

IMPACT OF COVID-19 ON MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES IN SELECTED CAREC COUNTRIES

RESEARCH REPORT

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Research Report

**Impact of COVID-19 on
Micro, Small, and Medium-sized Enterprises (MSME)
in Selected CAREC Countries**

Pakistan, Uzbekistan, Kazakhstan, Georgia

July 2021

DISCLAIMER

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TABLE OF CONTENTS

1.	Executive Summary.....	9
1.1	Research objectives and value addition	10
1.2	Methodology.....	10
1.3	Research limitations.....	11
1.4	Summary of key findings.....	12
2.	Conclusions and Recommendations.....	16
3.	Survey Methodology.....	19
4.	Country Survey Profiles.....	22
4.1.	Pakistan.....	22
4.2.	Uzbekistan.....	28
4.3.	Kazakhstan	37
4.4.	Georgia.....	47
5.	Regional Review	56
5.1.	Overview	56
5.2.	MSME context.....	56
5.3.	Key findings of the impact of COVID-19 on MSMEs	59
5.4.	Consequences of the COVID-19 pandemic.....	60
5.5.	Revenues.....	62
5.6.	Employment.....	63
5.7.	Coping with COVID-19 business disruptions.....	65
5.8.	External business support.....	66
5.9.	Government support	67
5.10.	Firm resilience	69
6.	Country Reviews and Survey Results	71
6.1.	PAKISTAN	71
6.1.1.	MSME context.....	71
6.1.2.	Official definition of firm size.....	71
6.1.3.	MSME environment	73
6.1.4.	MSME geographical distribution.....	74
6.1.5.	Government MSME finance policies.....	76
6.1.6.	Constraints	78
6.1.7.	Pakistan survey of COVID-19 MSME impact	82
6.1.7.1.	Impact of COVID-19 on business operations	82
6.1.7.2.	Impact on sales	86
6.1.7.3.	Online sales	88
6.1.7.4.	Impact on employment.....	88
6.1.7.5.	Impact on working conditions	90

6.1.7.6.	How MSMEs coped with the effects of COVID-19 pandemic	92
6.1.7.7.	Impact on cash flows.....	93
6.1.7.8.	Impact on raw materials / supplies.....	94
6.1.7.9.	Labor shortages.....	95
6.1.7.10.	Impact on contract fulfilment	96
6.1.7.11.	External support during COVID-19 pandemic.....	97
6.1.7.12.	MSME overall assessment of government COVID-19 business support	98
6.1.7.13.	MSME utilization of government COVID-19 business support policies and measures 100	
6.1.7.14.	Preferred future government support.....	102
6.1.7.15.	Resilience indices	105
6.2.	UZBEKISTAN	106
6.2.1.	MSME context.....	106
6.2.2.	Official definition of firm size	106
6.2.3.	MSME environment.....	107
6.2.4.	MSME business environment	111
6.2.5.	Constraints	112
6.2.6.	Government MSME development policies	112
6.2.7.	Government COVID-19 response.....	114
6.2.8.	Uzbekistan survey of COVID-19 MSME impact.....	117
6.2.8.1.	Impact of COVID-19 on MSME business operations.....	117
6.2.8.2.	Impact on sales	119
6.2.8.3.	Online sales	120
6.2.8.4.	Impact on employment.....	122
6.2.8.5.	Impact on working conditions	124
6.2.8.6.	How MSMEs coped with the effects of the COVID-19 pandemic.....	125
6.2.8.7.	Impact on cash flows.....	127
6.2.8.8.	Impact on raw materials / supplies.....	128
6.2.8.9.	Labor shortages.....	129
6.2.8.10.	Impact on contract fulfillment	130
6.2.8.11.	External support during COVID-19 pandemic.....	130
6.2.8.13.	MSME utilization of government COVID-19 business support	133
6.2.8.14.	Preferred future government support.....	135
6.2.8.15.	Resilience indices	138
6.3.	KAZAKHSTAN.....	139
6.3.1.	MSME context.....	139
6.3.2.	Official definition of firm size.....	139
6.3.3.	MSME environment	140
6.3.4.	Employment.....	142

6.3.5.	Constraints	143
6.3.6.	Government MSME development policies	144
6.3.7.	Government COVID-19 response.....	145
6.3.8.	Kazakhstan survey of COVID-19 MSME impact	147
6.3.8.1.	Impact of COVID-19 on MSME business operations.....	147
6.3.8.2.	Impact on sales	150
6.3.8.3.	Online sales	151
6.3.8.4.	Impact on employment.....	153
6.3.8.5.	Impact on working conditions	155
6.3.8.6.	How MSMEs coped with the effects of COVID-19 pandemic	157
6.3.8.7.	Impact on cash flows.....	158
6.3.8.8.	Impact on raw materials / supplies.....	160
6.3.8.9.	Labor shortages.....	161
6.3.8.10.	Impact on contract fulfilment	162
6.3.8.11.	External support during COVID-19 pandemic.....	163
6.3.8.12.	MSME overall assessment of government COVID-19 business support	165
6.3.8.13.	MSME utilization of government COVID-19 business support policies and measures 166	
6.3.8.14.	Preferred future government support.....	170
6.3.8.15.	Resilience indices	172
6.4	GEORGIA	173
6.4.1	MSME context.....	173
6.4.2	Official definition of enterprise size.....	173
6.4.3	MSME environment	176
6.4.4	Improving business enabling environment.....	178
6.4.5	Constraints	178
6.4.6	Growing government SME support	179
6.4.7	Noticeable improvement of institutional frameworks and support mechanisms	180
6.4.8	Government COVID-19 response.....	184
6.4.9	Georgia survey of COVID-19 MSME impact.....	185
6.4.9.1	Impact of COVID-19 on MSME business operations	185
6.4.9.2	Impact on sales.....	187
6.4.9.3	Impact on employment	189
6.4.9.4	Impact on working conditions	192
6.4.9.5	How MSMEs coped with the effects of COVID-19 pandemic.....	193
6.4.9.6	Impact on cash flows	195
6.4.9.7	Impact on raw materials / supplies	196
6.4.9.8	Labor shortages	198
6.4.9.9	Impact on contract fulfilment	199
6.4.9.10	External support during COVID-19 pandemic	200
6.4.9.11	MSME overall assessment of government COVID-19 business support	201

6.4.9.12	MSME utilization of government COVID-19 business support policies and measures	202
6.4.9.13	Preferred future government support	203
6.4.9.14	Resilience indices.....	206
Appendix 1: MSME Questionnaire Survey		208
Appendix 2: Resilience Index		217

ABBREVIATIONS

ACD	additional customs duty
ACDA	Agricultural Cooperative Development Agency
ADB	Asian Development Bank
ADRM	alternative dispute resolution mechanism
AEP	Anti-Crisis Economic Plan
APMA	Agricultural Projects Management Agency
ARDA	Agriculture and Rural Development Agency (Georgia)
bps	basis points in percentage
CAR	capital adequacy ratio
CATI	computer assisted telephone interview
CCB	capital conservation buffer
CGC	credit guarantee company
CGS	Credit Guarantee Scheme for Small and Rural Enterprises (Pakistan)
CGTN	China Global Television Network
CMI	Census of Manufacturing Industries
DAMU	Entrepreneurship Development Fund (Kazakhstan)
DB	World Bank Doing Business report
DCFTA	Deep and Comprehensive Free Trade Area (European Union)
DFI	development financial institution
EBRD	European Bank for Reconstructions and Development
EDA	Enterprise Georgia
EEN	European Enterprise Network
FBR	Federal Bureau of Revenue (Pakistan)
FDI	foreign direct investment
FIFA	International Federation of Association Football
GCI	Global Competitiveness Index
GDP	gross domestic product
GEL	Georgian lari
GENIE	Georgia National Innovation Ecosystem
GeoStat	National Statistics Office of Georgia
GITA	Georgian Innovation and Technology Agency
IFC	International Finance Corporation
ILO	International Labor Organization
KZT	Kazakh tenge

MCI	monthly calculation index
MFB	micro-finance bank
MSME	micro, small, and medium-sized enterprise
NFAS	non-financial advisory service
NGO	non-government organization
NIBAF	National Institute of Banking and Finance (Pakistan)
OECD	Organisation for Economic Cooperation and Development
PBS	Pakistan Bureau of Statistics
PKR	Pakistani rupee
RIA	regulatory impact assessment
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
SME	small and medium-sized enterprise
SMEDA	Small and Medium-Sized Enterprises Development Authority (Pakistan)
SMEDI	China Small and Medium-Sized Enterprises Development Index
SOE	state owned enterprise
TFP	total factor productivity
UNDP	United Nations Development Program
UZS	Uzbek soum
UzStat	State Statistics Committee of Uzbekistan
WB	World Bank
WB ES	World Bank Enterprise Survey
WEF	World Economic Forum

1. Executive Summary

The COVID-19 pandemic created an unprecedented and massive simultaneous global supply and demand shock, causing severe disruptions, which first and foremost affected more vulnerable smaller businesses. In March 2020, Kazakhstan announced national lockdowns with the closure of all places with high pedestrian traffic areas, national restrictions on the movement of people, including leaving their residences, and limits placed on public transport. The restrictions extended to the suspension of all non-essential businesses.

In late March 2020, Pakistan started introducing lockdown measures in various cities and regions. In the capital Islamabad bans were instituted on public transport and intercity transport, and on gatherings in public and private places. Similar restrictions were imposed in numerous other cities, including placing the entire city of Raiwind under lockdown. One major consequence was that freight transportation within the country ceased in late March dramatically affecting the micro, small and medium-sized enterprise (MSME) sector, which is heavily exposed to trade flows.

Uzbekistan instituted various national lockdown measures, which included severe curtailment of transport, bans on gatherings, and enforcing social distancing measures, that lasted until August 2020. Georgia also quickly implemented stringent measures to combat the pandemic, including lockdowns, curfews, transportation bans, bans on public gatherings, and the temporary closure of businesses and trade.

Given the importance of the MSME sector to the countries studied, the CAREC Institute commissioned this report to look specifically at how smaller firms coped with the pandemic and see what lessons can be learned for policymakers in the region. This report was prepared by Macro-Advisory, a Eurasian strategic consulting firm, who conducted a survey of 1,145 firms across Pakistan, Kazakhstan, Uzbekistan, and Georgia over the period of December 2020 to January 2021, nine months after the imposition of pandemic restrictive measures by national governments, giving enough time to properly gauge how MSMEs coped with business disruptions.

Across the four countries studied, MSMEs form 84% to 99% of all registered businesses, accounting for up to 60% of GDP and three quarters of employment. Given large informal sectors, MSMEs probably play an even bigger economic role than official government figures suggest. As a result, pandemic related economic shocks hit MSME revenues particularly hard throughout the countries in this study. Hardest hit were Georgian MSMEs with almost half seeing a drop in sales of more than 50%, whereas only 9% of Pakistani MSMEs reported similar falls. 60% of Georgian MSMEs, just under half of Pakistani and Kazakh MSMEs, and a third of Uzbek MSMEs had to resort to temporarily shuttering their businesses.

Employment held up better. With the exception of Kazakhstan, around three quarters of MSMEs did not need to lay off permanent employees. Of Kazakh MSMEs, 35% needed to reduce headcount in November compared to February 2020. The picture was similar in terms of employment of temporary staff. Clearly, MSMEs had either recovered employee numbers by November 2020, or they found other ways to cope with the business slowdown. A bigger impact was felt on employment conditions, such as wages and working hours.

In addition to various lockdown measures, across the region national governments implemented various business support measures, including fiscal relief for firms. MSMEs were asked whether they perceived government support to be adequate or not. Responses ranged from two thirds of Uzbek MSMEs rating their government's support as adequate (although Uzbek firms had the lowest share of firms receiving government assistance), compared with 87% of Pakistani firms who had a negative

view of government assistance. This could be as a result of either inadequate support, poor targeting of government assistance, or firms simply not being made aware of what assistance was available. In general, though, the largest group of MSMEs did not receive any form of external support during the pandemic, government or otherwise. Of those firms who did access government support, financial relief measures such as tax relief, concessionary loans, and other measures to support cash flow were the most popular.

1.1 Research objectives and value addition

Various surveys have been conducted on the economy-wide effects of the COVID-19 pandemic on national economies; however, these have typically failed to focus on MSMEs, determine what sectors and firm sizes have been impacted the most, and develop some actionable recommendations on mitigating the effects of disruptions on MSMEs. Consequently, this report specifically looked only at MSMEs, examined what effects business disruptions caused by the COVID-19 pandemic business had on them, how they coped, what government interventions assisted in their recovery, and what, if any, lessons can be learned by policymakers.

In addition, while previous quick surveys were carried out earlier in the pandemic (typically April to May 2020), this report surveyed MSMEs over the period December 2020 to January 2021, which allowed for more meaningful data to be generated as firms have had more time to assess the economic impact and develop coping mechanisms. Further, firms were asked to compare their performance at the end of 2020 with their performance prior to the pandemic, which provided empirical data on the COVID-19 impact. The data will also provide better feedback to national governments on what policy interventions have worked and inform their choices going forward.

Specifically, the research looked at the impact on the various impacts of the COVID-19 pandemic on MSMEs, including sales (together with online sales), employment, wages, cash flows, access to finance, what support MSMEs have received from various sources, and more specifically what government support programs proved the most popular.

1.2 Methodology

One issue facing all research into MSMEs, and in particular comparing results across different countries, is that different countries use different firm size definitions that can also include turnover in addition to employee size. Therefore, for the purposes of this research, one common definition, using only the number of permanent employees, was used across all four countries.

Sole Traders	1 employee
Micro	2-5 employees
Small*	6-50 employees
Medium	51-250 employees

**given the size of Pakistan's MSME sector, small enterprises were split into two groups: 6-20 employees, and 21-50 employees*

All enterprises were also further categorized as manufacturing, services, trade, or agriculture to enable direct comparisons between countries.

Using data compiled by government statistical authorities, firm size and sectoral quotas were developed to mirror as closely as possible the number and distribution of MSMEs in the national economy. National sample sizes were set in order to achieve a margin of error of 10% or less.

Based on government data only operational and active firms were contacted and invited to participate in the survey. The survey itself used a questionnaire of 32 questions (see Appendix 1) and, given restrictions imposed by the COVID-19 pandemic, was conducted using telephone interviews over the period December 2020 to January 2021.

1.3 Research limitations

Pakistan data: Uniquely, among the four countries studied, Pakistan does not possess accurate, timely, and definitive statistics on the MSME sector, making analysis of its contribution to the economy difficult to assess. There are various, differing, estimates as to the number of MSMEs and their size and sectoral breakdowns. Given the small number of observed medium-sized firms in the country, most experts agree that MSMEs form the overwhelming majority of all business and the bulk of employment. The Pakistani government should take urgent steps to research and regularly monitor MSMEs, which would form the basis of private sector development plans for the country.

Informal business: In most countries in the region informal business forms a substantial part of economic activity and employment. However, given the constraints imposed by various shutdowns imposed by the governments, it was not possible to survey informal business entities that are not formally registered, and which therefore do not appear on the government databases that were used to identify survey respondents. Identifying such companies and meaningfully engaging with them would have needed different research methodology, using more indirect methods (such as focus groups) not available through telephone interviews. Similarly, researching informal employment is best conducted through household surveys rather than interviewing firms. Given the size of the informal sector, and its importance in employment generation, the authors recommend that researching COVID-19 impacts on unregistered firms be made a priority.

Foreign trade and international value chains: Given the very small proportion of firms in the surveyed countries that actually engage in any export/import operations or are part of international value chains, it was not possible to directly assess the impact of various pandemic related business disruptions on international trade as this would have necessitated much larger sample sizes in order to generate any meaningful results and would have skewed firm size and sectoral representativeness.

Firm closure (bankruptcy): One of the most dramatic effects of the pandemic was firm closure; however, this research had to be conducted through telephone interviews of active enterprises as, in the light of business restrictions, person to person interviews were not possible. Sample selection was based on government held databases of active enterprises, and therefore it was not possible to locate and identify firms (or owners of firms) that had already closed.

Additionally, bankruptcy procedures in the four countries surveyed are cumbersome, costly, and time consuming. Sole traders, micro and smaller enterprises tend to just cease trading (especially if they are in the informal sector) rather than go through formal bankruptcy procedures; therefore, relying on government bankruptcy statistics to gauge the extent of firm closure owing to the COVID-19 pandemic would be misleading.

Excluding closed firms raises the risk of survivorship bias in the data; only those firms that survived through to December 2020 were interviewed, ignoring those that closed, and this bias would tend to flatter the survey results. However, the authors recommend further research into COVID-19 induced firm closures (bypassing official government bankruptcy data), which would generate valuable insights into the most vulnerable MSME segments, giving policymakers additional data to design appropriate support measures.

Gender: Evidence from other countries demonstrates that women owned or managed MSMEs suffered disproportionately more as a result of COVID-19 business disruptions. While this research has gathered data on the gender of firm owners and senior managers, gender was not a selection criteria used in generating the final samples; therefore, no firm conclusions can be inferred about female led businesses. Furthermore, focused research is required in order for policymakers to offer more targeted assistance.

1.4 Summary of key findings

Pakistan

COVID-19 was a massive shock to Pakistani MSMEs: 87% of MSMEs reported a negative impact of the pandemic on their business operations. The hardest hit were companies in trade and retail, with 97% experiencing a hit to their operations. Smaller firms suffered more than larger ones.

Plunge in revenues: 70% of MSMEs saw their monthly revenues fall in November 2020, compared to pre-pandemic levels. The services sector was hardest hit, with 17% reporting a more than 50% decrease in sales.

Temporary closure: The biggest consequence of the pandemic was that 45% of MSMEs had to resort to temporarily closing their businesses.

Relatively small impact on employment: Three quarters (74%) of MSMEs did not need to reduce the number of permanent employees but 55% decreased working hours, especially sole traders (75%) and manufacturing firms (70%).

Hit to cash flows could have been worse: 62% of respondents reported no cash flow problems. The most popular option for larger firms in coping with cash flow issues was by cutting staff wages and salaries, whereas smaller firms preferred using a variety of other methods, including seeking loans.

Government could do more: Almost 9 in 10 (87%) of MSMEs rated government support to combat the effects of the pandemic induced business slowdown as inadequate.

MSMEs self-reliant: The majority of MSMEs (71%) did not access any outside help during the crisis. Only 32% overall received any form of national or local government support, but 55% of medium-sized firms and 46% of manufacturing firms did.

MSMEs want financial help: Going forward, Pakistani MSMEs primarily want the government to offer low or zero interest loans, loan repayment moratoria, and tax relief.

Uzbekistan

Dramatic impact of COVID-19 on MSMEs: 86% of all MSMEs said that the COVID-19 crisis had had a negative impact on their business operations, with the services hardest hit at 94% of all MSMEs. Interestingly the agricultural sector fared the best with a quarter of firms stating that the crisis had had a positive impact on them.

Less pressure to close: Only a third of all MSMEs experienced temporary closure of their businesses and a fifth of manufacturing firms.

Revenues take a hit but could be worse: Just under half of respondents (49%) saw monthly revenues in November 2020 fall compared with February 2020 (the last pre-COVID month). A quarter of all respondents saw no change to revenues. For those firms reporting a more than 50% decline, hardest hit was the small firm segment with 28% and medium-sized firms with 26%.

Employment held up well: Only 15% of all MSMEs reported a decline in permanent employee staffing levels. 73% reported no change whatsoever. The agricultural sector suffered the most, with 32% needing to shed staff.

Cash flow impact: 70% of MSMEs reported that their cash flows suffered, and this figure was broadly consistent across sectors and firm sizes. To cope, 29% accessed bank loans.

Little help sought: Two thirds of Uzbek MSMEs did not access any form of external support during the COVID crisis. The most popular option was support from the national government, but this was utilized by only 11%.

Government doing a good job: 65% of MSMEs felt that their government had provided adequate support to MSMEs during the pandemic, with this figure jumping to 75% of agricultural firms.

MSMEs want loan guarantees: When asked what form of government support, they would like to receive going forward, a very large majority (77%) said they wanted the government to provide loan guarantees. Wanting loan repayment moratoria was at 60% and 57% for simplified loan procedures and zero interest loans.

Kazakhstan

COVID-19 negatively affected almost 9 in 10 MSMEs: 86% of all surveyed MSMEs took a hit to their business operations, ranging from 70% of manufacturing firms to 94% of services firms. The medium-sized firm sector was the worst hit, with 96% of firms reporting a negative impact.

Temporary closure: The biggest impact of the shock associated with the pandemic was that 49% of MSMEs had to temporarily shutter their businesses. Services and trade sectors were the worst hit with 53% and 52% suffering temporary closures respectively.

Falling sales: 68% of all MSMEs saw sales decline in November 2020 compared with February, with 34% reporting a decline of more than 50%. The services sector took the hardest hit, with 72% reporting an overall sales decline. In terms of firm size, the micro enterprise segment was the worst hit with 46%.

Employment hit, but not as much: 35% of all MSMEs needed to reduce their permanent employee headcount. The sole trader segment was least impacted, with two thirds stating that they did not need to change staffing levels at all. 39% overall reduced working hours for their employees, with this option proving popular for 44% of sole traders and services firms.

Big hit to cash flows: Three quarters of MSMEs suffered a drop to cash flows. Especially hard hit were agricultural firms, with 91% reporting cash flow problems. To cope, 26% of MSMEs resorted to commercial bank loans.

Resort to support: 54% of all MSMEs turned to and received external support. The most popular option reported by 22% was support from friends and families. In second place was support from the national government, which was received by 17% of MSMEs.

Government could do better: Only 31% of MSMEs rated government support during the COVID-19 pandemic as adequate. The most positive were medium-sized firms (60%) along with manufacturing firms (48%).

MSMEs want financial help: Just over half of all MSMEs would prefer zero interest loans (54%) and tax relief (53%).

Georgia

Dramatic impact of COVID-19 on MSME business operations: Almost all MSMEs (97%) reported a negative impact of the pandemic on their business operations, with 80% of all respondents reporting decreased sales, with the largest share of respondents reporting a 50% or larger decrease in sales.

Small enterprises more susceptible: Unsurprisingly, the survey showed that the smaller the enterprise the more of them suffered, with 91% of sole traders and 71% of micro enterprises reporting sales declines.

Surprisingly little impact on employment: Interestingly enough, the pandemic did not precipitate large employee layoffs among MSMEs, with 79% not changing staffing levels at all and only 14% of respondents reporting needing to decrease the number of their permanent employees, implying that companies found other ways of coping or cutting costs. Staffing issues appeared to be more of a challenge for medium-sized enterprises during the pandemic, with more of them decreasing headcounts compared to smaller enterprises. One obvious coping mechanism was cutting wages, with 27% of all respondents resorting to this measure.

Cash flows hit: Overall, only 29% reported no fall in cash flows with the largest proportion of firms planning on coping through recovering debts and seeking advance payments.

MSMEs coping on their own: Almost half of MSMEs (47%) did not access any form of external business and financial support at all. The most popular form of assistance was support from the national government, which was utilized by 45% of businesses.

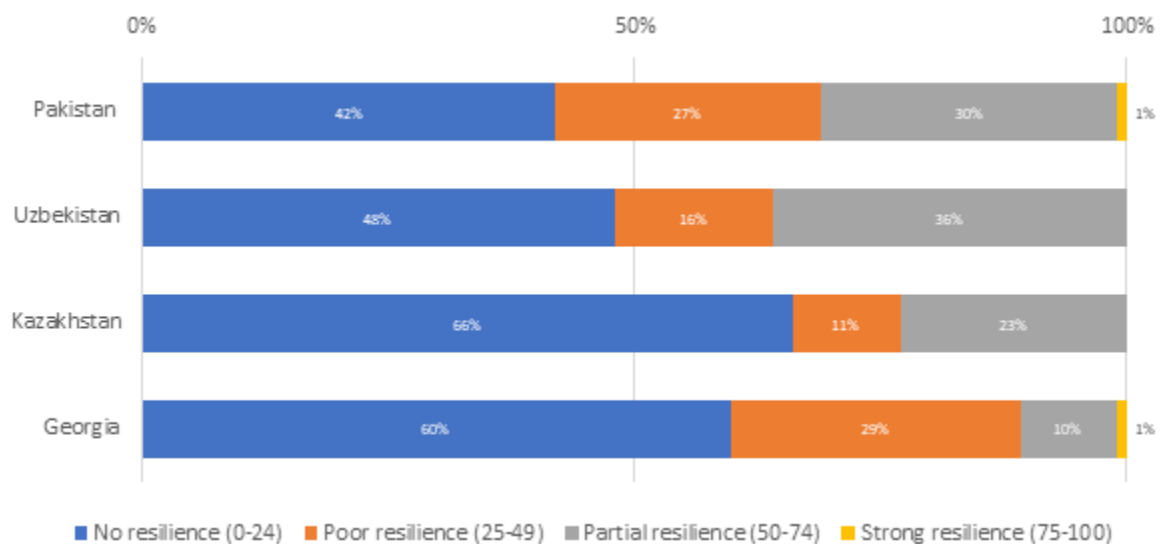
Government assistance successfully reaches MSMEs: Almost half of MSMEs (47%) did not access any form of external business and financial support at all (government support or otherwise). The most popular form of assistance was support from the national government, which was utilized by 45% of businesses. In particular, a very high number of sole traders (56%) were able to receive some form of government assistance, indicating the government's successful MSME outreach efforts. Going forward, Georgian MSMEs would most prefer to receive tax relief (reported by 40% of MSMEs).

FIRM RESILIENCE

Using a technique originally developed by the United Nations Development Program (UNDP) (see Appendix 2 for more detail), the results of the survey were aggregated into one overall score showing how well firms in all four countries coped with the effects of the pandemic—the Resilience Index—allowing for a quick comparison across countries.

64% to 89% of all MSMEs showed no, or poor, resilience to the effects of the COVID-19 pandemic. Very few, if any, firms showed strong resilience indicating that they had prospered during the pandemic. These proportions are particularly troubling given that the research did not cover firms that had permanently ceased operations.

Figure 1.1: Distribution of resilience index for all MSMEs



2. Conclusions and Recommendations

CONCLUSIONS

- 1) In 2020 the world experienced a massive simultaneous supply and demand shock resulting from the COVID-19 pandemic, with no country immune to the effects. The primary effects on MSMEs were through various government-imposed lockdown measures that severely impacted business operations, trade, transport, demand, and employment. Larger, more advanced economies were in a position to implement massive stimulus measures such as furlough schemes and direct business subsidies. Emerging economies, such as those examined in this report, had only limited capacity to offer similar relief measures. As smaller enterprises form the bulk of employment in these countries, and with more limited social and income support generally available to the population, MSMEs—and incomes more generally—were more dramatically impacted than in richer countries.
- 2) The vast majority of MSMEs across Pakistan, Uzbekistan, Kazakhstan, and Georgia, suffered as a consequence of the pandemic, with the primary consequence being a sharp contraction in demand caused by various lockdown measures, inability of workers to get to their places of employment, and negative impacts on supply chains. More MSMEs are engaged in trade and services, which—unlike, for example, manufacturing or agriculture—necessitate extensive interaction with the general population. It is therefore unsurprising that so many firms experienced negative impacts, with around nine in ten surveyed firms across the four countries reporting that their businesses had (to various degrees) suffered, leading to temporary business closures for 60% of Georgian MSMEs, almost half of Pakistani and Kazakh MSMEs, and a third of Uzbek firms. In general, the smaller the firms, the more severely they were impacted.
- 3) An interesting result that emerged from the study was that, despite firm revenues declining and hence the need to control costs, the vast majority of surveyed firms did not need to decrease staff, preferring instead to cut working hours and wages. This may be as a result of MSMEs generally having leaner staffing structures than larger firms or because they were surveyed at the end of 2020 when they had had time to adjust to the various constraints imposed by the pandemic.
- 4) In tandem with the imposition of various restrictive measures, all national governments implemented economic stimulus and relief programs to assist firms. The perceptions of the efficacy of these interventions were mixed, with the vast majority of surveyed Pakistani MSMEs (87%) stating that government support was inadequate. Conversely, two thirds of Uzbek MSMEs felt that their government had provided adequate support. Perceptions in Kazakhstan and Georgia were in between, with overall 31% of Kazakh MSMEs and 48% of Georgian MSMEs feeling that government support was adequate. More medium-sized firms, and those engaged in manufacturing (possibly because they were more visible and easier to target) tended to rate government efforts as positive.
- 5) The findings show that most MSMEs preferred to rely on their own resources rather than on government assistance. Of the minority who did report receiving some sort of outside assistance, government support and that provided by friends and family were the main sources. Further research is needed to establish why there was such a poor uptake of government support programs. Perhaps not enough government resources were allocated to business relief measures, or they were poorly targeted. It may be the case that small firms were simply not aware of various measures or that they faced bureaucratic obstacles and red tape in attempting to access government support. In all likelihood, it is probably a combination of all of these factors.

RECOMMENDATIONS

- 1) Irrespective of the slowdown caused by the COVID-19 pandemic and given the importance of MSMEs to national economies, and in particular to job creation, policymakers need to recognize their contribution and prioritize MSME development. In addition, in formulating economic development plans, policymakers should consider first and foremost the impact on MSMEs.
- 2) Governments need to closely examine the reasons for the low uptake by MSMEs of government support programs. They need to properly assess the needs of different sized firms (sole traders and micro enterprises clearly have different needs to more established larger firms), and in particular the needs of different sectors. Policymakers need to assess what has worked, what has not, and what could be improved. Better coordination with MSMEs needs to be made a priority.
- 3) More attention and resources need to be focused on collecting timely data on MSMEs. This is particularly true for Pakistan where there are no up to date statistics on the MSME sector. Without being able to measure MSMEs, the government will have difficulty in designing suitable support and development policies, and crucially assessing what works.
- 4) Regular quick surveys should be conducted to assess the issues faced by firms and to provide more real time feedback to governments. This is particularly important in the uncharted territory of recovery from the COVID-19 crisis. To provide cross country comparisons and to better gauge progress, governments should consider utilizing standard enterprise surveys similar to those conducted by the World Bank and partnering with MFIs or other institutions who can quickly assess issues on a regional level.
- 5) Armed with better data, statistics, and feedback mechanisms, government support programs need to be much better targeted. Different sectors and firm sizes face different hurdles and therefore governments need to discriminate better in their assistance programs.
- 6) The MSME contribution to Kazakhstan's GDP is very low, negatively impacting dynamism and resilience to economic shocks, not to mention providing jobs. The government should seriously consider measures to diversify and increase the MSME share of the economy through privatization, deregulation, improved access to finance, better infrastructure, skills improvement, and so on.
- 7) Rather than just offering tax relief (which tends to just defer payments but does not address the underlying collapse in demand), MSMEs also want more direct financial assistance—cheap or interest free loans, loan forbearance, and tax reductions.
- 8) Given that the primary consequence of COVID-19 was a fall in demand and loss of income among the general population, governments should consider offering more direct income support to the population. In addition to supporting citizens who have seen incomes plummet, this spending will quickly feed through to firms, supporting their sales and in turn their employees. In general, this is much easier to target and implement and provides less market distortion than funneling money to firms, although of course direct assistance to firms should be a part of the policy response.
- 9) Governments should not ignore the informal sector. Working only with formal businesses risks ignoring an important part of the economy, and a source of a large number of jobs (particularly in

Pakistan). This also argues for more use of population income support measures, given the difficulty in targeting unofficial businesses.

- 10) Given the rapid and unprecedented spread of the pandemic, governments have understandably needed to move quickly and in an ad hoc fashion. However, this has meant that a lot of potential recipients of government aid have been unaware of what assistance is on offer and how to access it. Governments need to establish clear and comprehensive communications campaigns to ensure that MSMEs are aware of all possible support packages and make it significantly easier to access such support.
- 11) The survey has shown that firms need to urgently diversify their sales channels. The use of online sales is at a very low level, making it difficult for firms to quickly identify new customers and gaps in the market. There is a clear role for governments to assist with this digital transformation by investing in internet and broadband infrastructure, assisting and initially subsidizing internet connects. They should also consider establishing national internet platforms facilitating trade and sales by MSMEs.
- 12) MSMEs and informal businesses typically face great obstacles to accessing finance. In addition to more targeted assistance, policymakers should boost the ability of banks and financial intermediaries to lend to MSMEs by easing collateral and provisioning requirements, providing partial credit guarantees, creating standard loan application documentation, and so on.
- 13) Going forward and to ensure a sustainable recovery, governments need to redouble their efforts to improve the business enabling environment for MSMEs. With perhaps the exception of Georgia, MSMEs in the other countries are subject to onerous red tape, bureaucracy (and corruption to varying degrees), while at the same MSMEs are the least able to cope with such issues. Deregulation and regulatory simplification need to become national economic priorities.
- 14) An obvious benefit of deregulation and improving the enabling environment for MSMEs would be that more firms enter the formal economy, especially if this is accompanied by tax simplification as well.
- 15) Analysis has shown that MSMEs in the four countries barely engage in any import/export activity. While most smaller firms understandably focus on their home markets, this is nevertheless a missed opportunity. Foreign trade could be an important COVID coping mechanism for MSMEs, as well as providing more resilience for firms (exports could help to compensate for falls in domestic demand), in addition to being an important conduit for innovation transfer and diversifying supply chains.

3. Survey Methodology

OVERVIEW

The MSME sector, while averaging 46% of GDP¹ across Pakistan, Uzbekistan, Kazakhstan, and Georgia, nevertheless forms the vast majority of registered businesses, ranging from 84% in Uzbekistan to an estimated 99% in Pakistan, and provides the lion's share of employment.

Consequently, it is these smaller enterprises that bore the brunt of COVID-19 related disruptions but who also represent the best chance of emerging from the pandemic induced recession and achieving a new, more sustainable and inclusive paradigm of economic growth going forward.

This report, then, specifically focuses on MSMEs across the four countries and examines the impact of the COVID-19 pandemic on them. A representative sample of MSMEs in all four countries, reflecting the sectors they operate in, was surveyed and asked to assess the impact of COVID-19 on their business operations, with specific reference to comparing their situation in November 2020 with that in February 2020, the last full pre-COVID month of operations.

SAMPLE SELECTION AND METHODOLOGY

A total of 1,145 MSMEs were surveyed across the four countries at the end of 2020. Statistical authorities in each country were queried to develop a picture of the distribution of MSMEs in the national economy, which was then used to develop a statistically representative sample of the MSME sector by overall number of firms, employee size, and sector. Beyond these firm quotas, geographic distribution was also taken into account as far as possible.

All four countries use two definitions of MSMEs—employee size and turnover—with Georgia also using alternative definitions for tax reporting purposes. Two countries, Pakistan and Uzbekistan, use the same employee size definition of fewer than 10 employees for micro enterprises, with Kazakhstan's threshold set at fewer than 15 employees. Georgia does not separately define micro enterprises. For small enterprises, both Pakistan and Georgia set a threshold of fewer than 50 employees, and Kazakhstan and Uzbekistan define small enterprises as fewer than 100 employees.

	Official criteria used			Remarks
	Firm size defined	Employee size	Turnover	
Pakistan	Micro, small, and medium-sized	✓	✓	Defined by SBP Separate employee size definition for medium-sized trade enterprises
Uzbekistan	Micro, small, and medium-sized	✓	✓	Defined by UzStat
Kazakhstan	Micro, small, and medium-sized	✓	✓	Defined in Entrepreneurial Code of Kazakhstan Only employee size criteria used for statistical reporting purposes
Georgia	Small and medium-sized	✓	✓	Defined by GeoStat for statistical reporting No formal definition of micro enterprises Alternative definition used for tax purposes

¹ Unweighted arithmetic average of MSME share of GDP.

The different size definitions used by the countries in the survey complicate direct MSME comparisons between the four countries. Accordingly, for the purposes of surveying firms for this report, and to allow for meaningful cross-country comparisons, the authors used a single common definition of firm sizes using only an employee size threshold as follows:

Sole trader	1 employee
Micro	2-5 employees
Small	6-50 employees
Medium-sized	51-250 employees

Given the size of Pakistan's MSME sector, an additional size criterion was used for the survey to provide more granularity. Small firms were split into two groups: 6 to 20 employees and 21 to 50 employees.

Government databases of registered businesses were used to calculate the relative proportions of sole traders, micro, small, and medium-sized firms to overall firms in the national economy. Further, using national statistics, the relative proportion of MSMEs in different sectors of the economy was used as an additional variable in selecting respondents to ensure that the final country sample represented the breakdown of MSMEs in the national economy as closely as possible. The mapping of subsectors to the broad categories of manufacturing, agriculture, services, and trade was done using official definitions and, as such, there might be slight discrepancies between the countries. For more information on sector mapping, please refer to the individual country sections below.

These size and sectoral criteria were then applied to the datasets of firms to generate a list of respondents that was representative of the MSME sectors in their countries. All respondents underwent a screening exercise to verify their employee sizes, sectors of operation, and geographic location. In selecting the final sample sizes, the research was guided by the objective of achieving a less than 10% margin of error at the 95% confidence interval. The final sample sizes were as follows:

	Sample size	Margin of error (95% CI)
Pakistan	435	5%*
Uzbekistan	200	7%
Kazakhstan	302	6%
Georgia	208	7%

* Based on an estimated total number of SMEs of 3.5 million

QUESTIONNAIRE

With minimal deviation, the same 32 question questionnaire was used across all surveyed MSMEs (see Appendix 1). Deviations were introduced only to take into account different sector classifications in different countries and different government support measures offered to businesses. The questionnaire was divided into three broad sections:

Firm profile	Firm age Sector Industry Gender (majority owner, senior manager) Employees (gender, permanent, temporary) Sales prior to pandemic Online sales Import/export
Impact of COVID-19	Positive impact Negative impact Consequences of negative impact Change in sales Change in employees (permanent, temporary) Impact on employment conditions Impact on wages Measures to cope with COVID-19 disruptions Cash flow shortages Raw material shortages Labor shortages Contract fulfillment
Business support measures	Any external support received Adequacy of government support Specific government support measures utilized Desired government support in future

Given the constraints imposed by the pandemic, interviews were conducted by telephone by reputable market research organizations. Following the interviews, an exhaustive quality assurance exercise was carried out and supplementary interviews conducted to address any shortfalls in sample selection or the integrity of individual responses.

4. Country Survey Profiles

4.1. Pakistan

435 MSMEs were surveyed to assess the impact of COVID-19 on their business operations, with the interviews taking place between 6 and 29 December 2020.

Summary of research methodology	
Method	Quantitative
Technique	Telephone assisted interviews
Target group	Formal active MSMEs and individual entrepreneurs in four sectors
Sample size	435 interviews
Geographic coverage	Pakistan—all regions
Length of interviews and number of questions	15-20 minutes, 32 single and multiple choice questions
Survey organization	IPSOS

Respondents were selected from the database of MSMEs maintained by the Security Exchange Commission of Pakistan. Enterprises were chosen according to firm size and grouped into five categories—sole traders, micro enterprises (2-5 employees), small (6-20 employees), small (21-50 employees), and medium-sized (51-250). Quotas for the categories were achieved according to the proportional representation of their category in the total universe of MSMEs in Pakistan. To ensure adequate representation of each category for analysis, a minimum quota of 30 interviews was achieved for each category. In addition, the parameter for grouping/stratification was business sector of activity. In Pakistan, many MSMEs are either owned and run by an individual or have few employees, resulting in the sole trader and micro segments being larger than the others. The following quotas were achieved for each stratum:

Table 2.101: Respondent firm sizes and sectors

	Sole trader	Micro (2-5)	Small (6-20)	Small (21-50)	Medium-sized (51-250)
Agriculture	20	21	21	15	16
Manufacturing	19	38	36	14	8
Services	88	55	17	12	7
Trade and retail	11	27	6	4	2
Total	138	141	80	45	33

For the purposes of the survey, official subsector definitions were mapped as follows:

Table 2.102: Sector mapping

Category	Subsector	Category	Subsector
Manufacturing	Machinery (general, electric, electronics, transport, precision)	Services	Construction
	Textile, apparel		Business services (legal and accounting, architectural and engineering, scientific R&D, advertising)
	Plastic, plastic/rubber products		Scientific research
	Food processing and beverages		Tourism, culture, sport, and entertainment
	Leather, leather products, footwear		Health, social work
	Power and energy		Education
	Chemicals		Construction
	Mining		Information and communication technology
	Wood products, furniture		Real estate
	Other		Printing and publishing
	Other		
Trade	Wholesale and retail trade	Agriculture	Agriculture, forestry, animal husbandry, and fisheries

Figure 2.101: Enterprise size

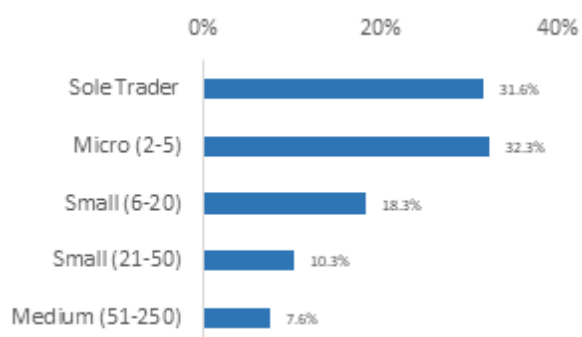


Figure 2.102: Sectors

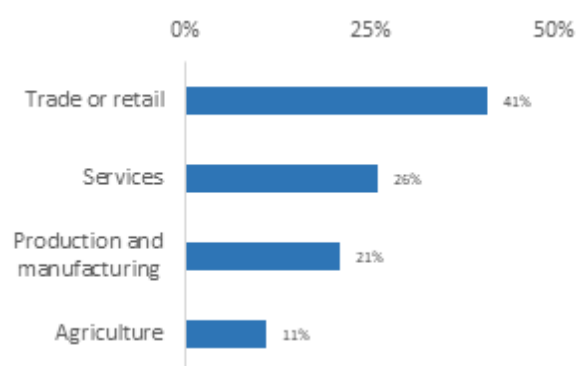


Table 2.103: Sectors, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Small (21-50)	Medium-sized (51-250)
Manufacturing	14%	15%	15%	11%	12%
Services	14%	28%	26%	10%	6%
Retail and trade	64%	40%	12%	9%	5%
Agriculture	8%	20%	4%	3%	1%

Table 2.104: Enterprise age

	<10 years	10-20 years	>20 years
% of all MSMEs	65%	25%	10%

Figure 2.103: Gender of majority owner

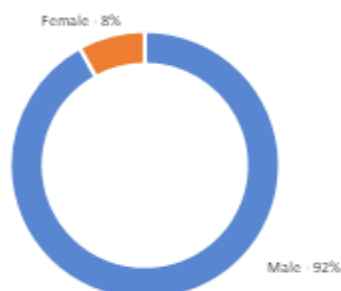


Figure 2.104: Gender of senior manager

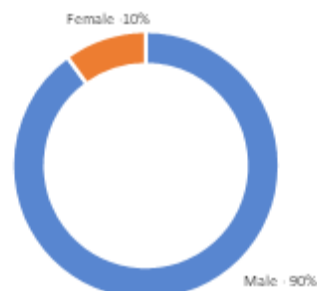


Figure 2.105: Business sectors

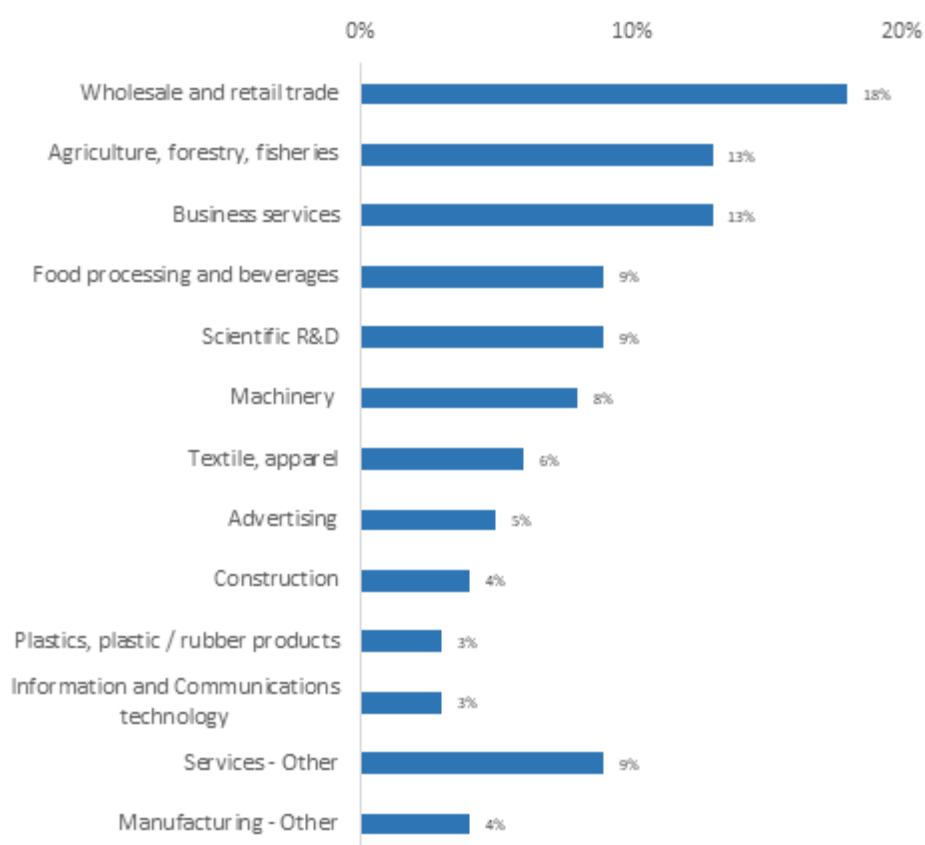


Table 2.105: Share of permanent female employees

	% of MSMEs
Female	10%
Male	90%

Table 2.106: Share of permanent female employees, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Small (20-50)	Medium-sized (50-250)
Female	2%	7%	10%	14%	16%
Male	98%	93%	90%	86%	84%

Table 2.107: Share of permanent female employees, by sector

	Manufacturing	Trade	Services	Agriculture
Female	12%	6%	13%	3%
Male	82%	94%	87%	97%

Table 2.108: Monthly sales in February 2020 (PKR)

	% of MSMEs
<10,000	2%
10,000-50,000	29%
50,000-200,000	35%
200,000-500,000	15%
500,000-1,000,000	6%
1,000,000-2,000,000	6%
2,000,000-4,000,000	5%
>4,000,000	1%

Table 2.109: Monthly sales in February 2020, by firm size (PKR)

	Sole trader	Micro (2-5)	Small (6-20)	Small (21-50)	Medium-sized (51-250)
<10,000	3%	2%	-	3%	-
10,000-50,000	51%	31%	13%	3%	3%
50,000-200,000	39%	37%	32%	33%	23%
200,000-500,000	6%	14%	21%	25%	32%
500,000-1,000,000	1%	6%	14%	10%	6%
1,000,000-2,000,000	1%	7%	10%	8%	16%
2,000,000-4,000,000	-	2%	10%	18%	10%
>4,000,000	-	-	-	3%	10%

Table 2.110: Monthly sales in February 2020, by sector (PKR)

	Manufacturing	Trade	Services	Agriculture
<10,000	-	1%	4%	2%
10,000-50,000	18%	40%	15%	42%
50,000-200,000	31%	35%	44%	22%
200,000-500,000	28%	11%	15%	6%
500,000-1,000,000	5%	6%	8%	8%
1,000,000-2,000,000	11%	4%	5%	10%
2,000,000-4,000,000	5%	3%	7%	8%
>4,000,000	1%	-	2%	2%

Table 2.111: Firms reporting online sales in February 2020

	% of MSMEs
<5%	6%
6-15%	27%
16-25%	31%
26-50%	28%
51-75%	5%
76-99%	2%
All 100%	2%

Table 2.112: Firms reporting online sales in February 2020, by sector

	Manufacturing	Trade	Services	Agriculture
<5%	5%	-	9%	-
6-15%	-	36%	41%	-
16-25%	37%	27%	25%	100%
26-50%	47%	27%	19%	-
51-75%	11%	9%	-	-
76-99%	-	-	3%	-
All 100%	-	-	3%	-

Table 2.113: Firms reporting online sales in February 2020, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Small (21-50)	Medium-sized (51-250)
<5%	-	7%	8%	7%	-
6-15%	25%	33%	24%	20%	40%
16-25%	25%	27%	36%	33%	20%
26-50%	25%	27%	24%	33%	40%
51-75%	25%	7%	-	7%	-
76-99%	-	-	4%	-	-
All 100%	-	-	4%	-	-

Table 2.114: Exports and imports

	% of MSMEs
Exports	4%
Imports	3%
Exports + imports	14%
None	78%

Table 2.115: Exports and imports, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Small (20-50)	Medium-sized (50-250)
Exports	-	5%	6%	8%	-
Imports	-	4%	2%	15%	6%
Exports + imports	13%	11%	11%	23%	32%
None	87%	80%	80%	55%	61%

Table 2.116: Exports and imports, by sector

	Manufacturing	Trade	Services	Agriculture
Exports	5%	2%	4%	6%
Imports	12%	2%	-	-
Exports + imports	20%	21%	4%	4%
None	62%	75%	91%	90%

4.2. Uzbekistan

200 MSMEs were surveyed to assess the impact of COVID-19 on their business operations. The interviews took place between 27 December 2020 and 16 January 2021.

Summary of research methodology	
Method	Quantitative
Technique	Telephone assisted interviews
Target group	Formal active MSMEs and individual entrepreneurs in four sectors
Sample size	201 interviews
Geographic coverage	Uzbekistan (seven regions)
Length of interviews and number of questions	15-20 minutes, 32 single and multiple choice questions
Survey organization	M-Vector

Three level stratification was used for sample distribution to aid the qualitative composition of the survey and stratification. Criteria for levels of stratification included: sector, size of organization, and regional location.

Respondents were grouped according to the following list of characteristics:

1. Size of the enterprise (according to number of employees)—individual entrepreneurs (sole traders), micro, small, and medium-sized enterprises (MSMEs). Quota for each group was set at 50 interviews.
2. Sector—manufacturing, services, trade, agriculture.
3. Geographic presence—Tashkent and six additional regions.

Adjusting these three parameters with data obtained from UzStat's annual report, the following quotas were determined for each group:

Table 2.201: Respondent firm sizes and sectors

	Sole trader	Micro (2-5 employees)	Small (6-50 employees)	Medium-sized (50-250 employees)
Manufacturing	18	17	14	4
Services	9	8	16	31
Trade	18	18	16	6
Agriculture	6	7	4	9
Total	51	50	50	50

The survey organization used random sampling of existing databases, both from previous surveys and additional databases requested from other research organizations with experience in similar assignments. The results of the survey were weighted based on information obtained from UzStat's report of socio-economic indicators from 2020 and additional data from UzStat's other reports pertinent to the subject matter. All the previously mentioned criteria, such as size, sector and geographic location, were considered during the weighting process.

According to the UzStat socio-economic indicator survey (2020) the distribution of enterprise sizes in Uzbekistan were as follows.

Sole traders (1 employee)	46%
Micro enterprises (2-5 employees)	46%
Small enterprises (6-50 employees)	6.6%
Medium-sized enterprises (51-250 employees)	0.6%

For the purposes of the survey, official subsector definitions were mapped as follows:

Table 2.202: Sector mapping

Category	Subsector	Category	Subsector
Manufacturing	Wood products, furniture	Services	Construction
	Metal, metal products		Accommodation and food service activities
	Mining and quarrying		Business services
	Plastic, plastic/rubber products		Human health and social work activities
	Textile, apparel		Real estate
	Leather, leather products, footwear		Tourism, arts, entertainment, and sport
	Food processing and beverages		Information and communication technology
	Paper, paper products		Education
	Machinery		Other
	Power and energy		
	Other		
Trade	Wholesale and retail trade	Agriculture	Agriculture, forestry, and fishing

The sectoral distribution of MSMEs is as follows:

Table 2.203: Uzbekistan firm size distribution

	Sole trader	Micro	Small	Medium-sized
Manufacturing	35.2%	35.2%	29.9%	4.1%
Services	16.7%	16.7%	33.8%	77.0%
Trade	36.3%	36.3%	33.7%	0.8%
Agriculture	11.8%	11.8%	2.7%	18.2%
Total	100%	100%	100%	100%

Firm size distribution of total registered business was as follows:

- The largest firm size segment is individual entrepreneurs (sole traders) with one employee and micro enterprises with 2-5 employees, each comprising about 46% (45.9% for individual entrepreneurs and 46.8% for micro enterprises) of the total amount of registered/active formal businesses
- Small enterprises with 6-50 employees was in third place, with 6.6%
- The smallest share is attributed to medium-sized enterprises with 51-250 employees, with 0.7%

Figure 2.201: Distribution according to size

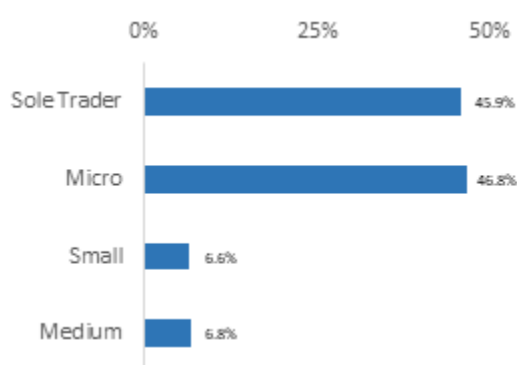
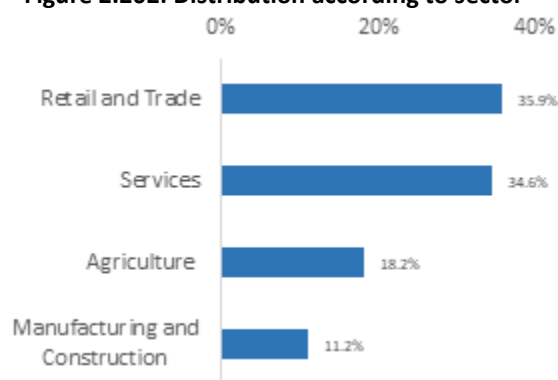


Figure 2.202: Distribution according to sector



For individual entrepreneurs, the leading sectors are manufacturing and construction, and retail and trade, with the former being more prevalent, owing to the large number of retail enterprises registering as individual entrepreneurs, with 35% and 37% respectively.

For micro enterprises, retail and trade alongside manufacturing and construction are the two leading sectors, with an equal share of 36%.

Table 2.204: Sector, by firm size

	Sole trader	Micro	Small	Medium-sized
Manufacturing	34.5%	35.8%	29.9%	4.1%
Services	16.9%	16.5%	33.8%	77.0%
Retail and trade	36.7%	36.0%	33.7%	0.8%
Agriculture	11.9%	11.7%	2.7%	18.2%

Table 2.205: Enterprise age

	<3 years	4-7 years	8-10 years	>10 years
% of all MSMEs	28.0%	37.5%	10.5%	24.5%

Table 2.206: Enterprise age, by sector

	Manufacturing	Trade	Services	Agriculture
<3 years	23.1%	39.3%	6.0%	9.4%
4-7 years	26.4%	41.9%	22.0%	13.0%
8-10 years	41.5%	27.1%	16.1%	15.3%
>10 years	45.2%	25.7%	38.2%	9.7%

Table 2.207: Distribution by age and size

	Sole trader	Micro	Small	Medium-sized
<3 years	56.7%	25.7%	15.4%	12.3%
4-7 years	23.7%	31.5%	47.9%	49.6%
8-10 years	7.9%	15.7%	12.7%	7.4%
>10 years	11.7%	27.0%	24.0%	30.7%

According to UzStat's yearly report on MSMEs in Uzbekistan, 60% of businesses are located outside the city of Tashkent, mainly concentrated in seven key regions. 27% of surveyed enterprises were in the capital city of Tashkent, while the remaining 73% were in other regions of Uzbekistan.

Table 2.208: Enterprise location

	Tashkent	Rest of Uzbekistan
% of all MSMEs	27%	73%

Table 2.209: Distribution of enterprises by firm size and location

	Tashkent	Rest of Uzbekistan
Sole trader	24%	76%
Micro	27%	73%
Small	38%	62%
Medium-sized	40%	60%

Out of 200 respondents, participating in the survey, 84% were directors/owners/founders or co-founders, with 16% being CEOs and senior managers.

Figure 2.203: Business sectors

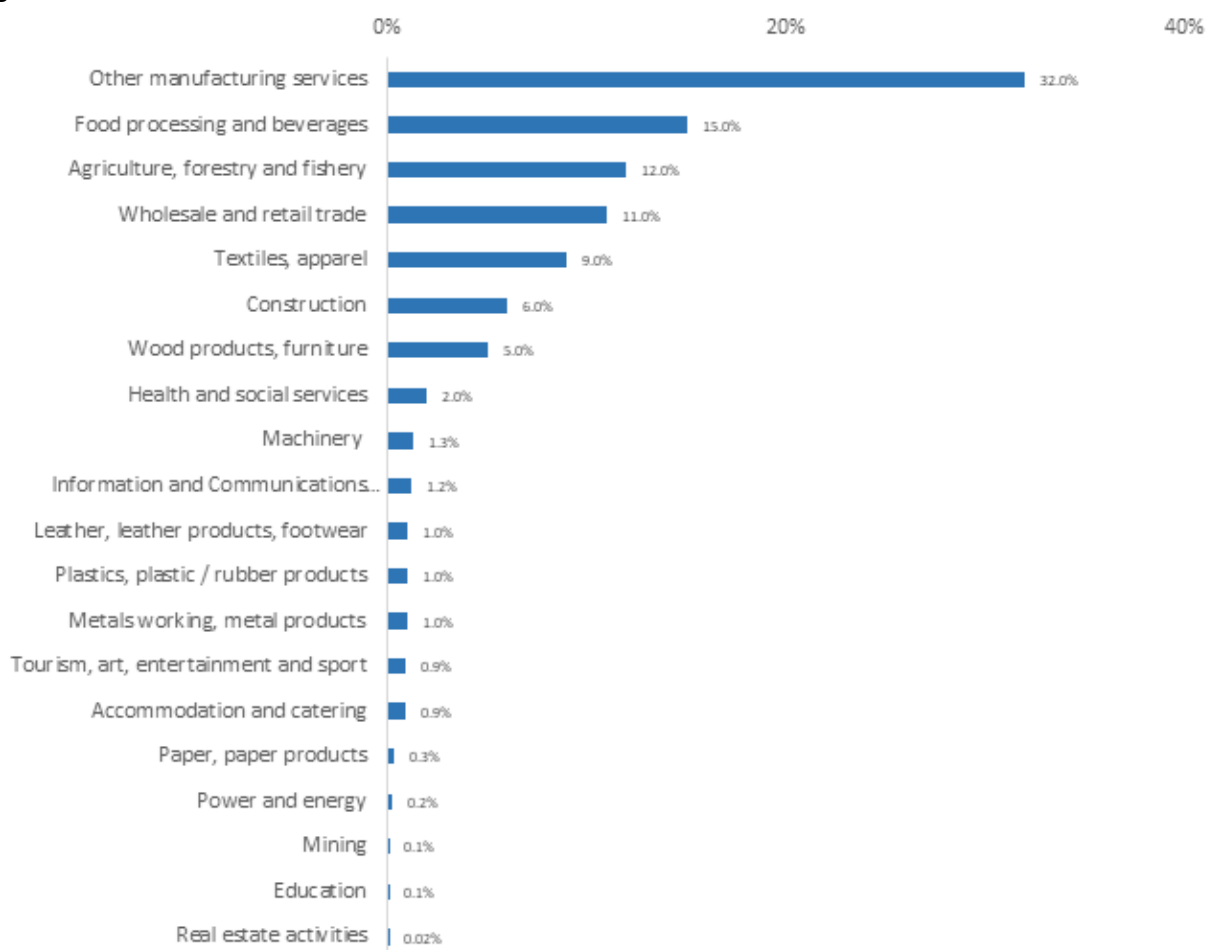


Table 2.210: Business sectors, by firm size

		Sole trader	Micro	Small	Medium-sized
Services	Construction	-	10%	17%	8%
	Accommodation and catering	-	2%	-	12%
	Health and social services	-	4%	2%	-
	Real estate activities	-	-	-	2%
	Tourism, art, entertainment, and sport	-	2%	-	5%
	Information and communication technology	-	2%	4%	-
	Education	-	-	-	7%
	Trade	Wholesale and retail trade	12%	10%	11%
Manufacturing	Wood products, furniture	2%	6%	15%	2%
	Metals working, metal products	-	-	6%	-
	Mining and quarrying	-	-	-	1%
	Plastics, plastic/rubber products	-	2%	2%	1%
	Textiles, apparel	18%	2%	1%	3%
	Leather, leather products, footwear	-	2%	4%	-
	Food processing and beverages	20%	12%	7%	12%
	Paper, paper products	-	-	2%	-
	Machinery	-	2%	2%	5%
	Power and energy	-	-	2%	-
Agriculture	Agriculture, forestry, and fishing	20%	6%	6%	14%
Other		28%	39%	19%	26%

Figure 2.204: Gender of majority owner

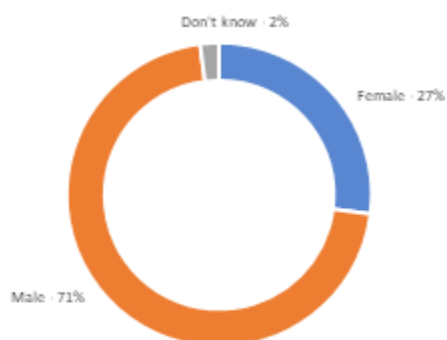


Table 2.211: Gender of majority owner, by sector

	Manufacturing	Trade	Services	Agriculture
Female	16.6%	32.2%	37.5%	25.9%
Male	83.4%	62.6%	62.4%	74.1%

Table 2.212: Gender of majority owner, by firm size

	Sole trader	Micro	Small	Medium-sized
Female	28%	25%	31%	53%
Male	70%	73%	69%	45%
Don't know	2%	2%	1%	3%

Table 2.213: Gender of majority owner, by company age

	<3 years	4-7 years	8-10 years	>10 years
Female	25%	30%	32%	24%
Male	73%	70%	68%	71%
Don't know	2%	-	-	5%

Figure 2.205: Gender of senior manager

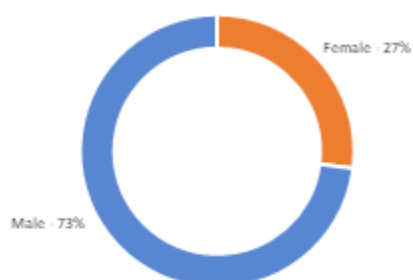


Table 2.214: Gender of senior manager, by firm size

	Sole trader	Micro	Small	Medium-sized
Female	26%	25%	38%	73%
Male	74%	75%	62%	27%

Table 2.215: Gender of senior manager, by sector

	Manufacturing	Trade	Services	Agriculture
Female	18%	72%	55%	18%
Male	82%	28%	45%	82%

Table 2.216: Gender of senior manager, by company age

	<3 years	4-7 years	8-10 years	>10 years
Female	27%	28%	18%	30%
Male	73%	72%	82%	70%

Figure 2.206: Number of permanent employees, February 2020

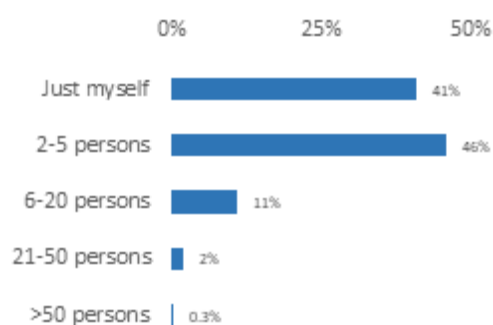


Figure 2.207: Number of temporary employees, February 2020

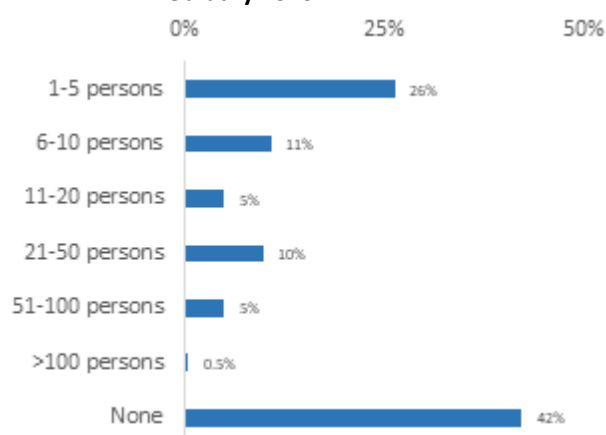


Table 2.217: Number of permanent employees in February 2020, by firm size

	Sole trader	Micro	Small	Medium-sized
Sole trader	78.0%	11.5%	4.2%	0.2%
2-5 persons	15.9%	80.7%	7.0%	2.2%
6-20 persons	4.0%	7.8%	77.5%	9.5%
21-50 persons	2.0%	-	11.3%	40.5%
>50 persons	-	-	-	47.7%

Table 2.218: Number of temporary employees in February 2020, by firm size

	Sole trader	Micro	Small	Medium-sized
1-5 persons	34.1%	48.9%	16.2%	4.5%
6-10 persons	2.0%	9.9%	26.1%	4.7%
11-20 persons	-	3.8%	6.3%	12.4%
21-50 persons	-	4.0%	13.4%	19.8%
51-100 persons	-	-	-	23.2%
>100 persons	1.9%	-	-	-
None	62.0%	33.4%	38.0%	35.5%

Table 2.219: Share of female employees out of all permanent employees

	% of MSMEs
None	51.6%
<15%	19.8%
16-30%	5.6%
31-50%	10.4%
51-75%	3.3%
76-100%	9.2%

Table 2.220: Share of female employees, by firm size

	Sole trader	Micro	Small	Medium-sized
None	62%	47%	15%	12%
<15%	14%	22%	47%	22%
16-30%	-	8%	26%	20%
31-50%	6%	16%	3%	21%
51-75%	2%	4%	6%	17%
76-100%	16%	4%	2%	7%

Table 2.221: Share of female employees, by sector

	Manufacturing	Trade	Services	Agriculture
None	55%	51%	44%	57%
<15%	19%	18%	22%	25%
16-30%	7%	5%	2%	9%
31-50%	5%	16%	11%	9%
51-75%	6%	3%	2%	-
76-100%	8%	8%	19%	-

Table 2.222: Monthly sales in February 2020 (UZS)

	% of MSMEs
<10,100,000	60%
10,100,001-52,000,000	17%
52,000,001-210,000,000	3%
210,000,001-525,000,000	0.44%
525,000,001-1,050,000,000	0.12%
>1,050,000,000	0.02%
Refuse to answer	19%

Table 2.223: Monthly sales in February 2020, by firm size (UZS)

	Sole trader	Micro	Small	Medium-sized
<10,100,000	60%	63.1%	37.3%	25.6%
10,100,001-52,000,000	22.2%	12%	26%	22.2%
52,000,001-210,000,000	3.9%	2%	7%	9.9%
210,000,001-525,000,000	-	-	6.4%	2.5%
525,000,001-1,050,000,000	-	-	2.1%	-
>1,050,000,000	-	-	-	2.5%
Refuse to answer	13.9%	23.4%	21.2%	37.3%

Table 2.224: Monthly sales in February 2020, by sector (UZS)

	Manufacturing	Trade	Services	Agriculture
<10,100,000	60.9%	61.9%	44.4%	74.3%
10,100,001-52,000,000	17%	18.3%	21.8%	8.7%
52,000,001-210,000,000	0.4%	5.2%	6.6%	0.4%
210,000,001-525,000,000	0.8%	-	0.9%	-
525,000,001-1,050,000,000	-	0.4%	-	-
>1,050,000,000	-	-	0.1%	-
Refuse to answer	21%	17%	26%	14%

Table 2.225: Share of online sales in February 2020

	% of MSMEs
None	75%
<10%	3%
11-20%	3%
21-30%	3%
31-50%	9%
51-75%	2%
76-100%	4%

Table 2.226: Share of online sales in February 2020, by sector

	Manufacturing	Trade	Services	Agriculture
None	66%	70%	88%	100%
<10%	3%	5%	0.3%	-
11-20%	3%	6%	0.1%	-
21-30%	6%	3%	1%	-
31-50%	11%	13%	5%	-
51-75%	6%	0.4%	0.2%	-
76-100%	5%	3%	6%	-

Table 2.227: Export and import

	% of MSMEs
Export	5%
Import	11%
Export and import	4%
None	80%

Table 2.228: Export and import, by sector

	Manufacturing	Trade	Services	Agriculture
Export	6%	3%	12%	1%
Import	12%	14%	3%	9%
Export and import	3%	3%	10%	-
None	79%	80%	75%	91%

Table 2.229: Export and import, by firm size

	Sole trader	Micro	Small	Medium-sized
Export	6.0%	3.7%	11.0%	9.0%
Import	10.0%	10.0%	19.7%	8.0%
Export and import	5.8%	2.0%	4.0%	6.0%
None	78.0%	84.0%	64.8%	76.6%

4.3. Kazakhstan

302 MSMEs were surveyed to assess the impact of COVID-19 on their business operations. The interviews took place between 26 December 2020 and 16 January 2021.

Summary of research methodology	
Method	Quantitative
Technique	Telephone assisted interviews
Target group	Formal active MSMEs and individual entrepreneurs in four sectors
Sample size	302 interviews
Geographical coverage	Kazakhstan (eight regions)
Length of interviews and number of questions	15-20 minutes, 32 single and multiple choice questions
Survey organization	M-Vector

The study sample consisted of 302 respondents. Three level stratification was used for sample distribution. The criteria for the levels of stratification included: sector, firm size, and regional location. Respondents were grouped according to the following:

1. Firm size (according to number of employees)—individual entrepreneurs (sole trades), MSMEs. Quota for each group was set at 75 interviews
2. Sector—manufacturing, services, trade, agriculture
3. Geographic presence—Almaty and seven additional regions

Adjusting these three parameters with data obtained from the Bureau of National Statistics Kazakhstan, the following quotas were determined for each group:

Table 2.301: Respondent firm sizes and sectors

	Sole trader	Micro	Small	Medium-sized
Manufacturing	6	4	17	27
Services	35	37	31	29
Trade	32	31	24	11
Agriculture	3	3	4	8
Total	76	75	76	75

The survey organization used random sampling and existing databases, both from previous surveys and additional databases requested from other research organizations with experience in similar assignments.

Results of the survey were weighted based on information obtained from reports on small business obtained from the Bureau of National Statistics of Kazakhstan.

In addition, data from open sources was used to confirm the sample distribution, including the IFC, EBRD, and other organizations. All of the previously mentioned criteria—such as size, sector, and geographic location—were considered during the weighting process.

The following table represents the distribution of enterprise sizes according to the Bureau of National Statistics in Kazakhstan.

Sole trader (1 employee)	40%
Micro enterprises (2-5 employees)	37%
Small enterprises (6-50 employees)	23%
Medium-sized enterprises (50-250 employees)	0.22%

For the purposes of the survey, official subsector definitions were mapped as follows:

Table 2.302: Sector mapping

Category	Subsector	Category	Subsector
Manufacturing	Wood products, furniture	Services	Construction
	Metal, metal products		Accommodation and food service activities
	Mining and quarrying		Human health and social work activities
	Plastic, plastic/rubber products		Real estate
	Textile, apparel		Transportation and storage
	Leather, leather products, footwear		Tourism, arts, entertainment, and sport
	Food processing and beverages		Information and communication technology
	Paper, paper products		Education
	Machinery (general, electric, electronics, transport, precision)		Other
	Power and energy		
	Printing and publishing		
	Chemicals, chemical products, and pharmaceutical products		
	Other		
Trade	Wholesale and retail trade	Agriculture	Agriculture, forestry, and fishing

Data from the Bureau of National Statistics was used for the sectoral distribution. The weighting was as follows:

Table 2.303: Sample weighting

	Sole trader	Micro	Small	Medium-sized
Manufacturing	2.7%	2.4%	5%	0.1%
Services	8%	7%	1%	0.003%
Trade	17.3%	14.7%	7%	0.03%
Agriculture	1.6%	1.4%	1%	0.024%

Figure 2.301: Distribution, by firm size

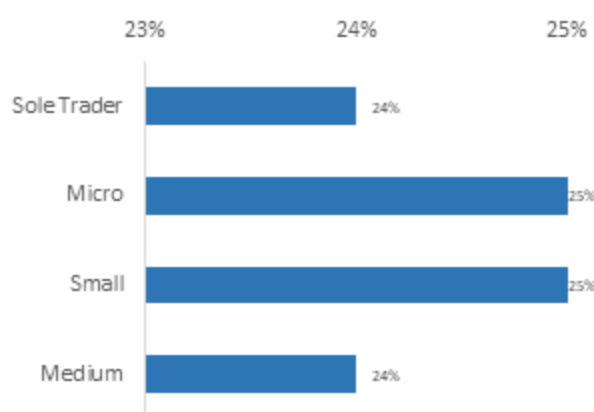


Figure 2.302: Distribution, by sector

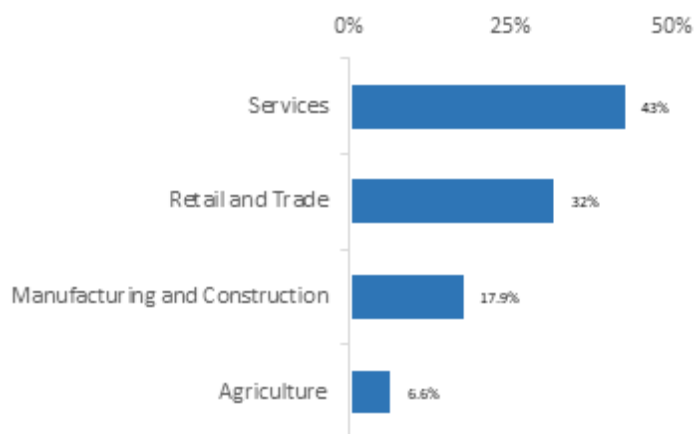


Table 2.304: Distribution of sector, by firm size

	Sole trader	Micro	Small	Medium-sized
Manufacturing and construction	9.3%	9.3%	31.5%	50.0%
Services	26.2%	27.7%	23.8%	22.3%
Retail and trade	31.6%	32.7%	24.5%	11.2%
Agriculture	15.0%	25.0%	20.0%	40.0%

Table 2.305: Enterprise age

	<3 years	4-7 years	8-10 years	>10 years
% of all MSMEs	24.0%	43.2%	14.0%	18.9%

Table 2.306. Enterprise age, by sector

	Manufacturing	Services	Trade	Agriculture
<3 years	6%	47%	42%	5%
4-7 years	11%	42%	46%	1%
8-10 years	20%	35%	37%	8%
>10 years	8%	65%	24%	3%

Table 2.307: Enterprise age, by firm size

	Sole trader	Micro	Small	Medium-sized
<3 years	27.8%	48.1%	20.4%	3.7%
4-7 years	37.6%	16.8%	21.6%	24.0%
8-10 years	11.9%	33.3%	35.7%	19.0%
>10 years	7.4%	21.0%	28.4%	43.2%

According to the Ministry of Economy of Kazakhstan's yearly report on MSMEs, the majority of businesses are located in two cities: Nur-Sultan (the capital city of Kazakhstan, previously Astana) and Almaty. The survey sample revealed that 30% of respondents were located in Almaty, the commercial capital of the country, with the remaining 70% of respondents in eight other regions.

Table 2.308: Geographic distribution of enterprises

	Almaty	Rest of Kazakhstan
% of all MSMEs	30%	70%

Table 2.309: Distribution of enterprises, by size and location

	Sole trader	Micro	Small	Medium-sized
Almaty	19%	35%	30%	16%
Rest of Kazakhstan	81%	65%	70%	84%

Out of 302 respondents participating in the survey, 73% were directors/owners/founders or co-founders, with 27% being CEOs and senior managers.

Figure 2.303: Business sectors

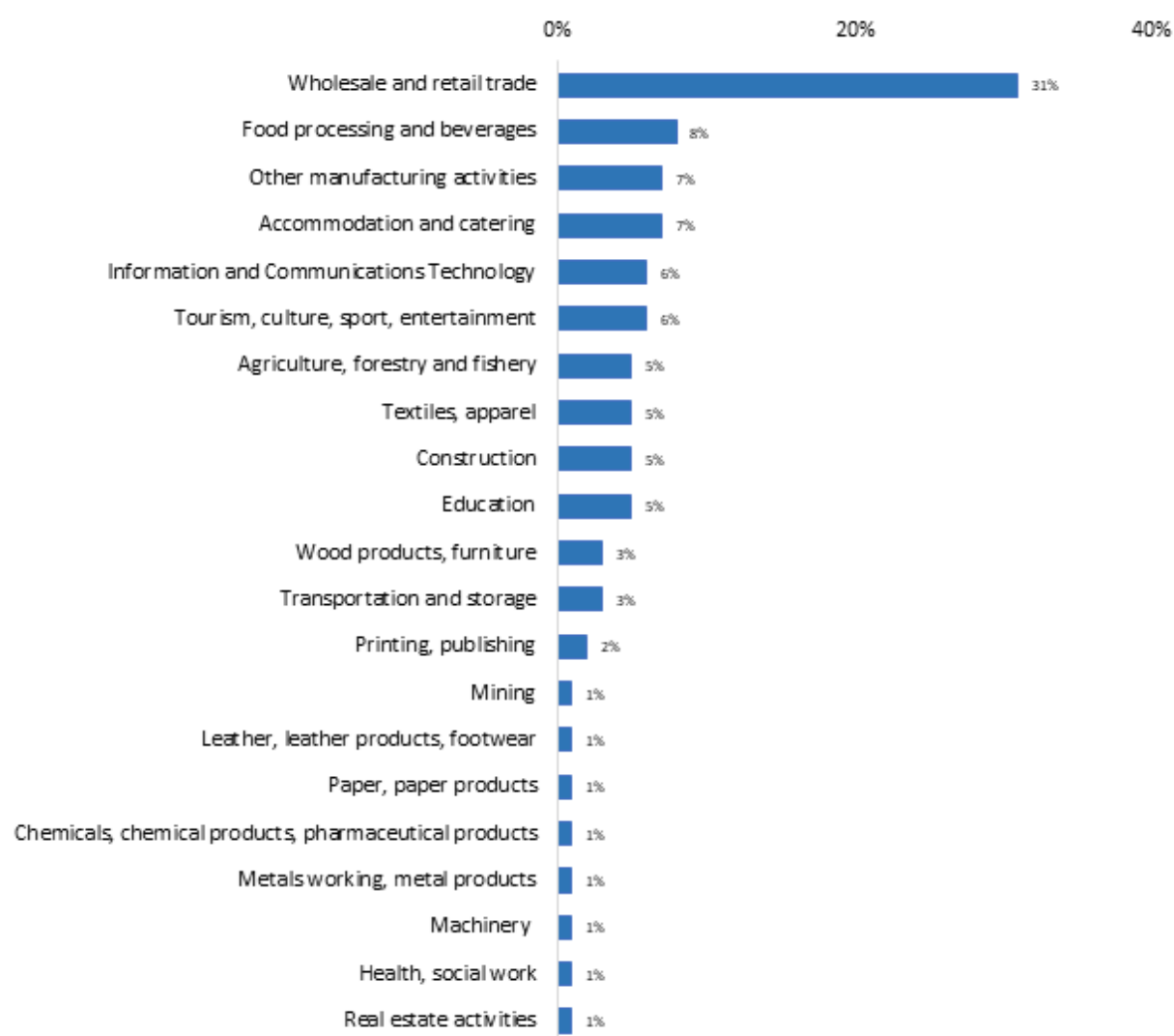


Table 2.310: Distribution of sectors according to number of employees

		Sole trader	Micro	Small	Medium-sized	
Services	Construction	-	3%	16%	13%	
	Accommodation and catering	7%	7%	8%	7%	
	Human health and social work activities	-	1%	1%	1%	
	Real estate activities	1%	-	1%	-	
	Transportation and storage	6%	1%	1%	3%	
	Tourism, culture, sport, entertainment	6%	8%	1%	9%	
	Information and communication technology	6%	5%	9%	1%	
	Education	6%	5%	3%	5%	
	Trade	Wholesale and retail trade	33%	40%	17%	12%
	Manufacturing	Wood product, furniture	4%	-	4%	9%
Metal working, metal products		-	1%	1%	3%	
Mining and quarrying		-	1%	1%	3%	
Plastic, plastic/rubber products		-	-	1%	4%	
Textile, apparel		13%	-	1%	7%	
Leather, leather products, footwear		-	1%	1%	4%	
Food processing and beverages		8%	7%	8%	3%	
Paper, paper products		-	-	1%	-	
Machinery		-	-	-	-	
Power and energy		-	-	-	-	
Printing and publishing		-	4%	-	-	
Chemicals, chemical products, pharmaceutical products		-	1%	3%	-	
Machinery (general, electric, electronics, transport, precision)		-	3%	-	4%	
Other		6%	5%	12%	1%	
Agriculture	Agriculture, forestry, and fishing	5%	4%	8%	11%	

Figure 2.304: Gender of majority owner

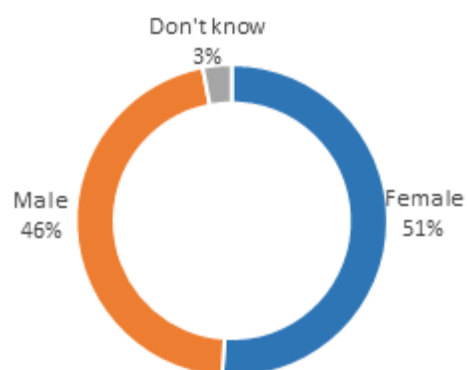


Table 2.311: Gender of majority owner, by sector

	Manufacturing	Services	Trade	Agriculture
Female	27%	56%	53%	34%
Male	73%	41%	43%	66%
Don't know	-	3%	4%	-

Table 2.312: Gender of majority owner, by firm size

	Sole trader	Micro	Small	Medium-sized
Female	44%	60%	47%	44%
Male	50%	39%	51%	55%
Don't know	6%	1%	1%	1%

Figure 2.305: Gender of senior manager



Table 2.313: Gender of senior manager, by firm size

	Sole trader	Micro	Small	Medium-sized
Female	43%	61%	60%	53%
Male	57%	39%	37%	47%
Don't know	-	-	3%	-

Table 2.314: Gender of senior manager, by sector

	Manufacturing	Services	Trade	Agriculture
Female	30%	61%	55%	33%
Male	70%	39%	45%	59%
Don't know	-	-		8%

Figure 2.306: Number of permanent employees in February 2020

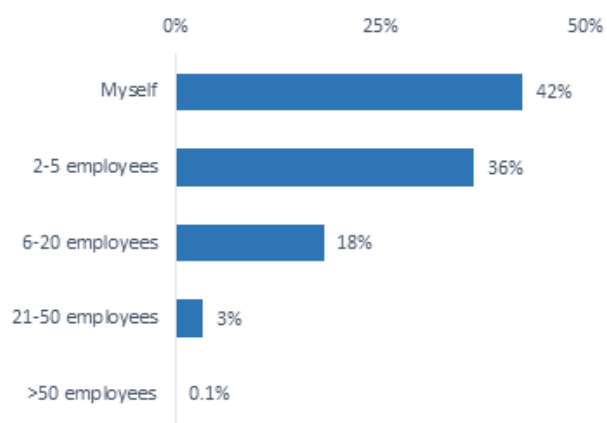


Table 2.315: Number of permanent employees in February of 2020, by firm size

	Sole trader	Micro	Small	Medium-sized
Myself	94%	17%	3%	-
2-5 employees	6%	77%	14%	3%
6-20 employees	-	4%	71%	5%
21-50 employees	-	1%	12%	51%
>50 employees	-	-	-	41%

Table 2.316: Number of permanent employees in February of 2020, by sector

	Manufacturing	Trade	Services	Agriculture
Myself	28%	44%	44%	42%
2-5 employees	29%	39%	35%	42%
6-20 employees	32%	15%	17%	16%
21-50 employees	11%	2%	3%	0.3%
>50 employees	0.3%	-	0.1%	0.3%

Figure 2.307: Number of temporary employees in February 2020

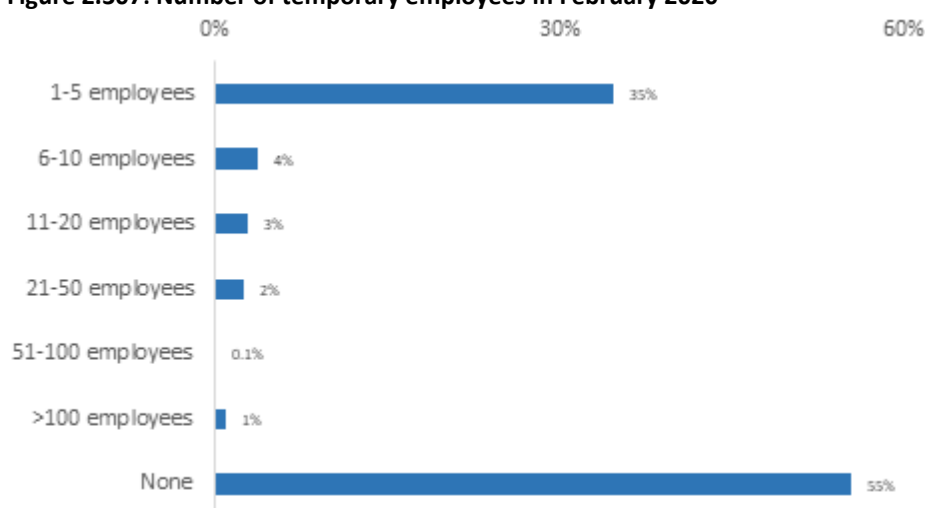


Table 2.317: Number of temporary employees in February 2020, by firm size

	Sole trader	Micro	Small	Medium-sized
1-5 employees	16%	49%	19%	16%
6-10 employees	-	13%	60%	27%
11-20 employees	-	6%	44%	50%
21-50 employees	-	-	35%	65%
51-100 employees	-	-	-	100%
>100 employees	33%	-	33%	33%
None	39%	21%	22%	18%

Table 2.318: Number of temporary employees, by sector

	Manufacturing	Trade	Services	Agriculture
1-5 employees	33%	35%	24%	30%
6-10 employees	7%	-	6%	3%
11-20 employees	9%	3%	5%	15%
21-50 employees	11%	2%	10%	10%
51-100 employees	2%	-	3%	-
>100 employees	-	-	2%	5%
None	37%	57%	50%	40%

Table 2.319: Number of permanent female employees

	% of all MSMEs
None	35%
<15%	19%
16-30%	10%
31-50%	11%
51-75%	5%
76-100%	19%

Table 2.320: Number of permanent female employees, by firm size

	Sole trader	Micro	Small	Medium-sized
None	59%	29%	9%	21%
<15%	17%	22%	20%	17%
16-30%	8%	30%	21%	-
31-50%	4%	18%	13%	19%
51-75%	1%	3%	13%	16%
76-100%	20%	21%	14%	5%

Table 2.321: Number of permanent female employees, by sector

	Manufacturing	Trade	Services	Agriculture
None	32%	38%	34%	42%
<15%	33%	19%	17%	25%
16-30%	25%	6%	10%	10%
31-50%	3%	12%	12%	25%
51-75%	3%	4%	6%	-
76-100%	5%	22%	21%	-

Table 2.322: Proportion of female employees out of all temporary employees

	% of all MSMEs
None	58.6%
<15%	19.2%
16-30%	7.9%
31-50%	6.0%
51-75%	1.3%
76-100%	7.0%

Table 2.323: Number of temporary female employees, by sector

	Manufacturing	Trade	Services	Agriculture
None	57.4%	65.3%	56.2%	45%
<15%	20.4%	14.3%	20%	35%
16-30%	9.3%	10.0%	9.2%	5.6%
31-50%	3%	12%	12%	25%
51-75%	1.9%	1%	1.5%	-
76-100%	5.6%	10.2%	6.2%	-

Table 2.324: Monthly sales in February 2020 (KZT)

	% of MSMEs
<420,000	51%
420,001-2,100,000	25%
2,100,001-8,400,000	8%
8,400,001-20,100,000	2%
20,100,001-42,000,000	1%
>42,000,000	2%
Refuse to answer	12%

Table 2.325: Monthly sales in February 2020, by firm size (KZT)

	Sole trader	Micro	Small	Medium-sized
<420,000	66%	52%	22%	4%
420,001-2,100,000	17%	32%	25%	39%
2,100,001-8,400,000	3%	5%	21%	8%
8,400,001-20,100,000	-	-	9%	4%
20,100,001-42,000,000	-	-	5%	1%
>42,000,000	1%	1%	3%	4%
Refuse to answer	13%	9%	15%	40%

Table 2.326: Monthly sales in February 2020, by sector (KZT)

	Manufacturing	Trade	Services	Agriculture
<420,000	44%	56%	46%	66%
420,001-2,100,000	21%	22%	29%	17%
2,100,001-8,400,000	18%	6%	7%	8%
8,400,001-20,100,000	6%	2%	1%	-
20,100,001-42,000,000	-	1%	1%	8%
>42,000,000	-	3%	1%	-
Refuse to answer	11%	10%	15%	-

Table 2.327: Share of online sales in February 2020

	% of all MSMEs
None	59%
<10%	9%
11-20%	5%
21-30%	5%
31-50%	10%
51-75%	5%
76-100%	7%

Table 2.328: Share of online sales in February 2020, by sector

	Manufacturing	Services	Trade	Agriculture
None	57%	60%	57%	75%
<10%	8%	8%	11%	-
11-20%	10%	5%	3%	16%
21-30%	13%	6%	3%	8%
31-50%	5%	10%	13%	-
51-75%	3%	6%	4%	-
76-100%	5%	5%	10%	-

Table 2.329: Share of online sales in February 2020, by firm size

	Sole trader	Micro	Small	Medium-sized
None	52%	59%	70%	73%
<10%	7%	10%	9%	5%
11-20%	5%	6%	4%	3%
21-30%	5%	6%	4%	3%
31-50%	11%	12%	7%	7%
51-75%	7%	3%	4%	5%
76-100%	12%	4%	3%	4%

Table 2.330: Export and import

	% of all MSMEs
Export	5%
Import	11%
Export and import	6%
None	77%

Table 2.331: Export and import, by firm size

	Sole trader	Micro	Small	Medium-sized
Export	3%	5%	9%	5%
Import	8%	11%	16%	11%
Export and import	7%	2%	13%	8%
None	82%	82%	62%	76%

Table 2.332: Export and import, by sector

	Manufacturing	Trade	Services	Agriculture
Export	13%	5%	2%	25%
Import	5%	25%	1%	8%
Export and import	6%	2%	10%	17%
None	76%	68%	87%	50%

4.4. Georgia

208 MSMEs were surveyed to assess the impact of COVID-19 on their business operations, with the interviews taking place between 9 and 18 December 2020.

Summary of research methodology	
Method	Quantitative
Technique	Telephone assisted interviews
Target group	Formal active MSMEs and individual entrepreneurs in three sectors
Sample size	208
Geographic coverage	Georgia
Length of interviews and number of questions	15-20 minutes, 32 single and multiple choice questions
Survey organization	ACT

The sample selection was drawn from the GeoStat 2020 database of legal entities. Enterprises were grouped into four categories according to the number of employees—sole trader, micro enterprises (2-5 employees), small (6-50 employees), and medium-sized enterprises (51-250 employees)—with quotas of about 50 respondents for each size category. Respondents were further classified according to which sector they operated in (see Table 2.401). In each group, respondents were selected at random.

Table 2.401: Respondent firm sizes and sectors

	Sole trader	Micro	Small	Medium-sized
Manufacturing	5	5	7	7
Services	20	22	25	29
Trade and retail	25	24	22	13
Agriculture	1	1	1	1
Total	51	52	55	50

Upon completion of the fieldwork, the results were weighted according to the data from the GeoStat 2019 organizational survey.² Enterprise employee size and sectoral distribution were used for weighting purposes.

Table 2.402 presents the distribution of enterprise sizes according to the GeoStat 2019 survey. Data weighting was based on these results to restore natural proportions:

Table 2.402: Georgia firm size distribution—Statistical Survey of Enterprises 2019 (GeoStat)

Sole trader	47.7%
Micro	33.5%
Small	17.2%
Medium-sized	1.6%

² https://www.geostat.ge/media/19652/Mqr_Business_Enterprises_annual_Geo.pdf

For the purposes of the survey, official subsector definitions were mapped as follows:

Table 2.403: Sector mapping

Category	Subsector	Category	Subsector
Manufacturing	Wood products, furniture	Services	Construction
	Metal, metal products		Accommodation and food service activities
	Mining and quarrying		Business services
	Plastic, plastic/rubber products		Human health and social work activities
	Textile, apparel		Real estate
	Leather, leather products, footwear		Transportation and storage
	Printing and publishing		Tourism, arts, entertainment, and sport
	Food processing and beverages		Information and communication technology
	Chemicals, chemical products, and pharmaceutical products		Education
	Other		Other
Trade	Wholesale and retail trade	Agriculture	Agriculture, forestry, and fishing

The survey results were also weighted according to the sectoral distribution in each size category based on GeoStat data.

Table 2.404: Georgia firm size and sectoral distribution—Statistical Survey of Enterprises 2019 (GeoStat)

	Sole trader	Micro	Small	Medium-sized
Manufacturing	6.2%	9.8%	11.2%	16.3%
Services	30.6%	44.6%	59.7%	61.2%
Trade and retail	62.6%	43.8%	27.2%	20.7%
Agriculture	0.6%	1.8%	1.9%	1.8%

Survey respondents were distributed as follows: the largest share was represented by sole traders or companies with 1 employee (48%); one third (35%) was micro enterprises with 2-5 employees; small enterprises with 6-50 employees accounted for 17%; and finally, the smallest share (2%) was represented by medium-sized companies with 51-250 employees.

There are two leading sectors for MSMEs in Georgia—half of MSMEs are in the trade sector, while 41% are in services. The share of manufacturing (9%) and agriculture (1%) is small. Sole traders and micro enterprises are mainly represented in the trade sector, while relatively larger businesses operate in services.

In terms of gender balance, women owners are more prevalent in retail or the wholesale trade sector with 61% of female-led enterprises operating in the trade sector. The largest share (45%) of male-owned companies mostly operate in the service sector.

Figure 2.401: Firm size

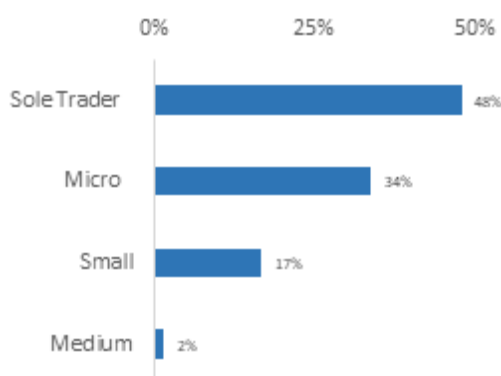


Figure 2.402: Sectors

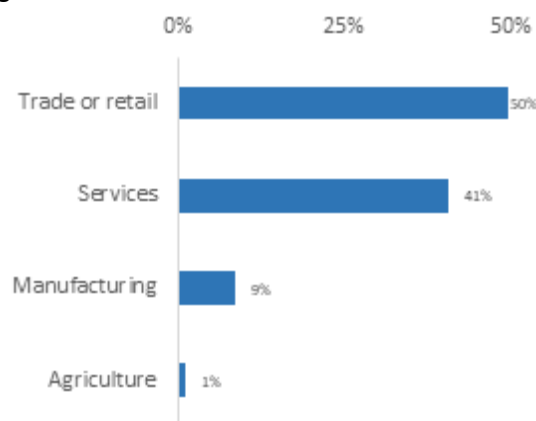


Table 2.405: Sectors, by firm size

	Sole trader	Micro	Small	Medium-sized
Manufacturing	6.2%	9.8%	11.2%	16.3%
Services	30.6%	44.6%	59.7%	61.2%
Trade and retail	62.6%	43.8%	27.2%	20.7%
Agriculture	0.6%	1.8%	1.9%	1.8%

Table 2.406: Gender of majority owner, by sector

	Manufacturing	Trade	Services	Agriculture
Female	2%	62%	35%	1%
Male	14%	39%	45%	2%

Table 2.407: Enterprise age, by sector

	Manufacturing	Trade	Services	Agriculture
<5 years	5%	57%	37%	1%
6-10 years	8%	54%	38%	-
>10 years	13%	37%	47%	3%

Table 2.408: Enterprise age

	<5 years	6-10 years	>10 years
% of all MSMEs	38%	31%	32%

Table 2.409: Enterprise age, by firm size

	Sole trader	Micro	Small	Medium-sized
<5 years	35%	40%	43%	15%
6-10 years	35%	29%	25%	20%
>10 years	30%	31%	32%	63%
Don't know	-	-	-	2%

Half of the surveyed MSMEs are represented in the capital Tbilisi. The vast majority of small and medium-sized enterprises (76%, 71%) are located in the capital, while more than half of the smallest companies are located outside the capital.

Table 2.410: Enterprise location

	Tbilisi	Rest of Georgia
% of all MSMEs	51%	49%

Table 2.411: Enterprise location, by firm size

	Sole trader	Micro	Small	Medium-sized
Tbilisi	44%	43%	76%	71%
Rest of Georgia	56%	57%	24%	29%

Figure 2.403: Sectors

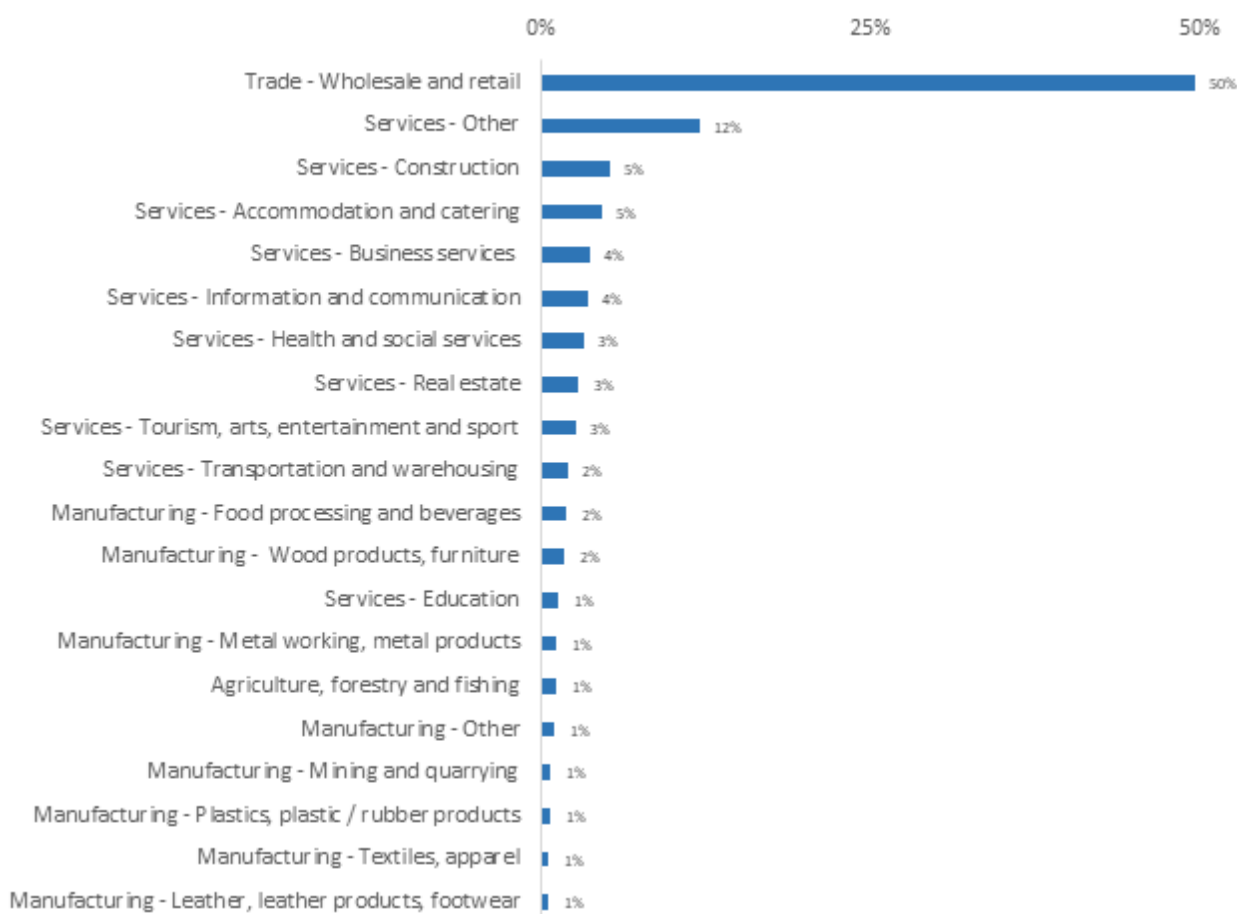


Table 2.412: Business sectors, by firm size

		Sole trader	Micro	Small	Medium-sized
Trade	Wholesale and retail trade	63%	44%	27%	21%
	Construction	-	8%	14%	4%
	Accommodation and food service activities	3%	4%	10%	6%
	Business services	3%	4%	5%	2%
	Information and communication technology	5%	-	7%	4%
Services	Health and social services	2%	2%	10%	6%
	Real estate	2%	6%	-	-
	Tourism, arts, entertainment, and sport	3%	2%	2%	4%
	Transportation and warehousing	3%	-	2%	6%
	Education	-	2%	2%	15%
	Other	11%	16%	7%	13%
	Food processing and beverages		2%	6%	7%
	Wood products, furniture	1%	2%	3%	-
	Metal working, metal products	3%	-	-	2%
	Mining and quarrying	-	2%	-	-
Manufacturing	Plastics, plastic/rubber products	-	2%	-	-
	Textiles, apparel	1%	-	-	-
	Leather, leather products, footwear	1%	-	-	-
	Printing, publishing	-	-	-	2%
	Chemicals, chemical/pharmaceutical products	-	-	-	2%
	Other	-	2%	2%	2%
	Agriculture	Agriculture, forestry, and fishing	1%	2%	2%

Figure 2.404: Number of permanent employees February 2020

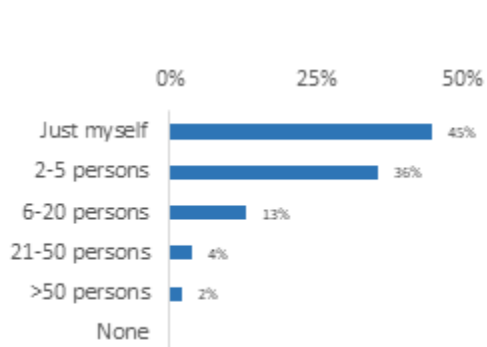


Figure 2.405: Number of temporary employees February 2020

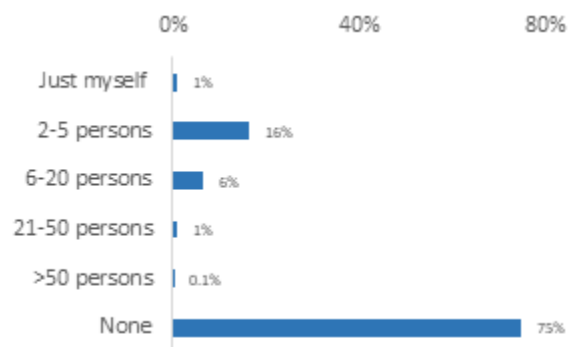


Table 2.413: Number of permanent employees—February 2020, by firm size

	Just myself	2-5 persons	6-20 persons	21-50 persons	51+ persons	n/a
Sole trader	91%	9%	-	-	-	-
Micro	4%	92%	2%	-	-	2%
Small	-	4%	72%	22%	2%	-
Medium-sized	-	-	-	2%	98%	-

Table 2.414: Number of temporary employees—February 2020, by firm size

	2-5 persons	6-20 persons	21-50 persons	51+ persons	n/a	none
Sole trader	11%	-	-	-	-	89%
Micro	27%	12%	-	-	2%	59%
Small	17%	13%	4%	-	-	66%
Medium-sized	12%	12%	6%	4%	-	65%

Table 2.415: Share of permanent female employees

	% of MSMEs
0-20%	35%
21-40%	7%
41-60%	12%
61-80%	7%
81-100%	39%

Table 2.416: Share of permanent female employees, by firm size

	Sole trader	Micro	Small	Medium-sized
0-20%	39%	29%	33%	20%
21-40%	2%	12%	13%	25%
41-60%	2%	27%	12%	20%
61-80%	0%	13%	14%	21%
81-100%	58%	19%	27%	15%

Table 2.417: Share of permanent female employees, by sector

	Manufacturing	Trade	Services
0-20%	63%	23%	41%
21-40%	11%	5%	9%
41-60%	1%	11%	16%
61-80%	10%	7%	7%
81-100%	15%	53%	27%

Table 2.418: Share of temporary female employees

	% of MSMEs
0-20%	69%
21-40%	5%
41-60%	3%
61-80%	9%
81-100%	15%

Figure 2.406: Gender of majority owner

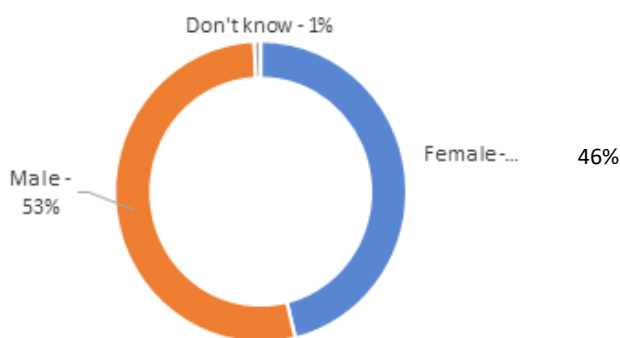


Table 2.419: Gender of majority owner, by firm size

	Sole trader	Micro	Small	Medium-sized
Female	58%	42%	22%	25%
Male	42%	58%	74%	69%
Don't know	-	-	4%	7%

Table 2.420: Gender of majority owner, by sector

	Manufacturing	Trade	Services
Female	13%	58%	40%
Male	87%	42%	59%
Don't know	-	-	1%

Figure 2.407: Gender of senior manager



Table 2.421: Gender of senior manager, by firm size

	Sole trader	Micro	Small	Medium-sized
Female	61%	52%	53%	65%
Male	39%	48%	47%	35%

Table 2.422: Gender of senior manager, by sector

	Manufacturing	Trade	Services
Female	19%	67%	53%
Male	81%	33%	47%

Table 2.423: Monthly sales in February 2020

	% of MSMEs
<\$1,000	51%
\$1,001-\$5,000	15%
\$5,001-\$20,000	6%
\$20,001-\$50,000	4%
\$50,001-\$100,000	2%
>\$100,000	2%
Refuse to answer	22%

Table 2.424: Monthly sales in February 2020, by firm size

	Sole trader	Micro	Small	Medium-sized
<\$1,000	72%	44%	11%	10%
\$1,001-\$5,000	8%	27%	9%	8%
\$5,001-\$20,000	0%	6%	20%	8%
\$20,001-\$50,000	0%	4%	15%	21%
\$50,001-\$100,000	0%	0%	10%	8%
>\$100,000	0%	2%	3%	29%
Refuse to answer	20%	16%	33%	17%

Table 2.425: Monthly sales in February 2020, by sector

	Manufacturing	Trade	Services
<\$1,000	38%	65%	37%
\$1,001-\$5,000	16%	13%	16%
\$5,001-\$20,000	0.4%	4%	9%
\$20,001-\$50,000	0.4%	5%	4%
\$50,001-\$100,000	7%	1%	2%
>\$100,000	4%	2%	1%
Refuse to answer	35%	10%	33%

Table 2.426: Share of online sales in February 2020

	% of MSMEs
None	81%
<10%	2%
11-30%	2%
31-50%	3%
51-70%	3%
71-90%	3%
91-100%	4%
Don't know	3%

Table 2.427: Share of online sales in February 2020, by firm size

	Sole trader	Micro	Small	Medium-sized
<10%	87.3%	82.4%	71.9%	97.9%
11-30%	2.5%	-	2.4%	-
31-50%	1.5%	4%	3,6%	-
51-70%	1.5%	2%	6%	-
71-90%	4%	2%	-	-
91-100%	3.1%	3.7%	7.6%	-
Don't know	-	5.9%	6%	2.1%

Table 2.428: Share of online sales in February 2020, by sector

	Manufacturing	Trade	Services
<10%	94%	86%	72%
11-30%	3%	3%	1%
31-50%	-	3%	-
51-70%	-	0.4%	6%
71-90%	-	0.4%	7%
91-100%	-	2%	4%
Don't know	3%	3%	6%

Table 2.429: Export and import

	% of MSMEs
Export	3%
Import	11%
Export and import	6%
None	82%

Table 2.430: Export and import, by firm size

	Sole trader	Micro	Small	Medium-sized
Export	-	4%	2%	8%
Import	10%	6%	21%	32%
Export and import	5%	6%	8%	8%
None	85%	85%	69%	52%

Table 2.431: Export and import, by sector

	Manufacturing	Trade	Services
Export	14%	0.1%	1%
Import	7%	12%	9%
Export and import	4%	9%	3%
None	75%	79%	87%

5. Regional Review

5.1. Overview

It has long been understood that micro, small, and medium-sized enterprises (MSMEs) are important for generating economic activity. Typically, they form the majority of registered businesses, supply the bulk of employment opportunities, and drive innovation if they are integrated with large firms, and if a favorable enabling environment exists. At the same time, MSMEs are typically fragile, with poor access to finance, and are the first to feel the negative impacts of any economic shock; but, equally, if policymakers recognize their importance and implement supportive policies, they can drive a country's recovery.

This report looks at MSMEs in Pakistan, Uzbekistan, Kazakhstan, and Georgia, all members of the Central Asia Regional Economic Cooperation (CAREC) Program, which in total encompasses 11 countries. Beyond the fact that three of these countries are ex-Soviet states, they have different economic models and relatively little in common and are at different stages of socio-economic development. Kazakhstan is a hydrocarbon fueled middle income regional powerhouse; Uzbekistan is emerging from decades of heavy over regulation and the primacy of state owned enterprises (SOEs); Georgia, a small country, has made great strides in reforming its economy and recognizing the importance of the private sector; and Pakistan, a large country that has experienced periodic instability, economic crises, and suffers infrastructure limitations, but which is recognized as having tremendous economic potential.

5.2. MSME context

All four countries use two definitions of MSMEs, employee size and turnover, with Georgia also using alternative definitions for tax reporting purposes. Two countries, Pakistan and Uzbekistan, use the same employee size definition of fewer than ten employees for micro enterprises, with Kazakhstan's threshold set at fewer than 15 employees. Georgia does not define micro enterprises separately. For small enterprises, both Pakistan and Georgia set a threshold of fewer than 50 employees, and Kazakhstan and Uzbekistan define small enterprises as fewer than 100 employees.

	Firm size defined	Official criteria used		Remarks
		Employee size	Turnover	
Pakistan	Micro, small, and medium-sized	3	3	Defined by SBP Separate employee size definition for medium-sized trade enterprises
Uzbekistan	Micro, small, and medium-sized	3	3	Defined by UzStat
Kazakhstan	Micro, small, and medium-sized	3	3	Defined in Entrepreneurial Code of Kazakhstan Only employee size criteria used for statistical reporting purposes
Georgia	Small, medium-sized	3	3	Defined by GeoStat for statistical reporting No formal definition of micro enterprises Alternative definition used for tax purposes

These different definitions complicate direct MSME comparisons between the four countries. Accordingly, for the purposes of surveying firms for this report, the authors used a single common definition of firm sizes using only an employee size threshold as follows:

Sole traders	1 employee
Micro	2-5 employees
Small	6-50 employees
Medium-sized	51-250 employees

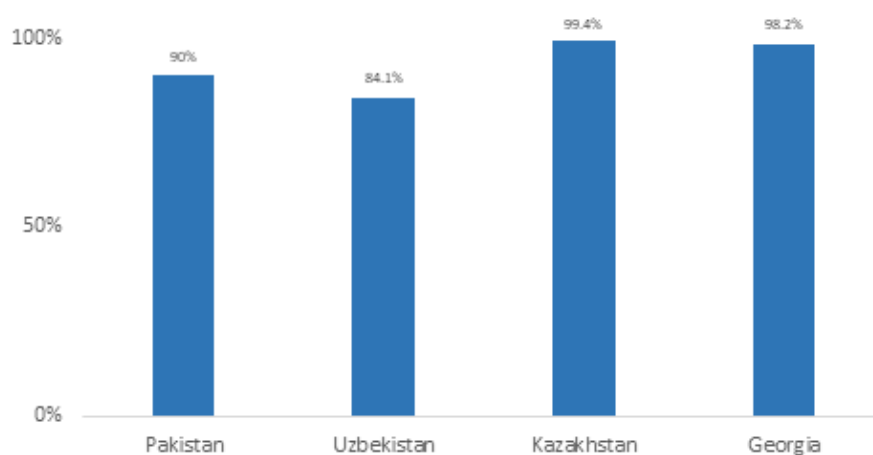
Given the size of Pakistan's MSME sector, an additional size criterion was used for the survey. Small firms were split into two groups of 6-20 employees and 21-50 employees.

MSMEs as a proportion of all firms is uniformly high, typically more than 90%, with only Uzbekistan officially recording the MSME share at 84% of all firms, probably reflecting the fact that the government only started to prioritize SME growth in 2017-2018 and started to move away from an SOE dominated model of economic development towards a more competitive, market-based approach.

Notwithstanding the importance of MSMEs to all four economies, their significance to national economies varies widely. According to 2019 official statistics, practically all of Kazakhstan's firms can be classed as belonging to the MSME sector (99.4% of all registered Kazakh businesses are classified as SMEs) and yet their contribution to GDP is the lowest in the group at 31.7%, indicating that the Kazakh economy is dominated by a few, very large enterprises. This picture is similar to other hydrocarbon dominated economies in the region, such as Russia (MSME 20% share of GDP) and Azerbaijan (13% of GDP).³

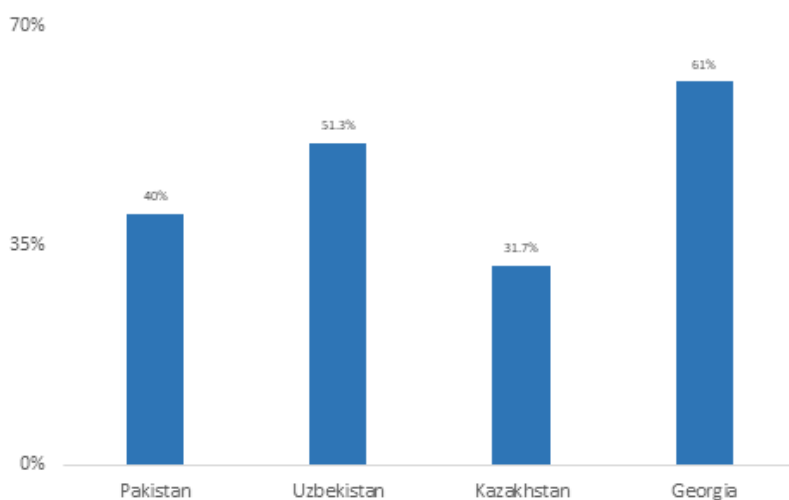
The situation is somewhat similar in Pakistan, where the share of MSMEs is 90% of all registered business but they account for only a 40% share of GDP. [It is important to note, there is no up to date data on the number, or contribution, of MSMEs in Pakistan and there is also a very large informal sector that could significantly affect the analysis]. In this group of four countries, Georgian SMEs are the most dynamic contributing 58% of GDP in 2020 according to the latest figures and accounting for more than 98% of all firms reflecting the priority Georgian policymakers have placed on SME development in the country.

Figure 3.1: MSME share of all enterprises



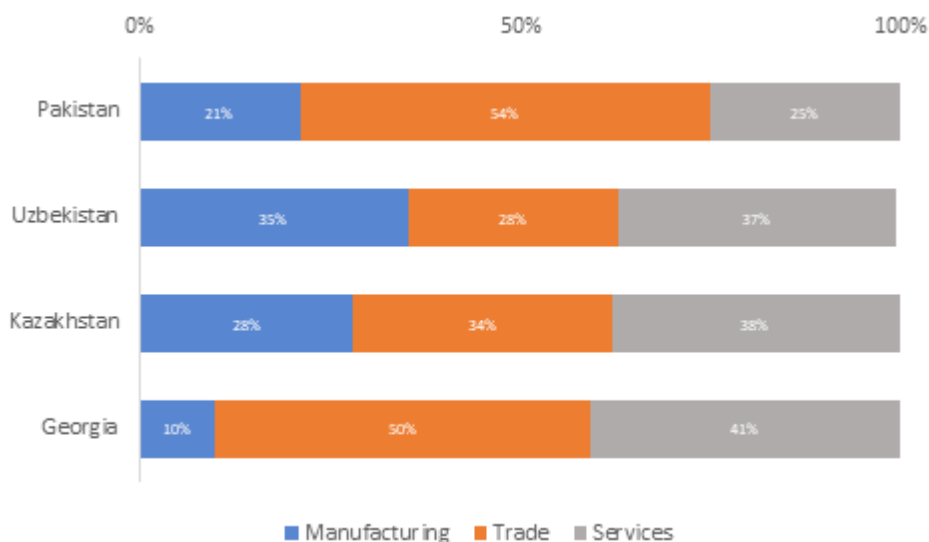
³ SME Review, Halyk Research, October 2020. <https://halykfinance.kz/download/files/analytics/sme2020.pdf>

Figure 3.2: MSME share of GDP



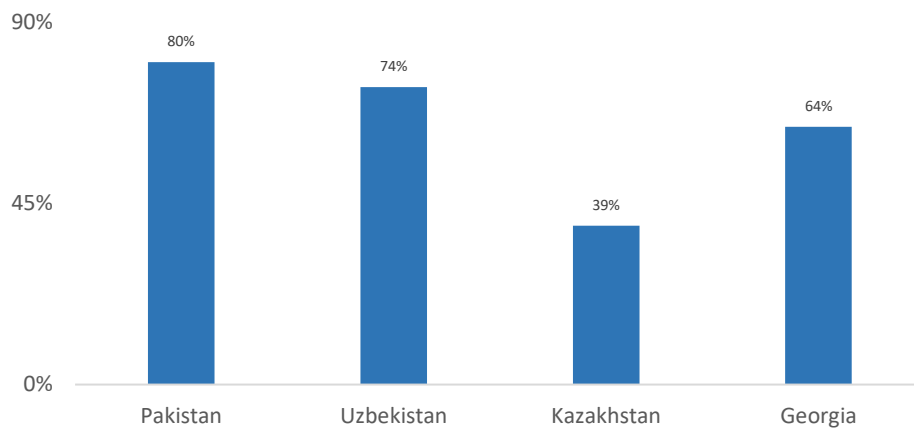
In terms of sectoral distribution of all MSMEs, manufacturing (including agriculture) is the most prominent in Uzbekistan (35%) and Kazakhstan (28%) reflecting their relatively industrialized status as the manufacturing powerhouses of Soviet central Asia. The picture in Georgia is more typical of an emerging market economy with the MSME sector dominated by trade and services.

Figure 3.3: MSME sectoral breakdown



Looking at employment, the clear outlier is Kazakhstan, reflecting the structure of its economy, which is dominated by large (and in a lot of cases state owned) enterprises, with MSMEs accounting only for 39% of employment—a figure much lower than in other peer countries. Given the benefits of a dynamic MSME sector (such as, growth, economic resilience, innovation), as a matter of priority Kazakhstan should consider policies to encourage the development and growth of smaller businesses, which would create more jobs, growth, and innovation in the economy.

Figure 3.4: MSME share of total employment



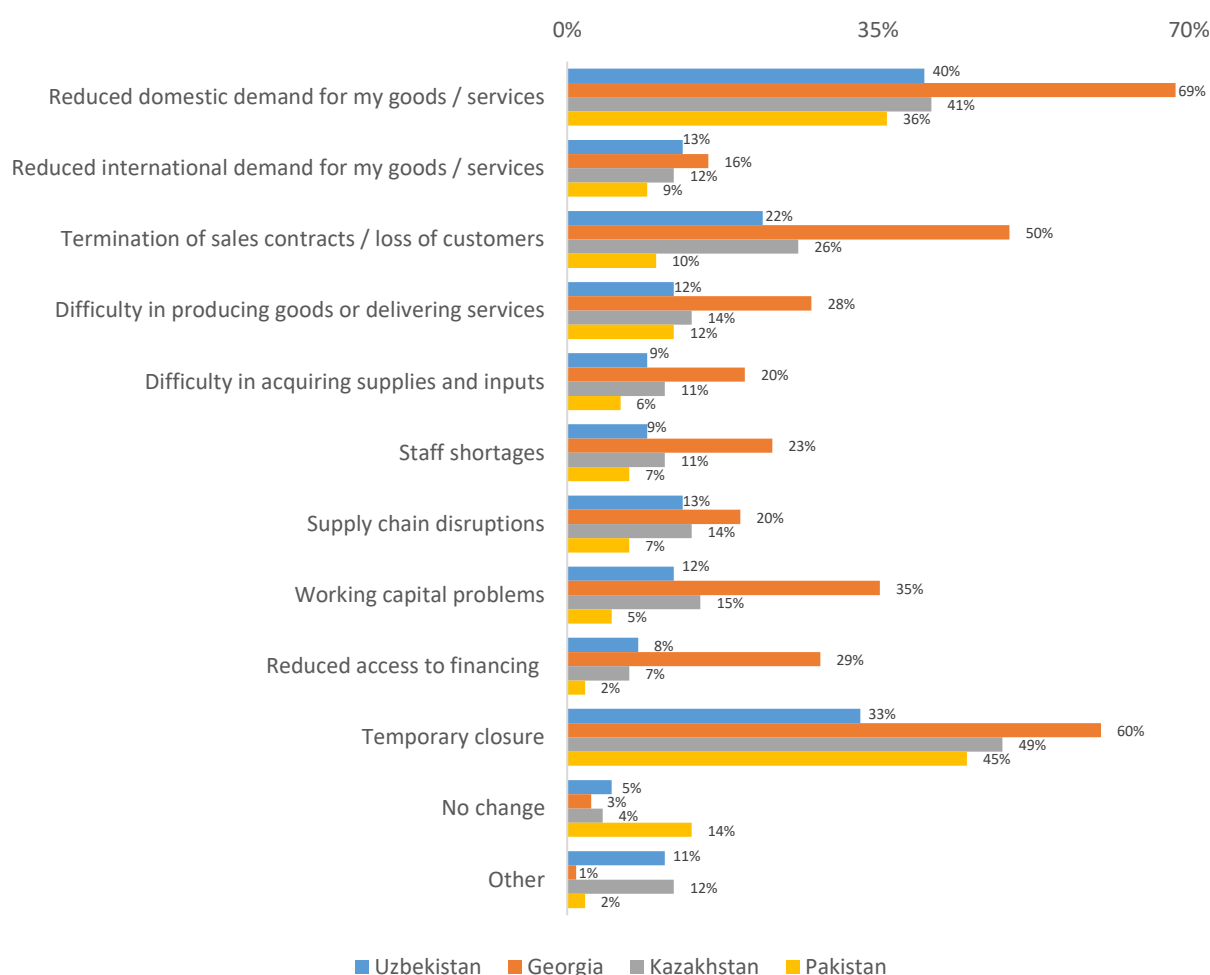
5.3. Key findings of the impact of COVID-19 on MSMEs

The COVID-19 pandemic and especially government mandated shutdowns and various business restrictions had a very significant effect on MSME business operations. 86% to 87% of all MSMEs in Pakistan, Uzbekistan, and Kazakhstan reported significant business disruptions resulting from the pandemic. In Georgia the effect was more dramatic, with 97% of MSMEs reporting negative effects.

5.4. Consequences of the COVID-19 pandemic

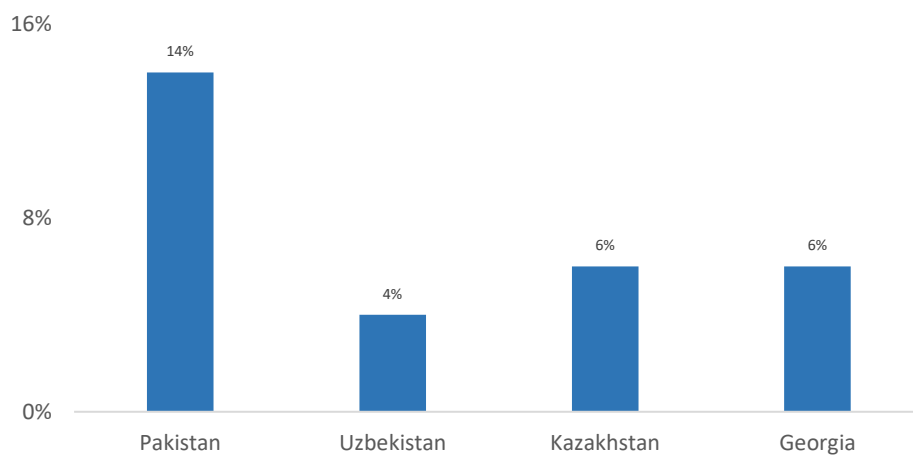
Unsurprisingly the most severe effect was a drop in demand for MSME supplied goods and services that affected about 40% of MSMEs in Pakistan, Uzbekistan, and Kazakhstan, and 60% of surveyed Georgian firms. Reduced international demand was less of a consequence for MSMEs, reflecting the fact that fewer of them engage in any foreign trade activity. Relatively few firms reported difficulties in sourcing supplies and inputs (9% to 20%) and supply chain disruptions (7% to 20%). With the exception of Georgia, staff shortages were also less of an issue with only 7% to 11% of MSMEs reporting that they had difficulties with staffing. Temporary firm closure, the most severe consequence of the disruption, was reported by a third of Uzbek firms, and just under half of firms in Pakistan and Kazakhstan, and 60% of Georgian MSMEs. In fact, across all parameters more Georgian MSMEs reported more disruption than equivalent firms in the other three countries.

Figure 3.5: Consequences of COVID-19 pandemic



Surveyed MSMEs in all four countries primarily focus on their domestic markets with few of them conducting any import/export operations at all. Only about 1 in 20 small firms in Uzbekistan, Georgia, and Kazakhstan, and 14% of Pakistani MSMEs engage with foreign markets. Policy makers across all four countries should look at ways to support their smaller firms to develop cross border trade, which would boost jobs and productivity as well as increasing economic dynamism and resilience to economic shocks.

Figure 3.6: Share of MSMEs that engaged in any export/import activity



5.5. Revenues

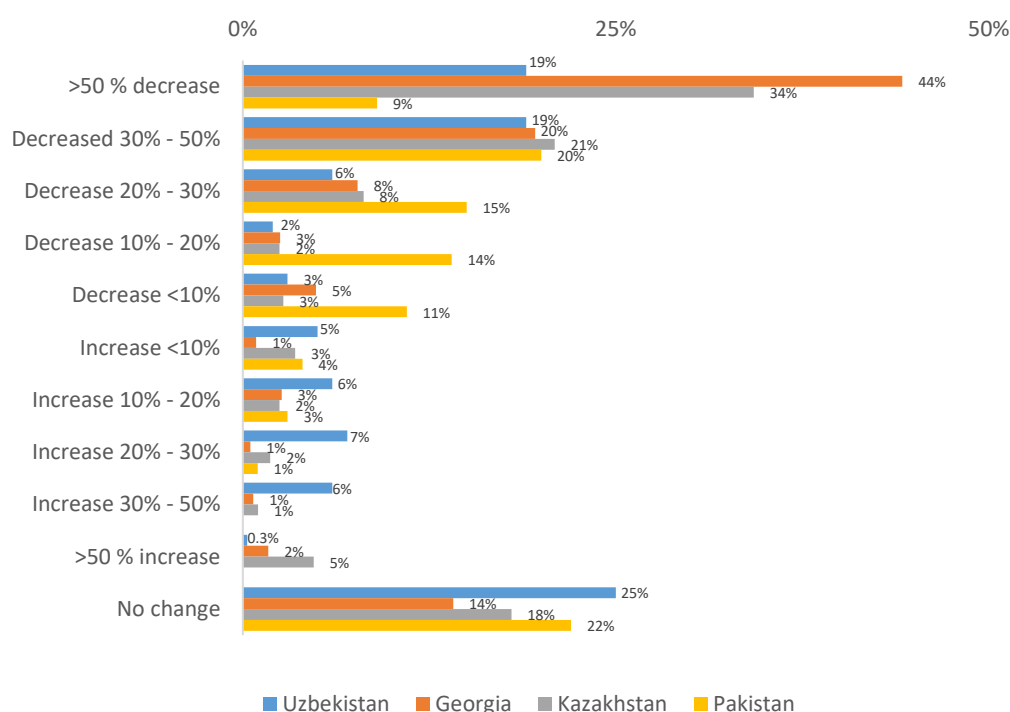
Corresponding to the significant drops in demand, most respondents reported falling monthly revenues. A minority of MSMEs—ranging from 14% in Georgia to 25% in Uzbekistan—reported no change in their monthly revenues.⁴

Uzbekistan had the highest number of respondents who reported revenue increases at 25%, followed by 13% of Kazakh MSMEs, 8% of Pakistani MSMEs, and 7% of Georgian MSMEs.

The hardest hit MSME sector was in Georgia with 44% of respondents reporting a monthly revenue decline of more than 50%, whereas only 9% of Pakistani MSMEs stated that their revenues had dropped by more than 50%. The strongest negative impact on Pakistani firm revenues was in the range of 0% to 30% as reported by 40% of firms. For Uzbek MSMEs, the largest negative impact was 30% and more revenue decline which was reported by 38% of firms. The biggest impact on Kazakh MSMEs was a more than 50% decline as reported by 34% of firms.

Overall, Uzbek MSMEs fared better than their peers in other countries regarding monthly revenues. Not only did more of them report no change, but fewer of them reported serious declines.

Figure 3.7: Impact of COVID-19 on revenues



⁴ Respondents were asked to compare their revenues in February 2020, the last pre-pandemic month, with November 2020, the last full month of operations prior to the survey, which was conducted in December 2020.

5.6. Employment

The impact of the pandemic on MSMEs employment has been relatively muted. With the exception of Kazakhstan, around three quarters of MSMEs in the other three countries did not report any changes to permanent staffing levels (as distinct from temporary staff), indicating that firms found other ways of coping with the business slowdown. 35% of Kazakh MSMEs reported that they had to lay off some permanent staff, followed by 16% of Pakistani MSMEs, 15% of Uzbek MSMEs, and 14% of Georgian MSMEs.

Instead, the primary coping mechanism appears to have been changes to actual employment conditions. The most popular measure was reducing the number of hours worked by employees. This was reported by more than half of Pakistani MSMEs, compared to about 40% of MSMEs in the other countries. Fewer Uzbek MSMEs appear to have needed to change employment conditions than those in the other countries in the study.

Figure 3.8: Impact of COVID-19 on employment

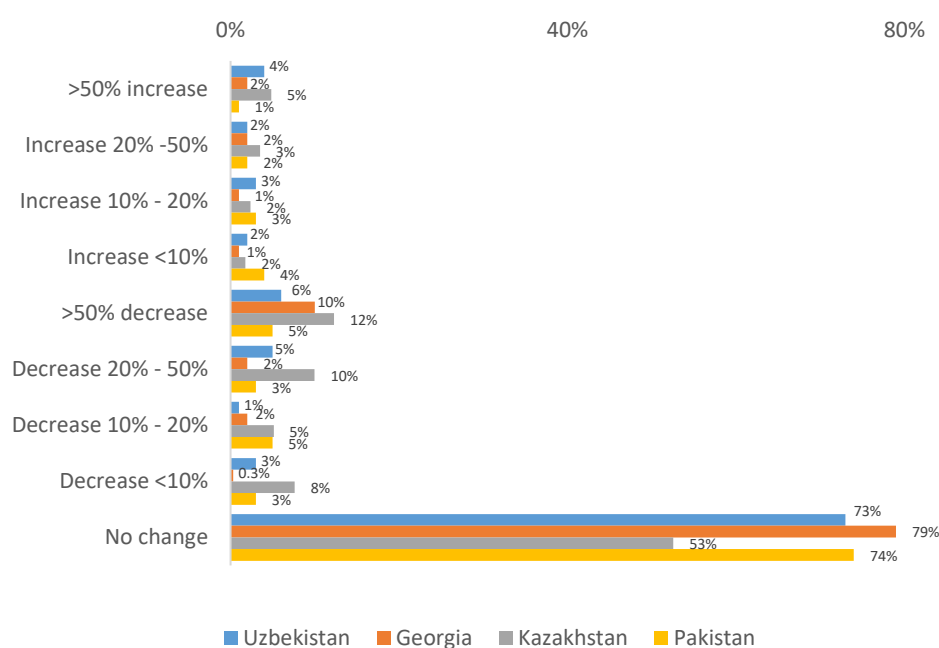
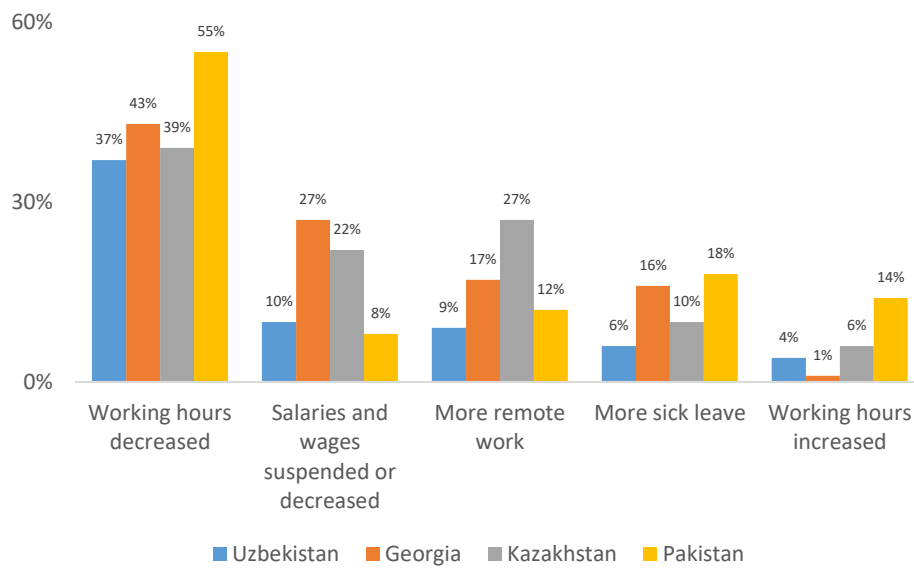


Figure 3.9: Impact of COVID-19 on employment conditions

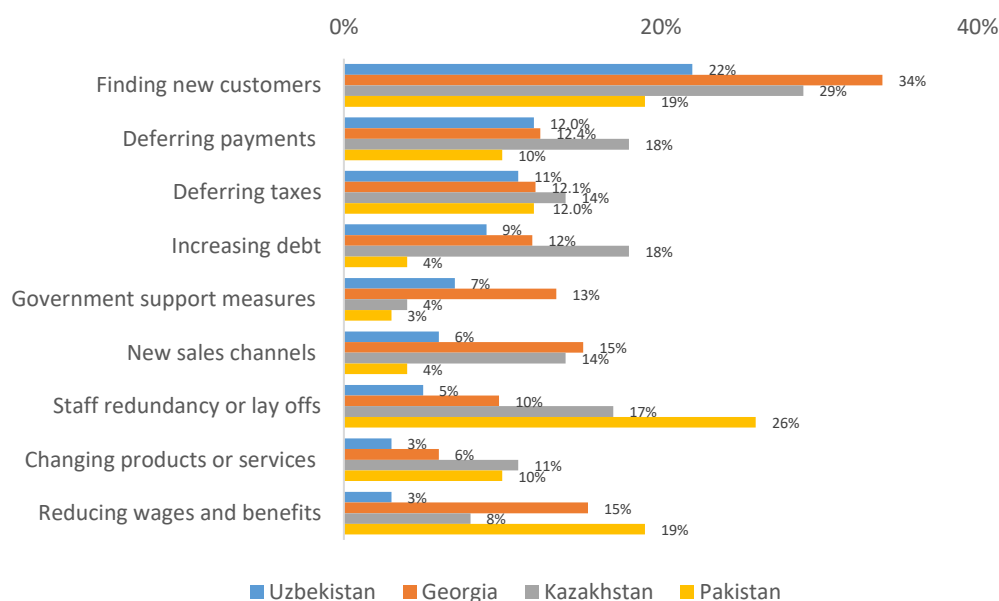


5.7. Coping with COVID-19 business disruptions

Firms were asked how they coped with the effects of the business slowdown and what coping strategies they employed. Most surveyed firms across the four countries prioritized boosting demand in the face of slumping sales, with the exception of Pakistan where the primary coping strategy appears to have been staff layoffs. However, finding new sales channels (such as, shifting to online sales, see country reviews) was not a prevalent option for the MSME sector in any of the countries surveyed. Clearly then, there is a role for policymakers to stimulate demand for MSME goods and services by boosting online trade. For all countries this was followed by fiscal measures—increasing payables by deferring payments to suppliers and taxes and increasing debt.

Across all surveyed MSMEs, government support measures were not popular. The highest uptake was seen in Georgia, but even there only 13% of surveyed firms availed themselves of any form of government support. Either government support measures were perceived to be inadequate, poorly targeted, or difficult to access, or in all likelihood a combination of all three. Policymakers should consider further research into the degree of uptake of support measures and their appropriateness in implementing future support packages.

Figure 3.10: Coping with the impact of COVID-19 disruptions

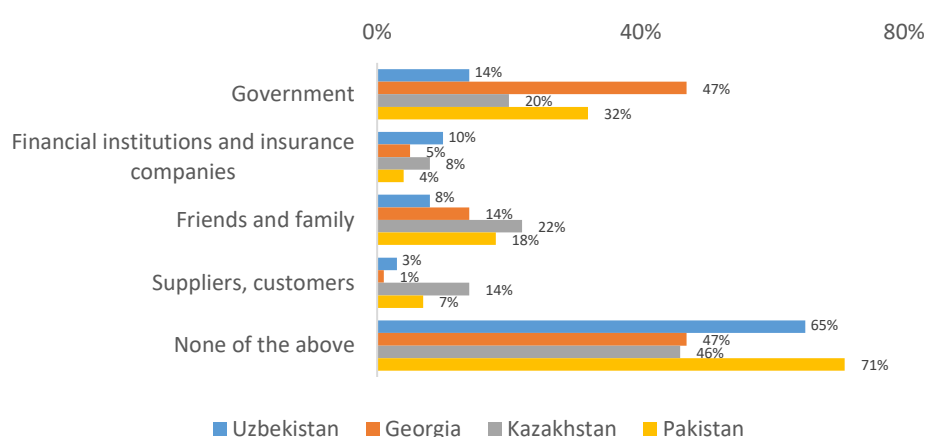


5.8. External business support

In addition to how they coped with business disruption, MSMEs were also asked whether they availed themselves of any external business support (as distinct from internal measures such as finding new customers or cutting costs) during the pandemic. The most prevalent response to the options presented was not using any external support at all, as reported by 71% of Pakistani MSMEs, 65% in Uzbekistan, and 47% and 46% in each of Georgia and Kazakhstan.

Overall, government support was the most popular option for the minority of companies that actually sought external support, with the proportion highest in Georgia at 47%, and least in Uzbekistan at 14%. For Kazakh MSMEs the most popular option was seeking support from friends and family, and only then seeking government support.

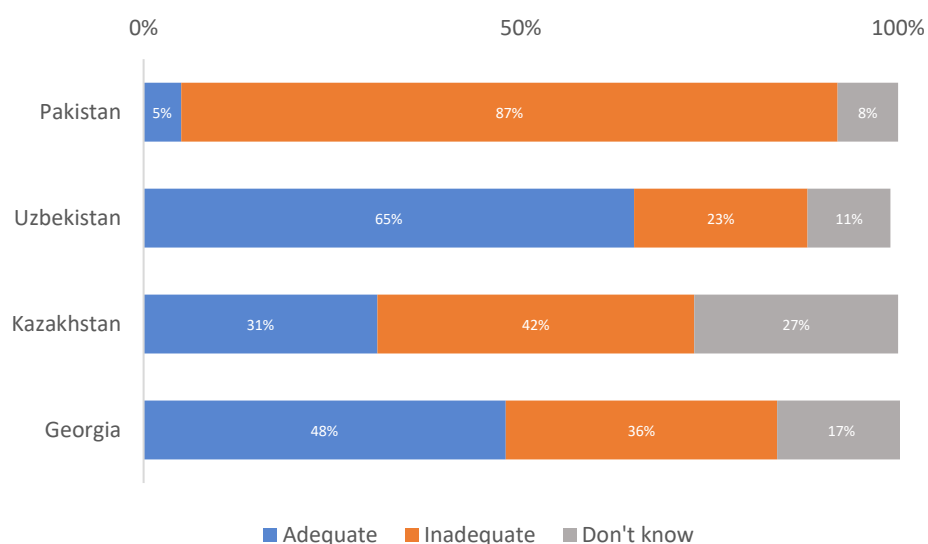
Figure 3.11: External support received



5.9. Government support

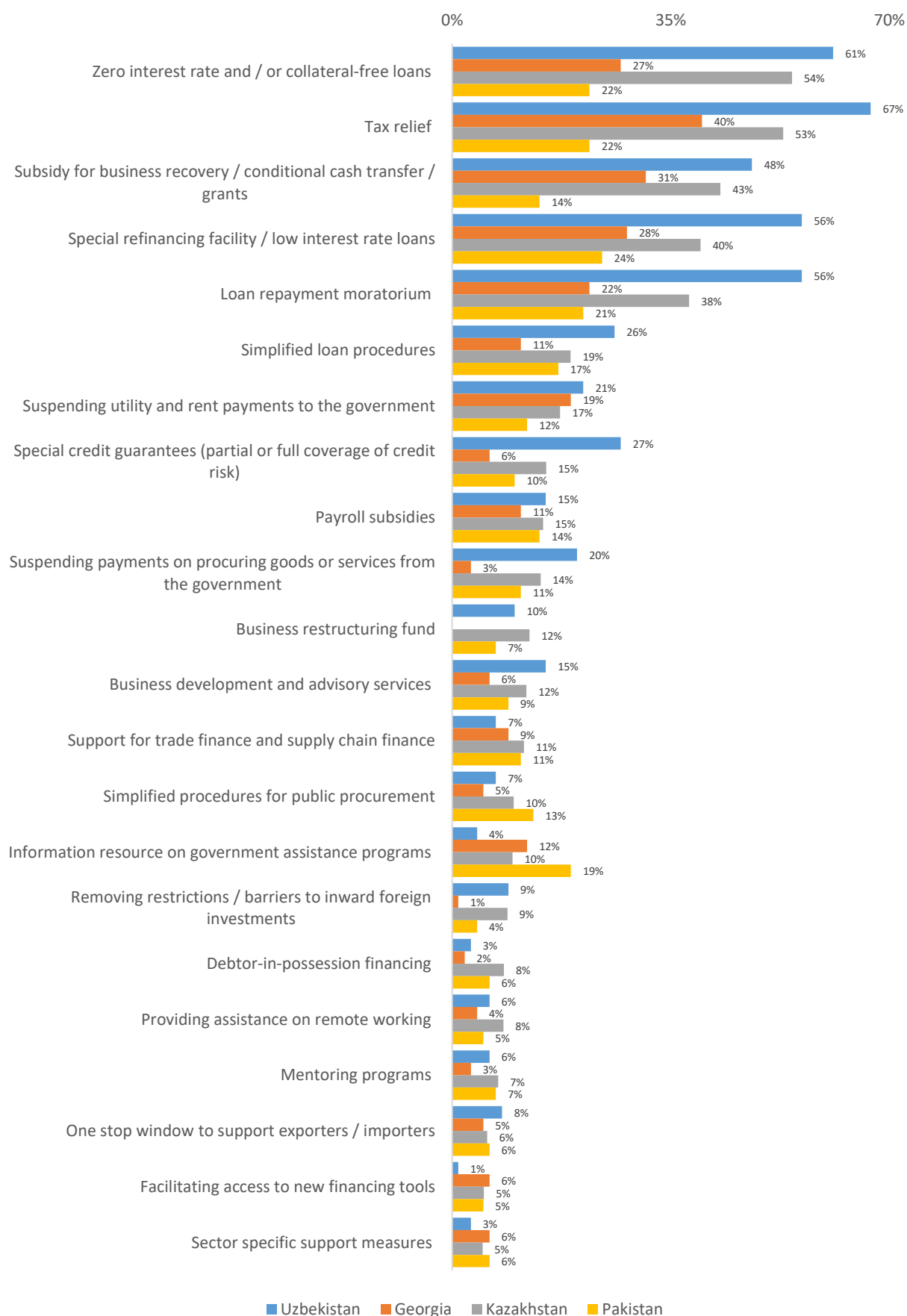
Governments introduced various business support measures to help mitigate the impacts of the pandemic on firm business operations. These ranged from tax deferrals or tax reductions, access to concessionary loans, deferrals of various payments to government, to targeted sectoral relief measures. Despite only a small proportion of Uzbek MSMEs who actually received support (14%), their assessment of government support was the most positive, with two thirds rating the government's actions as adequate. In contrast, the picture in Pakistan was the most negative, with only 5% rating government support as adequate.

Figure 3.12: Perception of adequacy of government support



Firms were asked what sort of support they would like to receive from the government going forward. There was a wide range of responses among the countries surveyed but, perhaps reflecting the precarious operations of most MSMEs and immediate financial hit from the pandemic, the most popular responses revolved around receiving financial assistance from the government, either in the form of free or concessional loans or grants, or alternatively tax relief. This was especially true for the majority of Uzbek MSMEs.

Figure 3.13: Desired future government support



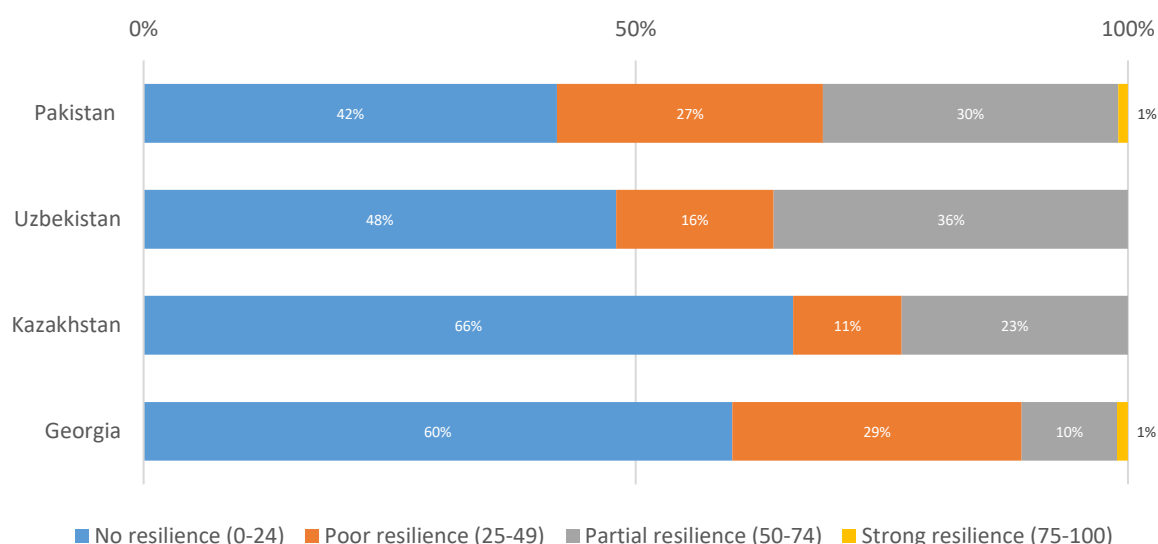
5.10. Firm resilience

Using the results of the survey, a single indicator was developed to classify all respondents as to how well they coped with the effects of the pandemic—in other words, how resilient they were. This resilience index allows for easy comparisons across countries, firm sizes, and sectors. Firms were assigned a score from 0 to 100, with 0 indicating no resilience at all, and 100 total resilience (namely, the pandemic did not impact them at all).

	Resilience score
No resilience	<25 points
Poor resilience	25-49 points
Resilient	50-74 points
Strong resilience	>75 points

Analysis shows that MSMEs in Kazakhstan and Georgia were the least resilient (or conversely more vulnerable to the COVID-19 crisis) than firms in other countries with 66% and 60% of firms respectively scoring 'no resilience.' A negligible 1% of firms in Pakistan and Georgia showed strong resilience, compared with none in Kazakhstan and Uzbekistan. In general, firms categorized as having no, or poor resilience were the majority of all respondents across all countries surveyed.

Figure 3.14: Distribution of companies according to resilience index



A more differentiated picture emerges when the resilience scores are analyzed based on sectors that showed a greater range in scores than the aggregate scores for all firms in a particular country. The analysis shows that, looking at firms with 'no' or 'poor' resilience, agricultural firms in Pakistan performed the best out of all sectors across all four countries, with only 40% of firms having a 'no' or 'poor' score. Within the manufacturing sector, Uzbek MSMEs performed the best with 58% of firms scoring 'no' or 'poor' resilience, with higher proportions in other countries. Overall, the sectoral results are more or less consistent with overall survey data (all industries together), but there are some sectoral differences with corresponding implications for policymakers. Different sectors require different approaches by governments.

Table 3.1: Cross country analysis—companies with no or poor resilience by sectors

	Pakistan	Uzbekistan	Kazakhstan	Georgia ⁵
Manufacturing and construction	75%	58%	68%	80%
Agriculture	40%	59%	67%	-
Services	70%	83%	83%	93%
Trade and retail	73%	61%	74%	89%

An equally interesting picture emerges when looking at the scores based on firm size. The least resilient firms were in Georgia, with 96% of all sole traders and 88% of micro enterprises among the most vulnerable out of all four countries. The firm sizes that performed best compared to the other categories, were sole traders in Uzbekistan and micro enterprises in Pakistan.

Table 3.2: Cross country analysis—companies with no or poor resilience by size

	Pakistan	Uzbekistan	Kazakhstan	Georgia
Sole trader	70%	60%	74%	96%
Micro	64%	67%	81%	88%
Small	78%	73%	72%	73%
Pakistan small (21-50) ⁶	35%	-	-	-
Medium-sized	58%	81%	77%	71%

In conclusion, the resilience index is a convenient way to aggregate important impact indicators into one useful measure and to then analyze the relative performance of the selected countries using this aggregate indicator. The resilience index showed the varying degrees of resilience to the COVID-19 pandemic, not only at the overall economy level, but also at the level of industries and different firm sizes. From a policy perspective, this suggests the need for a differentiated approach in providing government support to firms by using the index to help prioritize government responses to particular sectors and firm sizes.

⁵ Owing to its small size, the agricultural sector in Georgia is included in manufacturing

⁶ To better reflect the range of firm sizes a separate category of small firms (21-50 employees) was employed in the survey only for Pakistan

6. Country Reviews and Survey Results

6.1. PAKISTAN

6.1.1. MSME context

In Pakistan, MSMEs make a valuable contribution to the economy, constituting nearly 90% of all enterprises and employing 80% of the non-agricultural labor force. MSMEs contribute 40% to GDP and 25% to export earnings (SMEDA, n.d.⁷). Moreover, the MSME sector comprises many small businesses that are more widely distributed and hence cover marginalized areas, more so than large firms. The development of SMEs is therefore critical for both economic and social development. Although MSMEs are significant contributors to the economy, the majority of small businesses in Pakistan are structurally locked in a 'low-growth trap'—excessively dependent on labor-intensive factors of production with minimal usage of productivity and competitiveness enhancing technologies (Khawaja, 2006).⁸

6.1.2. Official definition of firm size

The official definition of micro, small, and medium-sized enterprises is provided by the State Bank of Pakistan (SBP) and is primarily used as a benchmark for targeted financial assistance.

Micro enterprises are defined as employing fewer than 10 full time employees (excluding temporary workers).⁹ Small enterprises are defined by the SBP as having up to 50 employees (including contract workers) and with annual turnover not exceeding PKR 150 million (US\$930,000).¹⁰

Table 4.101: State Bank of Pakistan firm size definitions

	Number of employees	Annual turnover
Micro	1-10	
Small	<50	<PKR 150 million (US\$0.93 million) ¹¹
Medium-sized	51-100 (trade) 51-250 (manufacturing and services)	Annual turnover PKR 150 million-PKR 800 million (US\$0.93 million-US\$4.98 million)

Although much of the official data has credibility issues, the numbers and locations of establishment are quite reliable, if out of date. In 2002 there were 2,958,321 industrial establishments and 589,241 manufacturing establishments in Pakistan. In contrast, in 1988 there were 2,018,896 industrial establishments and 290,073 manufacturing establishments. Comparison over a period of 15 years indicates that industrial establishments with fewer than 100 employees increased by 55%. According to a SMEDA document based on Economic Census of Pakistan 2005, SME's share in industrial employment according to an estimate is 78% and in value addition approximately 35% (Khawaja, 2006).

⁷ SMEDA. (n.d.). State of SMEs in Pakistan. Retrieved from https://smeda.org/index.php?option=com_content&view=article&id=7:state-of-smes-inpakistan&catid=15

⁸ Khawaja, S. (2006). *Unleashing the potential of the SME sector with a focus on productivity improvements*. In Pakistan Development Forum

⁹ <https://www.sbp.org.pk/acd/2012/C2-AnnexA.pdf>

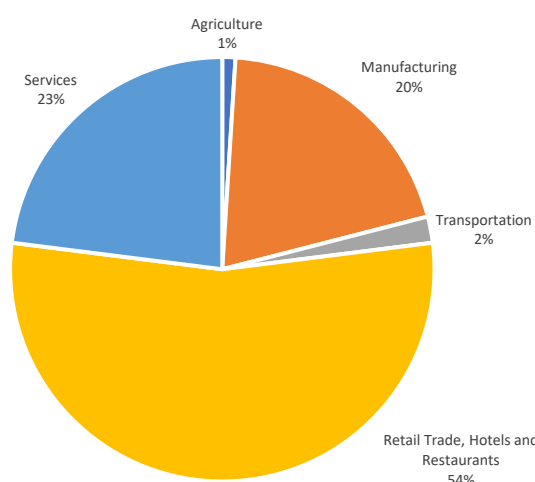
¹⁰ <https://www.sbp.org.pk/smefd/2017/SME-PRs-Updtd-Dec-2017.pdf>

¹¹ As of 4 January 2021, US\$1= PKR 160.75

The Pakistan Bureau of Statistics (PBS) indicates that nearly 54% of all MSME activity is in retail trade, wholesale, restaurants, and the hotel business, whereas the contribution of industrial establishments and those involved in service provision is 20% and 23% respectively. Among the MSMEs involved in retail and wholesale, 98% employ fewer than five people. Just 1% of Pakistani MSMEs employ more than 10 persons. Even within the manufacturing sector, nearly 87% employ fewer than five people, and just 2% employ more than 10 people. Mining is the only sector that breaks this pattern—56% of firms in the mining sector employ 6 to 50 persons (Khawaja, 2006).

The MSME sector in Pakistan is, primarily, a less formally organized sector; more than 96% of businesses are owned and managed by an individual as a sole proprietary concern. With partnerships amounting to another 2% of the total, there are hardly any corporate entities in the MSME sector, underscoring the absence of professionals in business management processes.

Figure 4.101: SMEs, by sector



Source: PBS (2005)

A detailed firm level census for Pakistan was last conducted in 2005; therefore, the discussion in this section relies on a dated dataset. Regardless, since there is no reliable alternative, this dataset provides the closest indication of Pakistan's current SME structure.

In 2005, Pakistan had 17.6 MSMEs and 18.7 SMEs per 1000 people—somewhat lower than the South Asian median of 20 MSMEs/1000 people. In general, higher numbers of MSMEs per 1000 people are associated with higher income, better access to finance, lower poverty, and better business environment. The highest MSME densities are found in high income OECD countries (median 47/1000 people), while the lowest is in Sub-Saharan Africa (6/1000 people) (Gonzales et al.,¹² 2014).

Pakistan's distribution of MSMEs also varies substantially from its reference groups. Table 4.102 shows the size breakdown of enterprises in Pakistan against averages of low-income countries in the IFC MSME dataset along with the same data for South Asian economies. The numbers are ranked by the percentage of enterprises in the economy that are classified as micro. It is evident that Pakistan has one of the highest percentage of micro firms in both reference groups. There are very few small firms, and even fewer medium-sized firms in Pakistan relative to both groups.

¹² Gonzales, E., Hommes, M., and Mirmulstein, M.L., (2014). *MSME Country Indicators 2014 Towards a Better Understanding of Micro, Small, and Medium Enterprises*. International Finance Corporation—World Bank Group

Table 4.102: Size breakdown of MSMEs in South Asian economies, % of all enterprises

Economy	Year	Micro	Small	Medium-sized	SMEs	MSMEs	Large
Maldives	2007	26.88	42.09	29.66	71.76	98.64	1.36
Bhutan	2012	86.20	12.25	0.98	13.22	99.43	0.57
Bangladesh	2003	97.33	2.44	0.11	2.55	99.88	0.12
Pakistan	2005	99.05	0.89	0.05	0.94	99.99	0.01
<i>Average for lower income economies</i>	<i>Different years</i>	<i>84.20</i>	<i>9.48</i>	<i>5.61</i>	<i>15.09</i>	<i>99.29</i>	<i>0.71</i>

Source: Gonzales et al., 2014

Note: average uses all available data for the group for lower middle economies that have reported it. Selected lower middle countries are shown in the table.

Another pertinent observation relates to the distribution of firms. Globally, there are typically few manufacturing firms in the SME sector, and even fewer in the micro sector. Both sectors are usually dominated by services and trade. However, as shown in Table 4.103, the distribution for Pakistan shows a high share of manufacturing in both the micro and SME sectors. This data, when observed in light of the premature deindustrialization captured by other datasets, provides suggestive (although not conclusive) evidence that the manufacturing sector in Pakistan has smaller firms than other countries.

Table 4.103: Sector distribution for micro and SMEs in Pakistan, 2005, percentage

	Micro enterprises	SMEs
Manufacturing	19.44%	48.28%
Trade	53.40%	6.69%
Services	25.58%	44.39%
Agriculture/other	1.58%	0.64%

Source: Gonzales et al., 2014

6.1.3. MSME environment

There is little up to date data on the MSME sector in Pakistan. What research exists suggests that firms falling in this category generally have limited access to institutional finance; have weak organizational structures; are faced with inadequate energy supply and utilities access; rely on low quality raw materials available locally; and do not invest in technology upgrades and human resource development. Several initiatives have been taken by the government through SMEDA and SBP to improve the institutional support and legal framework of the sector. These include provision of business development services, support for growth of industrial clusters, and creation of credit bureaus to facilitate firms to acquire funds while reducing the credit default risks for the banks. However, despite such measures, the SME sector has not been able to benefit fully from these initiatives for a variety of reasons detailed in this report.

Notwithstanding the business environment challenges which beset the MSME sector, a review of data and figures from the Economic Survey of Pakistan (2019) show that there are a few industries that have shown resilience and registered growth. These exceptions exist in the sports goods industry, surgical instruments sector, and in some subsectors within the hospitality industry. The fact that Pakistan continues to be the official football supplier for the International Federation of Association

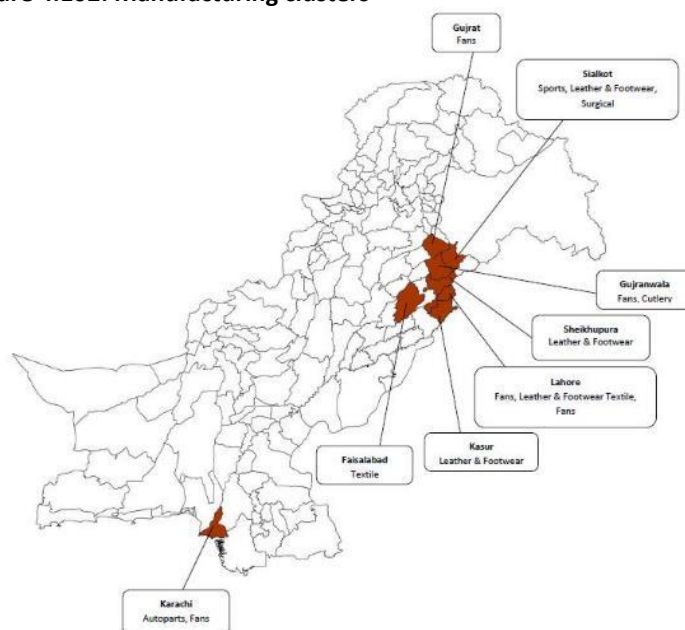
Football (FIFA) World Cup and is the production hub of quality surgical instruments supports this contention. The performing enterprises in these sectors have been able to produce better quality products through a relatively more efficient use of inputs, better use of technology, employment of skilled labor and effective marketing. The business approaches and strategies adopted by such firms performing well in a corrosive environment and with potential for future growth can serve as exemplars or blueprints for similar enterprises.

In recent years MSMEs have come under public policy limelight mainly because of their employment potential and the disproportionately large share of firms falling in this category. All major international donor agencies (Asian Development Bank, World Bank, International Labor Organization and the United Nations Development Program [UNDP]) have started initiatives in the MSME sectors in the last decade. However, a major frustration for most policy researchers in the MSME area is the virtual non-existence of recent and reliable data. The major sources of countrywide data are the Economic Census Data (2005)¹³ and Census of Manufacturing Industries (CMI) (2005).¹⁴

6.1.4. MSME geographical distribution

In Pakistan, industry is largely concentrated or clustered around major urban centers. A new census of manufacturing was conducted in 2017 and, subject to the timely release of its data by the Bureau of Statistics, will eventually be used to map out the current industrial clusters. However, in its absence, the figures below use the 2005 data to map out clusters of MSME activity.

Figure 4.102: Manufacturing clusters

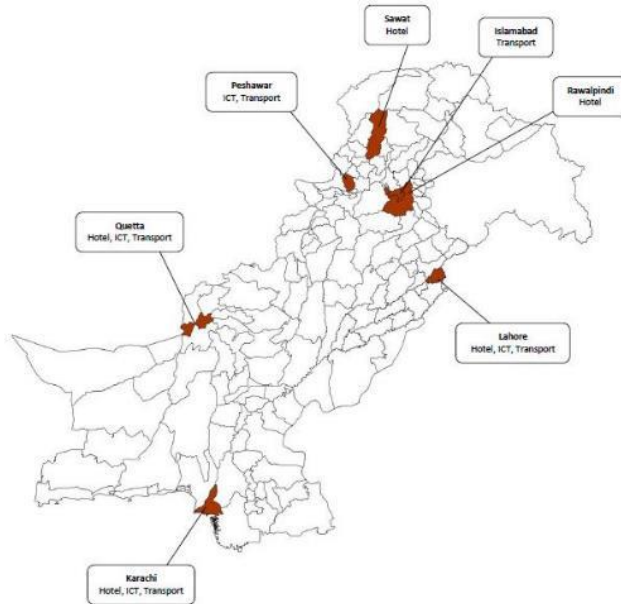


Source: CMI 2005

¹³ Pakistan Bureau of Statistics, 2005. Economic Census 2005. Retrieved from <http://www.pbs.gov.pk/content/economic-census-2005>

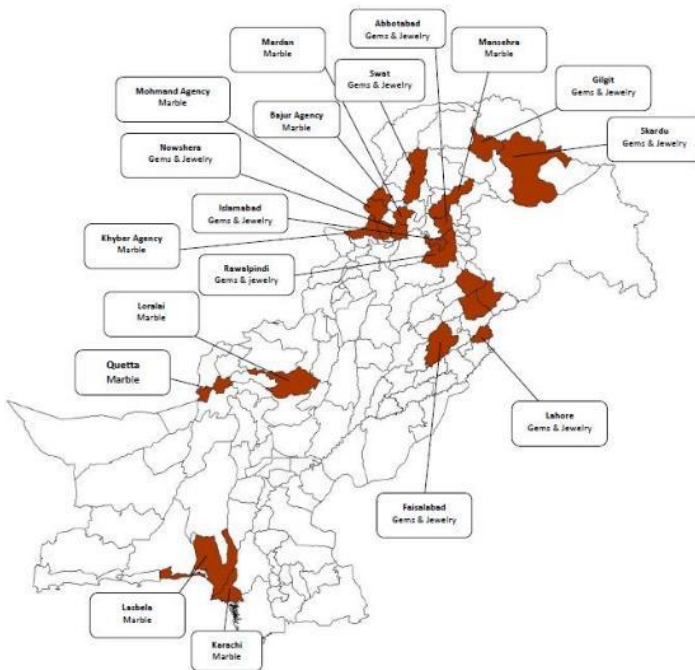
¹⁴ Pakistan Bureau of Statistics, 2005. Census of Manufacturing Industries. Retrieved from <http://www.pbs.gov.pk/content/census-manufacturing-industries-cmi-2005-06>

Figure 4.103: Services clusters



Source: CMI 2005

Figure 4.104: Resource based clusters



Source: CMI 2005

6.1.5. Government MSME finance policies

After the economic crisis of 2007-2008, MSMEs faced liquidity concerns which led to rising bad debts and bank hesitation in lending to MSMEs. However, once macroeconomic conditions improved in 2013, banks were more willing to lend and since then SBP has been playing a facilitative role in improving MSME access to credit. It has issued prudential regulations specifically for MSMEs which have been revised every few years. It helped in securing the approval of *The Financial Institutions (Secured Transactions) Act, 2016* so that MSMEs can use movable assets as collateral, which also helped to increase lending. For the same purpose, SBP also gave banks targets for MSME financing. It has launched various schemes to improve risk coverage such as the 'Credit Guarantee Scheme (CGS) for Small and Rural Enterprises' and the 'Refinance and Credit Guarantee Scheme for Women Entrepreneurs in Underserved Areas.' Furthermore, there have been many financing facilities made available to MSMEs for equipment purchases and renewable energy products.

As a result of the MSME sector being identified as a key priority area, the SBP implemented a new MSME finance policy in 2017 that seeks to achieve the following by 2020:

- Increase MSME share of bank credit from existing 8% to 17%
- Increase the number of borrowers from 174,000 to 500,000

In order to meet these objectives, the policy for MSME financing¹⁵ has the following nine pillars:

Pillar 1: Improving regulatory framework

In order to improve the regulatory framework, prudential regulations were revised to benefit MSMEs. Reserve requirements were changed for performing fund-based portfolio of banks, in which unsecured financing reserve requirements were reduced from 2% to 1%, while reserve requirements for secured portfolios are no longer applicable. Furthermore, credit risk weights have been relaxed in calculating banks' Capital Adequacy Ratio (CAR). In terms of targets, SBP further assigned banks separate financing targets for small and medium-sized enterprises as well as on the basis of gender and regional province. In the case of refinancing, new facilities for priority sectors—such as IT, gems, surgical goods, and leather—were introduced.

Pillar 2: Upscaling through microfinance banks (MFBs)

Since small loans are not typically offered through commercial banks but rather through MFBs, SBP is developing a regulatory framework to help MFBs graduate and become banks for small and medium-sized enterprises. This would help ensure that the smallest firms, who are otherwise neglected, also get access to credit. For this purpose, the financing limit for MFBs has been increased from PKR 0.5 million to PKR 1 million (US\$3,110-US\$6,220).

Pillar 3: Risk mitigation

In order to encourage MSMEs to borrow, SBP aims to improve risk coverage. This has been done by including low end medium enterprises in a credit guarantee scheme. Previously it was only applicable to small enterprises. Going forward, the SBP plans to convert this scheme into an independent entity—namely, a Credit Guarantee Company (CGC). The SBP is further helping provinces in improving and developing additional risk sharing schemes to help MSMEs.

¹⁵ Policy for Promotion of SMEs. Retrieved from <https://www.sbp.org.pk/smefd/PolicyPromotionSME-Finance.pdf>

Pillar 4: Simplified procedures for MSME financing

In order to encourage firms to apply for loans, loan application forms have been simplified and banks have been recommended to decrease loan processing times for small firms (15 days for small firms and 25 days for medium-sized firms). Moreover, a standard loan documentation manual will be prepared, to be used by banks and their MSME clients, in order to ensure banking procedures are understood.

Pillar 5: Program based lending and value chain financing

SBP aims to encourage banks to tailor their products according to clusters and use research surveys to improve service delivery. In addition, banks are to be encouraged to undertake value chain financing involving meeting the financing needs of all parts of a value chain. This approach entails examining the risks and opportunities of the entire chain, not just individual borrowers, and devising appropriate making financing strategies. A similar initiative in the agriculture sector was undertaken by SBP, which can be used as an example for other MSME sectors (Miller, 2015¹⁶).

Pillar 6: Capacity building and awareness creation

In order to assist MSMEs in accessing loans, the SBP plans to introduce a center of excellence for MSME banking at the National Institute of Banking and Finance (NIBAF) and other financial institutions. The aim is for these institutions to provide training and awareness on banking products to MSMEs and banks.

Pillar 7: MSME handholding—Non-financial advisory services (NFAS)

SBP in collaboration with SMEDA and the Securities and Exchange Commission of Pakistan (SECP) will coordinate programs that provide training and assistance to help MSMEs grow. Banks will be encouraged to provide NFAS, to ensure greater productivity and sustainability of MSMEs and thereby aiding MSMEs in becoming more financially viable bank clients.

Pillar 8: Leveraging technology to promote MSME financing

SBP aims to encourage the use of technology in banking to allow MSMEs easier access to banking products and would also help reduce bank costs. Technology can also aid in promoting MSME financing through the use of digital credit, using technology for client profiling and other various methods. Financial services themselves would become more accessible, as more payment solutions become available, or cash management becomes easier. In addition, SBP plans to launch an innovation fund to explore more innovative ways of leveraging MSME financing through technology.

Pillar 9: Simplifying taxation regime for MSMEs

SBP plans to recommend simplified taxes for MSMEs, through the technical committee formed under NFAS. The purpose is to encourage MSMEs to enter the formal sector (given the large informal sector in Pakistan) so that they can avail themselves of financial services. The recommendations will include

¹⁶ Miller, Calvin. (2015). Agricultural Value Chain Financing—A strategy towards replacing or complementing conventional financing. *Food Agriculture Organization of the United Nations*.

tax holidays on the income of startups and women owned enterprises, and eligible small enterprises. Another recommendation would be to reduce sales tax on service sector MSMEs (SBP,¹⁷ 2017).

6.1.6. Constraints

World Bank enterprise survey

This dataset provides firm level data for 1,247 firms, collected between 2013 and 2015.¹⁸ This allows for a detailed analysis of constraints reported by size, province, gender of CEO, and sector. The survey asks firms to choose what they consider the biggest obstacle to business from a list of 15 business environment constraints. The biggest constraints identified by the WB ES were electricity, corruption, and tax administration.

Electricity: Over 80% of Pakistani firms reported facing electricity outages. This compares unfavorably to the rest of South Asia, where this figure was 66%, and the global average, which was 59.2%. The enterprise survey showed that electricity was the biggest constraint reported in Pakistan at that time, regardless of firm size. However, the larger the firm, the less likely it is to report electricity as the top constraint. For large firms, in fact, corruption was a bigger problem than electricity.

Corruption: Corruption was the second most severe obstacle for MSMEs, and the most severe obstacle for large firms. Bribery incidence (the percentage of firms experiencing at least one bribe payment request) was 31% for Pakistan—higher than both the South Asian average of 25% and the global average of 18%. More firms in Pakistan reported being requested an informal payment for a public transaction, in meetings with tax officials, or to secure a government contract than South Asian and global averages, with small and medium-sized firms more likely to report that corruption is a severe obstacle than large firms.

Tax administration: Tax administration is also among the top five constraints reported by firms of all sizes. 34% of Pakistani firms reported tax administration as a major constraint, compared with 19% of South Asian firms and 22% globally, and survey findings suggest that it is small and medium-sized firms that are impacted more by tax administration problems, rather than micro and large firms.

Access to finance: Pakistani firms were half as likely to report access to finance as a major constraint, as compared to the South Asian and global average. This is despite the fact that there are far fewer firms that have a bank account or line of credit or use banks to finance investments. Just 2% of investments in the firms surveyed in Pakistan were financed by loans, as compared to over 14% for other South Asian firms. In fact, the demand for credit in Pakistan is lower than in comparison countries. For example, 57% of firms reported not needing a loan, which is higher than the South Asian average of 45%. While reasons for this were not given in the survey, earlier stakeholder research has found that many firms avoid formal credit for religious reasons.

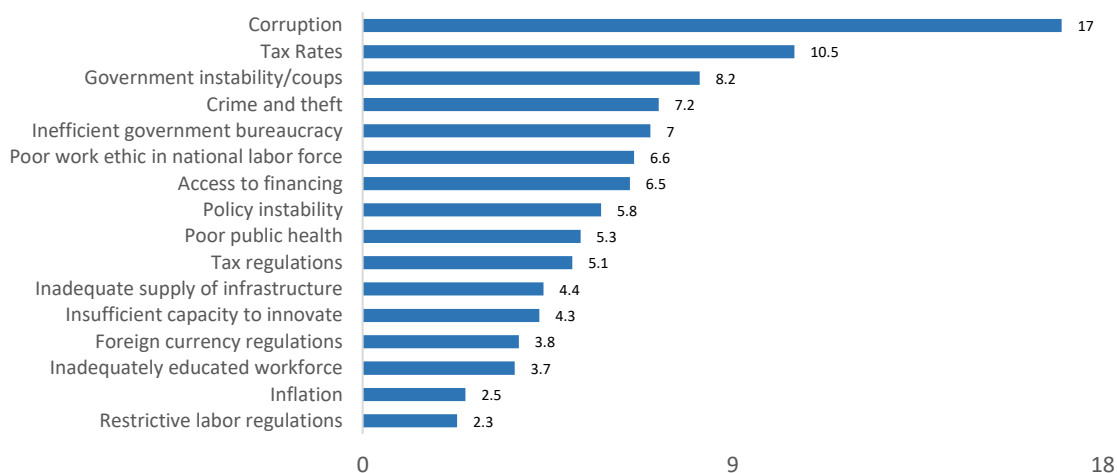
¹⁷ State Bank of Pakistan, 2017. Policy for Promotion of SME Finance. Retrieved from <http://www.sbp.org.pk/smefd/PolicyPromotionSME-Finance.pdf>

¹⁸ Available at <http://www.enterprisesurveys.org/data/exploreeconomies/2013/pakistan>

World Economic Forum

Using information from WEF's 2018 Executive Opinion Survey, Figure 4.105 shows the most problematic factors for businesses in Pakistan. Corruption remains on top, followed by tax rates, government instability and coups, and crime prevalence. While corruption has remained the top obstacle for several years, the inadequate supply of infrastructure has moved from the fourth most important constraint in 2013-2014 to eleventh in 2017-2018, mostly owing to improvements in the availability of electricity.

Figure 4.105: Most problematic factors for businesses in Pakistan, WEF, Global Competitiveness Report 2017-2018



World Bank doing business indicators

The World Bank's doing business (DB) data focuses on business regulations and their enforcement, particularly on their impact on various parts of the lifecycle of small and medium-sized businesses. Data is collected each year for a large set of economies, which has expanded over time from 133 in 2003 to 190 in 2018. In selected years, there is in addition a subnational report, which looks at differences in business regulations and implementation within each country.

The data captures several important dimensions of the regulatory environment and provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.

A score of 100 represents the frontier and a score of 0 represents the worst performer. With a DB score of 61, Pakistan ranked 108 in 2018/2019. It was also included in the top 10 improving economies in that year.

The report states: *Pakistan, another top improver, developed an ambitious reform strategy, setting up a national secretariat as well as a prime minister's reform steering committee to ensure progress. Most of the programmed reforms evolved around the doing business indicators. Doing business working groups have been set up at both municipal and provincial levels.*

The three datasets described above provide different types of information, varying in the variables measured, the firms targeted, and the year that the data was collected. Table 4.104 summarizes the

top constraints for all three. Regardless of the way the variable is expressed, the common constraints that emerge are government bureaucracy, tax rates, workforce issues and access to finance.

Table 4.104: Major constraints from an analysis of the World Bank and WEF datasets

Ranking of constraints	GCI 2017-2018	WB DB 2018	WB ES 2013
1	Corruption	Registration of property	Electricity
2	Rates of taxation	Border trade	Corruption
3	Instable government	Access to electricity	Political instability
4	Crime and theft	Contract enforcement	Tax administration
5	Inefficient bureaucracy	Access to credit	Law and order
6	Poor work ethics	Insolvency	Rates of taxation
7	Access to finance	Tax payment	Inadequate education

Government COVID-19 response

In Pakistan the first case of COVID-19 was reported on 26 February 2020. As the number of cases started increasing rapidly both at national and global levels and it was declared to be a pandemic by the WHO, the federal and provincial governments in Pakistan started imposing restrictions on movements of people and goods to contain the spread of the highly contagious and novel disease. The control and mitigation measures initially began with forced lockdowns, international and domestic travel restrictions, and the closure of educational institutions. However, soon the adverse fallout of such restrictions was significantly felt, especially on the economic front, and it was decided to ease them out by adopting softer measures such as smart lockdowns enforced at micro levels, promoting social distancing, and restricting public gatherings.

In May Pakistan lifted its nationwide lockdown to reduce the devastating economic and livelihood impacts, and gradually eased mitigation requirements by allowing 'low risk industries' and 'small retail shops' to reopen. A fourfold rise in the confirmed infections following the reopening [ur Rehman et al., 2020] prompted Pakistan's government to enforce a selective 'smart lockdown' strategy that targets 500 coronavirus hotspots across the country [Hashim, 2020]. On 1 April, Prime Minister Khan launched the Ehsaas Emergency Cash financial relief program, which includes a total of PKR 144 billion (US\$0.9 billion) to approximately 12 million families.

The relief package includes the following prime measures for the support of industrial activity:¹⁹

- Removal of import duties on emergency health equipment, extended for three months to December 2020
- Cash transfers to 6.2 million daily wage workers (PKR 75 billion, US\$467 million)
- Cash transfers to more than 12 million low-income families (PKR 150 billion, US\$933 million)
- Accelerated tax refunds to the export industry (PKR 100 billion, US\$622 million)
- Financial support to MSMEs and the agriculture sector (PKR 100 billion, US\$622 million) in the form of deferred payments for electricity, bank lending, as well as subsidies and tax incentives

The government also reduced taxes and duties on import and supply of items falling in the food category for relieving the adverse impact of COVID-19 on vulnerable sections of the society:

¹⁹ COVID-19 Pandemic and the Policy Response. Available at <https://www.sbp.org.pk/FSR/2019/Box-1.pdf>

- Rate of advance tax on the import of different food items was reduced to 0% from 2%
- Individuals and associations of persons providing basic food items to state owned departmental stores without a brand name will pay 1.5% withholding tax instead of 4.5%
- ACD (additional customs duty) at 2% on soya bean oil, canola oil, palm oil, and sunflower oil (also on oil seeds) was also exempted

Effective 1 May 2020 the construction sector is entitled to seek exemption from advance tax on import of plant and machinery, besides claiming a tax credit on income from new projects according to the new tax regime. However, this credit is only available to the non-corporate sector.

The Pakistan Ministry of Planning estimates that 12 million to 18 million people will become jobless owing to the pandemic. The IMF also projects a sharp spike in Pakistan's poverty rate, up to 40% [CGTN, 2020]. In addition, a new assessment by UNDP finds that those most at risk include women, poor households who rely on farm labor or daily wages, and people with disabilities. To handle the enhanced risk to growth and expected decline in domestic demand, SBP responded to the crisis by cutting the policy rate by a cumulative 625 bps to 7.0% since 17 March 2020. In particular, SBP has extended the scope of available refinancing facilities by adding three new ones as follows:²⁰

- Support hospitals and medical centers to purchase COVID-19 related equipment
- Stimulate investment in new manufacturing plants and machinery, as well as modernization and expansion of existing projects
- Incentivize businesses to avoid laying off their workers during the pandemic

To support formal financial institutions and the banking sector to provide additional credit to businesses and households, SBP reduced the CCB level from 2.50% to 1.50%. This was expected to enable banks to finance an additional amount of around PKR 800 billion (US\$5 billion), which is equal to about 10% of their existing outstanding loans. Additionally, the limit of PKR 125 million (US\$0.78 million) for treatment as an MSME in the current regulatory retail portfolio under the capital requirements was enhanced to PKR 180 million (US\$1.1 million). Further, SBP directed banks to defer the repayment of principal loan amount for households and businesses (microfinance, MSMEs, corporates, commercial, retail, and agriculture) upon written request by the borrower for one year. Also, SBP relaxed some of the regulations governing rescheduling of loans by borrowers whose financial conditions require relief beyond the extension of principal repayment for one year.

SBP also announced a 'Refinance Scheme to Support Employment and Prevent Layoff of Workers' to avert potential layoffs by providing financing for the payment of wages and salaries for all categories of worker, including permanent, contractual, daily wage workers as well as outsourced workers. Under this scheme, financing was made available to borrowers after they undertook not to lay off their employees for the next three months at least. Various categories of business are eligible to avail maximum financing of up to PKR 1 billion (US\$6.2 million). A PKR 30 billion (US\$187 million) credit risk sharing facility under the refinance scheme was designed to encourage private banks to provide loans to MSMEs lacking collateral. Further, to facilitate the financing to MSMEs under the scheme, SBP has developed a simplified loan application form.

²⁰ COVID-19 Pandemic and the Policy Response. Available at <https://www.sbp.org.pk/FSR/2019/Box-1.pdf>

6.1.7. Pakistan survey of COVID-19 MSME impact

6.1.7.1. Impact of COVID-19 on business operations

COVID-19 had a very significant impact on MSMEs across Pakistan. Businesses across all sectors and sizes faced considerable hurdles, including temporary closures, as a result of lockdown measures enforced by the government.

Almost 9 in every 10 MSMEs was negatively affected by the pandemic; however, there were a few enterprises that found growth opportunities and for which the crisis had a positive impact.

Table 4.105: Impact of COVID-19 on MSMEs

	% of MSME respondents
Positive	13%
Negative	87%

The trade and retail sector was affected the most by the pandemic, with 96% reporting a negative impact. 9 in 10 MSMEs belonging to the agriculture sector and 8 in 10 in services were adversely affected. However, a quarter of manufacturing MSMEs experienced a positive effect from the COVID-19 pandemic as they were able to offer new products and services—for example, medical protective equipment.

A clear trend of the impact of COVID-19 on the MSMEs can be seen when looking at firm size. The smaller the company, the greater were the negative impacts.

Figure 4.106: Impact on business operations, by sector

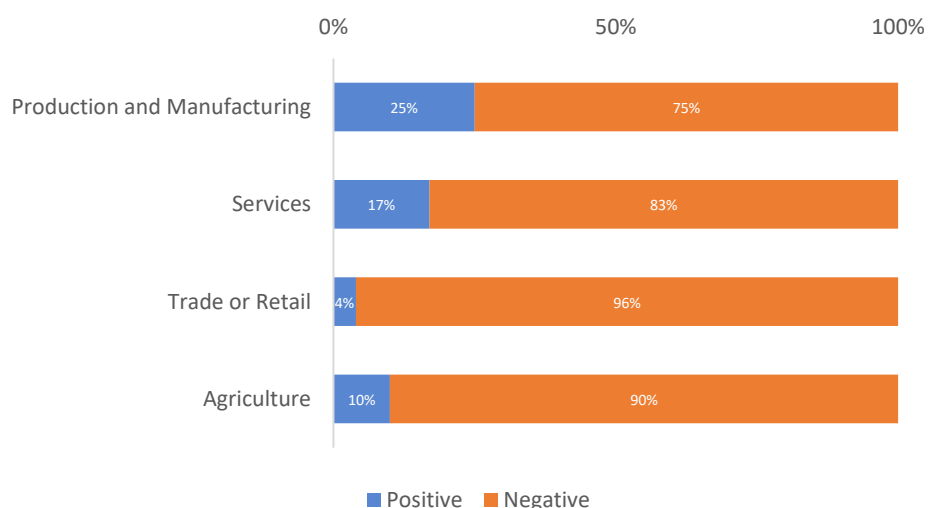
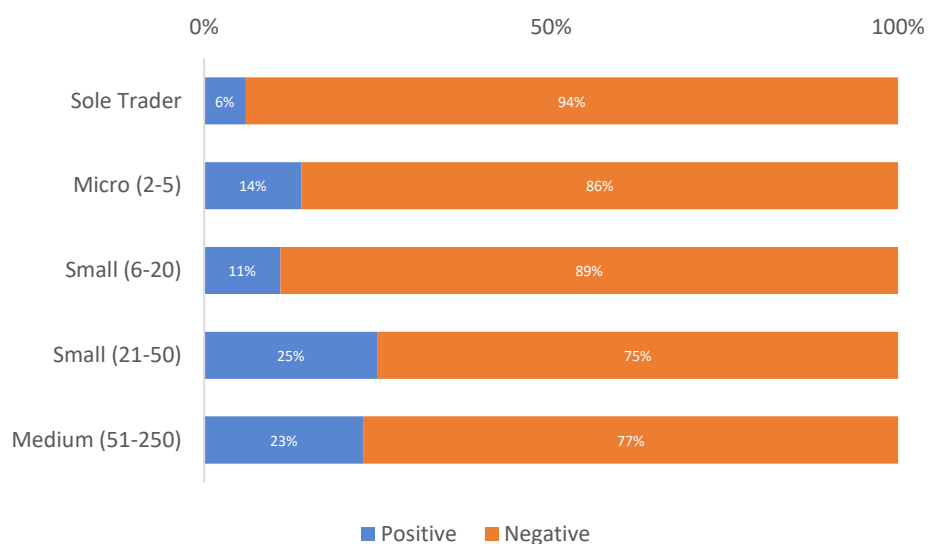


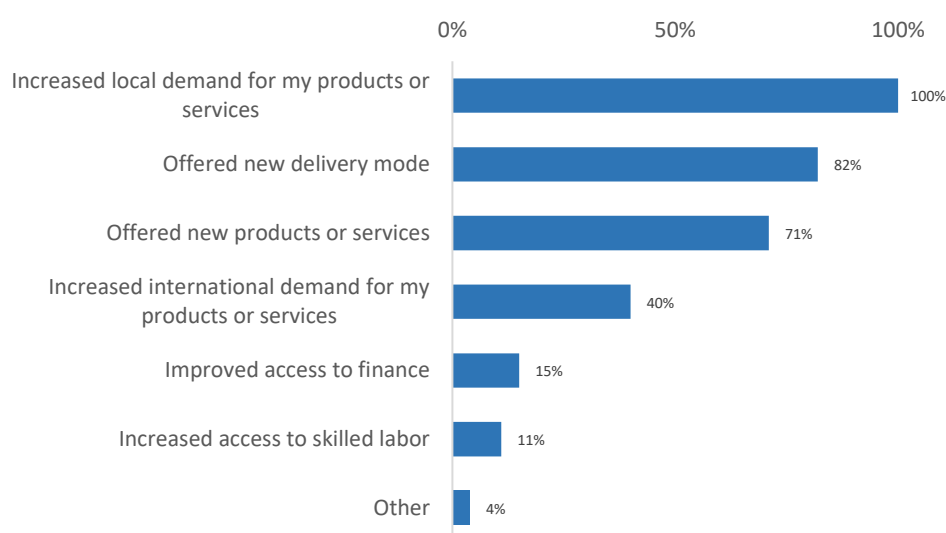
Figure 4.107: Impact of COVID-19 on business operations, by firm size



POSITIVE IMPACT

55 respondents (13%) reported a positive impact owing to the COVID-19 pandemic. Demand for their products and services increased for all of them. Some also decided to offer new products and services, and a few used different sales channels. As the government and some financial institutes offered easy and simple financial aid/loans, some MSMEs took the opportunity and utilized them to expand. As many businesses laid off their employees owing to the crisis, it increased the supply of skilled labor force in the market, which benefited some respondents.

Figure 4.108: Positive impact of COVID-19 on MSMEs



23% of enterprises with more than 50 employees experienced an increase in the domestic demand for their products and services, 16% offered new products, and 19% adopted new sales channels during the pandemic. 11% of enterprises with employees numbering between 21 to 50 experienced an increase in foreign demand for their products or services, but only 4% reported increased access to finance. In general, the vast majority of MSMEs surveyed did not report any improvement in the availability of financing.

Table 4.106: Positive impact on MSMEs, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Medium-sized (21-50)	Medium-sized (51-250)
Increased local demand for my products or services	6%	14%	15%	16%	23%
Offered new delivery mode	1%	8%	3%	11%	3%
Offered new products or services	4%	12%	9%	10%	16%
Increased international demand for my products or services	6%	10%	15%	10%	19%
Improved access to finance	-	2%	2%	4%	3%
Increased access to skilled labor	-	2%	2%	1%	6%

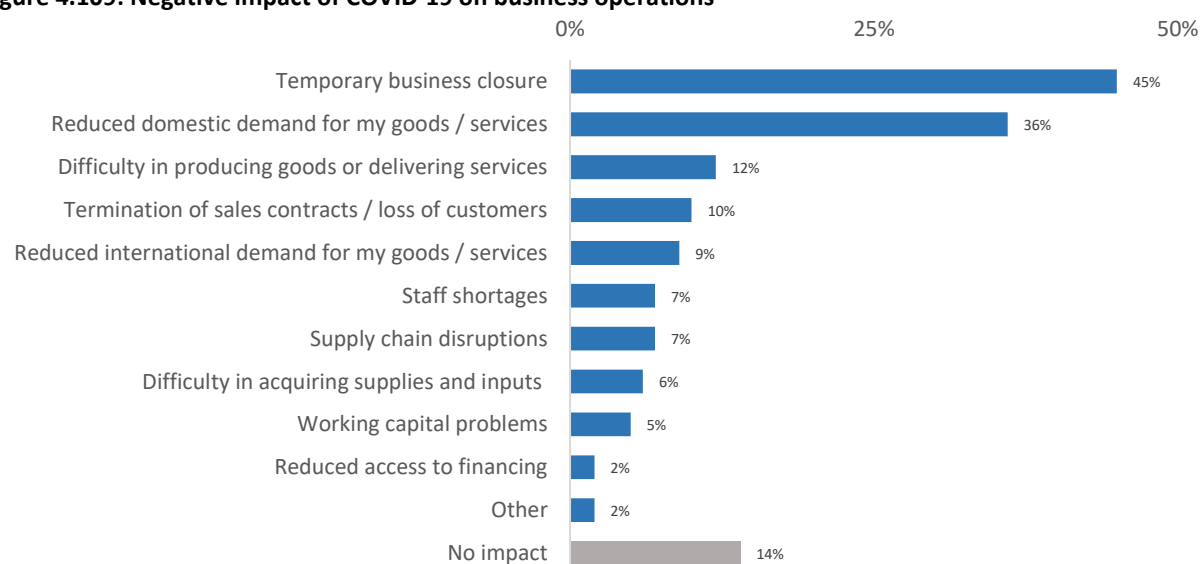
Table 4.107: Impact of COVID-19 on business operations, by sector

	Manufacturing	Trade	Services	Agriculture
Increased local demand for my products or services	25%	4%	17%	10%
Increased international demand for my products or services	12%	2%	4%	4%
Offered new products or services	16%	2%	13%	10%
Offered new delivery mode	18%	2%	17%	8%
Improved access to finance	5%	1%	2%	-
Increased access to skilled labor	1%	2%	2%	-

NEGATIVE IMPACT

Across all MSMEs surveyed, the single biggest negative impact (45%) was the temporary closure of their business (note: companies who permanently closed down were not surveyed). 36% faced a reduction in demand, 12% faced difficulty in delivering their products to the customers, and 10% lost customers as a result of not being able to deliver the desired services or products.

Figure 4.109: Negative impact of COVID-19 on business operations



Looking at temporary closures by firm size, the picture was broadly consistent, ranging from a third to half of enterprises. Other results on the impacts were also consistent, with the exception that larger firms suffered more from staff shortages and the drop-off in international demand for their products.

Table 4.108: Negative impact on business operations, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	(21-50)	Medium-sized (51-250)
Temporary business closure	50%	41%	41%	33%	58%
Reduced domestic demand for my goods/services	29%	41%	38%	50%	33%
No impact	20%	13%	11%	7%	4%
Difficulty in producing goods or delivering services	9%	10%	15%	17%	13%
Termination of sales contracts/loss of customers	8%	10%	12%	17%	8%
Reduced international demand for my goods/services	5%	11%	9%	17%	8%
Staff shortages	1%	3%	14%	13%	25%
Supply chain disruptions	7%	4%	7%	7%	21%
Difficulty in acquiring supplies and inputs	-	9%	6%	13%	13%
Working capital problems	4%	5%	8%	3%	13%
Reduced access to financing	1%	5%	1%	-	8%

Just over 40% of manufacturing and trade businesses had to resort to temporary closure, whereas only 24% of agricultural enterprises experienced the same pressure. On the other hand, the sector that experienced the most reduction in domestic demand was agriculture at 40% of enterprises.

Table 4.109: Negative impact on business operations, by sector

	Manufacturing	Trade	Services	Agriculture
Temporary closure	43%	42%	37%	24%
Reduced domestic demand for my goods/services	33%	37%	18%	40%
Difficulty in producing goods or delivering services	14%	12%	7%	4%
Difficulty in acquiring necessary supplies and/or services	11%	4%	3%	4%
Staff problems (sickness, government restrictions)	9%	3%	10%	-
Disruption of supply chain	9%	6%	5%	2%
Cancellation of sales contracts/loss of customers	6%	12%	10%	-
Working capital problems	6%	4%	6%	2%
Reduced international demand for my goods/services	4%	8%	10%	6%
Reduced access to financing	3%	-	4%	2%

6.1.7.2. Impact on sales

Comparing sales in the last full month of operations (November 2020) with the last full pre-crisis month (February 2020) almost 7 in 10 MSMEs faced reduction in their revenues, 2 in 10 felt no impact on their revenues and almost 1 in 10 claimed that their revenues increased during the pandemic. 9% of respondents experienced a drop of more than 50% in their monthly revenue as a result of the COVID-19 pandemic. 20% experienced a 30% to 50% reduction and 14% claimed that their revenue has decreased between 10% to 20%. 11% of MSMEs experienced revenue reduction between 0% to 10%.

Figure 4.110: Impact on sales, by firm size

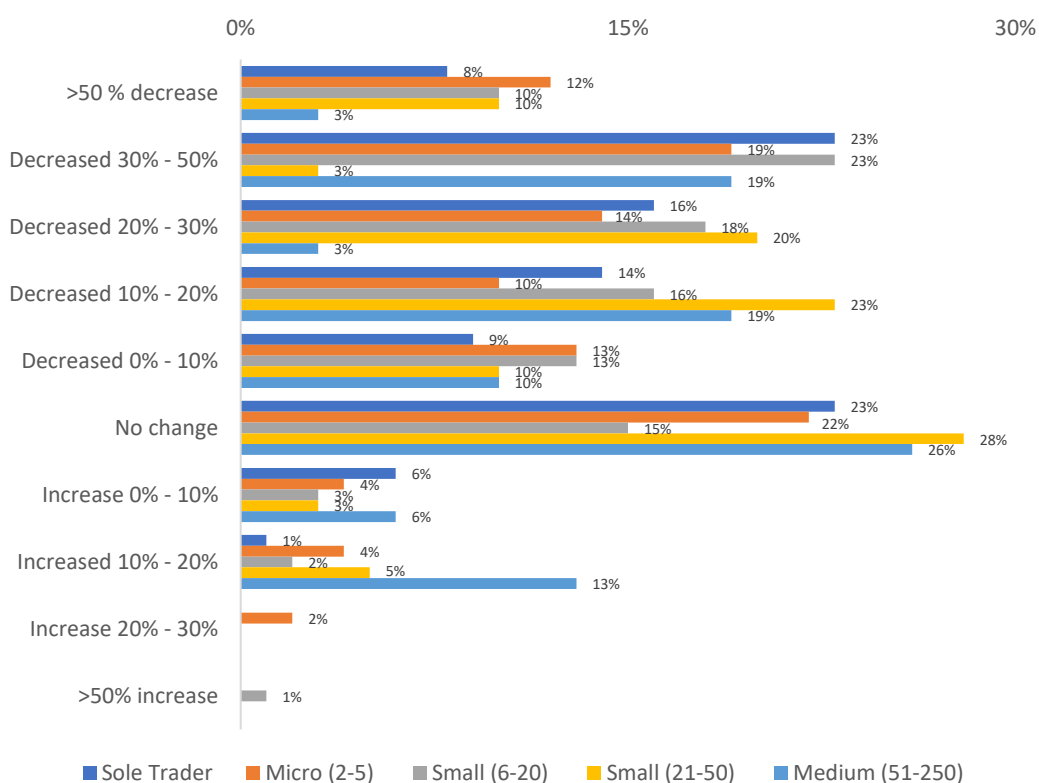
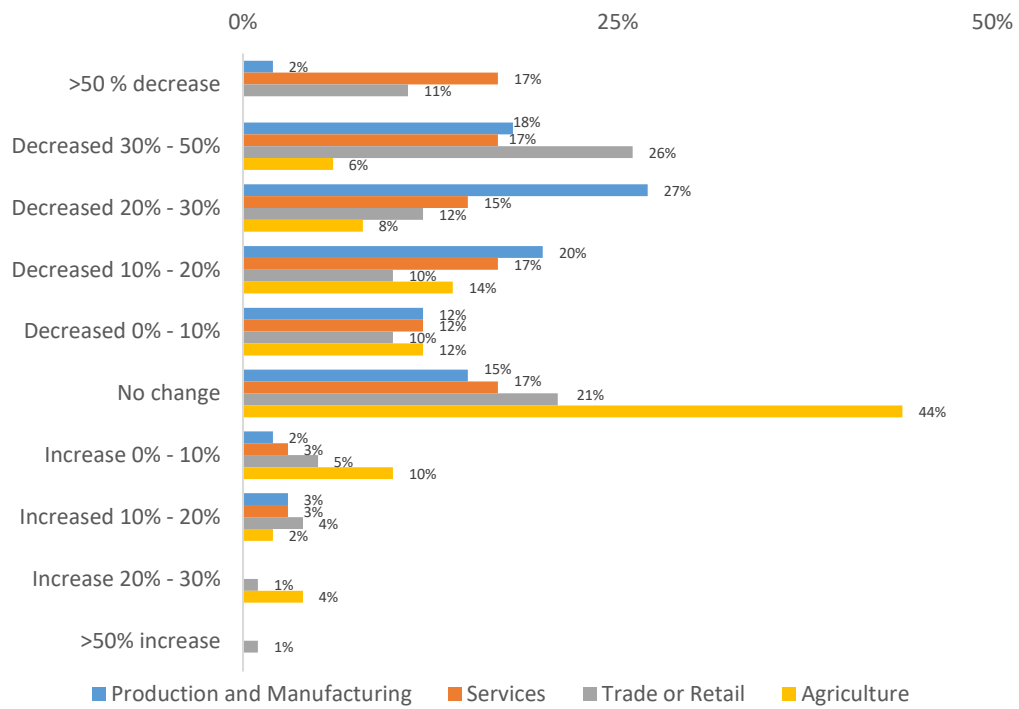


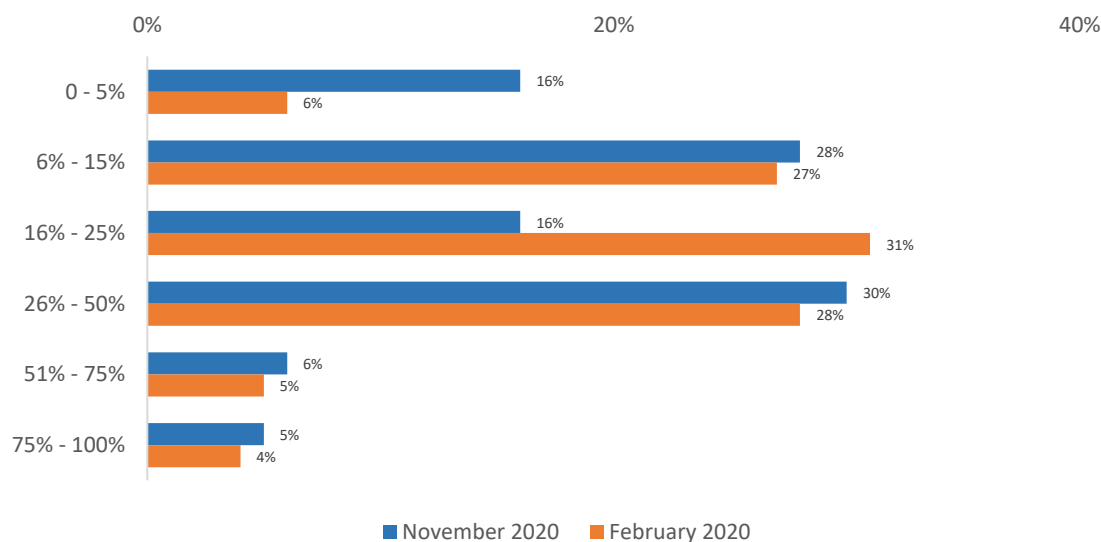
Figure 4.111: Impact on sales, by sector



6.1.7.3. Online sales

In general, Pakistani MSMEs, given the decrease of sales they experienced in 2020, should make more use of online sales channels in reaching their customers. Only about 10% of respondents reported more than half of their sales were made online. However, the proportion of all MSMEs that had little, or no online sales increased substantially from 6% to 16%.

Figure 4.112: Online sales



6.1.7.4. Impact on employment

Owing to the pandemic induced business slowdowns, some MSMEs had to lay off some of their employees; however, this affected only 16% of respondents. Fully three quarters of enterprises did not change the number of permanent employees. In terms of firm size, the category that was worst affected was small businesses with 21 to 50 workers, with 31% needing to resort to layoffs. The manufacturing sector was the most affected of all sectors, with 28% needing to resort to layoffs.

Figure 4.113: Impact of COVID-19 on number of permanent employees

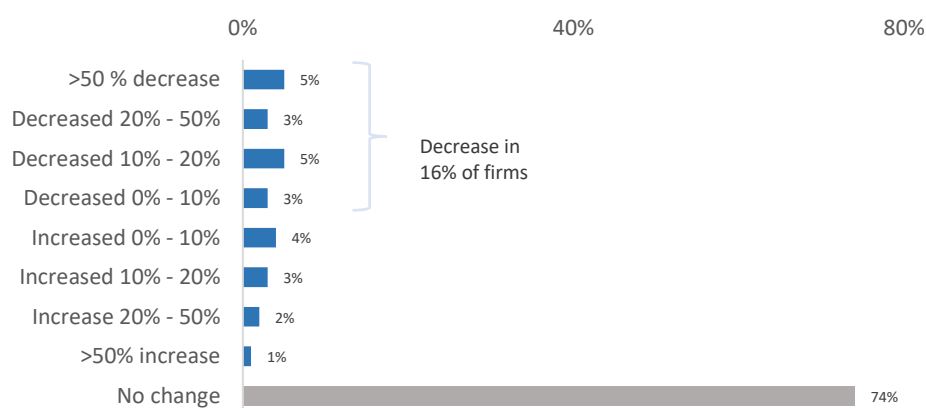


Table 4.110: Impact on number of permanent employees, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	(21-50)	Medium-sized (51-250)
>50% decrease	2%	6%	7%	8%	-
Decreased 20%-50%	1%	-	6%	10%	10%
Decreased 10%-20%	1%	3%	7%	10%	10%
Decreased 0%-10%	1%	3%	7%	3%	6%
Increased 0%-10%	-	4%	4%	18%	3%
Increased 10%-20%	3%	5%	1%	-	-
Increase 20%-50%	1%	1%	3%	3%	3%
>50% increase	-	1%	2%	3%	-
No change	91%	77%	61%	48%	68%

Figure 4.114: Impact on number of permanent employees, by sector

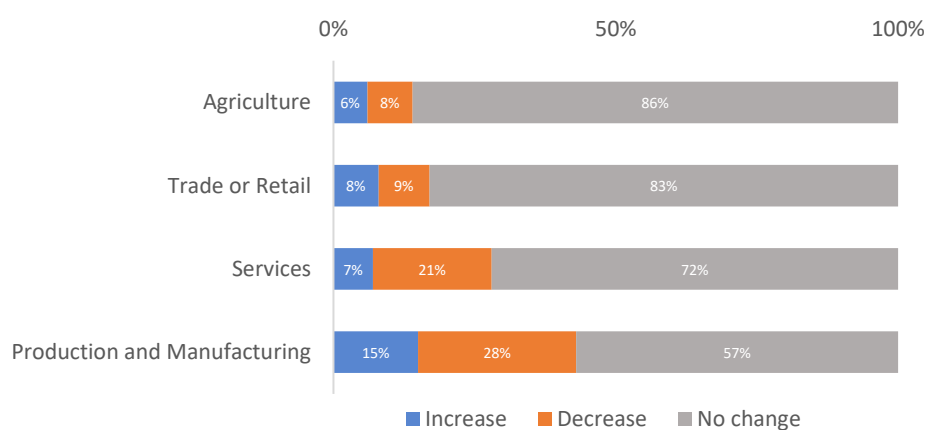


Figure 4.115: Impact of COVID-19 on number of temporary employees

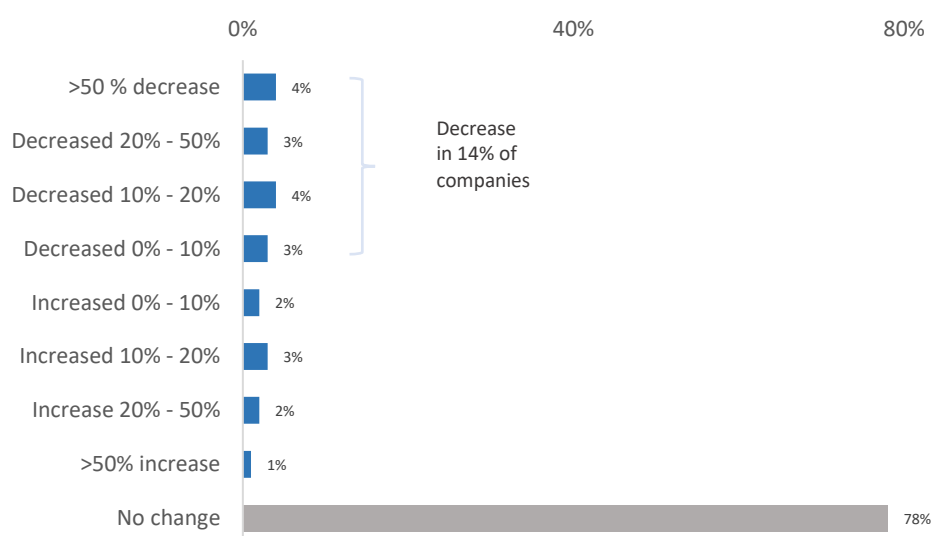
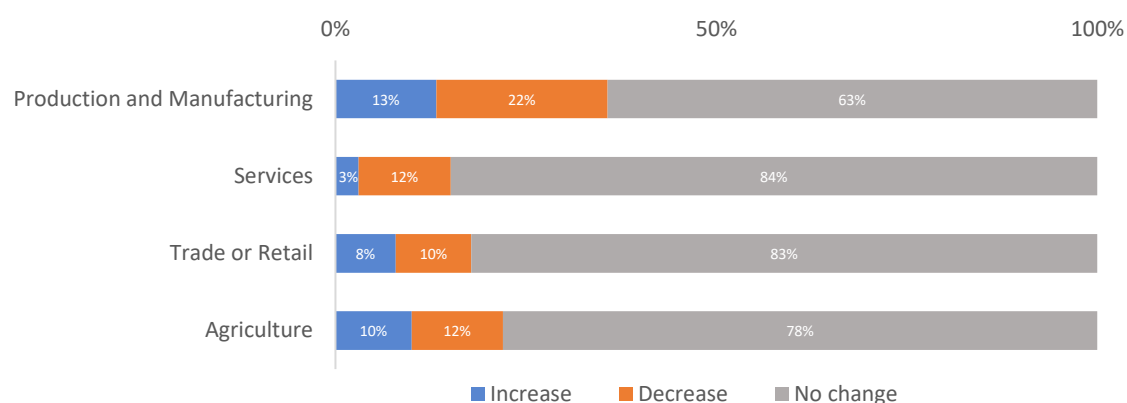


Table 4.111: Impact on number of temporary employees, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Medium-sized (51-250)
>50% decrease	2%	8%	2%	-
Decreased 20%-50%	1%	2%	4%	6%
Decreased 10%-20%	-	4%	7%	6%
Decreased 0%-10%	1%	3%	5%	10%
Increased 0%-10%	-	3%	2%	3%
Increased 10%-20%	4%	1%	3%	-
Increase 20%-50%	1%	2%	5%	3%
>50% increase	-	2%	1%	-
No change	92%	77%	70%	71%

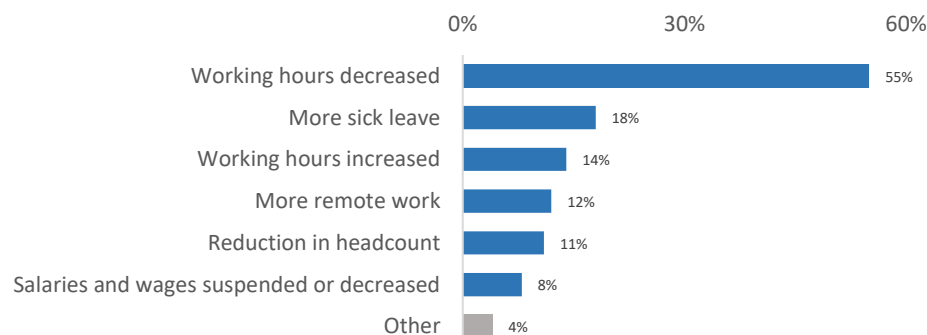
Figure 4.116: Impact on number of temporary employees, by sector



6.1.7.5. Impact on working conditions

Analysis shows that, rather than terminating employees, more than half of MSMEs preferred to decrease working hours instead. Interestingly enough, across all MSMEs, firm sizes, and sectors, reducing employee pay was the least favored option.

Figure 4.117: Impact of COVID-19 on employee working conditions



Sole traders and micro enterprises were the most likely to reduce working hours, along with half of medium-sized firms. Across all firm sizes, remote work was not a popular option with only 19% of firms saying that this had increased.

Table 4.112: Impact on working conditions, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Medium-sized (51-250)
Working hours decreased	75%	50%	39%	52%
Working hours increased	6%	16%	23%	42%
More remote work	13%	11%	19%	10%
More sick leave	7%	11%	18%	16%
Reduction in headcount	2%	9%	21%	26%
Salaries and wages suspended or decreased	1%	9%	13%	16%

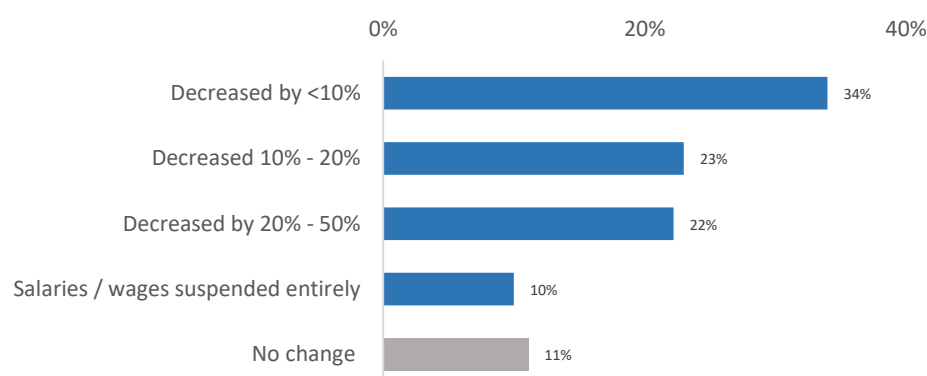
In terms of sectors the picture was more pronounced with 70% of manufacturing MSMEs decreasing working hours, followed by 53% of agricultural enterprises, 48% from services and 36% from trade and retail.

Table 4.113: Impact on working conditions, by sector

	Manufacturing	Trade	Services	Agriculture
Working hours decreased	70%	36%	48%	53%
Working hours increased	9%	27%	6%	29%
More remote work	6%	13%	14%	19%
More sick leave	10%	13%	26%	15%
Reduction in headcount	8%	20%	2%	14%
Salaries and wages suspended or decreased	6%	16%	-	9%

Of those MSMEs who reduced employee pay, the most popular wage cut was by less than 10%, with only 1 in 10 resorting to cutting wages entirely.

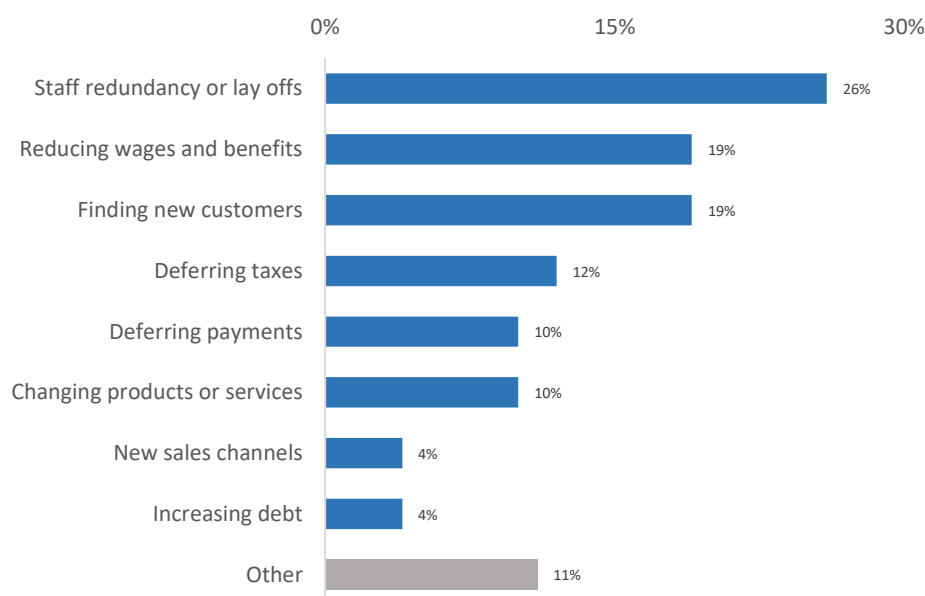
Figure 4.118: Impact on wages/salaries



6.1.7.6. How MSMEs coped with the effects of COVID-19 pandemic

COVID-19 presented MSMEs with various challenges, both operational and financial. To cope, one in every four MSMEs laid off some employees, one in five needed to reduce wages and look for new customers. Only a negligible 3% of MSMEs took advantage of any government support measures.

Figure 4.119: Coping with the impact of COVID-19

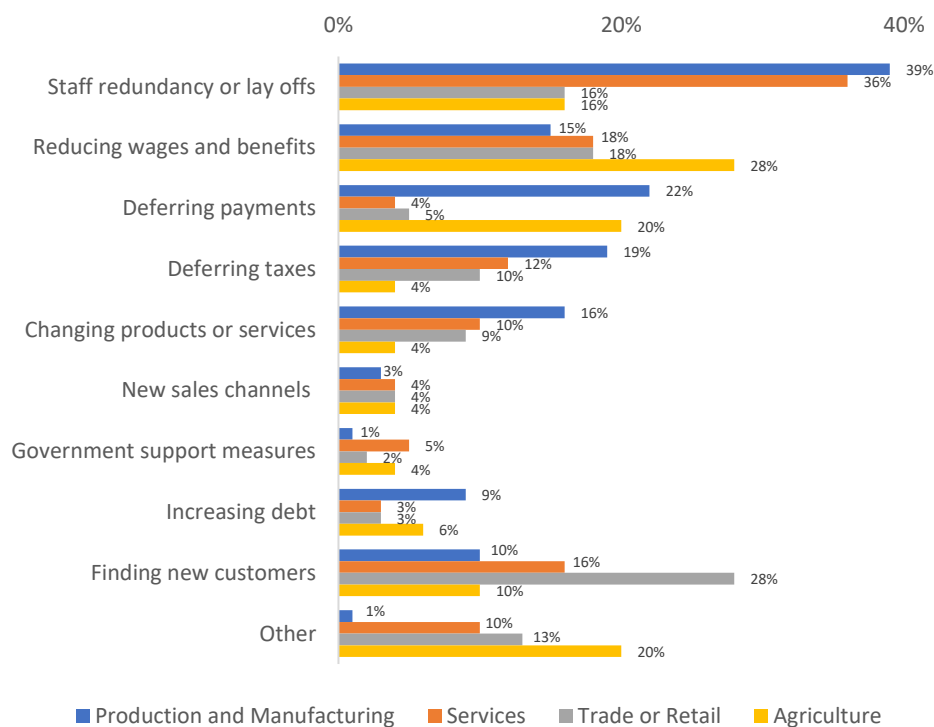


There was a strong trend of employee layoffs increasing with firm size, and a weaker inverse trend with reducing employee wages and benefits—the larger the enterprise, the less likely they were to cut wages. The most dynamic segment in attempting to find new customers were sole traders, with more than three times as many compared with other firm size segments.

Table 4.114: Coping with the impact of COVID-19, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Small (21-50)	Medium-sized (51-250)
Staff redundancy or layoffs	11%	23%	36%	40%	52%
Reducing wages and benefits	17%	23%	20%	15%	10%
Finding new customers	37%	12%	11%	10%	-
Deferring taxes	6%	16%	15%	13%	13%
Deferring payments	6%	13%	11%	18%	3%
Changing products or services	11%	6%	10%	20%	13%
New sales channels	1%	5%	6%	10%	-
Government support measures	-	2%	4%	8%	10%
Increasing debt	4%	5%	1%	3%	13%
Finding new customers	37%	12%	11%	10%	-
Other	13%	13%	7%	-	16%

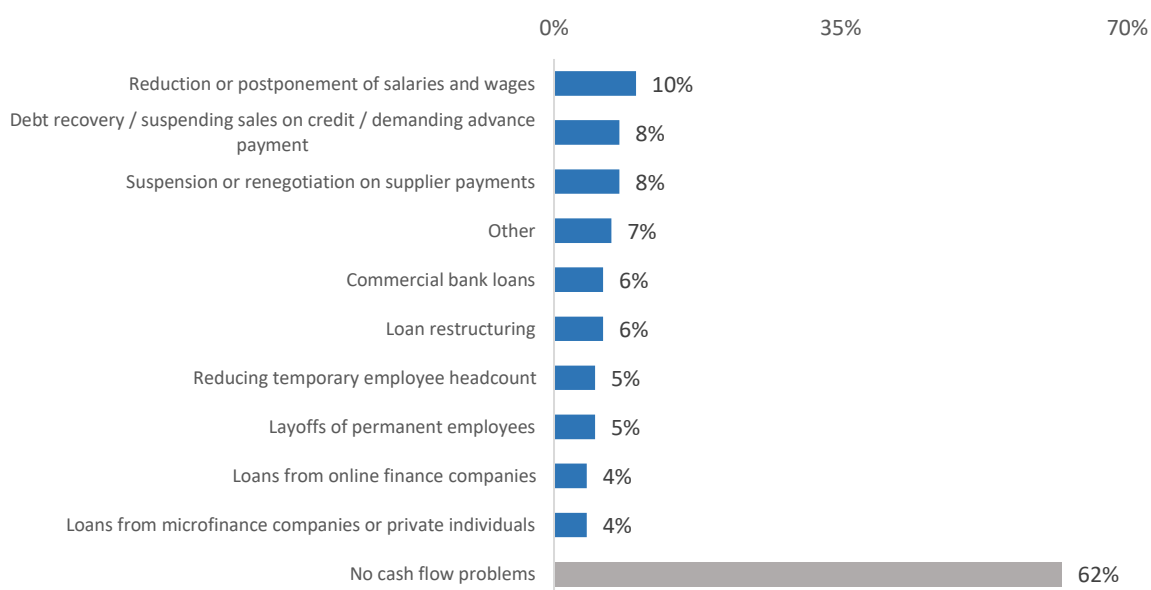
Figure 4.120: Coping with the impact of COVID-19, by sector



6.1.7.7. Impact on cash flows

38% of MSMEs in Pakistan faced cash flow issues during the pandemic, with smaller firms suffering more than larger ones. When respondents were asked how they coped with such shortages, there was no large variation among the options presented.

Figure 4.121: Coping with cash flow shortages



Reducing salaries and wages was the most popular option; however, this was only employed by 10% of all respondents and was more popular with small and medium-sized firms. Seeking new loans was an option for only a small fraction of MSMEs.

Table 4.115: Coping with cash flow shortages, by firm size

	Sole trader	Micro (2-5)	(6-20)	Small (21-50)	Medium-sized (51-250)
Reduction or postponement of salaries and wages	3%	29%	45%	40%	61%
Debt recovery/suspending sales on credit/demanding advance payment	34%	21%	8%	13%	16%
Suspension or renegotiation on supplier payments	21%	16%	8%	13%	42%
Commercial bank loans	8%	18%	21%	26%	8%
Loan restructuring	16%	24%	11%	13%	16%
Reducing temporary employee headcount	3%	13%	26%	21%	26%
Layoffs of permanent employees	3%	13%	18%	40%	26%
Loans from online finance companies	3%	13%	11%	26%	26%
Loans from microfinance companies or private individuals	3%	8%	16%	26%	16%
Other	8%	7%	9%	3%	3%

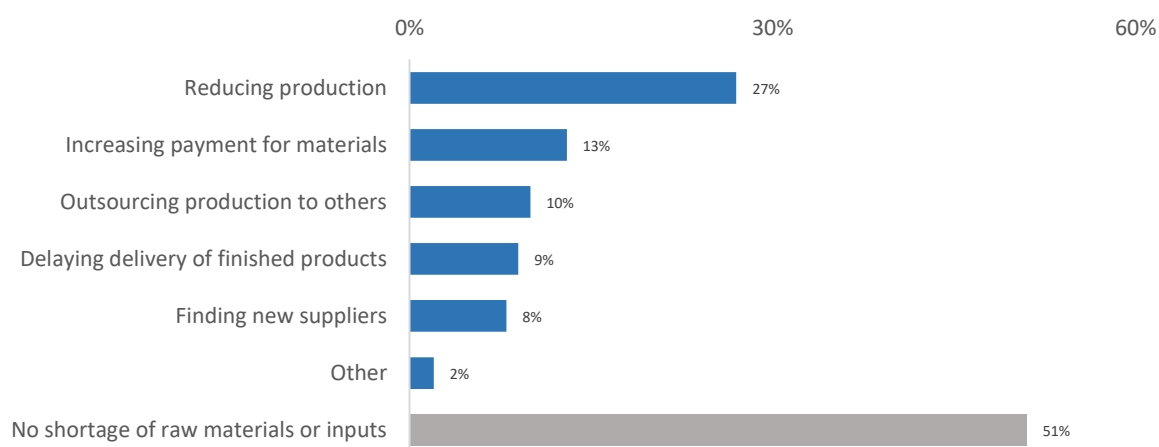
Table 4.116: Coping with cash flow shortages, by sector

	Manufacturing	Trade	Services	Agriculture
Reduction or postponement of salaries and wages	23%	9%	10%	35%
Debt recovery/suspending sales on credit/demanding advance payment	23%	3%	5%	18%
Suspension or renegotiation on supplier payments	23%	2%	7%	18%
Commercial bank loans	27%	1%	10%	18%
Loan restructuring	14%	8%	10%	6%
Reducing temporary employee headcount	32%	3%	17%	24%
Layoffs of permanent employees	20%	2%	38%	29%
Loans from online finance companies	29%	6%	10%	6%
Loans from microfinance companies or private individuals	25%	7%	17%	29%
Other	1%	10%	10%	2%

6.1.7.8. Impact on raw materials / supplies

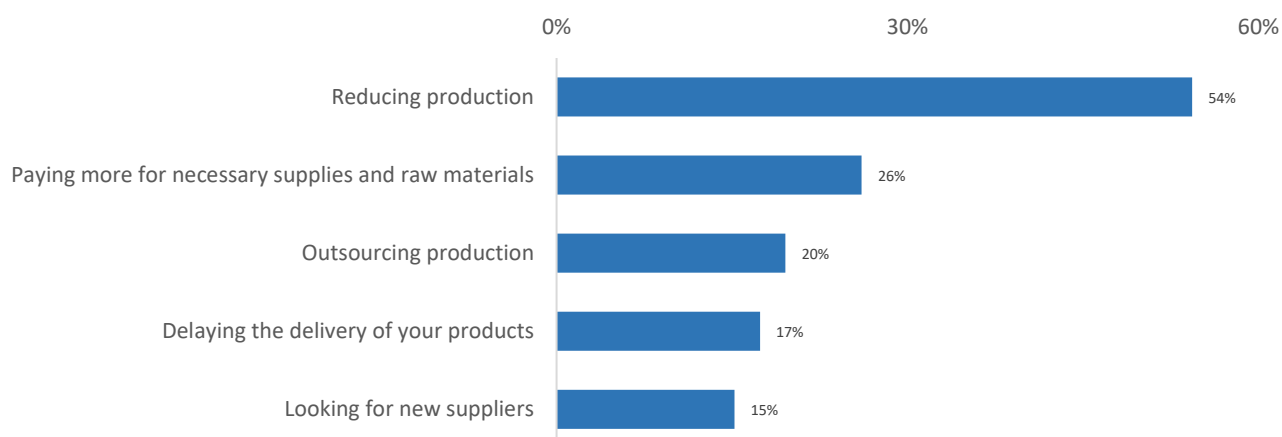
Half of the surveyed MSMEs did not experience any shortages of raw materials or other inputs. Of those that did, almost all were in production and manufacturing, with very little impact on trade, services, and agricultural firms.

Figure 4.122: Coping with shortage of raw materials/supplies



The biggest impact of raw material shortages was felt in production, with more than half of production and manufacturing companies needing to curtail production and a quarter needing to pay more for such materials. Seeking alternative suppliers was reported by only 15% of manufacturing firms.

Figure 4.123: Coping with shortage of raw materials/supplies (manufacturing)



6.1.7.9. Labor shortages

More than 30% of MSMEs in Pakistan faced a labor shortage during the COVID-19 pandemic, with micro and small enterprises suffering the most. In the agriculture sector, almost one in every three MSMEs faced labor shortages.

Figure 4.124: Coping with labor shortages

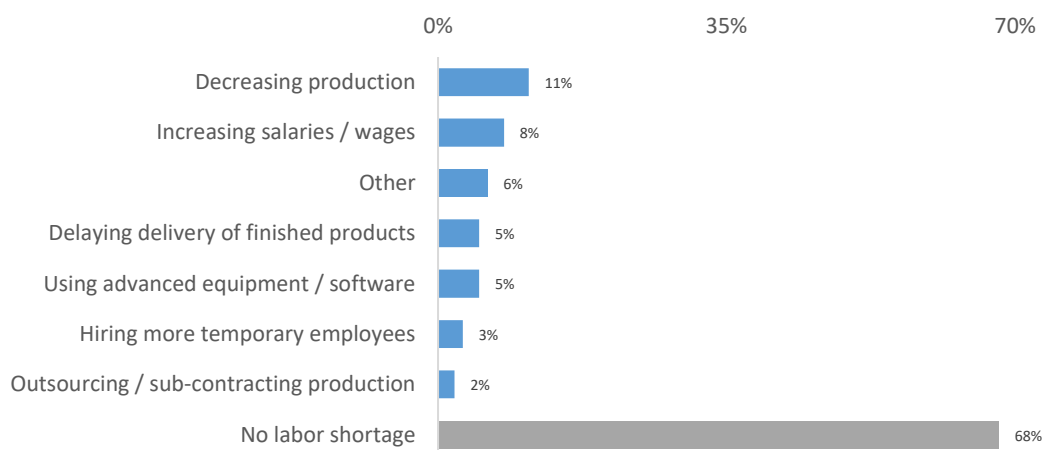


Table 4.117: Coping with labor shortages, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	(21-50)	Medium-sized (51-250)
No labor shortage	85%	65%	59%	53%	48%
Decreasing production	5%	11%	13%	15%	23%
Increasing salaries/wages	-	9%	13%	15%	23%
Hiring more temporary employees	1%	6%	4%	3%	-
Using advanced machinery/software	1%	4%	6%	15%	13%
Outsourcing/subcontracting production	1%	2%	-	8%	-
Delaying delivery of finished products	10%	5%	2%	-	6%
Other	4%	9%	7%	8%	-

6.1.7.10. Impact on contract fulfilment

A third of MSMEs found themselves in breach of contracts with counterparties (both customers and suppliers), with small enterprises suffering the most.

Figure 4.125: Coping with challenges related to fulfillment of signed contracts

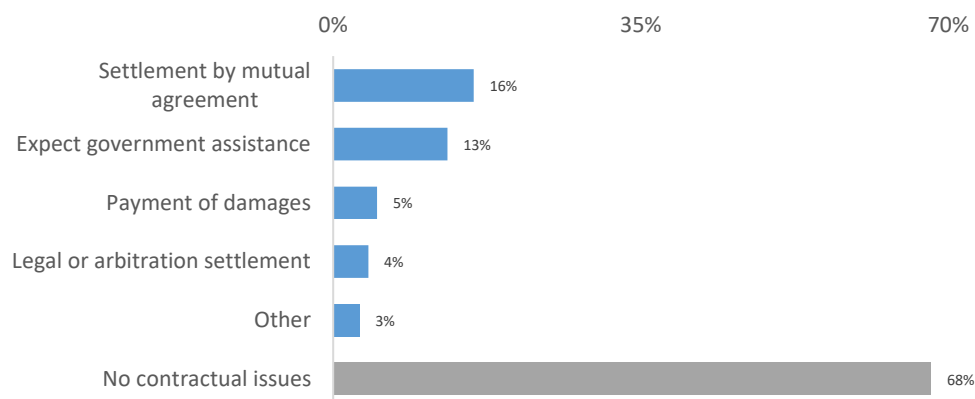


Table 4.118: Coping with challenges related to fulfillment of signed contracts, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Small (21-50)	Medium-sized (51-250)
No contractual issues	87%	61%	56%	55%	61%
Settlement by mutual agreement	11%	17%	18%	20%	19%
Legal or arbitration settlement	1%	5%	2%	10%	10%
Expect government assistance	6%	17%	18%	15%	13%
Payment of damages	3%	5%	7%	5%	3%
Other	1%	4%	3%	3%	3%

6.1.7.11. External support during COVID-19 pandemic

Only 29% of MSMEs received any form of external support in Pakistan. Of those that did, a third took advantage of one or more of the government's (both national and local) support programs, with the second most popular option relying on informal support from friends and family. Support from other organizations and sources (such as, suppliers and customers) was not particularly prevalent.

Figure 4.126: External support during the COVID-19 pandemic

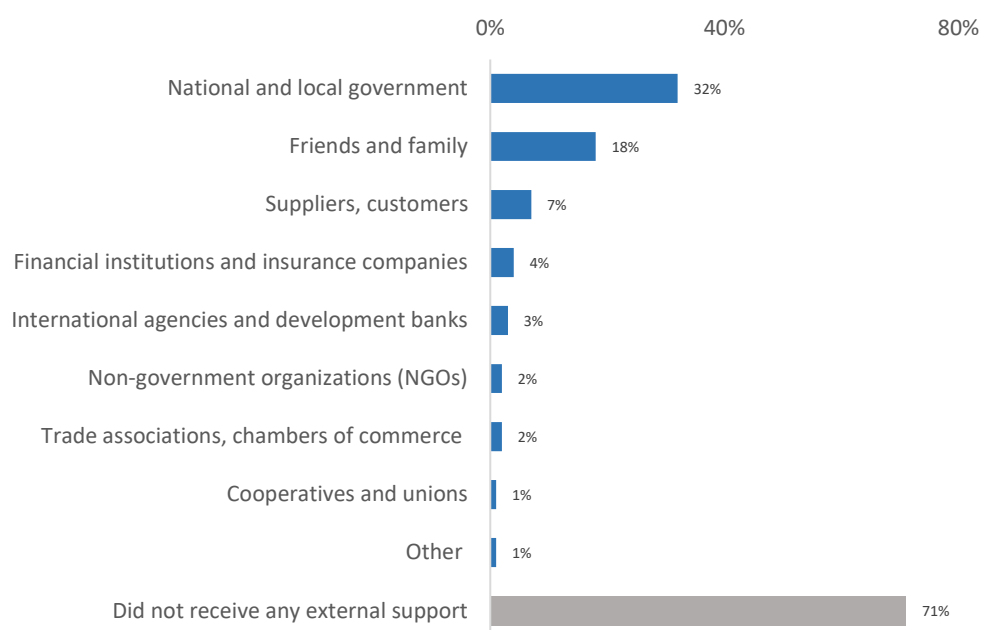


Table 4.119: External support during the COVID-19 pandemic, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Medium-sized (21-50)	Medium-sized (51-250)
National and local government	28%	28%	30%	43%	55%
Financial institutions and insurance companies	-	6%	2%	13%	3%
NGOs	-	4%	1%	5%	-
International agencies and development banks	1%	5%	3%	3%	-
Trade associations, chambers of commerce	1%	4%	2%	5%	-
Cooperatives and unions	1%	2%	-	3%	-
Friends and family	21%	14%	21%	8%	29%
Suppliers, customers	11%	4%	7%	3%	13%
None of the above	74%	75%	71%	65%	55%
Did not receive any external support	-	1%	2%	-	-

Table 4.120: External support during the COVID-19 pandemic, by sector

	Manufacturing	Trade	Services	Agriculture
National and local government	46%	28%	31%	18%
Financial institutions and insurance companies	11%	1%	4%	-
NGOs	5%	1%	1%	2%
International agencies and development banks	5%	2%	3%	2%
Trade associations, chambers of commerce	6%	1%	2%	-
Cooperatives and unions	3%	1%	-	-
Friends and family	33%	15%	20%	-
Suppliers, customers	17%	3%	8%	2%
None of the above	44%	78%	75%	92%
Did not receive any external support	-	1%	1%	2%

6.1.7.12. MSME overall assessment of government COVID-19 business support

Respondents were also asked for their overall assessment of government efforts to assist companies in coping with the COVID-19 pandemic. The result was overwhelmingly negative across all firm sizes, with 87% of all respondents assessing government support as inadequate.

Figure 4.127: Assessment of government support firm

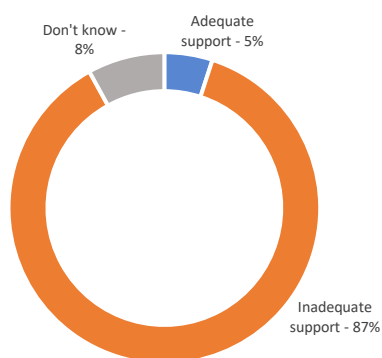


Figure 4.128: Assessment of government support, by size

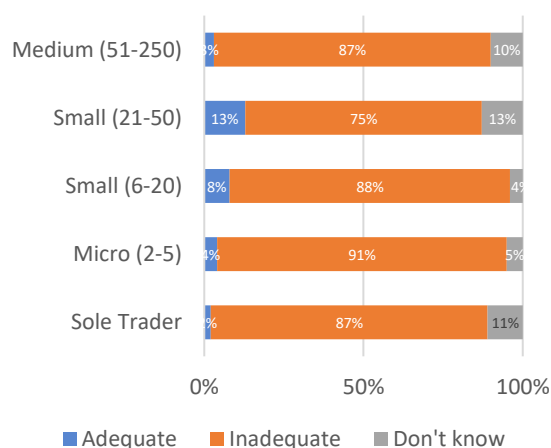
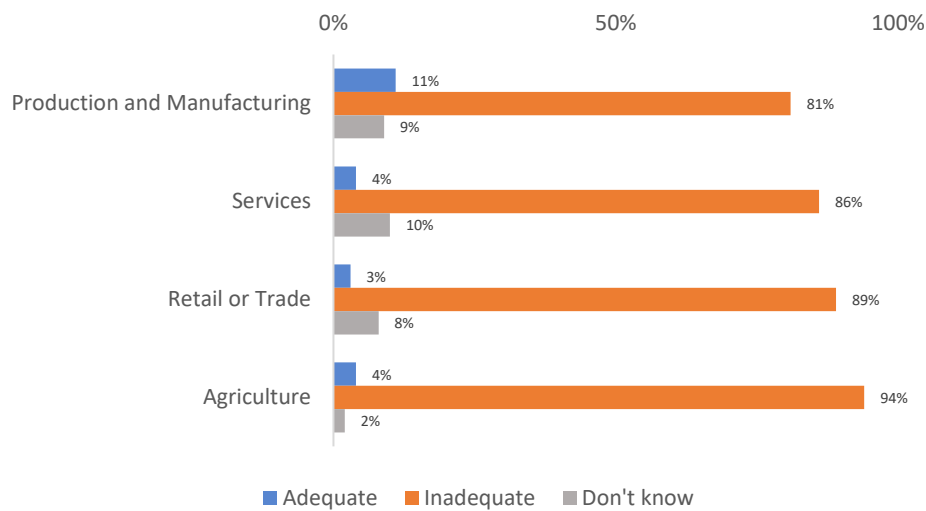


Figure 4.129: Assessment of government support, by sector



Although 31% of MSMEs in Pakistan took advantage of support measure from the government during the COVID-19 pandemic, uptake was spread unequally among different sized firms. More than half of medium-sized enterprises received government support, while the proportion was much lower among smaller firms. After government support, the most popular option was support received from friends and family, with this option also proving particularly popular with medium-sized firms.

6.1.7.13. MSME utilization of government COVID-19 business support policies and measures

Production and manufacturing firms appear to have been the primary recipients of government support, with practically no respondents from other sectors. The government support measure that was most popular with MSMEs was deferral of payment for utility bills (primarily electricity), followed by targeted cash transfer, and tax refunds. Figure 4.130 shows the distribution of responses only for those respondents who took advantage of government support.

Figure 4.130: Government COVID-19 support measures utilized



Table 4.121: Government COVID-19 support measures utilized, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	(21-50)	Medium-sized (51-250)
Cash transfer	7%	3%	14%	5%	13%
Tax refund	3%	3%	8%	5%	6%
Subsidies	1%	1%	-	3%	13%
Utility bills deferral	8%	12%	5%	10%	10%
Commercial loans	1%	5%	2%	8%	3%
Tax incentives	1%	5%	3%	3%	-
Payroll incentives	1%	1%	3%	8%	-
Customs duties reduction	1%	2%	1%	8%	-
Extension in tax guidelines	1%	7%	5%	-	13%
Suspended penalties	-	1%	2%	-	3%
Construction industry relief measures	-	-	-	8%	3%
Loan restructuring	2%	1%	1%	5%	10%
Loans under credit risk sharing scheme	-	1%	2%	-	-
Support/supply of PPEs	5%	2%	3%	-	6%
Other	6%	2%	-	-	6%
None	72%	73%	71%	58%	48%

Table 4.122: Government COVID-19 support measures utilized, by sector

	Manufacturing	Trade	Services	Agriculture
Cash transfer	13%	2%	14%	2%
Tax refund	11%	-	7%	4%
Subsidies	5%	2%	-	-
Utility bills deferral	10%	9%	8%	10%
Commercial loans	8%	2%	-	4%
Tax incentives	10%	1%	3%	-
Payroll incentives	3%	1%	2%	2%
Customs duties reduction	3%	1%	-	4%
Extension in tax guidelines	10%	1%	5%	4%
Suspended penalties	2%	1%	1%	-
Construction industry relief measures	3%	1%	-	-
Loan restructuring	2%	2%	2%	4%
Loans under credit risk sharing scheme	3%	-	-	-
Support/supply of PPEs	-	5%	3%	2%
Other	1%	6%	2%	-
None	55%	72%	70%	82%

6.1.7.14. Preferred future government support

Respondents were asked what government support they would like to see going forward. The most popular were cheap loans and tax relief.

Figure 4.131: Preferred future government support

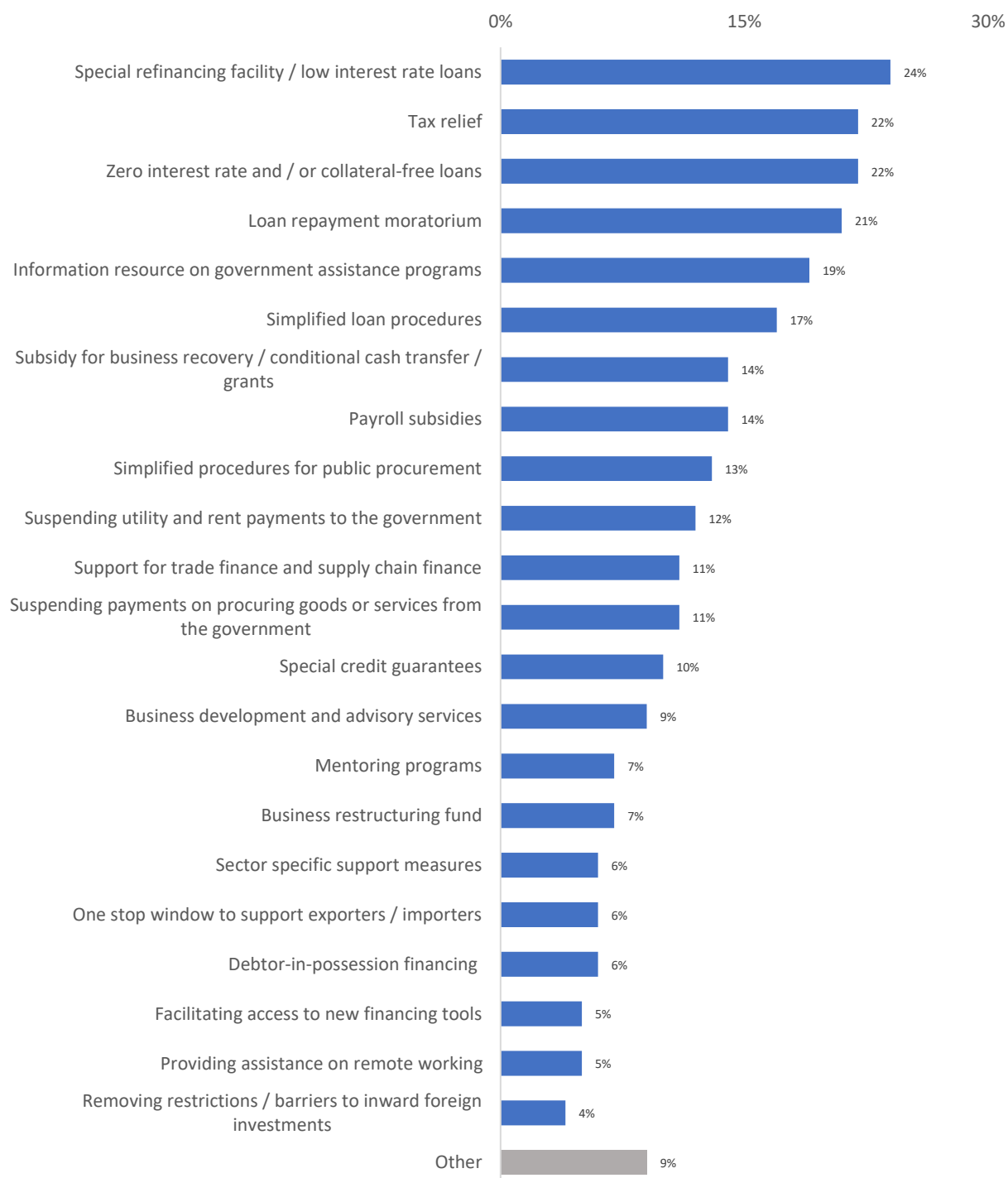


Table 4.123: Preferred future government support, by firm size

	Sole trader	Micro (2-5)	Small (6-20)	Medium-sized (21-50)	Medium-sized (51-250)
Special refinancing facility/low interest rate loans	14%	27%	36%	27%	26%
Zero interest rate and/or collateral free loans	24%	21%	18%	21%	23%
Tax relief	17%	25%	26%	23%	32%
Loan repayment moratorium	16%	23%	23%	23%	29%
Information resource on government assistance programs	19%	21%	15%	16%	23%
Simplified loan procedures	17%	20%	17%	19%	10%
Subsidy for business recovery/conditional cash transfer/grants	12%	13%	8%	17%	35%
Payroll subsidies	7%	16%	18%	21%	16%
Simplified procedures for public procurement	10%	13%	9%	14%	16%
Suspending utility and rent payments to the government	12%	11%	14%	13%	13%
Suspending payments on procuring goods or services from the government	4%	9%	15%	13%	32%
Support for trade finance and supply chain finance	9%	16%	8%	9%	6%
Special credit guarantees (partial or full coverage of credit risk)	8%	9%	12%	11%	6%
Business development and advisory services	6%	10%	0%	16%	23%
Business restructuring fund	6%	9%	5%	7%	6%
Mentoring programs	10%	4%	6%	10%	-
One stop service window to support exporters/importers	2%	7%	8%	11%	10%
Sector specific support measures	4%	6%	8%	9%	6%
Debtor-in-possession financing	5%	7%	5%	6%	6%
Providing assistance on remote working	5%	3%	9%	3%	10%
Facilitating access to new financing tools	3%	7%	5%	9%	-
Removing restrictions/barriers to inward foreign investments	1%	7%	2%	9%	3%

For the manufacturing sector, tax relief and assistance in paying salaries to the employees are the topmost preferences. Services firms want special refinancing facilities and low interest rate loans. Agriculture firms would prefer moratoria in loan repayments along with low interest loans. Ease of loan applications was the most popular option for firms in trade and retail.

Table 4.124: Preferred future government support, by sector

	Manufacturing	Trade	Services	Agriculture
Special refinancing facility/low interest rate loans	23%	13%	37%	34%
Zero interest rate and/or collateral free loans	22%	23%	23%	16%
Tax relief	25%	18%	28%	22%
Loan repayment moratorium	24%	17%	19%	34%
Information resource on government assistance programs	23%	21%	19%	8%
Simplified loan procedures	23%	21%	10%	10%
Subsidy for business recovery/conditional cash transfer/grants	23%	11%	9%	20%
Payroll subsidies	25%	9%	10%	22%
Simplified procedures for public procurement	14%	12%	11%	16%
Suspending utility and rent payments to the government	8%	10%	17%	18%
Suspending payments on procuring goods or services from the government	12%	6%	14%	20%
Support for trade finance and supply chain finance	12%	9%	10%	14%
Special credit guarantees (partial or full coverage of credit risk)	8%	9%	7%	20%
Business development and advisory services	10%	7%	12%	10%
Business restructuring fund	5%	11%	4%	6%
Mentoring programs	3%	8%	9%	6%
One stop service window to support exporters/importers	8%	8%	5%	2%
Sector specific support measures	5%	4%	10%	8%
Debtor-in-possession financing	3%	4%	7%	14%
Providing assistance on remote working	2%	5%	9%	4%
Facilitating access to new financing tools	2%	5%	8%	4%
Removing restrictions/barriers to inward foreign investments	6%	2%	5%	4%

6.1.7.15. Resilience indices

Please see Appendix 2 for a description of the methodology behind the indices.

Figure 4.132: Distribution of resilience index for all MSMEs

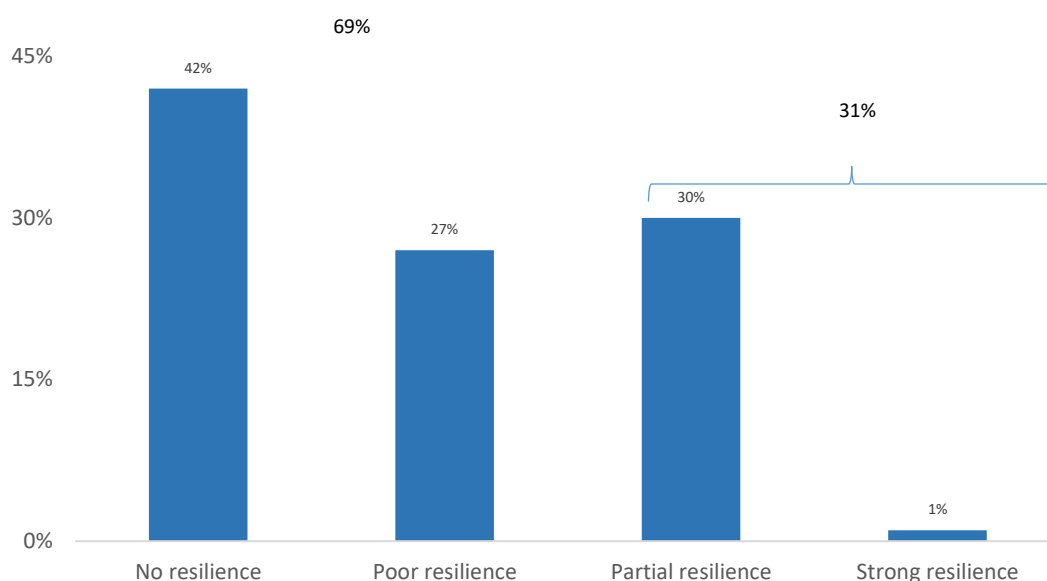


Table 4.125: Resilience index, by firm size

	No resilience	Poor resilience	Partial or strong resilience
Sole trader	46%	24%	30%
Micro (2-5)	34%	30%	35%
Small (6-20)	50%	28%	22%
Small (21-50)	35%	25%	40%
Medium-sized (51-250)	39%	19%	42%

Table 4.126: Resilience index, by sector

	No resilience	Poor resilience	Partial or strong resilience
Production and manufacturing	51%	24%	26%
Agriculture	10%	30%	60%
Services	47%	23%	30%
Retail and trade	43%	30%	27%

Table 4.127: Resilience index, by gender of majority owner

	No resilience	Poor resilience	Partial resilience	Strong resilience
Female	5%	11%	8%	20%
Male	94%	87%	89%	80%

Note: some totals do not add up to 100% as some respondents were unsure of the gender of their majority owner

6.2. UZBEKISTAN

6.2.1. MSME context

Uzbekistan has shown strong economic growth since 2017. According to the World Bank,²¹ the expansion of MSMEs seems to have played a key role in driving GDP growth, with the MSME sector accounting for 59.4% of GDP and 78% of total jobs (both formal and informal) in 2018. At the same time, smaller enterprises still face numerous headwinds with a large administrative burden, a large informal sector, tax compliance, and an economy that historically was dominated by large state-owned enterprises. As the country continues its liberalization efforts, including privatization, and reorients towards more productive sectors, notwithstanding the COVID-19 slowdown, MSME growth should pick up.

6.2.2. Official definition of firm size

UzStat categorizes enterprises as follows:

Small enterprises:

- Individual entrepreneurs
- Micro enterprises with an average annual number of employees up to 10 people and net proceeds from the annual sales of goods and services of up to UZS 1 billion (US\$95 thousand)²²
- Small businesses with an average annual number of up to 100 people and net proceeds from the annual sales of goods and services up to UZS 5 billion (US\$0.48 million)

Medium-sized enterprises: Includes business entities with an average annual number of up to 250 people and net proceeds from annual sales of goods and services of up to UZS 15 billion (US\$1.43 million).

Large enterprises: Business entities with an average annual number of over 250 people and net proceeds from the annual of sales of goods and services over UZS 15 billion (US\$1.43 million).

Table 4.201: Official definition of enterprise size

	Micro	Small	Medium-sized
Number of employees	<10	<100	<250
Annual turnover (US\$ million)	<0.1	<0.5	<1.4

Source: Lex.uz (2019)

For state statistics purposes, only the employee size criterion is used. The average annual number of employees of business entities is determined by taking into account all employees—including employees of branches, representative offices, and other separate divisions of the company—as well as individual entrepreneurs.

²¹ 2019 Country Economic Update, *World Bank*.

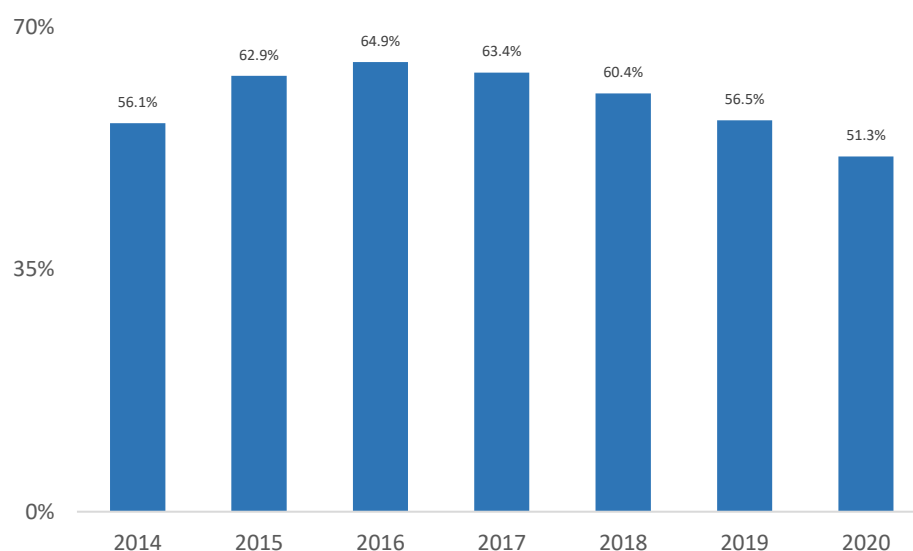
<http://documents1.worldbank.org/curated/en/866501562572675697/pdf/Uzbekistan-Toward-a-New-Economy-Country-Economic-Update.pdf>

²² As of 4 January 2021, US\$1 = UZS 10,479

6.2.3. MSME environment

Uzbekistan's economy has traditionally been dominated by larger and state-owned enterprises, with the SME share of GDP reaching a high of 65% in 2016, and thereafter declining to just over half of GDP in 2020.²³ Many smaller companies prefer to maintain a low profile and remain small, primarily because increasing size brings with it increased visibility, more reporting requirements, and a greater tax burden. There is a tendency that, as companies expand, they often opt for splitting into smaller affiliated entities to lower the administrative and tax burden.

Figure 4.201: MSME share of GDP



The share of MSMEs is particularly high in services—75%—and is substantial in industry—25%. This is primarily because it is easier to split services companies rather than manufacturing companies, which tend to be more visible and operate on larger scale projects requiring more substantial funds and a larger workforce.

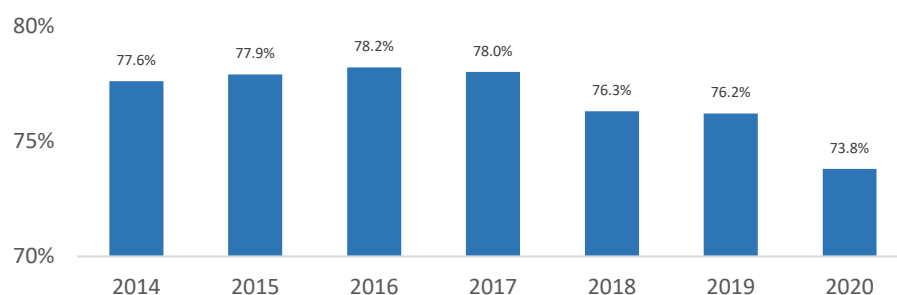
Of a total labor force of 18.8 million in 2018, 13.2 million were in actual employment.²⁴ Informal employment at 7.9 million is very prevalent, compared to formal employment of 5.3 million, which hinders effective analysis of employment patterns. According to official statistics, MSME employment declined slightly over the last few years from a high of 78% in 2016 to 74% in 2020, reflecting tightening business conditions arising from the COVID-19 pandemic and also perhaps structural changes arising from the change in government in 2016.

²³ All data in this section is from the State Committee of Statistics of Uzbekistan (2020), available online at <https://stat.uz/en/official-statistics/>

²⁴ 2019 Country Economic Update, *World Bank*.

<http://documents1.worldbank.org/curated/en/866501562572675697/pdf/Uzbekistan-Toward-a-New-Economy-Country-Economic-Update.pdf>

Figure 4.202: MSME employment (% of total employment)



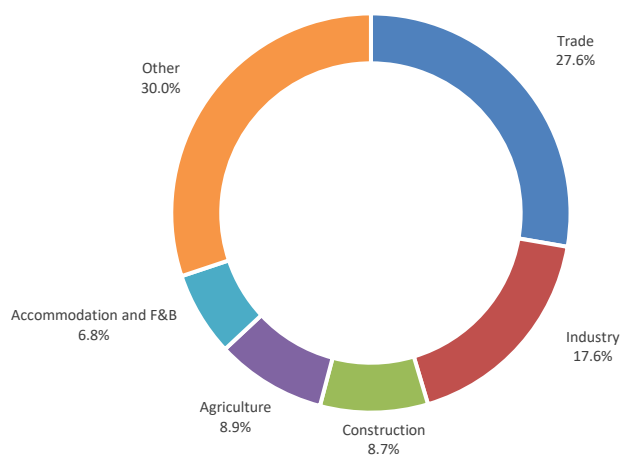
For Uzbekistan, MSMEs represent a significant portion of economically active enterprises. By mid-2020, out of 454,939²⁵ currently registered and operational enterprises, 344,259²⁶ were classified as individual entrepreneurs (sole traders) and MSMEs, representing 76% of all active enterprises.

The main sectoral contributors to Uzbekistan's GDP in 2019, were as follows:²⁷

Agriculture (farming, fishing, forestry)	17.9%
Industry (mining, manufacturing, energy production, construction)	33.7%
Services	48.5%

Figure 4.203 represents the sectoral distribution of all MSMEs in Uzbekistan.

Figure 4.203: MSME sectoral distribution



- Trade—27.6% or 124,065 enterprises
- Industry—17.6% or 80,023 enterprises
- Construction—8.7% or 39,887 enterprises
- Agriculture—8.9% or 38,718 enterprises
- Accommodation, food processing and beverages—6.8% or 28,569 enterprises
- Other—sharing the remaining 30%

²⁵ <https://stat.uz/ru/default/ezhekvartal-nye-doklady/5860-2020#tab-3>

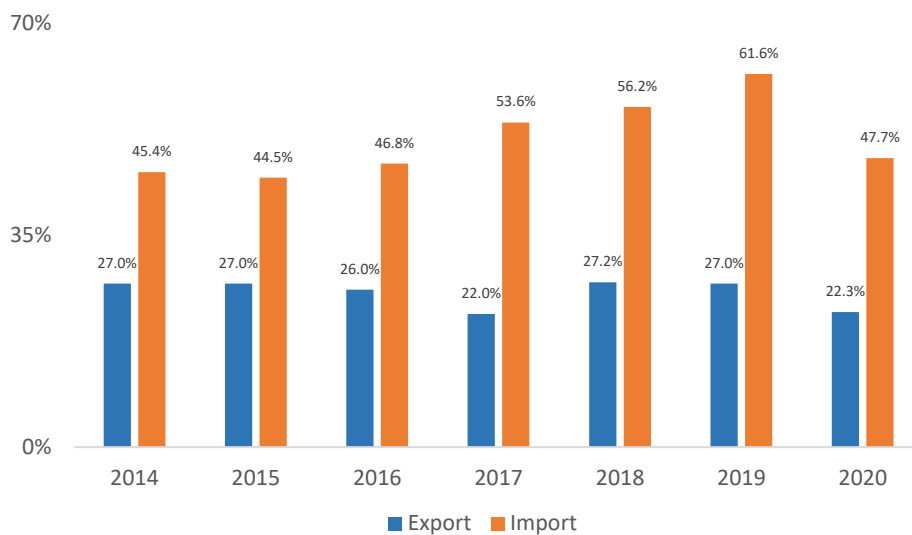
²⁶ <https://stat.uz/ru/default/ezhekvartal-nye-doklady/5860-2020#tab-3>

²⁷ [https://www.indexmundi.com/uzbekistan/gdp_composition_by_sector.html#:~:text=agriculture%3A%2017.9%25%20\(2017%20est,48.5%25%20\(2017%20est.\)](https://www.indexmundi.com/uzbekistan/gdp_composition_by_sector.html#:~:text=agriculture%3A%2017.9%25%20(2017%20est,48.5%25%20(2017%20est.))

In 2019, as part of liberalization efforts, the government of Uzbekistan adopted a new visa free regime for citizens of 45 countries, including many European and Western Countries. According to the National Action Strategy on Five Priority Development Areas 2017-2021, tourism has been assigned a central role in the new economic and development strategy. Owing to this strategy and new legislation, tourism's contribution to GDP rose from 1.2% in 2012 to almost 6% in 2019 and resulted in 6.2 million tourists as well as an increase in tourism revenues to US\$1.3 billion.

MSMEs in Uzbekistan are well represented in foreign trade activity, with around half of SMEs engaged in imports and exports, but with twice as many SMEs importing compared to exporting. This is perhaps reflective of limited domestic manufacturing capacities and less experience with exports.

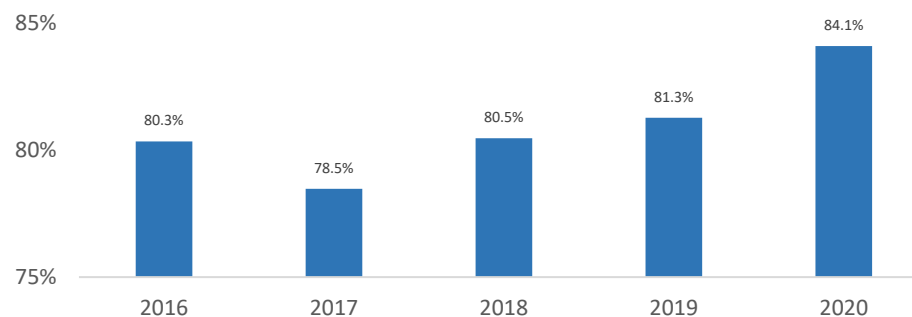
Figure 4.204: Share of SMEs in exports and import



Source: State Committee of Statistics of Uzbekistan (2020)

The number of registered SMEs has been growing since 2017, signaling a more conducive environment for starting a business in Uzbekistan and provides confirmation for the general trend of business environment reforms. Surprisingly, despite the COVID-19 business slowdown, the number of registered and active SMEs hit a new record in 2020.

Figure 4.205: Percentage of active SMEs out of all active enterprises

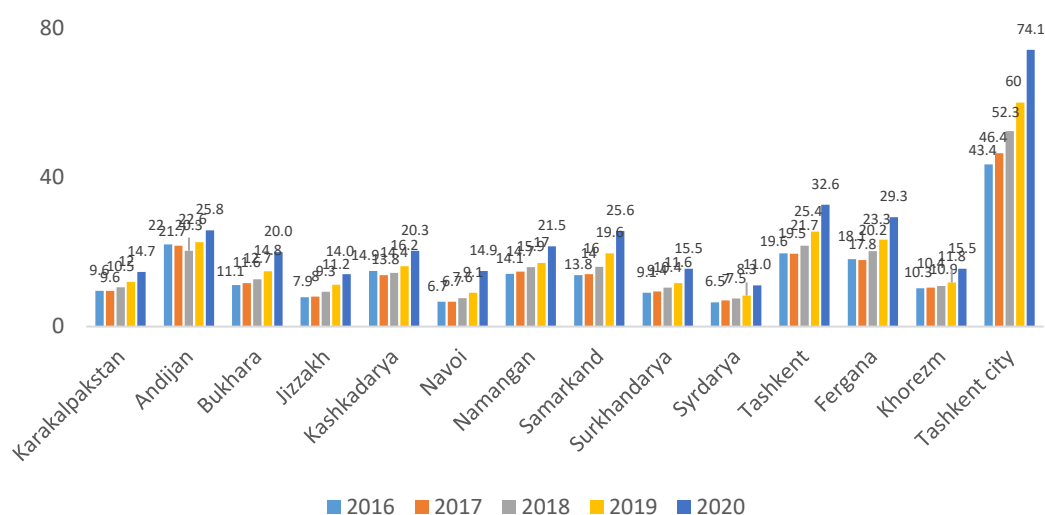


Source: State Committee of Statistics of Uzbekistan (2020)

Almost all sectors experienced growth in the number of registered SMEs, with transportation and storage, and health and social services witnessing a clear cut upward trend in recent years. The rise of transportation and storage industries might be connected to efforts to improve the logistics infrastructure and more government attention directed towards agricultural development. As a result of the COVID-19 pandemic, enterprises in the healthcare sector also received a boost.²⁸ On the other hand, the ICT sector witnessed a relative decline with perhaps more workers preferring to provide freelance services on an informal or semi formal basis.

In terms of regional representation, the national capital Tashkent is the clear leader in registering new SMEs, which is unsurprising given its status as the largest city and the financial hub of the country. However, all other regions maintained their local SME/population ratios.

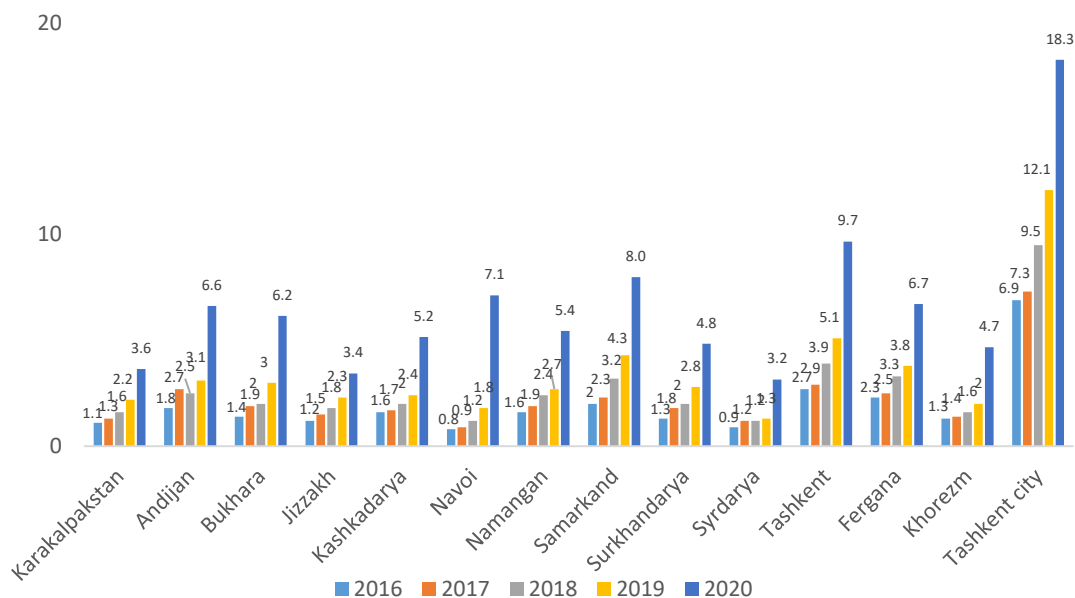
Figure 4.206: Number of active SMEs (by region)



One interesting observation is that, despite the emergence of the COVID-19 related challenges, all regions of Uzbekistan witnessed a large increase in the number of new SME registrations.

²⁸ Irnazarov, F. and Vakulchuk, R. (2020), 'Discovering Opportunities in the Pandemic: Four Economic Response Scenarios for Central Asia,' Silk Road Paper, July 2020

Figure 4.207: Number of newly created SMEs (by region)



6.2.4. MSME business environment

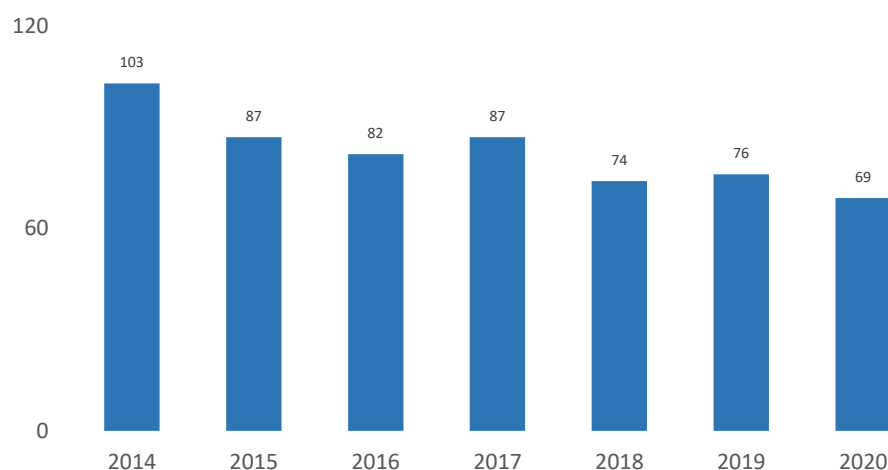
Uzbekistan is implementing ambitious market oriented economic reforms. The authorities unified the exchange rate and liberalized the foreign exchange market, and started price and trade liberalization, resulting in a significant reduction of average import tariffs from 15% to between 3% and 5%. Substantial cuts to tax rates for both firms and individual entrepreneurs, resulted in additional incentives for future growth, which led to a more than 32% increase in company formation since 2017.²⁹

For the new government of 2016, development of the SME sector has become a priority,³⁰ resulting in the government actively attempting to improve the enabling environment for SMEs. This has yielded strong results. According to the World Bank's DB ranking, Uzbekistan has achieved remarkable progress across several indicators, jumping from an overall 103rd position in 2014 to 69th place in 2020. In terms of starting a business, Uzbekistan occupies eighth position globally. Uzbekistan's performance in enforcing contracts is also strong, with the country ranked 22nd worldwide. However, a number of challenges still exist—particularly, in terms of trading across borders (152nd place) and dealing with construction permits (132nd).

²⁹ <https://www.gfmag.com/global-data/country-data/uzbekistan-gdp-country-report>

³⁰ Ministry of Economic Development and Poverty Reduction of Uzbekistan (2019), 'Maliy Biznes kak Osnovnoy Drayver Razvitiya Ekonomiki: Sostoyanie, Problemy Razvitiya i Predlagaemie Mery Stimulirovaniya,' available online at <http://mineconomy.uz/ru/news/view/3005> and Tadjibaeva, D. (2019), 'Small and Medium-Sized Enterprise Finance in Uzbekistan: Challenges and Opportunities,' ADBI Working Paper Series No. 997, September 2019

Figure 4.208: Uzbekistan in World Bank Doing Business ranking



Source: World Bank Doing Business Report (2014-2020)

6.2.5. Constraints

The World Bank³¹ has identified several key factors constraining MSME development in Uzbekistan. Businesses face significant issues and interruptions with physical infrastructure resulting in an estimated loss of 38% of output for small firms. These include interruptions in electricity, gas, and water supply, problems obtaining land for expansion, and high lease rates.

Company managers also face high administrative time burdens. About 26% of managers' time in smaller firms is diverted towards various non-productive bureaucratic activities such as dealing with government ministries, local authorities, parastatal industry bodies, tax, customs, business inspections, sanitary and environmental issues.

Easing business regulations, strengthening property rights, and tackling inefficiencies in the SOE sector (which diverts resources from more productive private businesses) would assist MSME development. In particular, the World Bank recommends the following:

- Addressing physical infrastructure gaps (electricity, gas, water)
- Improving access to high quality, affordable raw materials
- Improving access to finance (lower interest rates, lower collateral requirements)
- Easing access to land for expansion
- Increasing availability of skilled workers
- Assisting firms with adopting new technologies and providing support for exporting
- Reducing domestic monopolization by SOEs

6.2.6. Government MSME development policies

Since 2016 SME development has been a state priority for the new government and it has introduced a number of new measures promoting SMEs. In particular, the Cabinet of Ministers' decree *On measures for the transition to an international classification system for economic activities* clarified which sectors and industries can be labeled as micro enterprises and SMEs based

³¹ 2019 Country Economic Update, *World Bank*.

<http://documents1.worldbank.org/curated/en/866501562572675697/pdf/Uzbekistan-Toward-a-New-Economy-Country-Economic-Update.pdf>

on the number of employees.³² On 13 August 2019, the Agency for Small Business and Entrepreneurship Development was established by presidential decree³³ together with another presidential decree *On additional measures to strengthen the protection of private property and guarantees of the rights of owners, to radically improve the system of organizing work to support entrepreneurial initiatives, as well as to expand the access of business entities to financial resources and production infrastructure.*³⁴ The main functions of the Agency for Small Business and Entrepreneurship Development were defined as follows:

- a) Implementation of a unified state policy aimed at the development of small and medium-sized businesses, and all forms of private entrepreneurship
- b) Development and implementation, together with the Council of Ministers of the Republic of Karakalpakstan, regional khokimiyats and the city of Tashkent, state and regional programs for the development of small business and entrepreneurship
- c) Organization and coordination of activities of authorized state bodies and organizations in stimulating the development of small business and entrepreneurship, creating favorable conditions for improving the business environment
- d) Research, including using surveys, of the current state of the business environment and preparing recommendations to simplify the procedures for the provision of land plots and the implementation of construction programs; improving access to manufacturing infrastructure, raw materials and financial resources; eliminating bureaucratic obstacles and barriers hindering the development of small business and entrepreneurship
- e) Introduction of mechanisms for stimulating business expansion; fostering value chains; increasing innovation; increasing exports; and creating permanent jobs
- f) Providing small businesses—especially those belonging to vulnerable groups of the population—with financial support in the form of sureties and guarantees, as well as subsidies to cover interest expenses on loans from commercial banks
- g) Introduction of financing mechanisms by large manufacturers to small and medium-sized enterprises—suppliers of intermediate goods and services (such as, raw materials and components), including through the opening of targeted deposits in commercial banks
- h) Formation of a system of non-financial support for small businesses and entrepreneurship (such as, a free telephone and online consulting service, training centers, business incubators, and information services) on legislation, new technologies and products, on markets and other pressing issues
- i) Interaction with international financial institutions and foreign government financial organizations on the implementation of projects, and the organization of technical and consulting assistance to support small business and entrepreneurship
- j) Implementation of close interaction with the business ombudsman and the office of the prime minister on the consideration of applications from entrepreneurs in the preparation of state and regional programs for the development of small business and entrepreneurship, and the development of proposals for improving SME enabling legislation.³⁵

³² Lex.uz (2016), the full list of sectors by economic activity available online at <https://www.lex.uz/acts/3019920>

³³ Lex.uz (2019), available online at <https://lex.uz/docs/4472976>

³⁴ Lex.uz (2019), available online at <https://lex.uz/docs/4473205>

³⁵ Chamber of Commerce and Industry of Uzbekistan (2020), available online at <https://chamber.uz/ru/news/5603>

In addition, another presidential decree *On additional measures to improve the procedure for lending projects implemented within the framework of state programs for the development of family entrepreneurship*³⁶ was adopted to facilitate the development of 'family entrepreneurship.'

6.2.7. Government COVID-19 response

The presidential decree *On priority measures to mitigate the negative impact on the economic sectors of the coronavirus pandemic and global crisis phenomena*, dated 20 March 2020, approved a package of measures to mitigate the negative impact of the coronavirus pandemic on Uzbek businesses. This resulted in the formation of the Republican Anti-Crisis Commission, headed by the Prime Minister. The commission then adopted the following measures.

Table 4.202: Government COVID-19 business support measures

I. General economic activities		Amount	Time period	Implementing agency
1.	Creation of an anti-crisis fund, supporting entrepreneurship, employment, including implementation of infrastructure projects, ensuring sustainable functioning of economic sectors and expanding social support for the population.	UZS 10 trillion (US\$0.95 billion)	During antiviral activities	Ministry of Finance
2.	Increase in external borrowing to support the budget (in lieu of concessional loans from international financial institutions and other sources) to ensure financing of the state budget and the anti-crisis fund	Up to US\$1 billion	2020	Cabinet of Ministers
3.	Revision of the state budget for 2020, to include: <ul style="list-style-type: none"> • Creation of anti-crisis fund • Increase in the maximum amount of external government borrowing • Revision of investment program • Tightening budget discipline 		Before June 1, 2020	Ministry of Finance, Ministry of Investment and Trade, Ministry of Economy
4.	Additional infrastructure projects in more deprived regions, financed by the anti-crisis fund	Over UZS 3.6 trillion (US\$344 million)	2020	Ministry of Economy, Ministry of Finance, local government bodies
5.	Increased capitalization of the state fund for the support of entrepreneurship, to expand the volume of guarantees and compensation to business entities to cover interest expenses on loans	Up to UZS 500 billion (US\$48 million)		Cabinet of Ministers
6.	Official notification of the occurrence of force majeure events for the period of validity of business restrictions and issuance of relevant certificates upon requests from business entities		During anti-viral activities	Ministry of Investment and Trade, and Chamber of Commerce and Industry

³⁶ Lex.uz (2019), available online at <https://lex.uz/docs/4569648>

II. Entrepreneurship support

1.	<ul style="list-style-type: none"> • For individual entrepreneurs, the minimum amount of social tax is reduced to 50% of the base calculation value per month • Number of deductions from wholesalers of alcoholic beverages is reduced from 5% to 3% • Fees for the right to carry out retail trade in alcoholic beverages for public catering establishments are reduced by 25% 	1 April to 1 October 2020	Ministry of Finance, State Oil Company
2.	Payment of tourist (hotel) tax is suspended	1 April to 1 July 2020	Ministry of Finance, State Tax Committee, State Tourism Committee
3.	Tax rates for the use of water resources for irrigation of agricultural land are reduced by 50%	2020	Ministry of Finance, State Oil Company
4.	The submission of the declaration of total annual income of individuals for 2019 is extended	Up to 1 August 2020	Ministry of Finance, State Oil Company
5.	The deadline for payment of property tax and land tax of individuals is extended	Until 15 October 2020	Ministry of Finance, State Oil Company
6.	Income of individuals received in the form of material benefits from charitable organizations are exempt from taxation	From 1 April 2020	Ministry of Finance
7.	Kengashes of people's deputies of districts and cities recommended to reduce by 30% the fixed amounts of personal income tax for individual entrepreneurs, whose activities directly or indirectly depend on the tourism industry	During anti-viral activities	The bodies of state power in the regions
8.	A deferral (installment plan) is provided to firms for the payment of property tax, land tax, and tax for the use of water resources, without charging interest	6 months	The bodies of state power in the regions
9.	Application of penalties against business entities for overdue receivables from foreign trade transactions is suspended. Accrual of penalties for property tax, land tax, and tax for the use of water resources is suspended for firms experiencing temporary difficulties, and measures are not taken to enforce collection of tax arrears	Until 1 October 2020	Tax Committee
10.	Expand remote services for taxpayers to fulfill tax obligations without visiting the tax authorities	Indefinitely	Tax Committee
11.	Tax audits suspended, with the exception of a tax audits conducted in criminal cases and in connection with the liquidation of a legal entity	Until 1 January 2021	Tax Committee

III. Export support

1.	Business entities to be allowed: <ul style="list-style-type: none">• To export goods without securing a guaranteed payment, with existing overdue receivables not exceeding 10% of the total export of goods for the reporting year• One-time transactions for the import of technological equipment and raw materials in exchange for the repayment of overdue receivables from foreign trade transactions	2020	Ministry of Investment and Trade
2.	Expedited customs clearance for imported food products, including by issuing permits prior to the arrival of goods in Uzbekistan	From 1 April 2020	Customs Committee
3.	Republican Commission for the Development of the Export Potential of Regions and Industries is granted the right to independently make decisions on the provision of subsidies to compensate for part of the transport costs of exporters at the expense of funds allocated to the Export Promotion Agency	Until 1 October 2020	Republican Commission

Source: Norma.uz (2020)

On 20 July 2020, these measures were extended to 31 December according to the presidential decree *On additional measures to support the population, business entities, catering, trade and services to reduce the negative impact of the coronavirus pandemic*.³⁷ More than UZS 3 trillion (US\$286 million) of subsidies were planned to be allocated within the framework of entrepreneurship support programs on 20 October 2020. In addition, UZS 250 billion (US\$24 million) was planned to be directed to the Employment Promotion Fund and the same amount to the Public Works Fund.³⁸

One of the largest concerns has been the informal sector, which is quite large in Uzbekistan and vulnerable to a business slowdown. However, a rapid survey conducted by the ILO³⁹ has shown, to the contrary, that employment in the informal sector has been more resilient compared to official in the MSME sector. However, the ILO conclusion related to simply the level of employment rather than earnings.

³⁷ Lex.uz (2020), available online at <https://lex.uz/ru/docs/4903384>

³⁸ Norma.uz (2020), available online at https://www.norma.uz/nashi_obzori/na_podderjku_predprinimatelstva_-_3_trln_sumov

³⁹ ILO (2020), 'Assessment of COVID-19 Impacts on Socio-Economic Situation in Uzbekistan: Overview of Crisis Response and Areas for Improving Public Policies,' ILO

6.2.8. Uzbekistan survey of COVID-19 MSME impact

6.2.8.1. Impact of COVID-19 on MSME business operations

According to the results of the survey, COVID-19 had a negative impact on 86% of MSMEs, while only 14% reported that COVID-19 had any positive impact on business operations.

Table 4.203: Impact of COVID-19 on business operations

	Positive	Negative
% of all MSMEs respondents	14%	86%

The picture is a little bit more nuanced when looking at the results by sector. While the majority of companies experienced a negative impact, 25% of companies representing the agricultural sector stated that their business has been positively impacted by COVID-19; the services sector fared the worst, with 94% reporting that they suffered as a result of the pandemic.

Table 4.204: Impact on business operations, by sector

	Manufacturing	Trade	Services	Agriculture
Positive	17%	14%	6%	25%
Negative	83%	86%	94%	75%

For the small number of respondents who reported a positive impact, Table 4.205 shows the distribution of responses.

Table 4.205: Impact on business operations, by firm size

	Sole trader	Micro	Small	Medium-sized
Positive	20%	10%	9%	9%
Negative	80%	90%	91%	91%

The survey also showed that 20% of sole traders (individual entrepreneurs), reported a positive impact of COVID-19 on their operations, with numbers falling with the increase in firm size.

Table 4.206: Positive impact on business operations, by sector

	Manufacturing	Trade	Services	Agriculture
Increased domestic demand	35%	19%	-	-
Increased international demand	-	19%	-	33%
Offered new products or services	16%	-	-	33%
Offered new delivery mode	49%	38%	-	-
Improved access to finance	-	19%	14%	-
Increased access to skilled labor	-	-	-	3%
Other	-	22%	86%	33%

Respondents were asked how any positive impacts manifested themselves on their companies. Nine companies reported that as a result of the pandemic they had started using new sales channels; six companies reported that they experienced increased domestic demand for their products or services; four companies stated that international demand for their products had increased, and the same number stated that they started offering new products or services. Two companies reported increased access to financing.

NEGATIVE IMPACT

For those surveyed MSMEs who reported negative impacts of the pandemic on their business operations, the most prevalent outcomes were:

- Decrease in both domestic and international demand for products and services produced—reported by 40% of all surveyed companies
- Temporary closure—33% of companies
- Termination of sales contracts/loss of clients—22% of companies
- The least impacted areas of business activities were:
 - Reduced access to financing—reported by only 8% of surveyed MSMEs
 - Staffing problems—9% of companies
 - Difficulty in producing goods or delivering services—9% of companies

Figure 4.209: Overall negative

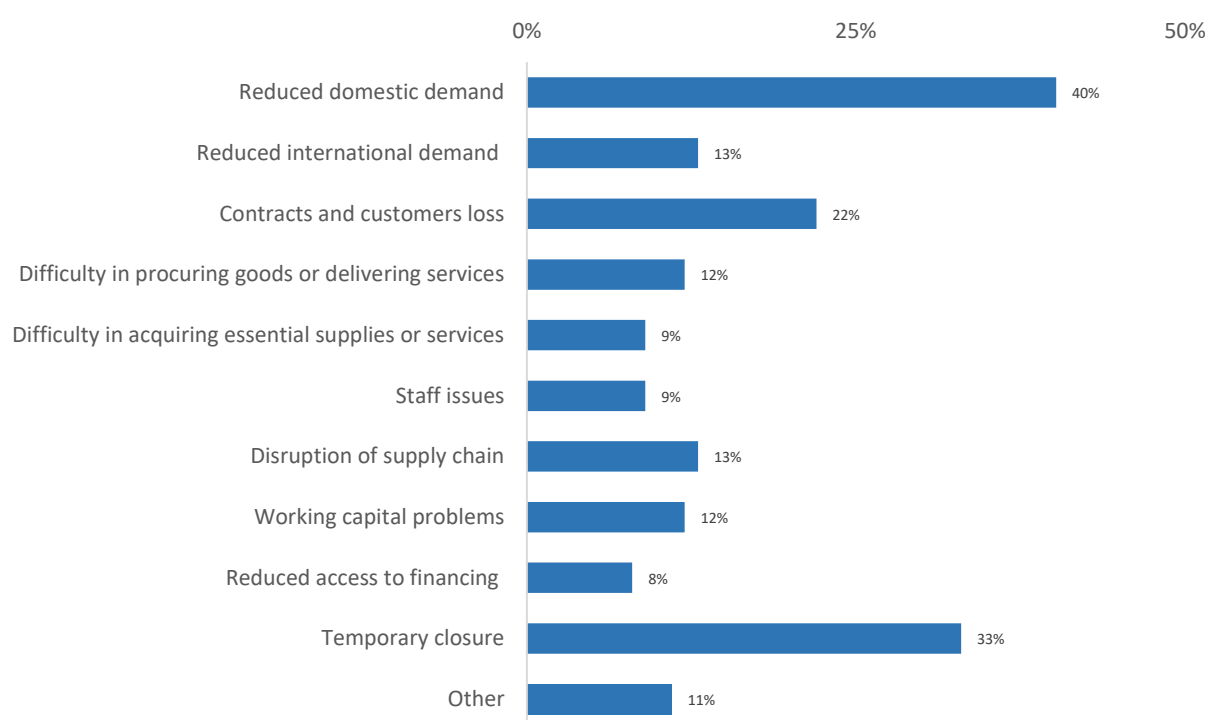


Table 4.207: Negative impact on business operations, by sector

	Manufacturing	Trade	Services	Agriculture
Reduced domestic demand	48%	45%	27%	22%
Reduced international demand	14%	4%	21%	22%
Contracts and customers loss	31%	14%	21%	22%
Difficulty in producing goods or delivering services	14%	10%	13%	11%
Difficulty in acquiring necessary supplies or services	15%	4%	3%	11%
Staff issues	13%	10%	1%	12%
Disruption of supply chain	11%	13%	18%	11%
Working capital problems	4%	13%	24%	12%
Reduced access to financing	5%	7%	7%	22%
Temporary closure	20%	42%	36%	33%
Other	11%	10%	17%	-

Table 4.208: Negative impact on business operations, by firm size

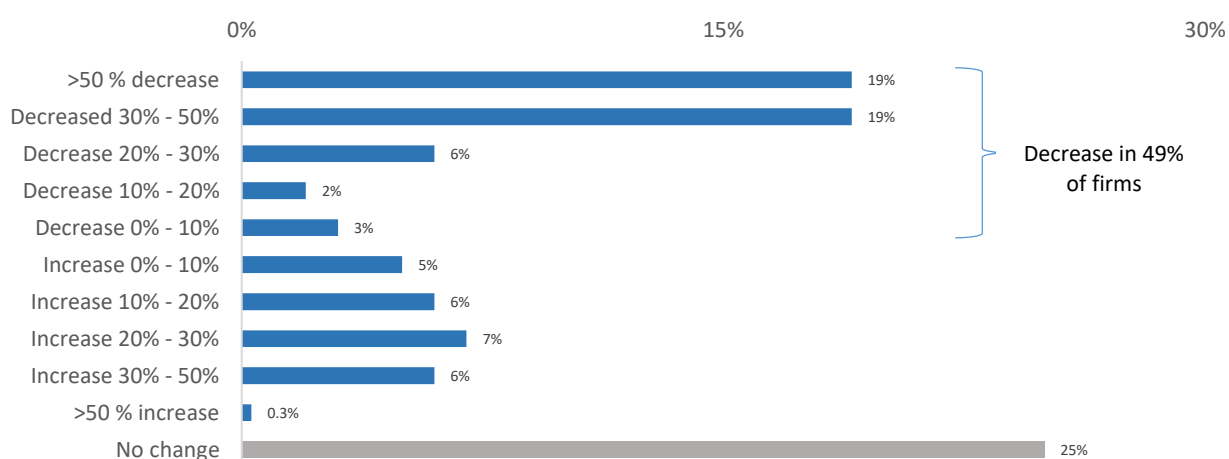
	Sole trader	Micro	Small	Medium-sized
Reduced domestic demand	41%	39%	46%	30%
Reduced international demand	10%	15%	12%	19%
Contracts and customers loss	20%	22%	37%	33%
Difficulty in producing goods or delivering services	10%	13%	19%	17%
Difficulty in acquiring necessary supplies or services	5%	9%	28%	12%
Staff issues	3%	13%	19%	21%
Disruption of supply chain	15%	11%	16%	22%
Working capital problems	15%	8%	17%	22%
Reduced access to financing	7%	7%	17%	16%
Temporary closure	37%	28%	32%	39%
Other	10%	11%	16%	14%

As noted in Table 4.208, the most noticeable negative impact of COVID-19 was reduced domestic demand and the temporary closure/suspension of business activity. In each case, a third or more of respondents reported these issues as having the biggest impact.

6.2.8.2. Impact on sales

MSMEs were asked to compare how their sales had changed in November 2020 (the last full month of operations prior to the survey) with February 2020 (the last full month of normal, pre-COVID business operation). A quarter of all surveyed firms reported no change in sales. Around half (49%) of MSMEs reported declining sales with overall sales decreasing by 30% to 50% for 19% of enterprises and by more than 50% also for 19% of companies.

Figure 4.210: Impact on sales



Analyzing the results by firm size: a 50% or more sales decline, affected larger enterprises more than smaller ones.

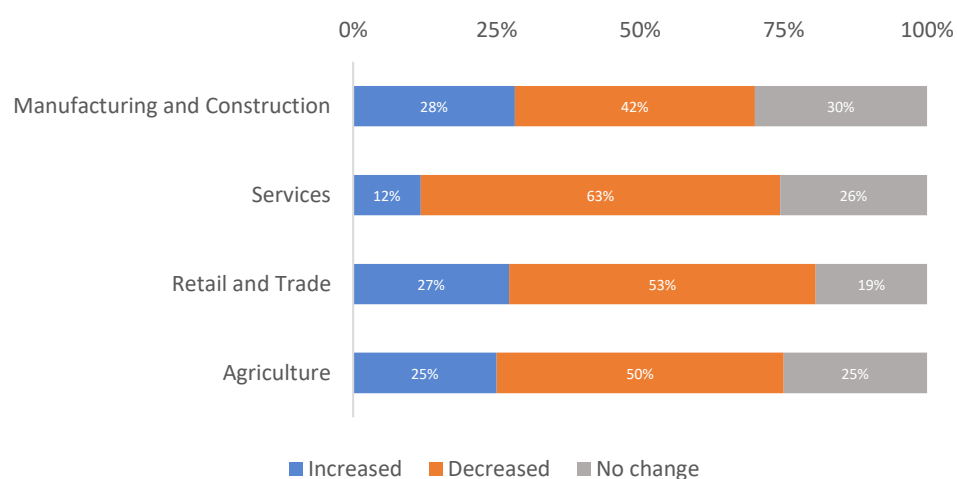
- The largest proportions within any size category reported a more than 50% decrease in sales
- The biggest share of firms reporting a more than 50% decrease were small enterprises
- The small number of firms that saw a sales increase were mostly sole traders and micro enterprises rather than small and medium-sized enterprises

- 28% of small enterprises reported a 50% or more decrease in sales volume, by far the largest share out of all surveyed firms

Table 4.209: Impact on sales, by firm size

	Sole trader	Micro	Small	Medium-sized	
>50% decrease	14%	24%	28%	26%	55%
Decrease 30%-50%	12%	27%	11%	13%	
Decrease 20%-30%	10%	2%	11%	9%	
Decrease 10%-20%	2%	2%	9%	2%	
Decrease 0%-10%	4%	2%	11%	5%	
Increase 0%-10%	8%	2%	-	-	
Increase 10%-20%	8%	4%	9%	7%	
Increase 20%-30%	10%	6%	-	2%	
Increased 30%-50%	8%	4%	6%	5%	
>50% increase	-	-	3%	10%	
No change	24%	27%	13%	20%	

Figure 4.211: Impact on sales, by sector



The services sector suffered the most out of the four sectors, with 63% of enterprises reporting a sales decrease, whereas only 42% of manufacturing and construction firms saw sales fall. The agriculture and trade sectors were similar with about half reporting sales decreases. The manufacturing and construction sector saw the largest sales increase among all four sectors, with 28% of companies reporting an increase. 20% to 25% of companies across all sectors reported that their sales volumes had not changed.

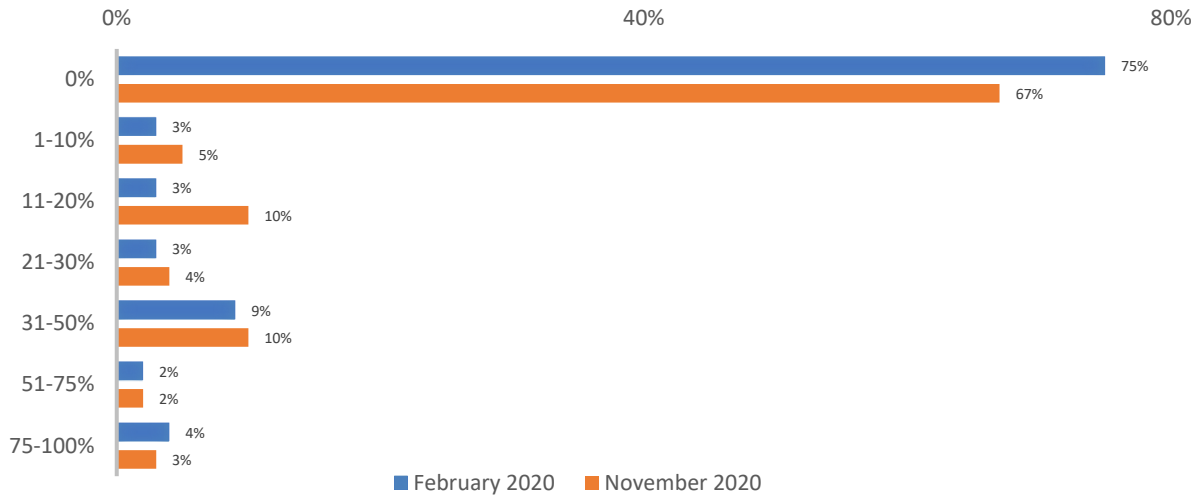
6.2.8.3. Online sales

A potential solution to coping with declining sales is to seek new sales channels. Survey respondents were asked if they had made use of online sales and how this had changed over the course of the year.

In general, the analysis shows a low penetration of online sales methods for Uzbek MSMEs, with three quarters of firms not making any online sales at all prior to the pandemic and with the picture slightly improving to 67% in November 2020. Only about 5% of MSMEs made more than half of their sales online before the pandemic and in November 2020.

Comparing the difference in implementation of online sales platforms indicated that measures applied by the government of Uzbekistan to battle the spread of COVID-19 influenced the adoption of online sales methods for 16% of companies in question. For 66% of enterprises, all sales were done through regular methods and COVID-19 did not influence their decision to switch to alternative sales platforms.

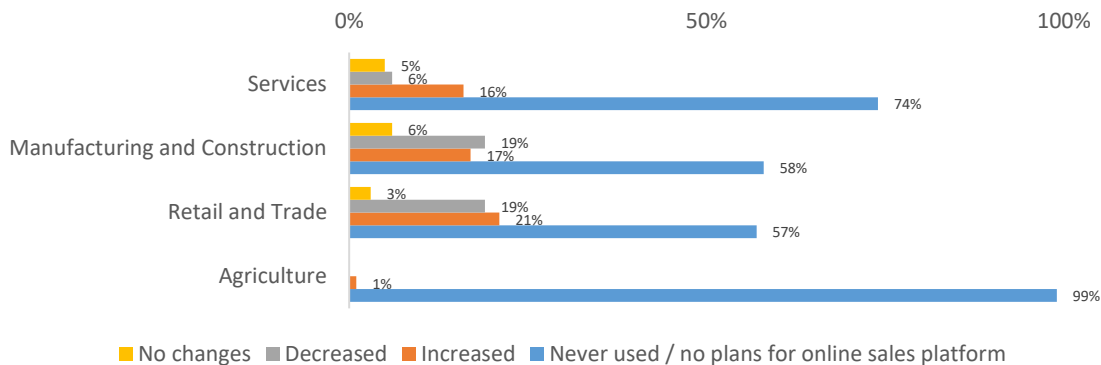
Figure 4.212: Share of online sales, February 2020 versus November 2020



No real divergence was observed in analyzing sectors with the exception of agriculture, where almost all sales both in February and in November 2020 were done through conventional channels.

For the services sector, online sales increase by 16% when comparing the last operational month prior to the survey to February 2020. For manufacturing and construction, the increase was 17%. For retail and trade, 21%—by far the largest increase among the four sectors.

Figure 4.213: Change in online sales, by sector

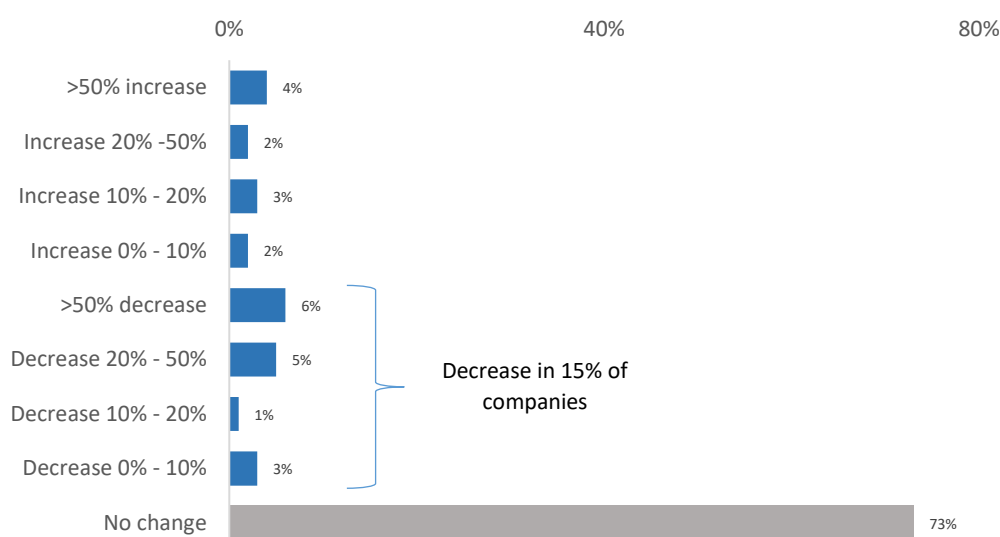


6.2.8.4. Impact on employment

MSMEs were asked whether they had to change their permanent employee headcount as a result of the COVID-19 pandemic.

In general, the business slowdown did not dramatically affect permanent staffing levels, with 73% seeing no change and only 15% of companies reporting a decrease.

Figure 4.214: Impact of COVID-19 on number of permanent employees



Looking at firm sizes, the smallest impact was on sole traders with fully 86% seeing no change, and the biggest impacts in the small and medium-sized categories.

The largest drop in the number of permanent employees—between 20% and 50%—was reported by 12% of medium-sized enterprises.

Table 4.210: Impact on number of permanent employees, by firm size

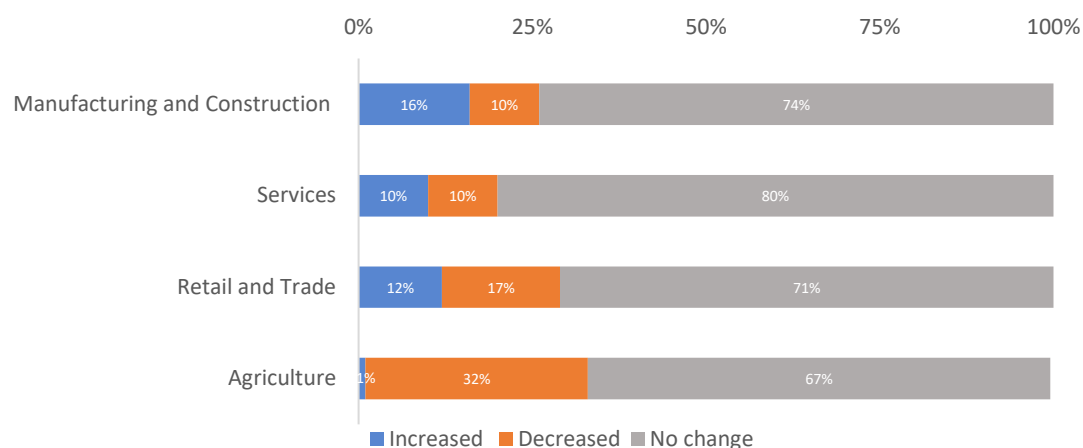
	Sole trader	Micro	Small	Medium-sized
>50% increase	-	8%	5%	3%
Increase 20%-50%	4%	-	6%	14%
Increase 10%-20%	-	4%	15%	12%
Increase 0%-10%	-	4%	6%	10%
>50% decrease	4%	8%	4%	10%
Decrease 20%-50%	4%	6%	11%	12%
Decrease 10%-20%	-	-	8%	5%
Decrease 0%-10%	2%	4%	2%	10%
No change	86%	66%	42%	25%

Summary of decrease impacts:

- Sole trader: 10% (4% + 4% + 2%)
- Micro: 18% (8% + 6% + 4%)
- Small: 25% (4% + 11% + 8% + 2%)
- Medium-sized: 47% (10% + 12% + 5% + 10%)

Similar to firm size, for enterprises operating in all four sectors, the number of permanent employees for the most part remained unchanged. The biggest negative impact was on agriculture, where 32% of surveyed firms reported a decrease in the number of employees. The biggest increase was in manufacturing and construction, where 16% of enterprises reported an increase in the number of employed personnel.

Figure 4.215: Impact on number of permanent employees, by sector



The impact of COVID-19 on temporary staffing was broadly similar. Again, agricultural enterprises faced the biggest drop with 33% of firms reporting that they had to reduce the number of temporary workers.

Figure 4.216: Impact of COVID-19 on number of temporary employees

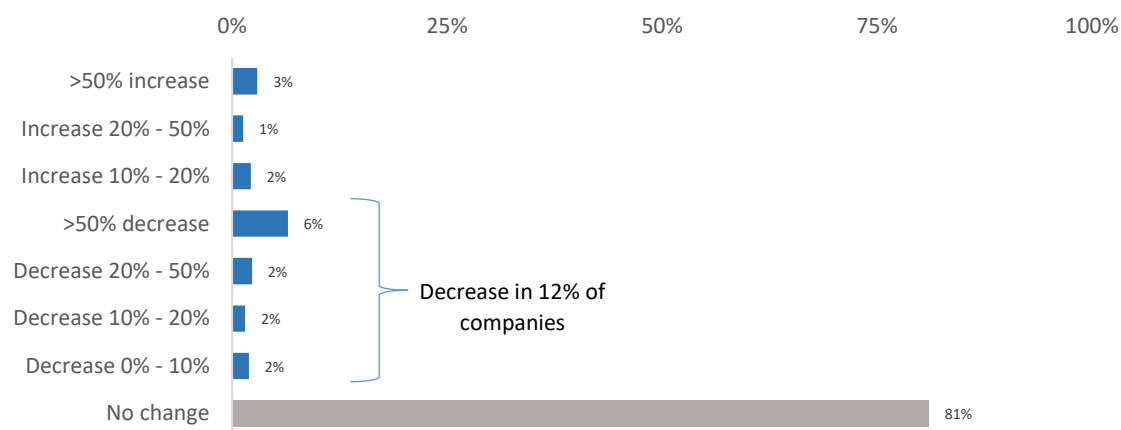
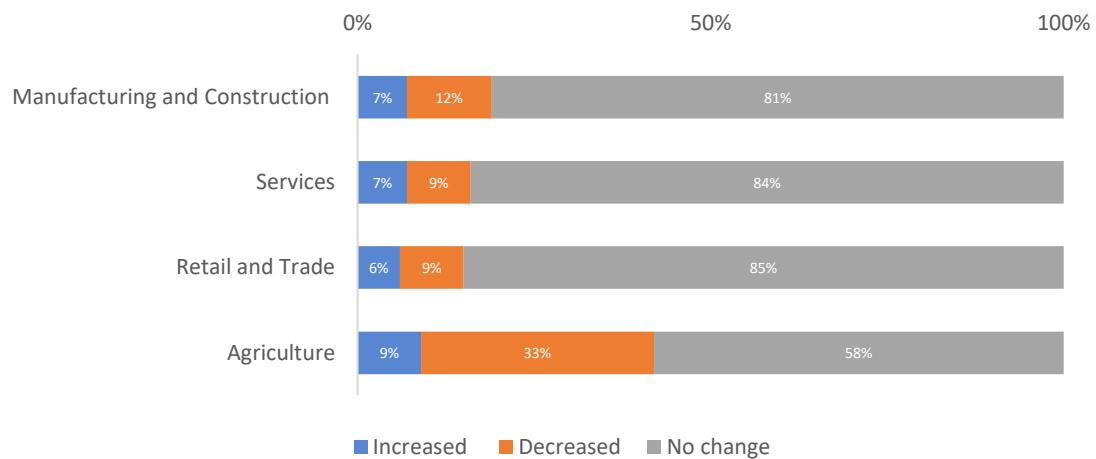


Table 4.211: Impact on number of temporary employees, by firm size

	Sole trader	Micro	Small	Medium-sized
>50% increase	-	6%	3%	5%
Increased 20%-50%	2%	-	4%	9%
Increased 10%-20%	-	4%	4%	10%
Increased 0%-10%	-	-	4%	3%
>50% decrease	4%	8%	12%	12%
Decreased 20%-50%	2%	2%	6%	7%
Decreased 10%-20%	-	2%	8%	3%
Decreased 0%-10%	2%	2%	3%	2%
No change	90%	76%	54%	50%

Summary of decreases: Sole trader (8%), Micro (14%), Small (29%), Medium-sized (24%)

Figure 4.217: Impact on number of temporary employees, by sector



6.2.8.5. Impact on working conditions

In addition to the actual headcount at firms, the impact of COVID-19 was also felt on working conditions at enterprises.

The most widespread effect, reported by 37% of MSMEs, was a reduction in working hours. Only 10% of enterprises had to resort to the suspension and/or reduction of wages/benefits.

Figure 4.218: Impact of COVID-19 on employee working conditions

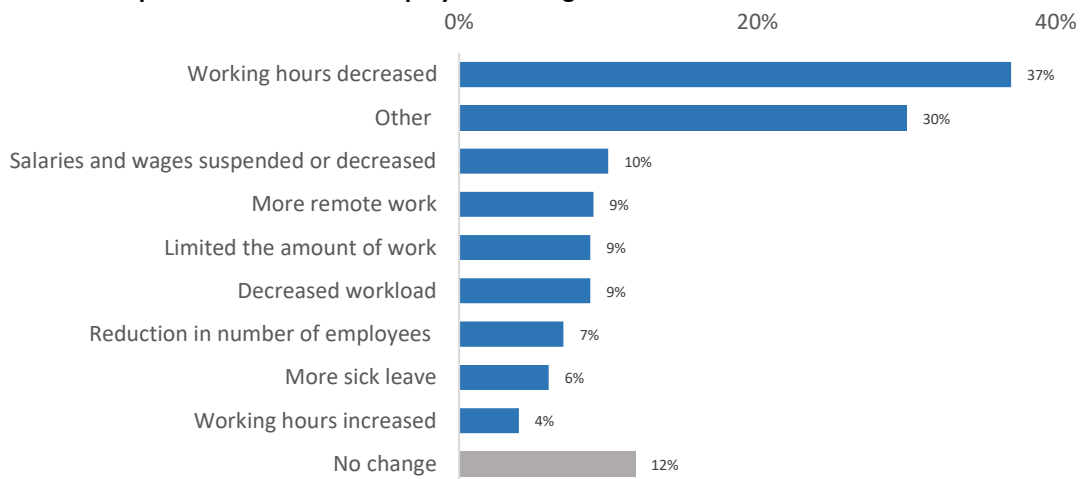


Table 4.212: Impact on working conditions, by firm size

	Sole trader	Micro	Small	Medium-sized
Working hours decreased	36%	39%	26%	31%
Salaries and wages suspended or decreased	8%	10%	17%	21%
More remote work	10%	6%	28%	21%
Limited the amount of work	3%	2%	2%	2%
Decreased workload	4%	2%	1%	1%
Reduction in number of employees	4%	8%	16%	18%
More sick leave	-	10%	19%	13%
Working hours increased	4%	4%	4%	4%
No change	6%	3%	2%	1%
Other	9%	11%	7%	3%

Decreased working hours was more prevalent with sole traders and micro enterprises with 36% and 38.8% respectively. 28% of small enterprises reported increased use of remote working as the main effect on working conditions.

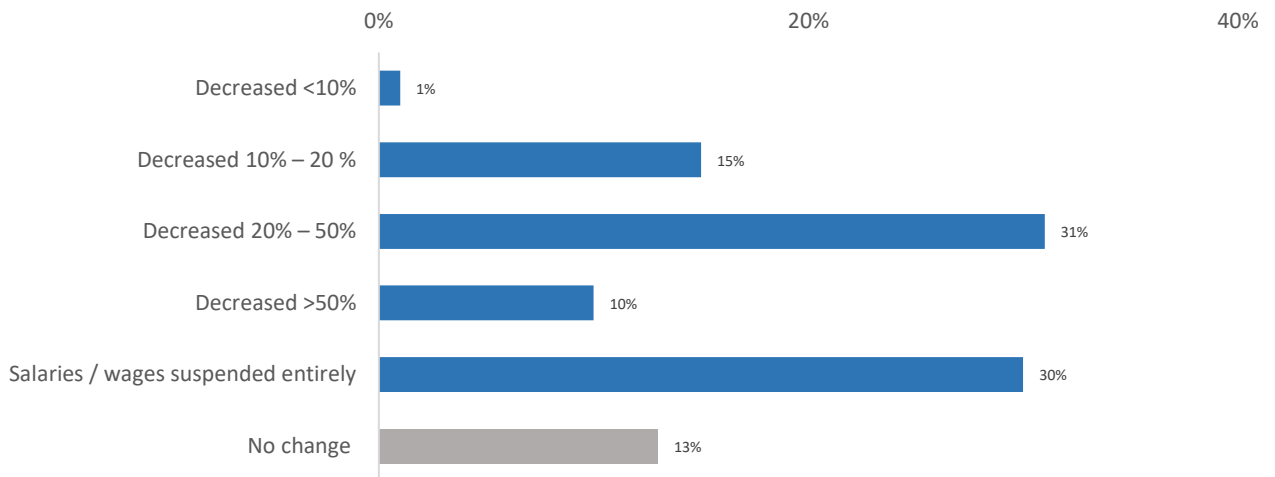
For all four sectors, decreased working hours was the most prevalent negative impact on working conditions of employees, with up to 44% of firms in the services sector affected.

Table 4.213: Impact on working conditions, by sector

	Manufacturing	Trade	Services	Agriculture
Working hours decreased	38%	30%	44%	41%
Salaries and wages suspended or decreased	4%	17%	12%	-
More remote work	4%	9%	20%	9%
Limited the amount of work	2%	2%	2%	3%
Decreased workload	1%	1%	4%	2%
Reduction in number of employees	9%	6%	8%	1%
More sick leave	4%	9%	20%	9%
Working hours increased	6%	-	1%	16%
No change	2%	2%	2%	5%
Other	5%	7%	8%	10%

Out of those enterprises that were forced to reduce/cut wages and/or benefits, 30% had to suspend wages and salaries entirely, 31% reduced wages/benefits by between 20% and 50%, and 15% of surveyed MSMEs by 10% to 20%.

Figure 4.219: Impact on wages/salaries



6.2.8.6. How MSMEs coped with the effects of the COVID-19 pandemic

The survey asked respondents what mechanisms they are using to cope with the effects of the pandemic. For 22% of enterprises, accessing new markets and customers were a priority. 6% of surveyed firms plan to, or have increased, their use of the internet, social media, specialized apps and websites, and digital platforms in their daily business operations.

For 12% of respondents, deferring various payment obligations was one of the important responses to the adverse effect of the pandemic, along with 11% deferring tax payments. To mitigate the impact on cash flows, 9% of surveyed MSMEs intend to raise additional debt.

Figure 4.220: Coping with the impact of COVID-19

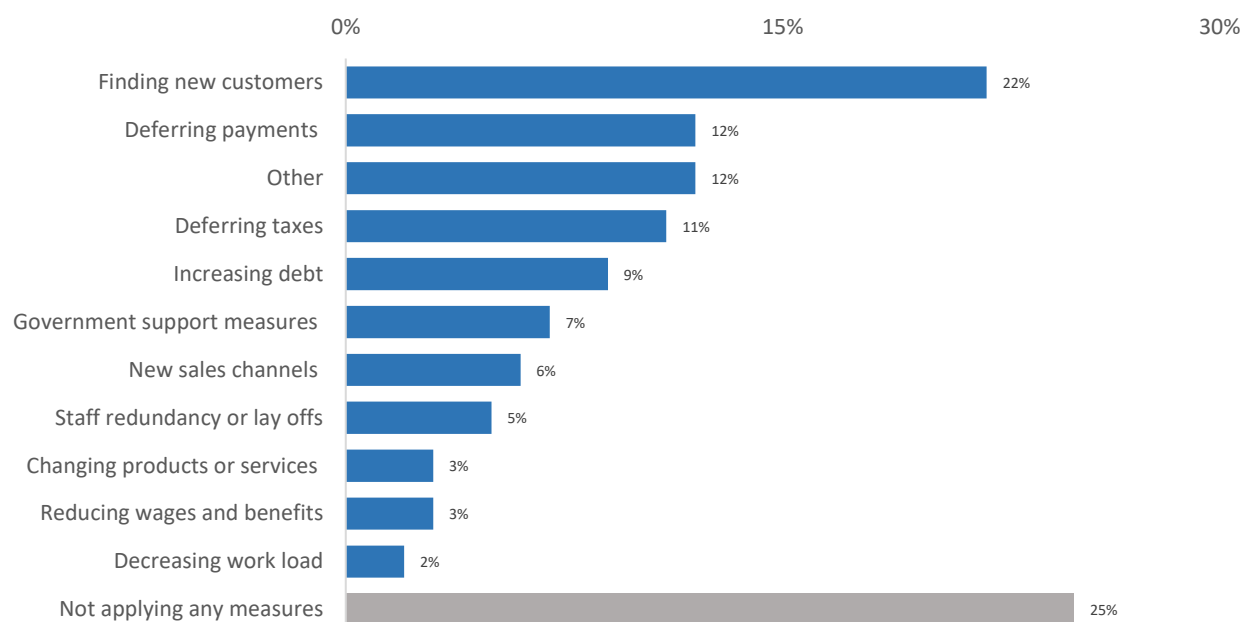


Table 4.214: Coping with the impact of COVID-19, by sector

	Manufacturing	Trade	Services	Agriculture
Finding new customers	22%	17%	29%	25%
Government support measures	6%	8%	5%	8%
New sales channels	6%	11%	-	-
Changing products or services	3%	4%	5%	-
Staff redundancy or layoffs	3%	5%	6%	8%
Deferring payments	9%	13%	11%	16%
Deferring taxes	11%	13%	15%	1%
Increasing debt	5%	9%	12%	16%
Reducing wages and benefits	-	-	-	-
Decreasing workload	-	1%	1%	-
Not applying any measures taken	32%	19%	26%	17%
Other	15%	17%	16%	8%

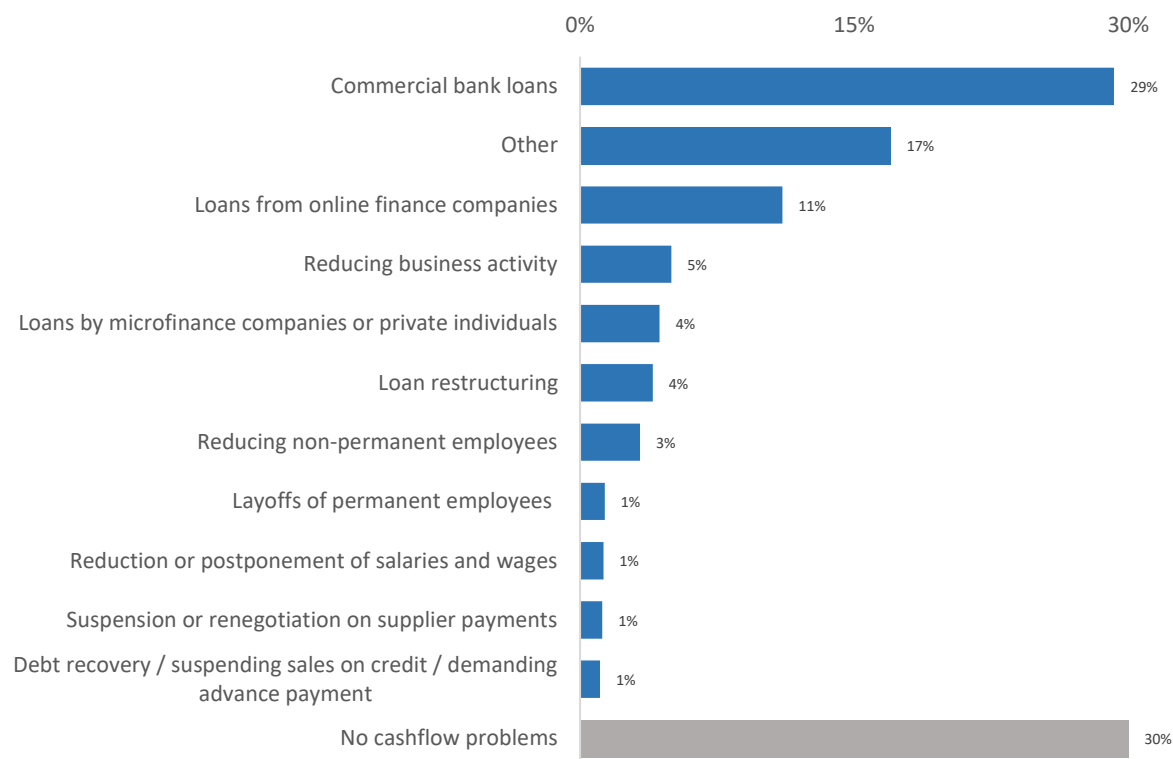
Table 4.215: Measures to cope with the impact of COVID-19, by firm size

	Sole trader	Micro	Small	Medium-sized
Finding new customers	22%	21%	27%	29%
Government support measures	10%	4%	4%	10%
New sales channels	10%	2%	4%	3%
Changing products or services	-	6%	8%	7%
Staff redundancy or layoffs	2%	8%	4%	9%
Deferring payments	10%	14%	8%	8%
Deferring taxes	18%	6%	5%	15%
Increasing debt	10%	8%	13%	8%
Reducing wages and benefits	-	6%	6%	5%
Decreasing workload	2%	1%	1%	-
Not applying any measures taken	22%	28%	24%	12%
Other	10%	20%	19%	9%

6.2.8.7. Impact on cash flows

Respondents were asked if they experienced any problems with cash flow at their firms as a result of the pandemic and, if yes, what measures they took to cope. 70% confirmed that the pandemic had negatively impacted their cash flows. 40% of respondents needed to take out loans from banks and online finance companies.

Figure 4.221: Coping with cash flow shortages



Results by firm size reveal that, with the exception of small enterprises, about 30% of companies in each size segment did not experience any cash flow issues. Of the rest, 26% of sole traders and 39% of small firms intend to take out loans from commercial banks.

Table 4.216: Coping with cash flow shortages, by firm size

	Sole trader	Micro	Small	Medium-sized
No cash flow problems	32%	30%	19%	29%
Commercial bank loans	36%	21%	39%	28%
Loans from online finance companies	2%	-	6%	-
Loans by microfinance companies or private individuals	8%	14%	13%	5%
Loan restructuring	2%	6%	8%	12%
Reducing non-permanent employees	-	2%	4%	-
Layoffs of permanent employees	-	2%	6%	-
Reductions or postponement of salaries and wages	2%	6%	4%	5%
Suspension or renegotiation on supplier payments	-	2%	3%	7%
Debt recovery/suspending sales on credit/demanding advance payment	-	6%	8%	-
Other	24%	21%	15%	14%

Across sectors the picture was similar with around one third of all companies (except in services) reporting no cash flow problems.

Table 4.217: Coping with cash flow shortages, by sector

	Manufacturing	Trade	Services	Agriculture
No cash flow problems	36%	28%	21%	33%
Commercial bank loans	27%	26%	39%	33%
Loans from online finance companies	-	3.4%	0.8%	-
Loans by microfinance companies or private individuals	9%	14%	5%	17%
Loan restructuring	3%	5%	3%	8%
Reducing non-permanent employees	0.4%	3%	0.8%	-
Layoffs of permanent employees	0.4%	0.4%	6%	-
Reductions or postponement of salaries and wages	6%	3%	6%	-
Suspension or renegotiation on supplier payments	-	-	6%	0.4%
Debt recovery/suspending sales on credit/demanding advance payment	6%	-	6%	1%
Other	18%	26%	26%	16%

6.2.8.8. Impact on raw materials / supplies

Another potential concern for enterprises is the deficit, or limited availability, of raw materials and the temporary closure of suppliers owing to negative effects of the pandemic throughout the supply chain. Half of respondents reported that they did not experience any problems with raw materials and other necessary inputs.

Figure 4.222: Coping with shortage of raw materials/supplies

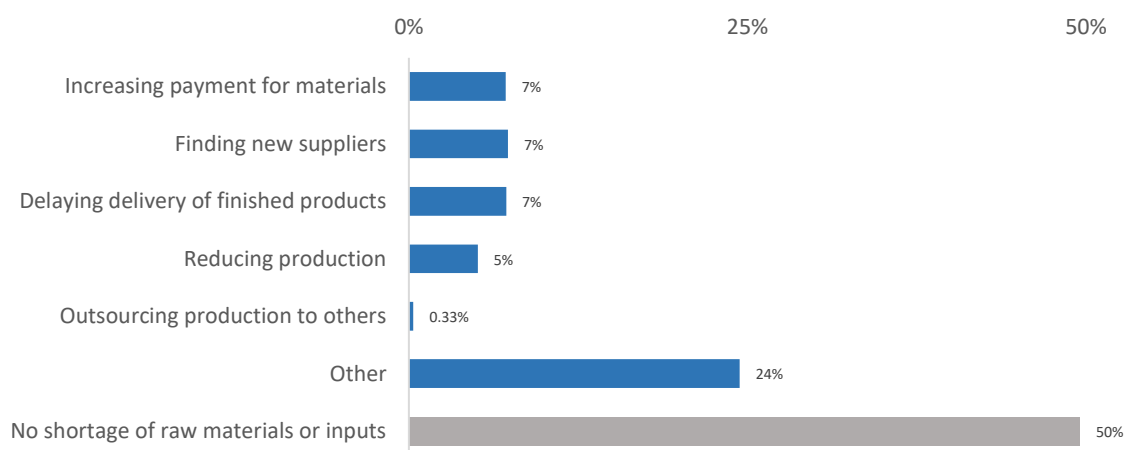


Table 4.218: Coping with shortage of raw materials/supplies, by firm size

	Sole trader	Micro	Small	Medium-sized
No shortage of raw materials or inputs	54%	45%	51%	61%
Reducing production	4%	6%	6%	5%
Outsourcing production to others	-	-	5%	-
Increasing payment for materials	12%	2%	11%	-
Finding new suppliers	6%	8%	13%	3%
Delaying delivery of finished products	6%	8%	9%	10%
Other	20%	31%	7%	23%

Table 4.219: Measures to cope with shortage of raw materials/supplies, by sector

	Manufacturing	Trade	Services	Agriculture
No shortage of raw materials or inputs	48%	57%	56%	45%
Reducing production	3%	8%	0.2%	9%
Outsourcing production to others	0.4%	0.4%	-	0.4%
Increasing payment for materials	3%	17%	5%	10%
Finding new suppliers	9%	0.1%	7%	8%
Delaying delivery of finished products	13%	9%	3%	3%
Other	26%	9%	30%	25%

6.2.8.9. Labor shortages

The COVID-19 pandemic did not cause a worker shortage for the majority (70%) of respondents. Around one in ten firms faced the need to hire more temporary workers to compensate, and only 7% needed to increase wages.

Figure 4.223: Coping with labor shortages

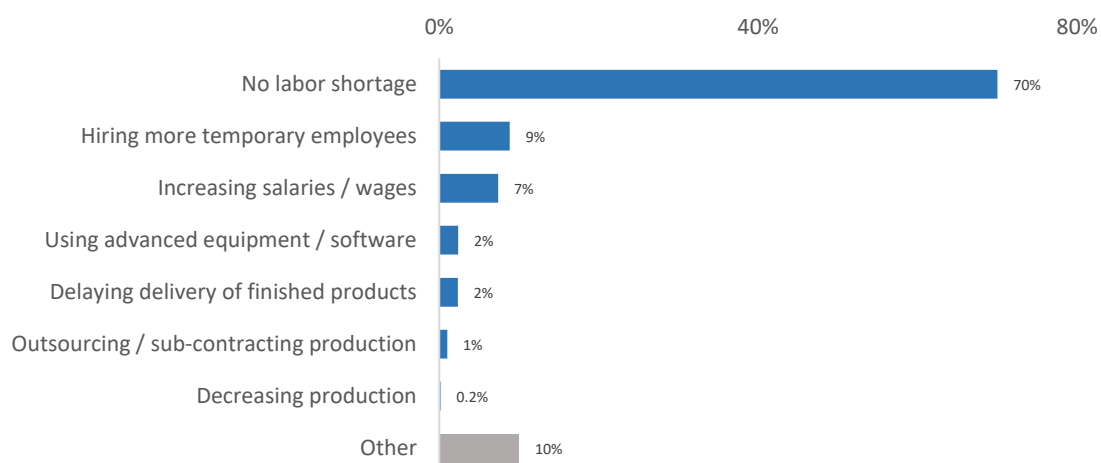


Table 4.220: Coping with labor shortages, by firm size

	Sole trader	Micro	Small	Medium-sized
No labor shortage	68%	56%	56%	65%
Decreasing production	-	-	2%	5%
Increasing salaries/wages	2%	12%	13%	2%
Hiring more temporary employees	8%	10%	6%	7%
Using advanced equipment/software	-	4%	7%	7%
Outsourcing/subcontracting production	2%	-	2%	-
Delaying delivery of finished products	2%	2%	7%	2%
Other	22%	16%	9%	14%

Table 4.221: Coping with labor shortages, by sector

	Manufacturing	Trade	Services	Agriculture
No labor shortage	59%	54%	74%	74%
Decreasing production	0.4%	-	0.2%	-
Increasing salaries/wages	9%	9%	1%	8%
Hiring more temporary employees	9%	13%	2%	8%
Using advanced equipment/software	4%	3%	0.3%	0.4%
Outsourcing/subcontracting production	-	3%	0.8%	-
Delaying delivery of finished products	-	3%	2%	9%
Other	20%	18%	21%	9%

6.2.8.10. Impact on contract fulfillment

For the majority of surveyed MSMEs (69%) in Uzbekistan, the COVID-19 pandemic did not have any detrimental effect on their ability to fulfill their contractual obligations. In terms of sectors, responses ranged from 91% of trade retail companies, to only 55% in manufacturing and construction reporting no issues. For those that did, the strongest preference was to settle through mutual agreement with counterparties. Very few respondents looked to the government for assistance by, for example, declaring *force majeure* conditions in effect or mandating a moratorium on penalties and fees.

Figure 4.224: Coping with challenges related to fulfillment of signed contracts

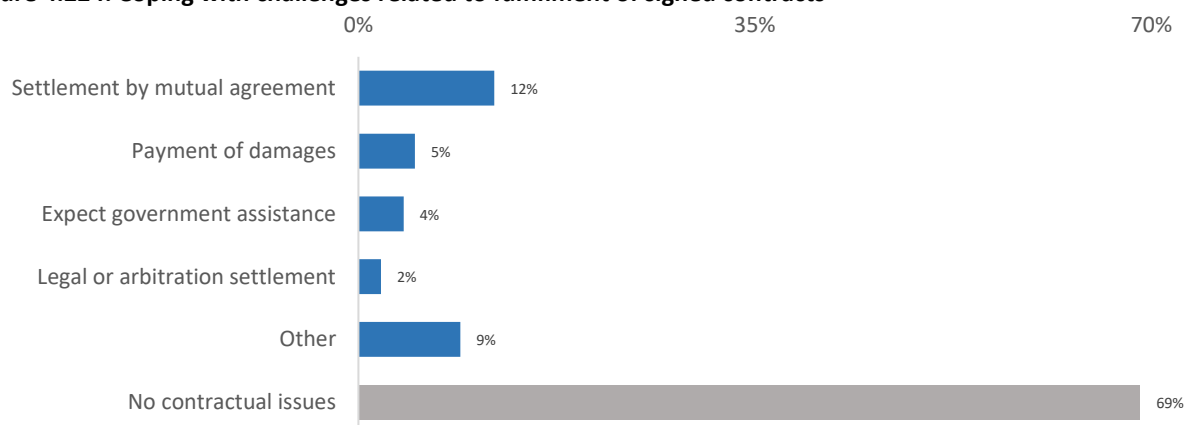


Table 4.222: Coping with challenges related to fulfillment of signed contracts, by firm size

	Sole trader	Micro	Small	Medium-sized
No contractual issues	66%	61%	69%	60%
Settlement by mutual agreement	14%	10%	11%	18%
Legal or arbitration settlement	2%	2%	4%	2%
Expect government assistance	2%	6%	7%	7%
Payment of damages	4%	4%	13%	6%
Other	12%	18%	-	9%

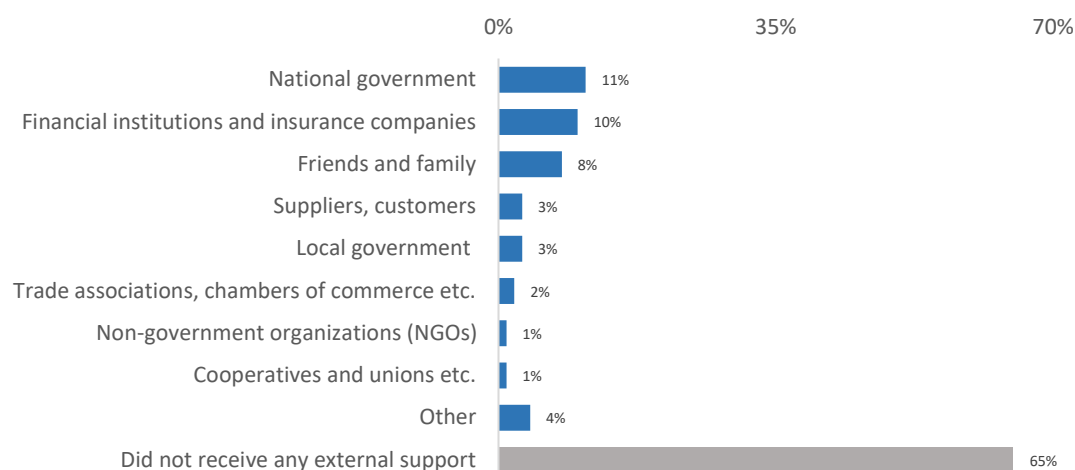
Table 4.223: Coping with challenges related to fulfillment of signed contracts, by sector

	Manufacturing	Trade	Services	Agriculture
No contractual issues	55%	91%	67%	62%
Settlement by mutual agreement	16%	-	7%	14%
Legal or arbitration settlement	5%	-	1%	-
Expect government assistance	5%	-	6%	4%
Payment of damages	3%	9%	2%	7%
Other	16%	-	19%	13%

6.2.8.11. External support during COVID-19 pandemic

Respondents were asked if they needed to access any form of external support in coping with effects of the COVID-19 pandemic. Two thirds of respondents did not turn to any form of external support. 11% of enterprises accessed some form of national government support (primarily financial) and 10% of firms looked for support from banks, microfinance organizations, and insurance companies. Support from friends and family was important for only 8% of the entire MSME sample.

Figure 4.225: External support during the COVID-19 pandemic



In accessing national government support, medium-sized firms led the way with 22%.

Table 4.224: External support during the COVID-19 pandemic, by firm size

	Sole trader	Micro	Small	Medium-sized
National government	10%	12%	7%	22%
Local government	6%		2%	3%
Financial institutions and insurance companies	8%	12%	16%	12%
NGOs	-	2%	-	4%
Trade associations, chambers of commerce	2%	2%	2%	-
Cooperatives and unions	2%	-	1%	-
Friends and family	14%	2%	2%	-
Suppliers, customers	12%	2%	4%	-
None of the above	52%	55%	58%	51%
Other	4%	16%	11%	13%

Table 4.225: External support during the COVID-19 pandemic, by sector

	Manufacturing	Trade	Services	Agriculture
National government	13%	1%	10%	12%
Local government	5%	-	6%	-
Financial institutions and insurance companies	9%	9%	12%	12%
NGOs	3%	-	-	-
Trade associations, chambers of commerce		8%	1%	3%
Cooperatives and unions	3%	-	-	-
Friends and family	6%	8%	-	13%
Suppliers, customers	14%	-	-	5%
None of the above	53%	66%	64%	44%
Other	8%	8%	8%	14%

6.2.8.12. MSME overall assessment of government COVID-19 business support

Overall, Uzbek MSMEs were supportive of their government's response to cope with the economic fallout from the pandemic. 65% of surveyed MSMEs reported that the support offered by the government to companies such as theirs was sufficient, with only 23% of enterprises assessing government measures as inadequate. The picture was broadly consistent across different firm sizes but, looking at responses by sector, services companies stood out with only 46% of respondents rating the government support measures as adequate.

Figure 4.226: Assessment of government support

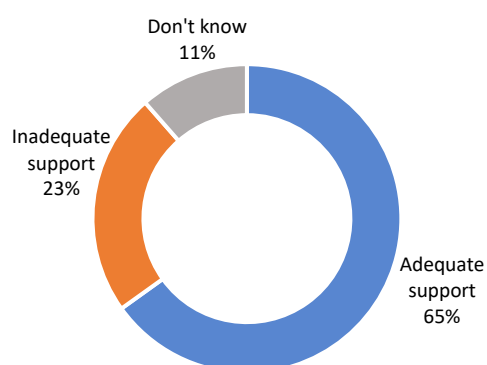


Figure 4.227: Assessment of government support, by firm size

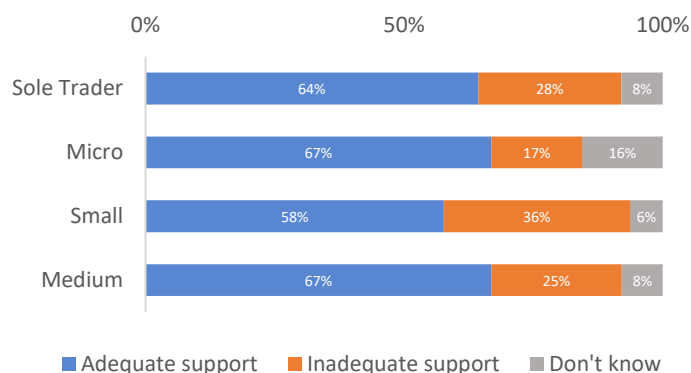
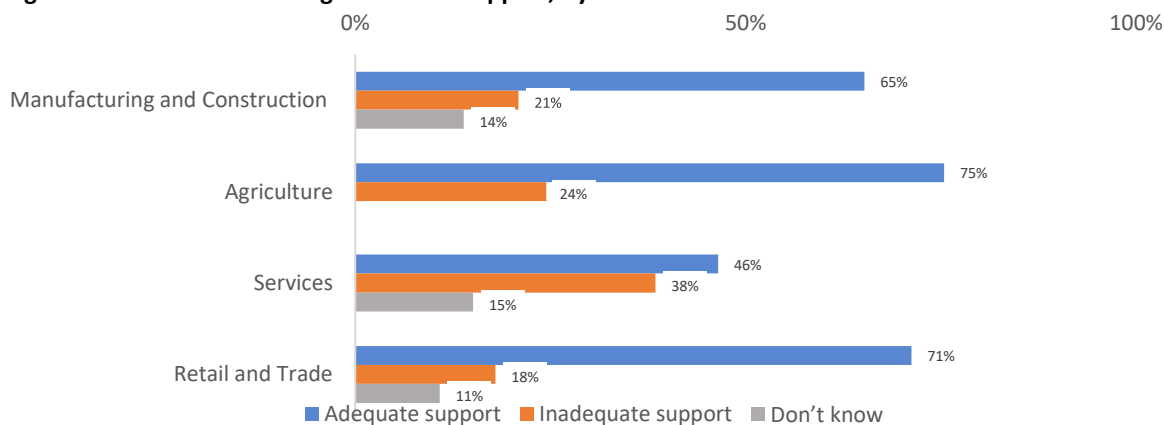


Figure 4.228: Assessment of government support, by sector



6.2.8.13. MSME utilization of government COVID-19 business support

Of the support measures and policies put in place by the government to assist businesses, respondents were asked which ones they had taken advantage of.

Among the most popular measures provided by the government and utilized by 17% of MSMEs was the ability to apply for interest free tax deferral until 1 October. Out of 201 MSMEs, 15 had used the right to be exempted from prepayment of utilities, specifically for gas and electricity.

Figure 4.229: Government COVID-19 support measures utilized

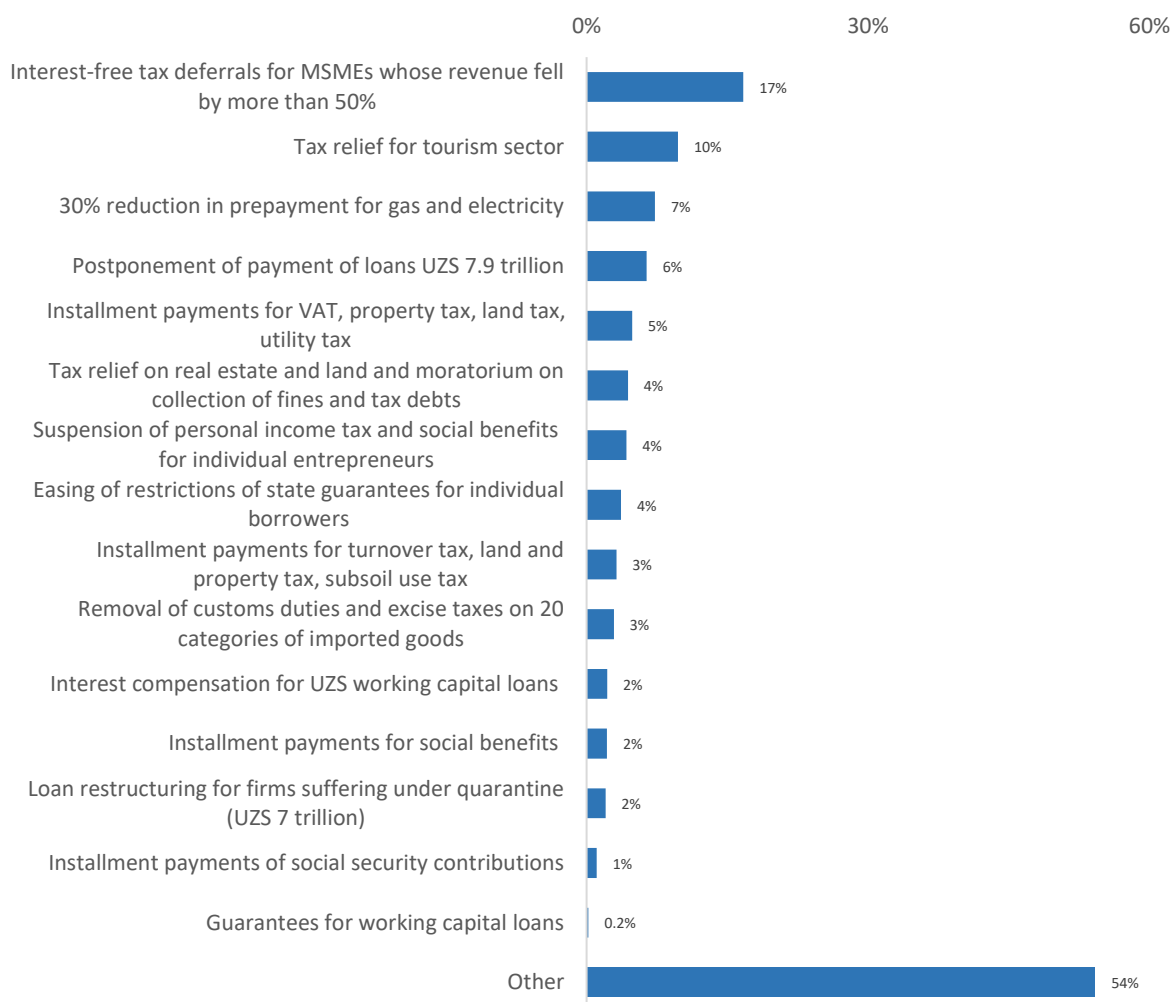


Table 4.226: Government COVID-19 support measures utilized, by firm size

	Sole trader	Micro	Small	Medium-sized
Interest free tax deferrals for MSMEs whose revenue fell by more than 50%	37%	18%	21%	38%
Tax relief for tourism sector	4%	15%	11%	4%
30% reduction in prepayment for gas and electricity	22%	19%	26%	17%
Postponement of payment of loans of UZS 7.9 trillion (US\$754 million)	19%	14%	21%	18%
Installment payments for VAT, property tax, land tax, utility tax	2%	4%	6%	4%
Tax relief on real estate and land and moratorium on collection of fines and tax debts	4%	15%	11%	4%
Suspension of personal income tax and social benefits for individual entrepreneurs	10%	13%	19%	9%
Easing of restrictions of state guarantees for individual borrowers	6%	-	2%	1%
Installment payments for turnover tax, land and property tax, subsoil use tax	9%	12%	32%	18%
Removal of customs duties and excise taxes on 20 categories of imported goods	12%	7%	33%	16%
Interest compensation for UZS working capital loans	12%	19%	24%	17%
Installment payments for social benefits	11%	16%	21%	15%
Loan restructuring for firms suffering under quarantine (UZS 7 trillion, US\$668 million)	12%	18%	19%	28%
Installment payments of social security contributions	-	2%	2%	-
Guarantees for working capital loans	14%	15%	18%	22%
Other	11%	19%	14%	12%

Table 4.227: Government COVID-19 support measures utilized, by sector

	Manufacturing	Trade	Services	Agriculture
Interest free tax deferrals for MSMEs whose revenue fell by more than 50%	31%	15%	22%	13%
Tax relief for tourism sector	8%	6%	20%	8%
30% reduction in prepayment for gas and electricity	19%	4%	11%	17%
Postponement of payment of loans UZS 7.9 trillion (US\$754 million)	20%	7%	14%	17%
Installment payments for VAT, property tax, land tax, utility tax	7%	3%	7%	-
Tax relief on real estate and land and moratorium on collection of fines and tax debts	8%	-	7%	-
Suspension of personal income tax and social benefits for individual entrepreneurs	4%	11%	7%	17%
Easing of restrictions of state guarantees for individual borrowers	8%	-	5%	-
Installment payments for turnover tax, land and property tax, subsoil use tax	6%	6%	11%	9%
Removal of customs duties and excise taxes on 20 categories of imported goods	7%	7%	5%	22%
Interest compensation for UZS working capital loans	10%	7%	5%	9%
Installment payments for social benefits	3%	3%	14%	-
Loan restructuring for firms suffering under quarantine (UZS 7 trillion, US\$668 million)	13%	7%	8%	9%
Installment payments of social security contributions	3%	-	1%	-
Guarantees for working capital loans	4%	4%	5%	9%
Other	7%	6%	4%	30%

6.2.8.14. Preferred future government support

Going forward, respondents were asked what sort of government support they would like to receive (respondents were allowed to select five options). The most requested measure (for 72% of all respondents) was for the government to offer loan guarantees for borrowers. 60% felt that loan repayment deferral/moratoria was important. Cheap loans and simplified loan procedures were important for 57% of enterprises.

Figure 4.230: Preferred future government support

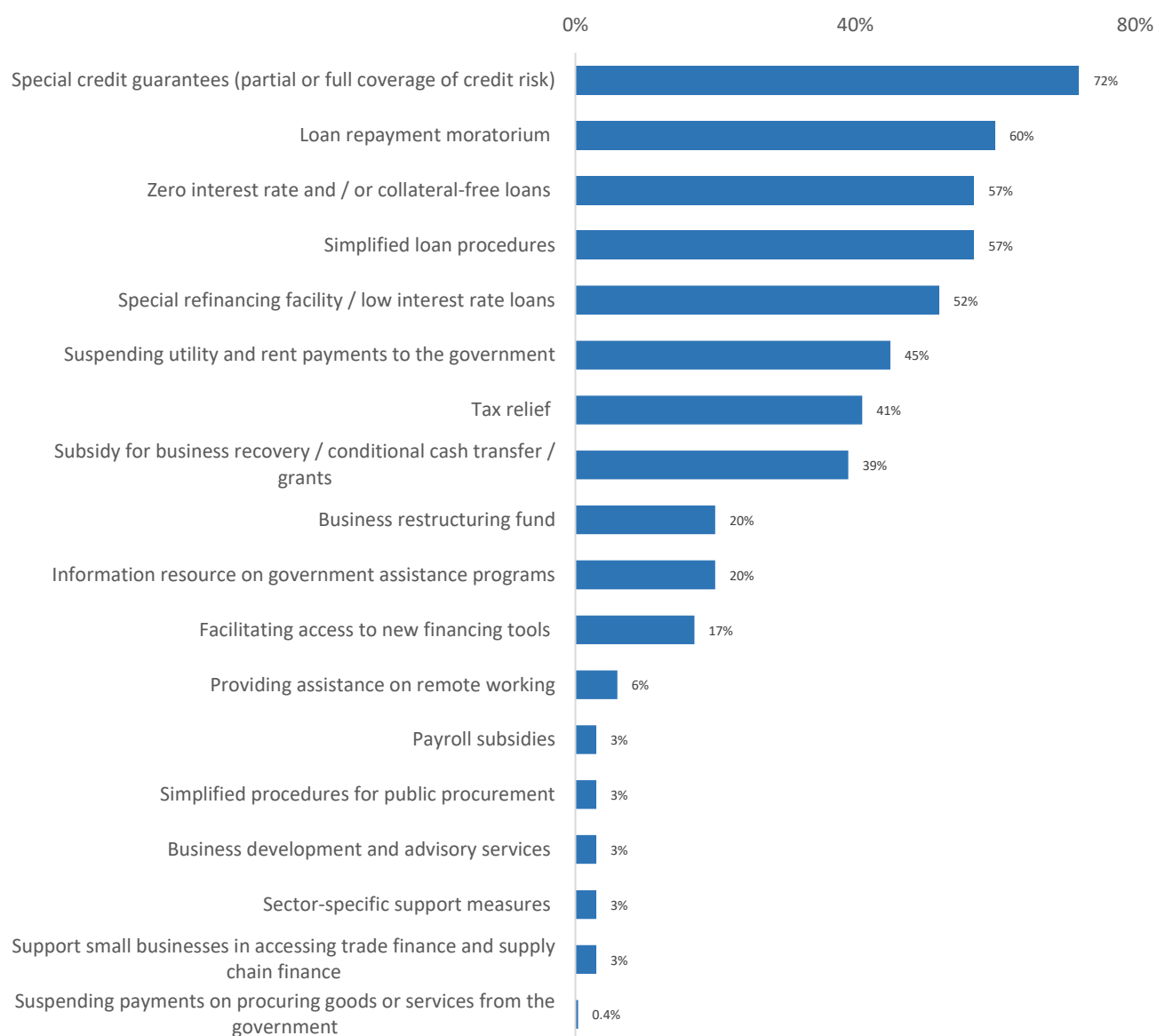


Table 4.228: Preferred future government support, by firm size

	Sole trader	Micro	Small	Medium-sized
Tax relief	66%	69%	66%	71%
Zero interest rate and/or collateral free loans	62%	61%	61%	53%
Special refinancing facility/low interest rate loans	58%	57%	39%	60%
Loan repayment moratorium	60%	53%	53%	45%
Subsidy for business recovery/conditional cash transfer/grants	52%	47%	27%	45%
Special credit guarantees (partial or full coverage of credit risk)	30%	23%	32%	14%
Simplified loan procedures	24%	25%	51%	26%
Suspending utility and rent payments to the government	22%	19%	33%	15%
Suspending payments on procuring goods or services from the government	16%	23%	24%	13%
Business development and advisory services	8%	23%	11%	9%
Payroll subsidies	8%	22%	22%	12%
Business restructuring fund	4%	14%	22%	10%
Removing restrictions/barriers to inward foreign investments	4%	14%	7%	1%
One stop window to support exporters/importers	4%	12%	12%	9%
Simplified procedures for public procurement	2%	11%	15%	5%
Support small businesses in accessing trade finance and supply chain finance	4%	10%	11%	0%
Mentoring programs	4%	8%	3%	9%
Providing assistance on remote working	6%	4%	14%	9%
Information resource on government assistance programs	2%	6%	4%	7%
Sector specific support measures	2%	6%	2%	3%
Debtor-in-possession financing	2%	4%	4%	6%
Facilitating access to new financing tools		2%	3%	3%
Other	14%	6%	11%	24%

Table 4.229: Preferred future government support, by sector

	Manufacturing	Trade	Services	Agriculture
Tax relief	68%	78%	53%	58%
Zero interest rate and/or collateral free loans	66%	58%	71%	41%
Special refinancing facility/low interest rate loans	66%	49%	50%	58%
Loan repayment moratorium	51%	60%	71%	35%
Subsidy for business recovery/conditional cash transfer/grants	50%	57%	42%	25%
Special credit guarantees (partial or full coverage of credit risk)	27%	15%	36%	49%
Simplified loan procedures	18%	21%	42%	41%
Suspending utility and rent payments to the government	21%	20%	33%	9%
Suspending payments on procuring goods or services from the government	10%	23%	30%	25%
Business development and advisory services	17%	17%	19%	1%
Payroll subsidies	12%	15%	11%	33%
Business restructuring fund	8%	9%	10%	17%
Removing restrictions/barriers to inward foreign investments	9%	5%	15%	9%
One stop window to support exporters/importers	8%	11%	7%	1%
Simplified procedures for public procurement	4%	6%	16%	8%
Support small businesses in accessing trade finance and supply chain finance	12%	6%	5%	-
Mentoring programs	5%	5%	10%	1%
Providing assistance on remote working	6%	4%	11%	1%
Information resource on government assistance programs	3%	-	14%	-
Sector specific support measures	-	-	20%	-
Debtor-in-possession financing	3%	-	6%	8%
Facilitating access to new financing tools	-	-	5%	-
Other	14%	4%	5%	25%

6.2.8.15. Resilience indices

Please see Appendix 2 for a description of the methodology behind the indices.

Figure 4.231: Distribution of resilience index for all MSMEs

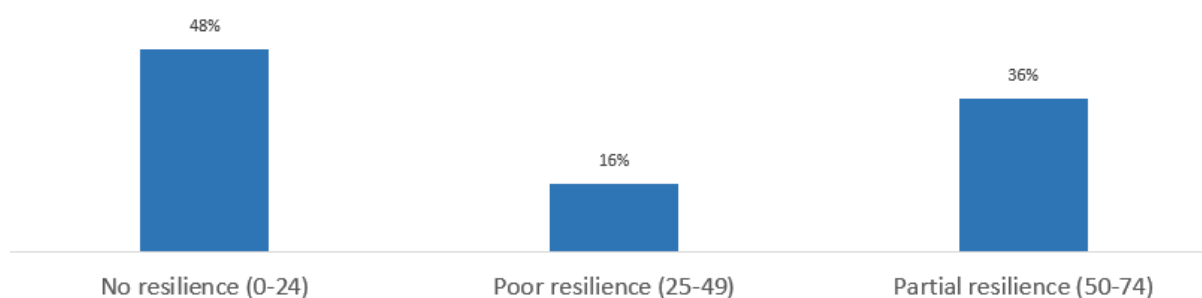


Table 4.230: Resilience index, by firm size

	No resilience	Poor resilience	Partial resilience
Sole trader	40%	20%	40%
Micro	53%	14%	34%
Small	66%	7%	27%
Medium-sized	58%	23%	19%

Table 4.231: Resilience index, by sector

	No resilience	Poor resilience	Partial resilience
Manufacturing and construction	42%	16%	42%
Agriculture	50%	9%	42%
Services	53%	30%	17%
Retail and trade	50%	11%	38%

Table 4.232: Resilience index, by gender of majority owner

	No resilience	Poor resilience	Partial resilience
Female	45%	11%	43%
Male	49%	17%	34%

6.3. KAZAKHSTAN

6.3.1. MSME context

Although there are a large number of MSMEs and entrepreneurs in the country, the MSME sector has yet to reach its potential as a building block for private sector development and growth and, of the four countries examined in this report, Kazakhstan contributes the least to GDP. Achieving this growth will require a step change in the productivity of existing MSMEs and the emergence of many more medium-sized and growth-oriented firms.

The government of Kazakhstan has set an objective to substantially increase the contribution of MSMEs and entrepreneurs to employment and value added in the economy.

According to the OECD⁴⁰ at 11.2% enterprises per 100 working age population, MSME density is substantially above a wide range of other countries. On the other hand, MSMEs in Kazakhstan tend to have a small average size, and there are few medium-sized enterprises. There is also still an outside state-owned sector in Kazakhstan, accounting for approximately one third of employees.

Approximately 2.8 million people are self-employed,⁴¹ representing 30% of the working population. However, a substantial proportion is in low productivity work, offering only subsistence income, and up to 44% of self-employment is informal. 48% of the self-employed in Kazakhstan are women, concentrated in independent entrepreneurship and small companies. Approximately 30% of youth in work are self-employed, but a large number are in low productive activities in the informal sector.

6.3.2. Official definition of firm size

Business entities are classified as micro, small and medium-sized based on Article 24 of the Entrepreneurial Code of the Republic of Kazakhstan. Classification depends on the number of employees and annual income. Micro enterprises are defined as legal entities or individual entrepreneurs (sole traders) with an average annual employee size of no more than 15 people or an average annual income of not more than 30,000 times the MCI established by the law on the state budget and effective as of 1 January of the corresponding financial year. Small enterprises include legal entities and individual entrepreneurs with an average of no more than 100 employees during the course of a year and an average annual income of no more than 300,000 MCI. Medium-sized entities should have no more than 250 employees and with an average annual income not exceeding 3,000,000 MCI.^{42,43}

⁴⁰ OECD, SME and Entrepreneurship Policy in Kazakhstan, 2018
<https://www.oecd.org/countries/kazakhstan/sme-and-entrepreneurship-policy-in-kazakhstan-2018-9789264301450-en.htm>

⁴¹ Self-employment numbers need to be treated with caution as they often include unemployed or under employed people

⁴² As of 1 April 2020, MCI was assigned a value of KZT 2,778 (US\$6.6)

⁴³ As of 4 January 2021, US\$1 = KZT 420.91

Table 4.301: Official definition of enterprise size

	Micro	Small	Medium-sized
Number of employees	<15	<100	100-250
Annual turnover in MCI	<30,000 MCI	<300,000 MCI	<3 million MCI

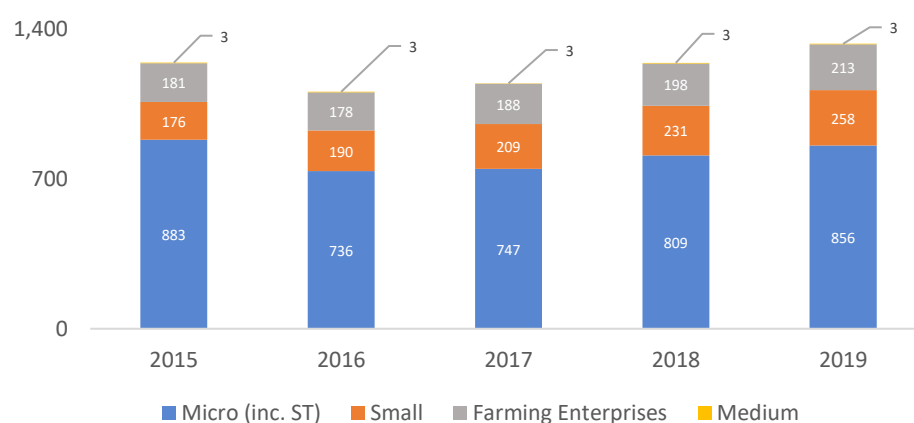
For state statistics purposes, only the employee size criterion is used. The average annual number of employees of business entities is determined by taking into account all employees—including employees of branches, representative offices, and other separate divisions—as well as individual entrepreneurs. With regards to state support, two criteria are used to define the size of the firm: average number of employees and average annual income. The average annual income is the sum of the total annual income for the last three years, divided by three.

Data on SMEs is produced by the Statistics Committee of the Ministry of National Economy of Kazakhstan. The data on the number of enterprises is collected using the Business Register, which is based on databases operated by the Ministry of Justice and the State Revenue Department of the Ministry of Finance. It is worth mentioning that the last methodological changes to MSME definitions came into force in December 2013. The firm size criteria for small businesses increased from 50 to 100 employees in 2014.

6.3.3. MSME environment

According to the National Bureau of Statistics of Kazakhstan, the number of active MSMEs has increased over the last few years, reaching over 1.3 million at the end of 2019 and recording 7% year on year growth. For all categories, with the exception of medium-sized enterprises, numbers of newly registered entities continued to grow. The number of individual entrepreneurs increased by 47,000 or 5.8% to 856,000, but there are still fewer of them than in 2015. The number of small businesses increased by 27,000 or 11.7% to 258,000. The number of medium-sized enterprises has steadily decreased to 2,500. The number of agricultural farms increased by 15,000 or 8% and amounted to 213,000. At the same time, the largest growth was recorded (from a small base) in the largest cities where agriculture is practically absent, in Almaty by 40%, in Nur-Sultan by 41%, and in Shymkent by 53%. Around 64% of MSMEs in the country were microenterprises or individual entrepreneurs, 19.6% were small and medium-sized entities and over 16% were registered as small farming enterprises.⁴⁴

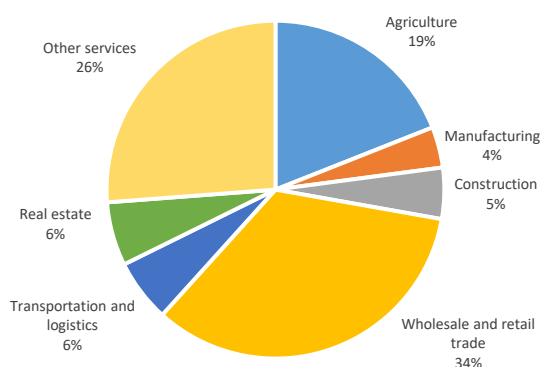
Figure 4.301: Number of MSMEs in Kazakhstan (thousands)



⁴⁴ SME Review, Halyk Research, October 2020. <https://halykfinance.kz/download/files/analytics/sme2020.pdf>

In terms of sectors, the services sector is the largest—representing 38% of registered MSMEs—followed by the wholesale and retail trade sector at 34%, and manufacturing and agriculture at 19%.

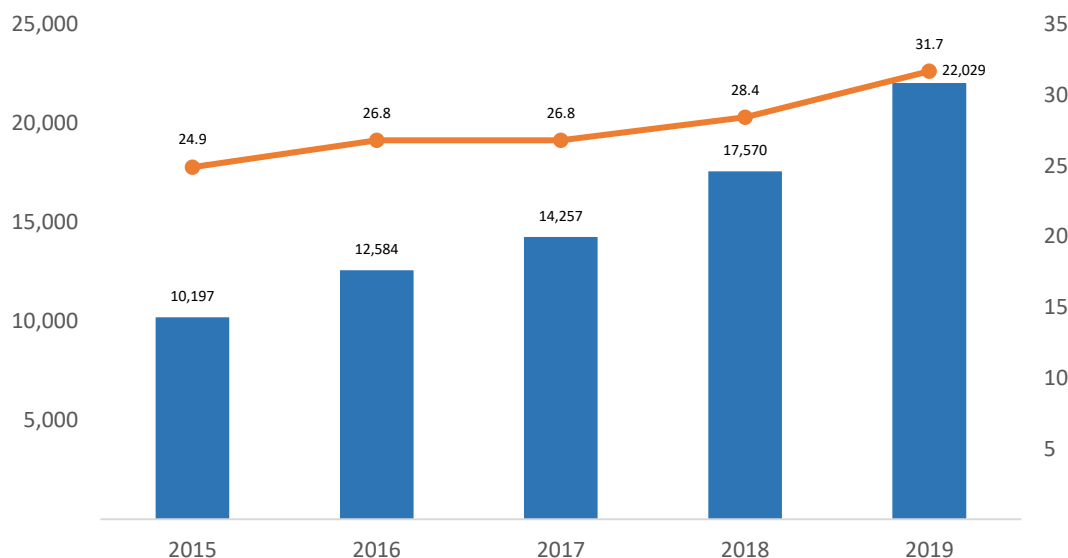
Figure 4.302: MSME sectoral distribution



SMEs in Kazakhstan account for 27% of value added and 31% of employment. The vast majority of SMEs, however, operate in low value-added sectors and only 5.2% export goods, as compared to an average of 22.8% across Eastern Europe and Central Asia.⁴⁵ One of the key growth constraints cited is the lack of financing.⁴⁶

Over the last five years the MSME sector has played an increasing role in the economy of the country. The MSME share of GDP rose to 31.7% in 2019 from 28.4% the year before. The share of small enterprises increased from 22.6% in 2018 to 25.5% of GDP in 2019, the share of medium-sized enterprises grew from 5.8% to 6.2% of GDP.⁴⁷

Figure 4.303: MSMEs gross value added (left scale, KZT billion) and share of GDP (right scale, %)



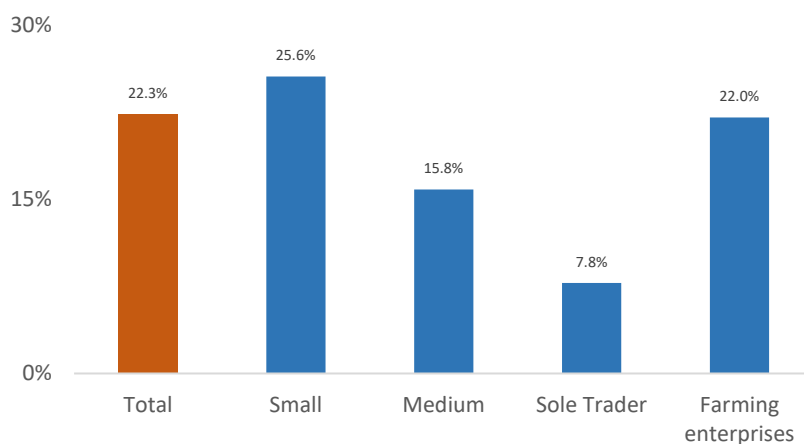
⁴⁵ OECD (2020), *The COVID-19 Crisis in Kazakhstan*, OECD

⁴⁶ Development Asia (2020), *Constraints to SME Growth in Kazakhstan and How to Overcome Them*, available online at <https://development.asia/insight/constraints-sme-growth-kazakhstan-and-how-overcome-them>

⁴⁷ Bureau of National Statistics. <https://stat.gov.kz/>

In 2019, the growth of output of products and services of small and medium-sized businesses significantly accelerated from 13.9% year on year in 2018 to 22.3% year on year. The strongest growth was observed in the small enterprises segment with 25.6% year on year growth. Farming enterprises showed an increase in output by 22% year on year, medium-sized enterprises recorded growth by 15.8% year on year, individual entrepreneurs saw growth of only 7.8% year on year. It should be mentioned that individual entrepreneurs do not yet play a significant role as their share in the total output of products and services is about 6%, while a significant share of output is accounted by small enterprises—around 69%. The share of medium-sized enterprises corresponds to 19% and more than 5% falls on farms.

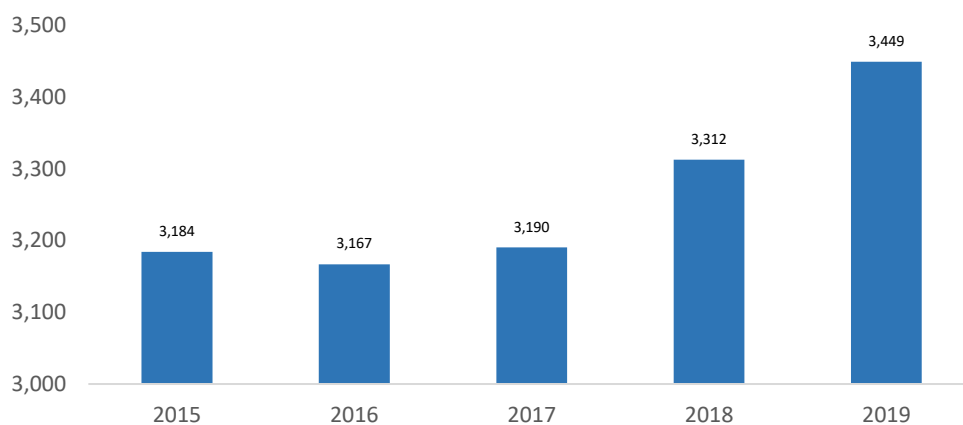
Figure 4.304: MSMEs output production dynamics in 2019 (year on year, %)



6.3.4. Employment

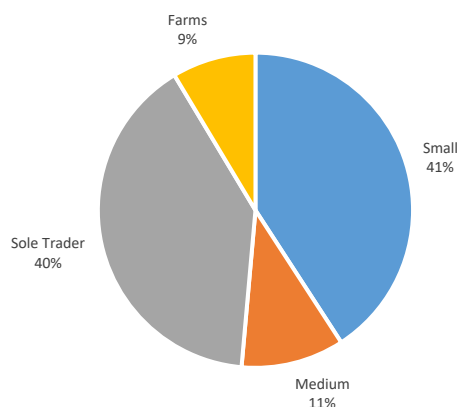
According to the Bureau of National Statistics, the MSME workforce in 2019 was more than 3.4 million people. The number of employees in the sector increased by 4.1% year on year. Small entities and individual entrepreneurs had the largest shares of the MSMEs workforce, accounting for 41% and 40% respectively. This was followed by medium-sized entities at 11% of labor and 9% worked at small farming enterprises.

Figure 4.305: The number of employees in MSME sector (thousands)



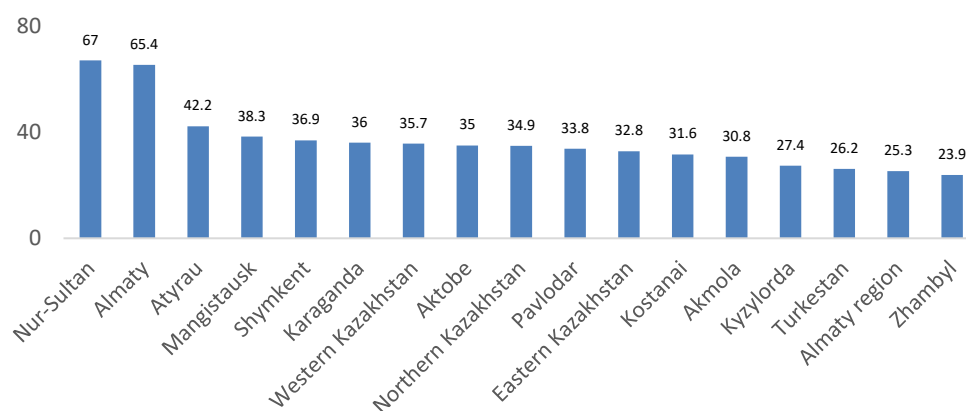
In 2019, the average number of workers in small businesses stood at 5.4 employees per entity, with sole traders and farming enterprises averaging about 1.6 and 1.4 employees respectively. Medium-sized businesses had on average around 146 employees per establishment.

Figure 4.306: MSME employment in 2019



The greatest entrepreneurial activity is observed in large cities and industrial centers, where SME employment is concentrated and dominates the labor market. Nur-Sultan and Almaty, the two largest cities in Kazakhstan, have 67% and 65.4% of their labor force engaged in the MSMEs sector. In turn, the lowest SME employment share is in the southern regions, where it is below 30% of the labor force. This includes Kyzylorda region (27.4%), Turkestan region (26.2%), Almaty region (25.3%) and Zhambyl region (23.9%).

Figure 4.307: Share of MSMEs employees in labor force in 2019, (%)



6.3.5. Constraints

Constraints faced by MSMEs in Kazakhstan are, to a large extent, similar to those faced in other Central Asian Countries—namely, access to financing, infrastructure, and high administrative burdens in state business interactions. A 2020 ADB study of SMEs in the Kostanay region⁴⁸ (seen as representative of Kazakhstan as a whole) showed that the biggest barrier faced by MSMEs was difficulty in accessing financing. Entrepreneurs had difficulty meeting the collateral requirements of banks, which tend to offer short term, high interest rate loans (averaging 15%). For sole traders, the situation was even worse, with most of them needing to resort to unsecured consumer loans to finance working capital. In addition, the ADB study found that SMEs faced problems with delivery of state services, especially for land use permits, construction permits, connection of utilities to production and/or services facilities, and state procurement procedures.

⁴⁸ *Constraints to SME Growth in Kazakhstan and How to Overcome Them*, ADB (2020) <https://development.asia/insight/constraints-sme-growth-kazakhstan-and-how-overcome-them>

An OECD study⁴⁹ of SME development in Kazakhstan identified five key obstacles reported by SMEs in Kazakhstan. These were corruption, competition with the informal sector, inadequately trained workforce, high tax rates, and lack of access to finance. A similar diagnostic exercise conducted by EBRD⁵⁰ identified access to finance as a key constraint. In addition, the excessive presence of state-owned enterprises in the economy impacted competition and governance. Further issues were low regional integration and problems trading across borders (as also confirmed by the World Bank's DB indicators), as well as a lack of development of human capital.

6.3.6. Government MSME development policies

To support MSMEs, the Entrepreneurship Development Fund (DAMU) was established by government decree in 1997. DAMU provides the following financial and non-financial support to small and medium-sized businesses:

- Concessional lending through second tier banks within the framework of targeted programs for regions and individual industries
- Loans through microcredit organizations
- Subsidies—reduction in interest rate on loans for business development issued by banks
- Administration of SME development credit lines offered by the EBRD and ADB
- Guarantees—providing partial credit guarantee for bank loans⁵¹

In addition, there is a state program for the support and development of business enterprises—Business Roadmap 2025. The program envisages four key directions:

1. Support for new business initiatives of entrepreneurs in monotowns (one company towns), small towns, and rural settlements
2. Industry support for entrepreneurs operating in priority sectors of the economy
3. Reduction of the currency risks for entrepreneurs
4. Non-financial measures to support entrepreneurship⁵²

To promote the interests of entrepreneurs, the National Chamber—Atameken was created. Atameken aims to protect the rights of business and ensure the involvement of all entrepreneurs in the process of forming legislative and other regulatory rules for business. In addition, Atameken works on improving the business and investment climate, stability, and development of favorable conditions for domestic and foreign investors. The main objectives of Atameken⁵³ are as follows:

- Representing and protecting the rights and legitimate interests of entrepreneurs
- Monitoring entrepreneurial activity and conditions for entrepreneurial activity in rural regions
- Participating in state programs for the support and development of entrepreneurship
- Supporting domestic production and increasing the share of local content in state procurement

⁴⁹ *SME and Entrepreneurship Policy in Kazakhstan 2018*, OECD https://read.oecd-ilibrary.org/employment/sme-and-entrepreneurship-policy-in-kazakhstan-2018_9789264301450-en#page1

⁵⁰ *Assessing progress and challenges in developing sustainable market economy*, EBRD (2017) <https://www.ebrd.com/publications/country-diagnostics/kazakhstan>

⁵¹ Egov.kz (2020), DAMU, available online at <https://egov.kz/cms/ru/articles/damu>

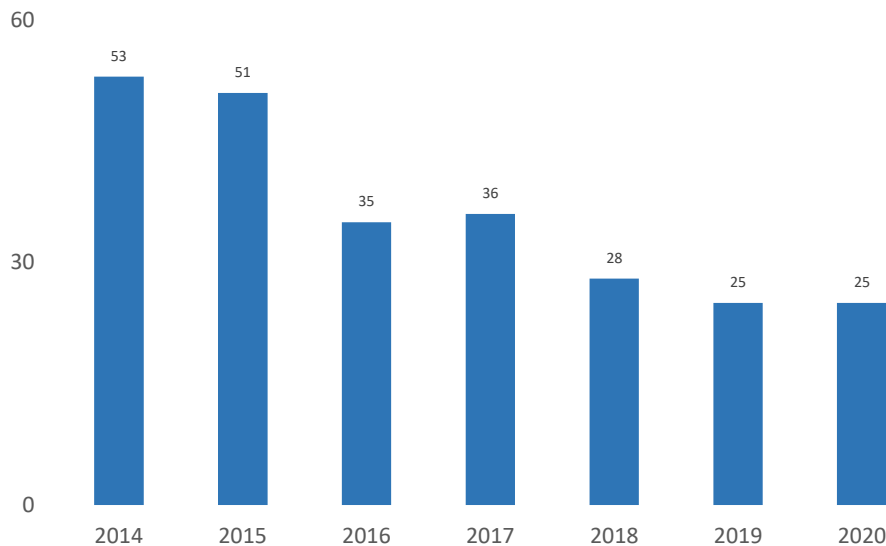
⁵² Egov.kz (2020), Dorojnaya karta biznesa 2025, available online at http://egov.kz/cms/ru/articles/road_business_map

⁵³ Egov.kz (2020), Atameken, <https://egov.kz/cms/ru/articles/atameken>

- Training, retraining, certification and attestation of workers; developing technical and vocational education
- Stimulating foreign economic activity of Kazakh businesses
- Attracting investments and facilitating diversification of the economy

Kazakhstan has been performing well in the World Bank's DB ranking over the last few years, steadily improving its position and currently occupying 25th place globally in the overall ease of doing business. One weak area identified by the DB indicators is cross border trade, in line with other countries in Central Asia.

Figure 4.308: World Bank Doing Business ranking



Source: World Bank Doing Business Report (2014-2020)

6.3.7. Government COVID-19 response

In March 2020, President Tokayev announced anti-crisis measures in response to the COVID-19 outbreak and highlighted the need to support the business community. About KZT 300 billion (US\$713 million) was allocated to support local businesses and employment. A state of emergency was also declared from 15 March 2020.

The anti-crisis package included cash payments to the unemployed and self-employed, an increase in pension and social benefits, additional health spending, and support for employment and businesses. Subsidized lending of KZT 1 trillion (US\$2.4 billion), or 1.5% of GDP, was provided by the 'Economy of Simple Things' state program, along with measures to help MSMEs finance working capital (KZT 800 billion, US\$1.9 billion). KZT 1.8 trillion (US\$4.3 billion) was allocated to support employment under an 'Employment Roadmap' program, including some large-scale projects to modernize transportation infrastructure. Selected enterprises and individual entrepreneurs were also eligible for new tax incentives. Further measures to restore economic growth announced towards the end of 2020 included: a subsidized mortgage program for households with a portion specifically targeting youth; tax incentives to the agricultural and other hard-hit sectors—namely, civil aviation and tourism; credit support to MSMEs and manufacturing enterprises (the latter via a newly created industrial development fund); and infrastructure development. Following the reintroduction of quarantine measures in early July 2020, the authorities provided additional cash transfers to individuals who lost jobs owing to the quarantine, lowered the subsidized interest rates for MSME loans to 6%, and extended tax concessions for vulnerable individuals and businesses.

Despite the economy facing an economic crisis, no reduction was observed in the number of enterprises in the MSME sector. As of the end of September 2020, the total number of SMEs increased by 0.8% compared with at the start of the year. A slight decrease of 8,000 (or 0.9%) was observed only for individual entrepreneurs (sole traders) over the course of 2020. Declines occurred in the first quarter of 2020, after which numbers bounced back. During previous economic crises there was a reduction in the number of individual entrepreneurs and medium-sized enterprises, while the number of small enterprises did not decrease, but actually increased—most likely owing to the unbundling of medium-sized businesses into smaller entities.

A possible reason for the continued increase in the number of MSMEs in 2020 could be unregistered but active businesses entering the formal sector to take advantage of various government support programs.

The Agency for the Regulation and Development of Financial Markets indicated that businesses whose financial condition had deteriorated owing to the pandemic would be granted a 90-day moratorium on loan repayments. This rule applies to loans issued to individuals and legal entities not only by banks but by all financial institutions, including pawnshops and credit unions, as well as other lenders. In addition, the government implemented a ban on the accrual of penalties for repayment delays of more than 90 days for all unsecured consumer loans for individuals. Their credit history will be reinstated if more than 50% of the overdue debt is repaid within 12 months.

In summary, the Kazakh government provided the following support to MSMEs during the pandemic:

- Loan guarantees
- Privileged loans
- Direct cash transfers
- Financial support to MSMEs that are unwilling to dismiss their employees
- Training to MSMEs on how to operate online⁵⁴

According to the Caspian Policy Center, 69% of 350 surveyed businesses across Kazakhstan noted a profitability decline owing to the pandemic, 23% reported the suspension of their operations, and only 5% increased their profits.⁵⁵ A KPMG study also confirms that nearly 1 million businesses in Kazakhstan were adversely affected by the COVID-19 pandemic.⁵⁶

⁵⁴ Kazinform (2020), *Kak v Kazahstane podderjivayut maliy i sredniy biznes vo vremya pandemii?*, available online at https://www.inform.kz/ru/kak-v-kazahstane-podderzhivayut-malyi-i-sredniy-biznes-vo-vremya-pandemii_a3694302

⁵⁵ Abilgazina, A. (2020), *Barriers and Opportunities for Small and Medium-Sized Businesses in Kazakhstan Amidst the COVID-19 Pandemic*, Caspian Policy Center, available online at <https://www.caspianpolicy.org/barriers-and-opportunities-for-small-and-medium-sized-businesses-in-kazakhstan-amidst-the-COVID-19-pandemic/>

⁵⁶ Ibid

6.3.8. Kazakhstan survey of COVID-19 MSME impact

6.3.8.1. Impact of COVID-19 on MSME business operations

According to the results of the survey, 86% of surveyed MSMEs were negatively impacted by the COVID-19 pandemic, while only 14% stated that they had experienced some positive impact.

Table 4.302: Impact of COVID-19 on business operations

	Positive	Negative
% of all MSMEs	14%	86%

Looking at the sectoral picture, the biggest positive impact of the pandemic was felt in the manufacturing and construction sector, with 30% of companies finding new opportunities to grow in 2020.

Table 4.303: Impact on business operations, by sector

	Manufacturing	Trade	Services	Agriculture
Positive	30%	19%	6%	8%
Negative	70%	81%	94%	92%

In terms of firm size, the largest share reporting a positive impact was small enterprises with 16%, while only 4% of medium enterprises experienced any positive impact.

Table 4.304: Impact on business operations, by firm size

	Sole trader	Micro	Small	Medium-sized
Positive	14%	13%	16%	4%
Negative	86%	87%	84%	96%

For the small number of respondents who reported a positive impact, Table 4.305 shows the distribution of responses.

Table 4.305: Positive impact on business operations, by sector

	Manufacturing	Trade	Services	Agriculture
Increased domestic demand for my products or services	70%	20%	51%	-
Increased international demand for my products or services	37%	20%	41%	-
Offered new products or services	37%	20%	-	99%
Offered new delivery mode	27%	4%	30%	-
Improved access to finance	17%	18%	-	-
Increased access to skilled labor	17%	7%	19%	-

NEGATIVE IMPACT

The largest share of MSMEs (49%) resorted to temporarily closing their business; this was closely followed by reporting reduced demand for their products (41%).

Figure 4.309: Overall negative impact of COVID-19 on business operations

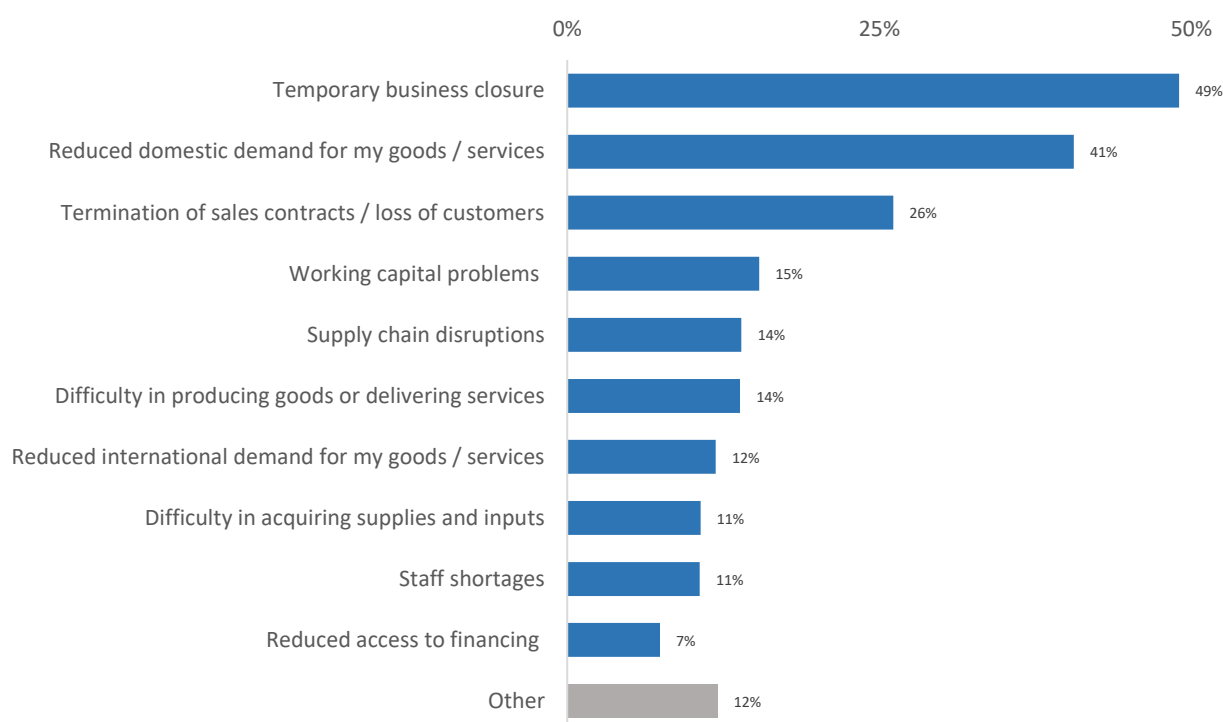


Table 4.306: Negative impact on business operations, by sector

	Manufacturing	Trade	Services	Agriculture
Temporary business closure	31%	52%	53%	9%
Reduced domestic demand for my goods/services	60%	41%	38%	36%
Termination of sales contracts/loss of customers	28%	22%	30%	9%
Working capital problems	8%	14%	17%	18%
Supply chain disruptions	23%	14%	13%	0%
Difficulty in producing goods or delivering services	20%	9%	15%	27%
Reduced international demand for my goods/services	18%	2%	17%	28%
Difficulty in acquiring supplies and inputs	24%	9%	10%	9%
Staff shortages	24%	9%	9%	18%
Reduced access to financing	13%	4%	9%	9%
Other	8%	11%	14%	9%

A sectoral analysis of impact of COVID-19 shows that, for 60% of companies in manufacturing and construction, the most detrimental effect of the pandemic was reduction of domestic demand. 53% of companies in the services sector had to endure temporary closure during the pandemic.

As shown in Table 4.307, the most noticeable negative impact of COVID-19 on companies disaggregated according to firm size was temporary closure/suspension of business activity and reduced domestic demand.

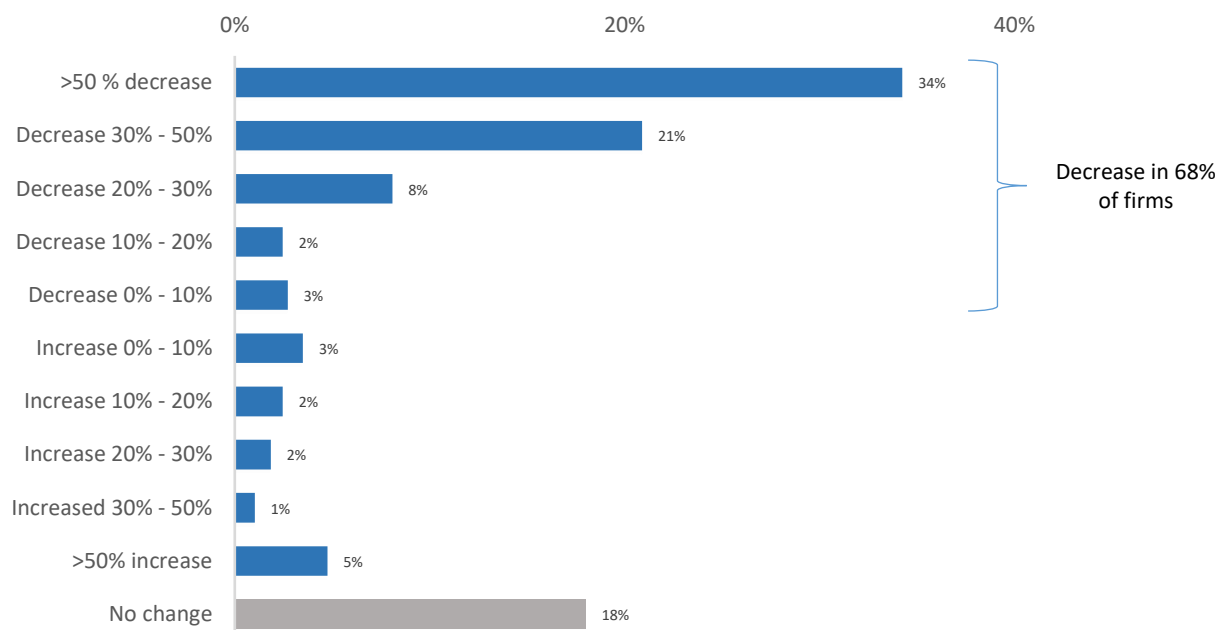
Table 4.307: Negative impact on business operations, by firm size

	Sole trader	Micro	Small	Medium-sized
Temporary business closure	55%	51%	36%	28%
Reduced domestic demand for my goods/services	35%	42%	48%	35%
Termination of sales contracts/loss of customers	16%	25%	44%	33%
Working capital problems	16%	14%	16%	13%
Supply chain disruptions	10%	15%	19%	21%
Difficulty in producing goods or delivering services	8%	14%	23%	15%
Reduced international demand for my goods/services	9%	12%	16%	15%
Difficulty in acquiring supplies and inputs	8%	8%	19%	18%
Staff shortages	4%	13%	17%	19%
Reduced access to financing	7%	5%	13%	13%
Other	13%	10%	14%	11%

6.3.8.2. Impact on sales

Only 18% of respondents reported that the COVID-19 pandemic did not alter their sales volumes, whereas 68% of MSMEs faced declining sales in November 2020 compared with the last pre-COVID month of February 2020. A third of respondents (34%) were badly affected, with sales halving over the period.

Figure 4.310: Impact on sales



In general, the impact on sales varied by firm size, with smaller firms suffering more than larger ones.

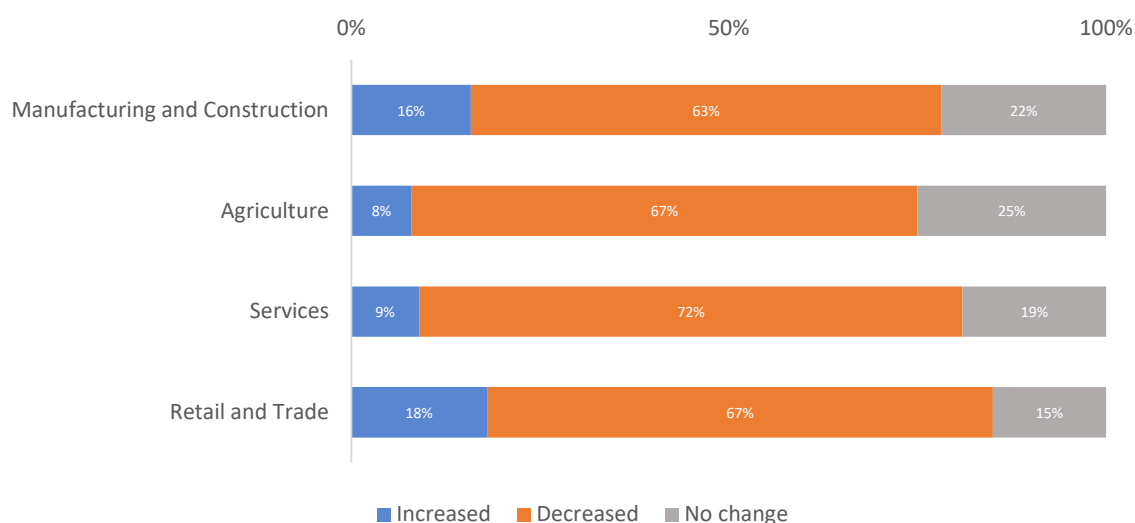
- Less than half of medium-sized firms reported a 50% or more drop in sales volume compared with smaller firms
- The worst affected were micro enterprises (2-5 employees), with 46% reporting a more than 50% decrease in sales
- The largest share of enterprises suffered a sales drop of 30% and more
- Of the small number of respondents who actually saw sales increase, almost none were medium-sized
- The most resilient entities were sole traders and small firms, with 25% and 22% reporting no change in sales respectively

Table 4.308: Impact on sales, by firm size

	Sole trader	Micro	Small	Medium-sized	
>50% decrease	27%	46%	26%	12%	71%
Decreased 30%-50%	20%	22%	20%	36%	
Decreased 20%-30%	4%	7%	16%	9%	
Decreased 10%-20%	4%	1%	3%	5%	
Decreased 0%-10%	4%	3%	1%	9%	
Increased 0%-10%	5%	1%	4%	3%	
Increased 10%-20%	1%	3%	4%	-	
Increased 20%-30%	1%	3%	1%	1%	
Increased 30%-50%	1%	1%	-	-	
>50% increase	6%	5%	3%	-	
No change	25%	9%	22%	24%	

Analysis of the impact of COVID-19 by sector revealed that the services sector suffered the most, with 72% of enterprises reporting a sales decrease. For the other three sectors, the impact situation was relatively uniform, with each incurring 63% to 67% drop in sales owing to the COVID-19 pandemic.

Figure 4.311: Impact of sales, by sector

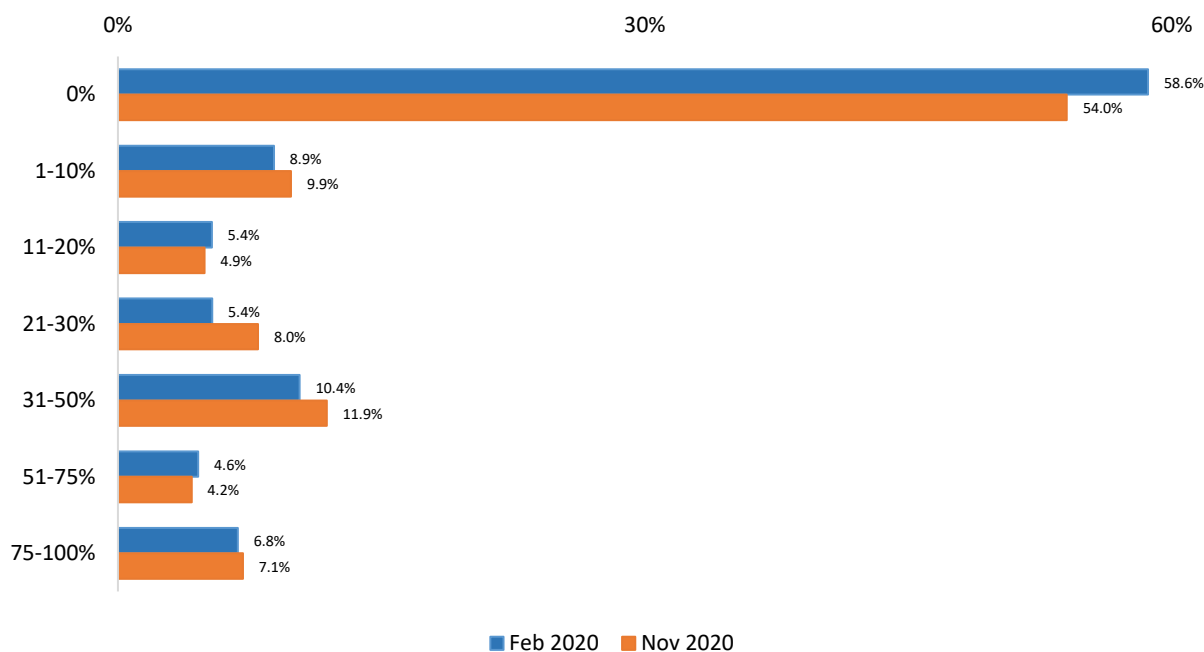


6.3.8.3. Online sales

Given that most governments had implemented various lockdown measures that substantially disrupted business operations and sales through conventional marketing and distribution channels, the survey sought to examine whether MSMEs had increased their exposure to online sales and marketing methods such as increased use of social media and online sales platforms.

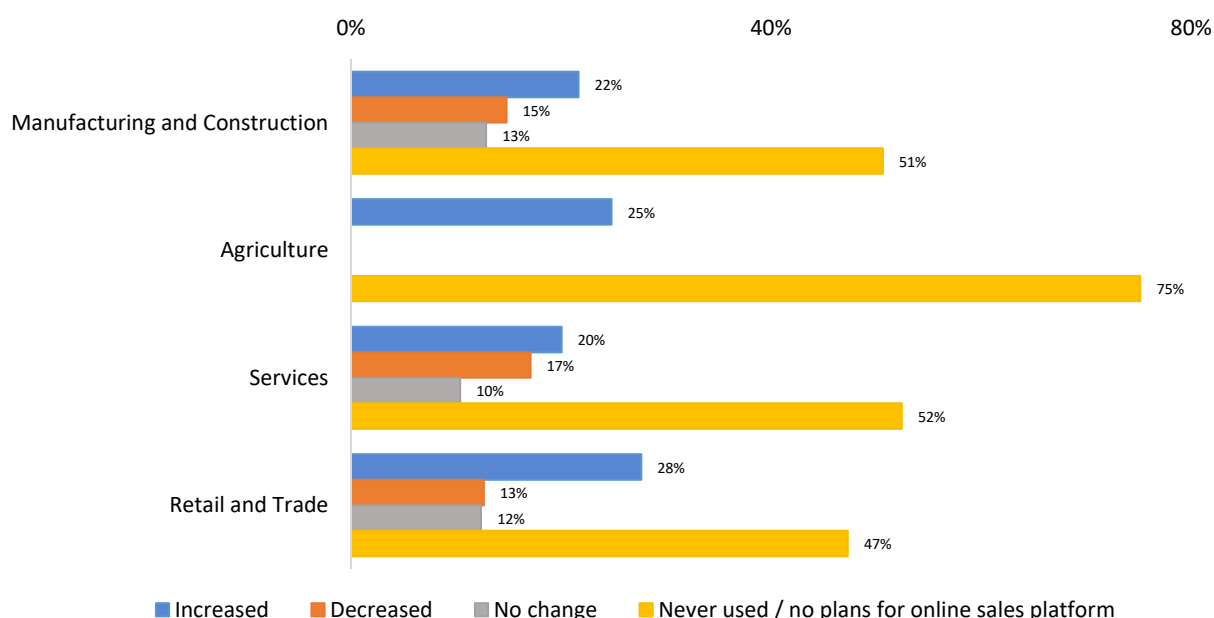
The majority of MSMEs in Kazakhstan found it difficult to adapt their existing business models, with more than 54% using only conventional sales channels both in February and November 2020. Survey results revealed that the largest share of online sales was undertaken by sole traders, with 12% of them reporting 75% to 100% of their sales done online in February 2020.

Figure 4.312: Share of online sales, February 2020 versus November 2020



In terms of sectors, the proportions were similar to the overall sample with the exception of the agricultural sector, where three quarters of all sales made both in February and for last month were done through conventional channels; notably, they showed the second largest sectoral increase in online sales (25%).

Figure 4.313: Change in online sales, by sector

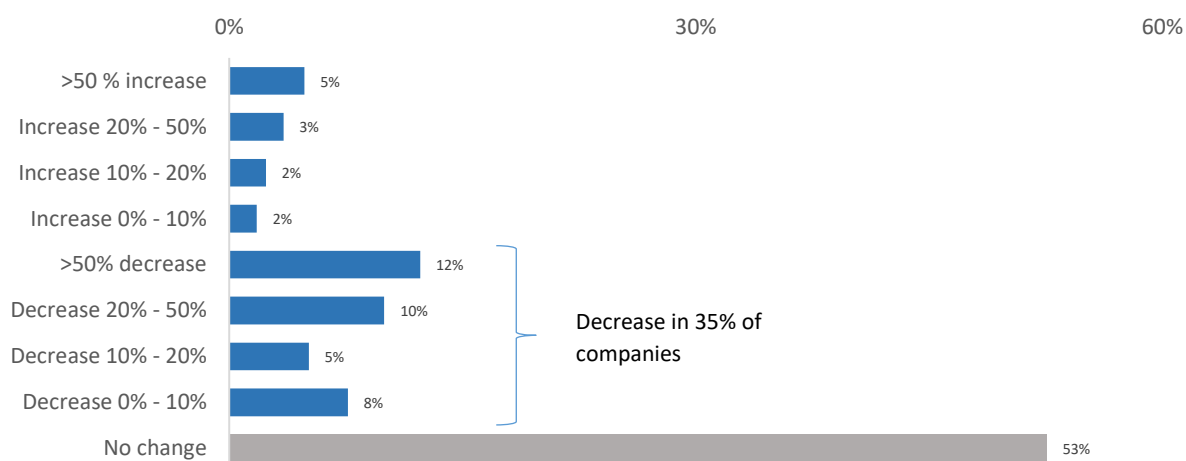


6.3.8.4. Impact on employment

Owing to various lockdown measures implemented by the government and the overall economic slowdown, firm staffing levels were significantly affected.

Overall, 35% of enterprises reported reductions in the permanent employee headcount, with 12% needing to more than halve headcount. 53% of all responding enterprise reported no changes to the number of employees.

Figure 4.314: Impact of COVID-19 on number of permanent employees



A broadly similar proportion of firms in different size categories experienced the need to change staffing levels. Overall, the sole trader segment appeared to be the least affected, with two thirds saying that they did not need to change headcount; however, the picture progressively worsened with firm size. The largest drop in the number of employees—by 50% or more—was reported by 16% of micro and small enterprises.

Table 4.309: Impact on number of permanent employees, by firm size

	Sole trader	Micro	Small	Medium-sized
>50% increase	4%	5%	5%	8%
Increased 20% 50%	1%	5%	4%	4%
Increased 10%-20%	0%	2%	7%	4%
Increased 0%-10%	1%	0%	5%	13%
>50% decrease	6%	16%	16%	11%
Decreased 20%-50%	4%	15%	10%	9%
Decreased 10%-20%	7%	4%	4%	7%
Decreased 0%-10%	8%	7%	8%	7%
No change	67%	46%	41%	37%

For enterprises operating in all four sectors, the number of employees for the most part remained unchanged. The largest decrease was felt by the services sector, where 41% of firms reported a decrease in headcount, while the biggest increase was felt by manufacturing and construction companies, where a third reported an increase in the number of permanent employees.

Figure 4.315: Impact on number of permanent employees, by sector

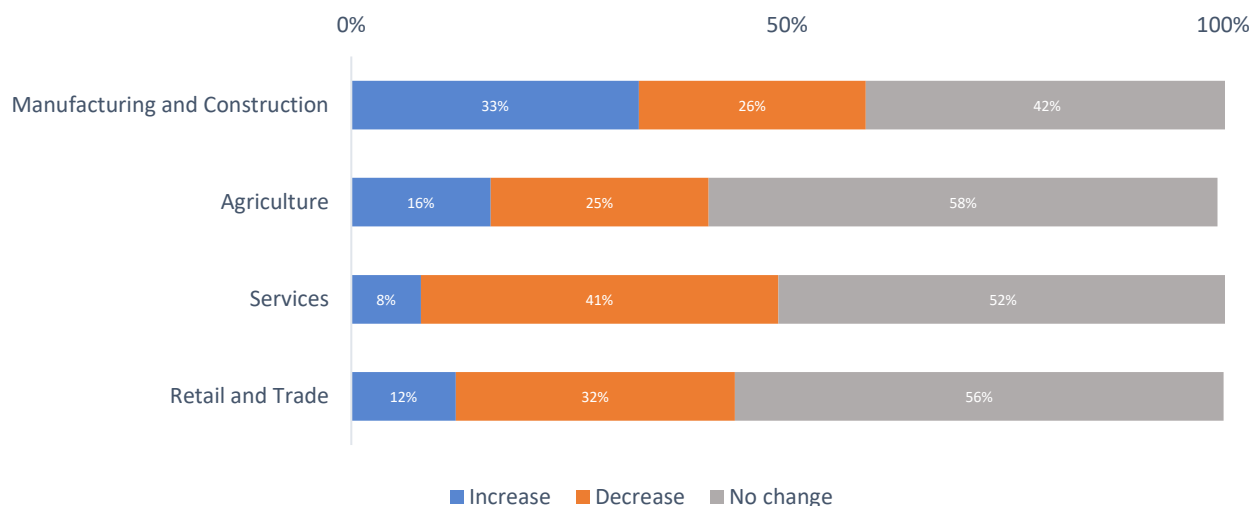


Figure 4.316: Impact of COVID-19 on number of temporary employees

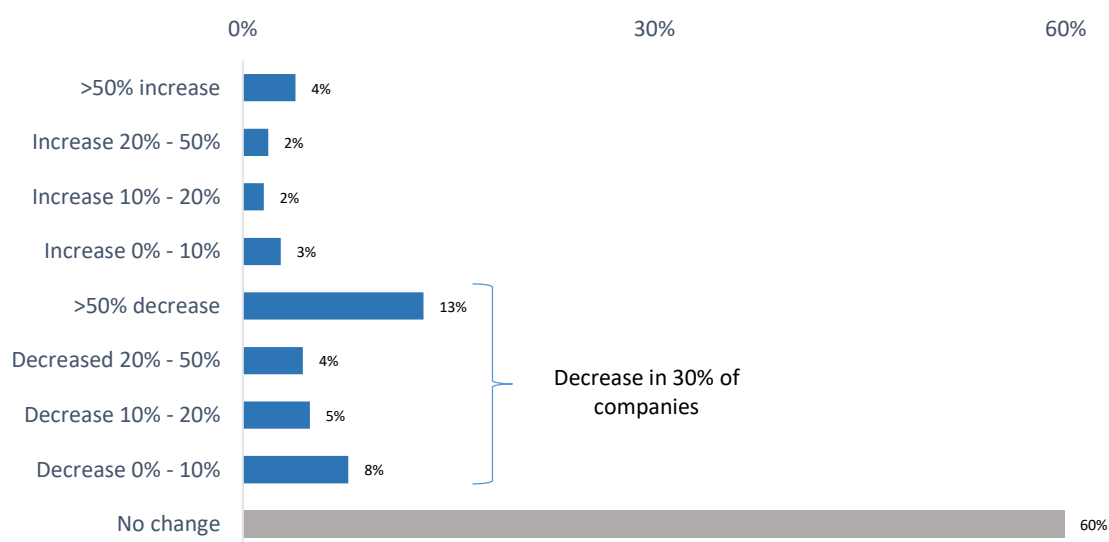


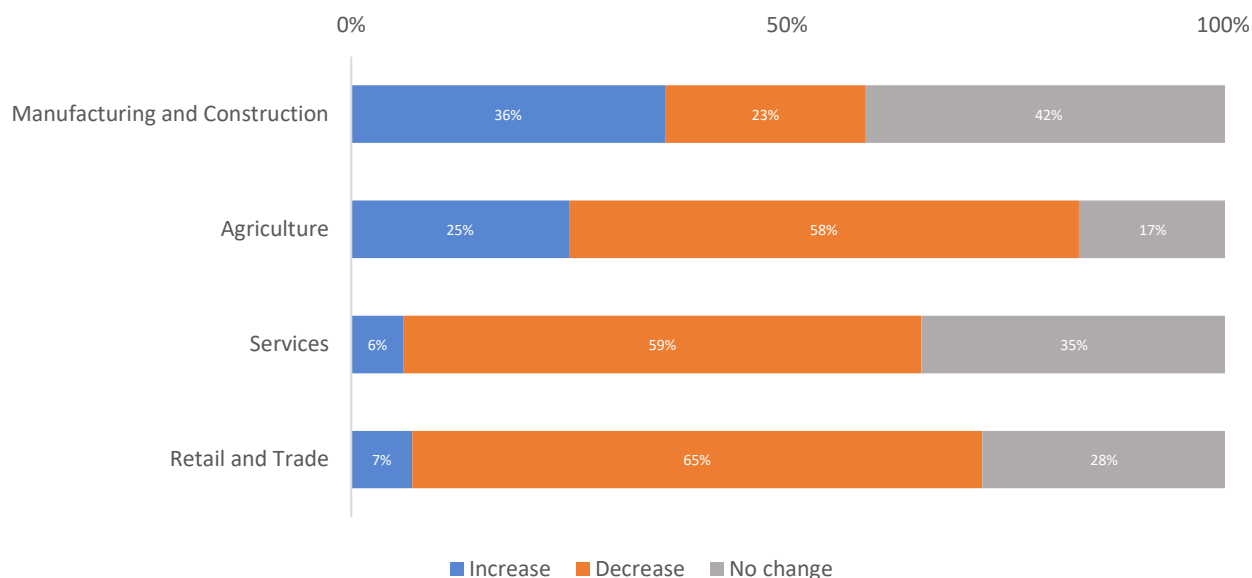
Table 4.310: Impact on number of temporary employees, by firm size

	Sole trader	Micro	Small	Medium-sized
>50% increase	3%	4%	5%	5%
Increased 20%-50%	1%	3%	1%	7%
Increased 10%-20%	0%	1%	5%	4%
Increased 0%-10%	3%	1%	5%	3%
>50% decrease	6%	16%	20%	8%
Decreased 20%-50%	1%	7%	5%	11%
Decreased 10%-20%	7%	3%	4%	1%
Decreased 0%-10%	8%	9%	4%	4%
No change	70%	56%	50%	57%

Summary of decrease categories:

- Sole trader: 22% (6% + 1% + 7% + 8%)
- Micro: 35% (16% + 7% + 3% + 9%)
- Small: 33% (20% + 5% + 4% + 4%)
- Medium-sized: 33% (8% + 11% + 1% + 4%)

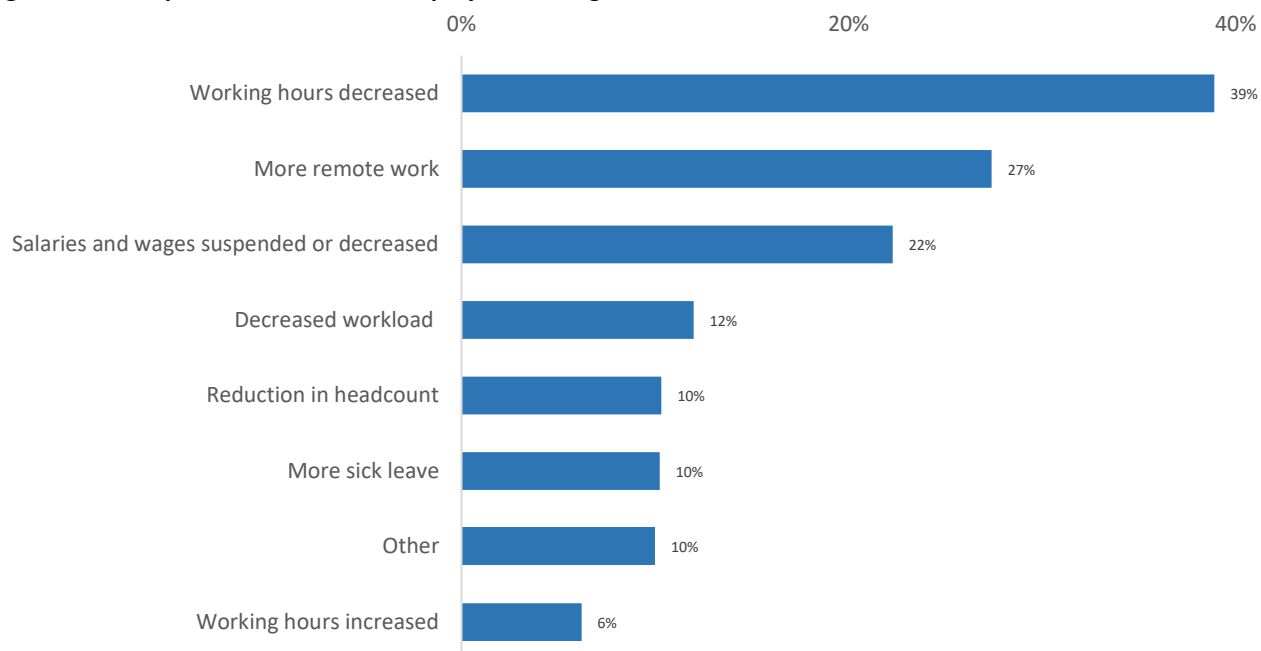
Figure 4.317: Impact on number of temporary employees, by sector



6.3.8.5. Impact on working conditions

In addition to absolute staffing levels, respondents were asked whether they needed to adjust employee working conditions. The survey showed that the most prevalent effect of the business slowdown, reported by 39% of all MSMEs, was a cut in working hours. 22% of enterprises had to resort to suspension and/or reduction of wages/benefits to cope.

Figure 4.318: Impact of COVID-19 on employee working conditions



Cutting working hours was more prevalent with sole traders and micro enterprises, with 44% and 40% respectively of respondents needing to do so. The most widespread effect on working conditions for small enterprises was an increase in remote work reported by 39%.

15% to 26% of all enterprises in each size segment, also felt the need to suspend overall wages/benefits or reduce the overall amount spent on wages/benefits for employees still working.

Table 4.311: Impact on working conditions, by firm size

	Sole trader	Micro	Small	Medium-sized
Working hours increased	8%	6%	4%	5%
Working hours decreased	40%	44%	29%	32%
More remote work	18%	29%	39%	15%
More sick leave	1%	15%	17%	13%
Reduction in headcount	2%	13%	18%	16%
Salaries and wages suspended or decreased	15%	26%	26%	20%
Decreased workload	25%	3%	15%	14%
Other	10%	5%	9%	10%

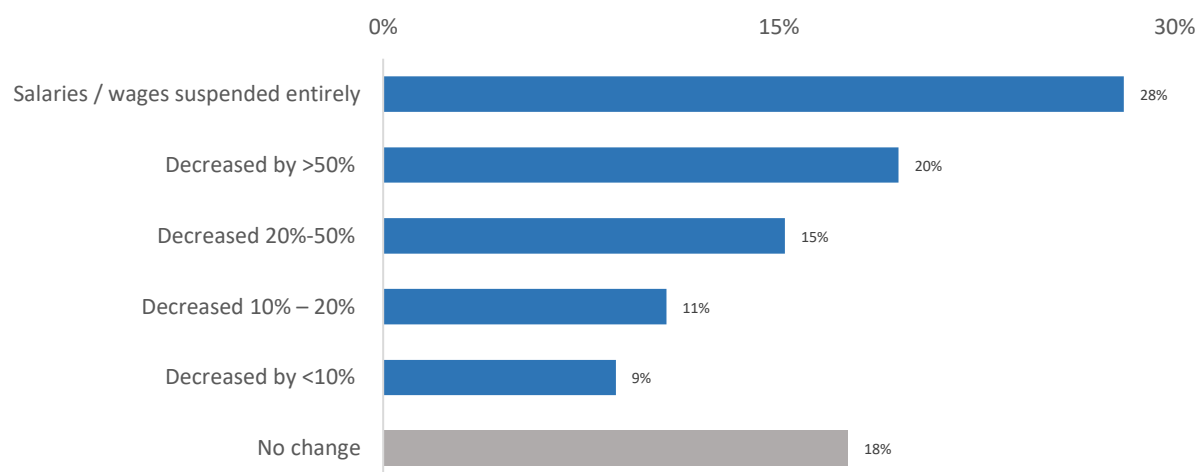
Decreasing working hours, at 44% of respondents, was more prevalent in the services sector. For the manufacturing sector the most widespread effect was more remote work, as stated by 37% of firms, with only slightly smaller numbers in agriculture and services.

Table 4.312: Impact on working conditions, by sector

	Manufacturing	Trade	Services	Agriculture
Working hours increased	14%	4%	6%	17%
Working hours decreased	31%	36%	44%	25%
More remote work	37%	21%	30%	33%
More sick leave	32%	5%	10%	0%
Reduction in headcount	12%	9%	11%	8%
Salaries and wages suspended or decreased	21%	23%	23%	8%
Decreased workload	10%	13%	15%	2%
Other	9%	9%	8%	6%

Of those enterprises that were forced to reduce/cut wages and/or benefits, 28% had to suspend wages and salaries entirely, 20% more than halved wages/benefits, and 15% reduced wages/benefits by 20% to 50.

Figure 4.319: Impact on wages/salaries

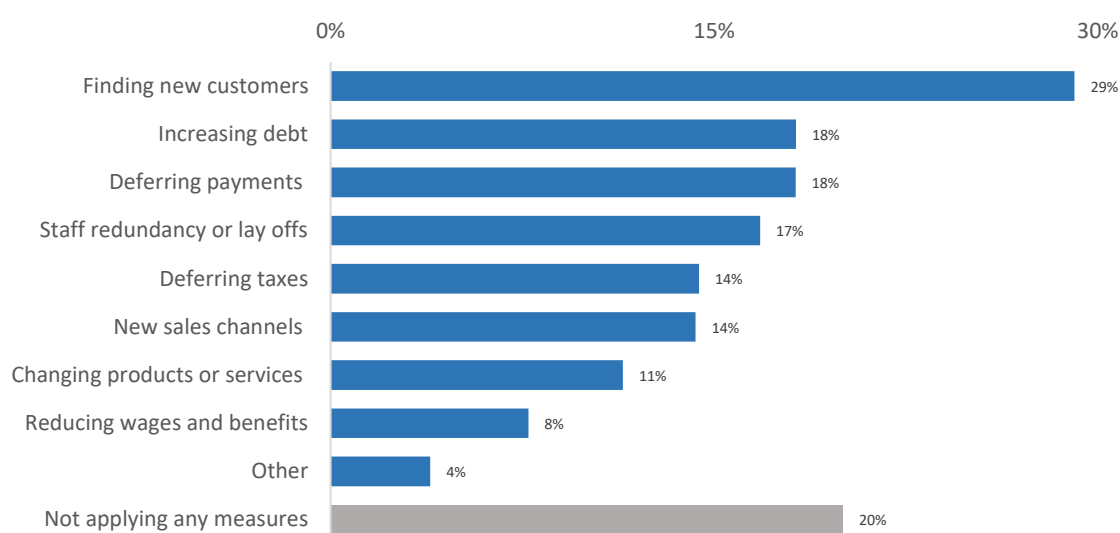


6.3.8.6. How MSMEs coped with the effects of COVID-19 pandemic

Kazakh MSMEs, faced with the effects of the pandemic, were forced to adopt coping strategies to mitigate the crisis. Respondents were asked to select all options that apply. For 29% of the enterprises, finding new markets and customers was the most important coping mechanism, presumably accounting for the fact that 23% of all MSMEs increased their online sales presence.

In addition to the need to maintain (or increase) sales, MSMEs also needed to cut their costs. 18% of all respondents deferred various payment obligations and 14% needed to defer tax payments. Almost 1 in 20 (18%) of surveyed MSMEs planned on raising debt to cope.

Figure 4.320: Coping with the impact of COVID-19



In all four sectors, roughly similar proportions—25% for agriculture, 30% for retail and trade, 28% for services, and 33% for manufacturing—the most widespread coping response was to find new customers and markets to sell their products and services. A slightly smaller proportion—22% in services and 20% of trade—decided not take any action to mitigate the effects of pandemic at all.

Table 4.313: Coping with the impact of COVID-19, by sector

	Manufacturing	Trade	Services	Agriculture
Finding new customers	33%	30%	28%	25%
Increasing debt	25%	20%	16%	8%
Deferring payments	15%	17%	21%	16%
Staff redundancy or layoffs	25%	10%	21%	17%
Deferring taxes	24%	14%	13%	8%
New sales channels	14%	20%	10%	8%
Changing products or services	14%	7%	16%	-
Reducing wages and benefits	14%	6%	8%	-
Not applying any measures	14%	20%	22%	17%
Other	-	3%	6%	-

The largest share of firms within all size categories decided to look for new markets and customers as a measure to mitigate the effect of COVID-19. This was especially the case for small firms, with 42% looking for new customers.

Table 4.314: Coping with the impact of COVID-19, by firm size

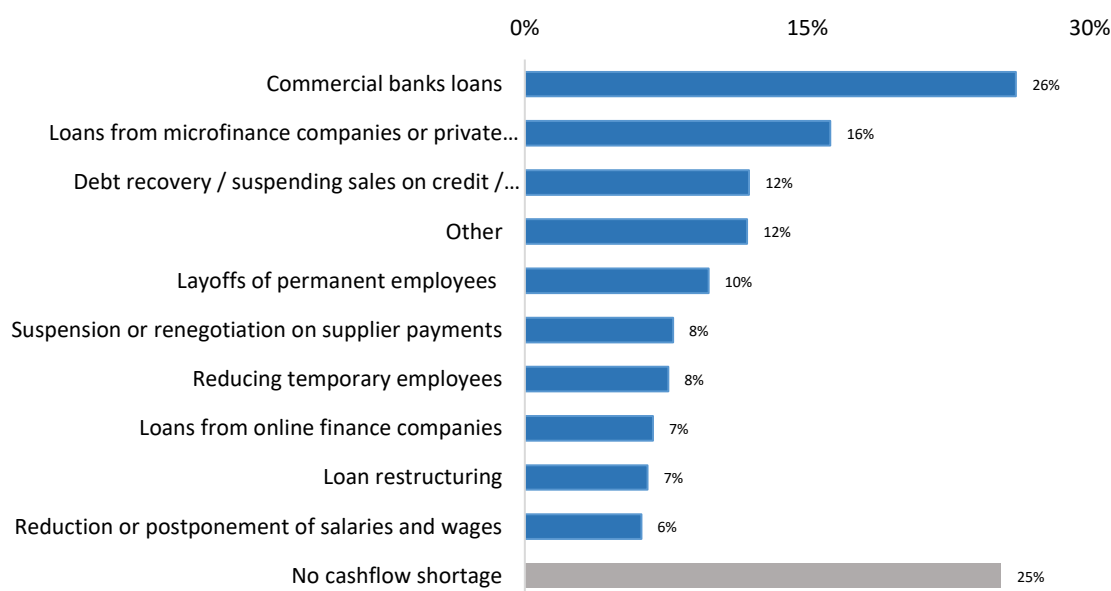
	Sole trader	Micro	Small	Medium-sized
Finding new customers	20%	30%	42%	25%
Increasing debt	15%	23%	15%	9%
Deferring payments	13%	21%	22%	11%
Staff redundancy or layoffs	11%	23%	16%	11%
Deferring taxes	15%	11%	18%	13%
New sales channels	15%	13%	16%	5%
Changing products or services	11%	11%	13%	5%
Reducing wages and benefits	1%	11%	13%	9%
Not applying any measures	27%	14%	20%	26%
Other	4%	1%	8%	0%

In terms of the gender of the majority owner, no significant differences were observed, with the exception of 21% of female owned enterprises reported looking for new customers and markets, compared with a larger proportion—37%—of male owned enterprises.

6.3.8.7. Impact on cash flows

Respondents were asked how they coped with any disruptions in their cash flows arising from the pandemic. A quarter of all MSMEs stated that they did not experience any significant impact on cash flows. Another quarter—26%—of companies intended to apply for loans from commercial banks, while 16% intended to apply to microfinance organizations for loans.

Figure 4.321: Coping with cash flow shortages



Looking at the results by firm size does not reveal any major surprises. In general, micro and small enterprises had more coping strategies than either sole traders or medium-sized firms.

Table 4.315: Coping with cash flow shortages, by firm size

	Sole trader	Micro	Small	Medium-sized
Commercial bank loans	26%	28%	24%	32%
Loans from microfinance companies or private individuals	16%	16%	17%	9%
Debt recovery/suspending sales on credit/demanding advance payments	10%	9%	20%	9%
Layoffs of permanent employees	4%	10%	18%	4%
Suspension or renegotiation on supplier payments	0%	15%	9%	9%
Reducing temporary employees	3%	10%	11%	4%
Loans from online finance companies	4%	8%	9%	1%
Loan restructuring	6%	7%	8%	9%
Reduction or postponement of salaries and wages	3%	6%	12%	9%
No cash flow shortage	27%	22%	29%	25%
Other	15%	11%	9%	11%

The sector that suffered the most cash flow problems was agriculture (91% of firms), reflecting their greater working capital needs and longer product lead times. As a result, agricultural firms were the most likely to access bank loans, with 41% reporting that they did or were planning to do so.

Table 4.316: Coping with cash flow shortages, by sector

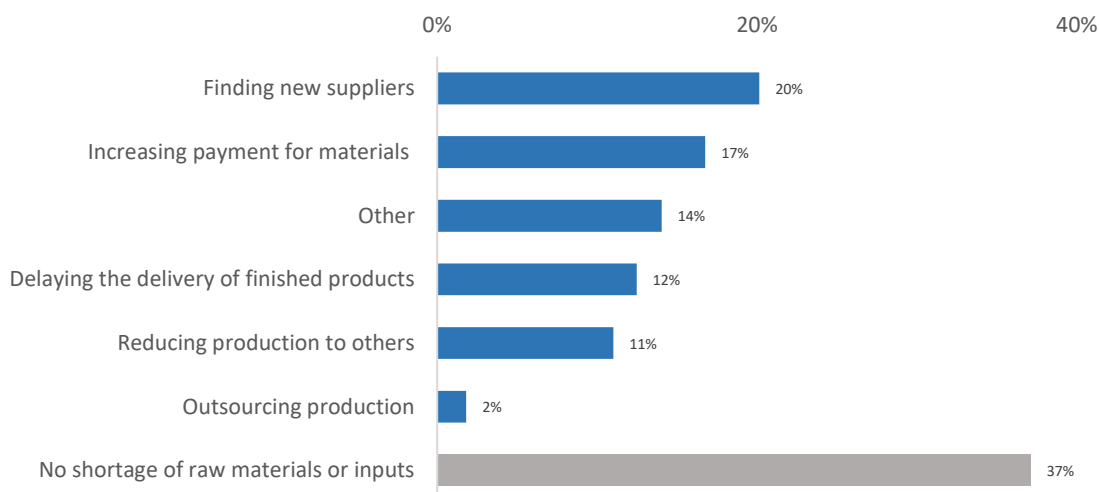
	Manufacturing	Trade	Services	Agriculture
Commercial bank loans	24%	31%	21%	41%
Loans from microfinance companies or private individuals	15%	17%	16%	17%
Debt recovery/suspending sales on credit/demanding advance payments	18%	7%	15%	8%
Layoffs of permanent employees	20%	8%	9%	8%
Suspension or renegotiation on supplier payments	11%	6%	9%	-
Reducing temporary employees	11%	7%	8%	-
Loans from online finance companies	3%	8%	7%	-
Loan restructuring	12%	6%	6%	-
Reduction or postponement of salaries and wages	17%	1%	8%	8%
No cash flow shortage	31%	22%	28%	9%
Other	12%	12%	12%	9%

No significant differences between male and female owned enterprises were observed.

6.3.8.8. Impact on raw materials / supplies

One of the results of the business slowdown was the impact on supply chains and, indeed, 63% of all respondents reported negative impacts on supplies of necessary materials and/or services. In order to mitigate shortages, 20% of surveyed enterprises were forced to search for new suppliers, and 17% stated that they had to pay more for procurement of necessary supplies.

Figure 4.322: Coping with shortage of raw materials/supplies



In terms of firm size, a majority of micro and small enterprises experienced shortages, demonstrating their more precarious supply chains.

Table 4.317: Coping with shortage of raw materials/supplies, by firm size

	Sole trader	Micro	Small	Medium-sized
No shortage of raw material or inputs	55%	31%	41%	52%
Finding new suppliers	17%	24%	18%	12%
Increasing payment for materials	14%	19%	17%	7%
Delaying the delivery of finished products	5%	16%	17%	13%
Reducing production	9%	15%	8%	5%
Outsourcing production to others	-	-	8%	1%
Other	8%	9%	10%	9%

Differences were more pronounced when looking at responses by sector, with agriculture suffering the least from shortages but with more firms (25%) needing to reduce production to cope.

Table 4.318: Coping with shortage of raw materials/supplies, by sector

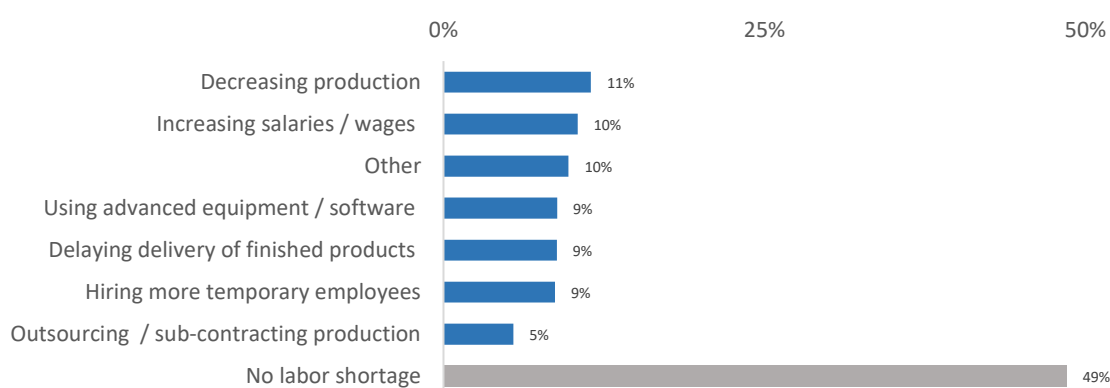
	Manufacturing	Trade	Services	Agriculture
No shortage of raw material or inputs	39%	37%	49%	17%
Finding new suppliers	20%	22%	19%	9%
Increasing payment for materials	22%	13%	19%	16%
Delaying the delivery of finished products	15%	21%	4%	16%
Reducing production	19%	11%	9%	25%
Outsourcing production to others	9%	1%	1%	8%
Other	6%	10%	10%	8%

6.3.8.9. Labor shortages

Owing to the economic shock of the pandemic and various lockdown measures, MSMEs were asked if they had experienced any labor shortages and, if so, what measures they took to mitigate this. Results indicated that for half of respondents, the COVID-19 pandemic did not cause difficulties in finding workers.

The effects of labor shortages were more or less equally distributed among the options presented to respondents, with the most widespread option being decreasing production and the least favored option outsourcing production to third parties.

Figure 4.323: Coping with labor shortages



Of the four size segments, micro and small enterprises experienced the most labor shortages, with micro enterprises needing to cut production more. Manufacturing and agriculture suffered the least with labor shortages (only about a third of respondents). Services and trade companies saw the least impact on production.

Table 4.319: Coping with labor shortages, by firm size

	Sole trader	Micro	Small	Medium-sized
No labor shortage	63%	38%	44%	59%
Decreasing production	8%	17%	8%	8%
Increasing salaries/wages	4%	12%	18%	9%
Using advanced equipment/software	5%	9%	14%	7%
Delaying delivery of finished products	9%	10%	7%	4%
Hiring more temporary employees	4%	13%	9%	8%
Outsourcing/subcontracting production	6%	4%	8%	1%
Other	11%	8%	10%	13%

Table 4.320: Coping with labor shortages, by sector

	Manufacturing	Trade	Services	Agriculture
No labor shortage	31%	52%	51%	34%
Decreasing production	21%	14%	6%	25%
Increasing salaries/wages	31%	11%	5%	16%
Using advanced equipment/software	9%	7%	10%	16%
Delaying delivery of finished products	3%	9%	11%	-
Hiring more temporary employees	17%	7%	8%	9%
Outsourcing/subcontracting production	3%	5%	7%	8%
Other	6%	8%	12%	8%

6.3.8.10. Impact on contract fulfilment

For half of Kazakh MSMEs, the COVID-19 pandemic did not have any detrimental effect on their ability to fulfill their contractual obligations. Companies were asked how they mitigated or expected to mitigate contractual disruptions. The most widespread response (22%) was that they expected government assistance in declaring *force majeure* or for the government to use regulatory methods to extend contract terms or to lower contractual non-fulfillment penalties or other government interventions.

Figure 4.324: Coping with challenges related to fulfillment of signed contracts

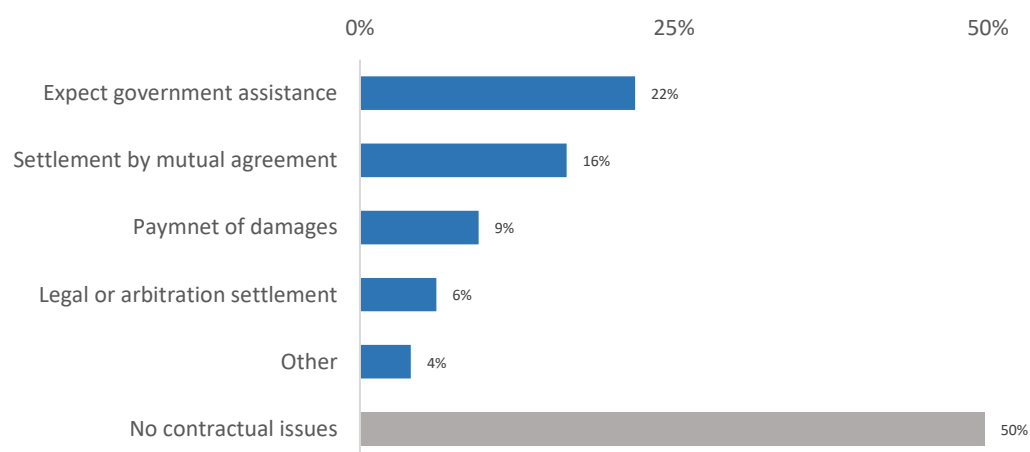


Table 4.321: Coping with challenges related to fulfillment of signed contracts, by firm size

	Sole trader	Micro	Small	Medium-sized
No contractual issues	57%	39%	55%	53%
Expect government assistance	15%	30%	18%	8%
Settlement by mutual agreement	15%	18%	17%	20%
Payment of damages	8%	11%	8%	9%
Legal or arbitration settlement	3%	7%	11%	5%
Other	6%	3%	4%	8%

Table 4.322: Coping with challenges related to fulfillment of signed contracts, by sector

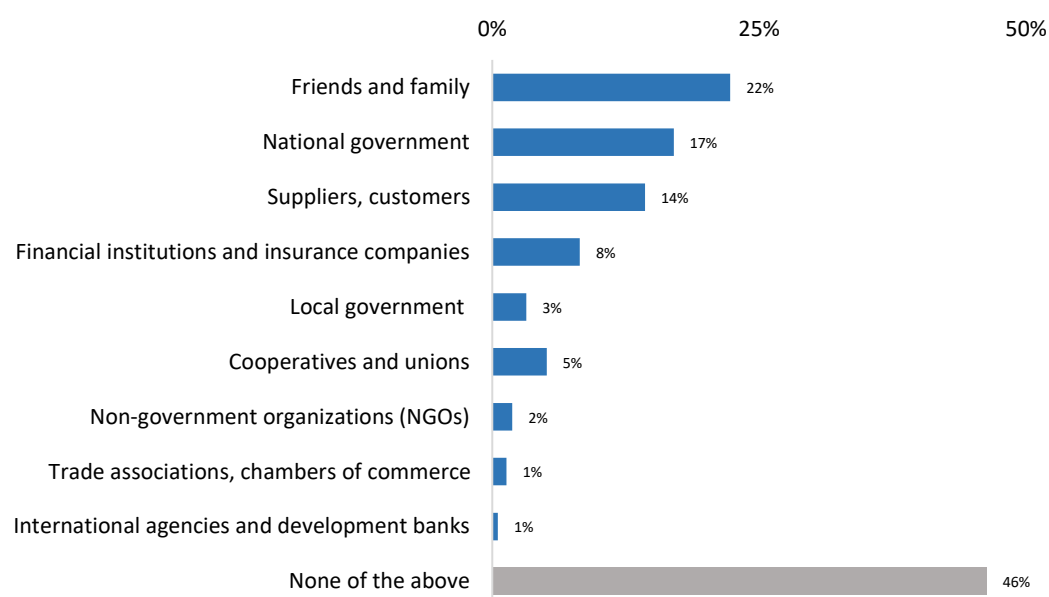
	Manufacturing	Trade	Services	Agriculture
No contractual issues	32%	51%	52%	50%
Expect government assistance	20%	21%	23%	16%
Settlement by mutual agreement	35%	19%	10%	25%
Payment of damages	14%	7%	10%	8%
Legal or arbitration settlement	16%	4%	6%	-
Other	9%	4%	3%	-

6.3.8.11. External support during COVID-19 pandemic

In coping with the effects of the pandemic and resulting business disruption, many companies have had to look for support from outside sources—in particular, accessing financial and technical assistance.

More than half (54%) of respondents needed some form of external support. A fifth of MSMEs (22%) looked primarily to friends and family, and only 17% received any form of support from the national government.

Figure 4.325: External support during the COVID-19 pandemic



Sole traders and micro enterprises were unsurprisingly most keen on utilizing the support of family and friends. The uptake of support from the national government was broadly similar across all four size classes. In terms of sectors, agricultural enterprises received the least support from the national government, with only 8% reporting that they had done so. Instead, the largest share of them received some form of support from their suppliers and customers.

Table 4.323: External support during the COVID-19 pandemic, by firm size

	Sole trader	Micro	Small	Medium-sized
National government	20%	15%	17%	16%
Local government	4%	3%	1%	5%
Financial institutions and insurance companies	10%	5%	9%	16%
NGOs	4%	1%	-	4%
International agencies and development banks	-	1%	-	4%
Trade associations, chambers of commerce	1%	1%	1%	5%
Cooperatives and unions	8%	2%	5%	1%
Friends and family	20%	28%	16%	1%
Suppliers, customers	13%	20%	8%	5%
None of the above	45%	41%	57%	60%

Table 4.324: External support during the COVID-19 pandemic, by sector

	Manufacturing	Trade	Services	Agriculture
National government	22%	13%	20%	8%
Local government	5%	3%	3%	8%
Financial institutions and insurance companies	3%	8%	8%	16%
NGOs	5%	-	2%	9%
Trade associations, chambers of commerce	-	1%	-	-
Cooperatives and unions	5%	1%	1%	-
Friends and family	0%	3%	2%	8%
Suppliers, customers	39%	20%	23%	58%
None of the above	8%	6%	3%	-

6.3.8.12. MSME overall assessment of government COVID-19 business support

Respondents were asked whether they thought the government had provided sufficient support to companies like theirs. Only 31% of surveyed companies felt that government support was adequate. Looking at firm size, medium-sized enterprises were the most likely to feel positive about the levels of government support, with sole traders the least.

Figure 4.326: Assessment of government support

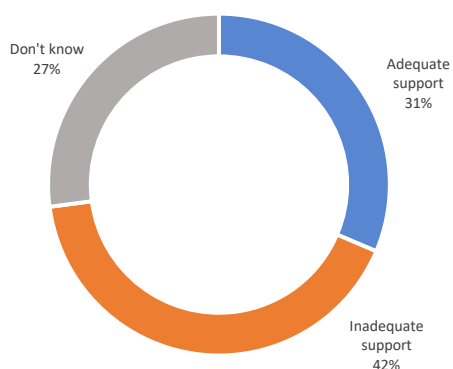


Figure 4.327: Assessment of government support, by firm size

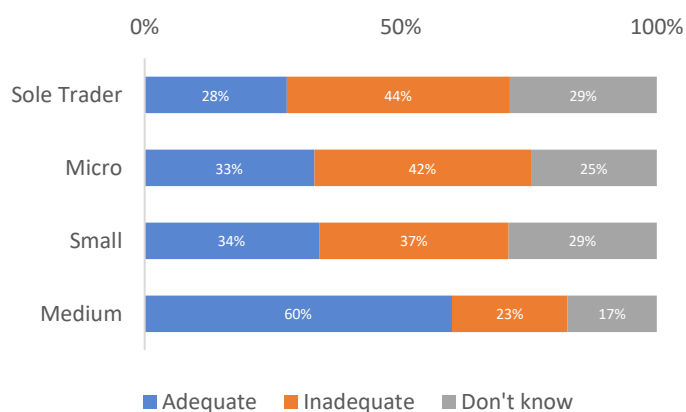
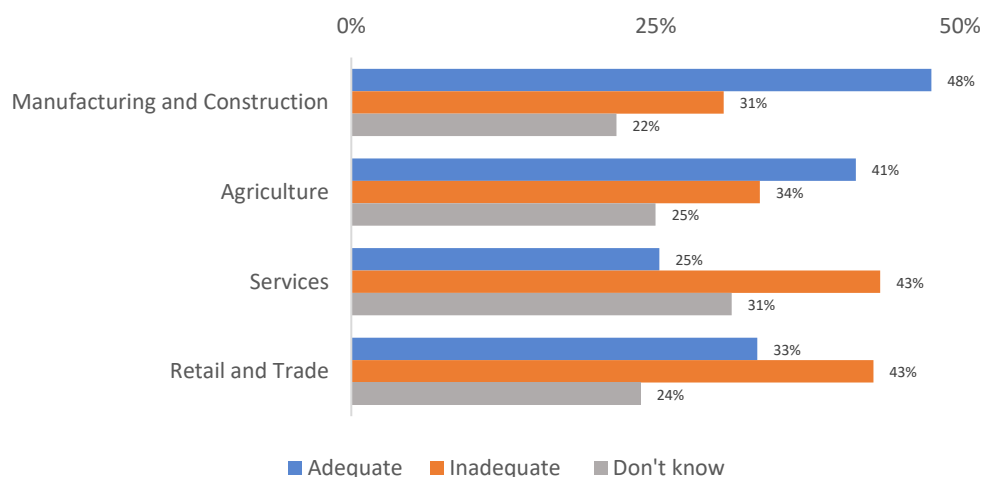


Figure 4.328: Assessment of government support, by sector



6.3.8.13. MSME utilization of government COVID-19 business support policies and measures

The Kazakh government has put in place a raft of support measures for businesses. MSMEs were asked which government support mechanisms they had taken advantage of.

The most popular measure reported by a fifth of MSMEs was a 90-day deferral of loan payments—this option was even more popular for micro and small enterprises, with a quarter taking advantage. This was followed by cash transfers to the unemployed and self-employed workers reported by 15% of all respondents, and cash transfers to workers who lost their jobs owing to the pandemic (15%).

It is worth noting that accessing official government COVID-19 related support programs also presents its own challenges. A recent survey conducted by Ernst & Young⁵⁷ noted that about 15% of respondents could not take advantage of state support measures since they did not apply to their field of activity, and more than half (51%) of the survey participants faced various barriers in accessing support measures—such as, lack of available information, bureaucracy, negligence, and lack of proper communication from the support providers.

⁵⁷ *Impact of the coronavirus crisis on SMEs in Kazakhstan*, Ernst & Young (2020)

Figure 4.329: Government COVID-19 support measures utilized

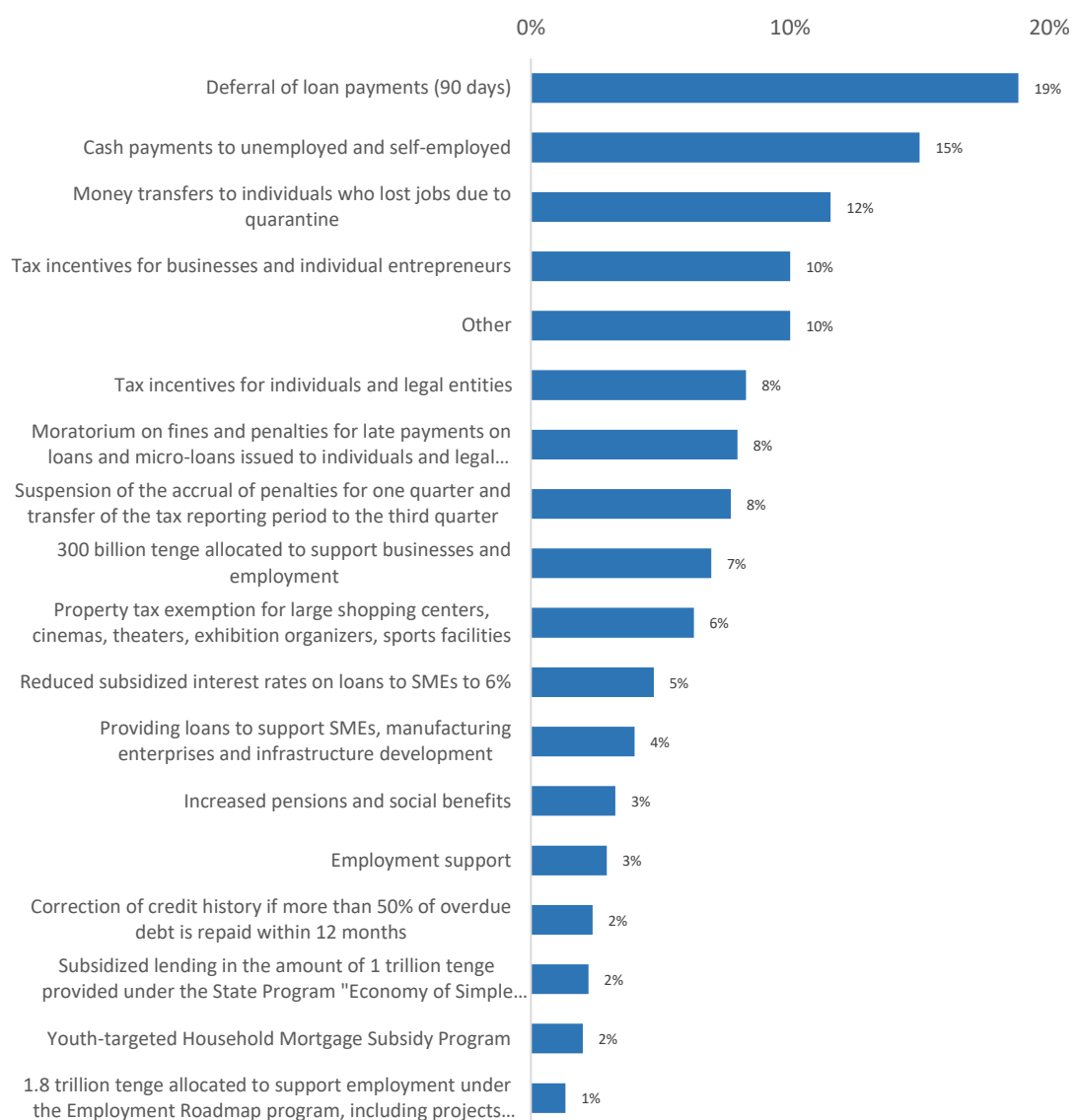


Table 4.325: Government COVID-19 support measures utilized, by firm size

	Sole trader	Micro	Small	Medium-sized
Deferral of loan payments (90 days)	21%	24%	25%	16%
Cash payments to the unemployed and self employed	7%	17%	11%	1%
Money transfers to individuals who lost jobs owing to quarantine	14%	11%	9%	4%
Tax incentives for individuals and legal entities	8%	5%	14%	9%
Tax incentives for individual businesses and individual entrepreneurs	4%	8%	14%	11%
Moratorium on fines and penalties for late payments on loans and micro-loans issued to individuals and legal entities	8%	5%	12%	13%
Suspension of the accrual of penalties for one quarter and transfer of the tax reporting period to the third quarter	15%	7%	10%	8%
300 billion tenge allocated to support businesses and employment	4%	11%	5%	12%
Property tax exemption for large shopping centers, cinemas, theaters, exhibition organizers, sports facilities	9%	7%	1%	1%
Reduced subsidized interest rates on loans to SMEs to 6%	4%	4%	8%	7%
Providing loans to support SMEs, manufacturing enterprises and infrastructure development	3%	4%	4%	3%
Increased pensions and social benefits	1%	4%	5%	4%
Employment support	3%	4%	1%	13%
Correction of credit history if more than 50% of overdue debt is repaid within 12 months	4%	1%	1%	5%
Subsidized lending in the amount of 1 trillion tenge provided under the state program 'Economy of Simple Things'	1%	1%	5%	11%
1.8 trillion tenge allocated to support employment under the Employment Roadmap program, including projects to modernize transport		3%	1%	3%
Youth targeted household mortgage subsidy program	1%	1%		
Other	7%	12%	17%	13%

Table 4.326: Government COVID-19 support measures utilized, by sector

	Manufacturing	Trade	Services	Agriculture
Deferral of loan payments (90 days)	25%	16%	23%	25%
Cash payments to the unemployed and self employed	9%	19%	7%	17%
Money transfers to individuals who lost jobs owing to quarantine	-	12%	19%	8%
Tax incentives for individuals and legal entities	11%	5%	17%	25%
Tax incentives for individual businesses and individual entrepreneurs	14%	6%	9%	-
Moratorium on fines and penalties for late payments on loans and micro-loans issued to individuals and legal entities	6%	11%	10%	-
Suspension of the accrual of penalties for one quarter and transfer of the tax reporting period to the third quarter	5%	11%	5%	16%
300 billion tenge allocated to support businesses and employment	13%	5%	8%	-
Property tax exemption for large shopping centers, cinemas, theaters, exhibition organizers, sports facilities	5%	8%	5%	8%
Reduced subsidized interest rates on loans to SMEs to 6%	5%	6%	3%	8%
Providing loans to support SMEs, manufacturing enterprises and infrastructure development	-	7%	2%	-
Increased pensions and social benefits	-	3%	3%	16%
Employment support	8%	3%	2%	-
Correction of credit history if more than 50% of overdue debt is repaid within 12 months	5%	3%	2%	-
Subsidized lending in the amount of 1 trillion tenge provided under the state program 'Economy of Simple Things'	5%	3%	1%	16%
1.8 trillion tenge allocated to support employment under the Employment Roadmap program, including projects to modernize transport	8%	1%	4%	-
Youth targeted household mortgage subsidy program	-	-	1%	8%
Other	9%	8%	8%	-

6.3.8.14. Preferred future government support

The survey asked respondents going forward what support in coping with the COVID-19 related business slowdown they would like to receive from the government (respondents were allowed to select five options). For 54% of companies, a zero-interest rate and collateral free loans were the support they would most like to receive. Owing to the effect of the COVID-19 pandemic, many businesses are falling behind on their tax payments and, as a result, for 53% of survey respondents, tax relief and/or a deferral or moratorium on tax payments is the most desirable form of support.

Figure 4.330: Preferred future government support

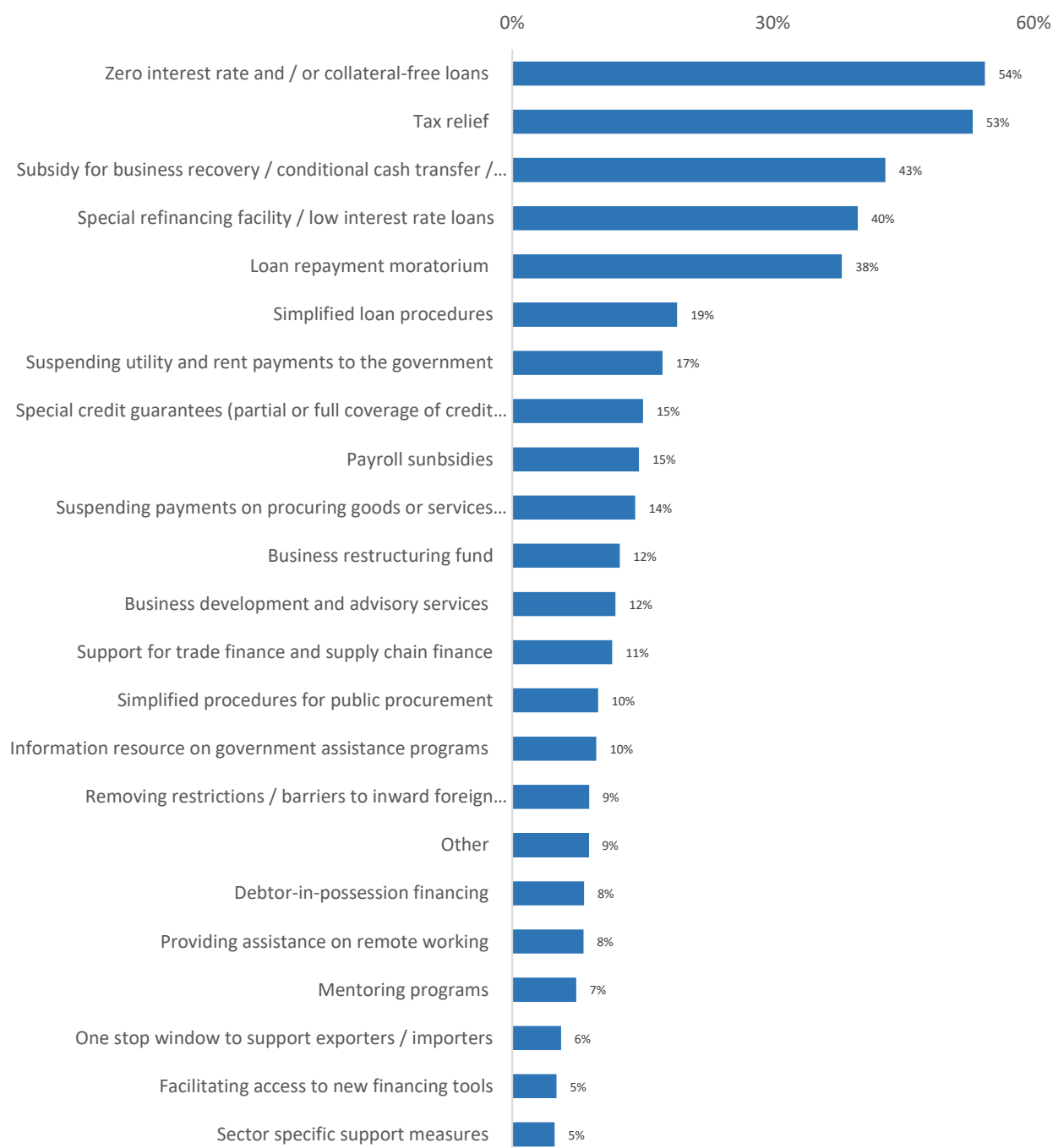


Table 4.327: Preferred future government support, by firm size

	Sole trader	Micro	Small	Medium-sized
Zero interest rate and/or collateral free loans	62%	49%	52%	55%
Tax relief	54%	46%	62%	65%
Subsidy for business recovery/conditional cash transfer/grants	45%	49%	30%	45%
Special refinancing facility/low interest rate loans	53%	31%	33%	53%
Loan repayment moratorium	49%	33%	28%	48%
Simplified loan procedures	22%	14%	22%	23%
Suspending utility and rent payments to the government	13%	19%	21%	20%
Special credit guarantees (partial or full coverage of credit risk)	18%	11%	17%	19%
Payroll subsidies	10%	15%	22%	17%
Suspending payments on procuring goods or services from the government	11%	20%	14%	19%
Business restructuring fund	11%	11%	17%	11%
Business development and advisory services	8%	11%	20%	13%
Support for trade finance and supply chain finance	4%	15%	17%	8%
Simplified procedures for public procurement	10%	8%	13%	7%
Information resource on government assistance programs	6%	9%	16%	5%
Removing restrictions/barriers to inward foreign investments	4%	9%	16%	7%
Debtor-in-possession financing	4%	11%	12%	5%
Providing assistance on remote working	10%	5%	10%	5%
Mentoring programs	3%	11%	9%	11%
One stop window to support exporters/importers	1%	5%	13%	9%
Facilitating access to new financing tools	3%	3%	12%	3%
Sector specific support measures	6%	4%	5%	1%
Other	4%	7%	15%	4%

Table 4.328: Preferred future government support, by sector

	Manufacturing	Trade	Services	Agriculture
Zero interest rate and/or collateral free loans	54%	65%	47%	34%
Tax relief	63%	59%	46%	42%
Subsidy for business recovery/conditional cash transfer/grants	38%	51%	39%	25%
Special refinancing facility/low interest rate loans	38%	43%	38%	34%
Loan repayment moratorium	34%	40%	38%	17%
Simplified loan procedures	14%	27%	13%	25%
Suspending utility and rent payments to the government	17%	16%	18%	25%
Special credit guarantees (partial or full coverage of credit risk)	19%	14%	15%	17%
Payroll subsidies	19%	13%	13%	33%
Suspending payments on procuring goods or services from the government	16%	16%	14%	
Business restructuring fund	17%	12%	10%	25%
Business development and advisory services	20%	10%	12%	8%
Support for trade finance and supply chain finance	14%	11%	10%	25%
Simplified procedures for public procurement	9%	7%	13%	0%
Information resource on government assistance programs	8%	7%	12%	17%
Removing restrictions/barriers to inward foreign investments	11%	7%	10%	8%
Debtor-in-possession financing	5%	3%	13%	8%
Providing assistance on remote working	3%	6%	11%	8%
Mentoring programs	3%	6%	10%	
One stop window to support exporters/importers	6%	6%	4%	16%
Facilitating access to new financing tools	6%	3%	6%	16%
Sector specific support measures		2%	8%	8%
Other	9%	4%	13%	

6.3.8.15. Resilience indices

Please see Appendix 2 for a description of the methodology behind the indices.

Figure 4.231: Distribution of resilience index for all MSMEs

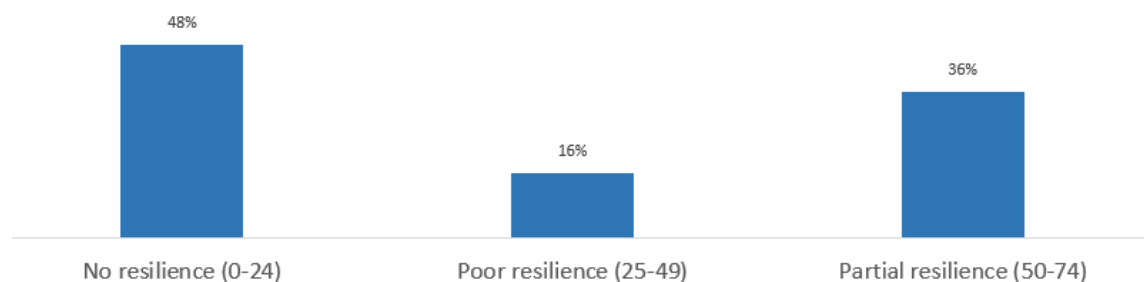


Table 4.329: Resilience index, by firm size

	No resilience	Poor resilience	Partial resilience
Sole trader	59%	15%	25%
Micro	74%	7%	18%
Small	63%	9%	27%
Medium-sized	72%	5%	23%

Table 4.330: Resilience index by sector

	No resilience	Poor resilience	Partial resilience
Manufacturing and Construction	50%	18%	33%
Agriculture	59%	8%	33%
Services	72%	11%	17%
Trade and Retail	65%	9%	26%

Table 4.331: Resilience index, by gender of owner

	No resilience	Poor resilience	Partial resilience
Female	66%	14%	20%
Male	66%	8%	26%

6.4 GEORGIA

6.4.1 MSME context

The COVID-19 pandemic dramatically impacted the global economy and this adverse impact was felt in Georgia, with drops in both supply and demand. In 2020 Georgian MSMEs suffered capacity under-utilization, difficulties in maintaining workers, disruption of supply chains, and loss of demand, with the negative effects varying by sector.

Prior to the pandemic the MSME sector in Georgia was substantial and growing. In 2019, according to the National Statistics Office of Georgia (GeoStat) the share of MSMEs in GDP was significant, accounting for 61% and 64% in employment. The main contributors to Georgia's GDP in 2018 were manufacturing (18.3%) and construction (12.6%). In 2018 MSMEs employed most people in trade (28.3%), manufacturing (12.8%), and construction (12.6%). In recent years, Georgia's economic growth was driven by services, with tourism leading the way, with trade and construction all showing healthy growth. Pandemic related business disruption particularly affected what had hitherto been increasing local manufacturing and diversifying supply chains.

6.4.2 Official definition of enterprise size

There are two parallel systems of definitions of the sizes of enterprises—one for statistical purposes and one for tax administration purposes. In 2017, the statistical definition of SMEs was updated by GeoStat to take into account commonly accepted international standards.⁵⁸ There is no official definition of micro enterprises used for statistical purposes.

Table 4.401: Official definition of SMEs in Georgia (GeoStat 2017)

	Number of employees	Annual turnover ⁵⁹
Small	<50	<GEL 12,000,000 (US\$3.6 million)
Medium-sized	50-250	GEL 12,000,000-60,000,000 (US\$3.6- US\$18.2 million)
Large	>250 and more	>GEL 60,000,000 (US\$18.2 million)

There is another definition of sizes of the businesses. This alternative definition (defining small and micro businesses) is used for tax purposes and is stipulated in the Georgian Tax Code. The definition of micro enterprises is given only for tax purposes and the definition of small businesses is different from the statistical definition. For instance, small enterprises are defined as having an annual turnover of not more than GEL 100,000 (US\$30,321) and micro enterprises have a turnover of not more than GEL 30,000 (US\$9,096) annually. In addition, micro enterprises (both as individual or legal entities) do not have hired employees.

The two different definitions and classifications of firm size require unification in order to streamline statistics with tax and policymaking in this area. OECD Eurasia recommends that Georgia should streamline the definitions, recognize micro enterprises as a subsector of the economy and align with size definitions of the EU to allow for the benchmarking of Georgian SME performance with OECD and EU countries.⁶⁰ The mentioned recent change of the basis for calculation of statistics (*namely*, updating definitions) is the first positive move in this direction.

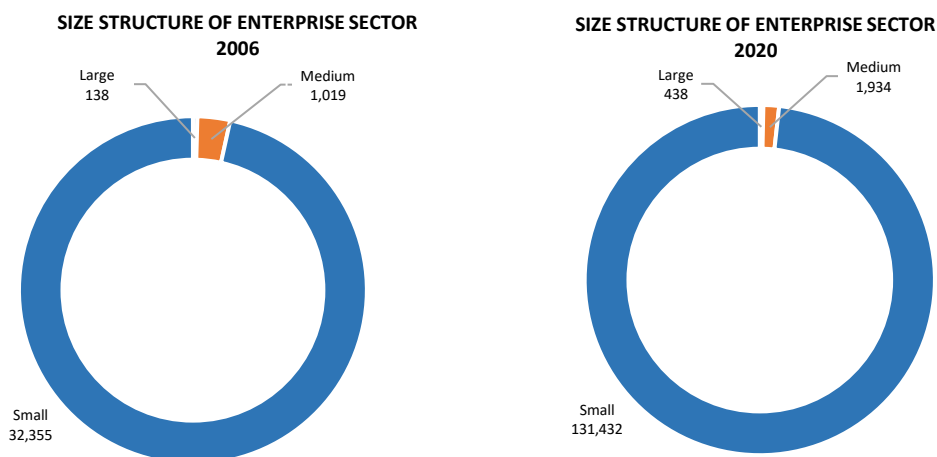
⁵⁸ http://geostat.ge/cms/site_images/_files/georgian/methodology/business/BS_Methodology_GEO.pdf

⁵⁹ As of 4 January 2021, US\$1 = GEL 3.298

⁶⁰ *Recommendations for Georgia's SME Development Strategy 2016-2020*, OECD Eurasia, Working Group, 2016

As of 1 January 2021, according to official figures there were 802,466 registered enterprises in Georgia, of which 792,593 were private sector enterprises (9,873 enterprises were under state, municipal and other types of ownership). Of private sector enterprises, according to preliminary estimates for 2020, there were 133,804 active business enterprises, of which 99.7% of which were SMEs.

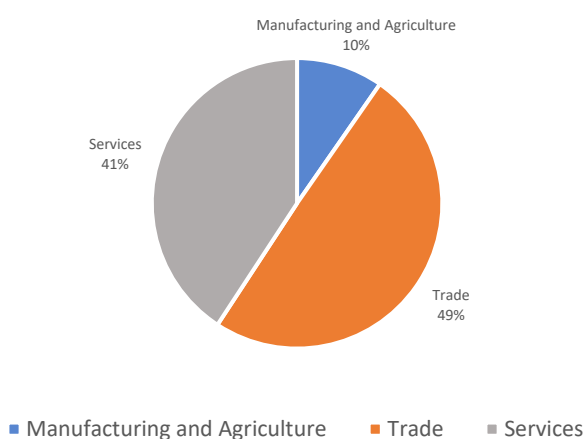
Figure 4.401: Firm size proportions (2006 and 2020)



Source: GeoStat 2020

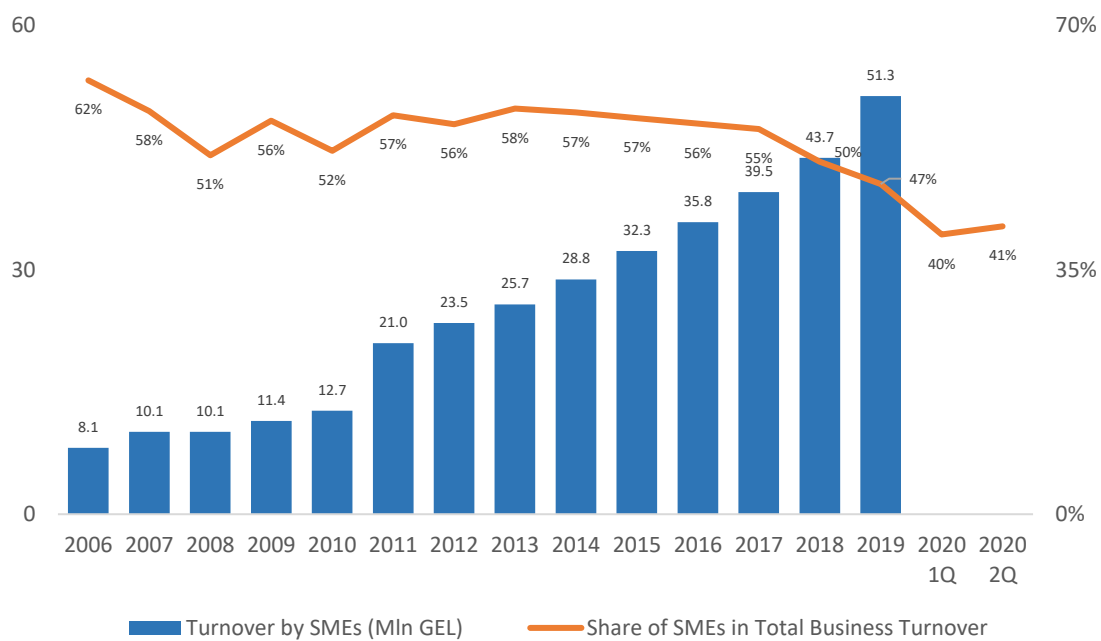
Notwithstanding the relatively large SME proportion of overall registered enterprises, the SME contribution to the overall economic value creation in the country is low. Despite growing revenues of SMEs over the last decade, as a share of overall business revenue, SME turnover has been consistently decreasing, indicating that larger enterprises were growing faster, and SMEs were not reaping the full benefits of the improved business environment.

Figure 4.402: MSME sectoral distribution



Source: GeoStat 2020

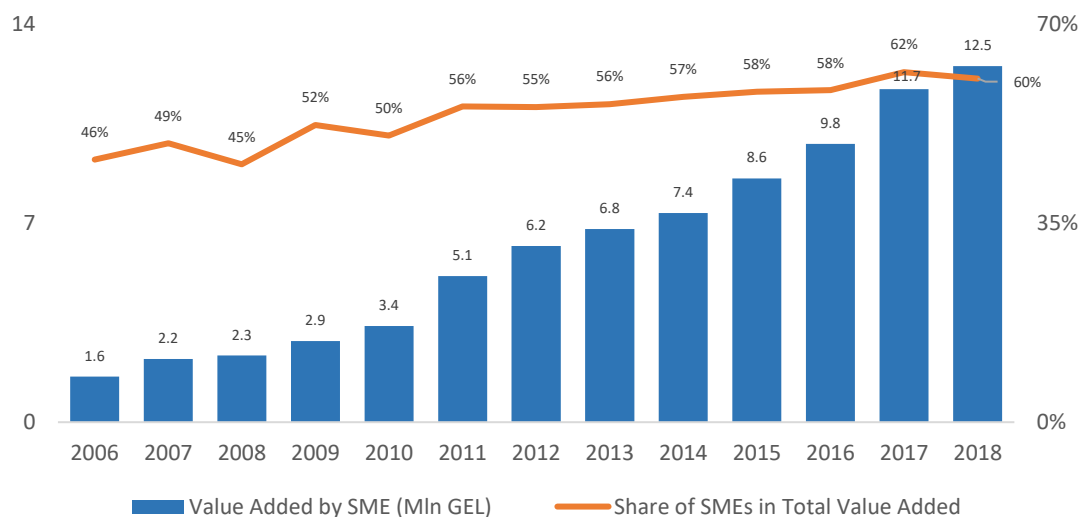
Figure 4.403: Total SME revenues⁶¹



Source: GeoStat, 2020

By 2018 (the most recent available statistics), the share of value added by SMEs in the country was about 60% (or about 12 billion GEL, US\$3.6 billion), which is a result of the slow but sustained growth over the last decade.

Figure 4.404: SME value added

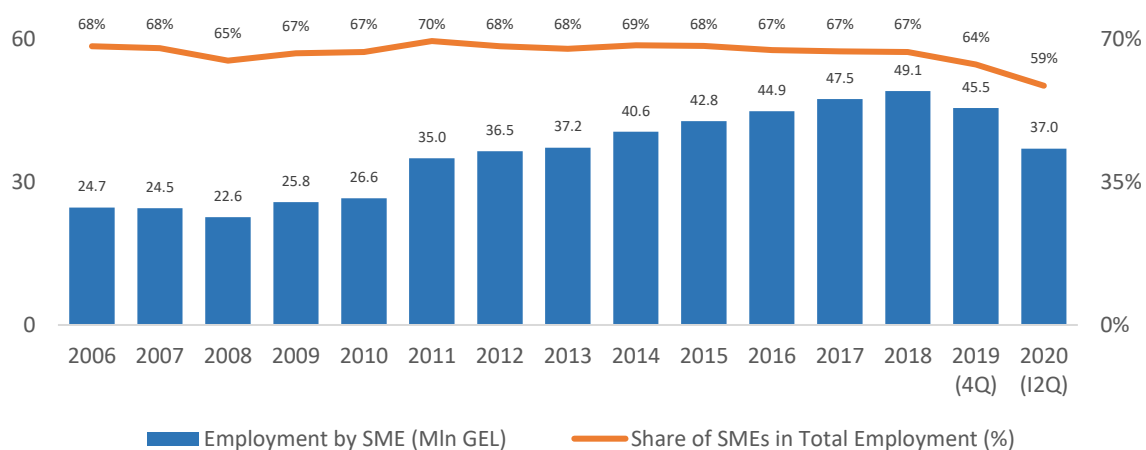


Source: GeoStat, 2020

⁶¹ These numbers are based on the updated definition of firm sizes. Under previous size definitions, SME contributions would be much smaller.

Employment in the SME sector has been declining since 2019 and comprised about 60% of total employment (or about 370,000 people) in the country in 2020.

Figure 4.405: Employment by SMEs⁶²



Source: Geostat, 2020

6.4.3 MSME environment

Over the last few years Georgia has undertaken significant economic reforms, resulting in impressive growth rates and improved business climate as repeatedly reported by the World Bank's DB indicators. Nevertheless, a range of critical constraints such as low productivity and export rates, low adherence to international standards, and poor competitiveness, still impedes MSME growth. At the same time, extensive competitive growth opportunities exist in a range of sectors, requiring further support to enhance capacity and modernization, improve quality and meet international standards, and increase access to global value chains. Georgian SMEs are still not taking full advantage of the market opportunities provided by the European Union owing to the lack of adequate entrepreneurial dynamism and institutional infrastructure to develop foreign trade-oriented sectors.

Georgia is characterized by a large number of SMEs, but the SME sector is underrepresented in employment, value added and contribution to GDP. Despite regulatory improvements, most SMEs in Georgia predominantly operate in low value-added segments and demonstrate minimal export activities with low levels of product and market diversification and sophistication. Despite new business opportunities in a view of the Deep and Comprehensive Free Trade Area with the EU, MSMEs in Georgia face considerable challenges and short-term costs in complying with EU standards and enhancing sectoral competitiveness.

THE MISSING MIDDLE

One of the key issues identified by economic studies is the size discrepancy among enterprises, which indicates to a high concentration towards smaller and larger firms, whereas the middle group is underrepresented. This might imply institutional constraints impeding the transition of small firms to medium-sized firms.

⁶² Using the updated size definition of SME sector. If using the previous definition, contributions would be minimal.

Small and micro enterprises represent most firms in Georgia. However, despite recent robust firm creation numbers in Georgia, total employment growth is low because firms are mostly small, and formal employment is concentrated in larger and relatively older firms. For instance, by 2015, individual entrepreneurs (which are usually smaller and micro enterprises) represented over 70% of total registered firms but accounted for only 11% of total employment. Very large firms, with more than 500 employees, represented only 0.1% of total firms, but account for over 21% of total employment. Employment is more concentrated in small firms (below 20 employees) or larger firms (above 100 employees), which account for 40% of total employment each. Small and medium-sized enterprises, with 20 to 100 employees, account for only 20% of total employment in the private sector. Small and individual firms, while contributing to some job creation in the short run, have high failure rates. The likelihood of survival of such enterprises is small—on average 50% close every four years.⁶³

MISALLOCATION OF RESOURCES WITHIN AND ACROSS INDUSTRIES

Another important observation related to the enterprise sector in Georgia are numerous market distortions, as shown by the high variation in total factor productivity (TFP) within sectors and low correlation between firm size and productivity. According to World Bank estimates, eliminating allocative distortions could increase TFP by up to 70%.⁶⁴

High variation in productivity across sectors is more commonly evidenced by publicly available statistics. A recent UNDP assessment in eight municipalities of Georgia also showed significant resource misallocations as shown by the productivity variations across sectors and among specific firms within each sector.⁶⁵

DIMINISHING LABOR FORCE, HIGH SELF-EMPLOYMENT IN AGRICULTURE, SIGNIFICANT INFORMAL EMPLOYMENT

Georgia's shrinking labor force, which has been declining over the last few years, is of particular concern. According to official figures, in the period 2015-2019 the economically active part of the population decreased from 1.68 million down to 1.57 million, giving a labor force participation rate of 51.8%. The remaining 48.2% of the working age population is, for various reasons, not engaged in formal employment. Over this same period, the number of people formally employed decreased by 12,600 and the number of self-employed decreased by about 47,700.⁶⁶

Outbound migration as well as a falling birth rate are the primary reasons for this negative trend.⁶⁷ However, since 2015, the working age (15+) population did not diminish in the country.

By 2019 self employed⁶⁸ as a share of total employed people was about 30%.⁶⁹ 76% of all self-employed workers in Georgia are in agriculture. In fact, about 97% of agricultural workers are self-employed.⁷⁰

⁶³ *Georgia at Work: Assessing the Jobs Landscape*, the World Bank Group, 2018

⁶⁴ *Georgia at Work: Assessing the Jobs Landscape*, the World Bank Group, 2018

⁶⁵ *Municipality Assessment Reports of Eight Municipalities*, IRDG UNDP, 2019 (publicly available soon)

⁶⁶ Geostat data

⁶⁷ *Analysis of Georgia's Labor Market*, The MoESD, 2018

⁶⁸ Self-employment numbers need to be treated with caution as they often include unemployed or under employed people

⁶⁹ Geostat, 2020

⁷⁰ Employment Survey 2018

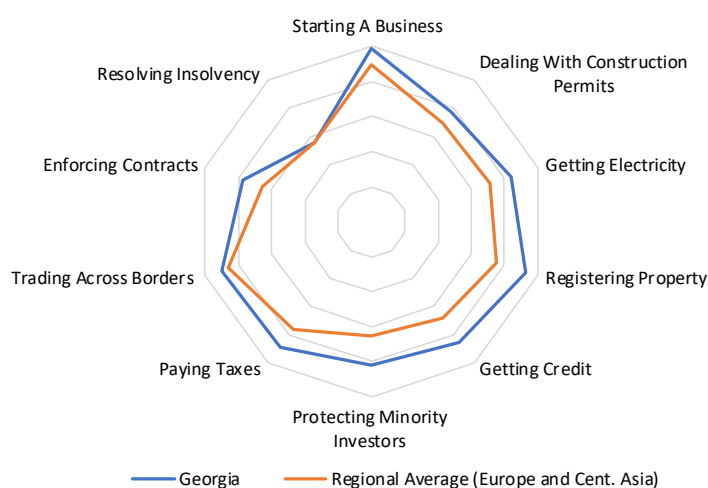
Estimates put the size of Georgia's total informal employment in the non-farm sector at about 35%; however, there is a lack of current research in this area.

6.4.4 Improving business enabling environment

WORLD BANK DOING BUSINESS INDICATORS

As a result of the government's increasing emphasis on improving the business enabling environment, Georgia has shown impressive progress in the World Bank's Doing Business indicators. According to the Doing Business 2019 report, Georgia's overall rating is six and it is a consistent high performer in the Europe and Central Asia region. However, business insolvency has been a key area in which Georgia has significantly lagged behind other countries in the region, notwithstanding some progress that has been achieved in the last few years.

Figure 4.406: Doing Business scores for Georgia and the regional average



Source: The World Bank Group

Thanks to the ease of registering a company and starting a new business, Georgia has the highest new business density coefficient among its peers. In 2014, with about 17,000 newly established firms, Georgia had six new firms for every 1,000 working age population, compared with an average of 2.3 for the region.⁷¹

6.4.5 Constraints

Doing Business and similar rankings can miss some of the fundamental factors affecting the entrepreneurial sector in the country. In Georgia, businesses themselves say that political instability is the biggest obstacle to entrepreneurship and hinders their long-term development. Enterprise surveys conducted by the World Bank consistently indicated the importance of this factor to firms.

⁷¹ *Georgia at Work: Assessing the Jobs Landscape*, The World Bank Group

Table 4.402: Most important obstacles for enterprises in Georgia and the regional average (2019)

Percentage of firms choosing option as their biggest obstacle, by firm size

	Small (5-19)		Medium-sized (20-99)		Large (100+)	
	Georgia	Europe and Central Asia	Georgia	Europe and Central Asia	Georgia	Europe and Central Asia
Political instability	28%	10%	34%	11%	26%	9%
Access to finance	33%	11%	17%	10%	23%	9%
Inadequately educated workforce	15%	13%	14%	17%	22%	24%
Access to land	0%	2%	3%	2%	3%	2%
Business licensing and permits	0%	3%	0%	3%	10%	3%
Corruption	2%	5%	0%	5%	1%	4%
Courts	0%	2%	0%	2%	0%	1%
Crime, theft and disorder	3%	2%	4%	2%	3%	1%
Customs and trade regulations	3%	2%	1%	3%	7%	3%
Electricity	3%	4%	3%	3%	1%	3%
Labor regulations	1%	4%	5%	5%	1%	5%
Practices of the informal sector	2%	14%	3%	13%	1%	10%
Tax administration	1%	5%	1%	4%	1%	5%
Tax rates	4%	20%	9%	16%	2%	17%
Transportation	5%	5%	6%	5%	0%	5%

Source: The World Bank Group

The problem of political instability is especially critical for Georgian medium-sized firms (34% think that political instability is the number one obstacle hindering their development compared to only 11% regionally). For small enterprises, this problem is still acute (18% more than the regional average), although their priority is access to finance.

6.4.6 Growing government SME support

Reflecting the priority that the government attaches to SME development in the recent past, the government has approved a series of strategic programs aimed at boosting entrepreneurship in the country.

Table 4.403: Government SME support programs

Program	Objectives
<i>Georgia's Social and Economic Development Strategy—Georgia 2020 (2014)</i>	(1) Private sector competitiveness; (2) human capital development; (3) access to finance
<i>Government annual program 'For a Powerful, Democratic and United Georgia'</i>	All aspects of the state are important including (1) private sector competitiveness
<i>SME Development Strategy 2016-2020</i>	(1) Enhance competitiveness of SMEs in domestic and international markets; (2) improve SME skills and establish modern entrepreneurial culture; (3) modernization and upgrade of technology used by SMEs. (annual goals: average 10% SME output increase, 15% SME employment increase, 7% productivity growth)
<i>Strategy for Agriculture Development 2015-2020:</i>	(1) Increase competitiveness of the agro food sector; promote stable growth of high quality agricultural production; ensure food safety and security, and eliminate rural poverty through sustainable development of agriculture and rural areas
<i>Rural Development Strategy 2016-2020:</i>	(1) Increase living standards in rural areas through sustainable use of natural resources; (2) diversify rural economies; (3) improve access to quality services

Program	Objectives
<i>Regional Development Plan 2015-2017</i>	(1) Support economic development and create new jobs, especially in those regions with high unemployment; (2) improve quality of life, especially in rural and less developed areas
<i>DCFTA Implementation Action Plan For 2014-2017 (2014)</i>	Support national reforms in the areas of: (1) trade; (2) SME development; (3) technical regulations; 4) competition; 5) other areas considered by DCFTA
<i>Vocational Educational Reform Strategy For 2013-2020</i>	(1) Support flexible VET system favoring competitive skills development; (2) inclusion of all of the population in income generating activities
<i>State Strategy for the Formation of the Georgian Labor Market 2015-2018</i>	Eradicate skills mismatch to meet the demand from entrepreneurship sector
<i>National Strategy for Labour and Employment Policy 2019-2023</i>	(1) Reduce mismatches between skills demand and supply; (2) promote employment and active labor market policies; (3) promote inclusive employment

'Georgia 2020' addresses private sector needs through increasing private sector competitiveness and innovation and improving access to finance, as well as improving human capital. The strategy proposes a combination of the continuation of the reforms in business and investment as well as newly introduced investment in supporting infrastructure.

Of all the programs listed, the most directly relevant is Georgia's Small and Medium Entrepreneurship Strategy for 2016-2020. The strategy was developed in close cooperation with OECD ECP and Germany's Private Sector Development Program for the South Caucasus/GIZ and includes strategic directions and corresponding policies. These include efforts to improve entrepreneurial skills in accordance with EU practices and to create concrete support measures to encourage innovative entrepreneurship. The document expired in 2020, but the government is currently working to renew the strategy in the near future.

6.4.7 Noticeable improvement of institutional frameworks and support mechanisms

The institutional framework and operational environment for SMEs: To further strengthen the capacity of the government in carrying out focused MSME policy and to provide financial and technical assistance to foster entrepreneurship, innovation and MSME growth, the government established two new institutions, Enterprise Georgia (EDA) and the Georgian Innovation and Technology Agency (GITA). The main function of EDA is to support development of entrepreneurship compliance with DCFTA; provide information and financial support to private sector companies to plan; diversify and develop their business and develop export markets; and to increase access to financing for MSMEs. The role of GITA is to introduce and stimulate innovation, modern technologies and research and development, and to support startups.

Notable steps in this direction were the adoption of a new SME definition, the formalization of platforms for public-private dialog on business related policies and laying the groundwork for regulatory impact assessments (RIAs).

According to the 2018 State Budget Execution Report, the activities envisioned by the SME Development Strategy Action Plan for 2018 were completely fulfilled.⁷²

The midterm evaluation of Georgia's SME Development Strategy 2016-2020 showed that substantial progress has been achieved in executing the strategy and envisioned policies, but much remains to be done. Building on these achievements, the introduction of SME specific RIA tests could help the

⁷² Budgetary Office of the Parliament of Georgia, 2018 Budget Fulfillment Report

government better anticipate the potential impact of draft legislation on SMEs. However, further attention is needed to continue the various activities aimed at improving business closure and insolvency procedures.⁷³

Access to finance: Access to finance for SMEs has become easier thanks to changes in the legal framework allowing for the provision of grants to commercial entities, an increase in the financial support offered by state agencies, and the implementation of a multitude of financial education initiatives. A number of programs by state and donor institutions were introduced (see Table 4.404), aimed at increasing SME access to finance. However, according to the government's own monitoring and evaluation report, a more coordinated approach to financial education would better address the specific needs of small and medium-sized entrepreneurs, while also facilitating the adoption of international financial reporting standards. In addition, the creation of a fully-fledged credit guarantee scheme and the development of alternative financing tools could reduce the burden of the currently heavy collateral requirements for SMEs.⁷⁴

Developing skills and entrepreneurial culture: Georgia has made important progress in developing skills and facilitating an entrepreneurial culture, especially in anticipating SME skill needs, involvement of employers in setting education and training standards, and the introduction of mandatory entrepreneurship modules in vocational education and training curricula. The adoption of a strategic framework for women's entrepreneurship could help Georgia close the gender gap in entrepreneurship, but emphasis should be put on the implementation, monitoring, and evaluation of the other various activities under way to effectively assess their impact.⁷⁵

Internationalization of SMEs: The government is supporting SME internationalization through a variety of export promotion activities. DCFTA information centers are being set up throughout the country and a pilot FDI-SME linkages program is being established. Going forward, the government should consider further supporting cluster development, but also providing targeted financial support—such as export loans or export credit guarantee instruments—to overcome financing barriers and risks encountered when engaging in international trade.⁷⁶

SME innovation and R&D: Important steps have also been taken to facilitate SME innovation and R&D activities by, for example, allowing public universities and research centers to spin off companies and increasing financial support for innovation, and expanding uptake of ICT and innovation activities by companies.⁷⁷

Programs by EDA: EDA has several support programs and activities for improving the overall level of entrepreneurship. More specifically there are three main directions that EDA focuses on:

- Development of businesses
- Investment promotion
- Export support

⁷³ *Monitoring Georgia's SME Development Strategy 2016-2020*, OECD Publishing, Paris, 2019

⁷⁴ *Monitoring Georgia's SME Development Strategy 2016-2020*, OECD Publishing, Paris, 2019

⁷⁵ *Monitoring Georgia's SME Development Strategy 2016-2020*, OECD Publishing, Paris, 2019

⁷⁶ *Monitoring Georgia's SME Development Strategy 2016-2020*, OECD Publishing, Paris, 2019

⁷⁷ *Monitoring Georgia's SME Development Strategy 2016-2020*, OECD Publishing, Paris, 2019

Table 4.404: EDA support programs

Program	Description
Industrial Component	Interest rate subsidy (10%-12%) as well as technical assistance for priority group startups
Credit Guarantee Scheme	Guarantees provided by GITA for up to 70% of the principal amount, in priority areas
Produce For Better Future	Grant financing from GEL 7,000 to GEL 35,000 (US\$2,122-US\$10,612) for people living across conflict lines
Hotel Component	Interest rate subsidy (10%) financing hotel franchises as well as technical assistance for hotel development
Micro and Small Business Support	Cosharing grant financing of GEL 5,000 to GEL 20,000 (US\$1,516-US\$6,064) for individuals and groups, as well as technical assistance
Film in Georgia	Specialized financial and tax incentives for international productions
Small and Medium Hotel Industry Financial Support	Interest rate subsidy for small hotels and guesthouses

Investment promotion includes identifying interesting sectors attractive for investment, conducting feasibility studies, and preparing investment proposals.

In addition, EDA also provides support in export promotion and development by organizing international exhibitions and trade missions, trade facilitation through www.tradewithgeorgia.com, training for export managers, and networking through EEN (European Enterprise Network).

GITA programs: GITA is an agency set up within the Ministry of Economy and Sustainable Development. Its mandate is to coordinate and mediate innovation and technology development within the country. Objectives include the following:

- Coordinating the establishment and development of an innovation ecosystem in Georgia
- Stimulating innovation, R&D, and adoption of new technologies
- Supporting the commercialization and application of innovation
- Connecting businesses with scientific research institutions to conduct R&D
- Supporting the creation of startup companies and enhancing their competitiveness
- Developing broadband internet throughout the country and increasing connectivity
- Developing skills required for innovation and technology transfer
- Creating relevant infrastructure for the development of innovation and technology

GITA has implemented a number of initiatives to achieve these objectives:

Innovation infrastructure	Startup grants
Technoparks, fablabs, iLabs, innovation centers (including in the regions)	Cosharing grants of up to GEL 100,000 (US\$30,321)
Business incubator	Innovation grants for established enterprises of up to GEL 650,000 (US\$0.2 million)
Workshops and training in the regions (such as, internet literacy trainings, programming)	Micro-grants up to GEL 5,000 (US\$1,516)
Mentoring and coaching programs	
Innovation bootcamps	
Forums and information sessions (such as, Start-up Beats)	

GITA is currently implementing the Georgia National Innovation Ecosystem (GENIE) project—a US\$40 million project financed by the World Bank. The main objective of the GENIE project is to support the development of innovation by MSMEs and promote their participation in the digital economy. By 2019 there were 129 startups and 358 events held, with more than GEL 2 million (US\$0.6 million) provided to startups. In 2020, 500 Startups—a leading global startup accelerator—entered Georgia and started to accept applications.

Programs by the Agriculture and Rural Development Agency: The Agricultural and Rural Development Agency (ARDA) was established in 2019 by the Ministry of Environmental Protection and Agriculture by merging the former Agricultural Projects Management Agency (APMA) and Agricultural Cooperative Development Agency (ACDA) in order to promote rural development in Georgia. The main purpose of the agency is to promote and stimulate development of production-oriented agriculture in rural areas, and to take over the projects initiated by APMA to support the establishment and expansion of agricultural enterprises.

Table 4.405: ARDA support programs

Program	Eligible financing
Young Entrepreneur (DANIDA)	Grant financing for up to 40% of the investment costs for startups by young entrepreneurs
Rural Development Program	80% grant financing scheme for non-farm entrepreneurship, financed by the ENPARD program, implemented by UNDP, which covers eight remote municipalities in Georgia
Plant the Future	Co-financing of perennial orchards and nursery gardens;
Georgian Tea Plantation Rehabilitation Program	Co-financing of rehabilitation works for tea plantations owned by program beneficiaries and/or by the State (60% to 90% of the rehabilitation works)
Program of Agro-Production Promotion (IFAD)	a) Primary production component—funding smallholder farms and agricultural industry cooperatives b) Processing and preserving enterprises component—funding of processing and warehousing enterprises and agricultural cooperatives in priority agricultural sectors (40% of the eligible costs)
Preferential Agro Credit Project	a) For current assets b) For fixed assets c) Preferential agro leasing d) State program 'Produce in Georgia'
Co-financing of Agro Processing and Storage Enterprises	a) Agricultural products processing enterprises co-financing component b) Storage enterprises co-financing component
Agroinsurance	Insurance to cover hail, floods, storms, autumn frost. Each insurer of a land parcel will receive 70% co-financing for each crop envisaged under the program—and 50% in the case of vines
Produce in Georgia	a) Financing primary agricultural enterprises b) Financing enterprises processing agricultural products c) Financing agricultural infrastructure enterprises The program provides security/collateral financing and an interest rate subsidy to eligible enterprises
Seasonal Projects (according to demand)	Past projects: a) Industrial tangerine support program (2014) b) Project of facilitation of apple sales (2014-2015)

The government's budget for entrepreneurship development has substantially increased from GEL 39.2 million (US\$11.9 million) to GEL 52.9 million (US\$16 million) in 2019—more than doubling, compared to 2016.⁷⁸

6.4.8 Government COVID-19 response

In March 2020, the government of Georgia decided to postpone the payment of property and income taxes, return excess VAT, and boost infrastructure spending to help businesses affected by the COVID-19 pandemic. In particular, the government deferred payments of income and property taxes for four months until 1 November for companies operating in the tourism and hospitality sector. This affected 18,000 companies and 50,000 workers. This measure is expected to free up GEL 100 million (US\$30.3 million) of financial resources for companies.

Within the frame of the program 'Co-financing Mechanism for Supporting Family Owned, Small and Medium-Sized Hotel Industries,' EDA (part of the Ministry of Economic and Sustainable Development of Georgia) will co-finance up to 80% of the annual interest rate on loans issued to family owned, small and medium-sized hotels. The estimated budget is GEL 10 million (US\$3 million).

The government planned to double the amount of VAT refunded to GEL 600 million (US\$182 million) and this will return GEL 1.2 billion (US\$364 million) of financial resource to the economy within a year. Additionally, the government financed the interest rate on loans for six months for about 2,000 hotels in the country. It also committed GEL 300 million (US\$91 million) for capital expenditure and infrastructure across the country as part of its economic stimulus package.

On 24 April 2020, the Prime Minister of Georgia presented the COVID-19 Anti-Crisis Economic Plan (AEP), covering already implemented activities as well as several new measures. The total AEP budget amounts to GEL 3.4 billion.

The AEP plan included the following measures:

- Employees who have lost jobs during the pandemic will receive a monthly allowance amounting GEL 200 for six months (GEL 1,200 or US\$363 in total)
- Employees who have not been laid off during the pandemic and who receive less than GEL 750 (US\$227) salary will be exempt from income tax for six months. For those who earn less than GEL 1,500 (US\$454), income tax will only apply to GEL 750 (US\$227) of their income
- Self-employed people or jobless persons able to prove they have lost income owing to the pandemic will receive GEL 300 (US\$91) as a onetime payment
- Socially deprived groups (320,000 people) as well as adults and children with disabilities (40,000 people) will be entitled to GEL 600 (US\$182) financial assistance for six months
- Credit guarantee scheme GEL 330 million (US\$100 million) to help businesses cope with the pandemic
- Tourism enterprises exempt from profits tax
- Micro-grants totaling GEL 20 million (US\$6 million)

Another GEL 500 million (US\$152 million) was allocated for businesses, including GEL 300 million (US\$91 million) for SME lines of credit. The government will provide loan guarantees for 90% of the new loans and 30% of credit restructuring.

⁷⁸ 2019 State Budget Document

Additional funds will be allocated to support farm credit. According to the Prime Minister, the state will write off overdue fines of individuals and businesses using the state irrigation system. About 42,000 farmers have been exempted from irrigation tax payments and the government has written off US\$2.5 million debt to the Georgian land reclamation company. The debt was formed in 2012 to 2019 for the maintenance and reclamation of land plots.

In addition, every farmer who needs to buy equipment or set up a greenhouse or irrigation system will receive direct financial assistance from the state for 50% of the incurred costs.

Support measures will affect about 200,000 farmers. The total budget for assistance to the agricultural sector will be GEL 300 million (US\$91 million). Owners of agricultural land will be able to buy diesel fuel for GEL 1 below the market price. Each farmer will receive assistance from the state of GEL 200 (US\$61) per hectare of land that they own. This means that medium-sized and large farms that own and cultivate 10 hectares of land, for example, will receive assistance from the state of GEL 2,000 (US\$606).

Changes to EDA's co-financing terms will increase loan/leasing co-financing periods from 24 months to 36 months and decrease the minimum limit. They will also affect the co-financing mechanism. There are also plans to finance annual crops up to GEL 30,000 (US\$9,096) through agricultural credits to fully cover loan interests.

The National Bank of Georgia launched a new liquidity management tool to support SME financing in Georgia on 1 June. The tool covers two parts: the first is for commercial banks—which can receive National Bank of Georgia liquidity support in exchange for a mortgage portfolio—and the second part is for micro-financing organizations.

6.4.9 Georgia survey of COVID-19 MSME impact

6.4.9.1 Impact of COVID-19 on MSME business operations

Almost all surveyed MSMEs (97%) were negatively impacted by COVID-19, with enterprises in all four size categories suffering. However, 11% of small firms (6-50 employees) reported a positive impact on their businesses, with only 3% to 6% of respondents in other size classes reporting a positive impact. These positive impacts mostly related to increased demand for products and services, with a small number of companies offering new products and finding new sales channels.

For the 97% of respondents who suffered as a result of the pandemic, the most common impact was reduced demand for their products and services (reported by 69% of respondents), with 60% having to experience the extreme measure of a temporary shutdown of operations [*companies who had to permanently shut down were not surveyed*]. 50% reported termination of sales contracts and loss of customers. Relatively fewer companies reported staff shortages (23%), supply chain problems (20%), difficulties in acquiring supplies (20%), and decreased international demand on products/services (16%).

It is worth mentioning that smaller businesses were more affected by problems such as reduced demand for their products, and temporary closures or loss of clients, while staffing issues appeared to be more problematic for relatively larger enterprises.

In terms of sectors, the top three negative outcomes were similar, but the trade sector was more affected by difficulties in production/provision of services, while more service sector firms faced staffing problems and a decrease in international demand on products/services.

Figure 4.407: Negative impact of COVID-19 on business operations

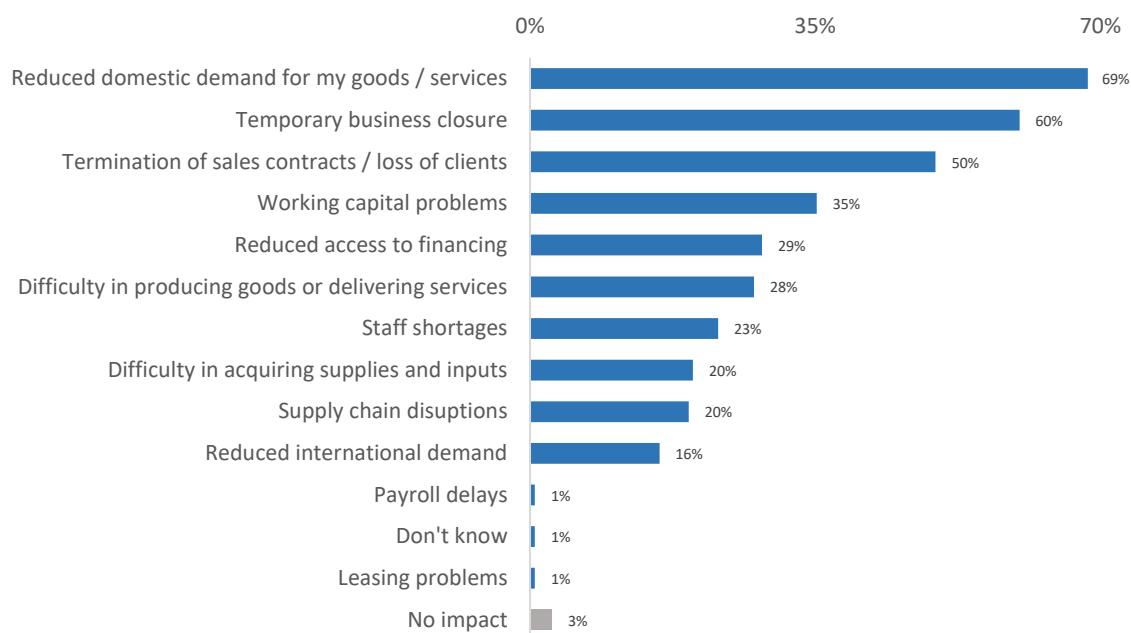
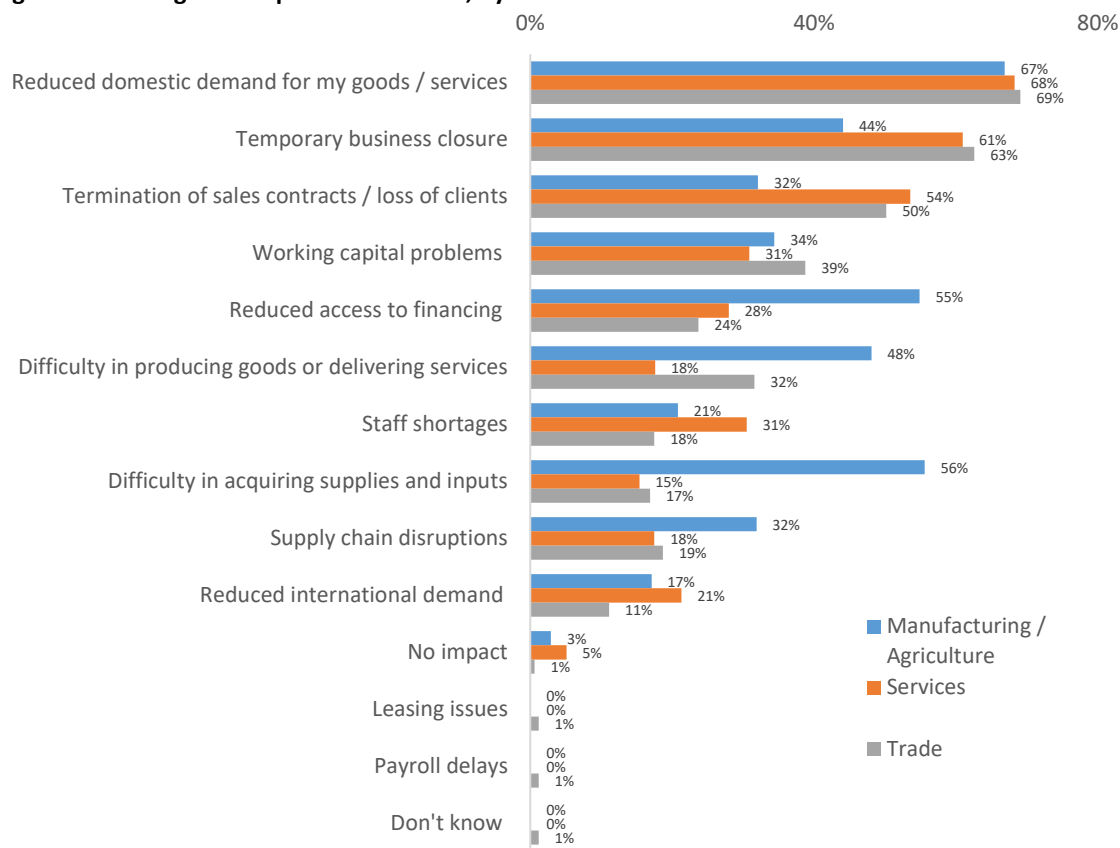


Table 4.406: Negative impact of COVID-19, by firm size

	Sole trader	Micro	Small	Medium-sized
Reduced domestic demand for goods/services	76%	65%	57%	50%
Temporary business closure	66%	62%	44%	23%
Termination of sales contracts/loss of clients	50%	52%	46%	30%
Working capital problems	37%	36%	30%	22%
Reduced access to financing	30%	29%	25%	18%
Difficulty in producing goods or delivering services	26%	30%	27%	20%
Staff shortages	15%	25%	41%	35%
Difficulty in acquiring supplies and inputs	14%	27%	23%	12%
Supply chain disruptions	17%	19%	27%	14%
Reduced international demand	13%	16%	26%	14%
Leasing issues	-	2%	-	-
Payroll delays	-	2%	-	-
Local currency depreciation	-	-	1%	2%
Increased import tariffs	-	-	1%	-
Suspension of hotels construction	-	-	-	2%
Don't know	-	2%	-	-
No changes in business activity	2%	-	8%	13%

Figure 4.408: Negative impact of COVID-19, by sector



6.4.9.2 Impact on sales

Respondents were asked to compare their sales in November 2020 with sales in February 2020 (the last month prior to the COVID-19 pandemic). 79% of businesses reported a drop in sales, with large drops of more than 50% reported by 44% of all companies. The results also show that the smaller the enterprise the more sales fell, with just under half of all sole traders and micro enterprises reporting a more than 50% fall in sales. In contrast, only 28% of small businesses (6-50 employees) and 13% of medium-sized firms (51-250 employees) experienced a more than 50% fall in monthly revenue.

Figure 4.409: Impact on sales

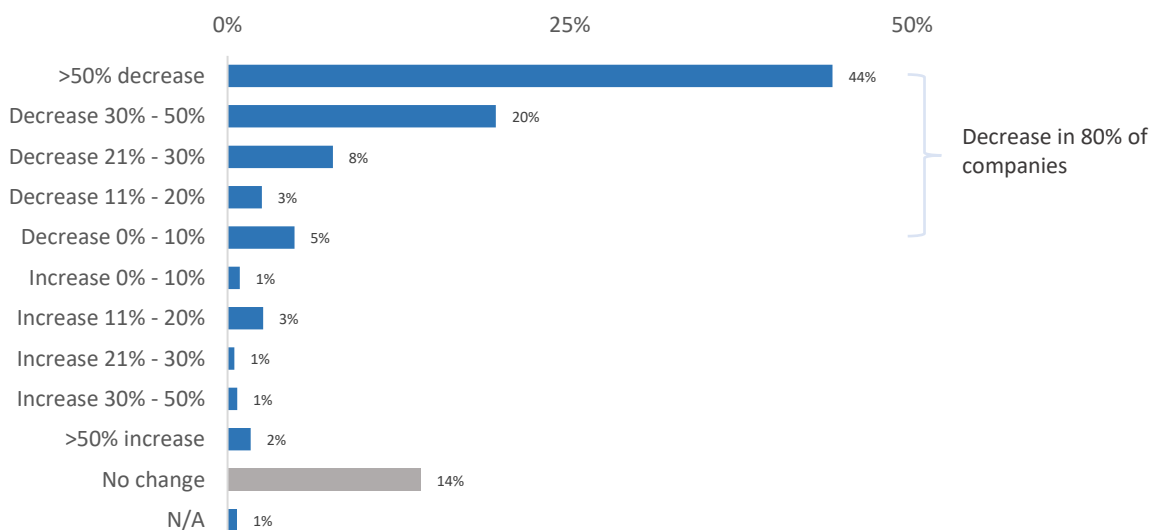
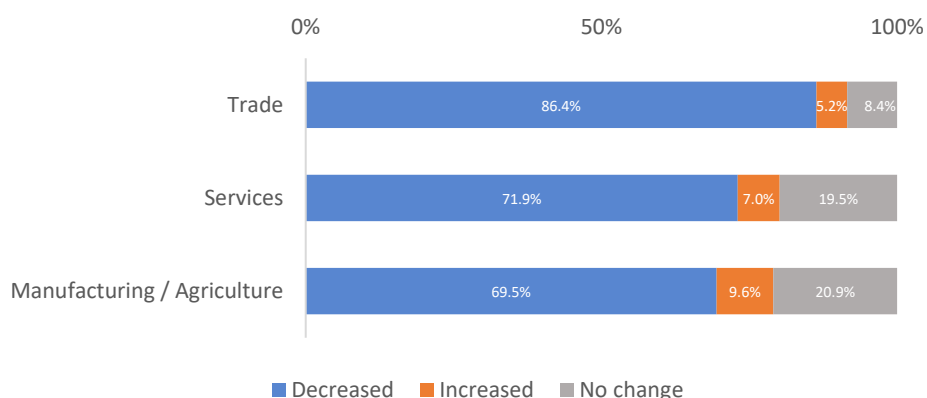


Table 4.407: Impact on sales, by firm size

	Sole trader	Micro	Small	Medium-sized	
>50% decrease	49%	47%	28%	13%	92%
Decreased 30%-50%	26%	13%	15%	21%	
Decreased 21%-30%	8%	9%	5%	12%	
Decreased 11%-20%	3%	-	7%	5%	
Decreased 0%-10%	6%	2%	9%	7%	
Increased 0%-10%	-	2%	1%	2%	71%
Increased 11%-20%	-	2%	11%	5%	
Increased 21%-30%	-	-	3%	2%	
Increased 30%-50%	-	2%	-	-	
>50% increase	-	2%	6%	2%	
No change	9%	19%	16%	31%	64%
NA	-	2%	-	-	
					58%

Figure 4.410: Impact on sales, by sector



While almost all respondents reported falls in sales as a result of the pandemic, only 7% reported an increase in online sales over the period while at the same reporting that they wanted to seek new customers and markets. This is clearly an area where MSMEs could benefit substantially from adopting internet technologies and where the government should consider providing support.

Figure 4.411: Share of online sales, February 2020 versus November 2020

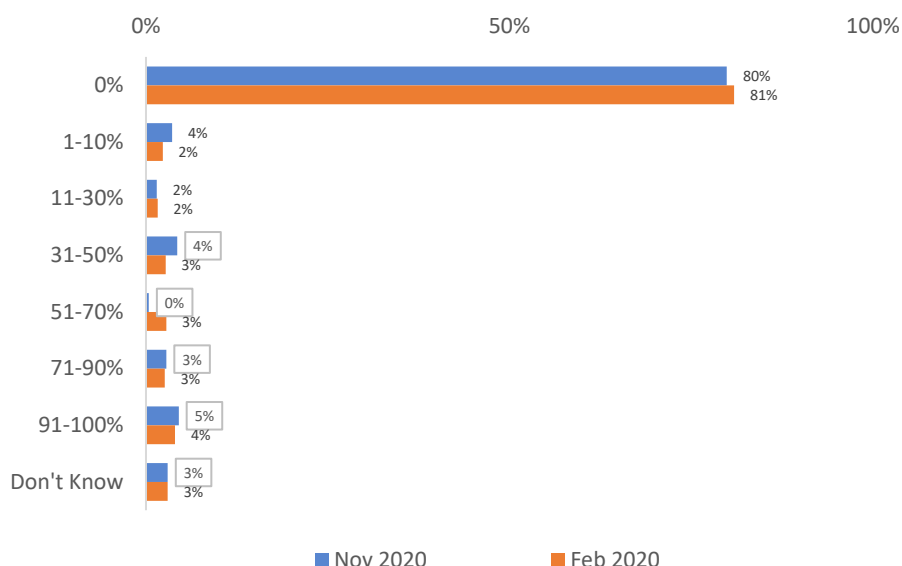
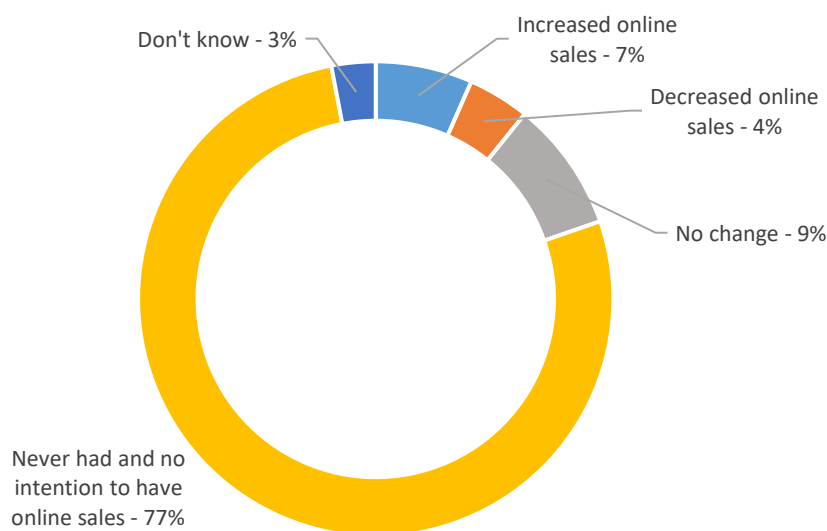


Figure 4.412: Change in online sales



6.4.9.3 Impact on employment

A decrease in the number of permanent employees was reported by 15% of companies, with one in ten reporting a more than 50% decrease in headcount. The share of companies reporting decreased staffing increases with company size, with relatively few micro enterprises affected to a third of medium-sized companies reporting the need to reduce headcount—although the actual percentage decreases were smaller than for smaller companies.

Figure 4.413: Impact of COVID-19 on number of permanent employees

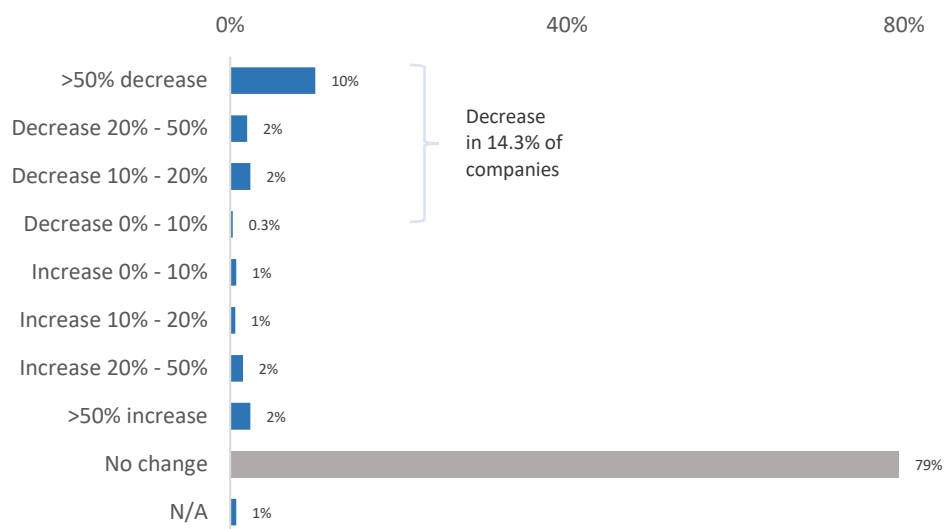


Table 4.408: Impact on number of permanent employees, by firm size

	Sole trader	Micro	Small	Medium-sized
>50% decrease	9%	10%	15%	2%
Decreased 20%-50%	-	2%	7%	6%
Decreased 10%-20%	-	4%	6%	9%
Decreased 0%-10%	-	-	-	17%
Increased 0%-10%	-	-	4%	6%
Increased 10%-20%	-	-	4%	-
Increased 20%-50%	-	-	9%	-
>50% increase	-	6%	2%	-
No change	91%	76%	54%	61%
N/A	-	2%	0.0%	-

Figure 4.414: Impact on number of permanent employees, by sector

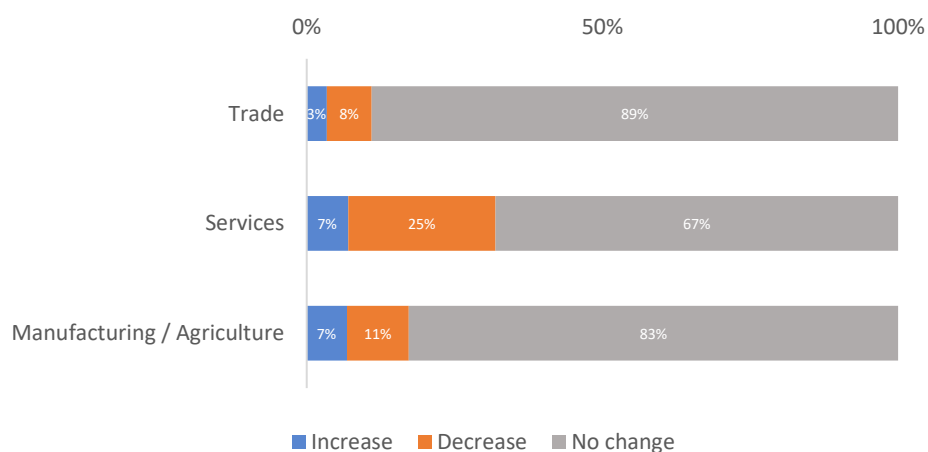


Figure 4.415: Impact COVID-19 on number of temporary employees

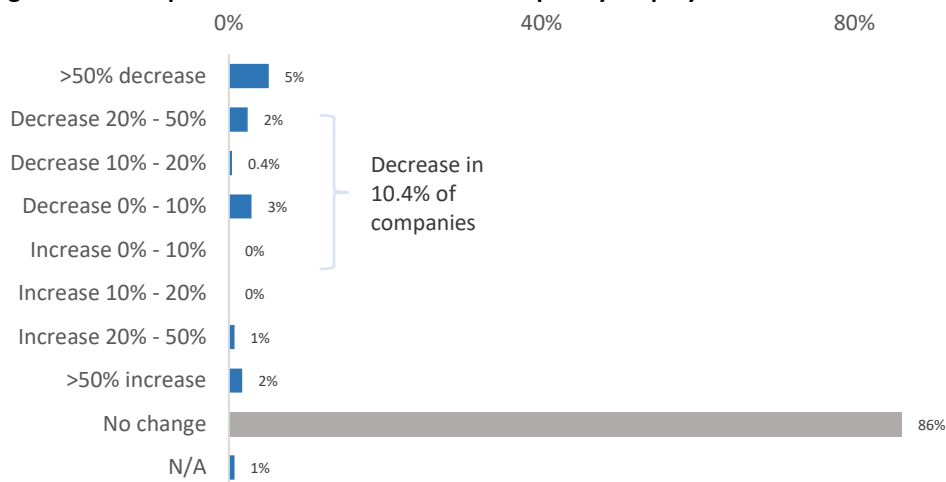
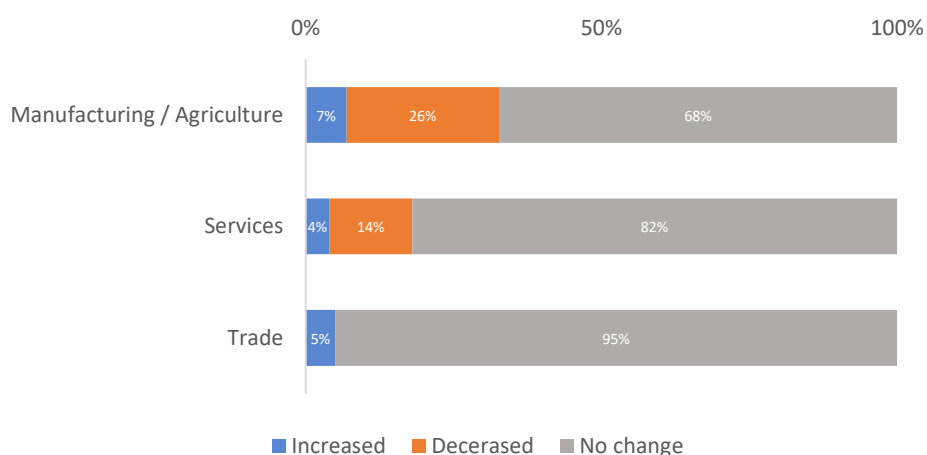


Table 4.409: Impact on number of temporary employees, by firm size

	Sole trader	Micro	Small	Medium-sized
>50% decrease	3%	6%	10%	4%
Decreased 20%-50%	-	4%	6%	2%
Decreased 10%-20%	-	-	2%	-
Decreased 0%-10%	3%	-	10%	2%
Increased 20%-50%	-	2%	-	-
>50% increase	-	4%	2%	-
No change	95%	82%	69%	92%
N/A	-	2%	-	-

Note: the difference between size groups is not statistically important

Figure 4.416: Impact on number of temporary employees, by sector



6.4.9.4 Impact on working conditions

In addition to headcounts, MSMEs were also asked how employment conditions (such as, working hours, salaries, sick leave) changed at their companies. 73% of companies surveyed reported that employment conditions had deteriorated, with the largest impact felt on working hours—43% of respondents reported a decrease. This was followed by 27% of respondents needing to cut salaries and wages.

Decreased working hours was more prevalent among micro enterprises (sole traders and companies with up to five employees), while small and medium-sized enterprises coped with the pandemic by offering more remote work and sick leave for employees.

Among those who had to suspend/cut salaries and wages, 25% had to fully suspend wages and salaries, 36% cut salaries/wages by more than 50%, and 30% cut by 20%-50%.

Figure 4.417: Impact of COVID-19 on working conditions

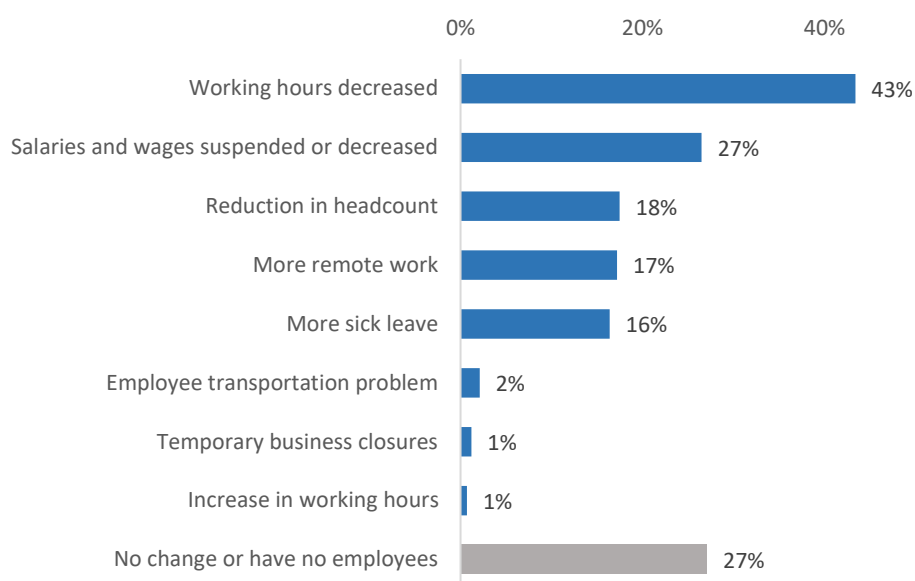


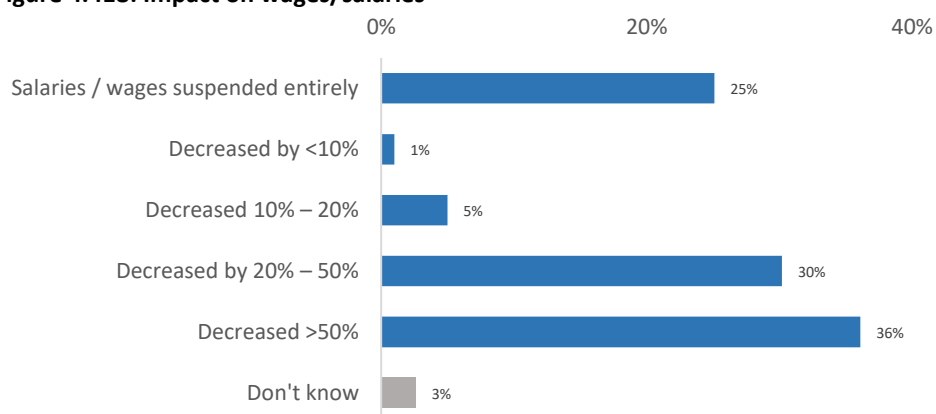
Table 4.410: Impact on working conditions, by firm size

	Sole trader	Micro	Small	Medium-sized
Working hours decreased	42%	50%	36%	32%
Salaries and wages suspended or decreased	22%	34%	25%	21%
Reduction in headcount	14%	20%	23%	19%
More remote work	12%	14%	35%	46%
More sick leave	10%	18%	30%	24%
Difficulties with transportation	-	4%	5%	-
Temporary business closures	3%	-	-	-
Working hours increased	-	-	4%	6%
Increased salaries	-	-	1%	-
No change or have no employees	38%	19%	14%	20%

Table 4.411: Impact on working conditions, by sector

	Manufacturing	Trade	Services
Working hours decreased	44%	42%	45%
Salaries and wages suspended or decreased	16%	23%	34%
Reduction in headcount	16%	10%	27%
More remote work	21%	12%	23%
More sick leave	17%	13%	20%
Difficulties with transportation	-	1%	4%
Temporary business closures	-	2%	-
Working hours increased	-	1%	1%
Increased salaries	-	0,4%	-
No change or have no employees	38%	37%	12%

Figure 4.418: Impact on wages/salaries



6.4.9.5 How MSMEs coped with the effects of COVID-19 pandemic

MSMEs were asked what measures their firms were taking to cope with COVID-19. A third of respondents said that they were proactively looking for new customers and 15% were looking to develop new sales channels. Finding new customers was an important measure for all four sizes of enterprise but taking advantage of government support programs was the top response for medium-sized companies (51-250 employees).

Finding new customers was more important for companies working in the service sector compared with respondents engaged in the trade sector. Compared with firms in the trade sector, service businesses mostly consider deferring payments, staff redundancy, or layoffs, while companies in the trade sector were more inclined to consider taking on more debt.

The gender of the majority owner was not significant in how respondents coped with the pandemic, with the exception of increasing debt. 18% of female owned enterprises reported taking on more debt, compared with only 7% of male owned companies.

Figure 4.419: Coping with the impact of COVID-19

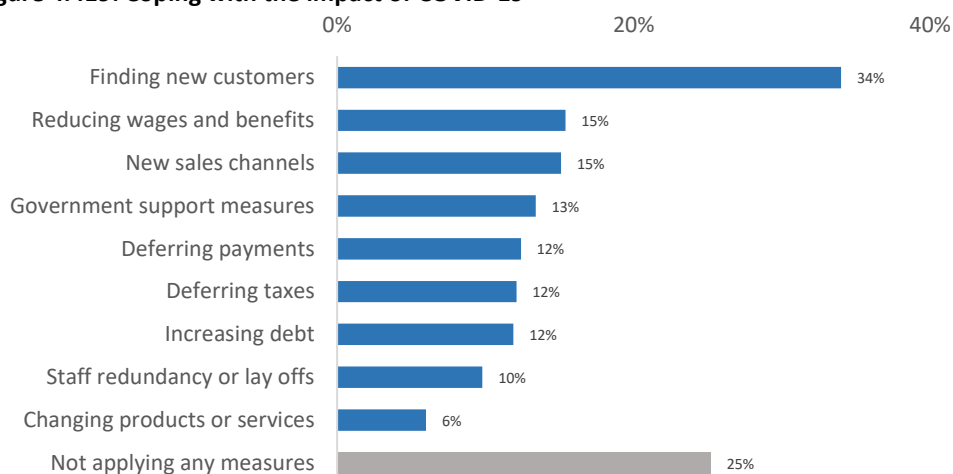


Table 4.412: Coping with the impact of COVID-19, by firm size

	Sole trader	Micro	Small	Medium-sized
Finding new customers	26%	43%	39%	23%
Reducing wages and benefits	10%	24%	15%	16%
New sales channels	13%	10%	31%	9%
Government support measures	13%	14%	14%	31%
Deferring payments	12%	10%	20%	16%
Deferring taxes	8%	16%	17%	15%
Increasing debt	17%	6%	12%	7%
Staff redundancy or layoffs	7%	10%	18%	9%
Changing products or services	2%	8%	15%	10%
Not applying any measures	35%	13%	20%	35%
Don't know	3%	-	4%	-

Table 4.413: Coping with the impact of COVID-19, by sector

	Manufacturing	Trade	Services
Finding new customers	29%	29%	40%
Reducing wages and benefits	14%	13%	20%
New sales channels	14%	20%	15%
Government support measures	25%	25%	14%
Deferring payments	14%	12%	16%
Deferring taxes	11%	8%	18%
Increasing debt	4%	17%	6%
Staff redundancy or layoffs	11%	6%	15%
Changing products or services	4%	10%	10%
Not applying any measures	29%	27%	24%
Don't know	-	2%	1%

6.4.9.6 Impact on cash flows

For obvious reasons, cash flow issues were one of the primary consequences of the pandemic. Respondents were asked how they planned to cope. The largest share of respondents preferred to tackle this issue internally rather than seek outside assistance. 23% of surveyed MSMEs said that they plan on coping with the financial deficit by reducing working capital requirements through greater debt recovery, suspending sales on credit, and asking for advance payments. In addition, 9% plan on delaying payments and/or renegotiating terms with suppliers. A fifth of respondents planned on increasing loans from commercial banks.

Despite almost all respondents reporting negative impacts of COVID-19 on operations, 29% of surveyed MSMEs declared that they are not experiencing cash flow shortages, with 14% of companies reporting that they have no plan for improving cash flow.

In terms of firm size, more than half (53%) of medium-sized enterprises reported that they are not experiencing cash flow problems.

Figure 4.420: Coping with cash flow shortages

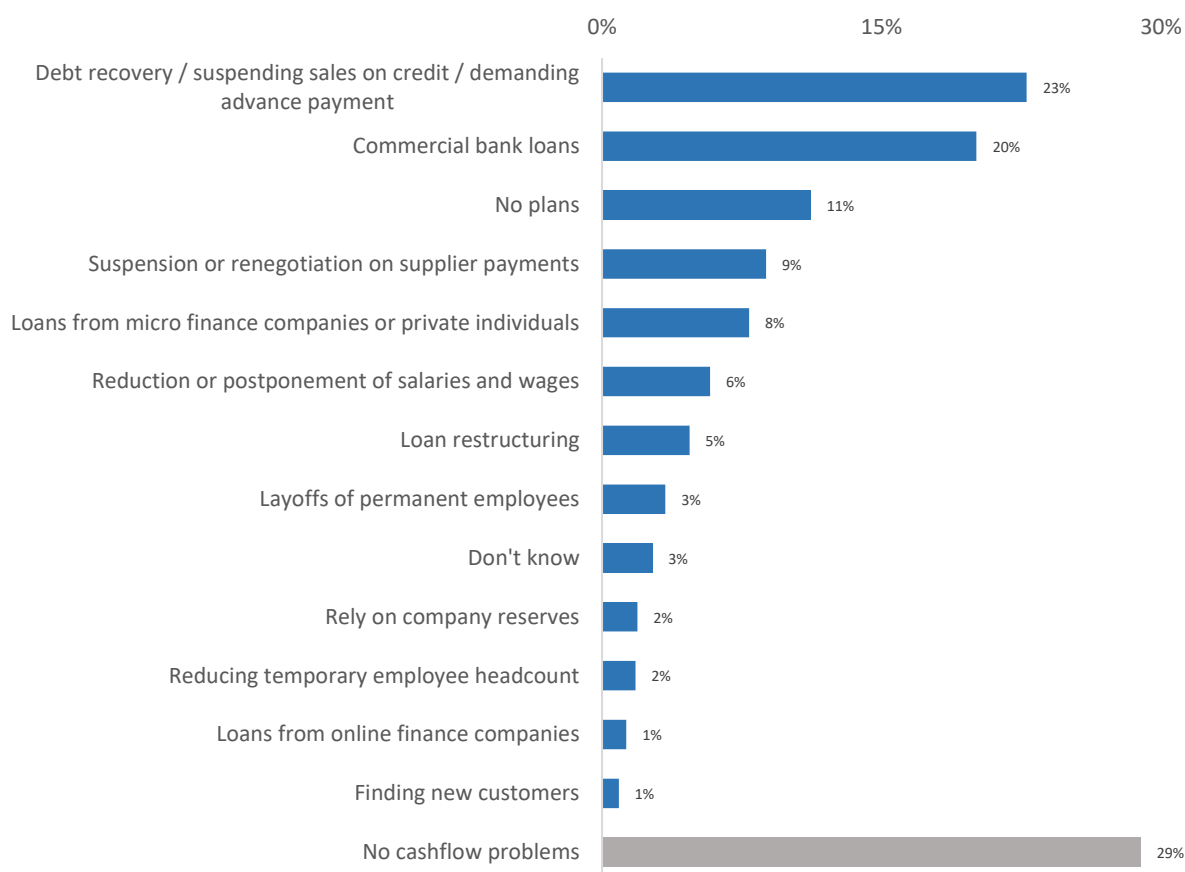


Table 4.414: Coping with cash flow shortages, by firm size

	Sole trader	Micro	Small	Medium-sized
Debt recovery/suspending sales on credit/demanding advance payment	28%	19%	16%	12%
Commercial bank loans	20%	17%	26%	14%
Suspension or renegotiation on supplier payments	10%	8%	7%	10%
Loans from micro-finance companies or private individuals	12%	6%	2%	-
Reduction or postponement of salaries and wages	3%	8%	11%	15%
Loan restructuring	5%	4%	5%	5%
Layoffs of permanent employees	3%	2%	8%	7%
Rely on company reserves	3%	2%	-	-
Reducing temporary employees	2%	2%	2%	-
No cash flow problems	20%	37%	36%	53%
No plans	15%	6%	12%	12%
Don't know	3%	4%	-	2%

Table 4.415: Coping with cash flow shortages, by sector

	Manufacturing	Trade	Services
Debt recovery/suspending sales on credit/demanding advance payment	16%	31%	14%
Commercial bank loans	35%	17%	21%
Suspension or renegotiation on supplier payments	6%	12%	6%
Loans from micro-finance companies or private individuals	7%	11%	5%
Reduction or postponement of salaries and wages	6%	7%	5%
Loan restructuring	3%	5%	4%
Layoffs of permanent employees	0.4%	3%	5%
Rely on company reserves	-	2%	2%
Reducing temporary employees	-	-	5%
No cash flow problems	24%	31%	27%
No plans	0.4%	12%	13%
Don't know	7%	-	5%

6.4.9.7 Impact on raw materials / supplies

In general, given the negative impact of the pandemic on business operations, it is perhaps surprising that the majority of respondents (63%) stated that they were not experiencing difficulties in procuring raw materials and necessary inputs. Only 16% of all surveyed MSMEs said that they would look for new suppliers.

Figure 4.421: Coping with shortage of raw materials/supplies

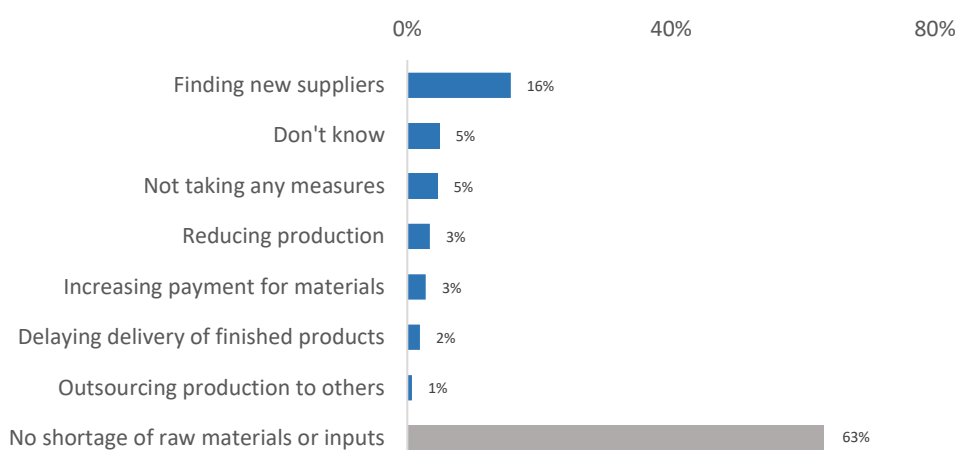


Table 4.416: Coping with shortage of raw materials/supplies, by firm size

	Sole trader	Micro	Small	Medium-sized
Finding new suppliers	10%	21%	23%	4%
Reducing production	1%	6%	4%	4%
Increasing payment for materials	2%	4%	4%	8%
Delaying delivery of finished products	-	6%	-	-
Taking a loan	3%	-	-	-
Suspending sales on credit	3%	-	-	-
Outsourcing production to others	2%	-	-	-
No shortage of raw materials or inputs	64%	59%	67%	75%
Not taking any measures	6%	4%	2%	8%
Don't know	7%	6%	2%	2%

Table 4.417: Coping with shortage of raw materials/supplies, by sector

	Manufacturing	Trade	Services
Finding new suppliers	25%	14%	16%
Reducing production	9%	-	6%
Increasing payment for materials	8%	2%	3%
Delaying delivery of finished products	7%	1%	2%
Taking a loan	-	2%	-
Suspending sales on credit	-	2%	-
Outsourcing production to others	-	-	2%
No shortage of raw materials or inputs	48%	68%	61%
Not taking any measures	-	2%	8%
Don't know	7%	10%	5%

6.4.9.8 Labor shortages

Based on the survey results, it appears that three quarters of MSMEs (76%) did not experience any issues with labor shortages; only 6% of all surveyed firms plan to decrease production to cope with labor shortages.

Figure 4.422: Coping with labor shortages

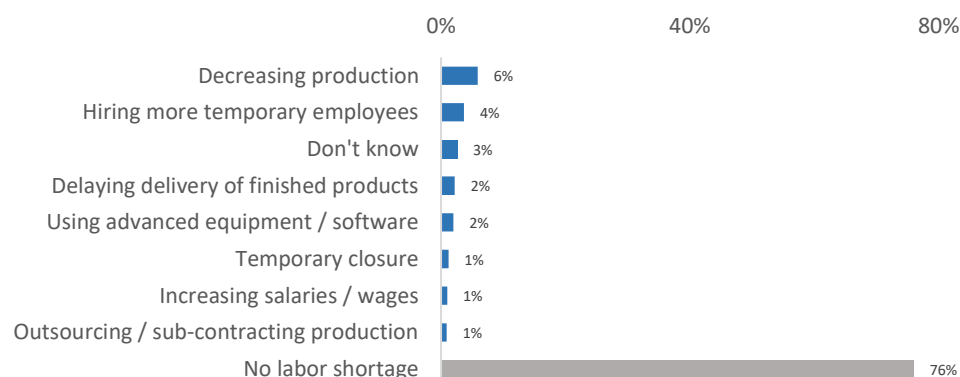


Table 4.418: Coping with labor shortages, by firm size

	Sole trader	Micro	Small	Medium-sized
Decreasing production	4%	10%	4%	2%
Hiring more temporary employees	2%	6%	5%	4%
Delaying delivery of finished products	2%	2%	5%	2%
Using advanced machinery/software	3%	-	5%	-
Temporary closure	3%	-	-	-
Increasing salaries/wages	-	2%	2%	2%
Outsourcing/subcontracting production	-	-	5%	2%
By decreasing margin	-	2%	-	-
No labor shortage	81%	73%	68%	81%
Have no plan	3%	4%	7%	6%
Don't know	4%	2%	-	-

Table 4.419: Coping with labor shortages, by sector

	Manufacturing	Trade	Services
Decreasing production	10%	4%	8%
Hiring more temporary employees	3%	0.4%	8%
Delaying delivery of finished products	0,4%	1%	4%
Using advanced machinery/software	-	3%	1%
Temporary closure	-	2%	-
Increasing salaries/wages	3%	-	2%
Outsourcing/subcontracting production	-	-	2%
By decreasing margin	-	1%	-
No labor shortage	78%	82%	69%
Have no plan	-	4%	5%
Don't know	7%	2%	2%

6.4.9.9 Impact on contract fulfilment

More than half (57%) of surveyed companies did not have to cope with problems related to fulfilling signed contracts during the pandemic. The rest of the respondents planned to cope with such problems through mutual agreement with counterparties (22%). 18% of companies want the government to intervene to regulate this issue. Enterprises that are majority owned are more than twice as likely to expect government assistance, whereas enterprises owned by men prefer mutual agreement.

Figure 4.423: Coping with challenges related to fulfillment of signed contracts

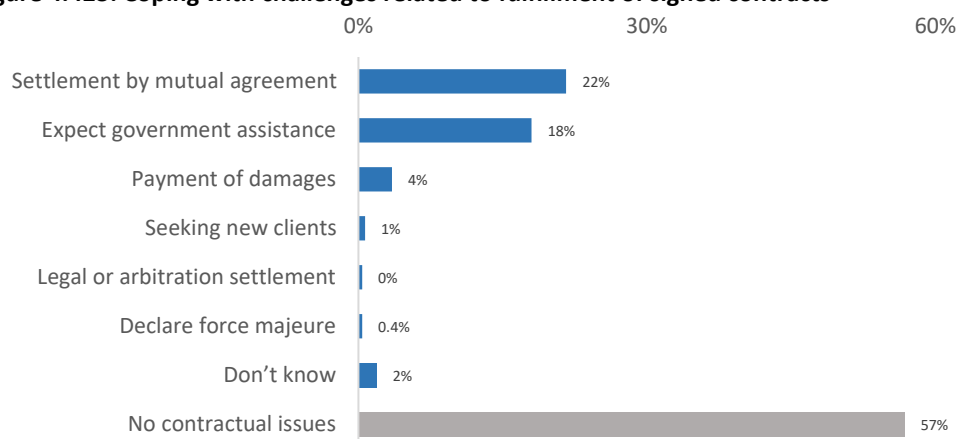


Table 4.420: Coping with challenges related to fulfillment of signed contracts, by firm size

	Sole trader	Micro	Small	Medium-sized
Settlement by mutual agreement	20%	17%	34%	34%
Expect government assistance	16%	20%	23%	10%
Payment of damages	4%	2%	5%	4%
Seeking new clients	-	2%	-	-
Legal or arbitration settlement	-	-	2%	2%
Temporary closure	-	-	-	2%
No contractual issues	57%	61%	49%	57%
Don't know	6%	-	-	2%

Table 4.421: Coping with challenges related to fulfillment of signed contracts, by sector

	Manufacturing	Trade	Services
Settlement by mutual agreement	10%	24%	22%
Expect government assistance	19%	18%	18%
Payment of damages	-	3%	6%
Seeking new clients	-	-	2%
Legal or arbitration settlement	-	-	1%
Temporary closure	-	-	0,1%
No contractual issues	74%	55%	55%
Don't know	-	2%	4%

6.4.9.10 External support during COVID-19 pandemic

MSMEs were asked whether they had received any support from other organizations, including the government, in coping with the pandemic. Almost half of respondents (47%) did not receive any support at all. 45% of all respondents took advantage of support programs offered by the national government, with this proportion highest among sole traders at 56%. MSMEs also used less formal assistance, with the second most prevalent option being assistance from friends and family (14%). Local government support was minimal and only 5% of MSMEs received some form of support from financial institutions.

Figure 4.424: External support during the COVID-19 pandemic

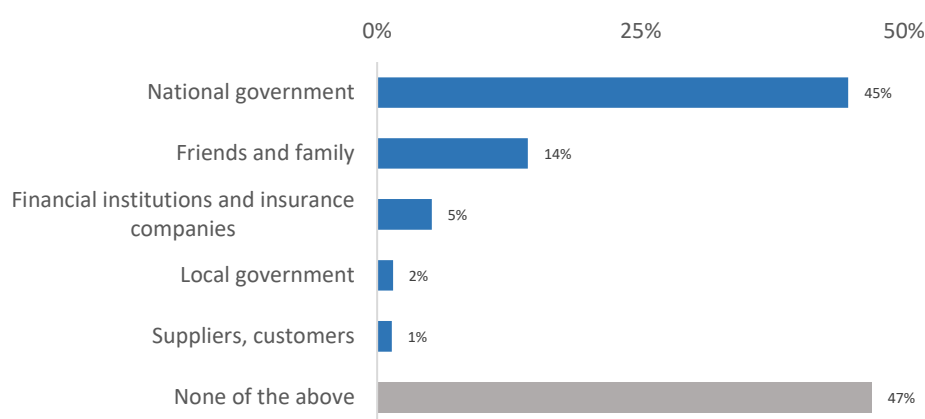


Table 4.422: External support during the COVID-19 pandemic, by firm size

	Sole trader	Micro	Small	Medium-sized
National government	56%	37%	31%	35%
Friends and family	21%	9%	6%	2%
Financial institutions and insurance companies	5%	4%	8%	2%
Local government	-	-	8%	2%
Suppliers, customers	2%	2%	-	2%
Trade associations, chambers of commerce	-	-	-	2%
Head office	-	-	-	2%
None of the above	37%	56%	56%	64%

Table 4.423: External support during the COVID-19 pandemic, by sector

	Manufacturing	Trade	Services
National government	31%	46%	46%
Friends and family	9%	18%	11%
Financial institutions and insurance companies	6%	5%	5%
Local government	-	0.4%	3%
Suppliers, customers	-	1%	2%
Trade associations, chambers of commerce	-	0.1%	-
Head office	-	-	0.1%
None of the above	-	44%	47%

6.4.9.11 MSME overall assessment of government COVID-19 business support

Only 48% of surveyed MSMEs rated government support measures as adequate, while 36% of companies had a negative opinion of the government's response. More than half of firms in the services sector (53%) rated government support as adequate, compared with only a third of manufacturing firms.

Looking at the actual support measures offered by the national government, the largest share of respondents (28%) availed themselves of employee income tax exemptions. This measure was particularly popular with medium-sized enterprises, with 69% reporting they took advantage of this. 22% of all respondents took advantage of the four-month deferral of property and income taxes. One in ten enterprises utilized the automatic VAT return mechanism, with a similar proportion receiving one time government financial support.

Figure 4.425: Assessment of government support **Figure 4.426: Assessment of government support, by firm size**

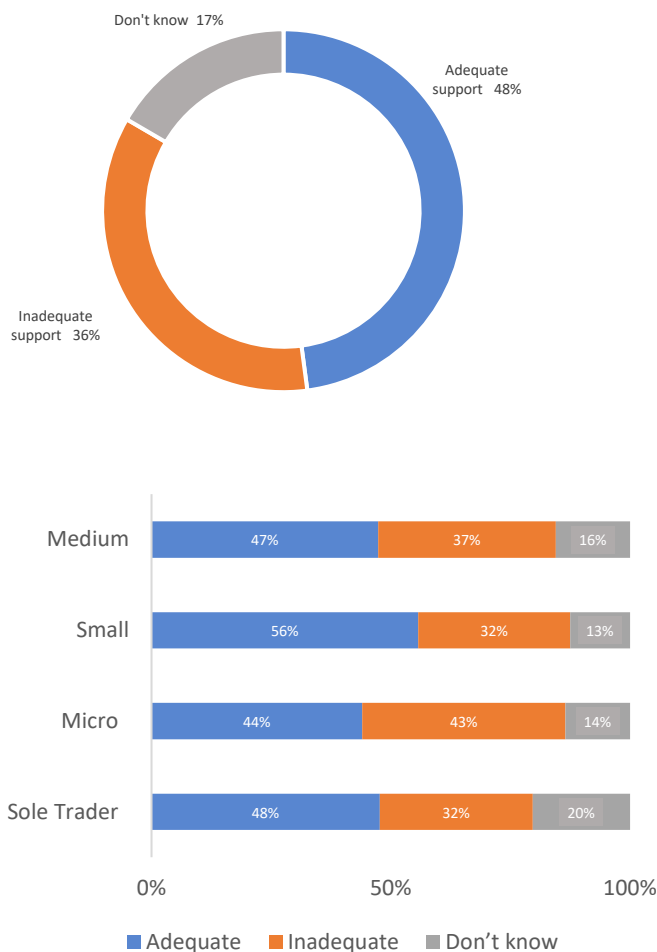
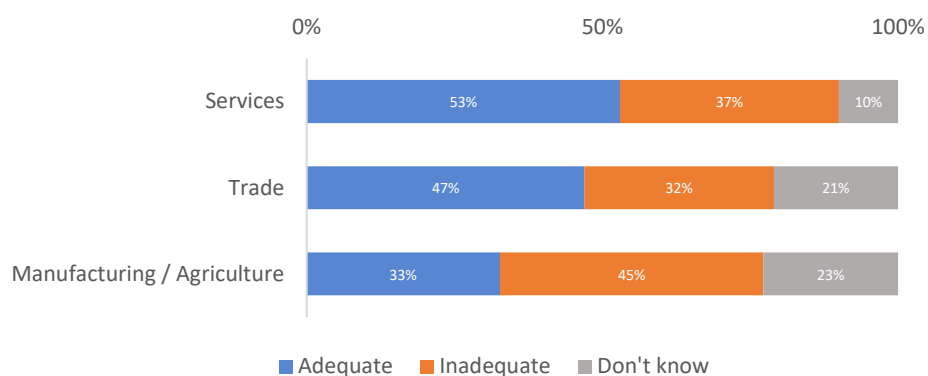


Figure 4.427: Assessment of government support, by sector



6.4.9.12 MSME utilization of government COVID-19 business support policies and measures

Figure 4.428: Government COVID-19 support measures utilized

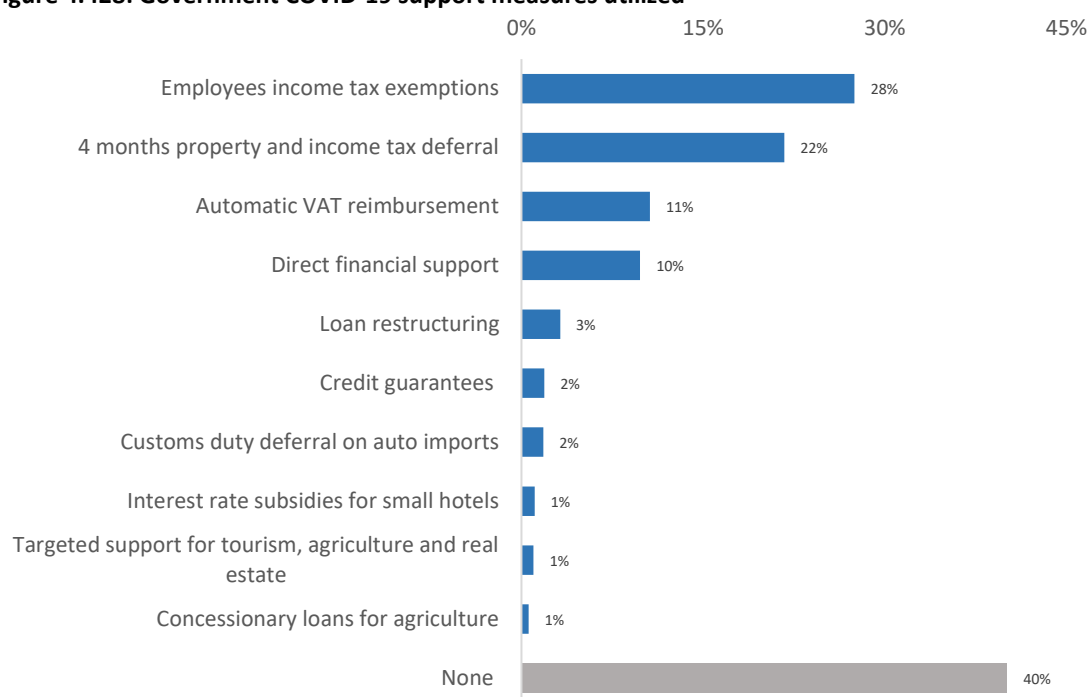


Table 4.424: Government COVID-19 support measures utilized, by firm size

	Sole trader	Micro	Small	Medium-sized
Employee income tax exemptions	11%	35%	57%	69%
Four month property and income tax deferral	15%	27%	29%	39%
Automatic VAT reimbursement	5%	14%	20%	12%
Direct financial support	16%	4%	5%	-
Loan restructuring	5%	2%	-	-
Credit guarantees	4%	-	-	-
Customs duty deferral for auto imports	3%	2%	-	-
Interest rate subsidies for small hotels	-	2%	2%	2%
Targeted support for tourism, agriculture, and real estate	-	2%	2%	-
Concessionary loans for agriculture	-	2%	-	-
None	51%	35%	23%	13%

Table 4.425: Government COVID-19 support measures utilized, by sector

	Manufacturing and agriculture	Trade	Services
Employee income tax exemptions	26%	25%	32%
Four month property and income tax deferral	10%	20%	26%
Automatic VAT reimbursement	20%	9%	10%
Direct financial support	9%	10%	10%
Loan restructuring	6%	2%	4%
Credit guarantees	-	2%	2%
Customs duty deferral for auto imports	-	4%	-
Interest rate subsidies for small hotels	-	-	3%
Targeted support for tourism, agriculture, and real estate	-	1%	1%
Concessionary loans for agriculture	6%	-	-
None	32%	44%	38%

6.4.9.13 Preferred future government support

Respondents were also asked about their preferred government support measures going forward. Tax relief proved to be the most popular with 40% of all respondents. In terms of firm size, tax relief is more preferable for companies with 6 to 50 and 51 to 250 persons rather than for micro enterprises and sole traders, who prefer direct financial support in the form of zero interest or collateral free loans, and government subsidies.

Figure 4.429: Preferred future government support

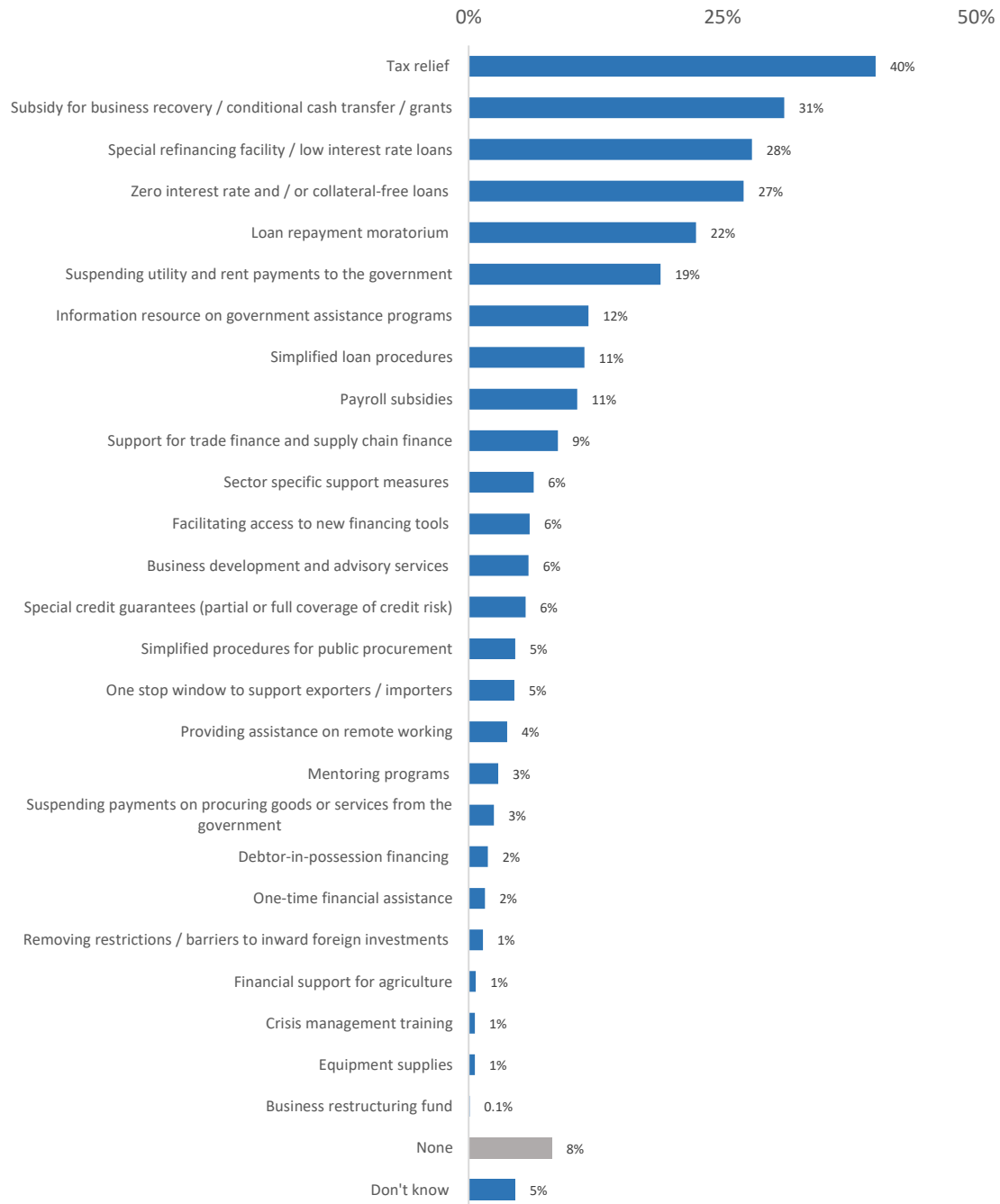


Table 4.426: Preferred future government support, by firm size

	Sole trader	Micro	Small	Medium-sized
Tax relief	23%	48%	70%	74%
Subsidy for business recovery/conditional cash transfer/grants	32%	33%	26%	27%
Special refinancing facility/ low interest rate loans	23%	36%	24%	35%
Zero interest rate and/or collateral free loans	30%	23%	29%	26%
Loan repayment moratorium	22%	23%	23%	22%
Suspending utility and rent payments to the government	20%	22%	12%	9%
Information resource on government assistance programs	15%	10%	7%	14%
Simplified loan procedures	7%	15%	17%	10%
Payroll subsidies	-	17%	26%	22%
Support for trade finance and supply chain finance	8%	9%	11%	4%
Sector specific support measures	3%	10%	10%	6%
Facilitating access to new financing tools	7%	4%	7%	8%
Business development and advisory services	6%	10%	-	6%
Special credit guarantees	7%	6%	3%	8%
Simplified procedures for public procurement	5%	4%	5%	13%
One stop window to support exporters/importers	4%	4%	7%	6%
Providing assistance on remote working	5%	2%	4%	2%
Mentoring programs	4%	2%	1%	4%
Suspending payments on procuring goods or services from the government	2%	4%	2%	6%
Debtor-in-possession financing	3%	2%	-	-
Removing restrictions/barriers to inward foreign investments	-	2%	4%	4%
Business restructuring fund	-	-	-	4%

Table 4.427: Preferred future government support, by sector

	Manufacturing	Trade	Services
Tax relief	40%	36%	45%
Subsidy for business recovery/conditional cash transfer/grants	45%	25%	35%
Special refinancing facility/low interest rate loans	29%	27%	29%
Zero interest rate and/or collateral free loans	19%	35%	20%
Loan repayment moratorium	26%	25%	19%
Suspending utility and rent payments to the government	18%	16%	23%
Information resource on government assistance programs	6%	12%	13%
Simplified loan procedures	19%	9%	13%
Payroll subsidies	13%	7%	14%
Support for trade finance and supply chain finance	9%	15%	1%
Sector specific support measures	6%	3%	11%
Facilitating access to new financing tools	-	6%	8%
Business development and advisory services	6%	5%	7%
Special credit guarantees	7%	7%	4%
Simplified procedures for public procurement	0%	-	11%
One stop window to support exporters/importers	19%	3%	3%
Providing assistance on remote working	3%	5%	3%
Mentoring programs	-	3%	4%
Suspending payments on procuring goods or services from the government	-	1%	5%
Debtor-in-possession financing	-	2%	2%
Removing restrictions/barriers to inward foreign investments	3%	1%	2%
Business restructuring fund	-	-	-

6.4.9.14 Resilience indices

Please see Appendix 2 for a description of the methodology behind the indices.

Figure 4.430: Distribution of resilience index for all MSMEs

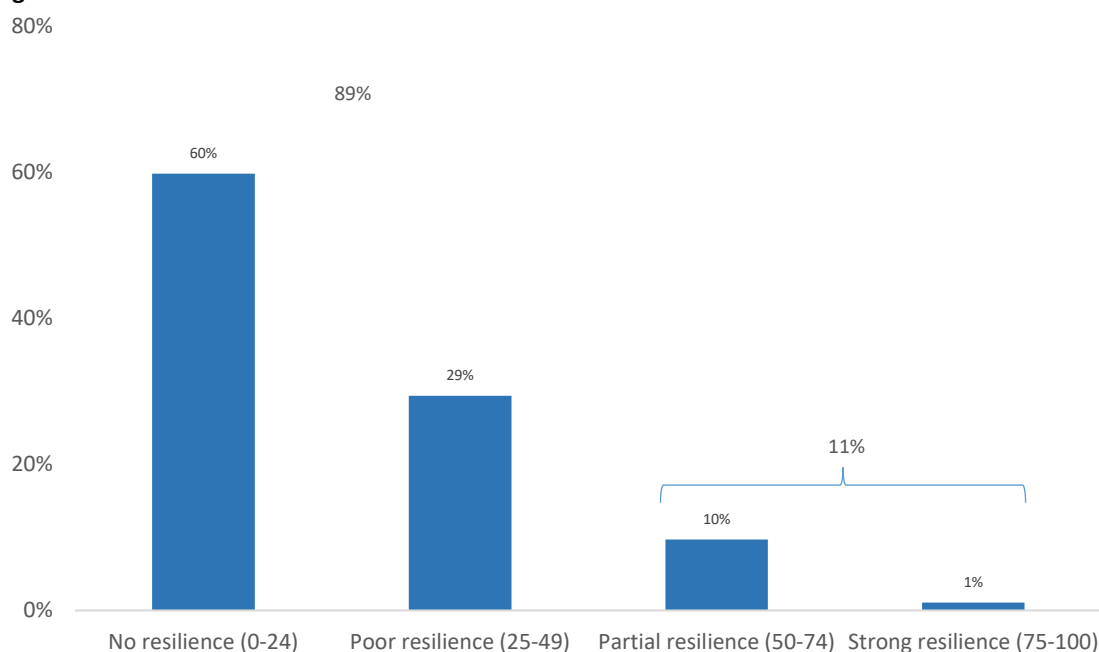


Table 4.428: Resilience index, by firm size

	No resilience	Poor resilience	Partial or strong resilience
Sole trader	55%	47%	16%
Micro	32%	34%	36%
Small	13%	18%	44%
Medium-sized	1%	2%	4%

Table 4.429: Resilience index, by sector

	No resilience	Poor resilience	Partial resilience
Production and manufacturing	6%	12%	16%
Agriculture	41%	37%	49%
Services	53%	49%	33%
Retail and trade	1%	2%	3%

Table 4.430: Resilience index, by gender of majority owner

	No resilience	Poor resilience	Partial or strong resilience
Female	53%	40%	25%
Male	46%	60%	72%

Appendix 1: MSME Questionnaire Survey

The following questionnaire was used for all surveys with only some minor modifications between countries—such as, sectors, industries, government COVID-19 business support.

Company Profile

1. What year was your company/individual entrepreneurship founded? _____
2. What sector does your company work in?
 - a. Production and manufacturing
 - b. Services
 - c. Trade or retail
3. What industry does your company work in?
 - a. Agriculture, forestry, animal husbandry, fisheries
 - b. Mining
 - c. Food processing and beverages
 - d. Textile, apparel
 - e. Leather, leather products, leather and non-leather footwear
 - f. Wood products, furniture
 - g. Paper, paper products
 - h. Printing, publishing
 - i. Chemicals, chemical products, pharmaceutical products
 - j. Plastic, plastic products, rubber products
 - k. Metal, metal products
 - l. Machinery (general, electric, electronics, transport, precision)
 - m. Other manufacturing, please specify: _____
 - n. Transportation and storage
 - o. Power and energy (such as, electricity and gas)
 - p. Construction
 - q. Wholesale and retail trade
 - r. Information and communication technology
 - s. Education
 - t. Health, social work
 - u. Tourism, culture, sport, entertainment
 - v. Accommodation, restaurant, bar, café
 - w. Real estate activities

- x. Business services (legal and accounting; architectural and engineering; scientific R&D; advertising and market research), head office activities, management consultancy
 - y. Other services, please specify: _____
4. Is the majority owner of your company female?
 - a. Yes
 - b. No
 - c. Don't know
 5. Is the senior manager of your company a female?
 - a. Yes
 - b. No
 - c. Don't know
 6. How many permanent, or regular, employees—even if part time (as opposed to temporary or daily wage workers) did you have in February 2020?
 - a. Just myself (individual entrepreneur)
 - b. 2 to 5 people
 - c. 6 to 20 people
 - d. 21 to 50 people
 - e. More than 51 people
 7. How many temporary, part-time, or daily wage employees did you have in February 2020?
 - a. Just myself (Individual entrepreneur)
 - b. 2-5 people
 - c. 6-20
 - d. 21-50
 - e. More than 51
 8. What percentage of your permanent or regular employees (as opposed to temporary, part time, or daily wage workers) in February 2020 was female?
 9. What percentage of your current non-permanent employees (namely, temporary, part time, or daily wage workers) in February 2020 was female?
 10. What percentage of your sales were made online in February 2020?
 11. What percentage of your sales were made online in your last full month of operation?
 12. What was your monthly revenue in February 2020?
 - a. Less than US\$1,000

- b. Between US\$1,000 and US\$5,000
 - c. Between US\$5,000 and US\$20,000
 - d. Between US\$20,000 and US\$50,000
 - e. Between US\$50,000 and US\$100,000
 - f. More than US\$100,000
13. Does your company import or export goods or services?
- a. Yes, export
 - b. Yes, import
 - c. Yes, both
 - d. No, company does not export or import

Impact of COVID-19 on your business

14. Has COVID-19 had any positive impact on your business?
- a. Yes (proceed to question 15)
 - b. No (proceed to question 16)
15. What positive change did COVID-19 have on your business? (Please select all those that apply):
- a. Increased domestic demand for my products or services
 - b. Increased international demand for my products or services
 - c. Offered new products or services
 - d. Offered a new delivery mode
 - e. Improved access to finance
 - f. Increased access to skilled work force
 - g. Other, please specify: _____
16. How has the COVID-19 outbreak negatively impacted your business? (Please select all those that apply):
- a. Reduced domestic demand for my goods/services
 - b. Reduced international demand for my goods/services
 - c. Cancellation of sales contracts/loss of customers
 - d. Difficulty in producing goods or delivering services
 - e. Difficulty in acquiring necessary supplies and/or services required to produce my products and/or deliver my services
 - f. Staff problems (sickness, government restrictions)
 - g. Disruption of supply chain

- h. Working capital problems (customer payment delays, worse supplier payment terms)
 - i. Reduced access to financing (banks, non-banks, trade finance, supplier finance, other)
 - j. Temporary closure
 - k. No change in business operation
 - l. Other, please specify: _____
17. How has your company's last full month of sales changed as a result of COVID-19, compared with in February 2020?
- a. More than 50% decrease
 - b. Decreased between 30%-50%
 - c. Decreased between 21%-30%
 - d. Decreased between 11%-20%
 - e. Decreased between 0%-10%
 - f. No change
 - g. Increased between 0%-10%
 - h. Increased between 11%-20%
 - i. Increased between 21%-30%
 - j. Increased between 30%-50%
 - k. More than 50% increase
18. Compared to February 2020, in the last full month of operations, has the number of your permanent or regular employees (as opposed to temporary, part time, or daily wage workers)?
- a. Increased by more than 50%
 - b. Increased by between 20%-50%
 - c. Increased by between 10%-20%
 - d. Increased by between 0%-10%
 - e. No change
 - f. Decreased by more than 50%
 - g. Decreased by between 20%-50%
 - h. Decreased by between 10%-20%
 - i. Decreased by between 0%-10%
19. Compared to February 2020, in the last full month of operations, has the number of your non-permanent (namely, temporary, part time, or daily wage worker) employees?

- a. Increased by more than 50%
 - b. Increased by between 20%-50%
 - c. Increased by between 10%-20%
 - d. Increased by between 0%-10%
 - e. No change
 - f. Decreased by more than 50%
 - g. Decreased by between 20%-50%
 - h. Decreased by between 10%-20%
 - i. Decreased by between 0%-10%
20. What negative impact has COVID-19 had on employment conditions in your company?
(Please select all those that apply)
- a. Working hours increased
 - b. Working hours decreased
 - c. More remote work
 - d. More sick leave
 - e. Reduction in number of employees (permanent or temporary layoffs)
 - f. Suspended overall wages/benefits or reduced overall amount spent on wages/benefits for employees still working (if yes, please go to Q.23)
 - g. Other, please specify: _____
21. If wages/benefits have been suspended or reduced for employees still working, by how much?
- a. Suspended all wages/benefits
 - b. No change in wages/benefits
 - c. Less than 10% reduction in wages/benefits
 - d. 10%-20% reduction in wages/benefits
 - e. 20%-50% reduction in wages/benefits
 - f. More than 50% reduction in wages/benefits
22. What measures is your business taking to cope with COVID-19? (Please select all those that apply)
- a. Staff redundancy or layoffs
 - b. Reducing wages and benefits
 - c. Deferring payments (such as, supplier payments, rent, utilities)
 - d. Deferring taxes
 - e. Changing products or services

- f. New sales channels (such as, online, marketplaces)
 - g. Benefit from government support measures
 - h. Increasing debt
 - i. Finding new customers
 - j. Other, please specify: _____
23. What are the main ways your business is considering to deal with the cash flow shortage? (Please select up to four major options)
- a. My business is not experiencing a cash flow shortage
 - b. Loans from commercial banks
 - c. Loans from internet finance companies
 - d. Loans by micro-finance companies or private individuals
 - e. Negotiating with lenders to avoid or reduce loan repayments
 - f. Cutting non-permanent employment
 - g. Layoffs of permanent employees
 - h. Salary or wage reductions or postponement
 - i. Delaying bill payments/renegotiating payment terms with suppliers
 - j. Collecting debts from customers/stopping selling on credit/requesting advance payment
 - k. Others, please specify: _____
25. What are the main ways you are considering dealing with the shortage of raw materials, supplies, parts, or components? (Up to two options)
- a. My business is not experiencing any shortages of materials, parts, or supplies
 - b. Reducing production
 - c. Outsourcing production
 - d. Paying more for necessary supplies and raw materials
 - e. Looking for new suppliers
 - f. Delaying the delivery of your products
 - g. Other, please specify _____
26. What are the main ways you are considering of dealing with the shortage of labor? (Up to two options)
- a. My business is not experiencing any shortage of labor

- b. Reducing production
- c. Increasing wages
- d. Hiring more temporary workers
- e. Using advanced equipment or software to reduce the amount of work
- f. Outsourcing production
- g. Delaying delivery of products to customers
- h. Others, please specify: _____

27. What are the main ways you are considering dealing with difficulties in fulfilling contracts? (Up to two options)

- a. My business is not experiencing any contractual performance issues
- b. Settlement by mutual agreement
- c. Legal or arbitration settlement
- d. Expect the government to coordinate and provide clear COVID-19 related business disruption regulations
- e. Reimbursement of COVID-19 related damages by counterparties
- f. Others, please specify

Government policy responses

24. Have you received support from any of the following organizations to support your company during the COVID-19 outbreak? (Please select all those that apply)

- a. National government
- b. Local government
- c. Banks, insurance companies, microfinance organizations etc.
- d. Non-government organizations (NGOs)
- e. International agencies and development banks
- f. Trade associations, chambers of commerce etc.
- g. Cooperatives and unions etc.
- h. Friends and family
- i. Suppliers, customers
- j. None of the above
- k. Other, please specify: _____

25. In your opinion, has the government provided adequate support to companies like yours to overcome the effects of COVID-19?
- a. Yes
 - b. No
 - c. Don't know
26. Which specific COVID-19 government business support measures, if any, has your company taken advantage of? (Please select all that apply)
27. What kind of business support measures would your company like to receive to cope with the impact of COVID-19? Please select top five from all options below:
- a. Debt relief
 1. Special refinancing facility/low interest rate loans
 2. Zero interest rate and/or collateral free loans (temporary measure)
 3. Loan repayment deferral or moratorium (ease of loan repayment conditions)
 - b. Government financial support
 1. Tax relief (such as, deferred tax payments, corporate tax reduction, VAT reduction)
 2. Subsidy for business recovery/conditional cash transfer/grants
 3. Assistance to pay salary for employees (to retain workers)
 4. Suspending payments on procuring goods or services from the government
 5. Special credit guarantees (partial or full coverage of credit risk)
 6. Suspending utility and rent payments to the government
 7. Business restructuring fund
 8. Faster approval of bank loans (simplified loan procedures)
 - c. Other government support
 1. Simplified procedures/eased requirements for public procurement
 2. Business development and advisory services (such as, finding new markets for MSMEs devastated)
 3. One stop service window to support small business exporters/importers
 4. Removing restrictions/barriers to foreign investments in domestic MSMEs
 5. Mentoring and business literacy programs for MSME owners and employees
 6. Providing assistance on teleworking/remote work arrangements
 7. Sector specific support measures (such as, finance and non-finance assistance for tourism, transport, and logistics)
 8. Comprehensive information platform on government assistance programs

9. Facilitating access to new financing models (such as, crowdfunding, peer to peer (P2P) lending, and digital financial services)
 10. Support small businesses in accessing trade finance and supply chain finance
 11. Debtor-in-possession financing for MSMEs in financial distress
- d. Other, please specify _____

Appendix 2: Resilience Index

CONCEPT OF RESILIENCE INDEX

Enterprise sectors in the target economies responded differently to the impacts of the COVID-19 pandemic. Impacts varied according to country, size, sector, and numerous other parameters. There is merit, however, in synthesizing an overall parameter of how well firms coped overall with the effects of the pandemic, to allow for broad based comparisons. The resilience index attempts to capture how well firms coped in a single measure and can therefore be used to compare firms across sizes, sectors, and markets.

The methodology for calculating these indices is based on analytical research conducted in Turkey⁷⁹ and in Georgia⁸⁰ by the UNDP. In analyzing the resilience of firms to the pandemic, influencing factors can be divided into *external* and *internal* factors. External factors are those over which the individual firm has no control. For the purposes of the index, two variables were selected: 1) overall impact of COVID-19 on the business ('How has the COVID-19 outbreak negatively impacted your business?') and 2) sales performance of the company ('How has your company's last full month of sales changed as a result of the COVID-19 pandemic, compared with February 2020?').

Internal factors are those over which the company does have control and indicates how prepared it was to withstand a shock to business operations. For the index, one variable was selected—reduction in permanent headcount ('How has the number of permanent employees changed compared to February 2020?'). The logic being that those firms who were more resilient needed to reduce the number of permanent employees, to a lesser extent than other firms, owing to having more efficient business operations, better management structures, better contingency planning, and so on.

SCORING AND WEIGHTING

The three variables selected were weighted by the authors based on their importance; the answers to individual questions were assigned a score of 0, 50, or 100. Higher scores indicate more resilience.

How has the COVID-19 outbreak negatively impacted your business?

weighting 35%

- Impact was insignificant—score 100
- Impact was partially significant—score 50
- Impact was significant—score 0

How has your company's last full month of sales changed as a result of the COVID-19 pandemic, compared with February 2020?

weighting 35%

- Increased—score 100
- No change—score 50
- Decreased—score 0

⁷⁹ <https://data2.unhcr.org/en/documents/details/76803>

⁸⁰ <https://www.ge.undp.org/content/georgia/en/home/library/poverty/coronavirus-business-survey.html>

Compared with February 2020 in the last full month of operations, has the number of your permanent employees...?

weighting 30%

- Increased—score 100
- No change—score 50
- Decreased—score 0

Responses to the options presented in the questions were mapped and scored as follows:

Question: How has the COVID-19 outbreak negatively impacted your business? (weight 35%)

The impact was insignificant (score of 100 assigned to code 11) *score 100*

The impact was partially significant (score of 50 assigned to codes 1, 2, 4, 5, 6, 8, 9) *score 50*

Option	Code
No change in business activity	11
Reduced domestic demand for my goods/services	1
Reduced international demand for my goods/services	2
Difficulty in producing goods or delivering services	4
Difficulty in acquiring necessary supplies and/or services required to produce my products and/or deliver my services	5
Staff problems (sickness, government restrictions)	6
Working capital problems (customer payment delays, worse supplier payment terms)	8
Reduced access to financing (banks, non-banks, trade finance, supplier finance, other)	9

The impact was significant (score of 0 assigned to codes 3, 7, 10) *score 0*

Option	Code
Termination of sales contracts/loss of clients	3
Breach of supply chain	7
Temporary closure	10

As respondents were asked to select all options that applied, the highest score was selected for that respondent. A score of 100 was assigned to code 11 (no change in business activity), which was then the overall score for that firm for this variable. If the respondent selected any of codes 3, 7, or 10, then an overall score of 0 was assigned to that respondent for this question. If neither codes 3, 7, 10, or 11 were triggered an overall score of 50 was assigned.

This question in the survey also featured an option 'Other' where respondents were asked to indicate the impact that was not covered by the options presented. These other options were analyzed and if the responses were about business terminations, closures, or suspensions then the score for that firm was 0.

Question: How has your company's last full month of sales changed as a result of COVID-19, compared with February 2020? (weight 35%)

Sales increased (score of 100 assigned to codes 6, 7, 8, 9, 10)	score 100
No change in sales (score of 50 assigned to code 11)	score 50
Sales decreased (score of 0 assigned to codes 1, 2, 3, 4, 5)	score 0

Option	code
More than 50% decrease	1
Decreased between 30%-50%	2
Decreased between 21% 30%	3
Decreased between 11%-20%	4
Decreased between 0%-10%	5
Increased between 0%-10%	6
Increased between 11%-20%	7
Increased between 21%-30%	8
Increased between 30%-50%	9
More than 50% increase	10
No change	11

Question: Compared with February 2020, in the last full month of operations, has the number of your permanent employees...? (weight 30%)

Increased (score of 100 assigned to codes 1, 2, 3, 4)	score 100
No change (score of 50 assigned to code 9)	score 50
Decreased (score of 0 assigned to codes 5, 6, 7, 8)	score 0

Option	Code
More than 50% increase	1
Increased between 20%-50%	2
Increased between 10%-20%	3
Increased between 0%-10%	4
More than 50% decrease	5
Decreased between 20%-50%	6
Decreased between 10%-20%	7
Decreased between 0%-10%	8
No change	9

The three resulting scores for each respondent were then weighted (as given above) to arrive at a final score for each firm. This overall score was then classified as follows:

	Resilience score
No resilience	<25 points
Poor resilience	25-49 points
Resilient	50-74 points
Strong resilience	>75 points



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