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**ASSESSING THE IMPACT OF  
COVID-19 ON SMALL BUSINESSES  
AND THE EFFECTIVENESS OF  
GOVERNMENT POLICY**

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CENTER FOR BUSINESS RESEARCH AND  
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## **Assessing the Impact of COVID-19 on SMEs in Armenia and the Effectiveness of Government Policy**

Institutions and government policies play a crucial role in facilitating economic growth and development, as well as addressing the challenges that impede growth (Acemoglu and Robinson, 2012; Knack and Keefer, 1995; North, 1991; Ogilvie and Carus, 2014; Rodrik, 2008). This role becomes indispensable during crises: by taking measures that protect employment and investment, governments alleviate the effects of supply and demand contractions on businesses and facilitate recovery. Amid the COVID-19 pandemic, as almost all countries and territories experience the effects of a severe crisis, governments have introduced economic and social aid packages, such as unemployment benefits, tax deferrals, loan guarantees, and direct lending to businesses (Hale et al., 2020; International Monetary Fund, 2020; Organization for Economic Co-operation and Development (OECD), 2020a).

Effective SME targeted policies during and after the pandemic would be among the most crucial means to recovery from the economic crises (Albaz et al., 2020b; Turner and Akinremi, 2020). Due to their “resource poverty”, i.e., lack of skilled human resources, physical capital, and financial assets, these businesses are more vulnerable to supply and demand shocks than larger companies. However, they are also more entrepreneurial, innovative, and resilient under changing market conditions (Kroon et al., 2013; Kuckertz et al., 2020; OECD, 2020b; Pearce et al., 2018). In both advanced and emerging economies, SMEs account for most of the private-sector employment and value added (European Commission, 2019; OECD, 2019; World Bank, 2020a).

As in many countries, small and medium-sized enterprises (SMEs) account for over 99% of all businesses in Armenia, generating two-thirds of the private sector employment and a quarter of the gross domestic product. Due to their lack of resources and access to capital, SMEs are more vulnerable to crises than large companies. Still, their contribution

to economy implies that public assistance to those businesses is crucial to post-crisis recovery.

Survey data collected by the Center for Business Research and Development at the American University of Armenia in July 2020 enable to assess the impact of COVID-19 on SMEs in Armenia and the effectiveness of government policy to address the economic crisis caused by the pandemic. The questionnaire was sent to around 1300 SMEs that had actively communicated with the Ministry of Economy on the measures easing the consequences of pandemic. It yielded 101 complete responses.

Over 95% of the surveyed enterprises have been negatively affected by the crisis, incurring revenue loss. The average loss in the first two quarters of 2020, as compared with the first two quarters of 2019, has been in the range of 51-70%. Measures that SMEs have taken to mitigate the effects of the crisis, other than applying for government assistance, include acquisition of private loans, transition to online, and temporary or permanent closure.

The highest number of applications, according to the survey results, has been to the first program (loan co-financing, refinancing, and subsidy), 42%, followed by program 10 (support to microenterprises), 30%, and program 5 (employee retention grants), 28%. For all programs, the number of applications exceeds the number of beneficiaries; programs in which more than half of the applications have been satisfied include 1, 5, 18, and 21. Among businesses that applied to any of the programs but did not receive assistance, the most often mentioned reason for rejection is being unqualified to program requirements (e.g., lack of good tax and credit record, being in an industry adversely affected by the pandemic, and employee retention at pre-crisis levels). Other reasons include lack of information and missing the deadline.

The analysis of responses on government assistance reveals that programs having the highest number of satisfied applications (1 and 5) are assessed by the beneficiaries as neither effective nor ineffective in mitigating the effects of the crisis. Programs 18 and 10 are assessed as mostly effective and mostly ineffective, respectively, while more than half of the beneficiaries of the third program (57%) assess it as mostly or very effective.

Survey results do not reveal a clear trend of business satisfaction with the administration of assistance. The aspects discussed were the coverage of the program aims and scopes in official news outlets, answers to business inquiries from responsible authorities, and processing of the applications. Although most of the restrictions on private business operations were lifted by late May, most businesses continue to bear the negative effects of the crisis, and most expected those to persist for 6 to 12 months.

Overall, the findings suggest that most SMEs in Armenia have been negatively affected by the pandemic, while government policy has not been very effective in curbing the effects of the crisis. The third program, assuming loans to SMEs through the Investment Support Centre of the Ministry of Economy, has to be resumed, as the beneficiaries (while not numerous) assess its effectiveness highly. Some of the requirements for state assistance, such as the good tax and credit record, can be eased (but not eliminated) to ensure that more SMEs benefit from programs that will guarantee against bankruptcy. Programs assuming support for employee retention (5, 18, and 21) have had the most beneficiaries but have not been very effective. Thus, we suggest that the Government of Armenia consider other forms of assistance, e.g., corporate income tax and social security contribution deferrals or rate reductions for businesses in the most affected industries. Such measures were introduced in many countries of the world in the wake of the crisis and have been effective, as taxes impose a cost burden which most small businesses cannot bear in the conditions of demand contraction and revenue loss.