



PARLIAMENTARY ASSEMBLY OF TURKIC SPEAKING COUNTRIES

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## COMMISSION ON ECONOMIC COOPERATION

### NINTH MEETING

*Nur-Sultan, 20 May 2022*

### **“POST PANDEMIC ECONOMY: STATE SUPPORT OF SMES”**

### REPORT

#### I. INTRODUCTION

Economies of the most world countries depend on development and sustainability of the Small and Middle Entrepreneurship (SME). The share of SMEs in countries' GDP varies between 20%-60%. According to the estimates about 60 million jobs will be needed by 2030, and now it is 7 out of 10 jobs are created by SMEs.

Low profitable cost-benefit ratio influences the growth of the informal or shadow economy in the country. Among the reasons of it are unfavourable tax and custom burdens, low valuable social guarantees, lack of awareness on special terms of the economic activity and others.

Well-developed and efficiently working SMEs match with the achievement of important global goals such as elimination of poverty by provision population with job (G1), zero hunger as a result of population's employment (G2), gender equality with participation women in business (G5), a good work that brings income and correspondingly leads to economic growth (G8), involvement and participations of SMEs in environmental projects (G3, G6, G7, G9, G12, G13).

Advanced and sustainable work of SMEs depends on valuable and important factor such as a state support: financial, advisory, advocacy, tax

reduction and preferences, easy registration etc. that should be backed up by legislation.

For not letting to prolong the stagnation in economy it is necessary to take measures at all levels starting from acceptance of the problem and ending up with feasible facilitation to SMEs via decision making process.

## **II. SME DEVELOPMENT IN MEMBER STATES**

### **AZERBAIJAN**

Beside of the Ministries a responsibility to support the development and facilitation of small and medium business in Azerbaijan is allocated to Small and Medium Business Development Agency of the Republic of Azerbaijan (KOBIA).

The share of Azerbaijan's SME in country's non-oil GDP nowadays stays at level almost 24%. In accordance with the State Programme on socio-economic development of the regions of the Republic of Azerbaijan it is planned by 2023 to increase the SMEs' share in GDP for more 15%.

Almost 350 thousand people were employed in SME's in 2020.

The difference in number of liquidated and newly opened SME's differ in favour of newly opened. Even during severe pandemic year in 2020 the closed SME's number was less than in 2019: 22571 vs 30483 correspondingly.

During pandemic year in 2020 there were active more than 316 thousand of small and medium enterprises in Azerbaijan. Comparably to year 2019 it is 45000 SME's more.<sup>1</sup>

Covid-19 pandemic and 44-Day War pushed forward the digitalization development in the country. A various projects were introduced and implemented for adaptation to pandemic and stabilization of socio-economic life in Azerbaijan. Projects as Smart City and Smart Village and their implementation in Karabakh region promotes the process of integration of informative and communicative technologies for city/village management. Implementation of Smart Village projects resolves several issues at once: decrease of internal migration; prevention of urbanization of the villages thereby keeps the sustainability; service delivery equation of service delivery in cities and villages; promotion of smart agriculture with the use of contemporary technologies; increase of life standards in villages; providing jobs. Beside of it in accordance with the Strategy of country's

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<sup>1</sup> The State Statistical Committee of the Republic of Azerbaijan (SSCRA) - <https://www.stat.gov.az/source/entrepreneurship/?lang=en>

development until 2030 KOBIA and governmental structures open centres in the regions for helping to small and medium entrepreneurs to implement and use digital technologies in their business.

To promote the development of micro and small business the Cabinet of ministries of Azerbaijan approved a Provision on amendments to Tax Code with consideration of Criteria of start-ups in business that have an income tax liberation for 3 years for innovation in doing business (Provision of the Cabinet of ministries of Azerbaijan № 20 dated by January 29, 2021). During one year almost 40 entrepreneurs achieved the start-up Certificate from KOBIA.<sup>2</sup>

There are 21 Centres of SMB Development are opened countrywide<sup>3</sup>. It is planned to open them also in Karabakh region. Almost thousand projects on SMB made an applications to KOBIA to do business in Karabakh and be a part of its restoration: 27% in construction, 27% - trade and service, 20% - industry, 18% - agriculture, 8% - tourism, health protection , education, culture etc.

Additional support from State and its Institutions for development of SME is financial allocation for educational, science and research projects aimed to develop micro, small and medium entrepreneurship.

Little more than 21% of entrepreneurs without registration of legal entity are women individual entrepreneurs in Azerbaijan. The support of the women's entrepreneurship is implemented not only on Governmental level with the elaboration of the programmes and plans, but also with the practical work from KOBIA, USAID, EU and others. Established new platform "Women's national business agenda" targeted to increase the women's participation in commerce by providing innovation consultations on doing business. Women's entrepreneurship is developing year by year, and enlarged the quantity of women in business during the pandemic, and the Association on women's entrepreneurship development had signed 47 Memorandums on cooperation with various partners.

## **KAZAKHSTAN**

There are more than 1,3 mln subjects of SME in Kazakhstan<sup>4</sup>. During the year 2020 (most difficult year due to pandemic restrictions) the number of subjects of SME in Kazakhstan increased for 27 thousand subjects.<sup>5</sup>

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<sup>2</sup> <https://report.az/ru/biznes/v-azerbajdzhane-eshe-chetyre-predprinimatelya-poluchili-startap-sertifikaty/>

<sup>3</sup> <https://www.trend.az/business/economy/3468220.html>

<sup>4</sup> Bureau of National statistics of Kazakhstan - <https://stat.gov.kz/official/industry/139/statistic/7>

Last five years there's a tendency of increase of SME's share in country's GDP in range of 1-1,5%. Last three years the SME's share in GDP vary between 31,7% and 38,2%<sup>6</sup> and it is planned to be increased up to 35% by 2025.

3,47 mln people are employed in SME and one third of them are working in Almaty and Nur-Sultan cities.

As a help for small and medium business in Kazakhstan there was financial and non-financial support from the state. In 2020 there were implemented 3 packages of anti-crises measures that provided decrease of tax burden and expanding the access to finance. According to the data from Ministry of national economy the support to business from Government accounts total 1 trln KZT.<sup>7</sup> Micro and small business starting from January 2020 are exempted from taxes on income for a period of three years.

While GDP of Kazakhstan with pandemic circumstances was at level about 170 bln USD in 2020, then with implementation of state support and intervention into economy the GDP was raised by 4% in 2021. The increase of GDP made 6,8 bln USD within one year and 2,16 bln USD is the share of SME into Kazakhstan's economy.

By the end of year 2020 the employed people in SME had decreased for 2,3% and made 3,4 mln people.

The pandemic has spurred the development of the retail e-commerce in Kazakhstan for 93% and the market was significantly reoriented towards everyday life goods and food. This consuming habit became more sustainable and often used even after lockdowns were over.<sup>8</sup> Business oriented entrepreneurs had started to develop widely the niche of the courier services with the implementation of new developed applications and technologies.

Implementation of digital technologies and its' widely use among TURKPA member states is the most developed in Kazakhstan.

The burst of e-service use for business was done in period 2020-2021 starting from 66% to 97,5% correspondingly.<sup>9</sup> The role of "DAMU" Entrepreneurship Development Fund is one of main actors in support of SME in Kazakhstan.

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<sup>5</sup> Ibid

<sup>6</sup> Ibid

<sup>7</sup> National Chamber of Entrepreneurs of the Republic of Kazakhstan - <https://atameken.kz/ru/news/43103-kak-gosudarstvo-podderzhivaet-biznes>

<sup>8</sup> <https://kapital.kz/business/91800/kak-pandemiya-transformiruyet-rynok-e-commerce.html>

<sup>9</sup> <https://kapital.kz/finance/102607/mery-gospodderzhki-msb-cherez-fond-damu-otsifrovany.html>

The digitalization of all sectors of economic activity and daily life is implementing under the State Programme “Digital Kazakhstan” targeted at five dimensions: digitalization of economy; switch to e-government; implementation of digital Silk Road; development of human capacity; establishment of innovative ecosystem.<sup>10</sup>

“Business Road map – 2025” provides the increase of the loan amount up to 7 bln KZT with the subsidiary period for 5 years, sectoral restrictions also were removed.

In Kazakhstan 51% of the total population are women and in the share of the employed population they also make up almost half - 49%. At the same time, the share of the contribution of women's entrepreneurship in GDP is 39%.<sup>11</sup>

In November 2020, Kazakhstan was elected to the executive board of UN Women. A year earlier, UN Women's headquarters in New York agreed that the DAMU Foundation would sign a Statement of Support for the Women's Empowerment Principles. This document was signed by 2639 companies, including Google, Citigroup Inc., Nasdaq, PwC, Ernst & Young and Coca-Cola.

The analysis of the gender structure of the economy of Kazakhstan, performs that women dominate in sectors that are traditionally considered women's business: education (67%), healthcare (53%), trade (54%). Women firmly occupied positions in real estate transactions (61%), accommodation and catering services (58%). At the same time, businesswomen are becoming more and more confident in sectors that are considered traditional as men's: industry (30%), communications (38%), construction (23%) and transport (19%).

With the support of the state programmes and financial programmes of ADB, EBRD 57% of all entrepreneurs who received the financial support to develop their businesses were women entrepreneurs.

## **KYRGYZSTAN**

There are about 900 thousand subjects of the SME in the Kyrgyz Republic. During pandemic the growth of number of SME subjects was 2% with the increasement of subjects to 16 thousand.<sup>12</sup>

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<sup>10</sup> Digital Kazakhstan - <https://digitalkz.kz/napravleniya-programmy/>

<sup>11</sup> DAMU - [https://damu.kz/news/detail.php?ELEMENT\\_ID=28925](https://damu.kz/news/detail.php?ELEMENT_ID=28925)

<sup>12</sup> National Statistic Committee of the Kyrgyz Republic (NSCKR) SME – <http://www.stat.kg/ru/statistics/maloe-i-srednee-predprinimatelstvo/>

The share of Kyrgyzstan's SME in country's GDP in 2020-2021 had increased from 37% up to 42%, and the growth of it will continue by time<sup>13</sup> with general increase of economy for 3,6%<sup>14</sup>.

SME had become an employer for almost 21% of Kyrgyzstan's population involved in economic activity or 14% of the able-bodied population, and reached 520 thousand people working in SME<sup>15</sup>.

To support the SME's and affected sectors of economy because of the Covid-19 pandemic the Kyrgyz Government and Parliament had elaborated, approved and implemented the Plan on withstand to pandemic and the work is still going on. It included 4 packages:

- temporary moratorium on business on inspections (including postponement of payments of all taxes and loans for a certain period);
- opening of the Center on Business Service (CBS) with the “one window” system in Bishkek; later same centers will be open in other cities of Kyrgyzstan;
- implementation of informational portal for the business permit documents;
- elaboration and adoption of national programme on support of women's entrepreneurship 2022-2026.

From Central Bank there were 4 bln soms as additional capitalization for the banks so they could provide special services and loans in agricultural, manufacture and women's entrepreneurship.

As a result of practical measures, state budget revenues (for 10 months of year 2021) amounted to 164.1 billion soms, which is a surplus of 3.7 billion soms. (the budget deficit in the corresponding period of 2020 amounted to 16 billion soms).

A new Tax Code of the Kyrgyz Republic was elaborated, adopted and entered into force on Jan 1<sup>st</sup> of 2020. It is expected that business will exit from shadow and informal economy.

A several researches were made with the recommendations to withdraw economy from shadow, which is about 20%-25%, and make it formal for most of the employees and employers.<sup>16</sup> Withdraw of 64% of shadowed tradesmen will enlarge the revenues to the state's budget.

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<sup>13</sup> Ibid

<sup>14</sup> NSCKR GDP- <http://www.stat.kg/ru/news/po-itogam-2021-goda-otmechen-rost-valovogo-vnutrennego-produkta/>

<sup>15</sup> NSCKR SME

<sup>16</sup> Dr. Kanat. Tilekeev, June 2021 - <http://library.fes.de/pdf-files/bueros/bischkek/18023.pdf>

To maintain own business big companies were delivering its products to smaller business (especially in restaurant industry) for free. This extra help from big companies helped to save extra capital for smaller business subjects.

Some sewing factories had reprofiled their production to sew disposable masks and disposable individual protection costumes. Beside of it new factories were open for these purposes. The approximate capacity of this manufacture is about 100 mln masks per year. Small sewing factories started to produce the designed masks.

A lot of jobs and works were created in IT sphere for helping with the adjustment of the educational platforms and electronic commerce for retails.

Domestic and international delivery services were very required and a new start of logistical business was launched.

Kyrgyzstan was one of the TURKPA member states who opened its borders for tourism and allowed to enter the country for everyone without any restrictions, but following certain rules on prevention of spread of Covid-19 infection. Even though new circumstances had re-profiled the tourism sector in the country from international oriented to domestic.

In accordance with the Digital Strategy of Kyrgyzstan for 2019-2023 legal documents were adopted, and one among them is a “Law On Electronic Commerce”. Additionally governmental structures and Parliament are working on elaboration and adoption of “The Digital Code”.

Development of digitalization is a challenge and benefit for economy of the country. The input into the process and the progress are helping to Kyrgyzstan’s economy and SME’s to be more competitive on market and fulfil the needs to protect national economy.

In the end of 2021 a Programme on support and development of women’s entrepreneurship for 2022-2026 had been adopted. Implementation of the programme covers the access to financial resources, coaching courses on doing business and facilitation to enlarge the number of women entrepreneurs. Women’s Business Association had started the information campaign of the programme in all regions of the country, especially in rural areas.

## **TURKIYE**

Small and Medium Enterprises make up almost 91,9% of all enterprises in Turkiye. The number of subjects of Small and Medium



Entrepreneurs in the middle of year 2020 in Turkiye had reached the level almost 2 mln subjects.

According to the assessments of the Union of Chambers and Commodity Exchanges for Turkiye (TOBB) nowadays SME's share already had reached 62% of GDP and it is predicted to grow and be integrated into larger manufacture.

According to data of TOBB the total turnover carried out by SME's in the country stays at the level about 645 bln USD.

SME's account about 74% of the total employment in the country.

The data on specific numbers of closed and bankrupted SME's is not available, but in accordance with the information from media it is said about closure of 200 000 subjects of SME both in 2020 and 2021. In compare with total active of 3,2 mln SME's<sup>17</sup> in country it constitutes about 6,3 % of all SME's. The reason of closure may be various: from mismanagement to coincidence.

The Turkish government had allocated financial aid at level of 14% of its GDP to support its economy during the Covid-19 pandemic.

The governmental financial support was given to the SME's related to the Covid-19 outbreak which manufacture products of health protection and hygiene.

Additionally the Ministry of Industry and Technology of Turkiye as a reaction to pandemic together with UNDP had implemented projects in order to identify and eliminate the economic problems caused by pandemic (2020-2021). The projects included the research of 25 fragile sectors in economy by regions, preparing the analysis report, development of the technical capacities of SME's for capacity building of personnel to strangle with crisis, provided business development services on digitalization for businesses and 530 enterprises were included in these services with the digitalization and consultancy.

Digitalization in business and daily life brought the country to increasement of the index on digital transformation from 2,94 to 3,06 in 2020 in compare with year 2019.

During pandemic and new conditions the accent in doing business was put onto wide implementing of electronic commerce and use of digital platforms for it (*increasement of e-commerce in 2020 was 66% - 32 bln USD, a rise of almost 52% in compare with year 2019*)<sup>18</sup>. The Government

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<sup>17</sup> <https://www.tobb.org.tr/KobiArastirma/Documents/SMEs%20of%20Turkey%20Report%202020.pdf>

<sup>18</sup> Xinhua.net: Roundup: Turkey's e-commerce sector hits new heights amid COVID-19 pandemic - <https://inlnk.ru/yOK6j7>



of Türkiye allocated 274 mln TL (appr. 39 mln USD) to support almost 700 projects for developing the digitalization process especially in manufacturing industry as it holds almost 1/3 of whole country's economy.

The enlargement of e-commerce sector by around 50% in 2020 and growth of it of 75% in first half of 2021 led to that the e-commerce sector made investments of 10 bln TL (appr. 1,4 bln USD) on average.

It also led to the implementing in Türkiye new startups starting from wholesales and ending up with the platform with analytical tools in global energy system.

Such innovative approach using IT technologies and distant work during pandemic provides the opportunity for investments, new jobs, brings positive shift in economy.

All above mentioned measures and many others had led to the increase of economy of Türkiye. And according to the data of the Turkish statistical Institute (TUIK) the GDP of the country had increased in 2021 for 11% (at a current prices).<sup>19</sup>

In digitalization of economy especially the increase of impact of ICT on organization models is noticed<sup>20</sup> and it is a performance of implementation of modern digital technologies in management process that facilitates to the growth of productivity of business.

State authorities of Türkiye, particularly Small and Medium Enterprises Development and Support Administration (KOSGEB), had elaborated a programmes for facilitating of fast help for the small and microbusinesses. Under the programs that are implemented not only the retention of existing jobs but the growth of employment is foreseen especially in the manufacture sectors<sup>21</sup>.

Support of women's entrepreneurship is also holds a key position within the state programmes and the SME's led by women get 40% extra of financial support from the state.<sup>22</sup>

The resume of the governmental efforts to maintain the development of SME in Türkiye depend on close cooperation of business with governmental sector and special Agencies that provide not only financial support but also consultations on business management.

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<sup>19</sup> <https://data.tuik.gov.tr/Bulten/Index?p=Quarterly-Gross-Domestic-Product-Quarter-IV:-October-December,-2021-45548>

<sup>20</sup> <https://www.tubisad.org.tr/en/news/detail/TUBISAD-announces-Turkeys-digitalization-grade/132/2800/0>

<sup>21</sup> KOSGEB - <https://www.kosgeb.gov.tr/site/tr/genel/detay/7579/proje-ozeti>

<sup>22</sup> KOSGEB - <https://www.kosgeb.gov.tr/site/tr/genel/destekdetay/1233/kobi-finansman-destek-programi>

The innovative activity of SME's depends on stability of financial and consultative supports, usually from the state. The assurance in stability is a guarantee of the development and economic growth.

### **III. CONCLUSION**

Many countries, including TURKPA member states had received a financial support from International Monetary Fund (IMF) and World Bank (WB) to restrain the pandemic crisis and maintain economies of their states. Only IMF had allocated an emergency financial support for member states at level of 110 bln. USD.

The lockdowns and border shutdowns showed to states, especially developing ones, their weakness and strong dependence on import of goods. And these circumstances pushed forward countries to rethink the economic policy.

Pandemic had pushed forward the existing manufactures to re-profile their business to cover the internal needs. And it is a prerequisite for import substitution in SME.

Specific targeted support from state for business and its' subjects guarantees the specific positive outcomes of it. Support the business with microcredits and creating the logistical chain of sales of produced goods and its' exit for export enhances both micro and macroeconomic indicators of states' economy.

The lack of relevant infrastructure and services in places gears down the development of touristic capacity in countries.

Pandemic and its impacts pushed forward the digitalization processes and domestic oriented economic activity.

The introduced amendments and changes in national legislations reflected the reality that measures to do business easier is possible to make it on permanent base and not ad-hoc. More indulgences for business then more of the business will be going out from shadows, thereafter more revenues to the budget.

An increase of e-commerce is observed that requires an appropriate reaction from Government to secure the rights and interests, ensure the responsibility off all actors.

Economic and business development after pandemic is associated with the Industrial Revolution 4.0. New technologies, modern digital utilities and services supposed to increase the efficiency of the business process,

decrease the corruption level in economy, digitalization and automatization of economy.