



## POLICIES TO HELP SMES OVERCOME COVID-19

Farkhod Djalilov

PhD, Associate Professor,

Tashkent State University of Economics, Tashkent, Uzbekistan

### Abstract

Uzbekistan is the most densely populated country in the Central Asian region, with one third of the population under the age of 29 and half residing in rural areas. As 800,000 people under the age of 29 join the labor market every year, job generation is an urgent and challenging priority.

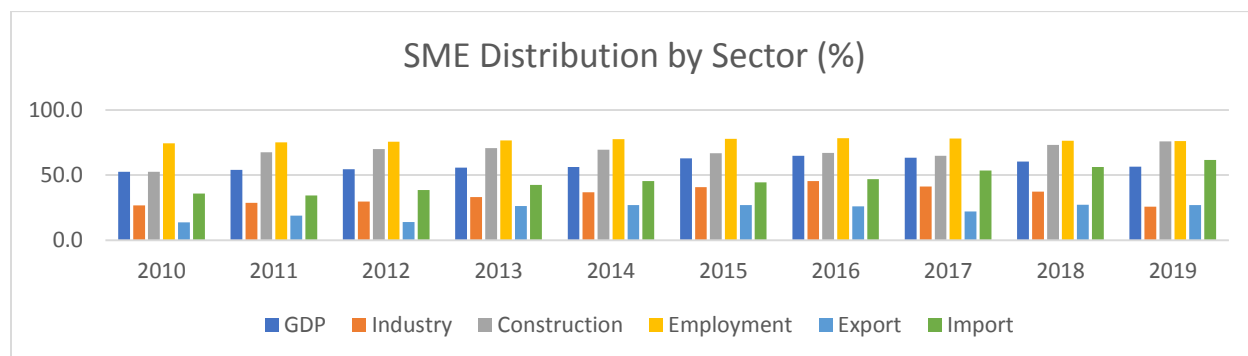
Small businesses in Uzbekistan include individual entrepreneurs and micro and small enterprises. The size of an enterprise is defined by the number of employees, without considering a revenue component or the ownership structure. The threshold number of employees varies by sector:

The importance of SMEs in the economy is determined by four commonly used indicators: (i) the number of enterprises; (ii) employment; (iii) domestic output; and (iv) exports.

SMEs' contribution to GDP increased to 56% in 2019 from 38.2% in 2005, which indicates that SMEs play a significant role in the country's economy. The added value of SMEs in Uzbekistan is less than half than in emerging countries (\$113,000 vs. \$394,000).

Uzbekistan has a low density of 7.1 SMEs per 1,000 people, lagging behind developed countries 44 SMEs per 1,000 people and developing countries 17 SME per 1,000 people.

Category	Number of Employees
Individual	1–3 employees
Micro-enterprises	up to 20 employees
Small enterprises	Up to 200 employees



Source: State Statistics Committee of the Republic of Uzbekistan



There are several ways the coronavirus pandemic affects the economy, especially SMEs, on both the supply and demand sides. Among the consequences of the spread of coronavirus infection in relation to SMEs are noted: a sharp decline in the index of business activity of enterprises, an increase in unemployment, the absence or restriction of financing from investors, insufficient effectiveness of state support to entrepreneurs. The areas of improvement in relation to small and medium-sized businesses are the transition to remote operation, support for digitalization, the implementation of new projects in the online sphere in order to compensate for the loss of offline business, the creation of a state mechanism to support SMEs of a sectoral orientation, attracting investment in new startup projects due to the novelty of the idea and quick payback. The authors conclude that COVID-19 has caused serious damage to small and medium-sized enterprises, but business entities are able to adapt to the current crisis conditions, having the potential to restore to the previous level of development.

In order to prevent the negative impact of COVID-19, the state should support SMEs in several directions:

- To develop financial support mechanisms for small business workers in regions highly dependent on the activities of small enterprises in order to ensure adequate demand for products;
- To take measures to resume the activities of transport and non-food trade (especially computers and communication sectors) in accordance with rules of disinfection;
- To consider to issue interest-free or government guaranteed loans to small businesses (with the exception of newly created enterprises);
- Comprehensive support for the activities of small exporting firms;
- Technical and technological support for possible types of remote work (business consulting, banking and finance, insurance, trade) and measures to expand the reach of digital technologies and the internet.
- Undertaking rapid needs assessment, and finding ways of addressing those needs;
- Implementing efficient anti-crisis management;
- Supporting early recovery.
- Allocation of subsidies for reimbursement of transport and rental expenses in the first 3 months after state registration for the unemployed to start doing business;
- Organization of the main points of vocational training for the population, especially young people and women, in mahallas, and education at the expense of the employment promotion fund;
- Employment of returning labor migrants through the labor authorities by involving them in public works, including through the development of unused agricultural land.

The Government should seriously consider measures to diversify and increase the share of small and medium-sized enterprises in the economy through privatization, improving access to finance, improving infrastructure, improving skills, and so on. Instead of simply offering tax benefits (which, as a rule, only delay payments, but do not solve the problem underlying the drop in demand), government agencies can provide SMEs with more targeted financial assistance – cheap or interest-free loans, tax cuts.



In addition, in order to support the development of SMEs, it is necessary to improve effort in these areas:

- Continuation of structural reforms in the field of agriculture, taking into account the measures taken to support the owners of household plot and provide employment for the population by attracting them to agricultural cooperatives;
- Improvement of tax policy aimed at facilitating the fulfillment of tax obligations by taxpayers and reducing the tax burden;
- Simplification of the procedure for registering and carrying out activities of self-employed citizens, as well as increasing the number of individual entrepreneurs by allocating additional credit resources and simplifying tax obligations, support for small businesses and entrepreneurship;
- Ensure that other measures to ensure employment are linked to the subsequent sections of the action plan (creating new jobs and increasing the use of existing capacities, strengthening investment activities, including in the field of housing construction, improving the business environment, stimulating the development of small businesses and legalizing self-employment).