

## **Keynote Speech . 5th Plenary Session of the CICA Business Council**

### **“Prospects of Cooperation of the CICA Member States in the field of Digitalization of Business Processes in Small and Medium Enterprises and Food Security”**

27 June 2022

- Thank you, dear Raimbek, for your very kind introduction.
- Ladies and gentlemen, dear friends, it is my pleasure to speak at this business council.
- This is an important platform to discuss how the businesses of CICA countries can build cooperation that is mutually beneficial, thereby making an important contribution to the overall goals of CICA to promote peace, security, and stability in Asia.
- Today, I will focus on two issues. First, I will discuss the importance of small and medium-sized enterprises (SMEs) and what can be done to support them, including on digitalisation. Then, I will turn to food security, which has become a major global issue affecting all of us.

#### ***[1. SMEs and digitalisation of business processes]***

- SMEs are the backbone of any economy; indeed a sustainable market economy cannot operate without them.
- SMEs provide critical services, pay taxes, innovate, create jobs, contribute to social cohesion, and help grow and empower a strong middle class. As such, they are particularly important in emerging and developing economies.
- According to the World Bank, in emerging economies, formal SMEs contribute to up to 40% of GDP. And in Asia, the ADB reports that SMEs account for 96% of businesses and two-thirds of private sector jobs.
- SMEs are agile, flexible, and can be mobile, adjusting more readily to changing circumstances than large firms.
- One such change in recent years has been rapid digitalisation, which was greatly accelerated by the Covid-19 pandemic.

- Digitalisation has transformed the way businesses – including SMEs – operate as well as how we, consumers, obtain goods, services, and information.
  - For example, online marketplaces allow SMEs to easily connect with customers and sell their goods and services directly.
  - Fintech and mobile payment systems are making transactions quicker, easier and cheaper for businesses and consumers. Thanks to this, now consumers do not have to carry cash or even credit cards.
- At the same time, there is an important risk of SMEs being left behind because digital solutions are often designed for large enterprises and can be too expensive for SMEs.

*[List of proposals that CICA member states could work together to support SMEs and digitalise their business processes:]*

- Given the importance of SMEs, particularly for job creation, governments must work hard to create an enabling environment, for their growth and development, including for the take-up of digital processes.
- Over the last decade, OECD countries have been working on reducing the regulatory burden on businesses. Kazakhstan followed suit last year by adopting legislation based on a so-called “regulation from scratch” approach, and just recently, the National Chamber of Entrepreneurs of Kazakhstan “Atameken” switched its focus to supporting SMEs.
- But clearly more needs to be done, and CICA member states and the CICA business council could constructively collaborate to support SMEs.
  - First, **data collection**. Governments need to collect better data on SMEs. This data can then be used to design and provide targeted support, build infrastructure, evaluate SMEs’ creditworthiness more accurately and, where necessary, ensure availability of loans on fair terms.
  - Second, SMEs need **financing and advisory support** that is tailored to their needs, including their efforts to digitalise business processes. A Canadian study found that the most effective support to SMEs is provided in a bundle, for example pairing financial support and advisory services, including: capacity building, advice as to how to navigate the market and support for networking.
  - Third, we also need to **address inequalities**, and supporting SMEs is an excellent way to do this. Assistance to SMEs should also be focused on providing tailored support to those from disadvantaged communities, including women.
  - Fourth, as mentioned above, SMEs usually have much less capacity than large firms to navigate the regulatory environment. Therefore, **reducing regulatory burden** is critical and this should include reducing the complexity of procedures, streamlining tax codes and bankruptcy processes, as well as putting in place regulatory impact

assessment. This should help bring some SMEs out of the shadow economy into the formal economy.

- Finally, CICA should promote **international cooperation and exchange of knowledge**. This is especially true for **digitalisation** which is evolving rapidly. Here, there are two specific opportunities:
  - Kazakhstan has become a major **hub of fintech**, including products used widely by SMEs. Countries in the broader region should work together to build B2B and B2C solutions; and
  - the **AIFC TechHub** provides modern infrastructure, flexible regulations, and legal transparency for firms to develop a high-quality fintech space in Kazakhstan and the region. We should definitely take advantage of this opportunity to create a vibrant ecosystem that serves to create digital products for SMEs across the entire region.

## *[2. Food security]*

- I will now turn to the issue of food security.
- Problems in food supply chains started at the beginning of the Covid-19 pandemic and have been greatly exacerbated by the Russia-Ukraine conflict. I don't need to tell you that the two countries are among the largest producers of agricultural commodities.
  
- According to some estimates, as many as 1.9 billion people will be affected by food insecurity by the end of 2022.
  
- Since the start of the Russia-Ukraine war, over 20 countries have imposed restrictions on exports. These restricted exports already account for 10% of global calorie intake, and many other countries may follow their lead.
  
- In May, the FAO Food Price Index stood at 157.4, close to all-time high. One of the key contributing factors are exactly these disruptions to the free flow of food between countries. This issue is contributing to overall high inflation across the globe, at levels not observed for several decades. According to the World Bank, in the first four months of 2022, around 90% of emerging market and developing economies had food price inflation of higher than 5% and many of them had a double-digit overall inflation. This trend is forecast to persist for some time.

- The food security problems and significant increase in food prices mostly hurt low- and middle-income countries because they spend a larger share of national income on food.

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*[List of proposals that CICA member states could work together from an economic perspective:]*

- In this context, CICA countries should work together in a number of areas:
  - First, we need to promote the **use of efficient and sustainable technologies**. Many farmers, especially small ones, still use traditional methods. The use of new technologies should help increase yields.
  - Second, there needs to be **investment in infrastructure**. We need to invest in roads, storage facilities, and processing equipment so that farmers can efficiently deliver their products to consumers.
  - Third, **funding** must be made more accessible for farmers. Many farmers do not have access to funding due to several reasons, including lack of collateral and inexistent credit history. Further, it is usually large companies that benefit from state support for agriculture rather than small farmers. We need to ensure that farmers are well-funded and that financial support is evenly distributed. We should also use platforms like AIFC to design market-oriented solutions for funding.
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  - Fourth, we need to **minimise international trade disruptions**. We need international cooperation to keep trade flows as open as possible, minimise export bans, and coordinate measures with other countries. This will contribute to the smooth flow of foodstuffs between countries and reduce shocks in countries that heavily rely on imports.

### *[3. Conclusion]*

- Dear colleagues, today I have covered what may seem like two distinct issues.
- However, both SMEs and the food and agriculture sector are essential parts of our economies – nothing can work if these two sectors are not operating well.
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- These two areas are also critical to social prosperity in our countries, especially when it comes to issues related to poverty and inequality.
- As such, they deserve our special attention, not least because the regional and global economic climates may continue to be difficult for some years to come. And CICA member states need to closely work with each other to come up with solutions that benefit the wider region.

I wish you good luck with your work. Thank you very much!