, direct loans, and tax exemptions (OECD 2018).

According to ADB data, the economies of the CA countries most influenced by the COVID-19 pandemic are Kazakhstan and Kyrgyzstan. As depicted in Table 1.1, these countries had a negative GDP growth in 2020: (-2.5) for Kazakhstan and (-8.4) for Kyrgyzstan. Other CA countries also had a decline in GDP growth, although the indicators are not negative.

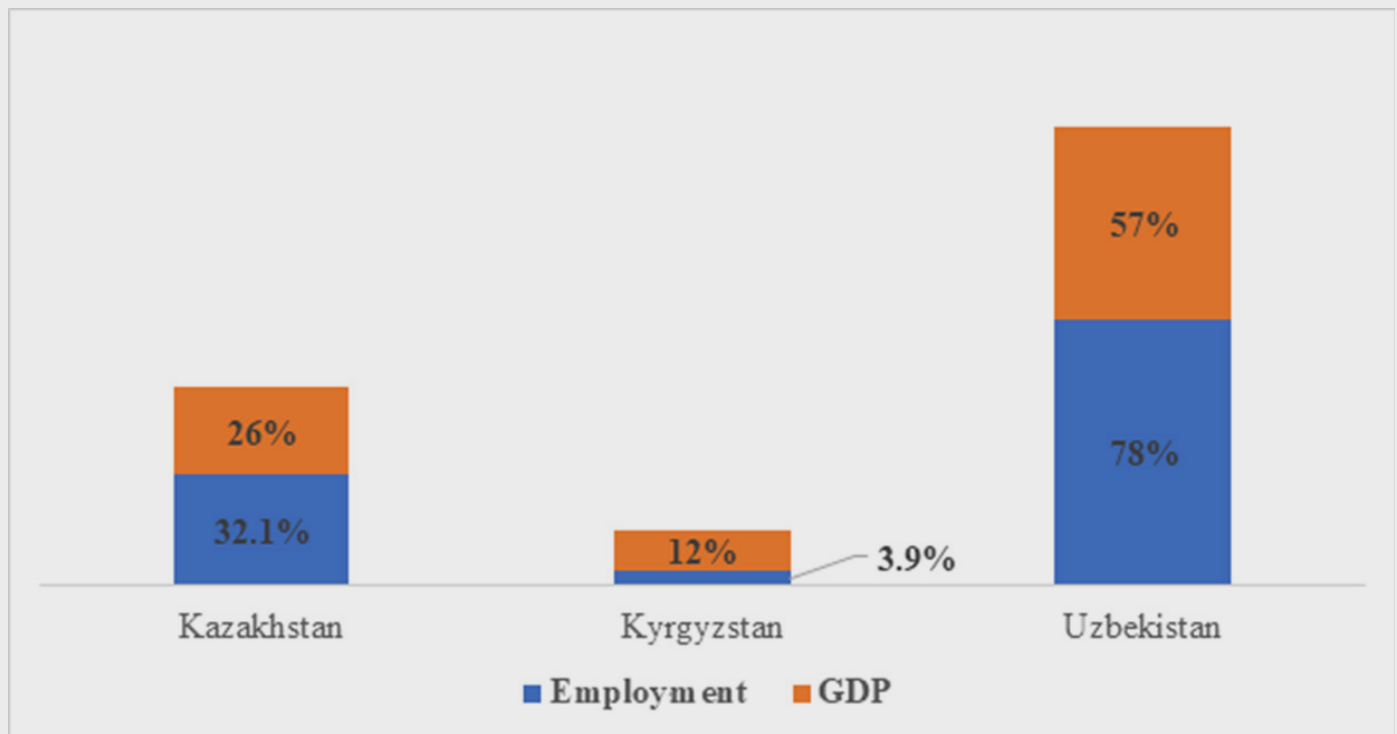
Table 1.1. GDP growth, Central Asian countries (annual percentage)

	2019	2020	2021	2022	2023
Caucasus and Central Asia	4.7	-2.0	5.6	3.6	4.0
Kazakhstan	4.5	-2.5	4.0	3.2	3.9
Kyrgyzstan	4.6	-8.4	3.6	2.0	2.5
Tajikistan	7.5	4.5	9.2	2.0	3.0
Turkmenistan	5.0	6.0	5.8
Uzbekistan	5.7	1.9	7.4	4.0	4.5

Source: ADB 2022

Figure 1.1 shows that SMEs play a substantial role in the CA economy, as they constitute an essential part of a country's GDP and provide employment for the population. The further development of small businesses in manufacturing, trade, and service sectors can assist economies to shift from natural resource sectors where large companies are mainly overrepresented in the Central Asian region (OECD 2018). Most SME producers and firms in the region supply only domestic markets, which means there is much scope to increase trade.

Figure 1.1. SME percentage share of GDP and employment



Source: ADB 2018



1.4.1 Kazakhstan

The role of SMEs in Kazakhstan's economy has become increasingly important in recent years. The number of SMEs increased twofold from 2005 to 1 357 311 in 2020 (National Statistics Agency of the Republic of Kazakhstan). In 2005, small businesses made up 11 percent of Kazakhstan's GDP and in 2019 this figure increased to 31.7 percent. Employee numbers also increased in this period: in 2005, there were 1 875 526 SME employees, whereas at the end of 2020 this figure grew to 3 369 915 (National Statistics Agency of the Republic of Kazakhstan). Kazakhstan's government assists SME growth with special programs. There are support infrastructures like business incubators, technoparks, consulting and training centers, and financial support through loans and grants.

The state of emergency and the quarantine had a negative impact on business in Kazakhstan (KPMG 2020b):

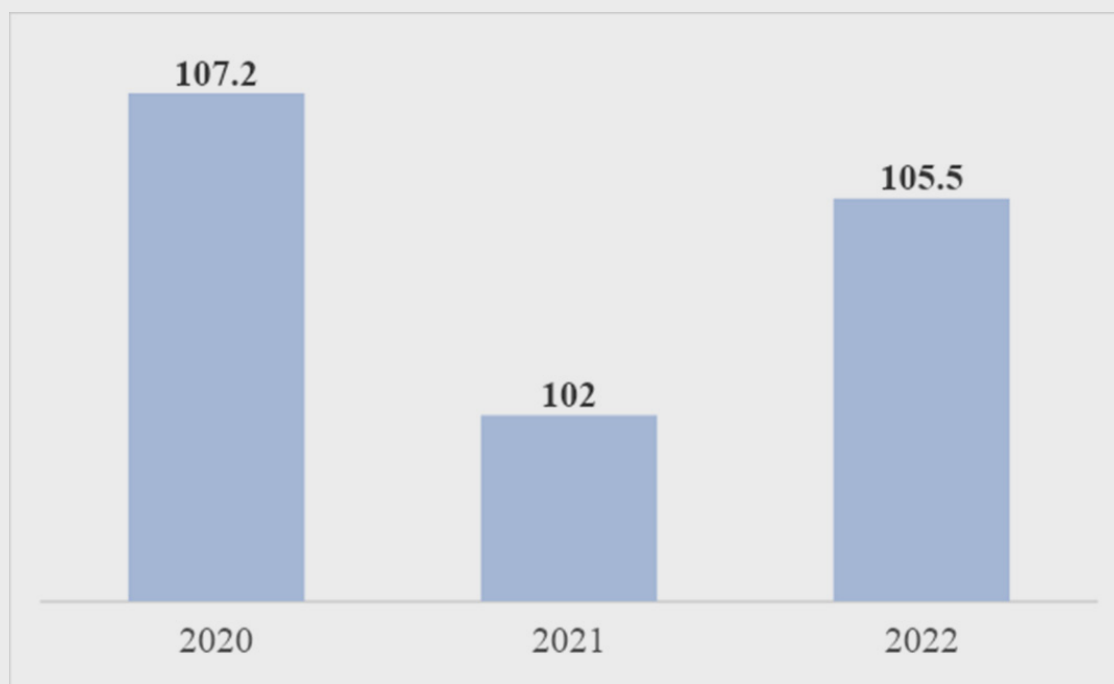
- About 300,000 enterprises suspended activity;
- More than 1.6 million people took unpaid leave;
- 1 million enterprises were directly affected by the pandemic, mainly in the sphere of services and trade;
- About 14,000 to 15,000 enterprises with bank loans applied to reschedule the debt;
- 4.5 million people received social payment from the state.

According to the CAREC Institute study, COVID-19 negatively affected almost nine in ten SMEs (including micro firms) in Kazakhstan. 86 percent of investigated SMEs had significant problems with business operations: 70 percent of manufacturing firms to 94 percent of service firms (Weafer et al. 2021). The medium-size firm sector experienced the worst situation, with 96 percent of firms reporting a negative impact. The most significant effect of the crisis associated with the pandemic is that 49 percent of SMEs had to temporarily stop trading. Service and trade sectors were affected the most: 53 percent and 52 percent respectively experienced temporary closure (Weafer et al. 2021). 68 percent of all SMEs had a decline in sales in November 2020 compared with February

of the same year. 34 percent of those firms reported a decline of more than 50 percent. The services sector suffered the most: 72 percent of companies in this sector reported an overall sales decline. In terms of firm employment level, 35 percent of all SMEs (including micro firms) needed to reduce the number of their permanent employees. The sole trader segment was least impacted: two thirds of surveyed firms indicated that they did not need to change the level of staff at all. Thirty nine percent of companies had to reduce employee working hours (Weafer et al. 2021). Three quarters of SMEs suffered a decrease in cashflow. Agricultural firms particularly suffered, with 91 percent reporting cashflow problems. 54 percent of all SMEs had external support. Mostly, companies denoted support from friends and families (22 percent of companies). 17 percent of SMEs stated that they received support from the national government. Only 31 percent of SMEs received government support during the COVID-19 pandemic. However, 60 percent of medium-size firms, along with manufacturing firms (48 percent) were positive about government support during the pandemic. Overall, SMEs would rather get financial support: over half of all MSMEs preferred zero interest loans (54 percent) and tax relief (53 percent) (Weafer et al. 2021).

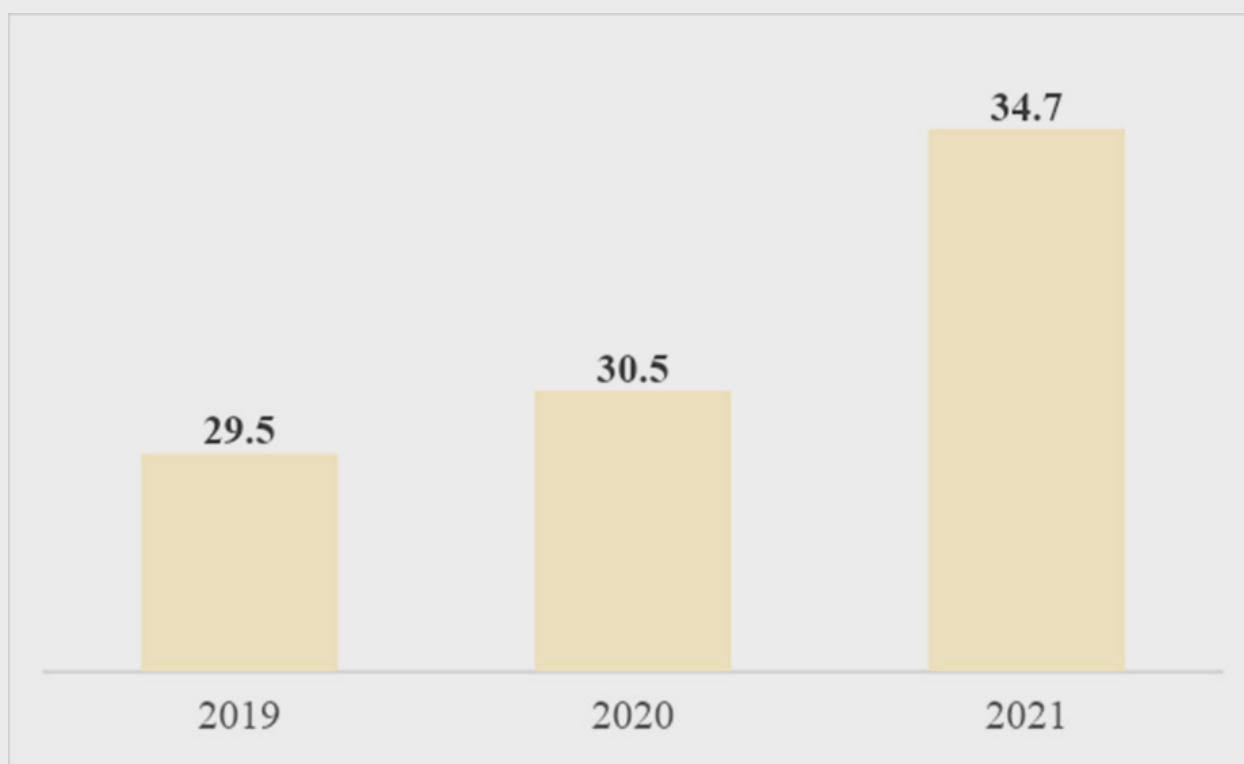
Data from the National Statistics Agency shows that the number of operating SMEs in Kazakhstan declined during 2020 to 2022 (Figure 1.2). However, the share of SMEs in GDP and the number of people employed in small and medium-size businesses in Kazakhstan has slightly increased in the last three years. We can assume that during the pandemic the number of SMEs increased—for instance, companies providing healthcare, pharmaceutical, and delivery services. But, in general, growth has decreased compared with 2019.

Figure 1.2. Number of operating SMEs in Kazakhstan, as a percentage of the corresponding period of the previous year (data for 1 January)



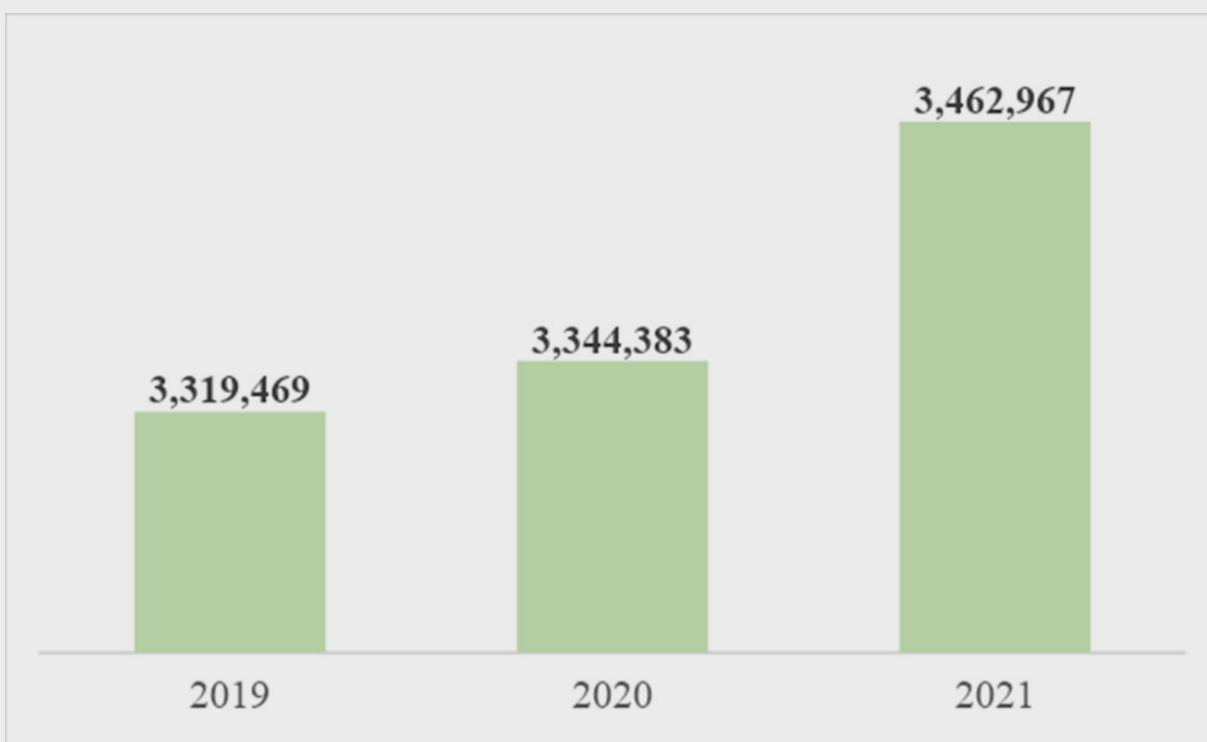
Source: National Statistics Agency of the Republic of Kazakhstan

Figure 1.3. Percent share of SMEs in GDP in Kazakhstan, data for three quarters of the corresponding year (January to September)



Source: National Statistics Agency of the Republic of Kazakhstan

Figure 1.4. Number of employees in SMEs in Kazakhstan, data for three quarters of the corresponding year (January to September)



Source: National Statistics Agency of the Republic of Kazakhstan

Support for SMEs in Kazakhstan was announced immediately after the introduction of a state of emergency. The decision was made to provide 600 billion KZT (about US\$1.4 billion) to SMEs as working capital at a favorable interest rate for a period of one year. At the end of 2020, an additional 170 billion KZT (about US\$400 million) was funded (Lyapunov 2021). In addition, 84.5 billion KZT (about US\$200 million) was allocated for the implementation of the 'Business Roadmap' (Official information resource of the Prime Minister of the Republic of Kazakhstan 2020). The Business Roadmap 2025 program has been successfully implemented since 2010 and, along with existing state support programs for small and medium-size businesses, it is one of the most popular in Kazakhstan. Business Roadmap 2025 includes a new direction: microcrediting for micro and small businesses. Preferential lending under the Business Roadmap 2025 program is provided at a rate of 6 percent per annum for a period of five years; the loan amount is up to 7 billion KZT (about US\$16 million) without industry restrictions (Official information resource of the Prime Minister of the Republic of Kazakhstan 2021). The amount of credit support per entrepreneur has been increased to 7 billion KZT (US\$16 million); earlier it was 2.5 billion KZT (about US\$5.8 million). The loan amount for the replenishment of working capital has been increased from 60 million KZT (US\$140 thousand) to 500 million KZT (about US\$1.2 million) and is provided as a revolving loan fund. Enterprises engaged in the trade sector are entitled to receive state support loans of 100 million KZT (Ministry of National Economy of the Republic of Kazakhstan). According to data from JSC 'DAMU' Entrepreneurship Development Fund, in December 2020 applications of 4,180 small and medium-size businesses in the negatively affected sectors of the economy were approved for subsidizing interest rates up to 6 percent on loans totaling 754 billion KZT (about US\$1.7 billion) (Agency of the Republic of Kazakhstan for regulation and development of the financial market 2020).

Starting 1 January 2020, the income of small and micro businesses that use special tax regimes was exempt from income tax. This measure covers about 1.2 million micro and



small businesses for a total amount of 382 billion KZT (official information resource of the Prime Minister of the Republic of Kazakhstan 2021). Moreover, until 1 October 2020, Kazakhstan SMEs were exempt from contributions for compulsory social health insurance (online edition Zakon.kz). A list of entities that will use the 'zero' rate for taxes and social payments has been approved; these are companies working in trade, transport and maintenance, education, medicine, tourism, the restaurant and hotel business, entertainment, software engineering, and fitness (Kapital.kz 2020). In addition, SMEs in Kazakhstan received exemption from renting state property until 1 July 2021 (official information resource of the Prime Minister of the Republic of Kazakhstan 2021).

1.4.2 Kyrgyzstan

According to official data of the National Statistical Committee of the Kyrgyz Republic, in 2020 SMEs in Kyrgyzstan received 135.3 billion Kyrgyzstan Soms (KGS) of revenue (gross income) from the sale of products (goods and services). Their share in the revenue of enterprises in the real sector of the economy was 27.4 percent (National Statistical Committee of the Kyrgyz Republic 2021).

Compared to 2019, the revenue level of SMEs decreased by 12.6 billion KGS—8.5 percent; however, compared to 2016, it increased by 36.3 billion KGS (1.4 times). The largest volume of proceeds was received by industrial enterprises (38.2 percent of the total volume of SMEs), construction (21.0 percent), as well as wholesale and retail trade, and repair of cars and motorcycles (17.0 percent). Of the total revenue, 65.7 percent was provided by SMEs in Bishkek (National Statistical Committee of the Kyrgyz Republic 2021).

In 2020, SME activity showed a positive balanced financial result: 2.5 billion KGS, the lowest result over the past five years. In 2020, firms in the following sectors became unprofitable: industrial enterprises (3.37 billion KGS); professional, scientific, and technical activities (1.69 billion KGS); organizations in the real estate business (494.7 million KGS); cargo transportation and storage (36.1 million KGS) (National Statistical Committee of the Kyrgyz Republic 2021). In addition, in 2020, firms in the following sectors became less productive: construction, hotels and restaurants, information and communications, financial intermediation and insurance, administration and support, education, and health and social services. According to the National Statistical Committee of the Kyrgyz Republic, there was a revenue increase in agriculture, forestry, and fishing by 1.7 times; in other service activities by 1.5 times; and in wholesale and retail trade, as well as car and motorcycle repair services, revenue increased by 2 percent (National Statistical Committee of the Kyrgyz Republic 2021).

The ADB allocated US\$50 million to Kyrgyzstan to combat the consequences of the coronavirus. The bank approved a US\$50 million loan and grant to help the Kyrgyzstan government mitigate the serious negative health, social, and economic impacts of the coronavirus (Borisenko 2020). ADB's financial support will help with the government's urgent priorities, give social protection to the vulnerable parts of society, and provide fiscal stimulus to the poor to support SMEs and the manufacturing industries of the economy (Borisenko 2020).

In turn, the government of Kyrgyzstan gave SMEs various types of deferral for taxes and other expenses. From April to October 2020, taxpayers had the right to apply for a deferral/installment plan of tax debts resulting from force majeure circumstances for up to a year (Lazaryan 2020). The deadline for submitting reports was extended to 1 July 2020 and any sanctions within that timeframe were cancelled. Additionally, the deferral

of rental payments and payments on budgeting loans was introduced in Kyrgyzstan. These measures affect borrowers who were forced to suspend activities because of the introduction of an emergency (Lazaryan 2020).

1.4.3 Tajikistan

According to the World Bank's 'Doing Business 2020' report, Tajikistan's business environment has been improving; it rose from 126th place in 2019 to 106th in 2020 (EBRD in Tajikistan 2020). However, the country still has issues with access to foreign currency liquidity and SMEs have difficulty finding skilled personnel. SMEs play an important role in the economy of a country; however, business owners have problems because of the pressure of state regulatory policy, which can lead to the transition of businesses to the informal sector (EBRD in Tajikistan 2020).

SMEs (including micro level firms) in Tajikistan suffered as a result of the pandemic crisis. They experienced a lack of financial resources, which led to delays in the supply of raw materials (disruption in supply chains). According to UNECE data, 63.1 percent of SMEs suffered mainly because of the closure of international borders and local markets during the pandemic (Bakhtdavlatov 2021). SMEs in the tourism and hospitality sectors suffered the most from COVID-19; and agricultural enterprises suffered the least. Only a small amount of SMEs (5.8 percent) experienced an increase in sales and turnover. The most common negative impacts on SMEs in Tajikistan included firms' inability to pay off loans, pay taxes, produce goods or services at pre-COVID-19 levels, and pay salaries (Bakhtdavlatov 2021). More than 25 percent of SMEs in Tajikistan stated that they had difficulties repaying loans, and 22.6 percent of SMEs had problems with paying taxes regularly. 81.6 percent of SMEs in the country were concerned about the impact of COVID-19 on their business. A very small number of surveyed SMEs in Tajikistan (6.3

percent) were neither influenced by nor worried about the outbreak of the pandemic and its potential effect on their activities; however, this applied mainly to companies that are least dependent on regional supply chains (Bakhtdavlatov 2021).

Very few SMEs in Tajikistan adopted innovative adaptation strategies (28 percent of affected businesses) to cope with the coronavirus outbreak, including the following (Bakhtdavlatov 2021):

- Reduction in the production of goods and services (40.3 percent)
- Introduction of new goods or services (27.1 percent)
- Transition to online marketing and/or sales (24.3 percent)
- Conclusion of contracts with new sellers or suppliers (17.4 percent)

Overall, UNECE experts show that the economy of Tajikistan was already unstable because of economic shocks over the last ten years and the pandemic made the situation even worse (Bakhtdavlatov 2021).

In summary, the Tajikistan government implemented its action plan to reduce the impact of external risks on the economy because of the pandemic crisis (Information and Analytical Department of the CIS Executive Committee 2020). The plan included the provision of tax incentives and tax holidays for vulnerable SMEs, the postponement of non-tax audits, and the attraction of financial assistance from international financial institutions (Information and Analytical Department of the CIS Executive Committee 2020).



1.4.4 Uzbekistan

The CAREC Institute survey shows that 86 percent of all SMEs (including micro level firms) in Uzbekistan claimed that the COVID-19 crisis had a negative effect on their operations (Weafer et al. 2021). The companies that operate in the service sector were most negatively influenced; 94 percent of SMEs in the service sector showed that they were negatively impacted by the pandemic (Weafer et al. 2021). One quarter of firms in the agricultural sector showed that the crisis had a positive impact on them (Weafer et al. 2021). Overall, only a third of all SMEs (including micro level firms) in Uzbekistan experienced a temporary closure of their business; a fifth of these were manufacturing firms. About half of respondents (49 percent) had a monthly revenue decrease in November 2020 compared with February 2020 (just before COVID started). A quarter of all respondents (firms) saw no revenue change. Only 15 percent of SMEs in Uzbekistan reported a decrease in the number of their permanent employees and 73 percent showed no change in employee numbers (Weafer et al. 2021).

SMEs in the agricultural sector had to downsize 32 percent of staff. 70 percent of SMEs reported having cashflow problems (Weafer et al. 2021). And two thirds of Uzbek SMEs (including micro level organizations) did not receive any external support during the pandemic crisis. Firms that received aid stated that it was national government support; only 11 percent of companies used it. However, up to 65 percent of SMEs reported that the government provided enough support during the pandemic, with 75 percent of agricultural firms making this statement. Overall, SME owners in Uzbekistan would like to receive the following government support in the future: 77 percent want the government to provide loan guarantees, 60 percent want a loan repayment moratorium, and 57 percent would like to have simplified loan procedures and zero interest loans (Weafer et al. 2021).

Statistics Committee of Uzbekistan data shows that there was an increase in the production level of SMEs in the following sectors: industrial enterprises, construction, export and import, trade, agriculture, and services between 2017 and 2021 (Table 1.2). This increase was most pronounced from 2019 to 2020 and in 2021 with the start of the pandemic.

This data indicates that the pandemic did not have a significant negative effect on SMEs operating in those sectors in Uzbekistan (State Statistics Committee of the Republic of Uzbekistan). On the other hand, the employment level of Uzbek SMEs decreased from 10,318,900 to 9,865,700 from 2019 to 2020 (the year when COVID-19 started) (State Statistics Committee of the Republic of Uzbekistan). Also, the passenger transportation level and overall passenger turnover in Uzbekistan's SMEs decreased in the last three years with the start of the pandemic. Table 1.3 shows the sector share of SMEs in Uzbekistan; it is noteworthy that the share of SMEs in the country's GDP, export and import, employment, and construction sectors decreased from 2019 to 2021.

Table 1.2. The volume of key indicators of SMEs and private entrepreneurship in sectors of the economy of Uzbekistan, 2017-2021

Indicators	2017	2018	2019	2020	2021
Industry (billion soums)	61,367.8	87,962.0	83,344.2	103,020.8	121,719.2
Construction (billion Uzbek soums)	22,469.4	37,451.7	53,960.9	63,866.6	77,762.0
Employment (million people)	10.5	10.1	10.3	9.9	-
Export (billion US dollars)	2.9	3.8	4.7	3.1	3,711
Import (billion US dollars)	7.5	10.9	15.0	10.9	12,389.0
Trade (billion Uzbek soums)	92,973.0	114,896.4	138,920.7	164,106.1	249,493.3
Agriculture, forestry, and fisheries (billion Uzbek soums)	152,010.5	191,759.2	219,466.9	253,238.2	307,280.2
Services (billion Uzbek soums)	69,212.7	84,433.4	103,106.6	114,052.7	144,812.7
Freight transportation (million tonns)	548.8	611.7	641.0	638.9	678.9
Freight turnover (billion ton-km)	10.4	11.7	12.2	12.3	13.1
Passenger transportation (billion people)	5.0	5.2	5.3	4.9	5.2
Passenger turnover (billion people km)	111.4	115.3	117.4	107.8	114.7

Source: State Statistics Committee of the Republic of Uzbekistan

Table 1.3. Percent share of small business and private entrepreneurship in Uzbekistan, 2017-2021

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: State Statistics Committee of the Republic of Uzbekistan

The EBRD allocated US\$220 million to finance small businesses in Uzbekistan. Four Uzbek commercial banks were provided with credit lines to finance SME projects and a line of trade finance for a total of US\$220 million (Amuyeva & Başay 2020). The Uzbek government developed measures to support entrepreneurs whereby personal income tax and social tax were suspended. Uzbekistan also temporarily abolished taxes on land and property to support businesses. The President of Uzbekistan, Shavkat Mirziyoyev, signed a decree on further measures to support the population and business entities during the coronavirus pandemic; this was aimed solely at private enterprises with no state share in the authorized capital. The tax breaks increased the survival chances of the Uzbek SMEs during hard times (Stashkina 2022). For two months (from 1 May to 1 July 2020), the social tax rate for small enterprises and micro firms was reduced by 11 percentage points (from 12 percent to 1 percent). From 1 June to 1 September 2020, all small businesses, markets and shopping malls, cinemas, catering enterprises, and public transport enterprises in Uzbekistan were exempt from paying property tax and land tax. Property and land taxes due from small businesses and micro firms for April and May 2020 were also written off (Stashkina 2022). In addition, the State Fund for Entrepreneurship Support partially compensated for covering interest expenses on loans.



1.5 CONCLUSION AND POLICY RECOMMENDATIONS

Analysis shows that the COVID-19 pandemic had an effect on the performance of SMEs in all Central Asian countries; the growth level changed and slowed as the pandemic occurred. Government and lockdown policies influenced the operation of SMEs in Central Asia. Some sectors in particular were impacted, including the tourism, hospitality, services, construction, and manufacturing industries. Without doubt, all CA countries were seriously influenced by COVID-19, but there were some differences in the regulatory interventions, financial capacities, economic development, and so on. With reference to these differences, this study gives some insight for further research in this topic.

In early 2020, economic growth in the region suddenly stopped as a result of the pandemic. In 2022, some SMEs are still not back to their pre-crisis sales levels. Some restrictions have still not been lifted, including social distancing requirements, restrictions on hours of operation and customer numbers, and the mandatory use of sanitary equipment. However, with support from local governments and international organizations, the economies of the Central Asian countries are gradually recovering. The crisis had a more detrimental effect on the economies of the region rather than on the health of the population; the levels of morbidity and mortality in Central Asia are lower than in some countries that border the region. The economic growth of some countries in the region depends heavily on migrant remittances and the exports of extractive industries. Thus, the closure of borders and the fall in demand for raw materials have seriously affected growth prospects.

The impact of the crisis on the private sector, and especially on SMEs, which have fewer reserves, required government support to cushion the blow. During the period of the most stringent quarantine measures, governments introduced measures to support SMEs and entrepreneurs. These measures included tax and financial measures, the simplification of administrative procedures and requirements, and the suspension of inspections and audits. Emergency support programs — such as target loan portfolios, loan guarantees, and funds to support SMEs — the scope and scale of which were determined by the state budget, became the central element of the anti-crisis packages. Exemption from taxes and social contributions was introduced and, in some cases, a deferral of payment for utilities and rent.

Based on the findings of this study and the review of literature, the authors suggest some policy measures to help SMEs to deal with the consequences of pandemic. Their analysis of government fiscal measures and monetary policies aimed at preventing the negative effects of COVID-19 gives valuable insight into the performance of SMEs after the pandemic. It also leads to a broader country/regional context analysis to enable them to come up with specific policies, strategies, and programs.

The analysis shows that the COVID-19 pandemic continues to impact the economies of CA countries, specifically SME performance. SME growth halted in 2020. Regulatory measures such as lockdowns and border closure have significantly affected trade and consumption in Central Asia — especially because the countries in the region are highly dependent on the export of raw materials, primary commodities, and agricultural products. The lockdown and movement control strategies advised in dealing with COVID-19 were executed through social distancing, self-isolation, and travel restrictions, all of which

forced SMEs to be temporarily closed down. The impacts from those regulations are likely to lead to job losses and to the disruption of the economic ecosystem, leading to financial difficulties and even bankruptcies. There is also a risk of increased inequality (for women, migrants, informal workers, and the rural population). The governments of CA countries should further diversify their economies if they want to decrease their vulnerability to economic shocks and increase their support of SMEs — specifically, providing access to finance and development support and export promotion. Foreign trade could be helpful for SMEs in terms of providing more resilience for companies (compensating for falls in domestic demand) and to enhance innovation and diversify supply chains.

Furthermore, our study reveals that, because of the COVID-19 pandemic, there was a decline in the growth of SMEs and their employee numbers (in some sectors) in 2020 to 2021 compared to 2019. Therefore, employee protection and accuracy of information play an important role in sustainable production, business operation, and updating stakeholders about the situation. The governments of CA countries should provide the development and promotion of entrepreneurial training programs through training centers. These programs should include searching for investors and mentors, knowledge sharing, and networking to invest in the human capital skills and attitudes needed to meet the challenges and demands of the contemporary labor market and economic system after the pandemic.

Governments should analyze the restructuring of strategies to reduce the economic burden. Increasing resilience capability and positive social relations are effective strategies for businesses during the crisis. Similarly, the International Labour Organization proposed that the policy actions should include the health and safety of workers, economic stimulation, and income and employment support (ILO 2020b). The exemption of SMEs

from paying personal income tax and social benefits (social taxes and insurance) for the pandemic period would also be a substantial support for businesses.

Governments should ensure minimization of the supply-chain malfunction for SMEs to enable entrepreneurs to keep their businesses going during this difficult period. Governments might also facilitate SME applications for government support and not overload SMEs with regulatory and legislative requirements in these hard times. Moreover, it would be reasonable to encourage SMEs through the provision of subsidies and grants to ensure their resilience and sustainability, as they were negatively affected by the crisis.

Governments need to further develop their government support programs and assess the needs of firms, particularly the needs of various sectors. In addition to tax relief, SMEs might also need more financial assistance such as interest-free or low-interest loans, loan forbearance, and tax reductions. More focus can be concentrated on collecting timely data on SMEs in the CA region. Regular quick surveys can be used to assess the issues faced by firms and to provide timely feedback to governments as well as cross-country comparisons.

CA governments should also consider the informal sector; working only with formal businesses might neglect an important part of the economy — the informal sector, which is a source of a large number of workplaces. Informal businesses, similar to SMEs, typically face great obstacles to accessing finance. In addition to more targeted assistance, policymakers might increase the ability of banks and financial organizations to lend to SMEs by easing collateral, giving partial credit guarantees, and providing a standard loan application process.

Considering that this topic is a relatively new area of research with not much published scholarly material, we propose a deeper analysis on the effects of the regulatory government interventions on SME performance and on society in general. This would enable a better understanding of the effects of those regulations and an appreciative comprehension of future economic development and growth. Other measures for optimizing the work of SMEs (based on Kuckertz et al. 2020) could be: flexible worker rotation and payment options; temporarily reduce some activities; analyze new opportunities that have resulted from the crisis, such as growth of online sales opportunities; and provide protection for the enterprise's assets (people, processes, profits, partnerships) (Kuckertz et al. 2020). The state and business need to have a common platform for a constructive and transparent dialog. We believe that only open discussions with experts and sufficient timely support of business will help the country to overcome the crisis and ensure long-term sustainable growth.

This study has a few limitations. Firstly, it is not an empirical analysis, but more a qualitative research with secondary data analysis. While this is limiting to some degree, research has found that quantitative analysis may provide generalizability (breadth) but does not provide depth in terms of understanding the complexity of particular cases. Case study research is a multi-perspective means of analyzing cases in depth (Feagin, Orum, & Sjoberg 1991). Secondly, this research does not focus on the impact of COVID-19 on SMEs from an industry perspective, as was done in the similar studies in China and other countries. Owing to constraints of time and budget, and a lack of data, authors have examined only the impact of pandemic on SMEs in Central Asia, without looking at specific industries. These constraints prevented the research team from digging deeper into the data. While limiting, such generalized research provides the researchers with the ability to isolate the phenomenon (COVID-19 interventions on SMEs in Central Asia) and its impacts on the sector. This approach provides a form of inductive reasoning that can

strengthen the generalizability of the researchers' conclusions. A survey containing a complete classification of industries in Kazakhstan and the CA countries would, therefore, be recommended to examine the COVID-19 impact differences on SMEs in various industry sectors. More research is required to develop policy recommendations for the government authorities responsible for maintaining SME resilience.

Considering that both the danger and the impact of COVID-19 in the CA countries will persist for some time, the governments of these countries should continue to implement business support programs and make the necessary adjustments to them. The following sectors suffered most: transport, catering, hospitality, and tourism. These sectors need to receive further support, such as tax deferrals and financial assistance programs. The countries of Central Asia need to apply long-term structural economic reforms if they want to improve the business environment and move towards a more private sector-led growth model.

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BACKGROUNDS