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COVID-19 and micro small medium enterprises (MSMEs) in the CAREC region: Impacts and coping strategies^{1, 2}

COVID-19 impacted economic activities by disrupting consumer spending and halting production activities at large

and small firms level. Micro, Small and Medium Enterprises (MSMEs) impacts are amplified due to the nature of the businesses and structure it contains globally and in the CAREC region. The intensity of the disruption was largely contingent on the MSMEs regional integration and disrupted economies' origin. The impact of the pandemic augmented if MSMEs are integrated into the shocked economies. In the early phase of the pandemic, the global institutions had projected global recession and stagflation that would cause the MSMEs sector substantially.

United Nations Conference On Trade And Development (UNCTAD, 2020)³ has projected growth global growth at a decelerated level of 2.5%. The ADB Brief (2020)⁴, projected pandemic cost of \$ 77 billion to \$ 347 billion or 0.1% to 0.4% of global GDP. The ADB revised the pandemic cost to about \$ 2 to \$ 4.1 trillion, which is approximately 2.3% to 4.8% of global GDP.⁵ The IMF projected 3% reduction in Asia growth in 2020 that would be worse than Asian Financial Crisis where the growth was plummeted by 4.7% and 1.3%, respectively.⁶ The Asia Pacific growth will bump down by 0.9% point estimated by ESCAP (2020).⁷ Finally, (WTO, 2020)⁸ expected that the world trade will sluggish between 15-32%, trade in services and value chains will trim down due to the depth and longevity of the pandemic crisis.

These and other organizations⁹ have mostly presented the macro picture of the pandemic impacts, however, the impact at the micro level (MSMEs) is rarely considered. Simi-

larly, impact analysis for the MSMEs at the regional level is also not carried out. Therefore, the Central Asia Regional Economic Cooperation (CAREC) Institute and Asian Development Bank (ADB) has studied the impact of the COVID-19 on MSMEs sectors in the CAREC region¹⁰ to dig out MSMEs impact¹¹ caused by decelerated consumption and production, and to explore MSMEs revitalization strategies proposed by businesses and respective governments.

COVID-19 Impacts on micro small medium enterprises

State of MSMEs

The MSMEs have a substantial share in the economies, almost 90%, of the registered businesses in Kazakhstan, Uzbekistan, Pakistan and Georgia. However, the shares of the MSMEs in the GDPs are varied; for example, the share is highest for Georgia (61%), Uzbekistan (51%), Pakistan (40%) and Kazakhstan (31.2%). The low share of the MSMEs in the GDP indicates that these economies are still dominated by large enterprises, and by strong state owned enterprises. The sectoral distribution of the MSMEs is dominated by manufacturing (including agriculture) for Uzbekistan 35 %, followed by Kazakhstan 28%, Pakistan 21%, and Georgia 10%.

The strong dominance of the large private and state owned enterprises is reflected in MSMEs employment share in total employment; Kazakhstan has the lowest share of 39%,

followed by Uzbekistan 74%, Georgia 64% and Pakistan 80%. It was important to see the integration of the SMEs regionally. The surveyed firms show that Pakistan has the most significant share (14%) who conduct import and export operations, followed by the rest of the economies of around 6%. It means that primarily these economies are focusing more on domestic economies (less integrated), rather reaching out to the regional and global economies.

Operational impacts

The surveyed firms were less integrated regionally and globally; therefore, international market volatility did not cause MSMEs good and services trade largely. However, domestic demand was crippled and caused to reduce sale purchase of MSMEs good and services. The effect was significant for the Georgia, whose domestic demand for services and goods reduced by 69%, followed by Pakistan, Kazakhstan, and Uzbekistan of around 40%. These firms were not highly integrated; therefore, the reduction in international demand for goods and services were not significant. However, termination of the contract was prominent for Georgia, 50%. Similarly, acquiring difficulties in the supply of inputs were a problem for Georgia, 20%. Kazakhstan was the second economy whose MEMs operation were closed temporarily, 49%. The first in a row whose operations were closed temporarily was Georgia, 60%, followed by Pakistan 45%, and Uzbekistan, 33%. For all the indicators¹² that are considered for the impact analysis, Georgia shows more

disruptions with respect to other economies. Similarly, the intensity of the disruption was limited to the smaller¹³ and micro¹⁴ firms.

Revenue impact

The monthly loss of revenue resulted from the closure and disruption of the MSMEs were higher for Georgia. 44% of the Georgia firms reported that more than 50% reduction in the revenue has happened. Similarly, 34% of the Kazakhstan firms, 19% of the Uzbekistan firms, and 9% of Pakistan firms reported that their monthly revenue is dropped by more than 50%.

However, 7% of the Uzbekistan firms reported that their revenue is increased by more than 20%. The increase in the revenue for the rest of the economies are minimal. Since the pandemic erupted, “no change” in the revenue is also reported significantly high for Uzbekistan, 25%. Similarly, Georgia 14%, Kazakhstan 18%, and Pakistan 22% have reported “no change” in revenue since the pandemic erupted. Overall, in terms of revenue loss, Uzbekistan economy stand out better than the rest of the economies considered for the analysis.

Employment impact

MSMEs employment is not significantly caused by the pandemic. However, Kazakhstan’s change in employment was higher because it was difficult for Kazakhstan to find out alternative ways (decrease working hours) for businesses

slowdown. Also, the laid-off of the permanent staff was higher for Kazakhstan, 35%, followed by Pakistan, 16%, Uzbekistan, 15% and Georgia 14%. The primary coping strategy that was suggested is the changes in the employment conditions.¹⁵ Primarily, all firms reported that working hours were decreased, salaries and wages were suspended or decreased, and more remote work was promoted. The decreased working hours were highest in Pakistan (55%); however, the decreased working hours for Kazakhstan, Uzbekistan, and Georgia were around 40%. These economies adopted other coping mechanisms (promote remote working, salaries and wage suspension, more sick leave) to sustain employment shocks.

Coping strategies

Domestic demand for goods and services was crippled and international orders were also cancelled and/or postponed. Therefore, most of the MSMEs were interested in boosting demand both at the domestic and international markets. A sizeable fiscal stimulus was proposed to generate economic activities at the domestic market, however, the actual disbursed fiscal support was limited and untargeted. A targeted support was suggested based on the size and structure of the MSMEs to regain market access. Similarly, targeted fiscal support to the general public was suggested to increase the purchasing power of the general public to generate domestic demand. The volatility in the international markets didn’t largely impact CAREC MSMEs, because CAREC

MSMEs were not highly integrated. Integrating MSMEs with the regional economies can provide a coping mechanism, for example, diversifying supply chains to overcome COVID-19 shocks.

Several fiscal stimulus measures (deferring in payments, taxes and debts relief, reducing wages and benefits), and other initiatives (staff layoffs and changing products or services) were adopted, however, these were not considered significant measures across the four countries to revise MSMEs sales and boost domestic demand. Further support from government (tax relief, zero interest rate/collateral free loan, subsidies and grants), financial institutions and insurance companies, suppliers and customers, and family and friends were solicited to overcome COVID-19 impacts.

To overcome the COVID-19 negative consequences, the government and businesses strategies were to explore new potential customers, sales channels, and shift to online trade, among others. Digital transformation is the key coping mechanism that was mainly adopted by the MSMEs so that transition to online trade and sales can be possible. However, digital infrastructure platform and regulatory environment are at the development stage in the CAREC region except for China; therefore, the government should on a priority basis, consider supporting digital transformation so that MSMEs can get easy transition towards online trade and sale in the CAREC region to overcome the negative consequences of the COVID-19.

1. The brief is excerpted from the CI and ADB joint study on “Covid 19 and MSMEs in the CAREC region”. Yet to be published.
2. The analysis is mainly carried out for Kazakhstan, Uzbekistan, Pakistan and Georgia. Rest of the CAREC region is not part of the analysis.
3. UNCTAD, 9 March 2020, “The coronavirus shock: A story of another global crisis foretold and what policy makers should be doing about it”.
4. ADB Briefs No. 128, 6 March, 2020, “The Economic Impact of the COVID-19 Outbreak on Developing Asia”.
5. ADB Outlook April 2020. <https://www.adb.org/sites/default/files/publication/575626/ado2020-highlights.pdf>
6. <https://blogs.imf.org/2020/04/15/covid-19-pandemic-and-the-asia-pacific-region-lowest-growth-since-the-1960s/>
7. <https://www.unescap.org/resources/impact-and-policy-responses-covid-19-asia-and-pacific>
8. https://www.wto.org/english/news_e/pres20_e/pr855_e.htm
9. To the space limitation we are not going to discuss the detailed literature review. The above paragraph have sufficient information to develop the narrative.
10. CI is an intergovernmental organization contributing to the Central Asia Regional Economic Cooperation (CAREC) Program through knowledge generation and capacity building. CAREC Program is a committed partnership of 11 countries – Afghanistan, Azerbaijan, the People’s Republic of China, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan
11. The following section will discuss the detailed impacts indicators/factors considered for the analysis.
12. Staff shortage, working capital problems,
13. 6-50 employees
14. 2-5 employees
15. Decrease in working hours, promote remote working, salaries and wage suspension/decreased, more sick leave, etc.