



**IMPACT OF COVID-2019 ON THE ECONOMIC INDICATORS OF SMALL AND  
MEDIUM BUSINESSES**

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### **Annotation**

Small and medium business is the backbone of the economy of any country. It provides employment for the economically active population, promotes innovation and diversification of industries. From the results of the survey that was conducted by ILO Score Programme, it was pointed out that micro, small, medium sized businesses (MSMEs) represents about 70% of global employment and about 50% of GDP. The quarantine measures introduced in the first half of 2020 have had an impact on the country's economy. In particular, it has had a significant impact on the success of small and medium-sized businesses. This article describes the economic performance of small and medium-sized businesses in Kazakhstan and the world before and during the pandemic.

*Keywords:* Enterprise, Covid-19, GDP, SMB, OECD, economic performance

### *Introduction*

In OECD countries, medium-sized and small businesses represent the practical majority of the business community (90% or more of all business entities). Providing workers in some places with more than 70% of the population, SMEs are the main driving force in the economies of OECD countries. SMEs play a key role in providing economic development, being the main source of workplaces not only for qualified personnel but also what is important for more low-skilled persons from among the economically active population. According to official statistics, in July 2020, 1345.9 thousand SMEs were registered in Kazakhstan, which is 25.3 thousand more than in 2019 (1320.6 thousand).

When in January 2020, a global health emergency was declared due to rapidly increasing cases of coronavirus infection in China and in other countries, by the WHO Committee on Emergency Situations and included quarantine measures that were forced to stop almost all enterprises activities for an indefinite term. Since the beginning of 2020, the world is still experiencing the repercussion of the pandemic associated with COVID and its strains. After the decrease in cases of infection with the virus, companies have resumed their activities under strict conditions while observing quarantine measures. The corporate sector and SMEs suffered the most damage, as a result of the negative consequences of quarantine led to a decrease in economic activity. Thus, Covid-19 straightly affected the self-employed more than those employed by the company (Kritikos et al. 2020), as well as small businesses more than large ones (Dua et al. 2020)



either in Europe or the United States (Digitally Driven, 2020, 2021).

When almost all countries were suddenly closed for a total lockdown in early 2020, many companies did not have time to take action to continue their production. For instance, in the UK banks, railways, airlines, entertainment and etc. were on the brink of bankruptcy, not to mention laid-off workers and self-employed who lost everything due to the economic shock (Saad.2020). The activities of many organizations were suspended after the introduction of quarantine, as a result of which the flow of funds received decreased, organizations simply began to lose their profits. Expenses exceeded revenues, and the lack of profit led to a reduction in staff. Small and medium-sized businesses suffered significant losses, although governments subsidized the market and injected “recovery” funds as part of the aid package policy. It didn't help much, but it saved many from losing their jobs. Thus, the unemployment rate in the countries rose. According to official figures from the ILO (International Labor Organization), by autumn the number of unemployed in the United States amounted to 20 million people and 16 million in the European Union. Tourism, air travel, restaurants, oil companies - all these areas have been hit hard by the massive lockdown and the use of quarantine measures. The epidemic quickly spread around the world and caused a sharp decline in economic development, which led to a global recession.

A research conducted by the Connected Commerce Council among more than 5,016 SMEs in Europe in November and December 2020 showed that almost all SMEs were impacted by the pandemic, including a reduction in sales by an average of 20% and in the customer base by 16% (Digitally Driven, 2021). Also Mentioning Graeber's study (2021) Women-owned small and medium-sized businesses are more likely to lose income by 35% than male-owned businesses, as there are more women working in industries that have been hit more severely by the pandemic COVID-19.

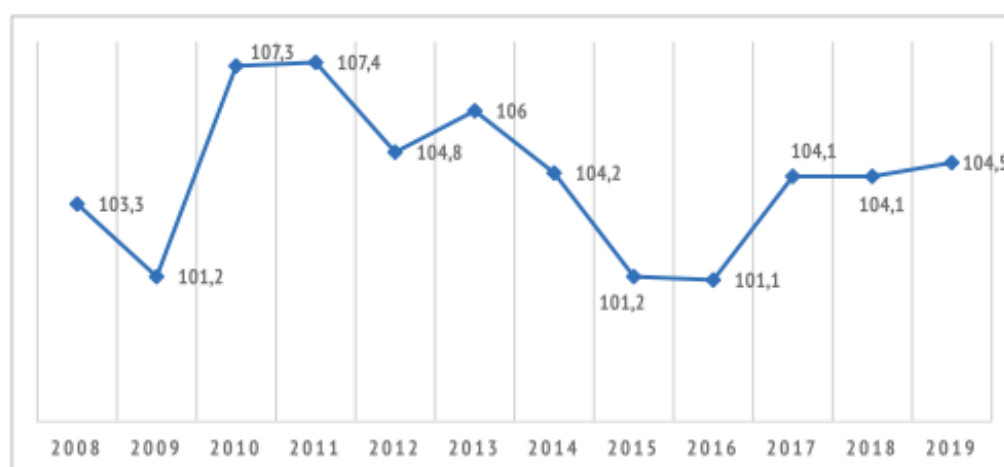
To get a clear vision of the scope and influence of the crisis on SMBs, there was conducted a survey by The Future of Business Survey with collaboration between Facebook, the Organisation for Economic Co-operation and Development (OECD) with the World Bank. The survey covered above 30,000 SMB owners, managers, and workers in over 50 countries and regions. According to the results of the survey, 26% informed that they shut down between January and May 2020 - over 50% in some countries like Bangladesh and Ireland. The significant effect came to Consumer-focused sectors. For instance, 54% of travel agencies and 47% of hotel and event organizing companies in the SME sector reported on the closure of their enterprises at the time of the survey.



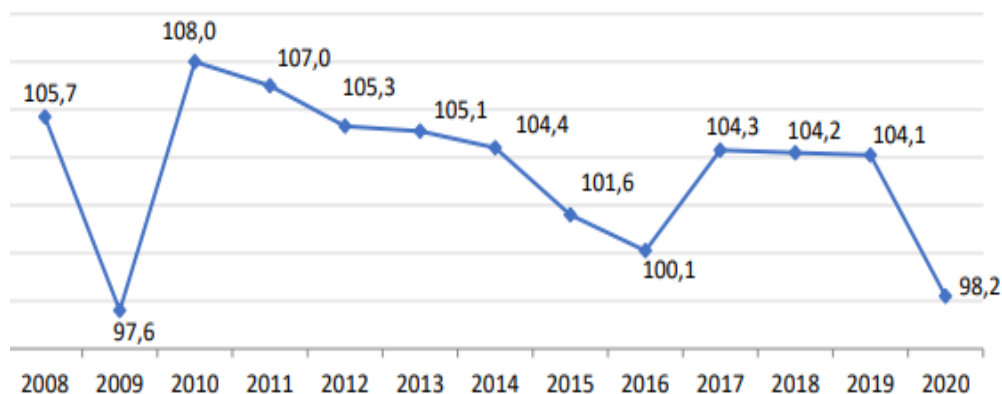
Also, SMEs run by one person defined as micro-businesses have closed down to a large extent than those with several workers. About 30% of micro-businesses replied being closed during the survey compared to 25% of SMEs with one or several employees. According to the results of the sample, in all countries, mass plant closures point to the month of March, after which governments introduced strict quarantine rules and social distancing. For example, in Peru, 63% of enterprises closed after self-isolation measures were introduced on March 16.

Taking the consideration that more than the past five years, in Kazakhstan, the SME sector has contributed an increasingly prominent role in the country's economy, the share of contribution to the gross domestic product (GDP) increased to 31% in 2019 against 28% a year earlier. According to the Bureau of National Statistics of the Republic of Kazakhstan, before the pandemic, 1.3 million small and medium-sized enterprises, including individual entrepreneurs (IEs), were registered in the country. Kazakhstan in the first half of 2020 decreased by 1.8%, decreased by 5.9 percentage points compared to the 1st half of 2019. The main factors behind the decline in the economy were the commissioning restrictive measures, as well as a reduction in production activity in the main sectors of the economy. One of the key indicators of the development of small and medium entrepreneurship in Kazakhstan is its share in the country's GDP.

In this article, we compared the reports of the economic performance of small and medium businesses in Kazakhstan in 2019 and in the first quarter of 2020 taken from reports of the National Chamber of Entrepreneurs Atameken.



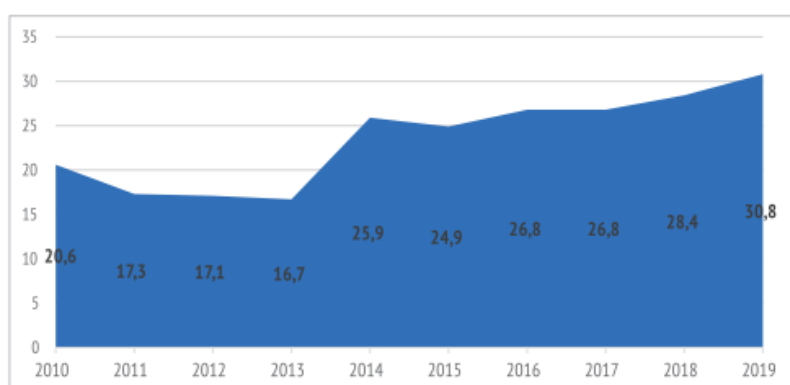
a)



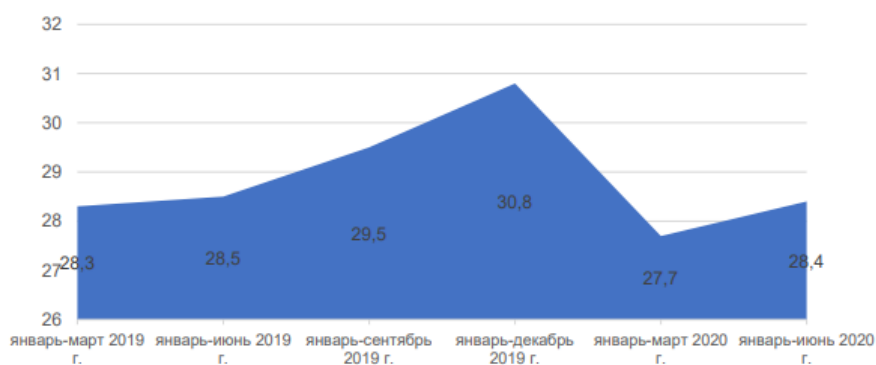
b)

Figure 1. The dynamics of GDP growth in Kazakhstan in the period 2008-2019 (a) and 2008-2020 from January to June (b).

Figure 1 demonstrates to us the dynamics of GDP growth before the pandemic (a) and during the pandemic period (b). We see the significant decreases between 2008 and 2009 (global crisis), and after 2019 when the pandemic situation started.



(a)



(b)

Figure 2. Dynamics of the share of SMEs in Kazakhstan's GDP for 2008-2018 (a) and the GDP quarterly for 2019-2020 (b)



From Figure 2. (b) We can see a sharp decrease at the beginning of 2020. The above indicator in the first half of 2020 amounted to 28.4%, which is lower than the same indicator in 2019 by 0.1 percentage points (a)

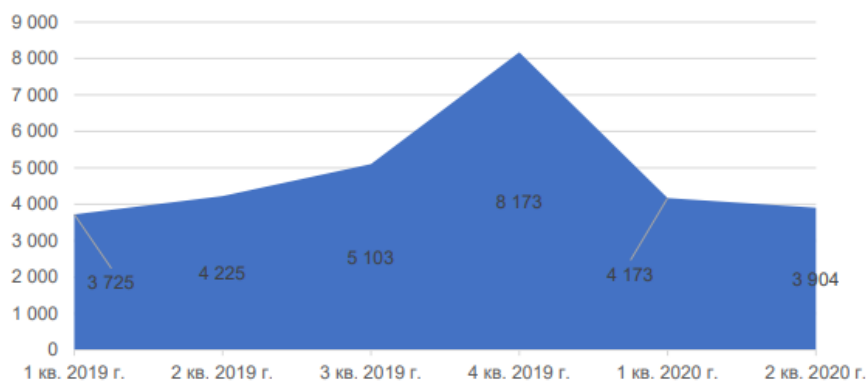


Figure 3. Dynamics of the GVA of small and medium-sized enterprises of the Republic of Kazakhstan quarterly for 2019-2020, billion tenge

Subjects of small and medium businesses in Kazakhstan produced in the 1st half of 2020 GVA in the amount of 8.1 trillion. tenge, which is 1.6% higher than in 2019 (Figure 3), however, it's significantly lower than the fourth quarter of 2019.

During or after a crisis, SMEs typically lose money, lose sales, reduce their workforce, and even shut down. During this kind of crisis, the economic performance of SMB and even large businesses get damaged from the internal and external factors.

While many SMEs approached their governments for financial support, the assistance offered differed considerably among countries and regions. Loans, subsidies, and grants have been introduced by many governments in the form of basic aid (OECD, 2020). The government of Kazakhstan has allocated about 300 billion tenge (\$713 million) to support local businesses. In addition, measures to support small and medium-sized enterprises included: loan guarantees, direct cash receipts, financial support for enterprises that do not want to lay off employees, and online training. Enterprises from the construction and manufacturing sectors have felt the greatest positive impact from the pandemic, with 30% of them saying they have found new growth opportunities in 2020. Despite government support and the growth of digitalization in the whole country, Kazakhstani small and medium-sized enterprises were not ready to go online as a matter of urgency, so their economic indicators fell down.

Apart from the negative problems caused and the crisis, the Coronavirus has some



opportunities and benefits for some sectors. For example, the application of digital activities used for the first time repurposing to stimulate MSMEs in manufacturing via production of medical equipment and supplies made huge support during Covid-19 by many firms (Endigaw.2022).

Despite the considerable invocations businesses certainly face, there is also evidence that small and medium enterprises are ready to reopen and to regulate their business models to adapt to economic environment after the COVID-19. From the survey conducted by OECD (2020) In all of the selected countries, for instance, the most generally referred performance by business leaders of closed businesses was operating on plans for reopening. Most of them highlighted that they adjusted to the pandemic by installing either an online websites or business presence, especially in Ireland (41%) and Brazil (32%).

In the beginning of 2022, all restrictions related to the Covid-19 pandemic were lifted in Kazakhstan and in another countries. Small and medium businesses that survived from this hard time are continuing their activities.

### *Conclusion*

Starting two years ago, the pandemic had its negative effect on the environment till these days before quarantine restrictions were totally pulled off. More and more small and medium-sized enterprises have resumed their work and continue to operate. The behavior of enterprises in this force-Majeure situation illustrates that some firms were able to adjust to the situation and increase their income meanwhile plenty of small and medium businesses were damaged, went bankrupt, and closed. The economic indicators of countries such as GDP, GNP and GVA significantly and slightly decreased as a result of strict quarantine measures. The pandemic has shown that humans cannot predict such situations or crises. Yet it remains to try to get benefit from the situation and to be flexible either negative or positive changes in an economy.

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