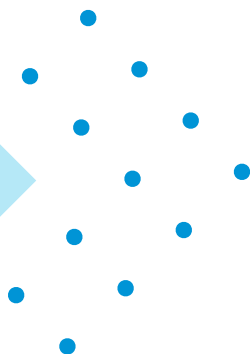
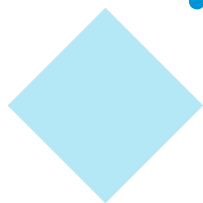




Business
Association
JIA

▶ **ASSESSING THE IMPACT
OF COVID-19
ON COMPANIES
IN KYRGYZSTAN**





► 1. Introduction

The coronavirus pandemic and the recent political movements influenced negatively on the Kyrgyz Republic's macroeconomic outlook, with the economy projected to recover to its pre-pandemic level only by 2023. According to projections, the real GDP growth is projected to grow by 3.8 percent in 2021 as economic activity recovers, driven by services and construction. The expected growth is 4.4 percent in 2022–23.

According to relevant data, the Kyrgyz Republic has been significantly affected by the COVID-19 pandemic and it was one of the hardest-hit countries in the region.

In order to reduce the influence of COVID-19 on the economy, the authorities responded swiftly with a range of measures to protect public health and mitigate the economic impact of the pandemic. These included emergency health spending, stepping up the food security program for the vulnerable, temporary tax deferrals and subsidized loans for small and medium enterprises, and liquidity support to banks. Without these measures, the economic downturn and its impact on poverty would have been much worse.¹

The public health crisis due to COVID-19 is leading to the biggest economic and social crisis since 2008. To prevent a large-scale closure of businesses and unemployment, many government agencies, employer organizations and business associations plan to assist enterprises during these difficult times.

However, what kind of support enterprises need is not always clear. An enterprise survey can be a useful tool to collect data on the situation of enterprises and to better understand what kind of assistance they might need. This report analyses the situation and state of companies in the country within the situation of pandemic, analyses the current situation, measures that companies undertake but also measures needed to be provided by the Government to reduce influence of pandemic on their operations. Also, the main focus of the report is the informal economy and reduction of informal economy in the country.

¹ URL: <https://www.imf.org/en/News/Articles/2021/07/29/na072921-how-the-kyrgyz-republic-tackled-the-pandemic>

▶ 2. Methodology

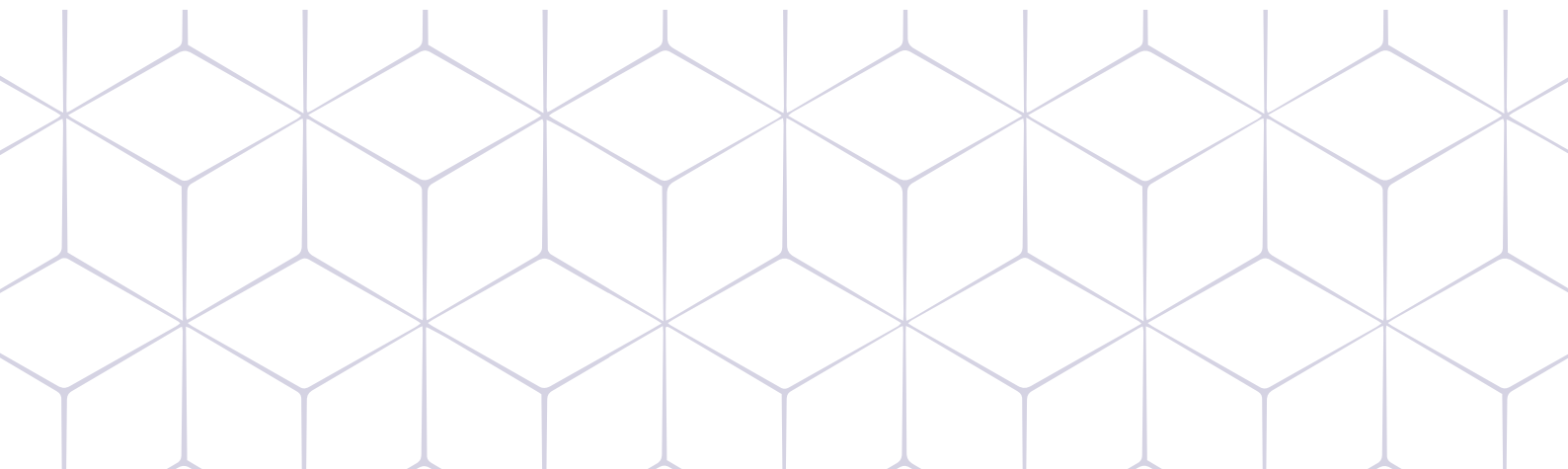
Considering that physical contact between people should be currently minimized, a self-administered online survey designed to be completed by a respondent without intervention of an interviewer is currently among the most suitable ways to administer a survey. Self-administered surveys are safe, cheap and can reach many enterprises in short time. Disadvantages include a low response rate as the survey might not reach the right recipient (outdated email address, spam folder etc.) or the recipients might not return the survey on time or at all. Data quality might also suffer as recipients might skip or misunderstand questions.

In this context, an agency in Kyrgyzstan was engaged to collect at least 500 answers from companies around Kyrgyzstan. In order to create a representative sample, the agency, together with ILO, had daily monitoring of answers to ensure that sample is representative regarding the size of companies, sectors but also to cover all important geographical areas of Kyrgyzstan.

For this purpose, the survey used the ILO SCORE Global Covid-19 Enterprise Survey methodology implemented in most of the countries. Based on that methodology, which was adopted for Kyrgyzstan, a questionnaire was created to cover following areas:

- ▶ How is business impacted by the COVID-19 crisis?
- ▶ How are companies dealing with the occupational safety and health challenge?
- ▶ How do companies respond to the crisis?
- ▶ What support do companies need?
- ▶ Level and existence of the Informal economy.

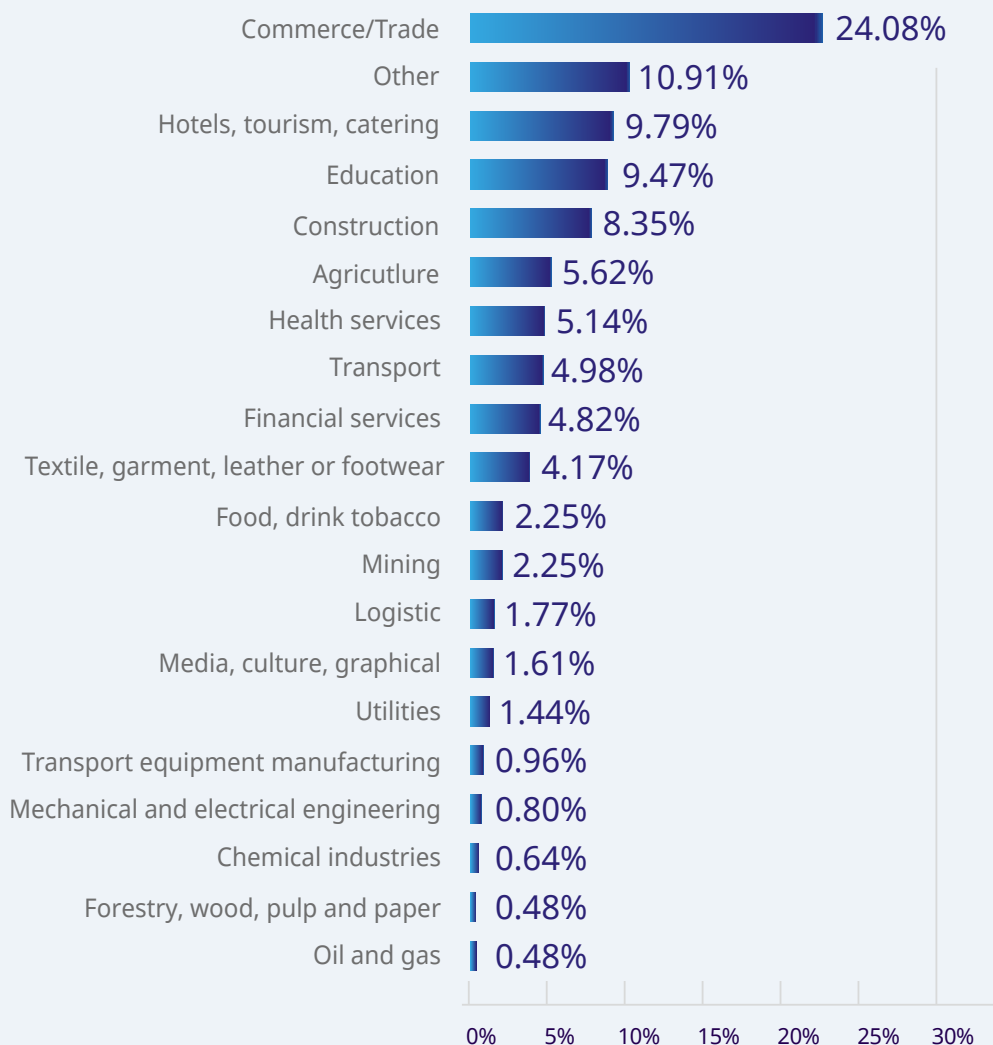
After the online process, in order to create the detailed analysis, the statistical software SPSS is used for raw data analysis. Besides the basic descriptive statistic, we used cross tabulation and other statistical indicators.



▶ 3. Sample

The survey of small and medium-sized enterprises of Kyrgyzstan was conducted in May – July 2021 with the coverage of 623 respondents.

Figure 1: Sample by industry

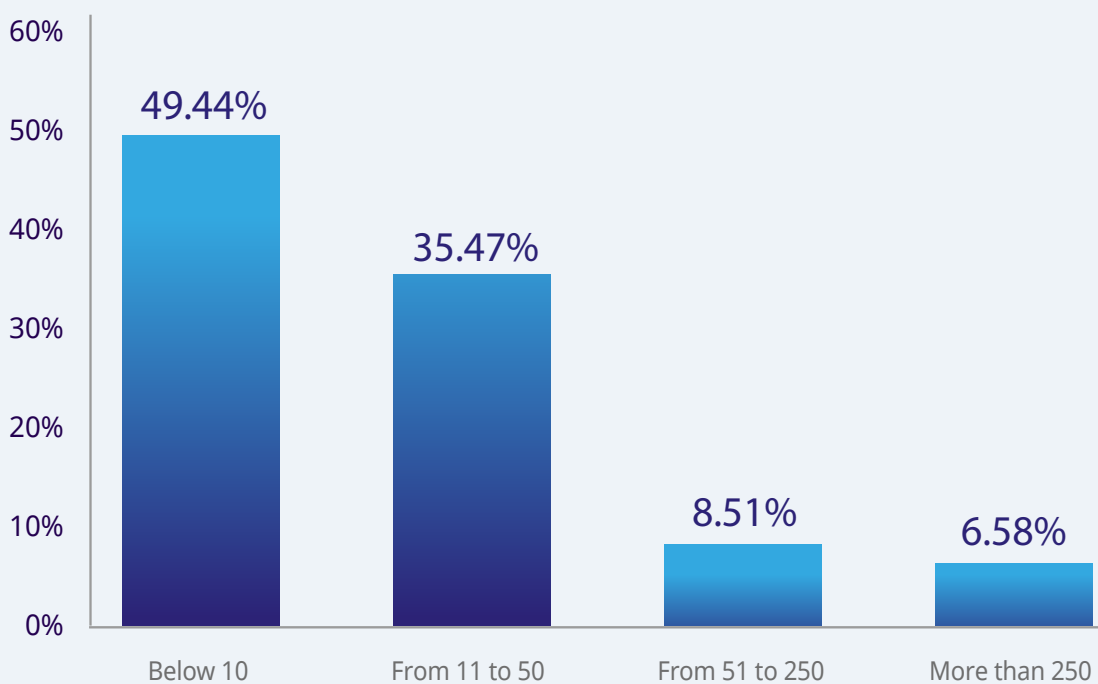


By industry affiliation, almost a quarter of the respondents (24%) were working in trade, almost 10% were working in the hotel business, tourism, public catering, 9.47% were employers from education sector, 8.35% were working in construction, 6% in agriculture, the employers of such areas as medicine, financial services, transport form 5% each. A certain number of respondents represented such industries as textile manufacturing (4%), food manufacturing (2%), mining (2%), logistics (2%), media (2%) as well as the production of transport equipment, chemical industry, mechanical

engineering and electrical engineering, public utilities (1% of respondents each). 11% of respondents, when determining the industry affiliation of their enterprise, answered: "Other", which based on respondents' explanations can be split into two major parts:

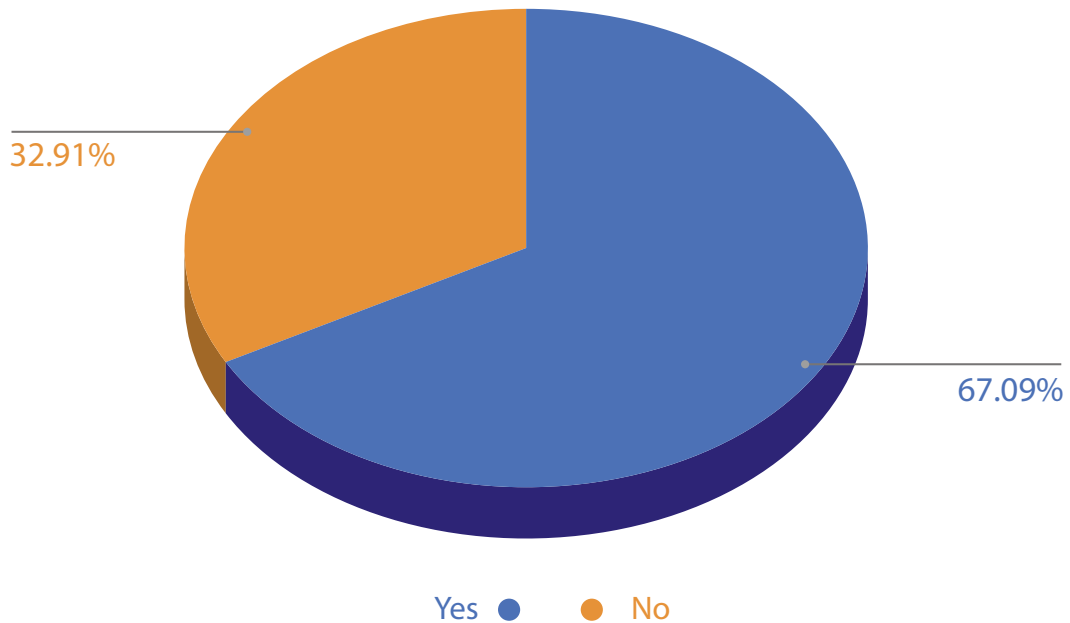
- ▶ Services like beauty services, communications services, printing, consulting, dry cleaning, car wash, employment services for those seeking jobs abroad.
- ▶ Production like disposable paper cups and sintepon, as well as disposable tableware manufacturing.

Figure 2: Size of company



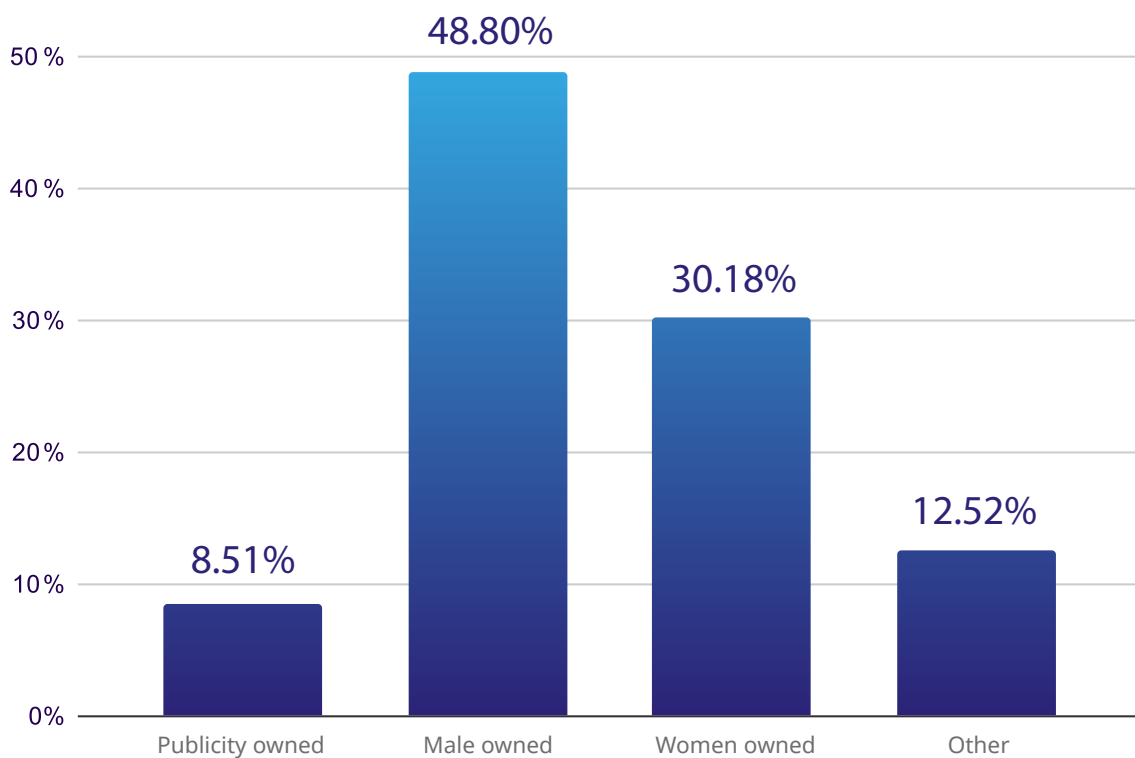
Almost half of the respondents (49.44%) represent micro-enterprises with up to 10 employees, 35% of respondents work at small enterprises with 11 to 50 employees, 9% – at enterprises with 51 to 250 employees and 7% represent medium-sized enterprises with more than 250 employees.

Geographically, 66% of respondents are located in the capital of Kyrgyzstan (Bishkek), 10% in the city of Osh, such cities as Jalal-Abad (5%), Karakol (4%), Batken (2%) and Talas (1%) are also represented. Among those who, answering the question about the territorial affiliation of their enterprise, chose the option "other", the majority indicated Chuy and the Chuy region.

Figure 3: Are the companies exporting?

Less than half of companies (33% of respondents) indicated that they export their products, 67% work only for the domestic market, do not export.

It is interesting that 79% of respondents work at enterprises owned by private individuals (49% men and 30% women), in 9% of cases enterprises are owned by the state.

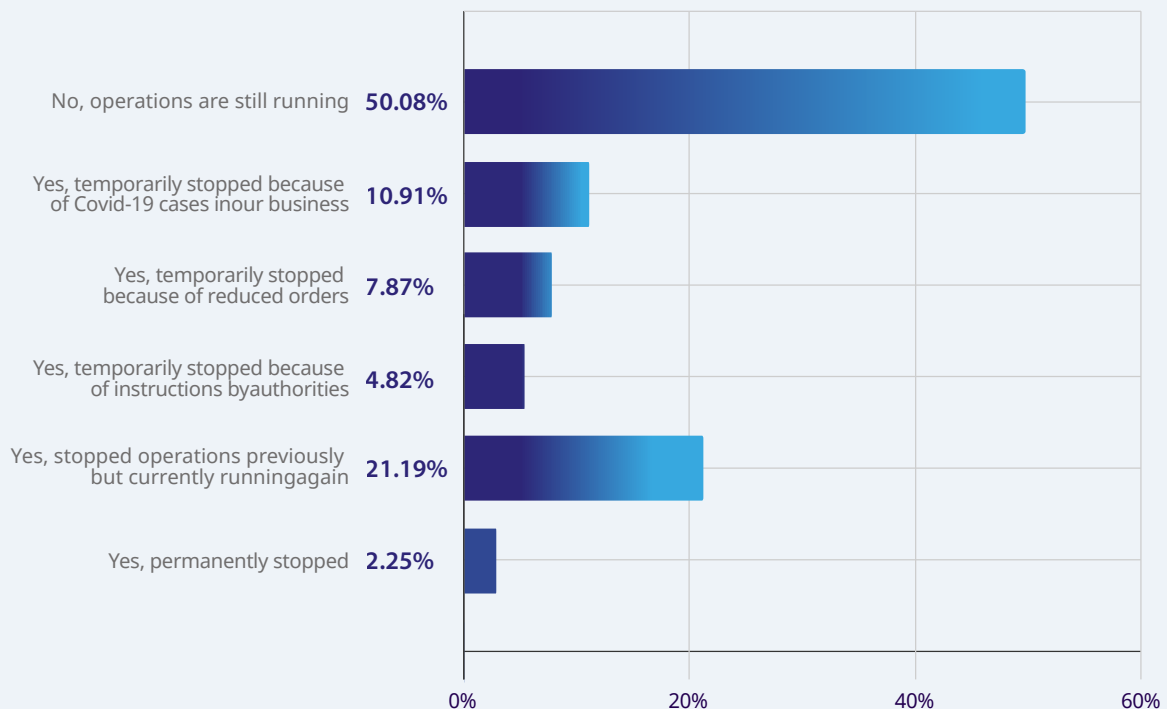
Figure 4: Ownership of the company

► 4. Survey result

► 4.1. How is business impacted by the COVID-19 crisis and dealing with the occupational safety and health challenge?

COVID-19 has had a significant impact on the work of small and medium-sized enterprises – only half of the respondents said that the business continues as usual, while 21% noted that work was temporarily stopped, but is currently restored; almost a quarter of respondents noted that work was temporarily stopped for one reason or another but hasn't restarted yet (11% – due to the illness of employees with covid, 8% due to a reduction in orders, 5% – on the instructions of the authorities). 2% of respondents noted that the work was totally stopped.

Figure 5: Have you stopped operations because of the current crisis?



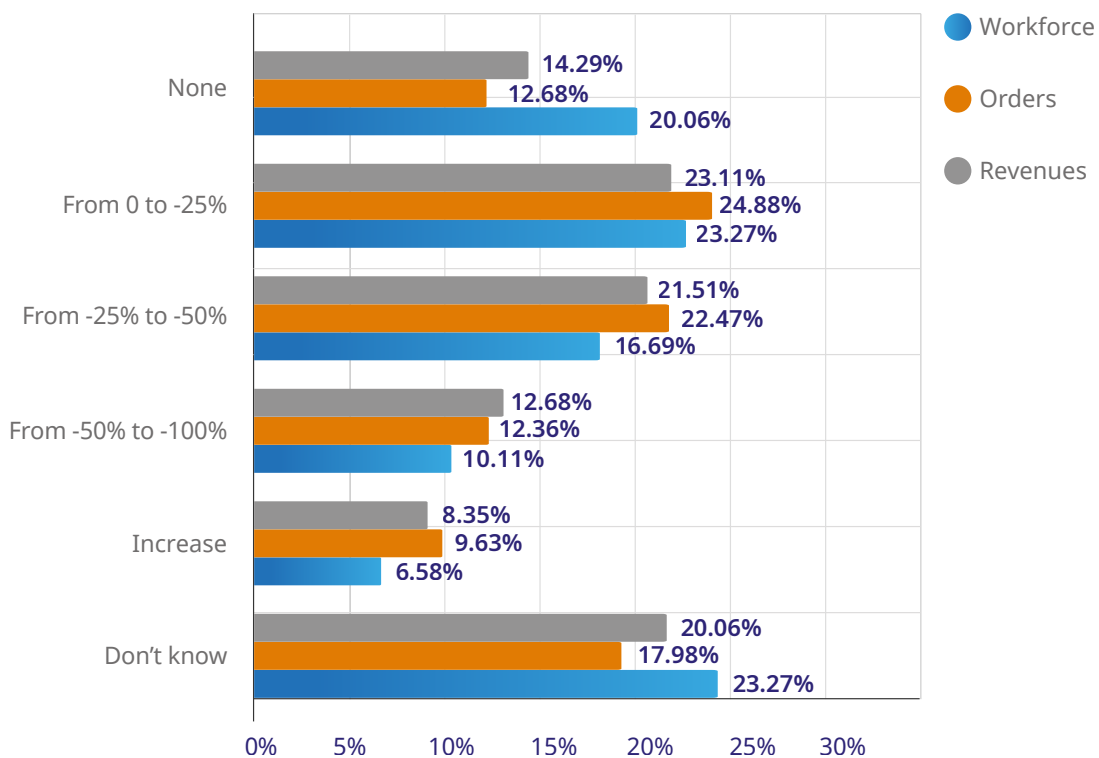
According to the survey, looking by size of companies, 45.8% of the companies that employ less than 10 employees answered that their operations are still running and this share increase by size of companies. This brings us to the conclusion that in most cases micro and small companies face the biggest challenges during the COVID-19 pandemic.

Table 1: Operation during the COVID-19 pandemic by size of companies

	Below 10	From 11 to 50	From 51 to 250	More than 250
No, operations are still running	45.80%	49.80%	60.40%	70.70%
Yes, permanently stopped	3.20%	0.90%	1.90%	2.40%
Yes, stopped operations previously but currently running again	24.00%	23.10%	7.50%	7.30%
Yes, temporarily stopped because of Covid-19 cases in our business	9.10%	13.10%	13.20%	9.80%
Yes, temporarily stopped because of instructions by authorities	4.90%	4.50%	7.50%	2.40%
Yes, temporarily stopped because of reduced orders	9.70%	7.20%	5.70%	0.00%
Other	3.20%	1.40%	3.80%	7.30%

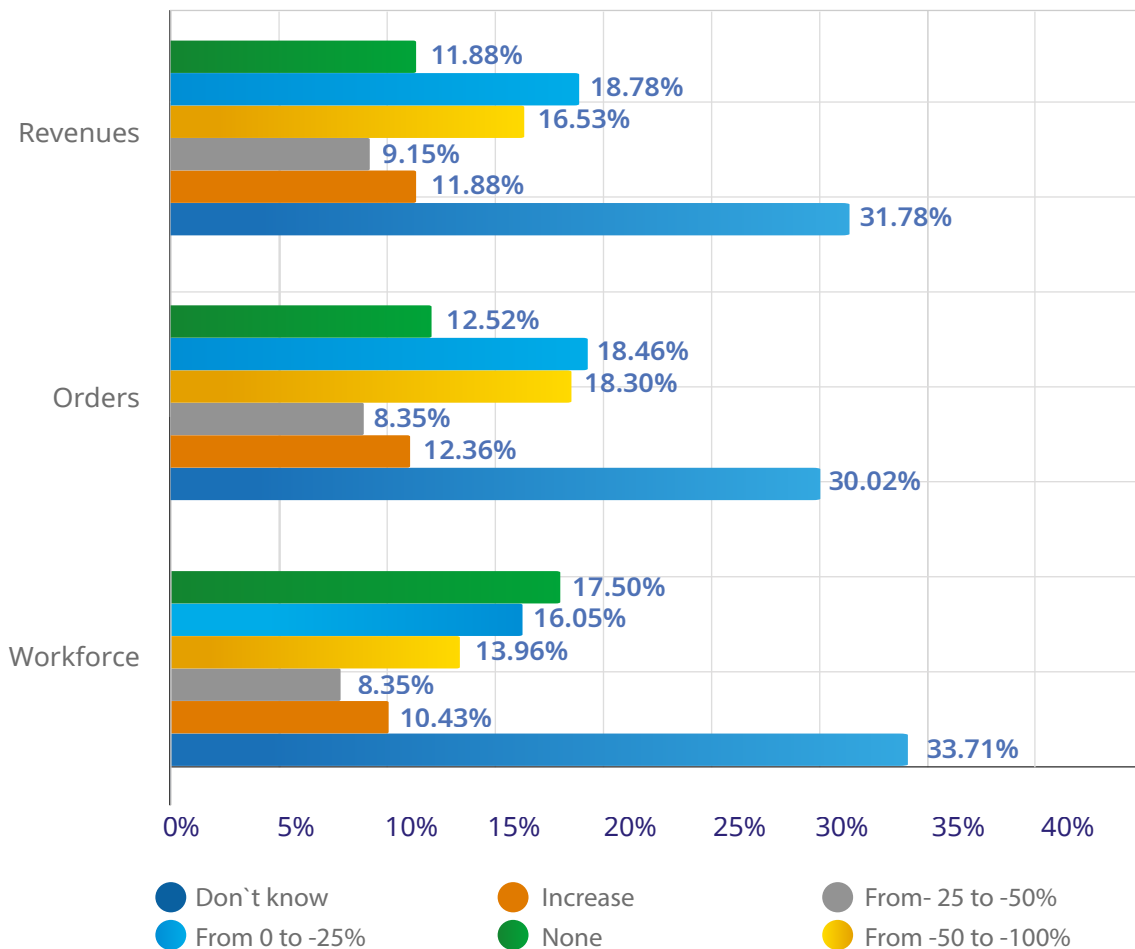
Analyzing by sectors, more than 50% companies from tourism sector said they stopped operations, almost the same share of companies in mass media, culture, graphical design gave the same answer as well as companies from the logistic sector.

Answering the question about the impact of COVID-19 on the enterprise, positive dynamics (growth) or the lack of influence was noted, respectively, on income by 8% and 14%, orders by 10% and 13%, labor force - 7% and by 20% of respondents. More than a half of the respondents noted some decrease in income, orders and labor, while the most significant drop (from 50 to 100%) was noted by 13%, 12% and 10% of respondents, respectively.

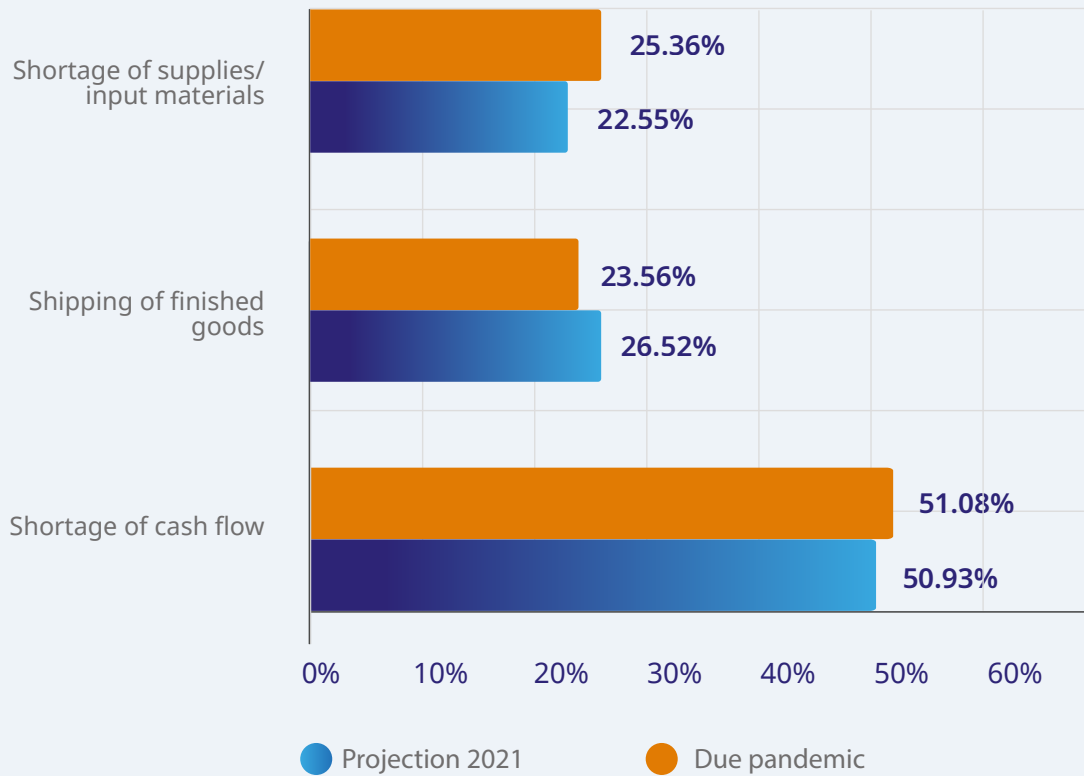
Figure 6: What has been the impact of COVID-19 on your business until now?

Judging by the responses, in 2021, about a quarter of them hope for some, but not too significant improvement in the economic situation for their enterprise: positive dynamics (growth) or no influence on income is expected, respectively, by 12% and 12% of respondents, on orders – by 12 and 13% of respondents, on labor – by 10 and 17% of respondents. From a third to half of the respondents believe that there will be a drop in income, orders and a reduction in the labor force, the most significant (from 50 to 100%) is predicted, respectively, by 9%, 8% and 8%. Also, it is really important to mention that more than 30% of companies don't know what will happen until the end of 2021, what show that still there is doubts regarding the next period and the situation with pandemic in the country.

Figure 7: What impact of COVID-19 on your business do you expect for 2021?



The respondents attribute the difficulties that enterprises faced during the COVID-19 period to a shortage of funds (68%), a shortage of raw materials (34%), and supplies of goods (31%) (when answering this question, respondents could choose all the appropriate answers, so the total number of answers was not 623, but 832). And for 2021, respondents predict the continuation of difficulties associated with the COVID-19 in all the discussed areas: a shortage of funds (66%), a shortage of raw materials (29%), the supply of goods (34%).

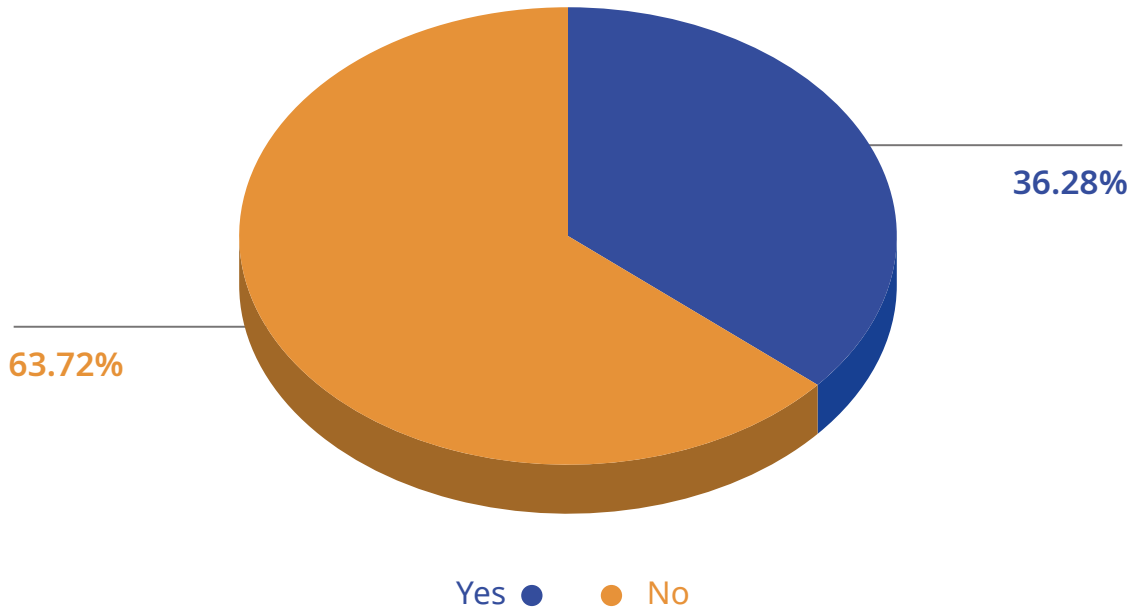
Figure 8: Main difficulties during the COVID-19 pandemic and expected difficulties for 2021

From these answers it is obvious that companies expect better business results in 2021, but it is clear that they think that the biggest difficulty will be the shortage of cash flow, what indicates that companies still have problems in doing business; also they expect less shipping of finished goods, what can lead us to conclusion that there is a lower demand in the market in 2021 year.

More than a third of respondents (34%) note a shortage of personnel as a result of COVID-19.

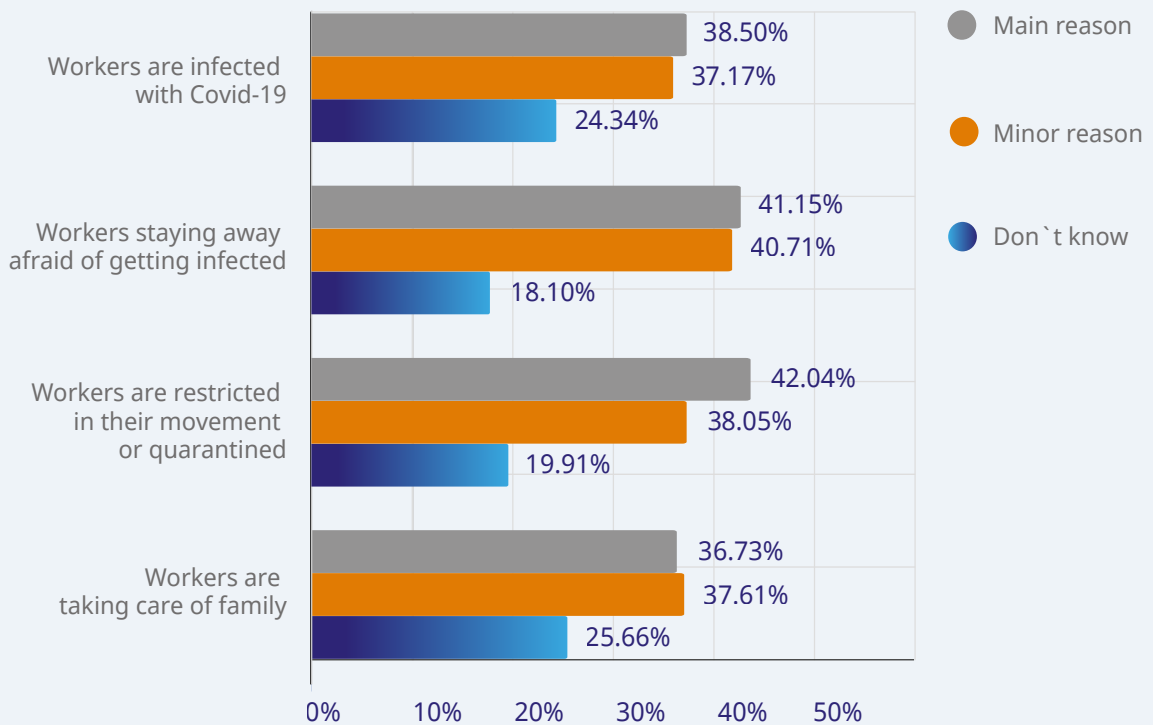
Analyzing by sectors, more than 60% of companies in such sectors as transport, transport equipment manufacturing and utilities said that they face with the shortage of workforce. On the other side, more than 80% of companies from the mining sector and health services mentioned that they don't have any problems in this area. The same is in education and financial services where more than 65% have the same opinion. On the other side, 43% of the companies have from 11 to 50 employees who named this as a difficulty.

Figure 9: Do you face shortage in workforce?



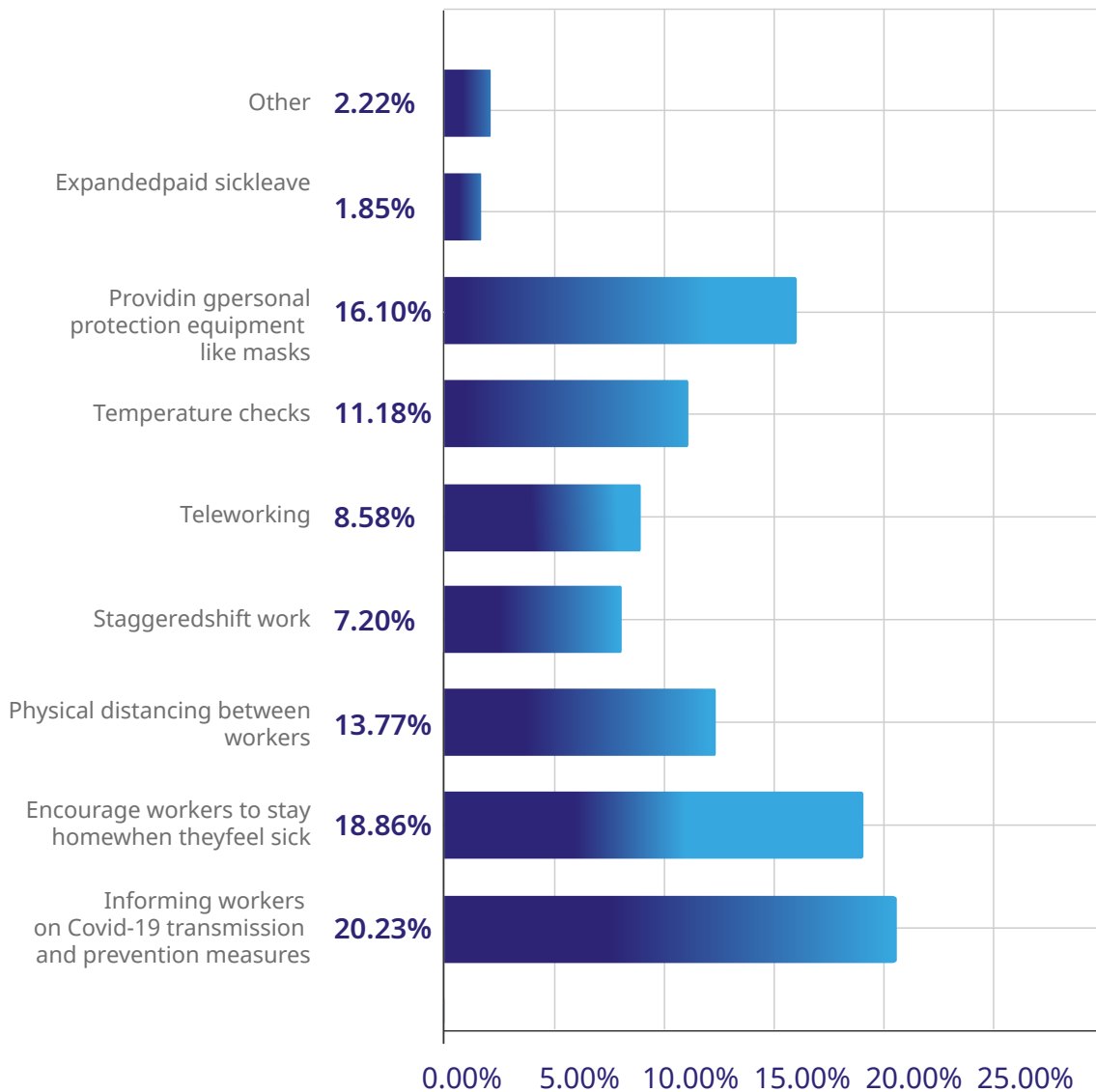
As the main reason for having problems with workers, companies named the following: infection of employees with COVID-19 (38% named this as the primary reason, 37% called it secondary); employees do not go to work for fear of getting infected (41% and 41%) – this reason has become the most frequently mentioned; due to restrictions on freedom of movement or quarantine (42% and 38%, respectively); due to the fact that employees have to take care of family members (37% and 38%, respectively).

Figure 10: What kind of shortages?



More than a half of the respondents (56%) answered in the affirmative to the question whether any of the employees had contracted COVID-19.

Figure 11: What does your company do to protect workers from being infected?

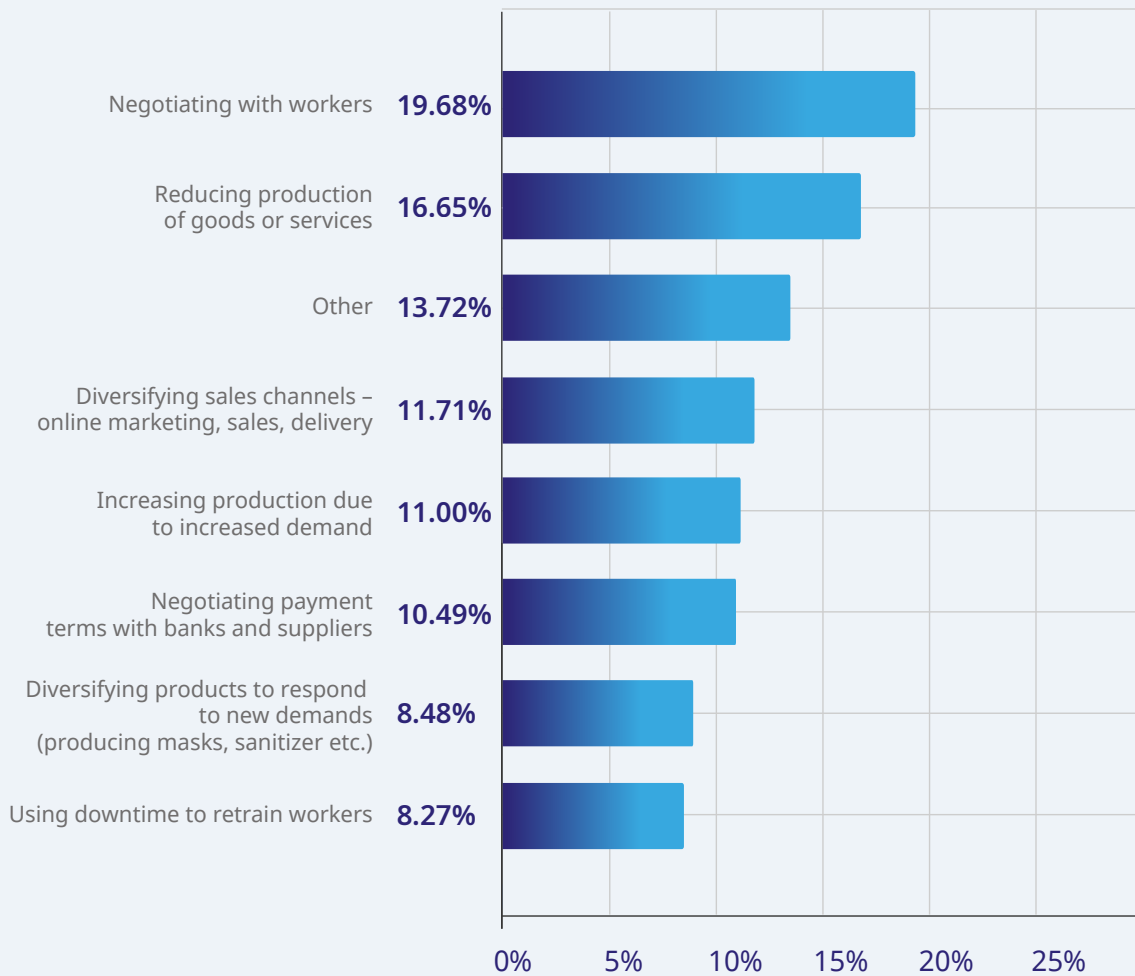


Respondents noted a wide range of COVID-19 protection measures used at enterprises, but it is alarming that the majority notes so-called “passive” measures as “informing employees about the ways of spreading COVID-19 and protection measures” – 20.23% and “requiring employees to stay at home in case they feel sick” – 18.86%. More active measures are noted much less often: “the issuance of personal protective equipment, for example, masks” - 16.1%, “ensuring a safe physical distance between employees” – 13.77%, “body temperature control” – 11.18%. A little less than 10% of respondents note the transfer to remote work as a measure, which is not surprising if we take into account the nature of the activity, mainly related to the direct provision of industrial and agricultural services. 7.20% of respondents also mention the establishment of a sliding shift schedule and 1.8% - an increase in the duration of paid sick leave.

► 4.2. How do companies respond to the crisis?

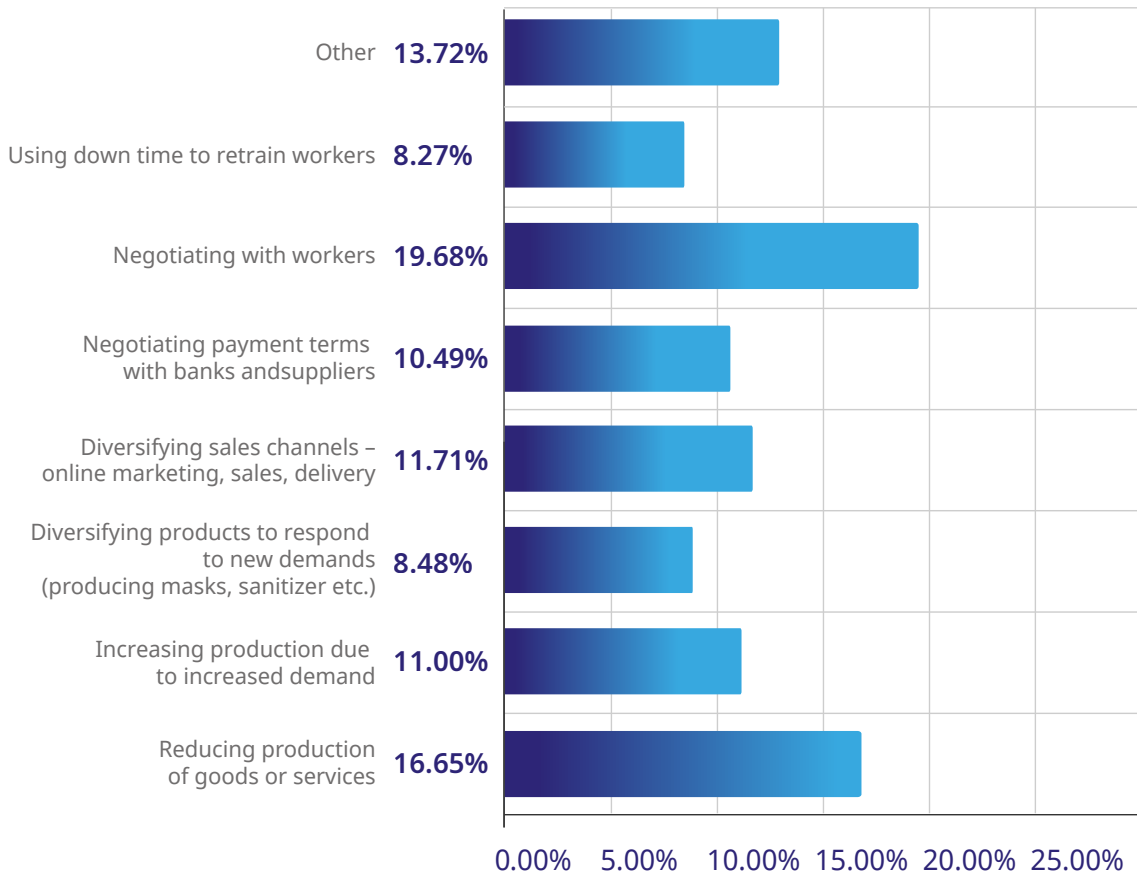
The measures currently being taken at companies in Kyrgyzstan mentioned by the companies showed that they are actively looking for ways to overcome the difficulties due to the COVID-19 pandemic.

Figure 12: What action companies implement to reduce the influence of COVID-19



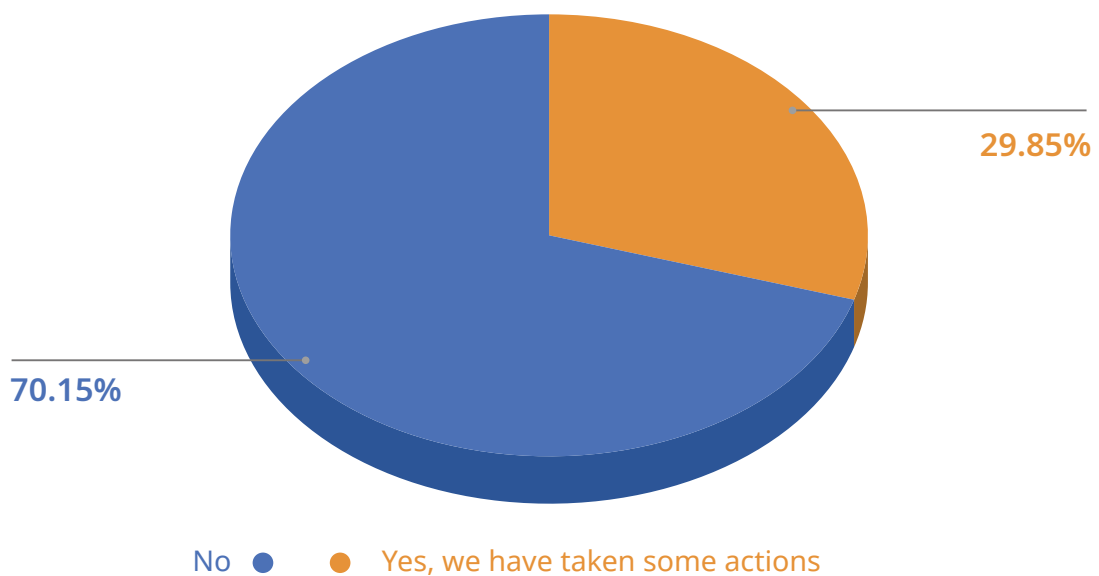
The companies mentioned the following measures implemented in the current period: 19.68% of the companies mention negotiations with employees, 16.65% mentioned that they are reducing production of good or services and 11.71% mentioned that they are dealing with diversification of sale channels – online marketing, sales and delivery.

Figure 13: What actions are companies currently taking?



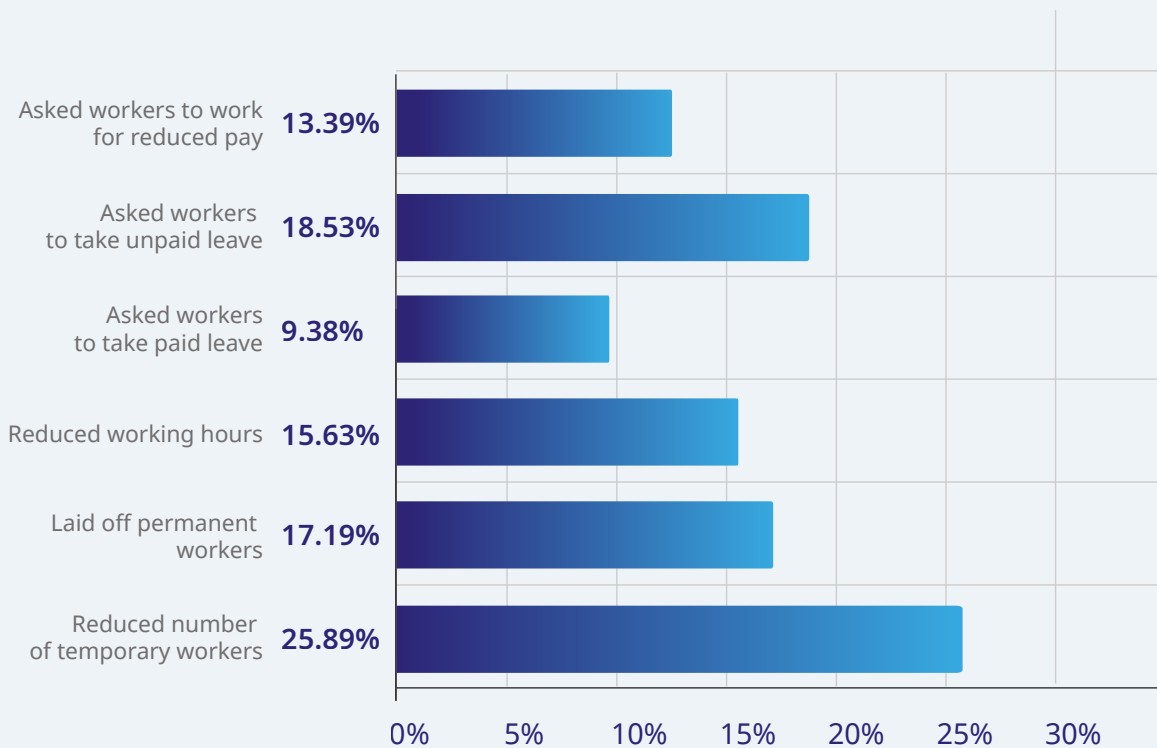
40% of respondents stated that there are no employees left without work at enterprises as a result of production cuts.

Figure 14: Do you have idle workers due to reduced operations?



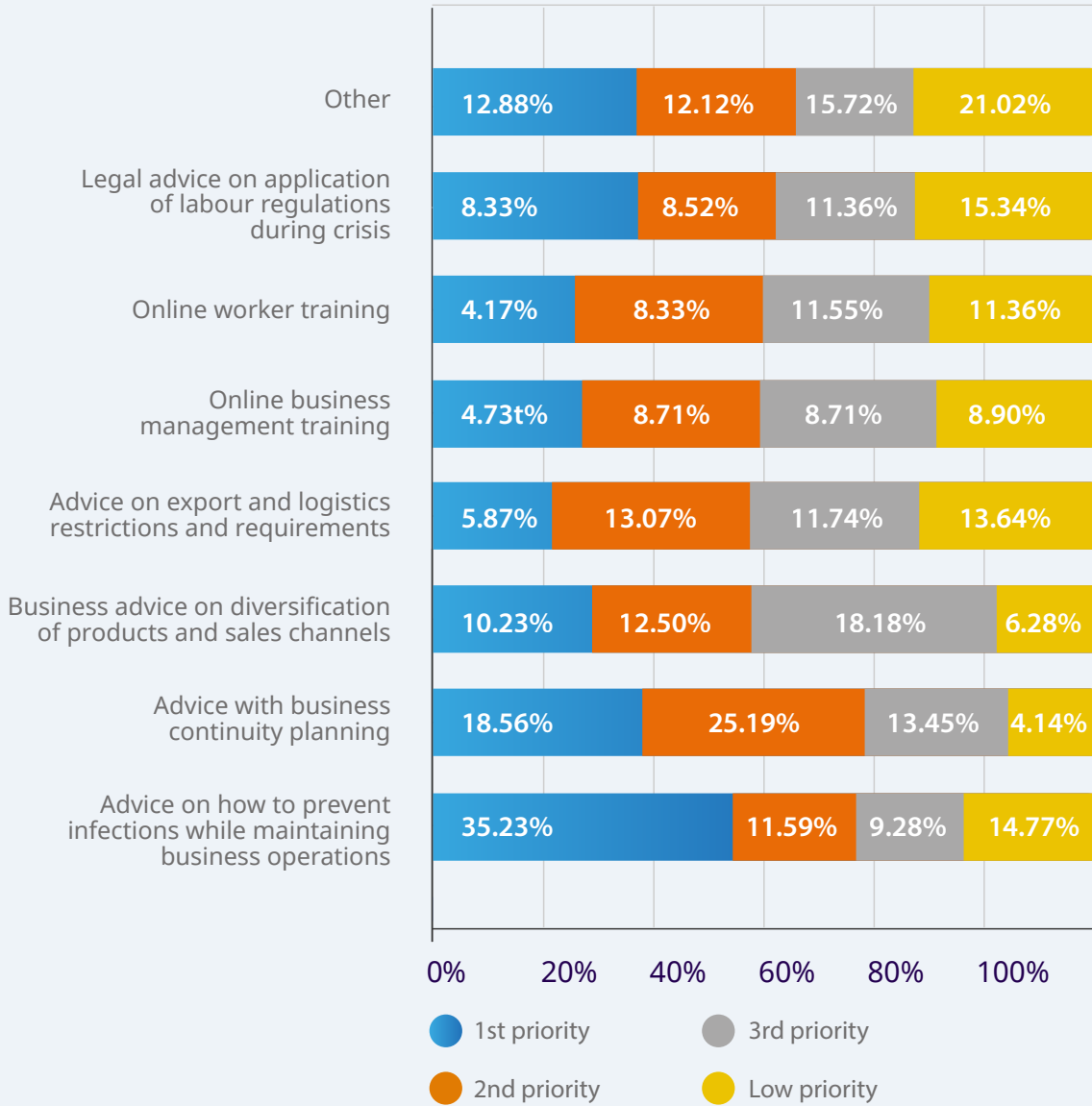
If the companies said that they had/have any activities they mentioned the following measures: reduction of temporary workers (25.98%), reduction of full-time employees (17.19%), reduction of working hours (15.63%), reduction of wages (13.4%), sending employees on unpaid (18.53%) or paid (9.38%) leave. Interestingly, when answering “other”, respondents indicated such measures as “helped with food”, which indicates the extremely difficult financial situation of those who lost their job. At the same time it is worth mentioning that one respondent even claimed that this business lacked staff members as some quitted due to finding better jobs.

Figure 15: Measures taken by companies



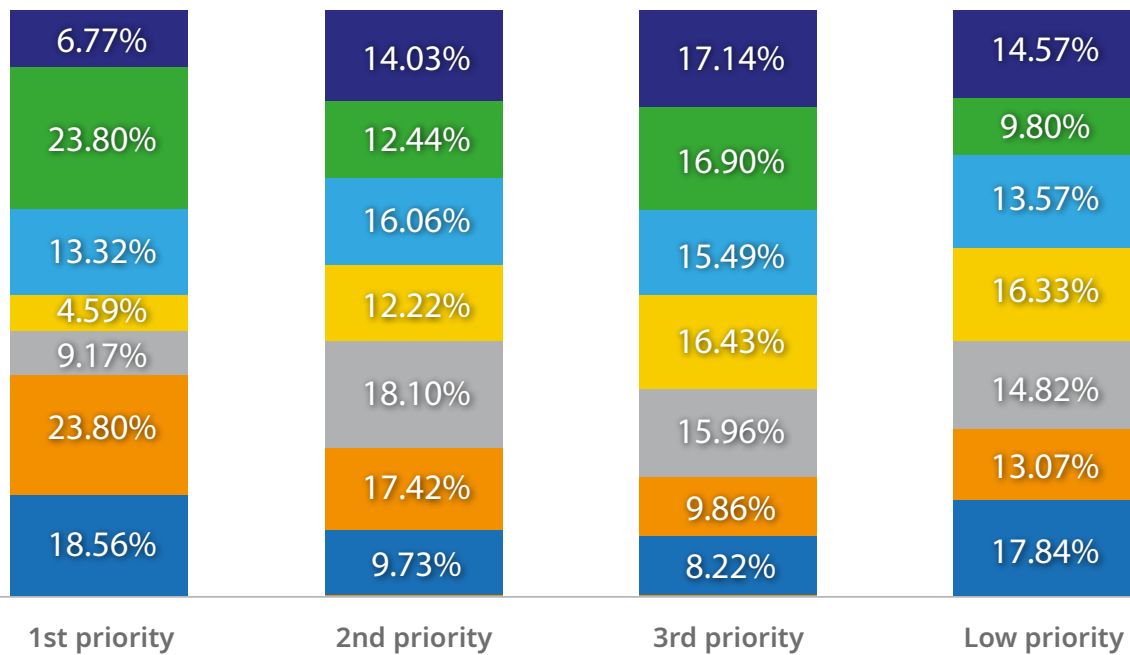
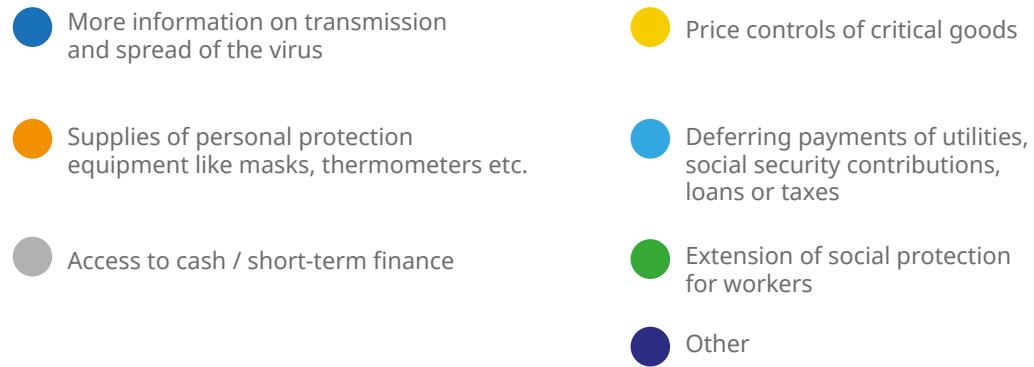
When answering the question about what services businesses need, respondents preferred recommendations/advice: on measures to protect against infection while continuing work (35% put it in the first place and 12% in the second), planning continuous business activities (19% and 25%, respectively), product diversification and sales channels (10% and 13%), restrictions and requirements for export and logistics (6% and 13%). Distance learning services for managers and employees, as well as consultations on the application of labor legislation during the crisis, received significantly fewer votes.

Figure 16: What business development services do you need?



Judging by the responses, companies would like the state, first of all, to provide extension of the social protection for workers (23.8% see it as the 1st priority and 12.44% as the 2nd one), following with the request to supplies of personal protection equipment like masks, thermometers and similar (23.8% see it as priority 1 and 17.42% see it as priority 2). Also, many of the companies mention deferring payments of utilities, social security contribution, loans and taxes as really important measure to be implemented from the side of the Government.

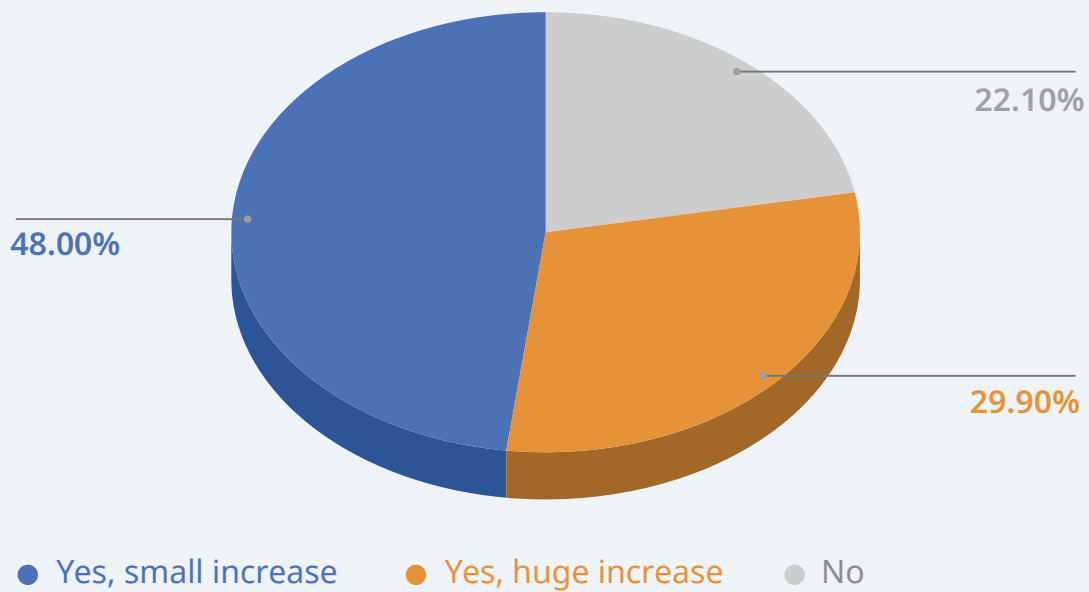
Figure 17: What should the Government do to improve the situation of the companies?



► 4.3. Informal economy

Almost 80% of the respondents note an increase in the scale of informal employment, with about half of respondents (48%) considering the increase to be small, and 30% – huge.

Figure 18: Due to the COVID-19 crisis, do you see the increase of the informal economy in the country?



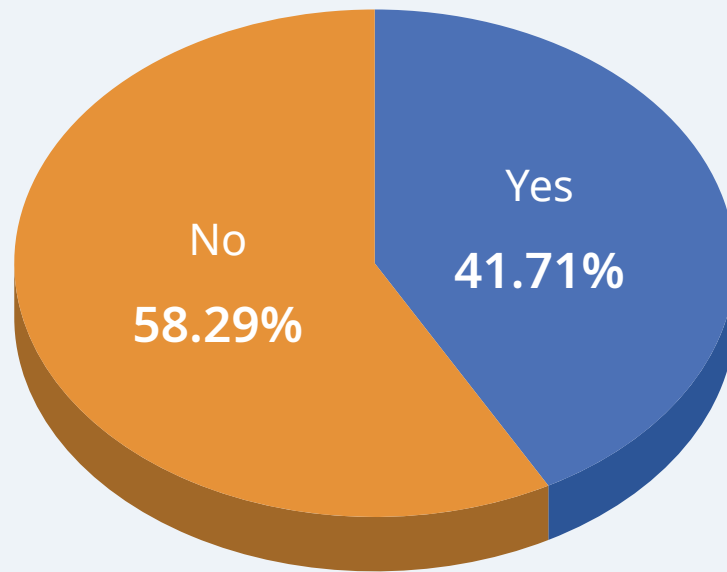
Looking on sectoral level, almost all sectors see the problem of informal economy during the pandemic as really crucial. The highest rate is in the construction sector - 85%, then 84.6% of the companies in agriculture recognized the increase of informal economy. Also, 70% of companies working in hotels, tourism and catering field and 80.6% in the commerce recognized the same problem.

Analyzing by size of company, 92% of companies with from 51 to 250 employees think that there is increase in the level of informal economy. Also, 78% of companies that have less than 10 and from 10 to 51 employees see the increase in share of informal economy. Also, 82% of companies that export goods and services recognized the increase of informal economy in the country.

On the other side, 42% of respondents are thinking about switching to the informal sector. In our opinion, this is an alarming signal indicating the insecurity of an officially operating business. This also shows that there are still huge obstacles in the country that need to be resolved in order to improve the current situation.

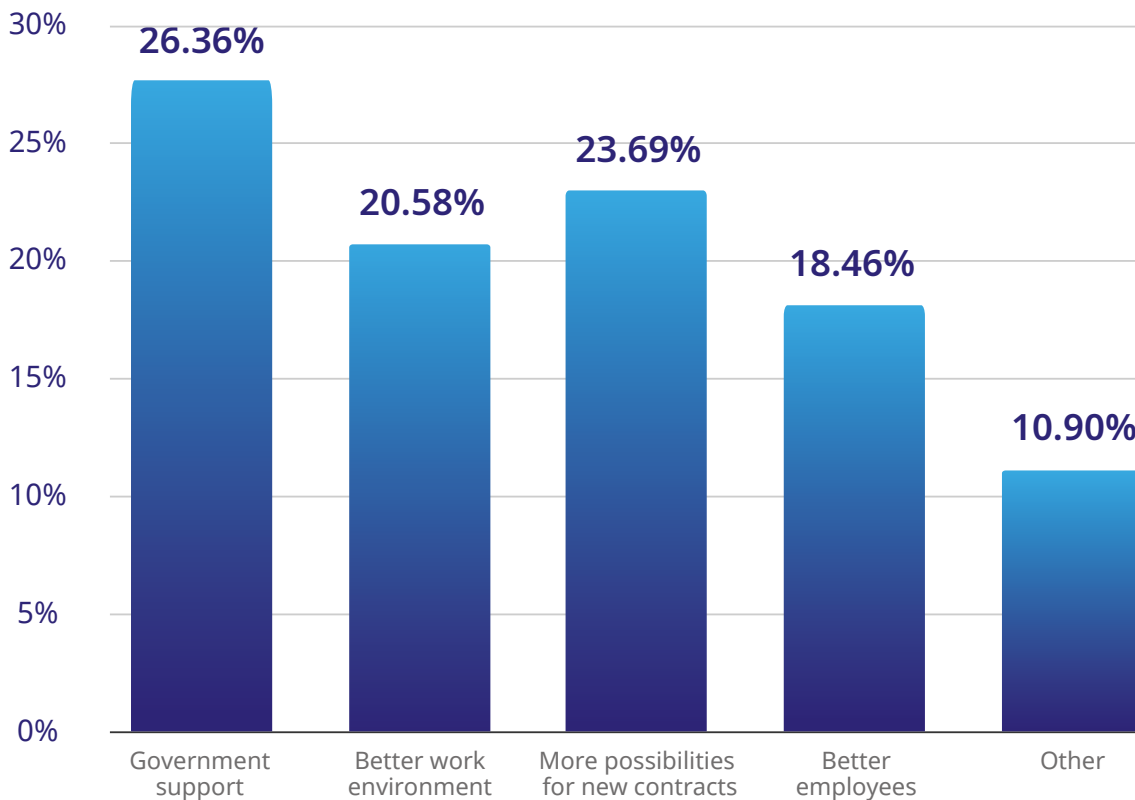
43% of companies that employed less than 10 employees answered positive to this question as well as 47% of companies that export goods and services did.

Figure 19: Have you ever thought to go to the informal sector?



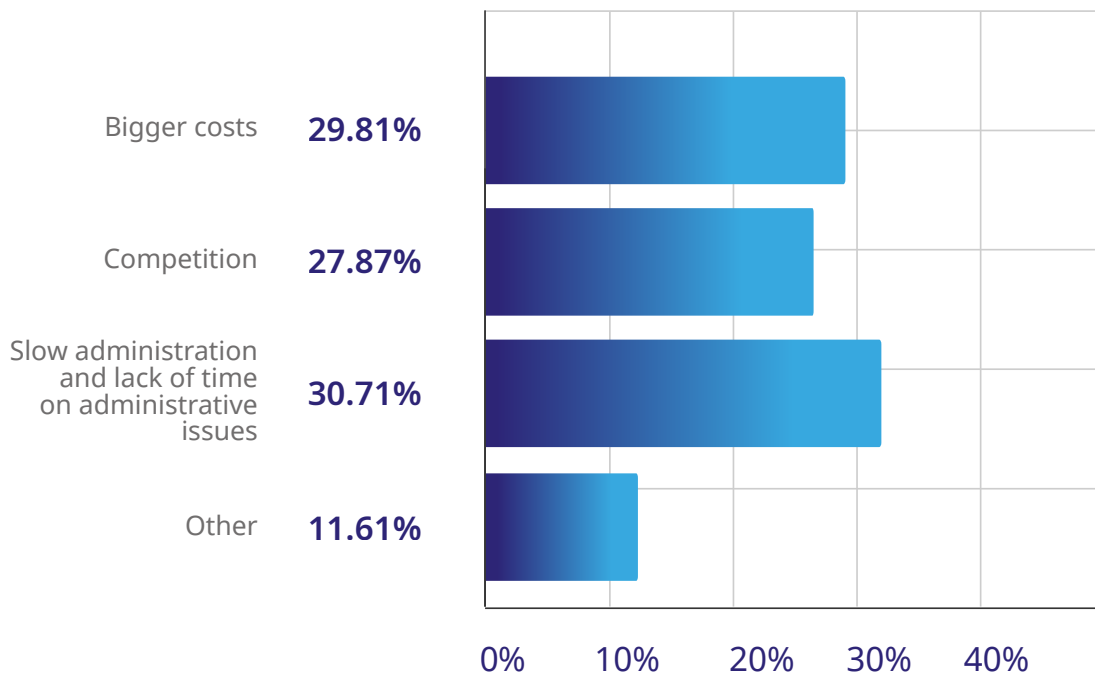
Speaking about the reasons for the desire to move to the informal sector, respondents note high taxes, communal services, social contributions, corruption, lack of protection from the state. Majority of additional comments indicate that the work of inspections pushes them into the informal economy. At the same time, there are often arguments related to the crisis, unemployment and the need for income.

Figure 20: What are the opportunities of business formalization?



As the biggest opportunities of formalization, 26.36% of the companies in Kyrgyzstan recognized the government support, 23.69% mentioned the possibility for new contracts. Also, 20.5% companies mentioned better work environment.

Figure 21: What are the biggest weaknesses of business formalization?

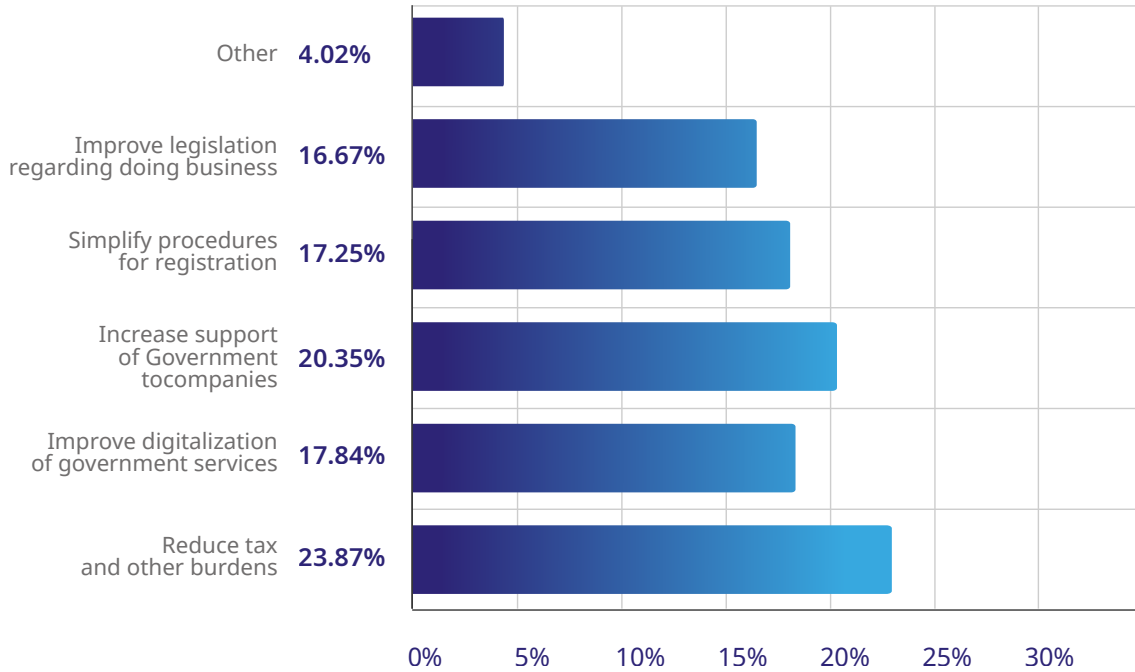


As the biggest weakness of business formalization, 30% of companies in Kyrgyzstan mentioned slow administration and lack of time on administrative issues. Also, besides this, 29.8% and 27.9% of the companies mentioned high costs and competition.

As some other weaknesses, the companies add the following:

- ▶ Pressure from the state as a controlling body;
- ▶ Regular and pressing controls, fines and other tools;
- ▶ Work of inspections.

All companies suggested the ways forward and how the situation can be resolved and the share of informal economy can be reduced.

Figure 22: What should the Government do to increase formalization of companies

As the first measure to reduce the level of informal economy in the country, the companies recognized reduction of taxes and other burdens (23.87%) as well as increase of the government support (financial and non-financial) to companies (20.35%). Besides this, the companies mentioned the importance of better digitalization of government services (17.84%) and simplification of procedures for business registration (17.25%).

As other suggestions, most of the companies mentioned the importance of formalization promotion and campaigns to improve the knowledge of formalization benefits.

► 5. Recommendations and conclusions

Summing up, due to the nature of SMEs in Kyrgyzstan (the core focus is on services and other interaction-related work) the risks of COVID-19 infection spread and business impact was initially quite high. Moreover, these types of business are hard to be switched to remote work so the risks of significant business losses were really solid. Those who are engaged in export-oriented businesses suffered from global transport challenges including customs and logistics processes & procedures which have become much more sophisticated due to the COVID-19. On the top, significant level of illness among employees lead to the shortage of workforce as people had to stay at home not only when they were sick themselves but also when they had to take care of their relatives or to obey to quarantine restriction measures.

On the other hand, since most enterprises are micro, up to 10 employees, it was easier to control infection spread. That's why the traditional measures of infection prevention as temperature control, masks' distribution, etc. were mentioned by less than half of respondents.

Nevertheless, only the half of the respondents confirmed the negative impact of the COVID-19 on their business and 21% of them stated that they have already recovered by the time of the current research. Unfortunately, we are not sure if recovering means full pre-COVID-19 scale of business or not, as it shows that the decrease of income, orders and labor was rather considerable.

It seems that SMEs are actively seeking for ways to optimize their current business (including costs reduction, temporary staff reduction, etc.) as well as looking for new opportunities in the form of business diversification, i.e., new products, clients, suppliers, cost optimization.

The topic of government support is one of the most acute ones throughout the survey – respondents claim their desire to negotiate taxes with the government to help businesses survive, as well as they confirm that they were consistently lacking COVID-19 prevention guidance from the state.

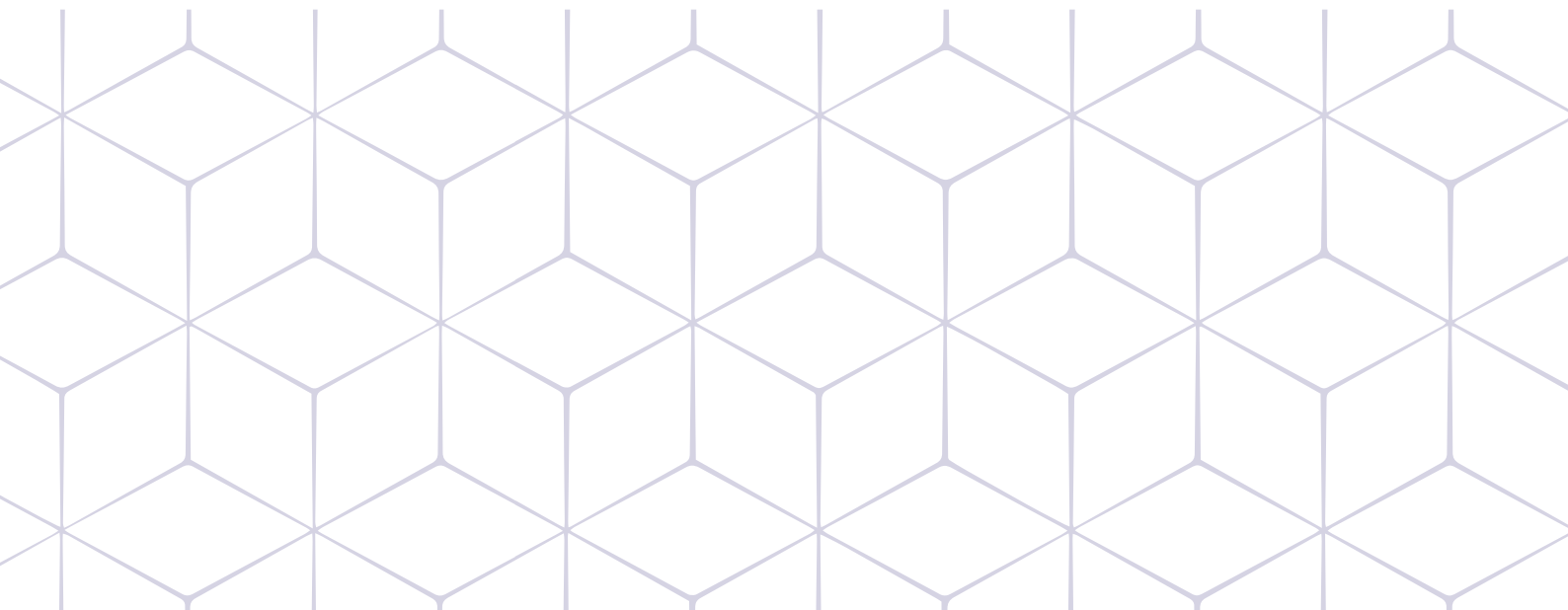
Base on this, main recommendations for improvement of the situation of companies in Kyrgyzstan are the following:

- Improve the financial and non-financial support to companies, in order to build up capacities to overcome current problems and prepare for further work;
- Reduce tax and other burdens in order to support all businesses that have big problems caused with the COVID-19 pandemic;
- Create measures to support protection of workers, providing guidelines on safety at work, providing personal protective equipment to companies, etc.;
- It is important to continue with stimulating measures regarding social insurance, utilities and similar costs;
- Include all stakeholders in the decision-making process in order to create further policies more connected with business needs.

This issue is extremely significant when we link it to the responses on the question about the informal economy. Almost a half of the businesses is ready to move to informality due to the lack of formal support from the government and heavy bureaucracy.

Based on that some of the recommendations to tackle informal economy in country are:

- ▶ Harmonize taxation system in a way to reduce specific taxes and other burden and make doing business affordable and attractive for most of non-formal companies;
- ▶ Introduce a promotional campaign in order to share benefits of formalization, good examples in the country and also promote best international examples for tackling informal economy;
- ▶ Also, from the government side, it is necessary to improve and make more effective administration and to work more on digitalization of government services in order to reduce time for companies to finalize necessary procedures;
- ▶ Improve the process of companies' registration and make it faster and less complicated;
- ▶ Improve the government support to companies in order to stimulate formalization of informal companies;
- ▶ Also, it is necessary to implement the revision of the whole legislation connected to doing business in the country.



► 6. About publication

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