

**THE CENTRAL ASIAN ECONOMY
DURING THE PANDEMIC:
AN ANALYSIS OF SMALL AND
MEDIUM BUSINESS SUPPORT STRATEGIES**

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ABSTRACT

This paper examines public policy towards small and medium-sized enterprises in the Central Asian countries during the COVID-19 pandemic. A study of analytical surveys for 2020 and 2021 produced by international organizations (such as the World Bank, the Asian Development Bank, KPMG, and the Organization for Economic Cooperation and Development), as well as of legal and regulatory documents and strategic programs adopted in

the countries of Central Asia during the coronavirus pandemic, has made it possible to identify the advantages and disadvantages of government decisions regarding business and to analyze public strategies for supporting small and medium-sized enterprises.

This analysis leads to the conclusion that the potential for economic recovery in the Central Asian countries is directly dependent on the measures taken by their

governments to maintain and support the business sector. In particular, the study results show that the main business support tools during the coronavirus pandemic are

mechanisms such as tax holidays for businesses, soft loans, loan restructuring and refinancing, and administrative support measures.

KEYWORDS: *public policy, business, small and medium-sized enterprises (SMEs), COVID-19.*

Introduction

The COVID-19 pandemic has dealt a severe blow to the world economy. According to the International Monetary Fund (IMF), the contraction of the global economy for 2020 is estimated at 3.5%, and the contraction of world trade in goods and services at 9.6%.¹ According to a World Bank report, the COVID-19 pandemic has triggered the deepest global economic recession in eight decades, almost three times as deep as the 2009 global recession.² Experts have identified the most significant factors behind the crisis: border closures, restrictions on movement and economic activity, and a decline in commodity exports and remittances.³ All of this has done significant damage to businesses. Economic recovery depends on the policy strategies of states, particularly on government measures to create an enabling environment for business. This is why the governments of the countries of Central Asia, as well as the whole world, face a totally new task: to maintain and support the business sector in the post-COVID-19 period.

In Central Asia, according to a report by the Asian Development Bank (ADB),⁴ the highest GDP growth rate for 2021 is projected at 6.5% in Uzbekistan, and the lowest at 2.8% in Kazakhstan.

The worst GDP forecast was naturally for 2020: a 2.1% contraction for Central Asia as a whole. This was due to significant projected contractions in Kyrgyzstan, Kazakhstan, and Tajikistan. At the same time, Turkmenistan and Uzbekistan, despite slower GDP growth in 2020, were on the whole set to grow by 3.2% and 0.5%, respectively⁵ (see Fig. 1).

Many states have taken steps to ensure an economic recovery with special focus on small and medium-sized enterprises. In this context, the case of Central Asia demonstrates various government strategies and tools designed to ensure the recovery of the economy and business.

The research question in this paper was as follows: “How do the countries of Central Asia ensure small and medium business activity through public policy?”

¹ See: World Economic Outlook Update, January 2021, International Monetary Fund, available at [<https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>], 25 February, 2021.

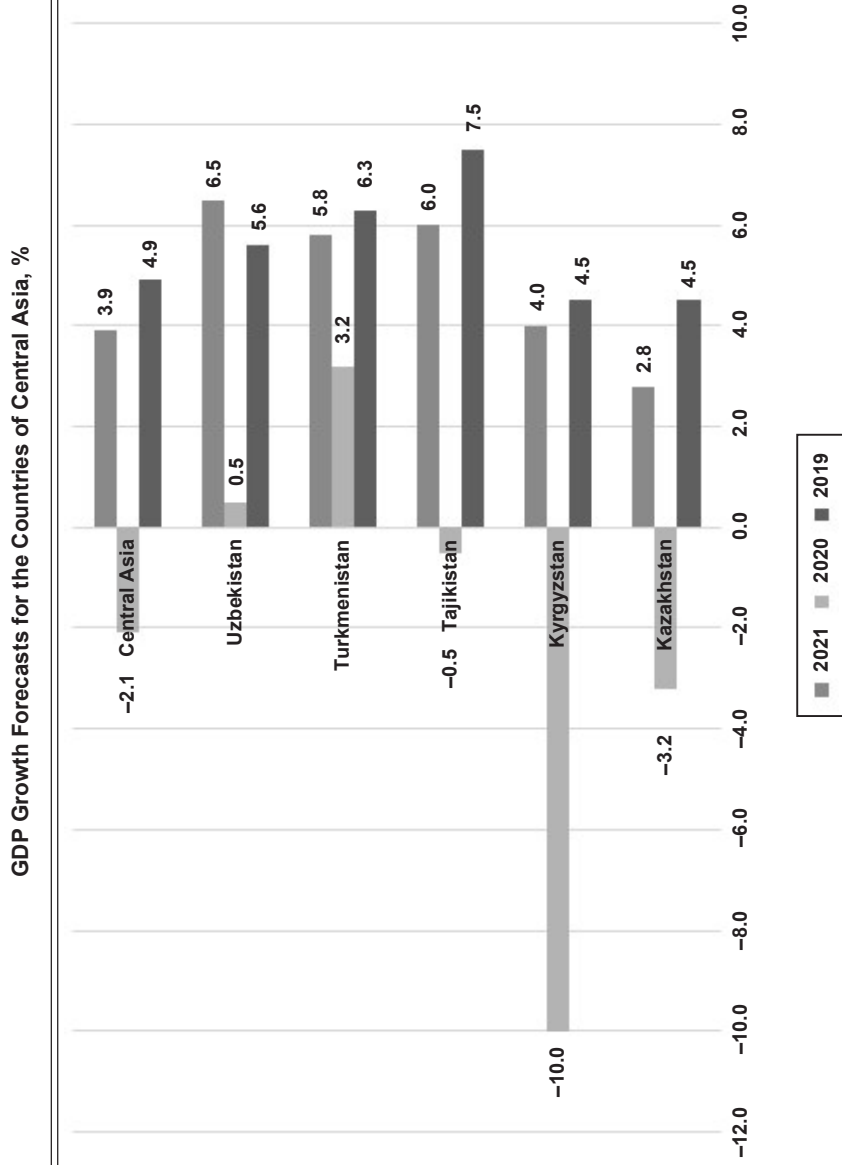
² See: COVID-19 and Human Capital. Europe and Central Asia Economic Update, Office of the Chief Economist, World Bank Group, Fall 2020, available at [<https://openknowledge.worldbank.org/bitstream/handle/10986/34518/9781464816437.pdf?sequence=4&isAllowed=y>], 25 February, 2021.

³ See: L. Kopzhassarova, “When and How Will Central Asian Economies Recover from COVID-19?”, Central Asian Bureau for Analytical Reporting (CABAR.asia), 11 November, 2020, available at [<https://cabar.asia/en/when-and-how-will-central-asian-economies-recover-from-covid-19>], 25 February, 2021.

⁴ See: Asian Development Outlook 2020 Update. Wellness in Worrying Times. Highlights, Asian Development Bank, 2020, available at [<https://www.adb.org/sites/default/files/publication/635666/ado2020-update-highlights.pdf>], 25 February, 2021.

⁵ See: Ibidem.

Figure 1



Source: Asian Development Bank data, available at <https://www.adb.org/sites/default/files/publication/635666/ado2020-update-highlights.pdf>.

Research Methods

In this study, public policy towards small and medium business in the Central Asian countries was analyzed using the method of secondary data analysis. The data were collected from open sources (World Bank, Asian Development Bank, OECD, etc.), mainly analytical reports and statistical publications. The use of this method has made it possible to carry out the research in a relatively short time and to conduct a comprehensive study of the attitude towards small and medium business among the Central Asian governments. A rapid assessment of secondary data has helped to make a comparative analysis of measures taken by the public authorities in the Central Asian countries during the COVID-19 pandemic.

To structure the data obtained, the author has developed a policy evaluation tool that includes the following key components:

- (1) economic measures;
- (2) administrative measures;
- (3) institutional measures.

The evaluation of economic measures includes financial and monetary policy (concessional financing, tax and non-tax deferral and relief). Administrative measures relate to legal and regulatory reforms (adoption of a package of measures). The evaluation of institutional measures includes the establishment of anti-crisis funds and the preparation of economic programs and analytical forecasts.

Literature Review

Researchers speak of sufficiently rapid income growth in the Central Asian countries following a number of economic reforms with emphasis on worldwide exports of energy, minerals, and agricultural products and selected imports. In this context, the fastest-growing oil-dependent states of Turkmenistan and Kazakhstan show signs of “Dutch disease.” The classification of the Central Asian countries takes into account their somewhat similar post-Soviet experience and, at the same time, their different resources, development strategies, and implemented reforms. Based on their differing export staples, they may be divided into three categories: “petro-dependent” Kazakhstan and Turkmenistan, “other-dependent” Tajikistan and Kyrgyzstan, and “independent” Uzbekistan.⁶

The interaction of state and business in the world economy takes place in a wide variety of ways. In Central Asia, the significant direct involvement of the government in the economy through state ownership is seen by researchers as the most important mechanism of the state-business nexus.⁷

During the current economic recession, however, public policy strategies should be designed for the medium and long term. Researchers⁸ note that economic development strategies focusing on sector-by-sector plans that encourage sustainable entrepreneurship are needed to ensure an economic recovery. In addition, governments and financial institutions should constantly re-assess and re-evaluate

⁶ See: M. Spechler, “The Economies of Central Asia: A Survey,” *Comparative Economic Studies*, Vol. 50, Issue 1, 2008, pp. 30-52.

⁷ See: M. Stark, J. Ahrens, F. Täube, “The Business of Government: The State as Obstacle and Facilitator for Private Investment in Central Asia,” EBS Business School Research Paper, No. 14-04, 2014.

⁸ See: M. Nicola, Z. Alsafi, C. Sohrabi, A. Kerwan, A. Al-Jabir, C. Iosifidis, M. Agha, R. Agha, “The Socio-Economic Implications of the Coronavirus Pandemic (COVID-19): A Review,” *International Journal of Surgery*, Vol. 78, 2020, pp. 185-193.

“the state of play.” According to an analytical review by M. Nicola *et al.*, aid packages across the world include various measures that are to some extent unprecedented. The state development bank (KfW) has pledged to provide €500 billion in loans to companies affected by the pandemic. Similar measures were taken in France (€345bn), Spain (€200bn), and Italy (€25bn). The U.K. government has included numerous fiscal support measures in its aid package: emergency loan guarantees, tax deferrals, grant funding for small and medium-sized businesses (including trade and service sectors), a new lending facility to support company liquidity, and interest rate cuts. The United States has also adopted a “virus-aid package” to support an economic recovery: loan and grant funding, financial assistance for farmers, restarting of the asset-backed loan facility that was used in 2008-2009, loan guarantees, etc.

Thus, a review of global experience helps to form a certain concept whose structure includes government support measures of a financial, administrative, and institutional nature. In the present study, this concept is applied to public policy regarding business in the countries of Central Asia.

Research Results and Discussion

According to the classification of the World Bank, the countries of Central Asia are categorized as low and middle income countries.⁹ The latest data show the following picture (see Table 1).

Table 1

Classification of the Central Asian Countries by Income Level

	Country	Income Group
1	Kazakhstan	Upper middle income: between \$4,046 and \$12,535
2	Turkmenistan	Upper middle income: between \$4,046 and \$12,535
3	Uzbekistan	Lower middle income: between \$1,036 and \$4,045
4	Kyrgyzstan	Lower middle income: between \$1,036 and \$4,045
5	Tajikistan	Low income: less than \$1,035

Source: World Bank (2021).

The COVID-19 pandemic, which reached Central Asia relatively late (in mid-March 2020),¹⁰ undoubtedly carries the risk of significant changes in the forecasts for economic recovery. Along with the problem of undiversified economies and high resource dependence, a characteristic feature of the Central Asian countries is a correlation between revenues and migrant remittances, especially when it comes to migrant workers from Kyrgyzstan and Tajikistan. In 2019, for example, migrant remittances to these countries amounted to about a third of their GDP.¹¹ A decline in remittances has a direct effect on budget revenues.

⁹ See: World Bank Country and Lending Groups. Country Classification, The World Bank, 2021, available at [<https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>], 25 February, 2021.

¹⁰ See: COVID-19 Crisis Response in Central Asia, Updated 4 June, 2020, available at [<https://www.oecd.org/eurasia/competitiveness-programme/central-asia/COVID-19-crisis-response-in-Central-Asia-English-June.pdf>], 25 February, 2021.

¹¹ See: *Ibidem*.

This is why economists from ADB’s Central and West Asia Department say that governments in the region must deepen regional cooperation and integration to undertake “extraordinary reforms” to match this unprecedented crisis.¹² However, the Central Asian governments have made different decisions.

Kazakhstan

The development of small and medium business has been among the top public policy priorities in Kazakhstan for many years. During the pandemic, this has posed a new challenge to public administration. Existing support measures had to be modernized without delay and adapted to the new conditions created by the pandemic. As might be expected, the hardest-hit sector was the service sector: air transport, fitness industry, restaurant business, and non-food retail trade.¹³

Broadly speaking, the additional government support measures announced in Kazakhstan include tax and customs relief coupled with administrative, financial, and government procurement measures. Small and medium-sized enterprises are financed under basic government programs (see Table 2).

Table 2

Government Measures to Support Business in Kazakhstan During the Pandemic, %

	Business Support Measures	Amount of Support (GDP Share)
1	Government-backed soft loan program for businesses at an interest rate of 6%	0.86%
2	Additional funding under existing soft loan programs for businesses	1.5%
3	Exemption from income tax for sole traders until the end of 2020	n/a
4	Deferral of tax and non-tax payments for SMEs	n/a
5	Deferral and restructuring of loan payments for SMEs	n/a
6	Six-month extension of deadlines for payroll tax and other returns and payments for SMEs in the most-affected sectors of the economy	n/a

Source: USAID’s Future Growth Initiative. *Looking Ahead: Economic Policy Options for COVID-19 and Beyond in Central Asia*, USAID, October 2020, available at [https://catradeforum.org/wp-content/uploads/2020/10/USAIDs-FGI-EIU_COVID-19-Policy-Responses-in-CA-report_eng_v2.pdf], 25 February, 2021.

Thus, business support measures in Kazakhstan are sufficiently comprehensive. The removal of sectoral restrictions on participation in the state business support and development program (Business Roadmap 2025) is also of essential importance. This widens the range of businesses that are eligible for government support.

¹² G. Sugiyarto, W. Liepach, “Countries in Central and West Asia Must Avoid a COVID-19 Race to the Bottom,” *Asian Development Blog*, 5 October, 2020, available at [<https://blogs.adb.org/blog/countries-central-and-west-asia-must-avoid-covid-19-race-bottom>], 25 February, 2021.

¹³ See: COVID-19 Pandemic: Are the Government Business Support Measures in Kazakhstan Effective? Market Opinion, KPMG, July 2020, available at [<https://assets.kpmg/content/dam/kpmg/kz/pdf/2020/07/covid-pandemic-report.pdf>], 25 February, 2021.

However, given the negative impact of COVID-19 on the service sector, it is necessary to provide a targeted support package designed to expand access to credit in order to improve liquidity.

Kyrgyzstan

According to a joint report by the United Nations Development Program (UNDP) and the Asian Development Bank (ADB),¹⁴ the majority of businesses in the most-affected sectors of the Kyrgyz economy are micro, small and medium-sized enterprises (MSMEs) operating informally. For example, in agriculture, one of the key sectors, which accounts for 12% of GDP, the share of informal employment is 96%.

The service sector in Kyrgyzstan, as in many other countries, has been most affected by the pandemic. The negative impact here is due both to border closures and to the closure of city markets and the decline in the hotel and restaurant business. At the same time, the trade and consumer services sector accounts for a significant share of GDP (18%).

However, a significant role in the country’s economy is played by labor migrants working in CIS countries, mainly in Russia (more than 1 million people in 2019). Since the onset of the COVID-19 pandemic, the amount and frequency of remittances to Kyrgyzstan have fallen dramatically.

Thus, the government of Kyrgyzstan has faced new challenges in supporting and maintaining the business sector, as well as in creating conditions for the country’s workforce. At the same time, it is noted that “labor market policies in a narrow sense have never been used significantly in the Kyrgyz Republic,”¹⁵ which makes it more difficult for the state to ensure strategic management in this area.

Table 3

Government Measures to Support Business in Kyrgyzstan During the Pandemic

	Business Support Measures	Amount of Support
1	Soft loans from the Anti-Crisis Fund for priority sectors of the economy at an interest rate of 4% to 8%	n/a
2	Increase in the loan guarantee fund (primarily for export-oriented companies, regional projects, and female entrepreneurs, mainly in agriculture, trade, and industry)	\$27 billion
3	Soft loans for farmers	\$1.3 billion
4	Loan guarantee funding for unsecured microloans provided to sole traders	\$13 billion
5	Deferral of tax and non-tax payments without fine or penalty for late payment	n/a

Source: USAID’s Future Growth Initiative. *Looking Ahead: Economic Policy Options for COVID-19 and Beyond in Central Asia*, USAID, October 2020.

Support measures are implemented through the government’s Financing Business Entities program (see Table 3), whose size is to triple in 2021.¹⁶ The program provides for collateral-free loans,

¹⁴ See: COVID-19 in the Kyrgyz Republic: Socioeconomic and Vulnerability Impact Assessment and Policy Response, United Nations Development Program, Asian Development Bank, 12 August, 2020, available at [https://kyrgyzstan.un.org/sites/default/files/2020-08/UNDP-ADB%2520SEIA_11%2520August%25202020%2520Eng.pdf], 25 February, 2021.

¹⁵ Ibidem.

¹⁶ See: Ibidem.

which could be of real assistance to entrepreneurs affected by the COVID-19 pandemic. However, interest rates of 14% (microloans) is a sufficiently heavy burden. For comparison, microloans in Kazakhstan under state programs are issued to entrepreneurs at an interest rate of 6%.

Tajikistan

Agriculture, forestry, metallurgy, mining, and the cotton industry account for a significant part of Tajikistan’s economy.¹⁷ At the same time, cotton and electricity are the main export items.

Tajikistan is the lowest-income country in Central Asia (less than \$1,035). Consequently, it has fewer resources than other Central Asian countries for providing government support. This is why the country has had to obtain loans and grants from international organizations to fight the pandemic.¹⁸

Table 4

**Government Measures to Support Business
in Tajikistan During the Pandemic**

	Business Support Measures	Amount of Support
1	Central bank guidelines for increasing lending to industrial enterprises and loan restructuring	n/a
2	Tax relief (for the tourism, hospitality, and transportation sectors and for sole traders in retail trade and services)	n/a
3	Soft loans (for companies producing food and medical supplies)	n/a

S o u r c e: USAID’s Future Growth Initiative. Looking Ahead: Economic Policy Options for COVID-19 and Beyond in Central Asia, USAID, October 2020.

Of course, public policy towards business (see Table 4) depends on the country’s economic potential, which is limited in Tajikistan. However, analysis shows that the support measures proposed by the government are insufficient to resolve the problems caused by the pandemic.

It should also be noted that further analysis may be complicated by significant problems with budget transparency in Tajikistan. According to the Open Budget Survey of the International Budget Partnership for 2019,¹⁹ Tajikistan is a country with “scant or none” budget transparency.

Turkmenistan

As of February 2021, there were no reported cases of COVID-19 in Turkmenistan.²⁰ It remains a sufficiently closed country in terms of access to information about the state of its economy. In this

¹⁷ See: A. Tabakh, A. Prokudin, A. Podrugina, “Makroekonomicheskaya situatsiya v stranakh Tsentralnoi Azii: kak Kazakhstan, Uzbekistan, Kirgizia i Tadjikistan perezhivaiut posledstviia pandemii COVID-19,” *Mezhdunarodnye finansy*, 17 February, 2021, available at [https://www.raexpert.ru/researches/int_fin/central_asia_2021/], 25 February, 2021.

¹⁸ See: *Ibidem*.

¹⁹ Open Budget Survey 2019, 7th Edition, International Budget Partnership, March 2020, available at [https://www.internationalbudget.org/sites/default/files/2020-04/2019_Report_EN.pdf], 25 February, 2021.

²⁰ See: Koronavirusnaia infektsiia COVID-19. Turkmenistan, GOOGLE, 25 February, 2021, available at [<https://news.google.com/covid19/map?hl=ru&mid=%2Fm%2F01c4pv&gl=RU&ceid=RU%3Aru>], 25 February, 2021.

context, many economists prefer to leave Turkmenistan out of consideration in economic surveys and analysis of Central Asian countries.²¹ This is explained by its lack of openness and the questionable quality of its statistics.

The USAID’s Future Growth Initiative (FGI) report²² notes that on 3 March, 2020, Turkmenistan’s President Gurbanguly Berdimukhamedov gave the Cabinet of Ministers a series of instructions related to the pandemic and, specifically, asked the government to complete a list of enterprises that should be granted tax deferrals and to expand a lending program for small and medium-sized businesses. However, no further details have been reported. Turkmenistan’s economic policy remains closed even during the pandemic.

Uzbekistan

In recent years (since 2017), Uzbekistan’s economy has undergone a number of reforms, including those designed to increase its openness.²³ A significant share of GDP comes from sectors such as the mining and processing industries dominated by large and medium-sized enterprises less affected by the pandemic.

The key government measure to support the economy is the establishment of an Anti-Crisis Fund. Targeted support is provided to sectors hardest hit by the pandemic (see Table 5).

Table 5

Government Measures to Support Business in Uzbekistan During the Pandemic

	Business support measures	Amount of support (GDP Share)
1	Anti-Crisis Fund: a government loan guarantee program that supports a credit scheme through commercial banks offering loans to companies for the supply, sale, and production of essential consumer goods	\$98.7 million
2	Support for vital sectors and businesses, including subsidies to state companies in the water, heat, and electricity generation sectors and the oil and gas sector, as well as restructuring loans held by Uzbekistan Airways	\$277 million
3	Deferral of tax and social insurance payments for small and medium business	n/a
4	Tax payment suspensions for the tourism and agricultural sectors	n/a
5	Reimbursement of transport costs for the export of certain products	n/a
6	Adoption of a set of measures for widespread digitalization (an improvement in broadband and mobile internet services availability)	n/a

Source: USAID’s Future Growth Initiative. Looking Ahead: Economic Policy Options for COVID-19 and Beyond in Central Asia, USAID, October 2020.

²¹ See: A. Tabakh, A. Prokudin, A. Podrugina, op. cit.

²² See: USAID’s Future Growth Initiative. *Looking Ahead: Economic Policy Options for COVID-19 and Beyond in Central Asia*, USAID, October 2020, available at [https://catradeforum.org/wp-content/uploads/2020/10/USAIDs-FGI-EIU_COVID-19-Policy-Responses-in-CA-report_eng_v2.pdf], 25 February, 2021.

²³ See: A. Tabakh, A. Prokudin, A. Podrugina, op. cit.

Thus, business support includes guarantees and interest deductions for loans issued for the production of socially significant goods. The business support package also includes loan and tax holidays, crisis lending facilities, and interest-free budget loans for strategic enterprises to help them pay their debts.

Conclusion

There is no doubt that COVID-19 has affected and continues to affect the Central Asian economy. The Asian Development Bank's GDP growth forecast for 2021 is 3.9%, compared to actual GDP growth of 4.9% in 2019.²⁴ The regional economy has faced global challenges posed by the fall in oil prices, on which the economy of Kazakhstan directly depends. Border closures have reduced demand for labor from Kyrgyzstan, Tajikistan, and Uzbekistan, thus leading to a drop in migrant remittances to these countries. Against this background, Kazakhstan and Uzbekistan have economic potential for a rapid recovery. This is due to a sufficiently open economy, comprehensive government support measures, and significant investment capacity. As for Kyrgyzstan and Tajikistan, they are heavily dependent on the recovery of migration flows.

At the same time, decision-making in most Central Asian countries is concentrated at the national level, while autonomy at the regional and subregional levels is often limited.²⁵ The lack of flexibility in decision-making by the subnational authorities could have a negative impact on the economic recovery.

In summary, one should note that the Central Asian governments have largely focused on administrative and financial support measures. Government policy is characterized by relief measures in the form of tax and non-tax payment deferrals. In most Central Asian countries (Kazakhstan, Kyrgyzstan, and Uzbekistan), extensive use is made of financial business support measures such as soft loans and government guarantees.

It should be emphasized that the removal of sectoral restrictions on access to soft loans in Kazakhstan is a good practice for increasing the range of enterprises covered by government support.

In Kyrgyzstan, unsecured loans for businesses are an obvious advantage of the policy pursued, because during the pandemic this is real assistance for firms that are running out of cash.

Government policy in Uzbekistan combines financial and institutional tools: the activities of the Anti-Crisis Fund cover both the worst-affected sectors of the economy and vital ones (water, heat, and electricity).

As regards Tajikistan, let us emphasize that its government is mainly focused on administrative support measures, because the country's limited resources do not allow for a wide range of financial tools.

²⁴ See: Asian Development Outlook 2020 Update. Wellness in Worrying Times. Highlights.

²⁵ See: COVID-19 Crisis Response in Central Asia.