



Mechanism for Economic Stability of Textile Enterprises During the Economic Crisis of the Covid-19 Pandemic: Foreign Experience

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Abstract

The corona crisis caused by the COVID-19 pandemic has had a negative impact on all aspects of the social market economy of the world. For the first time in its history, the main cause of the crisis was state intervention in the mechanisms of the market, and not factors of an economic nature. In this paper has been analyzed foreign experience in supporting and regulating small businesses. The author identified methods of supporting small businesses in various categories in various states. The author considers the features of the functioning of small businesses, as well as the process of tax incentives for small businesses in developed countries.

Keywords: *Small Business; Government Regulation; Government Support; Advantages and Disadvantages of Small Businesses; Foreign Experience*

1. Introduction

The term "coronacrisis" reflects the impact of the pandemic on the entire system of socio-economic relations, which is in crisis. This crisis is unique: firstly, it covered all economic systems of the world without exception, although to varying degrees; secondly, its causes are outside the economy, but are due to the coronavirus pandemic and the restrictions associated with it. Although this is far from the first pandemic in the history of mankind, however, according to available data, for the first time in the post-war years, it led to an economic crisis.

The results suggest that the pandemic had already caused massive dislocation among small businesses just several weeks after its onset and prior to the availability of government aid through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Across the full sample, 43% of businesses had temporarily closed, and nearly all of these closures were due to COVID-19. Respondents that had temporarily closed largely pointed to reductions in demand and employee health concerns as the reasons for closure, with disruptions in the supply chain being less of a factor. On average, the businesses reported having reduced their active employment by 39% since January. The decline was particularly sharp in the Mid-Atlantic region (which includes New York City), where 54% of firms were closed and employment was down by 47%. Impacts also varied across industries, with retail, arts and entertainment, personal services, food services, and hospitality businesses all reporting employment declines exceeding

50%; in contrast, finance, professional services, and real estate-related businesses experienced less disruption, as these industries were better able to move to remote production.

The international experience of small business development demonstrates that the considered business layer is extremely significant in the national economy.

A means of increasing the share of small businesses in the economy is the incentive system. Stimulating small businesses abroad includes quite costly support measures:

- Tax incentives;
- Preferential loans and credit guarantees;
- Training of personnel and facilitating access to information;
- Protection of intellectual property;
- Irrevocable subsidies for the implementation of scientific and technical programs (Japan);
- Financing of scientific research;
- Protection of interests in public procurement [3].

The state thus assumes part of the costs of small business. The experience of such states as the USA, Japan, Germany is the most interesting, taking into account the progress achieved in the development and effective management of the small business segment.

The coronavirus (COVID-19) outbreak is causing a global health emergency, and a global economic slowdown. Trade, investment, growth, and employment are all affected and the crisis will have an impact on the achievement of the UN Sustainable Development Goals.

2. Literature Review

Back in the mid 90s. Professor Peter Doyle noted: “In the modern world, the adaptability of the company has become a more important organizational factor than forecasting skills” [4]. This judgment is explained by the complication of socio-economic processes, which imposes certain restrictions on the use of traditional forecasting methods [5]. This emphasizes the need, taking into account the specifics of activities, improving the organizational culture, implementing the principles of adaptive management and introducing flexible planning systems for the development of economic entities. However, as the results of the study show, at present a large number of companies continue to use the well-proven, but outdated cascade model, while ignoring more modern approaches, methods of organizing and controlling project activities. Along with this, it should be noted that in the past few years, an increasing number of translated publications have appeared in the scientific literature, as well as articles by domestic authors, which emphasize the relevance and effectiveness of the introduction of modern methods and tools for managing high-tech projects. So, Andrew Stellman and Jenifer Green argue: “Agile as a professional movement differs from previous approaches to software development in that it is based on ideas, values and principles that embody a certain way of thinking”.

The entrepreneurs’ schooling level and experience may influence the firms’ growth (Barringer et al., 2005; Dobbs & Hamilton, 2007; Rauch & Rijskik, 2013). Experience in the sector is highly important (Davidsson et al., 2010), coupled to previous experiences in other enterprises (Barringer et al., 2005; Davidsson et al., 2010). Another aspect listed in the literature is the entrepreneurs’ rank within their personal carrier. According to Wright & Stigliani (2012), position in personal carrier may affect growth. In fact, highest growth expectations are linked to the start of carrier which may coincide with age as young people have great expectations in growth (Davis & Shaver, 2012; Navaretti, 2014). Further, relational competence and insertion in networks are actually growth determinants (Davidsson et al., 2010). However, growth expectations include not only previous experience in success but also the fear of

failure (Hermans et al., 2012; Wright & Stigliani, 2012). Fear of failure limits the capacity of the individual to take risks and seize opportunities which may produce growth. On the other hand, motivation, internal control locus and personal aims of entrepreneurs may have a positive effect on growth (Davidsson et al., 2010; Wakke et al., 2015). [13]

Econometric model of production capacity usage of textile enterprises in Namangan region were studied by Tursunov B. [8], modernization and intensification of agriculture in the Republic of Uzbekistan were investigated by Nabokov V. [9] ways to improve of financial security management at textile enterprises were researched by other economists. [10]

3. Analysis and Results

In the United States, since 1953, the small business support law has been functioning, at the same time the Small Business Administration (The U.S. Small Business Administration - SBA) was created. Key areas of competence - consulting, contracts, lending.[7]

SBA is given the opportunity to make direct lending at public expense. The most popular and in demand is lending under government guarantees. Under the terms of the program, the borrower bears 10% of all expenses, all other expenses are covered by the bank or other credit institution under a 100% SBA guarantee.

According to the provisions of this law of 1953, at least 23% of all government orders must be concluded with small businesses. SBA strictly controls compliance with this proportion and monitors the public procurement program.

As a state support in the USA, the Program of Small Business Development Centers, adopted in 1980, functions. The centers were created at US educational institutions and act as a kind of training school for future entrepreneurs, where volunteers from among college and university students, as well as teachers of educational institutions, advise on management issues, provide technical and legal assistance when opening a small business.

An important feature of business in the USA is the widespread use of franchising. Thanks to this solution, it becomes much easier to open your own business [4].

Of the European countries, Germany is the most advanced in the level of development of small business - 3,500 thousand people engaged in entrepreneurial activity are registered in the country, which is 4.2% of the total population of the country, and at the same time, the share of income from entrepreneurial activity in the total amount GDP is 57.0%.

Any native inhabitant of Germany who decides to go into business can receive a preferential state loan of up to fifty thousand euros for twenty years. An entrepreneur can use the funds free of charge during the first two years. For the next eight years, only preferential interest for using the loan should be paid to the bank - this is annual. And directly the amount of debt should be repaid only from the eleventh year of the loan. In addition to the above, the German government compensates for the implementation of various studies and scientific works up to 40 thousand euros.



Fig.1. Small business support methods [14]

The amount of investment in the development of small businesses in Germany is from the total financial investments of the state. Small organizations, on the other hand, annually take loans from the state in the amount of 50 billion euros.

In Germany, a prominent place is occupied by the "Small Business Innovative Support Program" for the development of research and development (R&D) by small businesses in conjunction with scientific institutions. It should also be noted that Germany's experience in the development of small business is the involvement of high school students and students in entrepreneurial activities. The German government, in cooperation with the country's central bank, is implementing a program of financial support and stimulation of student entrepreneurship. In recent years, the program has yielded its results - more than 350 new innovative enterprises have been created in the country.

Another European country, Great Britain, has the highest level of registered entrepreneurs in the total number of citizens of the country, i.e. almost one in eight is engaged in business. Small business in the United Kingdom has a significant impact on the economy of the state - 55% of income in the total amount of GDP [1].

A significant role in the development of small business belongs to the state budget policy. Government incentives such as reduced tax rates for small businesses, deferred payment of bills, a rational system of discounts for payment of delinquent loans, the availability of property tax incentives, allow small businesses to remain solvent and develop their business.

The implementation of the programs indicated in Figure 1 provides tangible assistance in the development of small businesses in the United Kingdom, whose small business is an integral part and driving force of the state's economy.

Among the organizational and legal measures, the establishment in April 2000 of the Small Business Service (SBS) is a special state body that is responsible for the development and support of small businesses at the national level. This service was part of the Department of Trade and Industry (DTI). Before the SBS, the government has set the following tasks:

- Development and optimization of state policy in the small business segment;
- Supporting the interests of small businesses in the government;
- Reduction, minimization of bureaucratic barriers;
- Coordinating the work of authorized bodies to support small businesses;
- Analysis of the effectiveness of programs to support small and medium-sized businesses [2].

With the creation of SBS in the UK, the centralization of strategic management of the small business sector has increased. Also, for the purpose of state incentives for small businesses, in 2000 a permanently functioning public body was created - the Small Business Council (SBC), in which 20 members participate.

The main part of the SBC members are active entrepreneurs who have extensive experience in doing business. The SBC represents the interests of small businesses across the UK by engaging with local business associations in regional discussions on key small business development challenges.

SBS has developed such provisions that ensure the reduction of expenses of small organizations in accordance with the law:

- Exemption from the implementation of certain audit requirements for organizations whose turnover is less than 500 thousand pounds. Art.;
- Simplification of forms of financial reporting of small organizations;
- Simplification of the taxation of entrepreneurs who work on a self-employment basis.

Government bodies, credit and financial institutions provide small businesses with access to financing, the amount of lending under government programs every year is over 6 billion pounds. Art.

According to JP Morgan Chase, over 99% of the 28.7 million firms in America were made up of small businesses in 2014. Around 88% of these firms hired fewer than 20 employees, and 40% had less than \$100k in revenue. Building on these facts, the Small Business Administration found there are currently around 29.6 million small companies in the US.

In 2020, small businesses accounted for around 99.9% of all United States businesses, delivering employment in the form of 1.6 million net new jobs over the year. Additionally, the United States number of small businesses increased by 2.1% throughout 2019 to 2020.

A significant initiative in this direction is the implementation of the program of guaranteed loans to small organizations, which was established in 1981 to support liquid organizations that, for various reasons, do not receive funding from traditional sources.

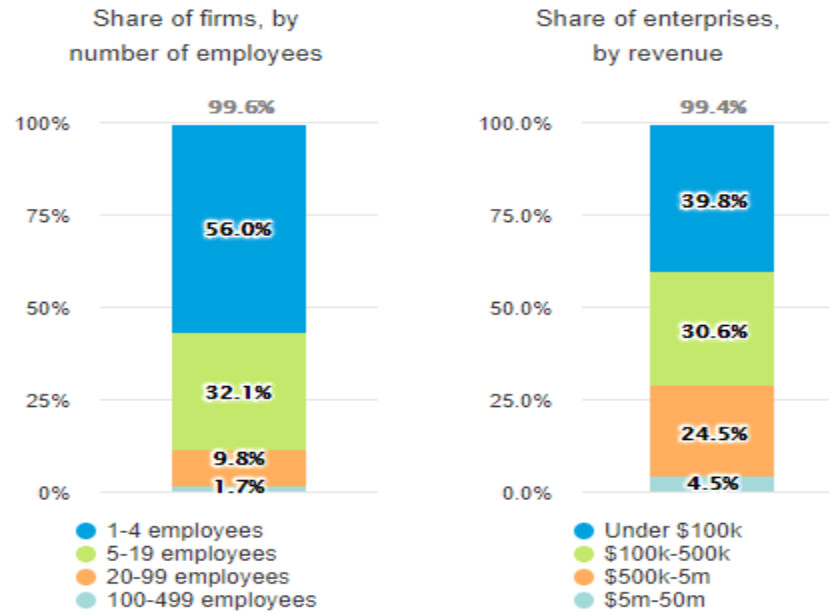


Fig. 2. America's businesses are small businesses [15]

Japan is a clear leader among countries in terms of small business development. The economy of Japan differs markedly from the economies of other countries in the minimum participation of the state, the state owns only the mint, all other production is in the hands of private capital. In the Japanese economy, small and medium-sized enterprises play a significant role: they account for the total number of organizations, about 55% of products sold and the number of people employed in industry [5].

State incentives for small businesses are carried out at all stages - registration, formation, growth. For this, a system of diverse economic instruments is used: soft loans and credits, tax incentives, technical and advisory assistance, information and computer services, personnel training, etc.

Non-refundable financial assistance is given only for scientific and technical programs. Financial support is also provided through tax incentives that provide organizations with the opportunity to reserve part of the profits. Tax rates on the income of small business organizations and cooperatives are equal compared to those for large companies.

Considerable assistance in optimizing the management of small businesses is provided by chambers of commerce and industry and their subdivisions, where their specialists provide consultations free of charge. In the chambers of commerce and industry, there are instructors-accountants who teach the maintenance of current accounts and the formation of balance sheets using computer technology [6].

Thus, the successful development of small business in Japan is largely the result of an active economic policy pursued by the state, focused on the formation of a stimulating economic, political and social environment.

The experience of developed foreign countries demonstrates that the most effective state support for small businesses can be implemented through a specialized state body, which is endowed with extensive powers, is characterized by significant influence and significant resource opportunities: in the USA, this is the Small Business Administration; in Germany, the Federal Ministry of Economics and Technology; in the UK, the Ministry of Enterprise, Industry and Management Reform; in Japan - the Ministry of Economy, Trade and Industry.

Governments of foreign countries provide great support to small businesses at the federal level. Thanks to this, the development of SMEs in the West is proceeding at a faster pace, having a beneficial effect on GDP, GNP and the social climate in the country.

Conclusions

In the countries of the European Union, employment in small and medium-sized businesses reaches 70%, the United States provides 50% of jobs, and in Japan the number of people employed in the SME sector reaches 71%. Today, there are more than 30 million small and medium-sized enterprises in the United States, and about 1 million SMEs are created annually. Entrepreneurs in this segment in 90% prefer to organize a business at their own expense. The largest economy in the world occupies a leading position in the world in terms of the quality of startup management and business conduct. More than 25 million different enterprises operate effectively in the countries of the European Union, while the share of small and medium-sized enterprises is 99.8%, which has a beneficial effect on increasing competitiveness and improving the field of innovation. For example, in Germany, there are about 2.3 million registered SMEs that are in contact with 97 types of diverse activities. This number covers more than 75% of all enterprises in the country and provides 60% of employment, and the percentage of tax deductions reaches 40%. Thanks to state support for small businesses in the form of financial support, subsidies, preferential taxation, low cost of renting office space, and the possibility of obtaining a soft loan, the investment attractiveness of German entrepreneurs is increasing. The main areas of state support for foreign countries, including European ones, are:

- Financial support;
- Elimination of administrative barriers;
- Simplification of the regulatory framework;
- Creation of associations representing the interests of small businesses;
- Assistance in innovation research and training;
- Spreading the spirit of entrepreneurship among the public;
- Support for forms of cooperation between small enterprises.

A feature of tax incentives for small and medium-sized businesses in economically developed countries is the use of a progressive taxation scale and differentiation of tax rates relative to the type of business, which favorably affects the activity of SMEs.

In the tax policy of many countries, such a measure of tax support is presented as a reduction in the income tax rate for small and medium-sized enterprises. The US income tax is 15% for small businesses and 25% for medium-sized ones.

In the UK, with a basic tax rate of 35%, the small business tax rate is 25%. In Belgium, small venture capital firms that develop high technology are exempt from tax for 10 years.

Canada has an income tax rate of 11% for SMEs, with a base rate of 28%. In Germany, the corporate tax rate is 15%.

In the EU, a simplified method of tax and accounting is practiced, which greatly simplifies the activities of enterprises. In some EU countries, in particular in France, enterprises operating in economically weak areas are exempted from paying taxes to social funds, and they are also provided with preferential loans. The study made it possible to identify the main directions of tax incentives for small businesses in foreign countries:

- Reduction of tax rates;
- Reduction or exemption, subject to certain conditions, from payments to social and insurance funds;

- The possibility of exemption from the tax burden of newly created enterprises;
- Application of special tax regimes;
- Simplified tax and accounting system and reporting;
- Simplified procedure for tax administration. The taxation system of developed countries is aimed at maximum improvement, simplification and avoidance of complex tax schemes.

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