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MASTER'S DISSERTATION

***« The effectiveness of state measures of financial support for businesses during
COVID-19 on the example of the "Economy of Simple Things" program»***

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ABSTRACT

This research examines the effectiveness of the "Economy of Simple Things" program in Kazakhstan, which is aimed at providing financial assistance to business entities affected by the COVID-19 pandemic. Using a quantitative approach, this study analyzes the impact of the program on key economic indicators, such as lending, employment, wages, etc. It also examines the distribution of funds within the program and evaluates the achievement of the intended goals. The results show that the program faced bureaucratic obstacles and long processing times. The program itself did not have a significant impact on employment and wage growth, since the wage increase was due to other factors. Moreover, the program had a limited impact on food prices, which continued to rise. The analysis reveals program's limitations, including issues with the funding situation and the selection process. Overall, this study provides valuable information on the effectiveness of government financial support measures for businesses during the COVID-19 crisis, emphasizing the importance of targeted and well-thought-out policies to ensure the survival and growth of this vital sector of the economy.

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Introduction

The state and growth of private entrepreneurship are crucial for the country's long-term economic progress. This area of the economy has enormous potential to address many issues that the government faces in terms of its ability to grow economically, including underdeveloped competition, inefficient use of tangible and intangible resources, reliance on imports to meet local demand, unemployment, poverty, and other issues.

SMEs are necessary for the development of entrepreneurship, the promotion of innovation and the creation of local jobs that stimulate the local economy. On the other hand, thanks to significant expenditures, technical development and international trade, large businesses supports economic growth by increasing productivity, competitiveness and creating jobs at the national level. When SMEs and large firms work together, a dynamic ecosystem is created that increases economic efficiency, diversity and social cohesion, while contributing to shared prosperity.

The unexpected outbreak of coronavirus has caused huge damage to the global economy. This damage was measured by indicators such as the unemployment rate, GDP, consumer price index and budget deficit, which led to a significant decrease in macroeconomic stability. Small and medium-sized firms, along with large enterprises, are among those who have suffered significant losses. Almost every country in the world has tried to maintain the solvency of business. There have been cases when the economic environment has improved due to government regulation, and vice versa.

The importance of this research paper is dictated by the fact that, according to the OECD Publishing (2019), small and medium-sized enterprises account for 99% of all firms in the OECD member countries and they produce 50-60 percent of the added value of the economy. According to OECD estimates, microenterprises and small enterprises with up to 50 employees employ up to 43% of all OECD employees. At the same time, KPMG (2020) estimates that large corporations account for 80% of all tax revenues and employ more than 60% of the working-age population of the country.

The theoretical research question is aimed at studying how the state support program affects the growth and sustainability of business and the economy. One specific empirical research question is devoted to the impact of the Damu support program on firms and the economy, with an emphasis on the "Economy of Simple Things" initiative. By studying the results of this particular program, I am trying to get an idea of the effectiveness of government interventions in improving the efficiency of private business. Understanding the implications of government-sponsored programs can help develop policies and interventions that better meet business needs and help drive economic growth. Also, the relevance of the assessment of the "Economy of Simple Things" is due to the fact that this program has been criticized by some politicians, as well as President Tokayev himself.

"... The government has been executing the "Economy of Simple Things" program for three years, with the main goal of delivering local consumer goods to the local market. During this time, however, exports remained steady while imports climbed by 8%. The administration must discover out why," President K.K. Tokayev declared in a statement issued on February 8, 2022, at an extended Government meeting.

Literature review

The COVID-19 pandemic has had a negative impact on businesses around the world, causing supply chain disruptions, declining consumer demand and widespread economic uncertainty. In response to these challenges, governments around the world have promptly implemented various governmental programs aimed at supporting businesses and mitigating the negative consequences of the coronacrisis. These programs included a number of measures, including financial assistance, tax incentives, credit programs, and so on. It is becoming extremely important to assess the effectiveness of these government programs in providing timely support and increasing business resilience during a pandemic.

This literature review is devoted to measures to support small and medium-sized and large businesses in countries such as Russia, China, Malaysia, the European Union and the United States, as well as in Kazakhstan. Also, it is intended to provide valuable information to policy makers and researchers who wants to understand the impact of state programs, identify best practices and justify future policy decisions to increase business resilience in times of crisis.

Types of state measures

In general, support measures such as interest rate subsidies, guarantees, tax incentives and liquidity measures were popular in EU-15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, according to a study by Andrea-Emanuela Dragoi (2020). Among these measures, interest rate subsidies stand out, or, in other words, measures related to liquidity. According to the literature review, such measures were the most common in response to a coronacrisis. For example, in Kazakhstan, concessional lending was popular within the framework of the state programs "Business Roadmap 2025", "Economy of Simple Things", as well as the program of concessional lending of the National Bank to replenish working capital. According to a study by Rafal Rosinski et al. (2021) liquidity measures enjoyed the same popularity in Poland. They analyzed the size and structure of 46 loans issued to entrepreneurs from the Central Pomerania region. Indicators of descriptive statistics, Pearson correlation coefficient and linear regression indicators were used to analyze the support provided in the form of liquidity loans. The results of linear regression show that the number of employees and the amount of the loan received do not have a strong relationship.

The idea that lowering interest rates on bank loans might lead to inefficiencies in liquidity distribution and prevent banks from developing their own lending programs is connected to the economic concept of "crowding out." Crowding out in economics refers to the premise that increased government spending might displace private sector spending by competing for the same resources. This can lead to a drop in private investment and borrowing, which in turn can contribute to drop in total economic activity. Second-tier banks that get low-interest state loans may have less motivation to seek out private lending options because they are already generating money from the state loans. This might reduce private lending, resulting in less effective liquidity. For example, the study conducted by Davide Furceri and Ricardo M. Sousa (2009) finds that government consumption has a negative effect on private consumption and investment, leading to a decrease in investment and consumption over a period of 4 years. This effect is consistent across different countries and time periods but differs significantly among regions. The study suggests that future research should investigate how political, institutional, and macroeconomic variables affect the impact of government spending on consumption and investment. Whether there is an impact of this effect in our country remains to be seen.

Despite the fact that the policy of the Government of Kazakhstan has played a crucial role in helping people in need, it also raises concerns about the long-term consequences for the economic stability. Increased government spending and financing, for example, can lead to higher inflation and a weaker currency, as well as expanded support for zombie firms can lead to economic inefficiency. According to Ryan Banerjee and Boris Hofmann (2020) zombie firms are smaller, less productive, more leveraged than other firms, invest less in physical and

intangible capital and shrink their assets, debt and employment. Their performance deteriorates several years before zombification and remains significantly poorer than that of non-zombie firms in subsequent years. BIS (2018) estimates that such enterprises account for 12% of the total number in the Eurozone, 14% in the UK (KPMG data, 2018) and 20% in China. There are no comparable data for Kazakhstan.

According to study of Yuyan Tan et. al (2016), in China between 2005 and 2007, public investment increased the efficiency of zombie firms and slowed the growth of private companies. The study also found that the more state-owned banks there were, the more favorable the environment was for the growth of zombie firms. The level of non-zombie firm investment has decreased due to the increase in state investment, whereas zombie firm investment in China has increased. Even if public investment helps all businesses increase employment, according to researchers, the absence of zombie enterprises would probably result in the creation of even more jobs. Another Chinese research by Qingqing Chang et. al (2021) found that the government encourages the formation of zombie firms through subsidies, resource support, financial support and taxes.

To prevent such negative outcomes, the government will need to find a balance between emergency help and long-term economic stability. This may need a shift in governmental objectives, such as a greater emphasis on supporting private investment and lowering reliance on state-owned firms. It will also need continual monitoring and review of existing policies' efficacy to ensure that they accomplish their intended aims.

Moratoriums on inspections, tax holidays, cancellation of fines and suspension of accounting for payment transactions were also popular in a number of countries. For example, these measures applied in Ukraine were recognized as procedural by Anna Ivanchenko et al. (2021). The stabilization policy, which provides for the simplification of payments, including social security payments, tax deferrals or exceptions, as well as rent reductions, significantly accelerates recovery of small and medium-sized enterprises and improves their cash flow conditions in the context of the Chinese economy, according to Chen et al. (2022). On the contrary, financial support policies that provide external financing opportunities, such as lowering loan guarantee thresholds and providing loan subsidies are ineffective in mitigating the economic difficulties of small and medium-sized enterprises.

According to M. Jiang et al. (2020), China provides support in a somewhat non-standard way, supporting the development of foreign trade enterprises of small and medium-sized businesses by developing cross-border e-commerce, managing the supply of export products to the domestic market, expanding a diversified international market and encouraging innovation in foreign trade.

Statistical tools applied

While reviewing the literature, it was revealed that regression analysis and its types are widely used as a statistical method. For example, it was used in the study of Mohammed Habachi and Salim El-Haddad (2021) along with linear discriminant analysis to test two hypotheses: the impact of modeling on the cost of risk in accordance with IFRS 9 and the effectiveness of measures taken by the State of Morocco to restore the economy. Statistical models combine two types of variables, which are qualitative variables from accounting documents and qualitative variables related to the client. These models cannot reflect the consequences of the crisis caused by Covid-19. To this end, this study uses the opinion of experts to adjust the ratings and probability of default assigned to each counterparty in accordance with the original models.

Regression analysis was also used in the case of the Netherlands by Jesse Groenewegen et al. (2021) to find that Dutch government assistance in the fight against COVID-19 is more often provided to enterprises with lower turnover forecasts and greater uncertainty about future turnover. This means that state aid is provided to enterprises that are considered to be in extreme need of it. The second conclusion is that enterprises with the best management

methods receive state assistance in the fight against COVID-19. This means that enterprises receiving state aid are unlikely to become less viable over time. The third conclusion is that larger enterprises are on average more likely to receive assistance. A study conducted by Bhagyashri Katare et al. (2021) using a survey among small and medium-sized enterprises and regression analysis showed that enterprises in the United States with low capital liquidity are more likely to suffer income losses, expect the recovery to take longer and demonstrate a lower resilience index. The issuance of loans under the Paycheck protection program was uneven, and its commission structure may have prompted financial institutions to prefer large loans over small ones, which worsened the already chaotic process for small business owners. The example of these two countries shows that even in developed economies, preference is given to large firms in terms of providing liquidity. While there may be good reasons to give preference to large firms, it is important to ensure that lending programs and other forms of support are aimed at meeting the needs of all businesses, regardless of their size. By promoting a more inclusive and equitable approach to providing liquidity, policy makers can contribute to creating a more dynamic and sustainable economy for all.

Correlation analysis is another statistical tool widely used in research along with regression analysis. It was used in combination with the Granger causality criterion in the study of Elena Razumovskaya et al. (2020) to describe the impact of state support policy instruments on the economic development of small and medium-sized businesses in Russia. Using the additive convolution method, the correlation coefficient between the Small Business Index in Russia (RSBI) and the prevalence of COVID-19 was used to predict the RSBI value at the end of 2020.

Some researchers still believe that the business performance of small and medium-sized enterprises during COVID-19 should be measured using accounting-based performance indicators and market performance indicators. For example, the study of Nurul Nadiyah Ahmad et al. (2020) proposed a model for evaluating the effectiveness of the Malaysian government program "Additional Package of Economic Incentives for SMEs "PRIKHATIN", which can track the growth of SMEs during the recovery period, determine priorities for activities in the recovery process and guide SMEs on the right path.

I believe that the use of accounting-based performance indicators proposed by a Malaysian study to assess the effectiveness of government programs for private business in Kazakhstan is a practical approach. These indicators can provide valuable information about the financial performance and condition of enterprises, such as revenue growth, profitability, liquidity and solvency. By tracking these indicators, it is possible to determine whether enterprises are recovering from the effects of the pandemic and whether they are on the way to achieving sustainable growth in the future. Moreover, these indicators can help policy makers and program implementers identify the most effective measures to support organizations and improve their financial performance. However, it is important to note that the use of accounting-based indicators alone may have limitations, since they may not reflect other important aspects of the business, such as innovation, market share and customer satisfaction. Thus, a comprehensive assessment of the effectiveness of organizations may require the use of a variety of performance indicators that take into account various aspects of the activities and strategies of organizations.

Other approaches to performance assessment

Comparison of the financial crisis of 2008 and the crisis caused by the coronavirus is often found in studies. For example, a study by Andrea-Emanuela Dragoi (2020) suggests that the current COVID-19 crisis has an even stronger negative impact on the EU economy than the previous international crisis of 2008. V. Papawaa and M. Chkuaselib (2021) drew a parallel between the global crisis of 2007-2009 and the pandemic crisis. They came to the conclusion that financial support contributes to the process of brainwashing the economy, which took on a global character during the economic crisis of 2007-2009 and continued after its completion.

A study by Martin Capel et al. (2020) determines the impact of the COVID-19 crisis on the attitude of small and medium-sized entrepreneurs to specific business risks. Entrepreneurs consider market risk, financial risk and personnel risk to be the most significant business risks both before and after the COVID-19 crisis in the Czech Republic, according to a comparison of their prospects. The most noticeable differences were in the perception of financial risk and personnel risk.

While many papers focus on the study of small and medium-sized enterprises, Hua Song et al. (2020) looked at the problem from a different angle. Namely, they conducted a survey among financial service providers who provided financing to small and medium-sized enterprises in China. They found that while most FSPs actively provide financial support, this behavior may be unprofitable in some industries, such as construction, energy and trade, which may still face a shortage of capital.

Evaluation of the effectiveness of state support measures in Kazakhstan

Currently, one of the important studies in this area is KPMG's analysis of the effectiveness of Kazakhstan's government programs during the pandemic. They interviewed 60 managers of small and large businesses, as well as a number of banks and financial institutions. One of the most remarkable conclusions was that the government, in principle, does not take measures to stimulate large enterprises, despite the fact that large corporations account for 80% of all tax revenues and employ more than 60% of the working-age population of the country. All state projects, such as the "Business Roadmap", "Economy of Simple Things", "Agricultural Development Program", "Nurly Zher", "GPIIR-3", "Enbek" and others, are included in the KPMG report.

The Supreme Audit Chamber of Kazakhstan tried to assess the effectiveness of the Economy of Simple Things. They noted in their "Conclusion to the report of the Government of the Republic of Kazakhstan on the execution of the republican budget for 2020" that there is a dispersion of financial resources with similar mechanisms for supporting small businesses (within the framework of "Enbek", "Economy of Simple Things" and the "Business Roadmap Program"), which does not contribute to effective coordination of this work, rational and targeted use of them. It is recommended to concentrate micro-credit support tools for entrepreneurs within the framework of the "Economy of Simple Things" program in order to reduce the chain of intermediaries and unify the flow of expenses for similar state support tools for entrepreneurs, regardless of their place of residence.

In the "Conclusion to the report of the Government of the Republic of Kazakhstan on the execution of the republican budget for 2021", the "Economy of simple Things" program was allocated a whole section 3.1.4. Auditors criticized in this publication the fact that the achievement of targets was planned for 2022, but due to the extension of the program, their implementation was postponed to 2023 without changing the achieved volume, which can be considered a deliberate underestimation of the calculated indicator.

We often come across the fact that operators of budget programs and government representatives report on the sufficient effectiveness of programs. It seems as if the developers of programs set convenient targets for themselves in order to achieve them more easily.

The purpose of this literature analysis is to study local as well as international experience in providing assistance to firms and assess its impact. Previous studies have used various types of analysis, including linear discriminant and regression analyses. Models for evaluating the effectiveness of state support were also presented.

A review of the literature and regulatory legal acts indicates that to date there is no single and universally recognized methodology for evaluating the effectiveness of government programs. There is a need for a comprehensive system for evaluating the effectiveness of government programs, such as the "Economy of Simple Things", in terms of their impact on the economy as a whole. Although financial indicators are reliable indicators of business performance, the lack of publicly available financial data from private organizations covered by

the program creates a problem. Consequently, there is a need to develop a comprehensive assessment system that takes into account both the direct and indirect impact of the program on the economy and its various stakeholders, including private organizations, consumers and government. This framework may also take into account other factors that may affect the effectiveness of the program, such as market conditions, regulatory environment and technological advances.

Research question and working hypothesis

Theoretical Research Question: How did the state support program impact economy?

Empirical Research Question: How did the Damu support program (Economy of simple things) affect the economy?

Working hypothesis: There is little control on the part of the Damu Foundation over the effective distribution of funds, which may lead to inefficient use of funds.

Methodology

This research utilizes a quantitative research design to analyze secondary data from sources such as website of Entrepreneurship Development Fund "Damu" JSC, National Bank of Republic of Kazakhstan, Bureau of National Statistics. These data are used as proxy data to assess the impact of the "Economy of Simple Things" (hereinafter referred to as EoST) on long-term lending throughout the country, since data on EoST is insufficient for a comprehensive assessment of the effectiveness of the program. The fulfillment of the target indicators is being investigated. The analysis of the types of economic activities for which the corresponding amounts are allocated is carried out. The impact of the program and changes in lending in the industries covered by the program are assessed. The impact of the program on the growth of employment and wages in the covered sectors is also being investigated. Regression analysis (conducted in R Studio) is used as a statistical tool to find out whether the subsidies provided have an impact on the financial situation of firms and whether the amounts of subsidies depend on the size factor.

CHAPTER 1. OVERVIEW OF THE SITUATION OF BUSINESSES AND MEASURES TO SUPPORT THEM

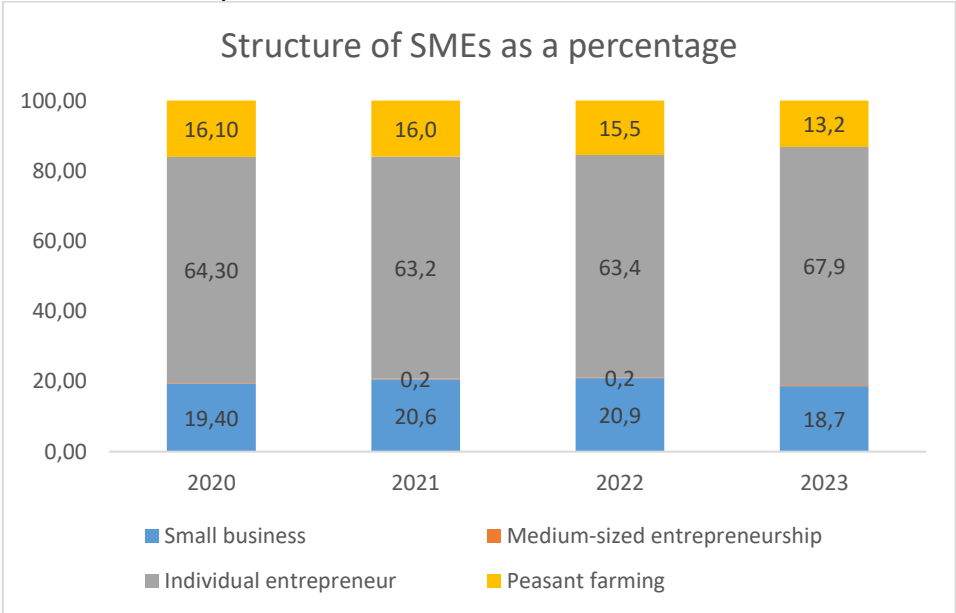
1.1 Current situation of business in Kazakhstan

Any state's role is to encourage economic growth. The proportion of private businesses in the country's economy has a direct impact on sustained economic growth. In addition to encouraging the growth of SMEs, the government also plays a critical role in supporting large businesses. Large businesses are significant contributors to the country's economy, providing employment opportunities, generating revenue, and supporting various industries. Therefore, a balanced approach to supporting both SMEs and large businesses is essential for sustained economic growth and development.

According to the Bureau of National Statistics on Strategic Planning and Reforms of the Republic of Kazakhstan there are, 2023, the number of operating SMEs increased by 27.0% (as of January 1) compared to the corresponding date of the previous year. In the total number of SMEs, the share of individual entrepreneurs was 67.9%, small business entities – 18.7%, peasant or farm enterprises – 13.2%, medium-sized business entities - 0.2%. (The analysis is indicated here only for SMEs, since the Bureau of National Statistics does not provide similar data for large business entities).

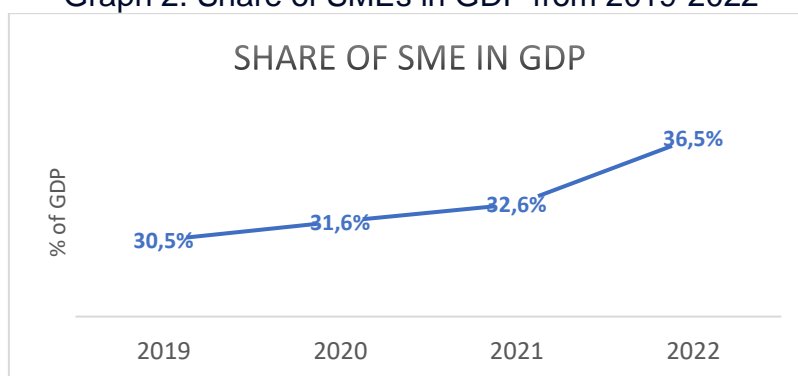
Kazakhstan's SME sector contributes significantly to the country's economy: in 2022 its proportion of gross value added to GDP was 36.5%, which is 3.9% more than in the same period in 2021. The SME sector is also the biggest source of employment in Kazakhstan, employing 21% of the country's total population in 2022. According to the statistics supplied, Kazakhstan's SME sector is a vital and rising industry that contributes significantly to the country's economy and employment. It is clearly seen that individual entrepreneurs account for a sizable portion of the structure of SMEs.

Graph 1. Structure of SMEs from 2020-2023



Source: Bureau of National Statistics

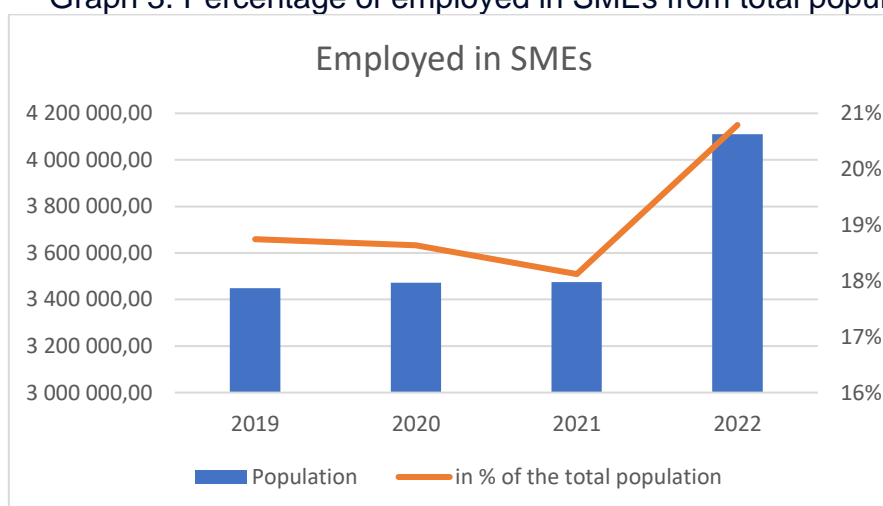
Graph 2. Share of SMEs in GDP from 2019-2022



Source: Bureau of National Statistics

The following formula (according to Bureau of National Statistics methodology) was used to determine the percentage of SMEs in the country's GDP: $\text{SMEs' GDP share} = \text{SMEs' gross value added} / \text{GDP} * \%$ (in the Republic of Kazakhstan as a whole). According to the graph above, the percentage of SMEs in GDP is increasing on a yearly basis, indicating a growth in the importance of businesses to the overall economy of the country. Even in the crisis year 2020, the values did not fall, indicating the importance of SMEs to the country's GDP.

Graph 3. Percentage of employed in SMEs from total population

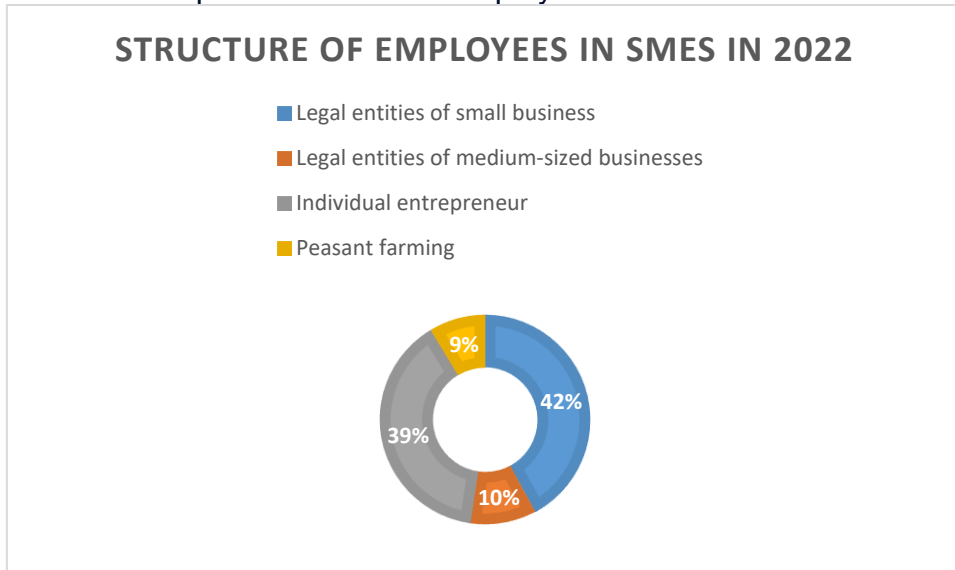


Source: Bureau of National Statistics

Furthermore, the importance of SMEs is underscored by the fact that the number of people engaged in SMEs is continually increasing: from 3.45 million in 2019 to 3.9 million in 2022, representing 18-20% of the republic's entire population.

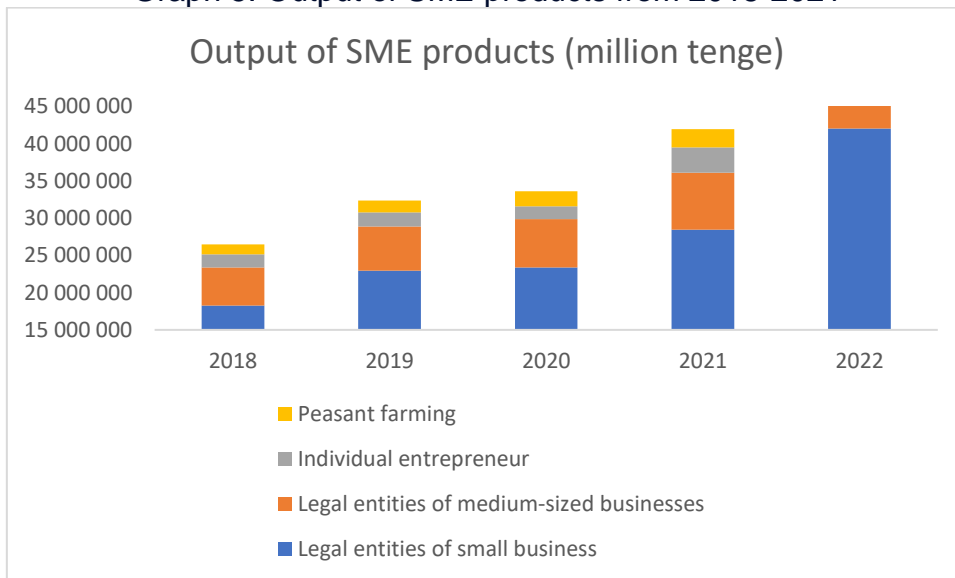
In terms of SMEs' staff structure, the lion's share (80%) was split evenly between small business organizations and individual entrepreneurs.

Graph 4. Structure of employed in SMEs in 2022



Source: Bureau of National Statistics

Graph 5. Output of SME products from 2018-2021



Source: Bureau of National Statistics

If we deepen into the output of SMEs, it is clear that the largest contribution is made by small businesses (the number of which is constantly growing). According to the structure of SMEs employed in 2022, individual entrepreneurs account for more than half of all SMEs. Despite their large number, individual entrepreneurs produce much less products than small business units. This is explained by the fact that individual entrepreneurs in Kazakhstan are unproductive self-employed with an unsafe work status.

1.2 Overview of government programs in Kazakhstan

In response to the economic impact of the COVID-19 pandemic, the government of Kazakhstan has implemented several programs aimed at supporting businesses and individuals affected by the crisis. According to KPMG estimates, the pandemic has directly affected over 1 million business entities, mainly in the services and trade sectors, and has resulted in over 1.6 million people being sent on leave without pay. Additionally, around 14-15 thousand businesses

with loans to STB have applied for a postponement, and 4.5 million people have received payment of social assistance in the amount of 42,500 tenge.

To address these challenges, the government has introduced a package of anti-crisis measures to support businesses, which includes various programs such as loan restructuring and refinancing, tax relief, and subsidies for small and medium-sized businesses. In this table below, we will explore the details of these government programs and their impact on the economy and individuals in Kazakhstan.

Table 1. State support measures during COVID-19

Lending to SMEs	Suspension of loan payments	Currency interventions of the National Bank	Measures to support the agro-industrial complex	Tax deferral for SMEs
Within the framework of the program of preferential lending to SMEs (Economy of Simple Things) affected by the emergency, 600 billion tenge was allocated (later this amount increased to 1 bln tenge)	Suspension of payments of principal and interest on loans to affected SMEs in an emergency for up to 3 months	In order to ensure the stabilization of the tenge exchange rate in March 2020, the National Bank conducted interventions in the amount of \$ 1.487 billion. After March 2020, the National Bank did not conduct currency interventions	Abolition of land tax on agricultural land	Subjects of small, medium and some sectors of large business were granted a deferral for the payment of all types of taxes and other mandatory payments for the period starting from March 2020 to June 2020 (3 months)
Interest rate 8% ->6%	Banks do not charge fines and penalties for late payments arising in connection with the introduction of an emergency		VAT exemption for the import of biological assets of the agro-industrial complex until the end of 2020	Suspension of tax audits for SMEs
			Guaranteed purchase from agricultural producers	By the end of 2020, the export of gasoline and diesel fuel is exempt from excise taxes

Source: KPMG Analytical Materials

In early April 2020, the National Bank of the Republic of Kazakhstan (NBK) responded to the coronacrisis by lowering the base rate from 12.00 to 9.50% with a 2.00 percentage point corridor (earlier, in March 2020, the rate was raised from 9.25 to 12.00%) and deferring loan

repayment for small and medium-sized businesses. On May 11, 2020, President of the Republic of Kazakhstan Kassym-Jomart Tokayev declared that the list of industries facing delays will be expanded to include commerce, manufacturing, transportation and warehousing, housing and food, information and communications, education, and healthcare.

Financing was expanded due to the Kazakhstani economy's conventional method - subsidies to major businesses. Namely "Economy of Simple Things," a mechanism for supplying long-term tenge liquidity in which the National Bank of the Republic of Kazakhstan last year acquired bonds of second-tier banks for 600 billion tenge, resulting in a loan in the STB at 6-8% for the borrower.

Following the outbreak of the coronavirus, the government agreed to spend an additional 400 billion tenge at a final rate of 6-8% in order to keep the "Economy of Simple Things" running. Furthermore, the government is willing to issue assurances to businesses with insufficient collateral. Despite the cautious approach of the Government of Kazakhstan and the National Bank of the Republic of Kazakhstan, the epidemic has put the country in front of a unique set of problems. The economic consequences of the crisis forced the government to take a number of emergency measures to help affected individuals and businesses, including tax breaks and changes in monetary policy.

CHAPTER 2. ANALYSIS OF THE "ECONOMY OF SIMPLE THINGS"

2.1 Why “Economy of Simple Things”?

Micro-loans, subsidies, and the issue of guarantees are among the business assistance measures provided by the Damu Entrepreneurship Development Fund JSC. Subsidizing is more common (85,906 projects) (49.28%), according to the "DAMU" JSC website. The issuing of guarantees (53,445 issued guarantees) (30.66%) is followed by microcredit (34,964) (20.06%). That is why I am interested in interest rate subsidies. Given the steady rise in inflation and the National Bank of the Republic of Kazakhstan's base rate, subsidizing interest rates is an excellent source of cheap money.

The Damu Foundation implements a number of business support programs. Here are some examples:

Table 2. Support measures from Fund “Damu”

Name	The amount of the subsidy	Term	Max amount	Purpose of the loan
National Project on Entrepreneurship Development for 2021-2025	The final rate for the borrower is 6%	Up to 5 years	Up to 3 billion tenge	Investments; Replenishment of working capital; Refinancing
Portfolio subsidies (Subsidies for micro and small businesses in Kazakhstan)	The base rate of the National Bank of Kazakhstan is + 7%, of which 15.75% is subsidized by the state, and the difference is paid by the entrepreneur.	Up to 3 years	20 mln tenge	For investment purposes and replenishment of working capital without industry restrictions
The Economy of Simple Things (Subsidies for entrepreneurs who develop domestic production)	The final rate for the borrower is 6-8%	Up to 3/5/7 years	Unlimited	For investment purposes and replenishment of working capital
Reducing the risks of investing in renewable energy sources	No more than 112.5 million tenge to reduce the amount of the principal debt on the loan. no more than 25% of the initial loan amount	no more than 150 calendar days		Investments; Replenishment of working capital

Sustainable cities for low-carbon development	No more than 180 million tenge to reduce the amount of the principal debt on the loan. no more than 40% of the initial loan amount	no more than 150 calendar days		Investments; Replenishment of working capital
Subsidizing part of the coupon rate	The final rate for the borrower is up to 6%	Up to 5 years		Investments; Replenishment of working capital

Source: "Damu" JSC

Thus, from this list of support measures from the Fund, the "Economy of Simple Things" program looks the most attractive due to the following advantages:

- Unlike the other two programs, which exclusively address micro and small firms, the "Economy of Simple Things" is available for both micro/small and medium/large businesses, making it accessible to a wide range of business organizations in Kazakhstan.
- There are no industry restrictions
- The maximum loan amount is not limited, unlike the first two programs

"Economy of Simple Things" is a mechanism that the government and the National Bank of the Republic of Kazakhstan have chosen to deploy in exceptional situations in collaboration with second-tier banks and independent development groups. The program was initiated by the Decree of the Government of the Republic of Kazakhstan No. 820 dated December 11, 2018 "On specific challenges of providing long-term tenge liquidity to solve the problem of affordable financing".

The President's October 5, 2018 address, "Improving Kazakhstanis' Welfare: Increasing Incomes and Quality of Life," which emphasizes the need to develop the so-called "Economy of Simple Things," including assistance to domestic enterprises in the development of a wide range of consumer goods, served as the foundation for program implementation. The funds were first distributed as follows: 100 billion for production, 100 billion for agricultural processing, and 400 billion for manufacturing. Over the course of three years, the Program has undergone 11 changes, including two extensions, and the value of its financing has risen by more than 1.5 times (from 600 billion tenge to 1 trillion tenge). The loan period was extended from 7 to 10 years. Borrowers were given a two-year payment grace period. Farmers were previously only permitted to put 50% of the money into circulation (the program was designed to assist investment projects), but they can now utilize these monies to pay for spring field work. The effort concerned the quasi-public sector (companies in which state entities possess 50% or more of the stock).

President Kassym-Jomart Tokayev criticized the Cabinet of Ministers in July 2020 for the inefficiency with which «Economy of Simple Things» was implemented. "Over the last year and a half, the program's specifications have altered six times, and just a fifth of the overall amount - a little more than 200 billion tenge - has been mastered," Tokayev said. - The number of manufacturing subjects and the percentage of consumer goods imports remained steady. As a result, we allocate cash without establishing objectives or counter-obligations. In other words, «Economy of Simple Things», like earlier ventures with distinctive names, had a significant danger of failure. With all of the organizational issues that entails."

However, government representatives are confident that "Economy of Simple Things" has demonstrated its efficiency as an investment vehicle for the growth of local production." At a meeting on December 15, Kazakhstan Prime Minister Askar Mamin declared a 2.5-fold rise in

the number of projects from January to December, from 900 to 2600, and a 3.5-fold increase in the sum of finance, from 216 billion to 700 billion tenge.

Former Minister of National Economy Ruslan Dalenov observed a rise in output volumes and a decrease in imports in the Economy of Simple Things-covered sectors: "The percentage of imports is decreasing as the output of completed, processed items rise. Consumption is increasing for Kazakhstani products manufacturing. As a result, the proportion of domestic output grew by 2.5 percentage points in 2020. Food, construction materials, light industrial items, furniture, machinery, and equipment output has expanded."

Despite the optimistic reports of senior officials, the "Economy of Simple Things" is criticized from time to time. For example, Senator Edil Mamytbekov, in his address to the Prime Minister, raised the issue of the effectiveness of state programs aimed at the development of various sectors of the economy.

Yerulan Zhamaubayev, Kazakhstan's current Minister of Finance, convened a conference to discuss the development of the "Economy of Simple Things" program and regulations "from the ground up". The meeting's attendees debated the topic of automating the system of governmental control and supervision of corporate enterprises. 35 control areas were put into trial operation in 2022 within the framework of the Smart Data Ukimet information and analytical system to fulfill the instructions on the automation of the state control system, which should increase the level of control and monitoring of program execution.

The major issue is that state help is offered at subsidized rates, and state programs are constantly extended. For example, "Business Roadmap" was relegated to the second decade. The "Economy of Simple Things" is still in effect and is expected to last until the end of 2023. This raises the chance of a visible layer of zombie firms forming in the most significant sectors of the economy, the growth of which the government is worried about. These are businesses that are always in need of low-interest finance. In this context, difficulties with inefficient investments, poor capital usage, and the formation of new zombie enterprises will be crucial for Kazakhstan's economy. Cheap loans and loan deferrals can eventually skew company incentives.

2.2 Target indicators

In order to ensure the effectiveness of state aid programs and achieve the intended goals, it is extremely important to monitor using key performance indicators. Key performance indicators are numerical performance indicators that help measure the degree of achievement of goals and help identify opportunities for development. Setting and tracking key performance indicators will allow the state/program operator to make informed decisions about how to spend resources and improve its activities over time. It helps to ensure that aid is provided where it is most needed and that budget funds are spent efficiently.

The "Economy of Simple Things" has two strategic objectives:

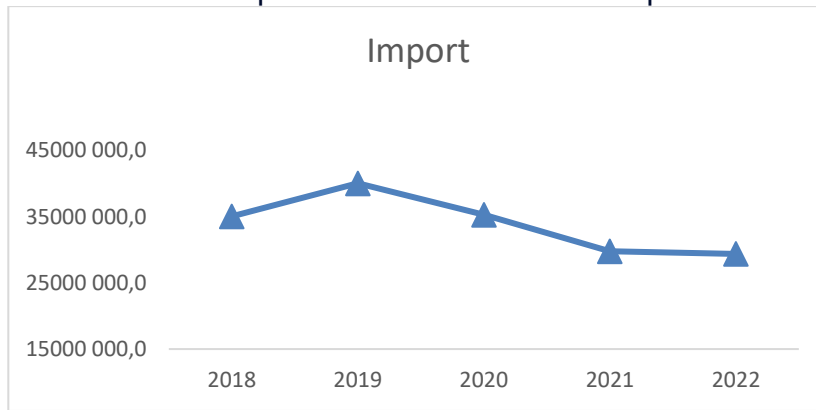
- 1) expansion of production in the manufacturing industry and the agro-industrial complex;
- 2) saturation of the home market with goods and services produced in the Kazakhstan.

As targets, the following are provided:

- 1) a 20% reduction in the percentage of the "Economy of Simple Things" products imports by 2023 compared to 2018;
- 2) a 20% rise in the economy's simple goods output by 2023 compared to 2018.

When total imports are stated in tons, the percentage of imports has been continuously falling since 2019. The indicator for 2022 shows a 16% drop when compared to the indicator for 2018.

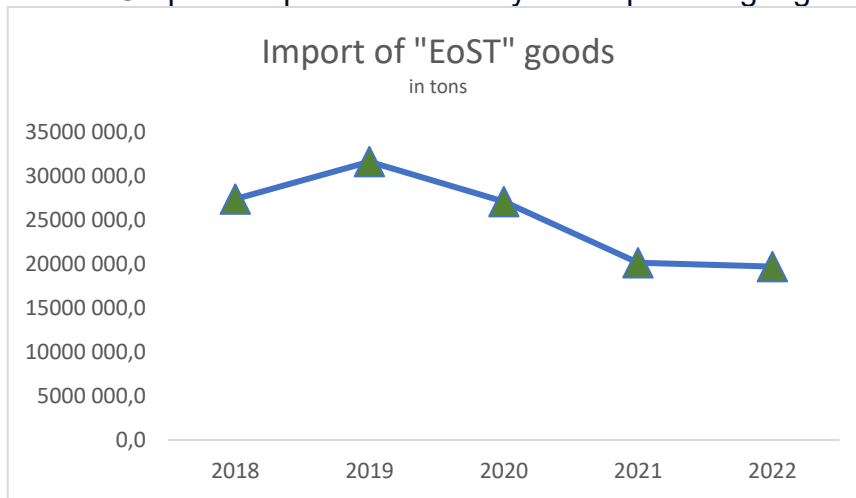
Graph 6. Statistics of overall import



Source: Bureau of National Statistics

Looking at the figures for imports in tons according to the "General classifier of types of economic activity" of the "Economy of Simple Things" program, it is seen a declining trend once again. The 2022 indication is 28% lower than the 2018 indicator, suggesting that the target indicator has been met. Nevertheless, whether the drop was specifically caused by the implementation of the "Economy of Simple Things" initiative remains to be determined. (*Tons were chosen as the unit of measurement in both situations, rather than the quantity in US dollars, since the physical volume of imports will provide more accurate data than data in currency, which is impacted by inflation and changes in the exchange rate*)

Graph 7. Import of "Economy of Simple Things" goods



Source: Bureau of National Statistics

Total imports and imports of items from the "Economy of Basic Things" indicate a growth until 2020, then a reduction in future years. This drop, however, may be explained not by the "Economy of Simple Things," but by the disruption of global logistical networks because of pandemic.

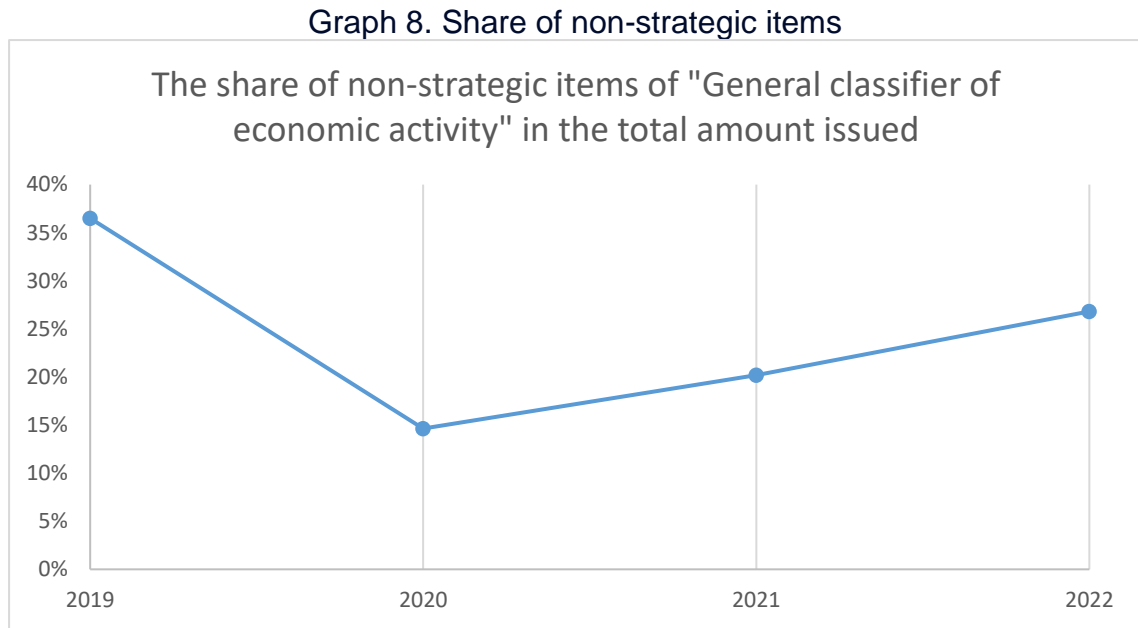
Categories of "EoST"

Since the main purpose of the "EoST" is import substitution, it is not completely clear how the following items of "General classifier of types of economic activity" can contribute to reducing the share of imports:

1. Education – 5590 (Services in other types of housing), 85 (Education), 85.59 (Other types of education not included in other groupings)

- 2. Tourism – 5510 (Provision of services by hotels), 5520 (Provision of accommodation for weekends and other short-term stays), 5530 (Services for camping, recreational vehicle park and trailer park), 8610 (Activities of hospital organizations), 4939 (Other types of ground passenger transportation, not classified in other categories)
- 3. Health Care – 86 (Health care activities).

These sectors of the economy are certainly important and they lead to an overall improvement in the welfare of the country, but they poorly correlate with the essence of the program itself. The amounts allocated to the above categories occupy from 15% to 36% of all allocated subsidies for the period 2019-2022, as indicated in the graph below.



Source: "Damu" JSC

Overall, almost the half (52%) of categories of "General classifier of types of economic activity" are not related to the production of consumer goods.

Table 3. Changes in of categories of "General classifier of types of economic activity"

Name	Initial list (dated 11.12.18 , No. 820)	Current list (dated 02.02.22, No. 43)
TOTAL	65	150 (+85)
1. CONSUMER GOODS (food products, clothing, household products, building materials, etc.)	48	97 (+49)
2. INDUSTRIAL GOODS AND SERVICES AIMED AT PRODUCTION AND THE SALE OF CONSUMER GOODS OF "EoST"	6	14 (+8)
2.1 Industrial goods (materials for furniture production, agrochemical products, agricultural machinery)	4	12 (+8)
2.2 Services (storage of products)	2	2
3. GOODS AND SERVICES NOT RELATED TO PRODUCTION OF CONSUMER GOODS	11	39 (+28)

3.1 Chemical products, metal products, production of electrical equipment, specialized machinery, etc.	4	26 (+22)
3.2 Education, tourism, healthcare, garbage collection, etc.	7	13 (+6)

Source: "Damu" JSC

This implies that the program's organizers have developed suitable KPIs for themselves to report to the state on the program's success. In addition, while examining the target assignments of certain businesses, there are problematic projects that may have avoided preferential loans but took advantage of inexpensive funding. For example, during the analysis of loans issued for 2019-2022, it was revealed that 179 enterprises received several loans from year to year. This practice of issuing loans to the same persons raises doubts about the effectiveness of the issuance of funds. The full list is provided in the attachment. During the period of implementation of the program, 2,183 applications were accepted by second-tier banks, of which 52% were eventually signed by the Fund.

Furthermore, an examination of the firms that obtained preferential loans found dubious enterprises and projects that do not contribute to import substitution and might be funded in other ways. We can observe large and well-known enterprises such as Rixos, Hampton and Binom Education (subsidiary of BI Group). Also, we can see that even public secondary schools have received preferential loans, which contradicts the essence of the program. These statistics indicate that both Damu and second-tier banks have virtually no control over the effective distribution of funds, and only individual firms have received these loans. Also, it may indicate possible facts of bribery, corruption. However, there is not enough information and justification for this part.

Table 4. Short list of dubious projects

Year	Borrower	Purpose of the loan	Amount
2019	Rixos Turkestan LLP	Construction of a hotel in Turkestan	9 999 999 000
	Toral Kaspiy LLP	Construction of the Holiday Inn Aktau Sea Side hotel complex with infrastructure facilities	1 600 000 000
	Kazakh University of Technology and Business JSC	Construction of a dormitory for 680 seats of the student complex of the Kazakh University of Technology and Business	1 300 000 000
2020	School of the 21st century LLP	Expansion of the activities of basic and general education	10 000 000 000
	EDUCATIONAL COMPLEX "T-EACH" LLP	Construction of the T-EACH educational complex in Nur-Sultan	9 000 000 000
	Samal Education LLP	Construction of a private international school Samal Bilim	3 500 000 000
	Hospitality Management Group LLP	Construction of a multifunctional hotel complex with built-in and attached premises "Hampton Turkestan".	3 000 000 000
2021	BINOM EDUCATION	Construction and operation of secondary schools in Astana	5 593 217 000

	"BINOM EDUCATION"	Construction and operation of secondary schools in Astana	5 518 352 000
	"BINOM EDUCATION"	Construction and operation of secondary schools in Astana	5 296 459 000
	"BINOM EDUCATION"	Construction and operation of secondary schools in Astana	5 289 193 000
	BINOM EDUCATION	Construction and operation of secondary schools in Astana	5 238 401 000
	QUANTUM STEM SCHOOL	Construction of a private school in Astana	3 000 000 000
2022	BINOM ATYRAU	Organization of a comprehensive school for 2000 places in the "Nursaya" microdistrict of Atyrau region	7 536 724 008
	BI Property Alatau	Construction of a private school in Astana	6 850 000 000
	BINOM EDUCATION	Construction and operation of secondary schools in Astana	6 131 628 300
	Shokan Ualikhanov Private School	Expansion in the field of basic and general secondary education	5 768 000 000
	Spectrum International Kindergarten School	Organization of activities for the opening of a private school	4 500 000 000
2022	BINOM ATYRAU	Organization of a comprehensive school for 2000 places in the Saryarka microdistrict of the Atyrau region	7 439 097 134

Source: "Damu" JSC

2.3 About Fund "Damu"

"Damu" JSC, which is part of the Baiterek Holding, operates a significant number of budget programs in the Republic of Kazakhstan. It should be noted that the Foundation functions as a developer, performer and evaluator of its programs at the same time. Since the Foundation and its structures are interested in the results of the evaluation, it is difficult to ensure the independence and objectivity of the evaluation of state programs.

The process of subsidizing the interest rate under the "Economy of Simple Things" is as follows: An entrepreneur applies to a second-tier bank/leasing company with an application for financing. Bank/leasing company conducts a comprehensive assessment of the financial and economic efficiency of the project. If a positive decision is made, the bank gives a written response to the entrepreneur about its readiness to lend to the project. In case of compliance of processing projects in the agro-industrial complex, manufacturing industry and services, the projects are submitted for consideration to the authorized body of "Damu" JSC. After that, the bank/leasing company, the entrepreneur and the Damu Foundation conclude a tripartite subsidy agreement. Based on this, it seems that the Damu Fund is just an intermediary between the budget and banks. The banks themselves select projects, lend themselves, and the Damu fund receives money from the budget and transfers subsidies to banks.

Currently, the Damu Foundation offers updates on the program on its website in the form of a list of firms that have obtained preferential loans, identifying the "General classifier of types of economic activity", the amount provided, the final rate for the borrower, and the date of approval. Furthermore, there is information on the geographical location and the second-tier

banks that made the loan. Despite the fact that this information is freely available, it is insufficient to analyze the program's efficacy thoroughly. The disadvantages of providing information on borrowers on the Damu website include the absence of a loan term for each enterprise. In addition, it is unclear how the Fund monitors the targeted use of funds. On the positive side, the Fund's website has a plethora of basic business plan templates for various industries.

In 2021, Abdilova et al. (2021) (workers of Home Angel LLP), commissioned by the Damu Foundation, conducted a study on the satisfaction of business entities with the Fund's activities. During a survey of 10,000 entrepreneurs from April 29 to May 5, 2021, the partnership concluded that based on a sample of 400 enterprises, the level of trust and satisfaction with the programs of the Damu Foundation is 94.5%. It is surprising how this agency was able to receive responses from 10,000 SMEs in 1 week. This fact raises the question of a comprehensive and objective assessment of the Fund's results. Despite the fact that the fund has an internal audit service, it is important to appoint a third-party organization that would evaluate the work of the fund as objectively as possible.

CHAPTER 3. RESEARCH RESULTS AND DISCUSSION

3.1 Survey and interview

At the inception it was assumed that research will adopt mixed method which includes survey and binary logistic regression analysis. As part of the study, it was planned to conduct a survey among enterprises that have received preferential loans. A complete list of these enterprises is available in open access on the website of the Damu Foundation, which implements the state program "Economy of Simple Things". A series of questions planned to be posed to respondents. First and foremost, they should have been questioned about the impact of epidemiological restrictions on production, the process of obtaining preferential loans, obstacles to this and the results obtained as a result of preferential loans. Also, this survey planned to feature a management practice element. Questions address people work practice, the use of key performance indicators, the usage of targets, and the resolution of business difficulties. Each response will be assigned a score ranging from 0 to 1. The answer for the most structured management practice is set to one, while the response for the least structured practice is set to zero. Using binary logistic regression analysis (using R Studio), the relationship between obtaining a concessional loan (as well as the amount of the loan) and the effectiveness of the company's management should have been revealed.

However, obtaining responses from representatives of entities proved problematic over the course of the study. I was confronted with the refusal of commercial organizations to complete a questionnaire. In total, I distributed around 250 questionnaires. Owing to the limited activity of private business, I sought assistance from the program's operator, the Damu Foundation. Initially, in response to my request, I received refusals by mail and phone from two fund managers. Then my supervisor and I asked the university to send a similar request to the Foundation on the university's behalf. The Foundation agreed to assist me only after receiving an official letter from the University. However, the Foundation's employees were able to send the material only to the enterprises of the capital. On behalf of the Foundation, around 100 businesses got the questionnaire. Despite my best attempts, I only have 19 answers, which is insufficient for an analysis. In this regard, it was decided to switch the study's approach from questionnaire to interviews. However, again I was faced with the problem that representatives of private business do not want to make contact. Based on this, I changed the research methodology again. I intended to do 10 semi-structured in-depth interviews spanning 20 to 50 minutes each. But again, I was faced with the unwillingness of entrepreneurs to share their experience.

3.2 Description of preliminary results

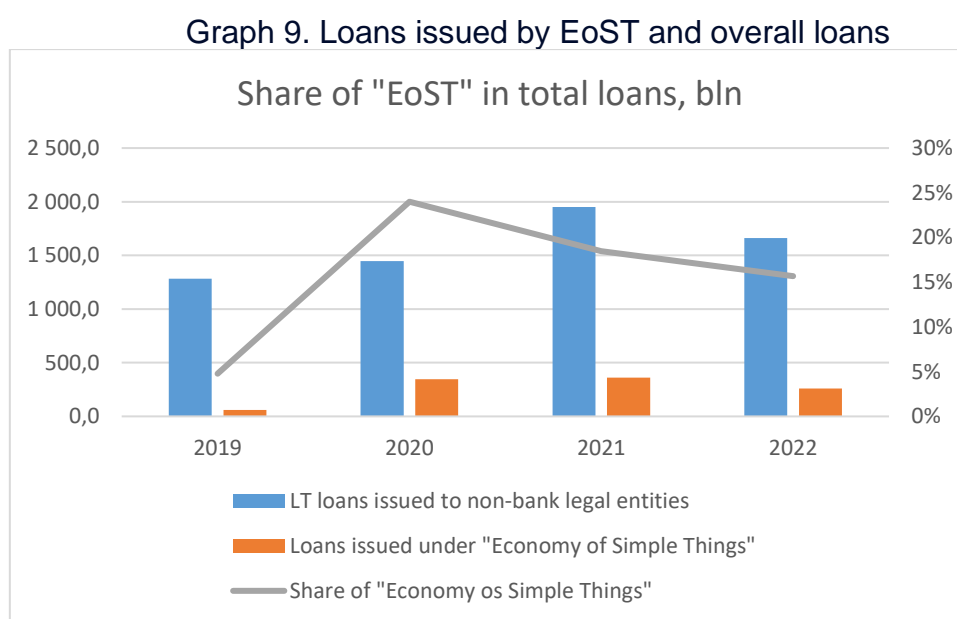
The data based on the responses to the questionnaire of 19 business entities indicate the following indicators:

- Among the respondents were those who applied for other support programs besides the "Economy of Simple Things". Basically, entrepreneurs applied for a "Business Roadmap", which indicates the attractiveness and similarity of the two programs.
- For the most part, respondents note the long term of consideration of the application. There is one company that has been seeking loan approval for 2 years. Basically, the terms take from two months to six months.
- Also, as obstacles, respondents cite a large package for filing an application, repeated provision of the same certificates and a long review by the lender. As a solution, one of the respondents suggested the introduction of a short template standard for industry conclusions or to exclude this requirement altogether, since there is a decree of the President of the Republic of Kazakhstan on de-bureaucratization.
- 84.2% of enterprises applied for the required amount, while the rest (15.8%) received the amount set by the organizer of the program.

- Almost half of the respondents (52.6%) are not against using preferential loans again. 36.8% of respondents indicate an average probability that they will again apply for this method of support from the state. The rest are less likely to apply for preferential financing. The lion's share of respondents (78.9%) replied that they could not do without a loan in 2020. The rest, apparently, took advantage of the opportunity for cheap financing, not really needing liquidity.

3.3 Analysis of secondary data

Despite the fact that the Damu Foundation publishes monthly data on program execution on its website, this is insufficient to analyze the impact on both borrowers and the economy as a whole. In this context, proxy data such as statistics on overall lending in the entire country are required. Historical statistics on long-term lending in the country prior to and during the implementation of the EoST will be examined. This is done to determine whether or not the EoST had an influence on general lending. Because the loans under the EoST are long-term loans, long-term loans are used as a proxy for the data.



Source: "Damu" JSC, National Bank of RK

According to an examination of lending within the Economy of Simple Things for the period 2019-2022, from 5 to 24% of all business entities obtain preferential loans (from total long-term loans issued to non-bank entities). On average 16% of firms obtain loans in the range of 6-8% each year, while the great majority of other businesses receive loans at higher interest rates, depending on the size and quality of the company. It should be noted that the government's support for businesses has the potential to undermine market relations and competitiveness within the economy. While government initiatives to assist businesses can be helpful, they are often non-systemic and tend to focus on only certain types of organizations. Instead, economic resources should be distributed in a market-based manner, based on market interest rates and the level of risk involved. By doing so, the market can operate more efficiently and effectively, without undue interference from the government.

Let us examine the EoST's impact on long-term financing to non-bank entities from 2015 to 2022. (The program has been in operation since 2019.) The trends, seasonalities and residuals in terms of lending volumes were identified in the R Studio program.

The program did not have a significant impact in the following categories:

- Manufacture of leather and related products

- Manufacture of wooden and cork products, except furniture
- Construction
- Warehousing and auxiliary transport activities

The impact of the program is ambiguous in the following categories:

- Food production, including beverages
- Production of coke and refined petroleum products
- Production of rubber and plastic products
- Manufacture of machinery and equipment not included in other categories
- Manufacture of computers, electronic and optical products
- Manufacture of motor vehicles, trailers and semi-trailers

The program may have contributed to the growth of lending in the following industries:

- Manufacture of textiles and clothing
- Production of chemical industry products. The program may have had an impact on volume growth since the 4th quarter of 2020.
- Production of other non-metallic mineral products. The program may have had an impact on credit growth since 2020.
- Education. Due to the issuance of large loans under the EoST for the construction of private schools, it is likely that the program has greatly influenced the growth of lending in this sector.
- Health care activities. The rapid growth of lending since mid-2020 is explained by the prioritization of this area after the pandemic.

3.3.1 Effect on employment

To analyze the program's impact, we may look at the increase in employment in the industries covered by the program. Look into the "Economics of Simple Things" categories for which employment statistics are available.

Table 5. Effect on employment

Quarterly growth	Manufacturing industry	Water supply; sewerage system, control over waste collection and distribution	Construction	Wholesale and retail trade; repair of cars and motorcycles	Transportation and warehousing	Accommodation and catering services	Education	Health and social services
Growth before EoST (2015-2018)	0,80%	-0,08%	-0,45%	0,60%	0,30%	1,28%	0,60%	9,37%
Growth after EoST (2019-2022)	0,15%	0,39%	0,13%	0,52%	0,27%	0,24%	0,34%	0,85%

Source: Bureau of National Statistics

Average quarterly employment increase both before and after the program's implementation was calculated. Only the "construction" and "water supply" sectors are showing signs of improvement. While changes in values are not considerable in "wholesale and retail trade, car repair," and "transport and warehousing," we can see a decline in the pace of job growth in the other sectors. These figures indicate that "EoST" loans did not contribute to the increase of employment in covered areas.

3.3.2 Effect on salaries

Table 6. Effect on salaries

Quarterly growth	Manufacturing industry	Water supply; sewerage system, control over waste collection and distribution	Construction	Wholesale and retail trade; repair of cars and motorcycles	Transportation and warehousing	Accommodation and catering services	Education	Health and social services
Growth before EoST (2015-2018)	3,91%	2,97%	5,08%	2,23%	2,50%	2,98%	3,50%	2,63%
Growth after EoST (2019-2022)	3,57%	2,97%	3,77%	3,34%	3,19%	3,78%	6,43%	5,03%

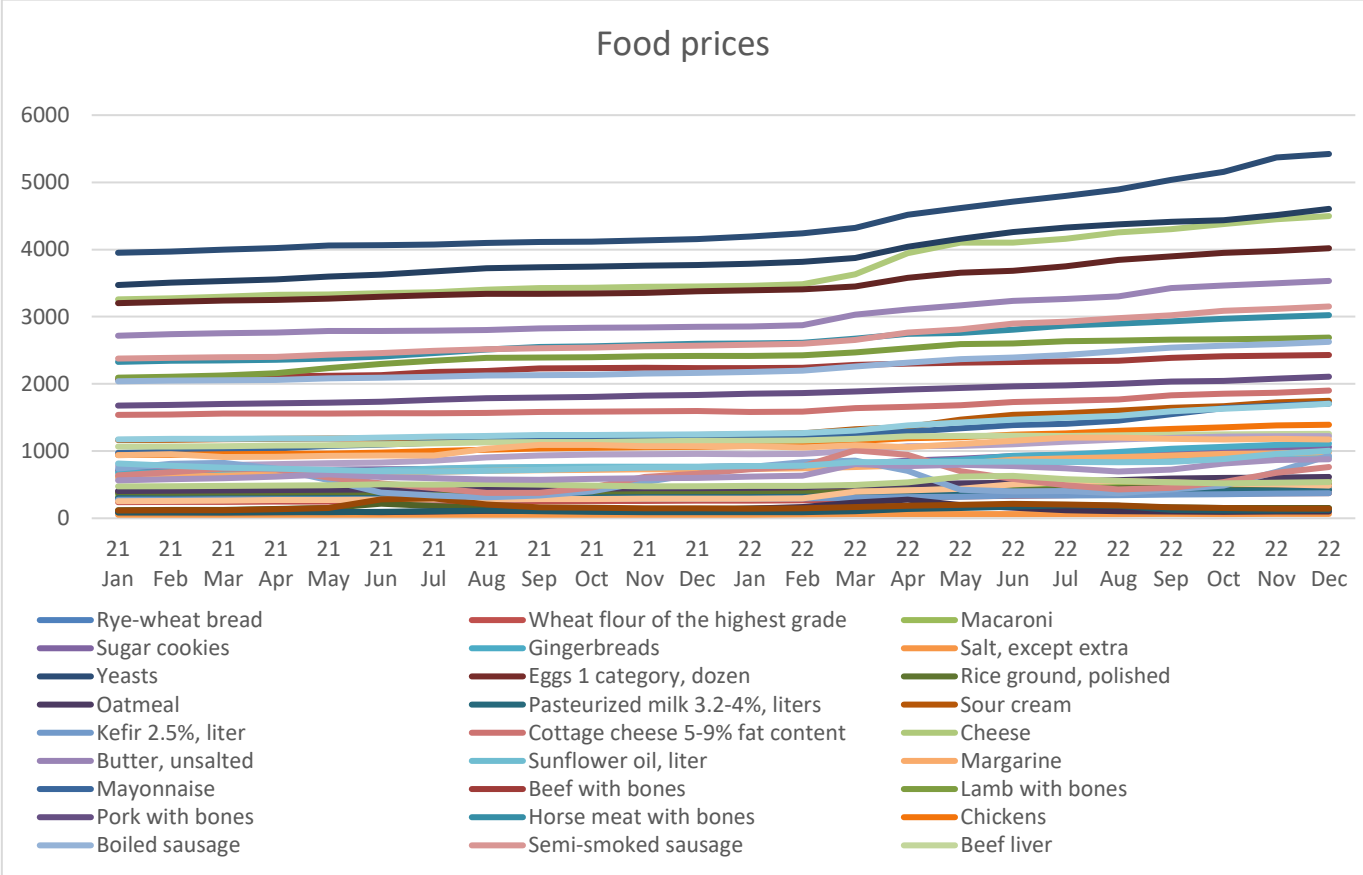
Source: Bureau of National Statistics

In terms of pay growth, we can observe that the program had no effect on salaries in industries such as manufacturing, water supply, and construction. The average quarterly wage growth is observed in such sectors as "Wholesale and retail trade; repair of cars and motorcycles", "Transport and warehousing" and "Provision of accommodation and catering services", which may be related to wage indexation. There has been noticeable expansion in the education and health sectors. However, the increase in salaries in these industries is due to the directives of the head of state, not the provision of favorable loans. Specifically, by carrying out the President of the Republic of Kazakhstan Kassym-Jomart Tokayev's directive to boost teachers' pay twice in four years. That is, since 2020, teachers' incomes have increased by 25% every year. This measure exists till 2023. In addition, the president announced in his 2020 State of the Union speech that doctors' salaries should be double the national average income by 2023. It can be concluded that the implementation of EoST has not had a tangible impact on wage growth.

3.3.3 Effect on food prices

Since introduction of program around 500 billion were set aside for agricultural output, 200 billion for processing, and the remainder for industry and services. It means that the agriculture sector was prioritized. This implies that the program's performance may be determined by examining the cost of food goods subsidized by the EoST. The website of the National Statistics Bureau of the Republic of Kazakhstan has statistics on food prices for 2021 and 2022 (statistics for other years are not available). A simple analysis of price growth shows that there is an upward trend. In the summer months, there is a seasonal decline in prices for fruits and vegetables. It seems that the subsidies allocated in this direction did not contribute to the reduction or retention of prices, which reduces the effectiveness of the program.

Graph 10. Growth of food prices



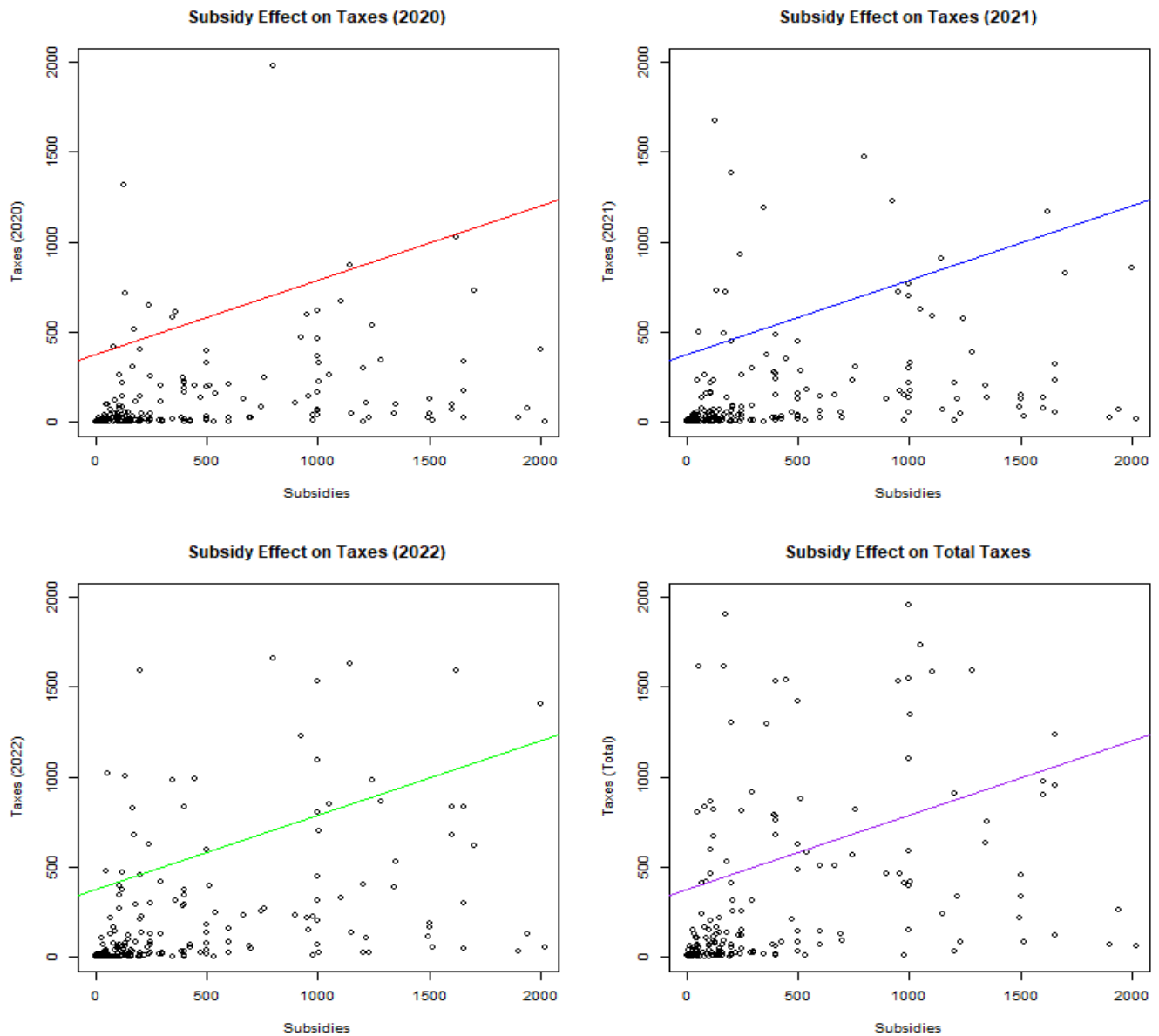
Source: Bureau of National Statistics

3.3.4 Impact of program on business entities

To assess the impact of subsidies on the financial situation of firms, it is needed to have access to this data. Since the companies covered by this program are limited liability partnerships and individual entrepreneurs, information about their financial situation is personal information. One of the indirect metrics of the financial position may be the taxes paid. This method was used by the Damu Foundation in the review "The impact of programs implemented by the Damu Foundation on the development of the SME sector and economic diversification". This paper uses a structure based on the assumption that the growth of business tax payments leads to an increase in the budgets of the Fund's programs. Supreme Audit Chamber in its "Conclusion to the government report Republic of Kazakhstan about the execution the republican budget in 2021", evaluating the program "The Economy of Simple Things" also resorted to taxes paid as an indirect indicator. In this regard, it was decided to conduct a regression between the amounts of subsidies given in 2020 and taxes paid in order to find out the impact of the program on the indirect indicator.

3.3.5 Impact of subsidies on taxes paid

Graph 11. Impact of subsidies on taxes paid



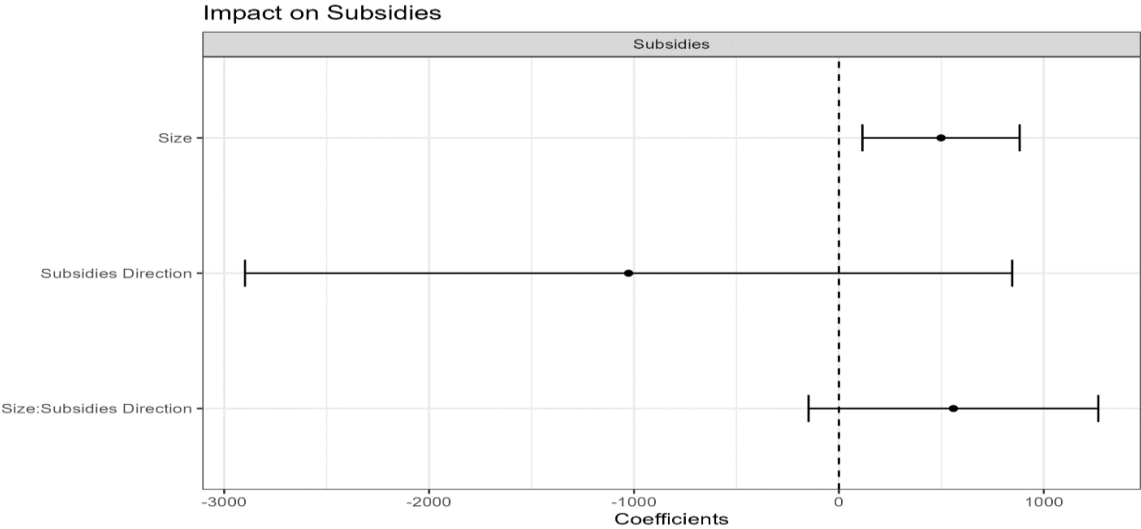
These illustrations represent the results of a multiple regression analysis, where the dependent variable is "Total Taxes" (by years and for all years) and the independent variables are

"Subsidies," "Subsidies Direction," and "Subsidies: Subsidies Direction" (interaction effect) for 2020. The analysis was conducted on a sample of 224 observations. The results show that subsidies have a significant positive effect on total taxes. Specifically, for every one unit increase in subsidies, there is an increase in total taxes by 0.413 units, which means that every 100 tenge of subsidies result in 41.3 tenge of paid taxes. The coefficients for "Subsidies Direction" and "Subsidies: Subsidies Direction" indicate an interaction effect between subsidies and subsidies direction, but these coefficients are not statistically significant at conventional levels. The Breusch-Pagan test (BP) is a test for heteroscedasticity, which tests whether the variance of the residuals is constant across different levels of the independent variables. In this analysis, the BP test is not statistically significant, indicating that the assumption of homoscedasticity is not violated. R squared values range from 0.106 to 0.120, indicating that the independent variables explain only between 10.6% and 12.0% of the variation in total taxes, which is very low. This leads to the conclusion that the taxes paid by the participants of the program do not depend much on the amount of the subsidy.

3.3.6 Relationship between subsidies amount and the size of businesses

Regression analysis was conducted one more time in order to investigate whether subsidies given to businesses depend on the size of those businesses. The size variable ranges from 1 to 4, with 1 corresponding to micro, 2 to small, 3 to medium, and 4 to large businesses. The results indicate that the coefficient for the Size variable is statistically significant at the 5% level, with a value of 498.377. This suggests that larger businesses tend to receive higher subsidies than smaller ones. However, adjusted R-squared value of 0.052 indicates that amount of subsidies is not explained by size of entity. The residual standard error of 2,861.736 indicates that there is a large amount of unexplained variation in the data, which might be a research limitation. It suggests that policymakers should carefully consider the sector-specific needs of businesses when designing support programs.

Graph 12. Relationship between subsidies given to businesses and the size of businesses



Research limitations

This research is not without limitations. One of the main drawbacks of the study is the lack of primary data. Regarding the questionnaire, there is an insufficient number (19 responses). As mentioned above, I faced resistance and unwillingness of business entities to share their experience. Another limitation of this study is the time frame of data collection. The primary data was collected over a period of approximately 4 months, which may not be long enough to capture the full range of experiences and behaviors of the participants. In addition, the study was based on secondary data received from the program operator, which may limit

objectivity. Another limitation may be that proxy data was used to analyze the effect of the program. Following researches should determine the link between the "Economy of Simple Things," which is targeted at lowering imports, and reducing imports during the project's years. Because there is presently no one approach for analyzing the efficiency of government interest rate subsidy schemes, future study should strive to enhance research methods or choose another. This would contribute to a more complete and accurate knowledge of the phenomenon under research.

Overall, the limitations of the research, such as the relatively small sample size and the inability to capture all relevant factors that may influence the effectiveness of subsidies, suggest that further research is needed to fully understand the impact of such policies on the economy and businesses.

Conclusion

Answering the research question, I can state that the program for subsidizing the interest rate for business entities "Economy of Simple Things" the program had a little impact on the economy, because it has not contributed to the development of the covered industries. This is due to the fact that the program did not contribute to either employment growth or wage growth. Also, the program did not affect the containment of food prices.

In this study, I took the taxes paid by the participants of the program to identify how much subsidies given in 2020 contributed to the growth of tax payments in the period from 2021 to 2022. Regression analysis showed that every 100 tenge of subsidies turns into 41.3 tenge of taxes paid. However, subsidies explain the increase in tax payments by only 10.6-12.0%. It means that tax payments are not a neat measurement of the financial position of firms. And since the enterprises covered by "Economy of Simple Things" are private enterprises, the question of finding other proxy data arises, through which researchers could assess the effect of the program on the financial situation of firms.

Also, another regression analysis shows that the benefits of program are mostly enjoyed by large firms, indicating that the program's design may not effectively target small and medium-sized enterprises. This means that the developers of the program should consider the possibility of developing specific measures to meet the needs of small and medium-sized enterprises, which are often more vulnerable to economic crises.

Doubts are caused by the types of economic activities for which the amounts are allocated. It was found out that almost the half of types of economic activities do not correspond to the essence of the program. The most important task of this program is to reduce the share of imports, in other words import substitution. Despite the fact that the import of goods (in tons) of "Economy of Simple Things" has declined, this may be due to the disruption of the supply chain after the lockdown, not the implementation of this program.

Also, regarding the impact of the program on the economy, it can be noted that subsidizing the interest rate can lead to a crowding-out effect and discourage the desire of second-tier banks to develop their own credit programs. Subsidizing the interest rate, which has turned into a distribution of liquidity, can contribute to an increase in the number of zombie firms that will constantly need help from the state. Therefore, policymakers need to evaluate the program's impact on the overall banking sector and take corrective measures to address any negative effects.

Special attention should be paid to those enterprises that have received preferential financing. Among the participants, we can notice large and well-known enterprises that could attract financing in other ways. But it seems that they took advantage of cheap financing. Also, it was found that 179 entrepreneurs received funding several times during the period of the program. Among them, large loans of several billion tenge, aimed at the construction of private schools from well-known companies, stand out strongly. Besides that, it was unexpected to see 2 public schools among this list. All this indicates that second-tier banks and Damu are poorly monitoring a targeted use of funds. Furthermore, the objectivity of the assessment of the

activities of the Damu is questioned, since the Fund itself orders this service. Damu Fund turns into an intermediary between the budget and the STB, and the program has turned into a distribution of money, whereas business support needs to be approached comprehensively: to develop industrial sites, special infrastructure, etc. Therefore, policymakers need to improve the transparency and accountability of the program to ensure that the funds are allocated efficiently and fairly. Before assessing the impact of the program on the economy and enterprises, it is necessary to reform the program itself. Namely, to remove non-strategic types of economic activity, to introduce improved control over the targeted use of funds after receiving them, to focus on supporting SMEs.

Despite the progress in the literature on the effectiveness of state aid to business in Kazakhstan, this area of research is limited and requires further study. My research attempts to address the literature gap and make an important contribution. Firstly, my research has revealed that the collection of primary data from program participants is a rather problematic process in our country. Also, usually the analysis of such programs is limited to proxy data. I assume that the proxy data does not fully reflect the real picture. Secondly, I have identified shortcomings both in the structure of the program and in the activities of the program operator. So, recommendations were offered to improve these points. Thirdly, I raise the issue of inefficient use of funds based on the facts of giving preferential loans to dubious projects and large enterprises that could attract financing in other ways.

In conclusion, this research provides insights into the Economy of Simple Things program in Kazakhstan, highlighting its strengths and weaknesses. The findings and recommendations presented can inform policymakers in improving the program's design and implementation to ensure that it effectively targets the intended beneficiaries and contributes to the sustainable development of the economy.

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