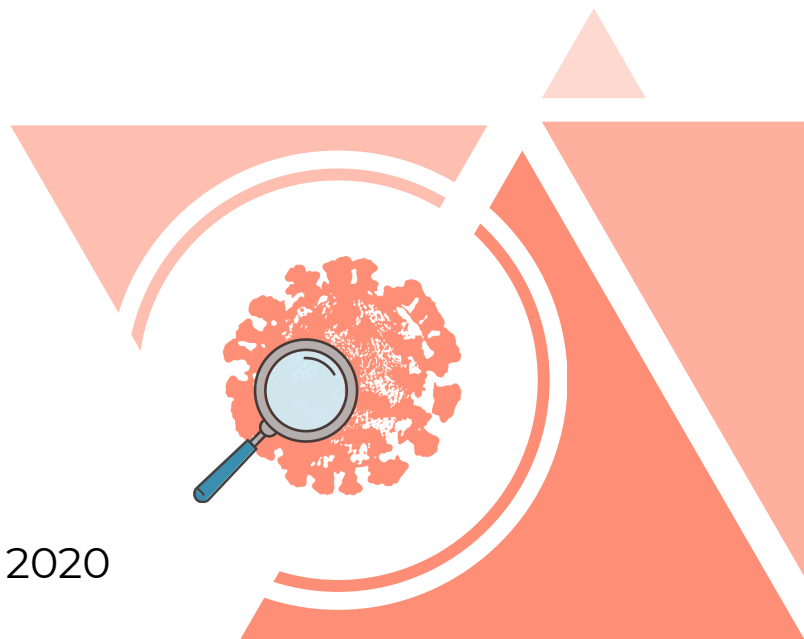


Lessening the economic impact of the COVID-19 crisis

EAP CSF COVID-19 BRIEFING PAPER

#PrepareEaP4Health



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Methodological Note

This paper has been elaborated in the framework of the Eastern Partnership Civil Society Forum #PrepareEaP4Health campaign and aims to illustrate the context in which civil society is addressing the challenges brought about by the COVID-19 public health crisis. It is based on the author's desk research, and collective input from EaP CSF member organisations, provided through an online consultation conducted between 25 March and 3 April 2020. A total of 84 responses from all six EaP countries and EU member states took part in the survey: 25 from Armenia, 13 from Azerbaijan, 5 from Belarus, 10 from Georgia, 6 from Moldova, 17 from Ukraine, and 8 from EU member states. The survey was designed to identify the major needs and concerns of civil society.

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EaP CSF COVID-19 Briefing Paper Series

Lessening the economic impact of the COVID-19 crisis

Francesca Nista

SUMMARY

Civil society organisations (CSOs) are at the forefront of the COVID-19 mitigation effort in the Eastern Partnership (EaP) region. This crisis is posing an all-encompassing challenge to EaP countries' societies, democracies and economies, and is likely to push many countries, if not the whole world, into recession. The economic structure of the EaP region is already fragile, and with the restrictive measures adopted to tackle the spread of the virus limiting the activities of the business sector, the risk of economic disruption is high. The collapse of oil prices, directly affecting Azerbaijan and Belarus and consequently the whole region, will further aggravate the effects of the crisis. The World Bank provisions foresee a contraction of all EaP economies in 2020, with Georgia being the most affected (a decline of -4.8% of GDP), followed by Belarus (-4.0%), while Armenia is expected to contract by 2.8% GDP. While EaP governments have already implemented measures to mitigate the economic impact of the crisis, allocating resources and funds to help vulnerable categories in the economic sector, such as small and medium-sized enterprises (SMEs) and low-wage workers, civil society's support for such measures and advocacy on behalf of risk-exposed categories has proved to be and will continue being essential in the strategy for economic recovery.

INTRODUCTION

Civil society across the EaP region has been actively contributing to the shaping of economic recovery measures, while advocating on behalf of specific sectors of the economy and vulnerable categories within the labour market. These include SMEs, low-wage workers, and women. At the peak of the crisis, when economic activity in many areas was suspended, some workers lost their jobs, many more lost their incomes – particularly low-paid and casual workers – and the most vulnerable sections of the population were especially affected. Civil society's support to the implementation of COVID-19 mitigation measures and the economic recovery of the EaP countries is essential for ensuring mid-term and long-term strategies for economic revival reflect all important societal interests, including gender perspectives.

Overall trends across most of the EaP countries suggest that **small and medium-sized enterprises** in the agriculture and service sectors (especially tourism, accommodation and catering services) have been the most affected by the COVID-19 crisis, given their high reliance on external trade and international flows of goods and people¹. In light of the economic pressures posed by the pandemic, EaP governments have adopted a series of measures to mitigate the impact of the crisis on SMEs, in line with those taken by other countries². The main exception concerns Belarus, where no lockdown was established

¹ Working Group 2 Meeting of the EaP CSF, 17.06.2020

² "Supporting Recovery and Enhancing Resilience. Helping SMEs to weather the Covid-19 crisis in the Eastern Partner countries". *OECD*. 27 May 2020

and whose government is consequently providing minimal responses to help economically vulnerable categories, by delaying taxes and loans payments. In the other EaP countries, support to SMEs has been focused on mechanisms to provide rapid short-term financing via direct grants or reduced-interest loans, particularly for sectors that are deeply affected by the COVID-19 restrictions. In adapting to the new realities of the current situation, an acceleration in the process of **digitalisation** can be observed in a number of areas, ranging from agriculture to purchase and payment systems, and online tax and social security mechanisms. This is in addition to the use of digital technologies by an array of sectors and industries for home-working arrangements. Governments and international donors are providing funding to support and accelerate this process.

In some EaP countries there is also an unusually high number of **vulnerable workers**, for example, self-employed workers in Georgia and Azerbaijan who rely on seasonal work with limited access to traditional forms of income support and are thus highly exposed to the effects of the crisis. Many migrants residing in EU countries have also returned to their home countries, increasing the demand for economic support and opportunities from the state. Additionally, **women** have been particularly affected by the effects of the COVID-19 pandemic, especially in the business sector: the challenges brought by the lockdown include difficult financial pressures on **women entrepreneurs**, greater stresses related to childcare and supplementing educational provision where online distance learning has not been implemented, and **an increase in domestic violence**.

Civil society has expressed dissatisfaction with regards to the measures taken by governments,

suggesting that the authorities lack a comprehensive and inclusive economic recovery plan, and have failed to take into account the large number of workers in the informal economy. Informal workers are not eligible for most governments support packages, and nor are they able to apply for it as they often lack access to computers or a stable internet connection. Moreover, virus mitigation policies are insufficiently gender mainstreamed, especially in the economic sector. **Civil society organisations will be key actors in advocating for the rights of vulnerable categories and for gender mainstreaming in the business sector in the medium and long-term.** CSOs are in fact providing support to local businesses and most vulnerable categories of workers by contributing to the **organisation of capacity-building training for SMEs** and to the **drafting of government lockdown exit strategies.** **Trade unions and professional associations** have been closely watching economic support measures adopted by governments, calling for the protection of employment rights, as well as the workers, professionals, and economic sectors affected by the economic disruption.

ECONOMIC SUPPORT MEASURES IN THE EAP REGION

Armenia

The IMF predicts that Armenia's GDP could shrink by 2.8% this year. According to the survey conducted by the European Business Association of Armenia in March, for 78% of the interviewed businesses, COVID-19 outbreak and its resulting prevention measures resulted in a highly negative impact on their activities, in particular due to decreased demand for products and lack of customers.³ The most hit sector is the tourism sector, which in Armenia is largely dependent on visits from diaspora.

³ Survey: Impact of COVID-19 Outbreak on Businesses in Armenia, *European Business Association Armenia (EBA)*, March 2020

So far, the Armenian government has unveiled twenty-two rescue packages to address the economic and social impact of COVID-19. The measures include: reduction of the fine paid by taxpayers in case of delayed payments; measures aimed at raising the threshold for unpaid obligations; co-financing and refinancing; subsidies for SMEs with positive credit and tax history; interest rate subsidies for agriculture (including co-financing leases for cooperative farms); loans targeting SMEs in the processing industry, accommodation and public catering sector, transportation and storage, tourism, healthcare, and more within certain requirements; one-time job support grants to SMEs with 2 to 50 employees; one-time assistance to individuals employed in certain sectors (hotel, public catering, tourism, hairdressing and beauty salon, retail, ground transportation, preschool institutions, sporting activities) and the self-employed; one-time assistance to micro-enterprises; and one-time grants to successful entrepreneurs in high-tech industry.

With the acceleration of digitalisation process, the EU has supported the launch of a programme for the digital transformation of SMEs in Armenia, which includes a series of free online training seminars on business development through digitalisation, including e-commerce and sales. In May, two COVID-19 assistance programmes were approved, aimed at giving financial support to SMEs (up to 100 employees) that retained workers and thus their overall salary burden during the crisis, and at supporting the creation of new SMEs through 8-year loans (75% of the funding) and non-repayable grants (25% of the funding).. Business associations like the Association for Small and Medium Entrepreneurship in Armenia have announced training programmes supporting business services which are essential for start-up entrepreneurs, while the Confederation of Trade Unions of Armenia has advocated in favour of workers' labour interests and rights by providing online

consultations. Citizens' Assembly-Vanadzor is following and monitoring the situation for vulnerable categories of workers, reporting violations and providing online legal consultations on matters concerning property and social rights, labour rights and appealing administrative acts.

Azerbaijan

Azerbaijan's GDP is projected to fall by 2.6% in 2020. The government has presented ten support packages amounting to AZN 2.5 billion (EUR 1.3 billion) to reduce negative consequences of coronavirus on its economy, additionally worsened by the drop-in oil prices. AZN 114 million (EUR 61 million) has been allocated from the state budget to implement measures like tax benefits for SMEs, with a plan that includes the deduction of expenses incurred as a result of measures aimed at preventing the spread of the virus COVID-19 from the annual profit of companies and entrepreneurs, thus reducing their tax bills. A special "Coronavirus Response Fund" was established on 19 March by the government, to which both private individuals and business are incentivised to contribute; however, according to CSOs, there is no information on how the money will actually be spent⁴. Furthermore, the Ministry of Economy of Azerbaijan has developed an online lending platform through which entrepreneurs affected by the pandemic can apply for bank loans. Fifteen banks are now connected to the system, with loans of up to AZN 3 million (EUR 1.77 million) provided in 10 days, with a 12-month repayment holiday period.

CSOs have pointed out that initially no measures were taken for those who lost their jobs due to the pandemic's effects, nor for low-wage workers. During April and May, however, lump sum cash payments of AZN 290 (EUR 100) were provided to unemployed citizens, and a ban was established on

⁴ Internal Survey, Eastern Partnership Civil Society Forum, March 2020

employers dismissing employees or sending them to unpaid leave. The **Azerbaijan Trade Union Confederation** took part in several working group meetings with the Minister of Labour and Social Protection in order to develop appropriate proposals to solve the problems that arose as a result of the COVID-19 pandemic. Moreover, the organisation also decided to participate in the social projects of the Heydar Aliyev Foundation, in order to implement public control over the distribution of citizens' appeals and proposals, and to support vulnerable groups in various aspects. Volunteers of the Public Association "Regional development" distributed food aid to more than 1000 low-income families living in the Goranboy, Tartar and Agdam regions, while trade unions have distributed protective equipment to their members to the value of more than AZN 100 000 AZN (EUR 52 000) for use in quarantine conditions. Financial assistance was also provided to citizens affected by the pandemic. At the same time, the leaders of trade union organisations donated their salaries to the Coronavirus Response Fund, with AZN 352 500 (EUR 200 000) transferred to the Fund from the primary trade union organisations. Providing material and moral assistance to low-income families continues today. In general, Azerbaijan's trade unions have spent more than AZN 1.6 million (around EUR 800 000) on supporting the fight against coronavirus and measures taken by the state for this purpose.

Belarus

The World Bank has announced that it expects the GDP of Belarus to fall by 4% this year. COVID-19 is increasingly affecting the tourism, transport and aviation industries and certain export-led activities. Despite lagging behind in terms of containment measures to stop the spread of COVID-19, the Belarusian government has issued a programme to support the economic sectors most affected by

the lockdown measures. With the Decree No. 143 "On supporting the Economy", support has been provided to the sectors of manufacturing, textile and clothing production, wholesale and retail trade, air transportation, fitness centres, beauty salons, hairdressers, restaurants, bars, travel companies and more. Companies have been provided with tax holidays from 1 April 1 to 30 September. The total sum of governmental support to the economy during COVID-19 is expected to be up to approximately EUR 2 billion. However, according to the Republican Confederation of Entrepreneurship, only 2-3% of business entities interested in business support measures actually used them. Additionally, since a state of emergency has not been declared, there is no official grounds to ease the conditions for businesses in terms of paying their loans. Since the outbreak of coronavirus in Belarus there has been no special statutory regulation passed so far, adding to the already fragile situation of Belarusian business sector. Indeed, according to the latest business survey, 90% of small and medium-sized enterprises do not have operating assets and can stay afloat in conditions of reduced demand for no longer than two months, with more than one third close to leaving the market. Moreover, 49.7% of surveyed Belarusians experienced a decline in earnings in June, 55% of the population earned less than they had before the pandemic, and every fifth person has faced reduced working hours and unpaid leave⁵.

CSOs have repeatedly pointed out that SMEs are even facing more inspections and increases in rental rates, and have expressed concerns that the government is providing no assistance to workers affected by the COVID-19 measures. **Socially responsible businesses** are actively supporting the state to contain the economic outbreak, namely by converting their production to make personal protection equipment (masks, shoe covers,

⁵ Люди, Результаты опросов населения, Source: <https://covidconomy.by/people>

medical overalls) or antibacterial gels and liquids, or by preparing hot meals for local medical staff. **Trade unions together with employers** have strengthened the monitoring of compliance with hygiene standards in enterprises and organisations. To help workers, trade unions in all sectors have established special cash desks, with 50% of trade union budgets now allocated using these cash desks. The money has been transferred to medical institutions and to the most vulnerable union members in organisations facing the most critical economic situation (for example, organisations which have temporarily stopped operating)⁶.

Georgia

Despite the low number of COVID-19 infections, Georgia has promptly adopted restrictive measures, which have inevitably contributed to an economic slowdown. IMF projections for Georgian GDP foresee a drop of 4.8%. The Georgian government has allocated GEL 3.5 billion (EUR 1 billion) to a support package to sustain the economy, which includes co-financing of interest on commercial loans, increasing the financing of government-funded infrastructure projects, increasing reimbursements for overpaid VAT, etc. The government has also taken measures to assist low-wage workers, gig workers and vulnerable groups of the population, by providing monthly cash assistance of GEL 100 GEL (EUR 28) to households and adults and children with severe disabilities, while introducing annual indexation of monthly pension benefits for retired people starting from 2021.

7. However, self-employed categories like babysitters, street vendors and private

teachers will most likely remain without any financial support due to the difficulty of proving their lost income⁸. On 24 April, the government presented an anti-crisis programme which includes measures for the restart of the economy and support business and reforms, including support to SMEs. The Ministry of Environmental Protection and Agriculture has launched a project providing grants for small and medium farmers and cooperatives, strengthening the capacity of farmers to modernise and expand their farms.

Georgian civil society has been active in advocating for the rights of SMEs and vulnerable workers. At the beginning of the lockdown, the **Georgian Trade Unions Confederation (GTUC)** issued a statement and appealed to the state to amend existing legislation in order to require employers to pay wages not only to their employees in quarantine but also to those self-isolating.⁹ Following the adoption of the state of emergency, the GTUC has been continuously providing legal services to workers, as there were no specific rules on virus safety standards within employers' occupational health and safety regulations. In addition, the GTUC provided food products and personal protective equipment to workers, including healthcare personnel, journalists, railway workers, metro workers, and couriers, among others. The **European Business Association of Georgia** has agreed with the Ministry of Education on establishing vocational trainings for businesses after COVID-19, based on the results of an intensive campaign that will be launched over the next two months to identify the challenges facing the business sector and industry associations, and their training needs¹⁰. The **Association**

⁶ Report on COVID-19 from Belarus, *Trades Union International of Workers in the Building, Wood, Building Materials and Allied Industries*. Source: <https://uitbb.org/report-on-covid-19-from-belarus/>

⁸ The Covid-19 Pandemic in The South Caucasus, Caucasus Analytical Digest, n.115, May 2020 Source: <https://css.ethz.ch/content/dam/ethz/special->

[interest/gess/cis/center-for-security-studies/pdfs/CAD115.pdf](https://www.cis-center-for-security-studies/pdfs/CAD115.pdf)

⁹ Information regarding COVID-19 situation in Georgia, GTUC, March 2020, Source: <https://perc.ituc-csi.org/GTUC-information-regarding-COVID-19-situation-in-Georgia?lang=en>

¹⁰ EBA Members Meeting with the Deputy Minister of Education, European Business Association Georgia. Source: <http://www.eba.ge/en/news/50>

of Business Consulting Organisations of Georgia (ABCO) is supporting SMEs by helping them to develop applications for projects and preparing business plans, advocating also in favour of those farmers who are not eligible for government grants as they are not officially present in the registers. Finally, civil society is actively contributing to the drafting of a lockdown exit strategy together with the Ministry of Economy¹¹.

Moldova

Moldova's GDP is expected to fall by 3.1% by the IMF this year. To tackle the effects of the lockdown, the Moldovan government adopted amendments to the budget law for 2020, to include a MDL 2.1 billion (EUR 433 million) to support the economy and businesses, and MDL 1.06 billion (EUR 330 million) to social insurance, including MDL 180 million (EUR 37 million) for unemployment benefits. The government elaborated a set of measures to support businesses and the population at the beginning of crisis, with additional measures taken to overcome cash-flow problems. The government has also announced further assistance to businesses that have either fully or partially suspended their activities by refunding personal income taxes and social security contributions up to 100%. The Ministry of Economy launched a program for business digitalisation, supporting the digital transformation and development of SMEs in order to exploit their innovative potential and facilitate companies' access to internal and external markets. Furthermore, patent holders and individual entrepreneurs who were left without income during the state of emergency will receive a single unemployment benefit of MDL 2775 (EUR 142). Civil society has called on the authorities to adopt urgent

measures to support the business environment in the context of the global pandemic of COVID-19, advocating on behalf of SMEs¹².

In addition to this unfavourable business environment, vulnerable categories of workers, such as women, are facing additional challenges due to new home-working arrangements, including greater childcare and housekeeping pressures, lack of equipment, lack of flexibility from the employers' side, and some of the greatest risks of losing their jobs. The Women's Committee of the Pan-European Regional Council (PERC) – part of the International **Trade Union Confederation (ITUC)** – has raised concerns about the level of domestic violence to which women have been subjected during the pandemic, with instances having increased significantly during the lockdown regime. This issue is discussed at the PERC's weekly consultation meetings on COVID-19 crisis, alongside recovery plans, commitments to return to work, and the situation of migrant workers.

Ukraine

The Ukrainian government has adopted several measures to mitigate the effects of the crisis on the economy, but these actions have been largely considered insufficient, including by civil society. Ukraine's GDP is expected to fall by 3.5% this year. According a recent survey by the European Business Association of Ukraine, 82% of the companies interviewed have reported income losses, with 33% (mainly SMEs and independent businesses) having suffered losses of 50-75%.¹³ On 29 April, a protest took place in front of the Cabinet of Ministers, with hundreds of

¹¹ The Economic Policy Research Center has elaborated an analytical document for the lockdown exit strategy aiming to assist the government of Georgia in implementing activities that would enable a gradual and smart exit from the lockdown, through combating the crisis and ensuring economic recovery.

¹² The Alliance of Small Enterprises from Moldova, the Association of Women Entrepreneurs from Moldova, the Creative Industries Association in Moldova and the National

Association of Restaurants and Leisure Centres, the European Business Association

¹³ European Business Association Ukraine, Source: <https://eba.com.ua/en/shho-chekaye-biznes-u-postkoronavirusnu-epohu/>

entrepreneurs demanding an increase in governmental support for SMEs and equal working conditions for all types of companies, large and small.

The government established a Coronavirus Stabilisation Fund for the quarantine period and 30 days after it, providing payment of partial unemployment benefits to employees of SMEs, and a minimum subsistence allowance to some groups of individuals entrepreneurs. During the quarantine period, the government exempted individual entrepreneurs from paying the single social contribution, and prohibited fines and the disconnection of utilities in case of late payments. Indeed, the government has started implementing a number of support programmes specifically aimed at SMEs, like the "5-7-9%" scheme and the "New Money" programme, offering soft loans and credit guarantees to SMEs, and funding for micro and small enterprises (companies with a turnover of up to EUR 10 million), respectively. On 27 May, the government approved an "Economic Stimulus Programme" aiming to address access to finance, access to markets, deregulation, modernisation and development, and access to infrastructure through export promotion assistance, loan and grant programs, and expanding the participation of small and medium-sized businesses in public procurement. The programme was developed in consultation with business and civil society groups.

Finally, the Ukrainian government has developed a detailed quarantine exit strategy, to mitigate the negative economic consequences of the COVID-19 crisis. While civil society has made a significant contribution to the development of this

strategy,¹⁴ **Ukrainian trade unions** are nonetheless carrying out large protests in the whole country due to a lack of meaningful social dialogue with public authorities in other policy areas. According to the **Confederation of Free Trade Unions of Ukraine (KVPU)**, a draft labour law currently under debate would restrict workers' rights, contradict ILO conventions and the EU-Ukraine Association Agreement, and provoke an aggravation of labour conflicts and social instability at a time when the situation is already fragile due to the pandemic.

CONCLUSION

The Eastern Partnership economies are facing a series of challenges due to the COVID-19 pandemic and the ensuing restrictive mitigation measures. In this context, economically vulnerable categories like SMEs, low-wage workers, and women workers will need special attentions by national governments and the international community. Recovery measures taken by the authorities so far include tax deferrals and relief, loan guarantees, unemployment benefits, and income support, and these aim at lessening the economic impact of the crisis for both SMEs and vulnerable categories of workers. However, results of these measures will be observable only in the medium and long term. In the meantime, civil society is proving to be a critical actor in the response to the COVID-19 crisis, despite most of the CSOs operating in the business sector having had to reschedule their activities and adapt their *modus operandi*. CSOs are for now providing online consulting and training, both to private businesses and to government agencies and ministries,¹⁵ while also contributing to lockdown exit strategies and other legislative and regulatory changes. CSOs are also strongly advocating for **more consistent and**

¹⁴ The CSO Centre for Economic Strategy (CES) joined a collective letter to the government regarding priority measures against the crisis, prepared policy recommendations on support mechanisms for SME and employees, made a statement about a threat of sovereign default which was joined by other think tanks and also supported the idea of an anti-crisis package of economic measures. In addition, CES joined two public letters

to the authorities regarding the way to overcome the crisis with minimal damage to the economy and the importance of easing quarantine restrictions on economic activity.

¹⁵ Interview with K. Zhgenti from ABCO Georgia, conducted on 29.05.2020, and with S. Aliyev from Center for Support for Economic Initiatives, on 02.06.2020

effective measures to protect vulnerable categories in the business sector.

With this in mind, the European Union should continue focusing on targeted measures to support local civil society in its fundamental roles of monitoring governments' actions, and contributing its expertise to the formulation of public policy, including economic recovery plans. In order to support civil society advocacy activities, the EU, but also private donors, should provide small grants – in addition to their existing preference for large grants – thus helping a greater number of small organisations to survive the changes provoked by these difficult times, including the accelerated digitalisation process and their adaptation to new homeworking modalities. This support will be essential in sustaining the EaP trade union movements, and strengthening the resilience of civil society going forward.

The EU should also allocate additional funding to support economic recovery measures, guiding EaP governments in **addressing the medium and long-term needs of vulnerable working categories and SMEs**. Solutions to the current crisis should aim to foster the development of a more inclusive and effective system of economic assistance to vulnerable categories, and targeted financial support should be elaborated for pursuing a more gender-sensitive approach to the mitigation of the effects of the COVID-19 pandemic.



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The Eastern Partnership Civil Society Forum (EaP CSF) is a unique multi-layered regional civil society platform aimed at promoting European integration, facilitating reforms and democratic transformations in the six Eastern Partnership countries - Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Serving as the civil society and people-to-people dimension of the Eastern Partnership, the EaP CSF strives to strengthen civil society in the region, boost pluralism in public discourse and policy making by promoting participatory democracy and fundamental freedoms. For more information, please visit the EaP CSF website at www.eap-csf.eu.



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