

Russian Invasion of Ukraine and the Impact on Small Firms in Central and West Asia Survey Findings

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Shigehiro Shinozaki

Senior Economist

Economic Research and Regional Cooperation Department

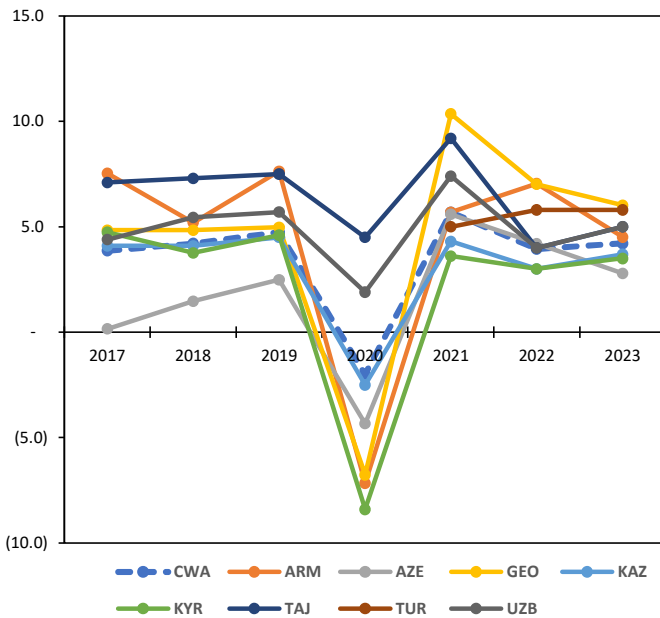
Asian Development Bank

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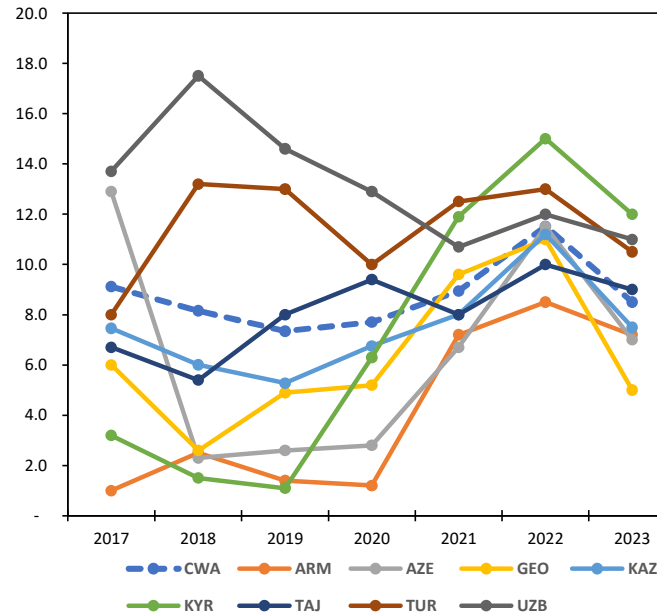


Russian Invasion of Ukraine has disrupted the COVID-19 pandemic recovery in Central and West Asia.

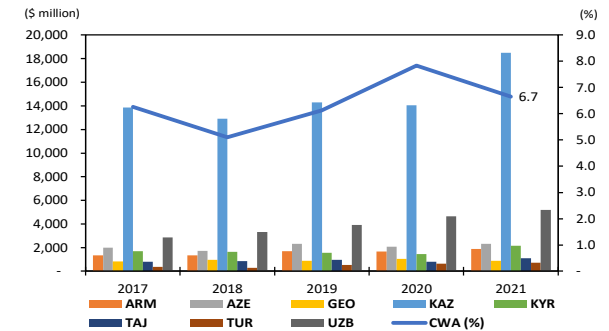
GDP Growth in Central and West Asia (%)



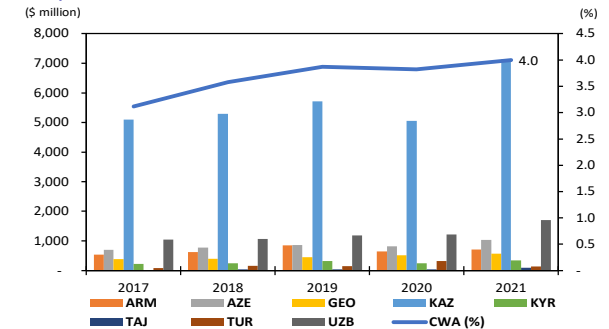
Inflation in Central and West Asia (%)



Russia's Trade in Goods, 2017–2021
Exports of Goods



Imports of Goods



ARM = Armenia, AZE = Azerbaijan, CWA = Central and West Asia, GEO = Georgia, GDP = gross domestic product, KAZ = Kazakhstan, KYR = Kyrgyz Republic, TAJ = Tajikistan, TUR = Turkmenistan, UZB = Uzbekistan.

Source: For GDP growth and inflation, recomposed from ADB Asian Development Outlook 2022 and Update September 2022; for Russia's trade in goods, calculation based on data from UN Comtrade.



The impact of and response to the Russian invasion of Ukraine differ by country, roughly comprising two groups.

- No comprehensive anti-crisis plan in response to the invasion impact.
- Thematic support provided for farmers (AZE) and exporters (GEO).

West Asia

Armenia
Azerbaijan
Georgia

- The impact of the Russian invasion of Ukraine and sanctions limited and rather brought business opportunities.
 - Increased tourists from Russia and Belarus.
 - Russia/Belarus based firms relocated the business base to the country of the region.
 - Increased new bank accounts.
 - Limited impact of SWIFT disconnection to Russia for the banking sector (ARM).
 - Increased exports with US (ARM).
 - Increased national revenue from oil with high prices (AZE).

Central Asia

Kazakhstan
Kyrgyz Republic
Tajikistan
Uzbekistan

- Adversely affected by the invasion impact and sanctions.
 - A sharp drop of foreign trade with Russia.
 - Supply disruptions of food and commodities.
 - Diminished inward remittances (migrant workers returned)
 - Hard impact of US sanctions on 3 Russian banks (KAZ).
 - Heightened secondary sanction risks.

- A set of action plans prepared, given the adverse effects.
 - Food security and price stability
 - Social protection and safety net
 - Business and employment support (for MSMEs)

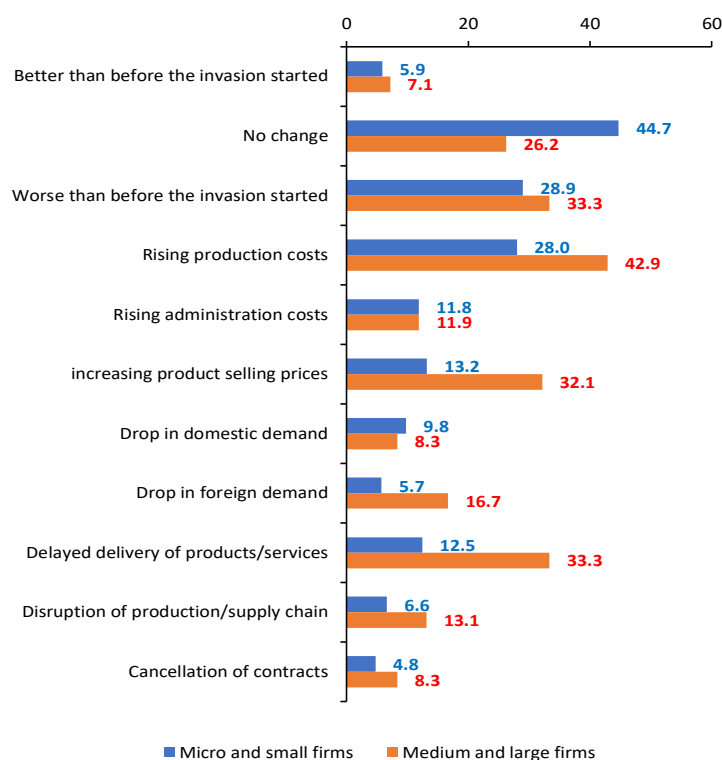
Profile of Firms Surveyed

- 903 complete responses (ARM 21, AZE 83, GEO 144, KAZ 112, KYR 392, TAJ 30, and UZB 121).
- 27.5% for West Asia (ARM, AZE, and GEO) and 72.5% for Central Asia (KAZ, KYR, TAJ, UZB).
- 90.7% of the respondents from micro and small firms (MS), and 9.3% from medium-sized and large firms (ML).
- 74% of the respondents from provinces and 26% from the capital.
- 47.8% engaged in services, 33.6% agriculture, and 18.6% manufacturing.
- 31.3% for young startups operating for 0-5 years.
- 25.7% for women-led firms.
- 19.4% for digitally-operated firms (e-commerce).
- 26.4% for internationalized firms.

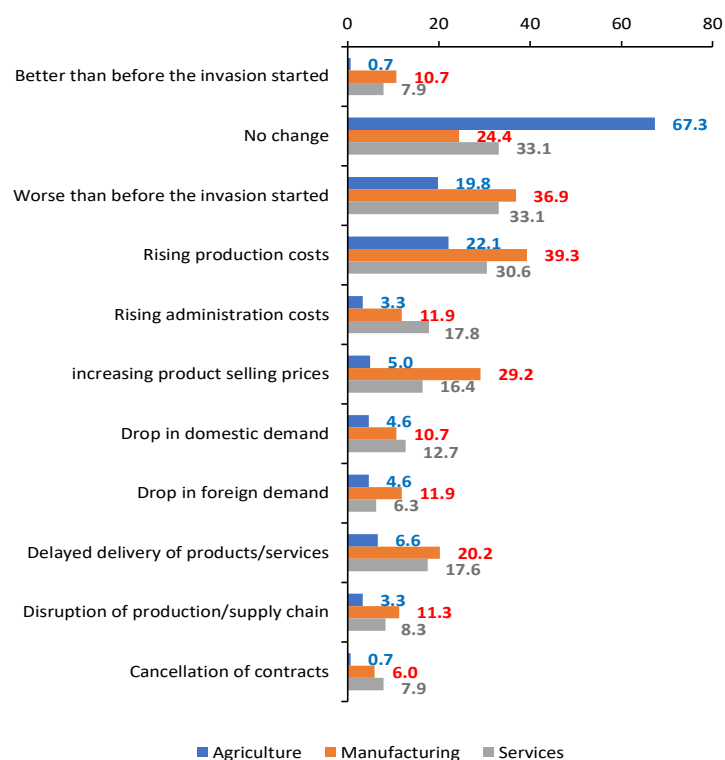
Russian invasion of Ukraine has affected business operations with different impact in Central and West Asia.

Business Environment after the Russian Invasion of Ukraine

By Firm Size

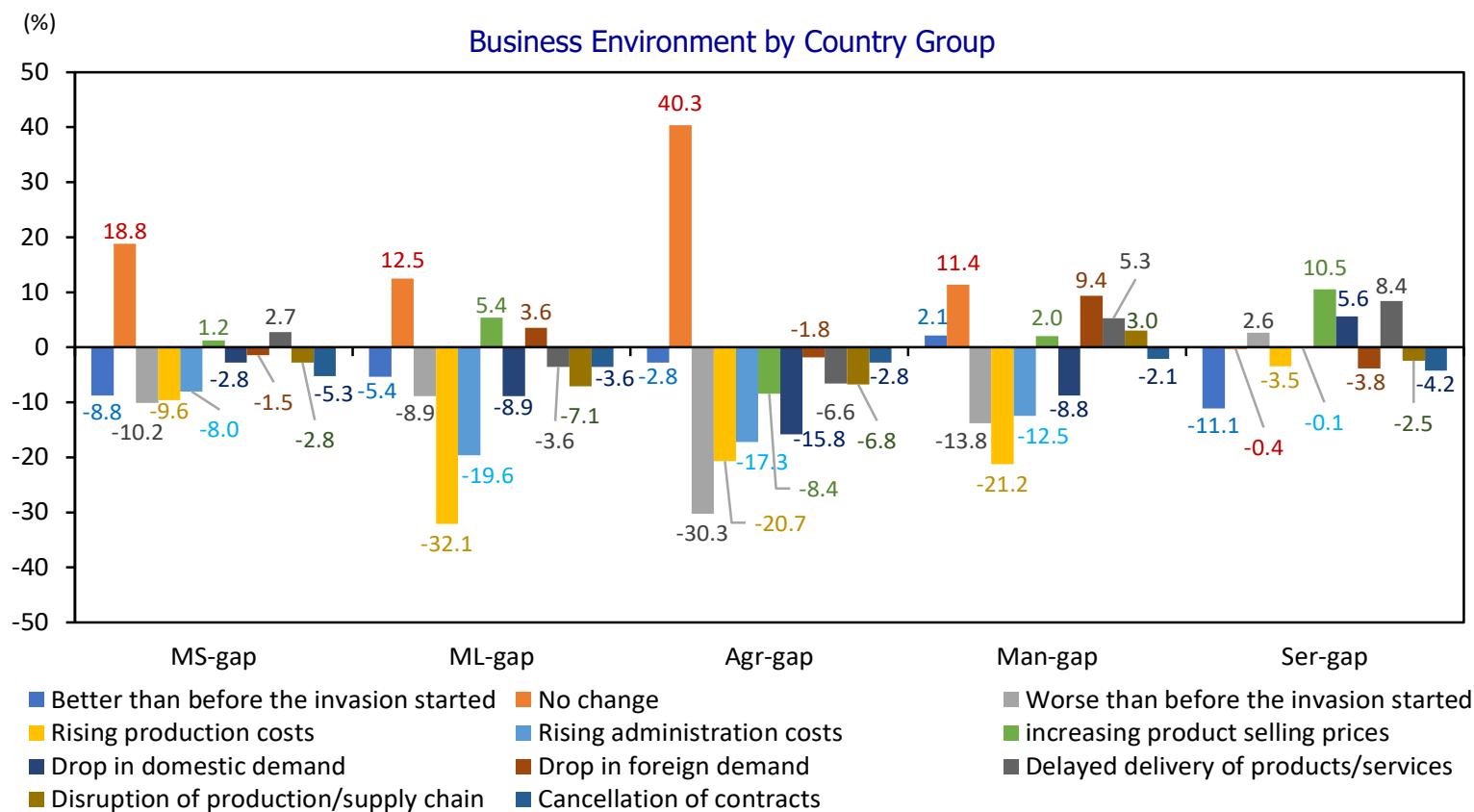


By Sector



Note: 903 valid samples (pooling data) from the MSME Surveys conducted in Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan during 25 July–24 August 2022.
Source: Calculated based on the survey data.

Many felt worse business environment, while some felt better. The advent of two firm groups was more pronounced in West Asian countries.



Agr = agriculture, Man = manufacturing, ML = medium-sized and large firms, MS = micro and small firms, Ser = services.

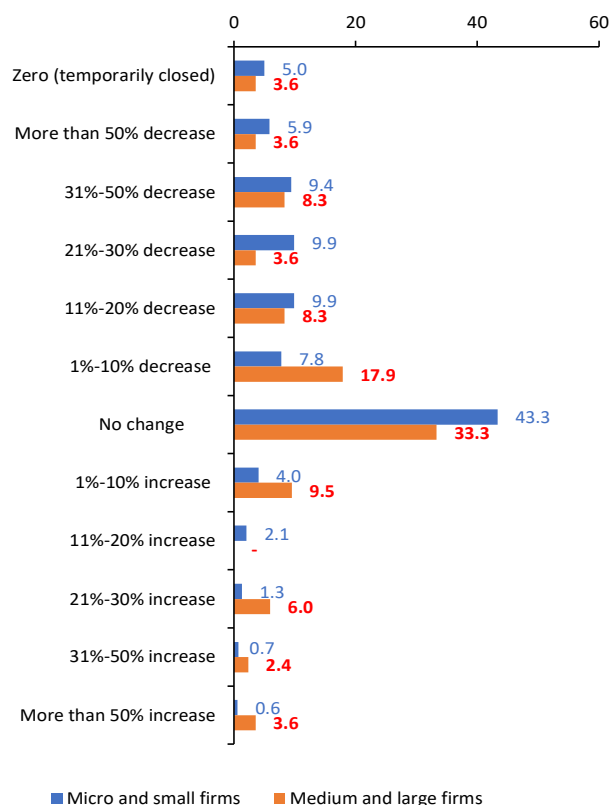
Notes: The gap is calculated as the share of firms' response in Central Asia (Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan) minus that in West Asia (Armenia, Azerbaijan, and Georgia). Positive value indicates relatively higher impact on firms in Central Asia, while negative value shows the same in West Asia. 903 valid samples (pooling data) from the MSME Surveys conducted in Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan during 25 July–24 August 2022.

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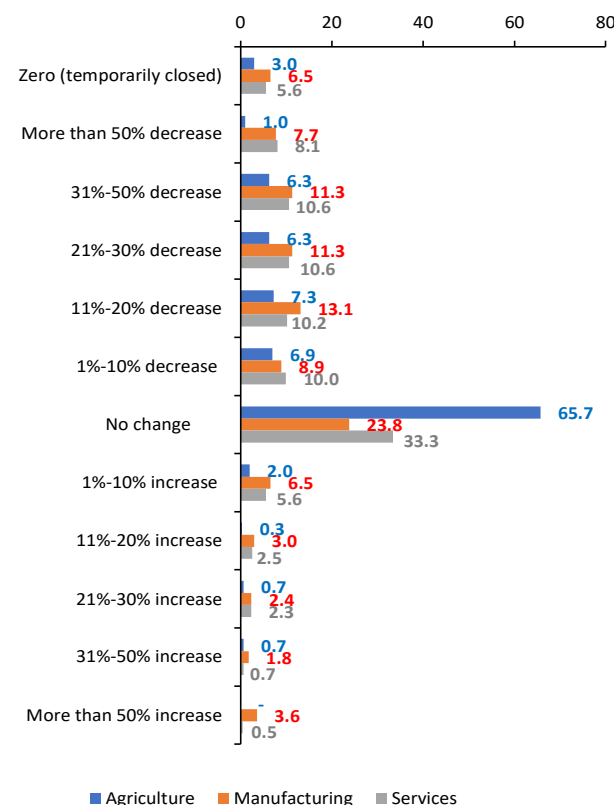
Firm's revenue condition was mostly unchanged 6 months after the invasion. But two groups appeared: those profitable and unprofitable, especially in manufacturing and services.

Firm's Revenue

By Firm Size

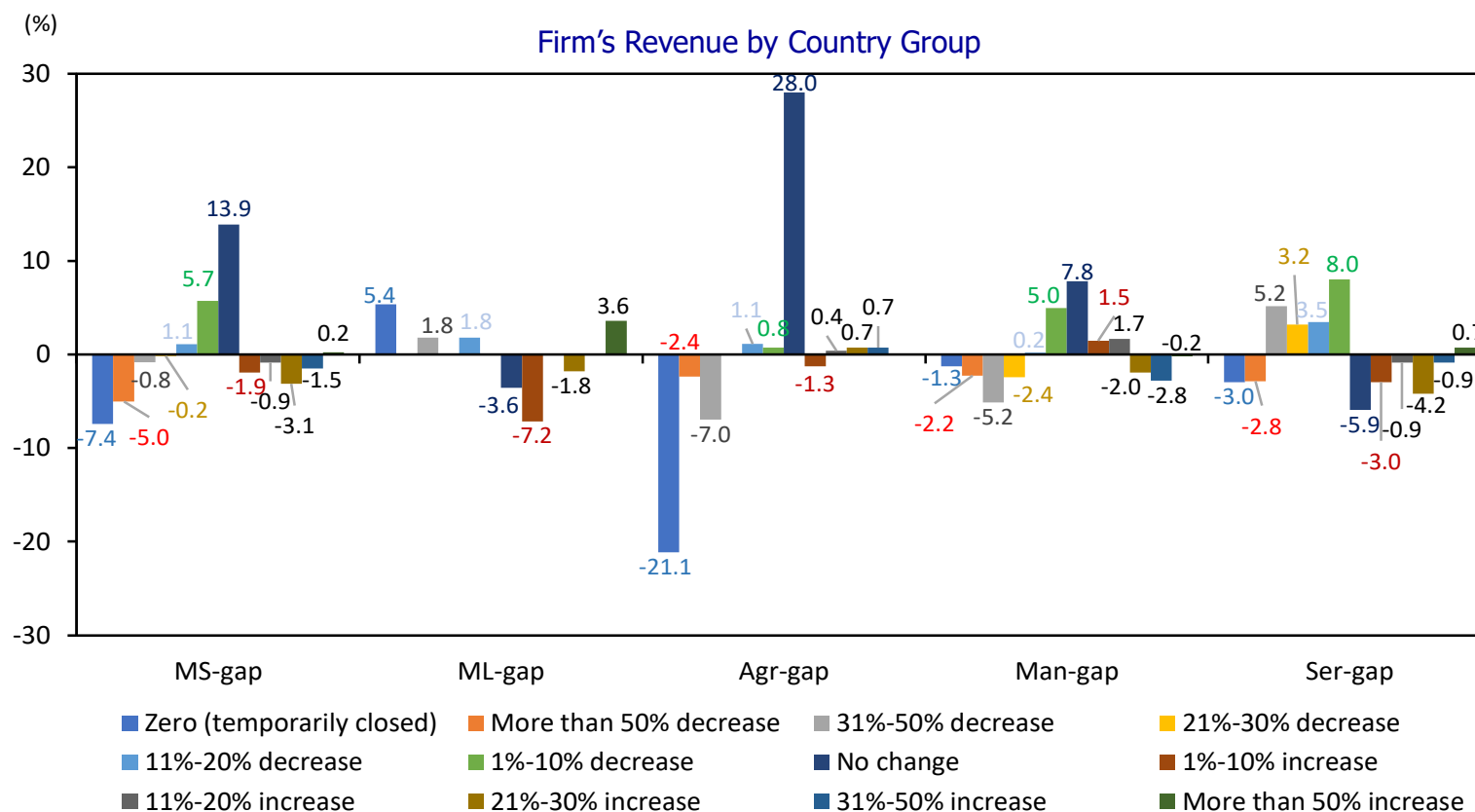


By Sector



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Firms in services with a sharp revenue drop were more likely to be seen in Central Asia, while profitable small firms were more likely identified in West Asia.



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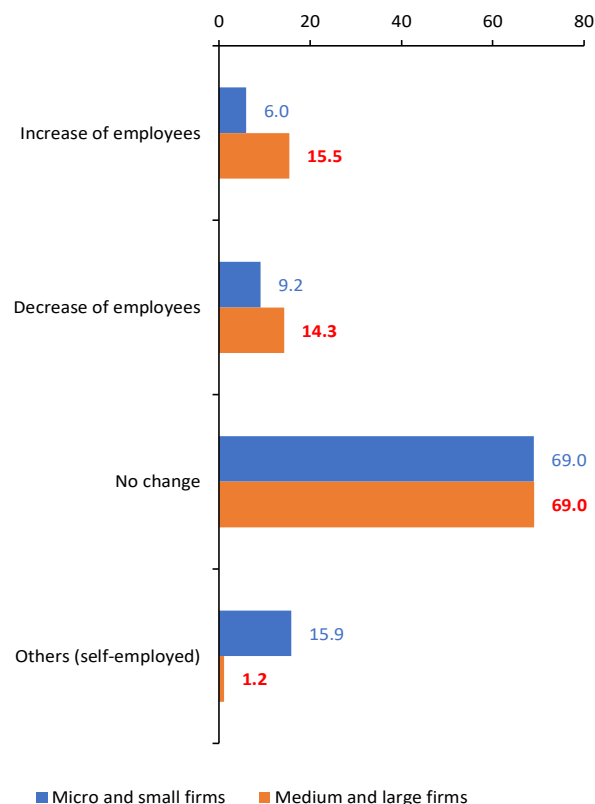
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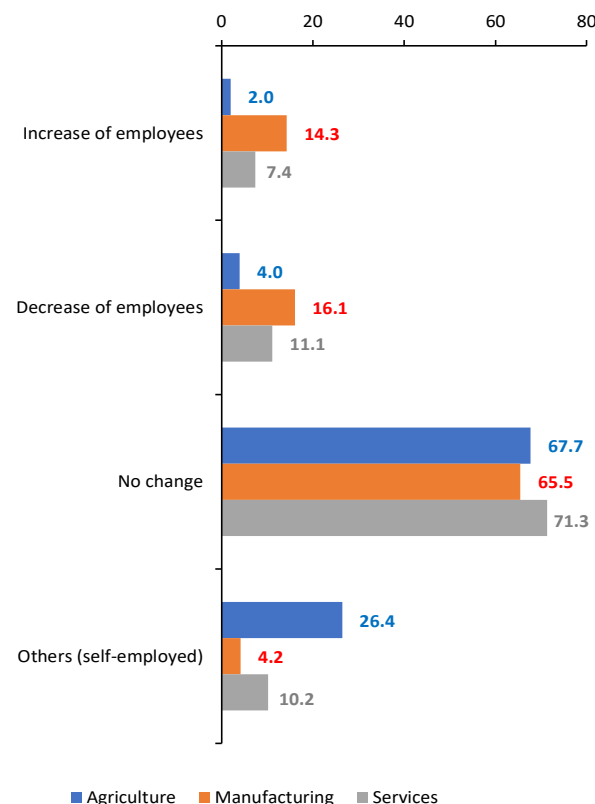
Firm's employment condition was also mostly unchanged. But firms started adjusting the size of workforce, especially in medium/large firms and manufacturing.

Employment

By Firm Size

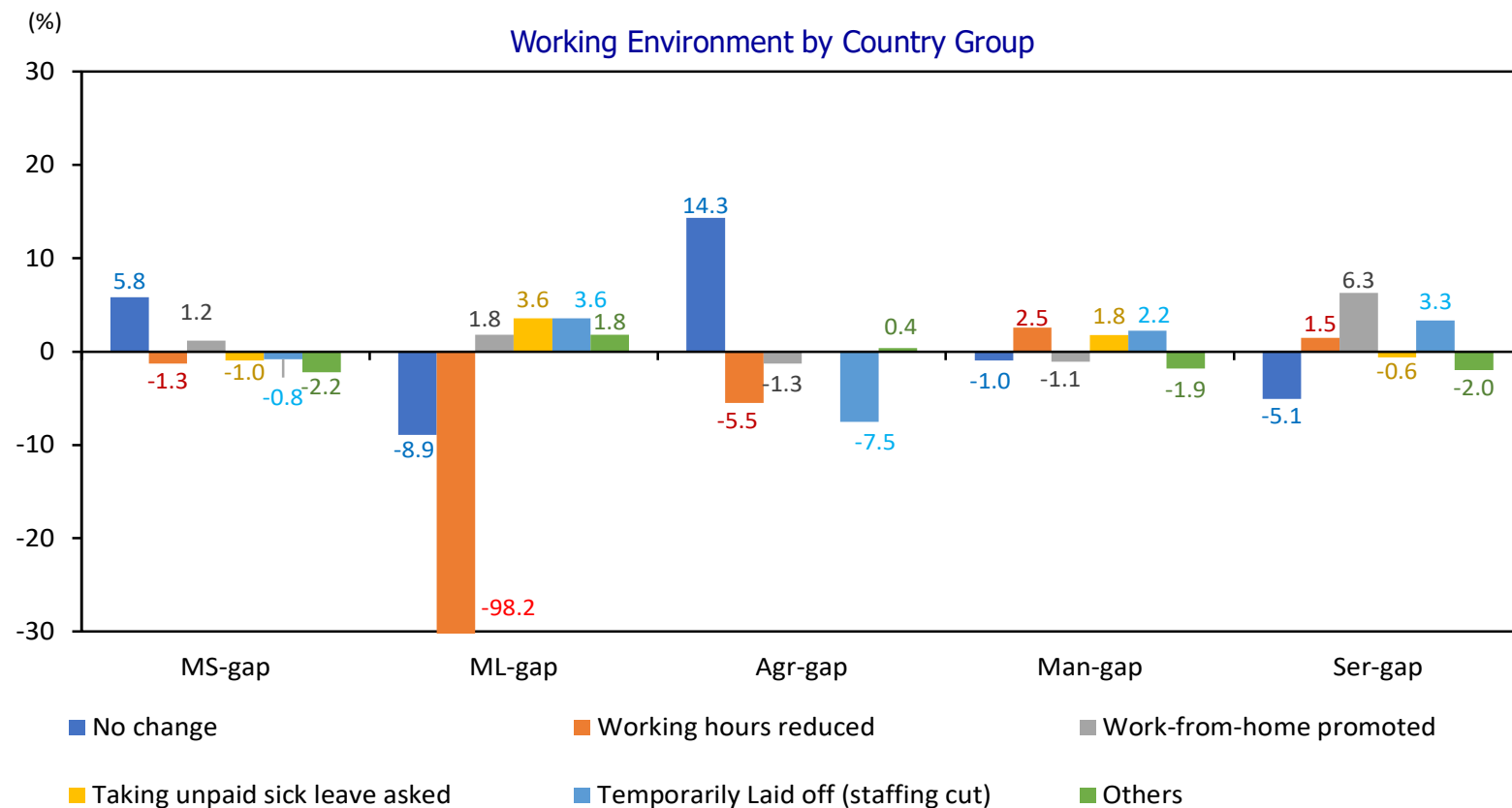


By Sector



Notes: Data for full-time regular employees. 903 valid samples (pooling data) from the MSME Surveys conducted in Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan during 25 July–24 August 2022.
Source: Calculated based on the survey data.

Firms' internal cost control (including layoffs) was more evident in medium/large firms and manufacturing/services in Central Asia.



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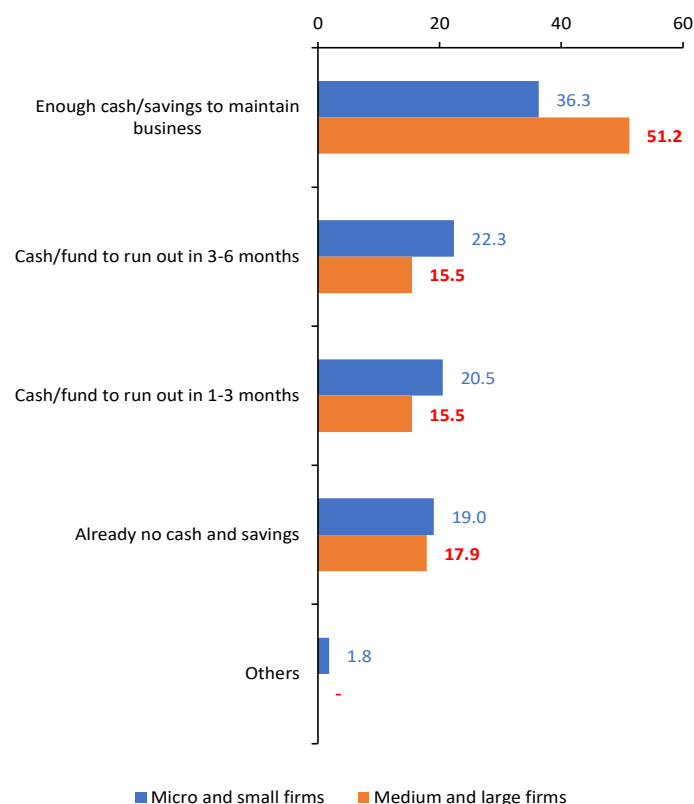
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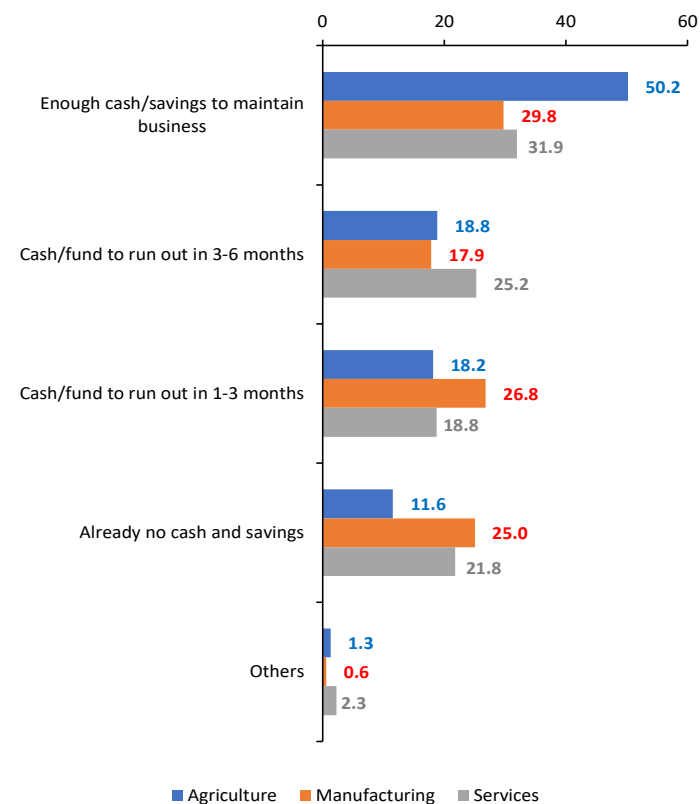
Some small firms hold enough funds to operate, while some reported already no funds or running out in 6 months. The former was more evident in agriculture, with the latter in manufacturing and services.

Financial Conditions

By Firm Size

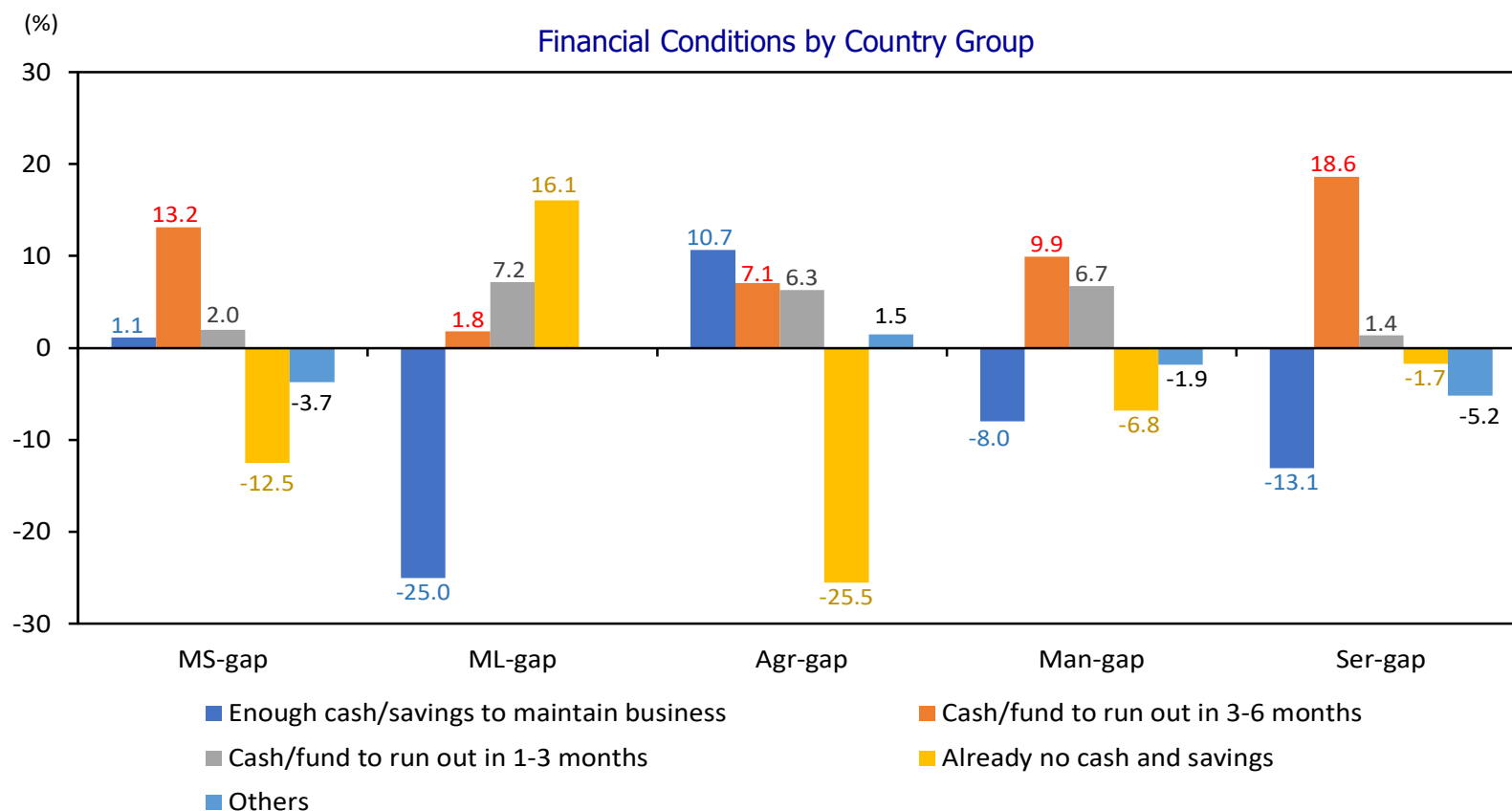


By Sector



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Source: Calculated based on the survey data.

Firm's working capital shortage was more evident in Central Asia, while firm's enough cash condition was more pronounced in West Asia.



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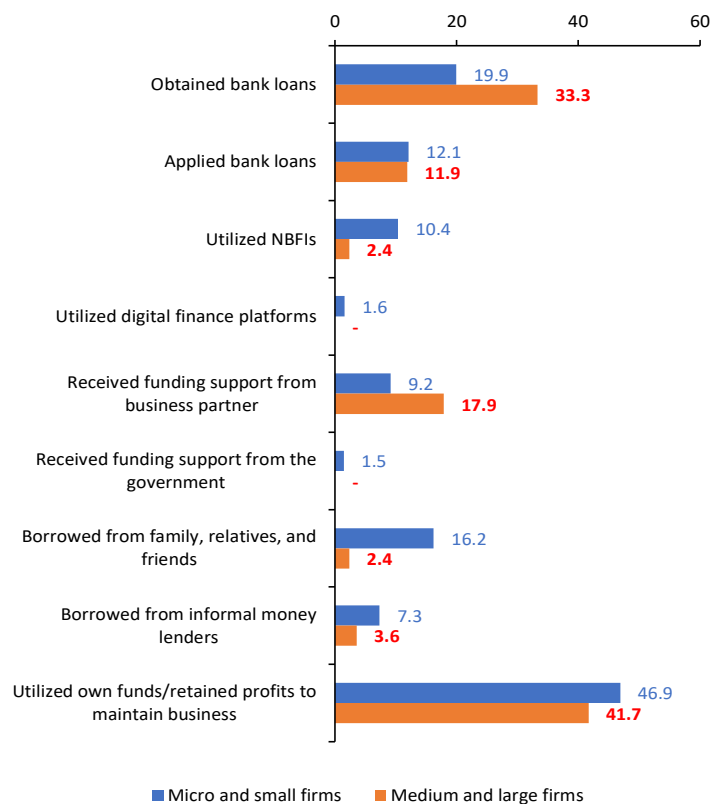
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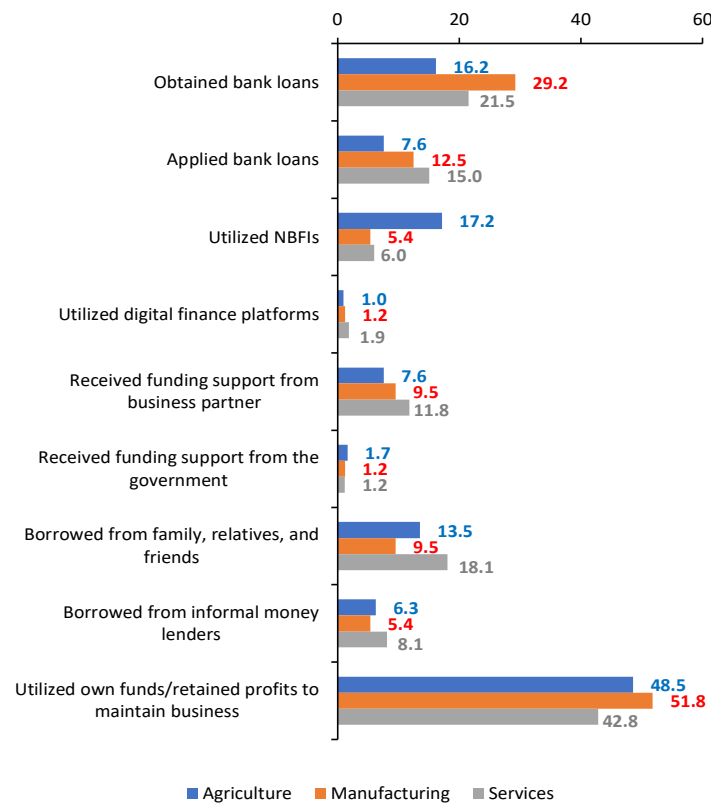
One-fifth or more firms had access to bank credit, especially in manufacturing. But small firms still relied on nonbank and informal financing, especially in agriculture and services.

Funding after the Russian Invasion of Ukraine

By Firm Size



By Sector

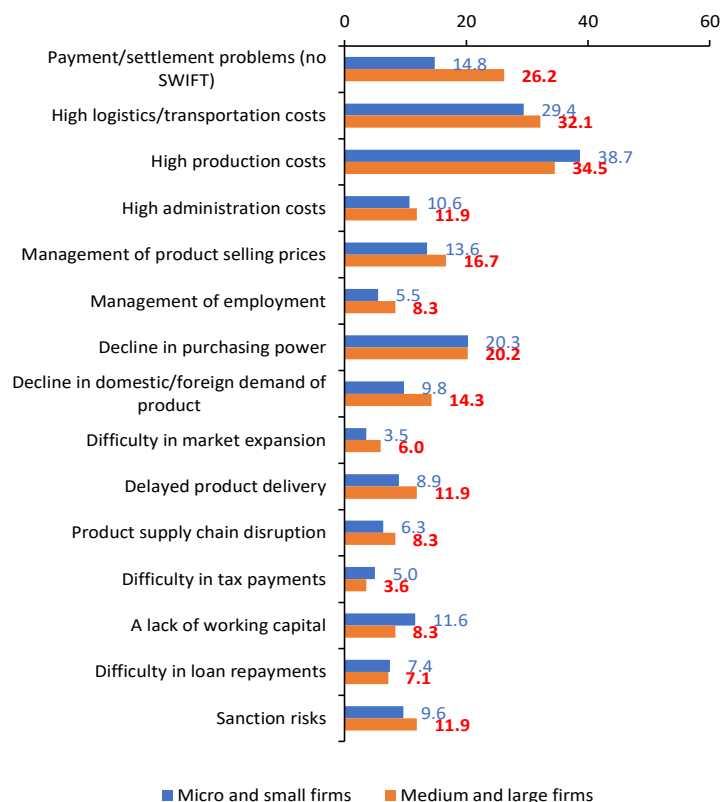


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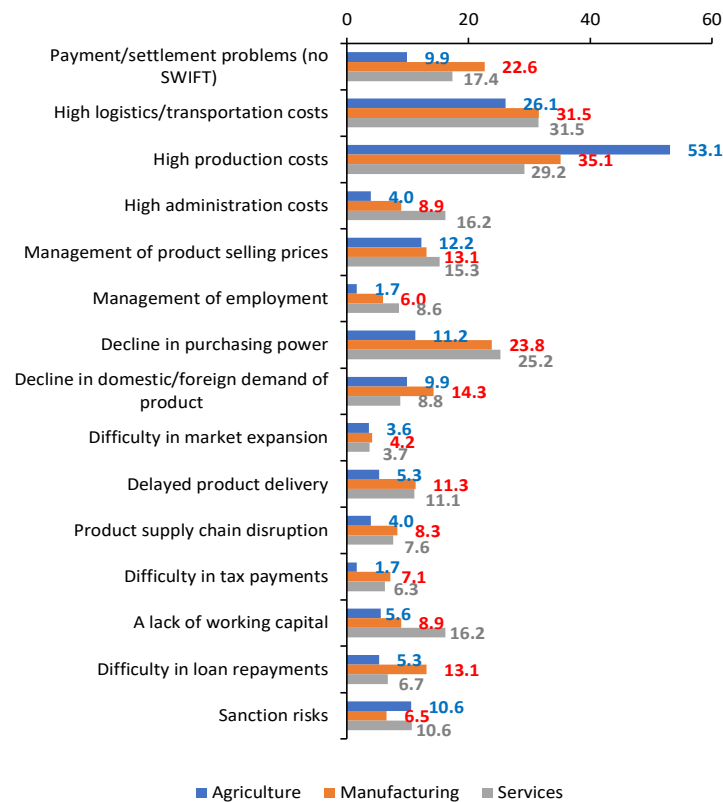
Given the prolonged invasion, firms surveyed had concerns on high production and shipping costs, payment troubles, and possible decline in purchasing power of people.

Concerns and Obstacles

By Firm Size



By Sector

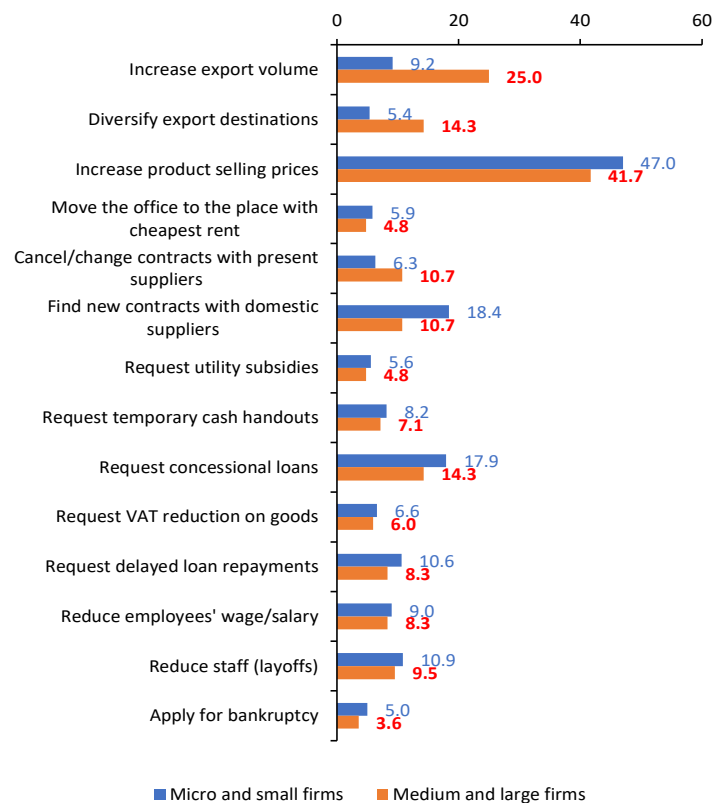


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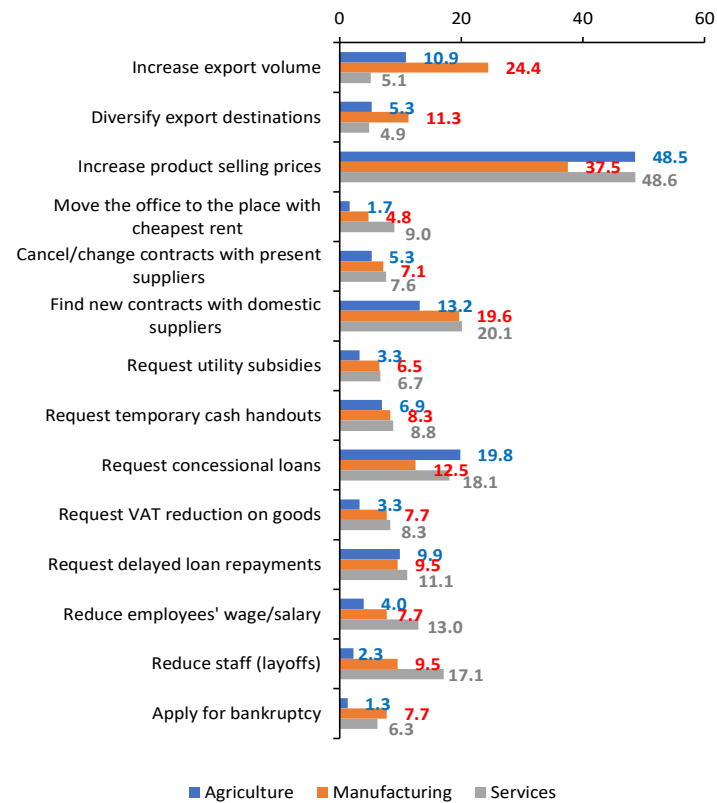
Small firms were more likely to consider increasing product sales prices, finding new domestic suppliers, and seeking concessional loans, given the ongoing invasion.

Actions to be Taken

By Firm Size

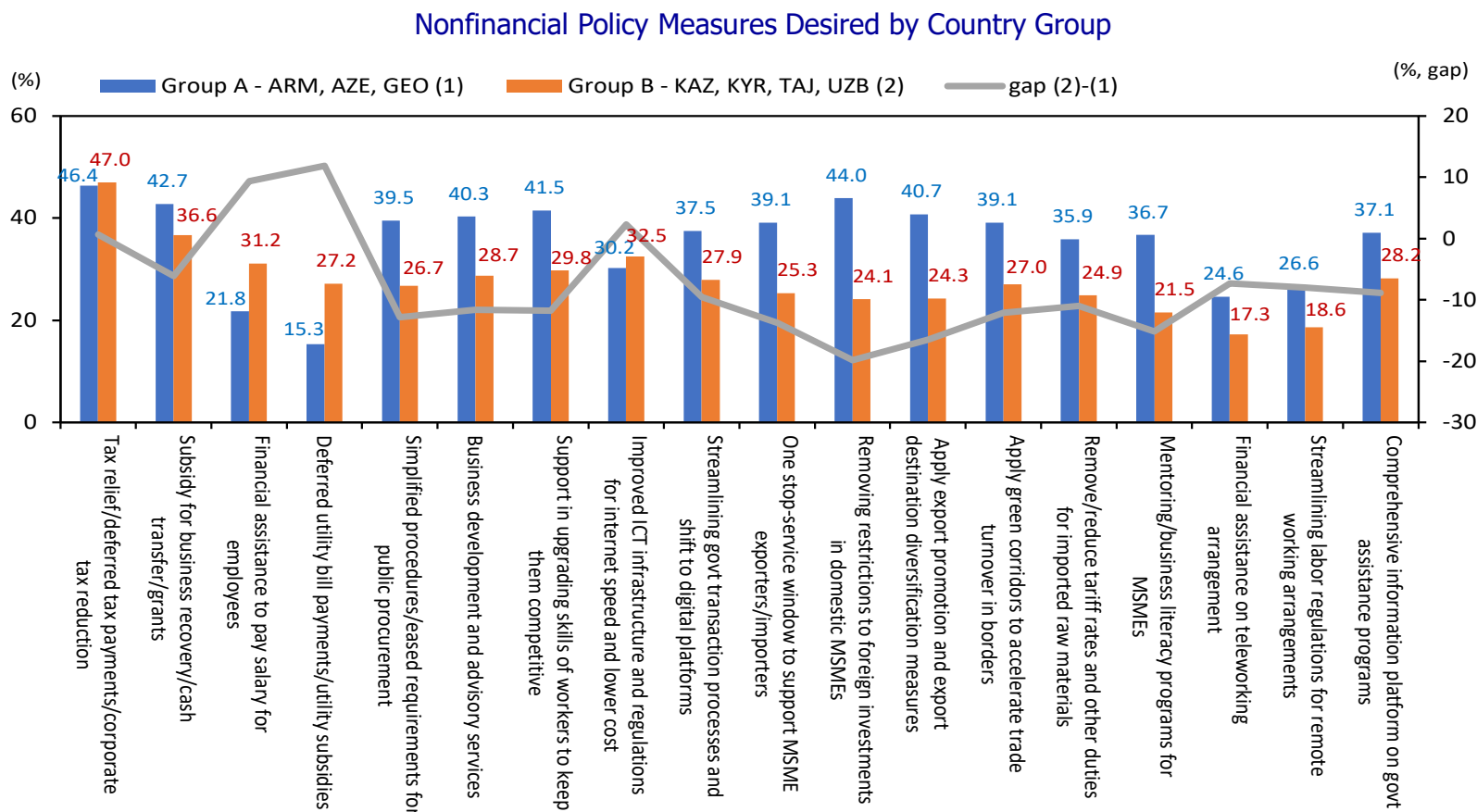


By Sector



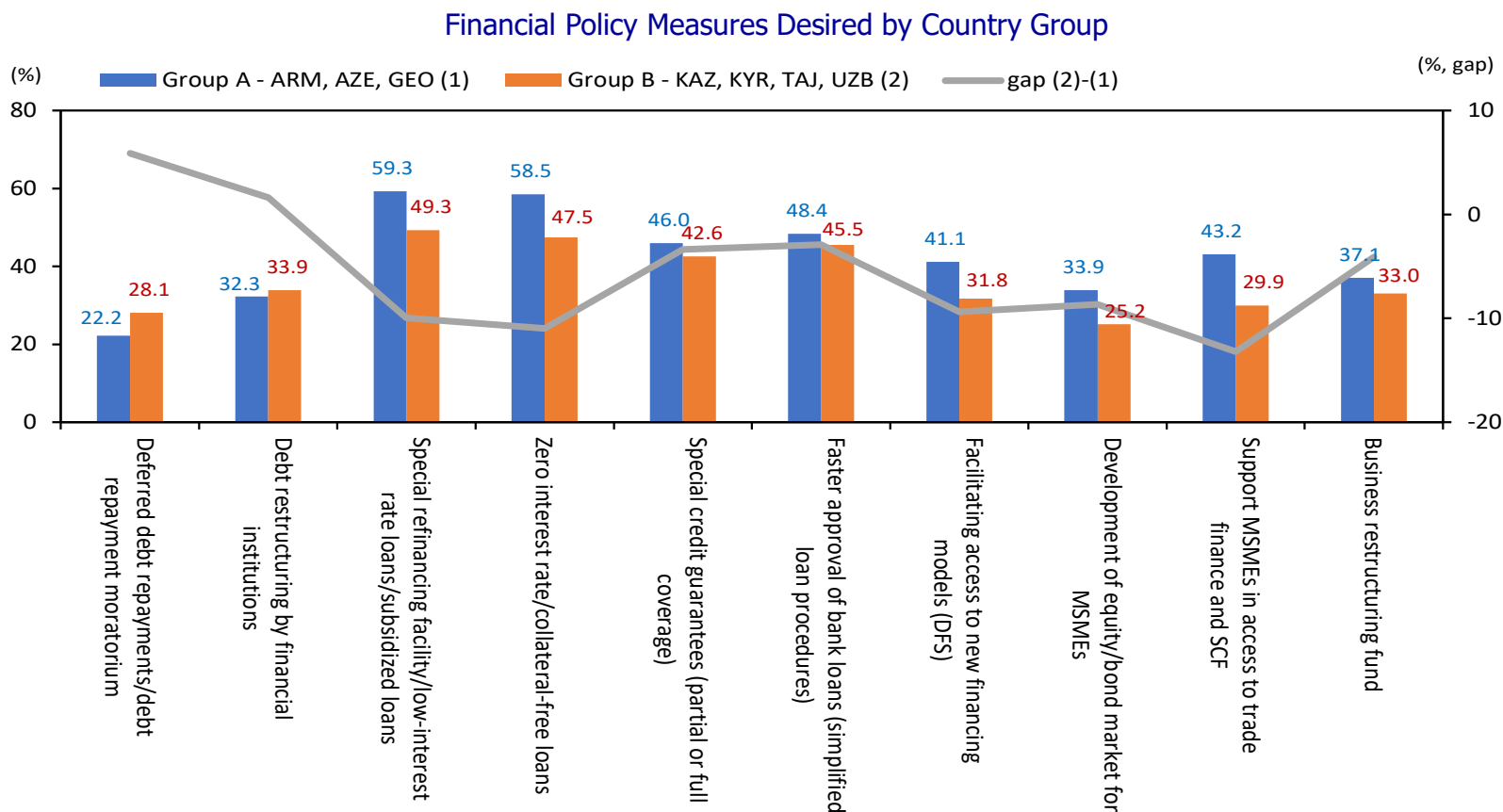
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Tax relief was the top policy measure desired in both Central and West Asia, followed by subsidy for Central Asia and deregulation on foreign investments in domestic MSMEs for West Asia.



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Concessional loans were highly desired by firms in both Central and West Asia. Support-needs for alternative finance and DFS were identified but not in the high-ranked.



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Key Findings

1. Russian invasion of Ukraine has slowed Central and West Asian economies and affected business operations with different impact, creating two business groups: firms hit the hardest and those benefited.
2. Firms with a sharp revenue drop more appeared in Central Asia, while profitable small firms were more identified in West Asia.
3. Firms started internal cost control (e.g., layoffs and wage cuts), given the prolonged Russian invasion of Ukraine, more pronounced for firms in Central Asia.
4. Working capital shortage was more identified in small firms, manufacturing, and services, especially in Central Asia; while firms with enough cash were more evident in West Asia.
5. Firm's funding condition differed by country group. Small firms in West Asia could more access to bank credit, while those in Central Asia more relied on nonbank and informal finance.
6. High production and shipping costs, payment troubles, and possible demand decline were the top concerns for firms surveyed.
7. Small firms have prepared the increase of product sales prices, tried looking for new domestic suppliers, and sought concessional loans, given the ongoing invasion.
8. Tax relief and subsidies were among top-3 policy measures desired by firms in Central and West Asia.

Policy Implications

1. Develop **business clustering** nationally to create the base of growth-oriented firms, especially MSMEs and entrepreneurships (youth, women-led firms).
2. Strengthen national **branding** of MSME products for export expansion to diverse countries.
3. Strengthen national **labor market** through providing continuous training and skill development for returning migrant workers.
4. Promote **digitalization** of MSME business to enhance their cost management and business expansion.
5. Strengthen the banking sector with financial stability through developing **credit risk database**.
6. Develop **alternative financing options** for viable MSMEs to access growth capital, shifting from subsidy-based finance to market-based finance (capital markets) and digital finance platforms.

Thank you for your attention.

For further questions:

Shigehiro Shinozaki

Senior Economist

Economic Research and Regional Cooperation Department

Asian Development Bank

Email: sshinozaki@adb.org

