

Innovative Strategies of Development of Small and Medium-Sized Businesses in Kazakhstan: Examining State Policy During Covid-19

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ABSTRACT

This paper examines the process of adaptation of small and medium-sized businesses in the context of the global economic recession caused by the COVID-19 pandemic within the framework of the state policy of Kazakhstan. Many countries applied unique policies and innovative strategies to develop entrepreneurship.

Based on the results of a study of statistical data of state bodies and a survey conducted among entrepreneurs, as well as an analysis of selected strategies for state support of business during the pandemic, an assessment of the current state of small and medium-sized businesses was carried out.

The analysis allows us to conclude that financial and administrative support measures are emphasized by the state, but insufficient attention is paid to encouraging innovation, including the use of digitalization in business. The responses of the interviewed entrepreneurs confirm the need for state support for entrepreneurship, and also highlight the risks of releasing employees, increasing the number of temporarily suspended enterprises. At the same time, the business adapts to the new realities using the modernization of business processes, the change of business orientation, as well as the transition to online trading and the use of digital technologies. This paper demonstrates the importance of innovation for public administration, which supports small and medium-sized businesses, as the ability to adapt their programs to the changing economic realities.

Key words: state policy, innovation, small and medium business, COVID-19, Kazakhstan.

Introduction

The COVID-19 pandemic, that can be referred to as a "black swan", has changed the world economy and created completely new market conditions: border closures, restrictive measures, logistical difficulties, etc. (Mazzoleni, Turchetti and Ambrosinod, 2020). A "black swan" is an event that has three characteristics: very unlikely, has an extraordinary impact and people create dubious explanations after it has happened (Gow, 2008). This case of the "black swan" has all the characteristics voiced by the author of this term Nassim Nicholas Taleb, and public administration in these conditions is a valuable tool (Gow, 2008). The negative consequences of the pandemic for business have transformed into new goals – survival in completely new conditions, preservation of current activities, as well as restructuring of business processes in accordance with the requirements of state regulation.

According to the World Bank's analytical rating on favorable business conditions in the world—Doing Business, the Kazakhstan occupies the 25th position, demonstrating significant improvements over the past 5 years (2017 - 36th position) (World Bank, 2021). The Government of Kazakhstan explains this by the reforms carried out in the country in relation to small and medium-sized businesses - improving legislation, simplifying business creation procedures, improving the business climate (Prime Minister of the Republic of Kazakhstan, 2010). It is worth noting that Kazakhstan has achieved a significant rise in +35 positions in the rating since 2017 in terms of "Obtaining loans" (Forbes Kazakhstan, 2020). In recent years, there have been a number of changes to expand access to credit facilities for entrepreneurs within the framework of state business support programs through concessional lending instruments: loan guarantees and subsidized interest rates on loans. These tools have experienced high demand and have been needed during the pandemic. To respond to these needs state policy towards small and medium-sized businesses during the COVID-19 period included not only administrative measures (e.g. regulation of restrictions), but also a wide range of financial instruments (e.g. budget, preferential loans) to support businesses.

Given the valuable number of 3.4 million people employed in the small and medium-sized business sector (as of January 1, 2021) (Bureau of National statistics, 2021), as well as the share of SMEs in Kazakhstan's GDP of 30.8% (Ranking.kz, 2021), the country's economy is at high risk of damage to small and medium-sized businesses during the COVID-19 epidemic, as well as in the post-crisis period. By the end of 2020, when the coronavirus infection arrived in Kazakhstan, the output of SMEs decreased by 5.4%, and the number of employees decreased by 2.3%. These data do not fully reflect the consequences of the pandemic, since the range of negative consequences can only be estimated in the future.

The pandemic has challenged not only the healthcare system, but also the economy of Kazakhstan. As of March 6, 2022, 1.39 million cases of the disease have been recorded since the beginning of the pandemic. At the same time, according to statistics, several periods should be noted as peak periods: July 01, 2020 - 18,757 new cases, July 23, 2021 - 66,121 new cases, August 13, 2021 - 16,122 new cases, January 20, 2022 - 16,441 new cases (Kazinform, 2022). Undoubtedly, the burden during the corresponding peak periods fell not only on the healthcare system, but also on entrepreneurs, in particular. Since the number of people employed in the SME sector is quite high, entrepreneurs had to cope with situations of temporarily disabled employees due to illness.

It should be noted that Kazakhstan has faced a fairly high number of cases (population of 19.2 million). If the number of cases per 1 million people in the world is 66.7 thousand, then in Kazakhstan this number is 74.7 thousand (Our World in Data, 2022). By comparison, Our World in Data lists the following rates for some other countries:

- USA 248.8 thousand cases per 1 million;
- Canada 100.4 thousand cases per 1 million;
- Japan 64.9 thousand cases per 1 million;
- Mexico 45.4 thousand cases per 1 million;
- India 31.7 thousand cases per 1 million;
- Uzbekistan 7.0 thousand cases per 1 million.

State policy during the COVID-19 period should be balanced in compliance with both strict principles from the point of view of epidemiological safety, and flexible and relevant measures to support the economic situation. It is therefore important that government provide not only public administration business support, but also assure business is ready and able to adapt to completely unfamiliar business conditions during this period (Kheirallah et al., 2020).

From another point of view, public policy should respond to changes flexibly and promptly. Therefore, dynamism in public policy is needed and depends on the context (current situation). Innovative state support public policy is a multi-level set of policy measures (Lanahan and Feldman, 2015). In this paper, the authors have attempted to consider a set of policy measures regarding Kazakhstan's business from this point of view during the COVID-19 period. Policy created in uncertain situations is considered innovation. Jalonen defines innovation as a process that involves uncertainty (Jalonen, 2012).

As stated by the United Nations Economic Commission for Europe, the most important element of the effectiveness of innovation across the economy is the ability of the public sector to innovate, the potential benefits of which are great. At the same time, innovations in the public sector contribute to economic growth due to improvements in the quality and range of public services. In addition, innovations in the public sector contribute indirectly by increasing the productivity of the private sector, by expanding and improving the services provided by the state and by improving the infrastructure on which the private sector depends (UNECE, 2017).

Research Question

The main research questions of this article relate to how state policy changed in relation to support of SMEs during the pandemic and how SME adaptation occurred in conditions of new economic and state realities. In other words, the paper aims to consider innovative strategies of state bodies to create conditions for business in conditions of uncertainty due to Covid-19 based on Kazakhstani experience.

Literature review

The coronavirus infection, called the black swan event, led to an economic recession. This has become a global challenge for the Government, whose goal is to build a political strategy for the medium and long term (the fight against the pandemic and the post-crisis period).

A number of works of scientific researchers are devoted to exploration of the degree of influence of state support and its types. Scientists record that, when developing political strategies for these purposes, it is important to encourage sustainable entrepreneurship, while periodically reassessing their condition. According to a scientific review by researchers M. Nicola, Z. Alsafi, C. Sohrabi, A. Kerwan, A. Al-Jabir, C. Iosifidis, M. Agha, R. Agha, the global situation requires sustainable and strong leadership in business, government and society as a whole. In addition, a socio-economic development plan is needed that encourages entrepreneurship with reliable and sustainable business models (Nicola et al., 2020). The review of the support measures announced in the countries of the world represents various financial, administrative and institutional instruments. They also note that the support measures taken today use unprecedented tools in a certain sense. Germany, for instance, announced loans worth 500 billion euros for enterprises affected by the pandemic. France announced similar loans amounting to 345 billion euros, Spain 200 billion euros, Italy 25 billion euros. The British government has

included many financial instruments in its package of support measures. These are emergency loan guarantees, deferral of tax obligations, grant financing for small and medium-sized businesses (including the trade and services industries), credit mechanisms to maintain the liquidity of enterprises and reduced interest rates. The United States has also adopted a set of measures to support and restore the economy: lending and grant financing, financial assistance to agriculture, resumption of lines of credit (secured by assets in 2008-2009), credit guarantees.

At the same time, it is especially important to observe the issue of the complexity of state support for business as part of anti-crisis measures. It is an integrated approach that will ensure the possibility of ensuring a balanced business life (Razumovskaia et al., 2020). The case of Russia on government support for business is considered from the point of view of the impact on business activity, where the scientific forecast assumes leveling the negative consequences of COVID-19 by applying an integrated approach: tax, administrative, banking and financial support for small and medium-sized businesses.

There is no doubt that state support in such an acute period has a high degree of influence on the provision of business activities. However, not all political strategies have the ability to accurately hit the target.

In the work of J. Amankwah-Amoah, Z. Khan, G. Wood, attention is focused on the fact that the pandemic accelerated the reconfiguration of relations between states and markets (Amankwah-Amoah et al., 2021). At the same time, it is worth noting that the gap between those with political ties and those who do not have them is increasing. For example, support for small and medium-sized businesses in the US and the UK favored insiders and some major players. At the same time, regulatory changes aimed at combating the pandemic have exacerbated institutional inconsistency, it is the larger players who are in a much stronger position to redo the rules at their discretion (McDermott, 2019). In addition, the researchers emphasize that the uneven nature of government support in emerging markets increases the risk and probability of business bankruptcy. What is particularly important is that in the current situation of the global economic recession, there is no set of best practices to guide political interventions.

Given the conditions of the economic recession, which led to the urgent adoption of decisions by most countries of the world to preserve the national economy, researchers identify various survival strategies for small and medium-sized businesses.

The ubiquitous use of digitalization has become the most relevant tool for doing business in conditions of maintaining social distance and closed borders. Thus, according to research a comprehensive digital transformation, including the introduction of digital technologies, digital products or services, the adoption of digital platforms, etc (Guo et al., 2020). It can prove itself effectively in helping SMEs overcome the crisis. It is worth noting the particularly relevant possibility of using big data technologies. According to scientists, this will help SMEs not only assess the spread of the pandemic, directing them to resume work and production, but also take advantage of new business opportunities, as well as determine the direction of future events. The study reflects the dependence of the degree of digitalization, the introduction of digital technologies and the mode of doing business on a better response to government crises. In addition, digitalization contributes to improving the performance of SMEs through the implementation of government strategies to respond to crisis situations.

The need to transform public policy towards encouraging innovative approaches is noted in the work of researchers Juergensen, Guimón et al. (Juergensen et al., 2020). The Covid-19 crisis not only highlighted for some types of SME industries the need to invest in digitalization, but also accelerated its use. Despite the advantage of this tool within the framework of a business strategy, many businesses experience financial difficulties adopting it. Scientists also emphasize the importance of policy measures for business in accordance with the stages of crisis recovery, survival, renewal and growth. Thus, in the perspective of the transition from the stage of survival to the stage of renewal and growth, an appropriate sequence of policy measures is necessary. The survival stage entails high government costs, a significant impact on the budget deficit. Therefore, further policy measures should be strategic in nature, aimed at eliminating general financial support measures as the economic situation stabilizes. At the same time, support should change and promote innovation and growth.

Also, the importance of proactive actions is considered in their work by researchers Zoller-Rydzek, Benedikt & Keller, Florian (Zoller-Rydzek et al., 2020). According to researchers, the intensification of digitalization efforts is the only significant proactive responses to mitigate the crisis. In addition, these efforts are expected to have a long-term impact on firms' productivity - firms with more positive digitalization experiences will maintain their higher level of digitalization even after the crisis. Also, in their work, the researchers consider the possible negative impact of state support in the form of lending to troubled SMEs. The risk is the provision of (too) high levels of loans, which can lead to the creation of zombie firms that will default on their debts in the future, which will lead to an increase in government spending.

Thus, public policy should contain in a balanced manner not only administrative and financial and credit mechanisms, but also tools aimed at encouraging innovative solutions for SMEs (including the use of digital technologies). According to North, Smallbone and Vickers (2001), there has recently been an increase in policy makers' attention to the importance of innovation for the competitiveness of the national economy and the special role of small and medium-sized enterprises in this process.

At the same time, scientists, based on the results of a study among small businesses in Macau (China), note that small businesses should strive to improve their resilience and renewal strategies in order to survive and recover from this public health disaster, and not rely on government assistance (Alves et al., 2020). Small businesses have the advantage of prompt and effective response to the crisis in the form of a low degree of bureaucracy and a small size. At the same time, anti-crisis management has a high degree of importance. As the work of researchers shows, the survival strategies of SMEs are influenced by a number of factors such as the size of the company, crisis experience, the history of the company and government regulation.

According to the recommendations of scientists Omar, Ishak, Jusoh, SMEs need to prepare for the use of reliable financial reserves (Omar et al., 2020). Also, SMEs should have a certain degree of strategic resources, be flexible enough to mobilize in a crisis period. Therefore, special attention should be paid to investments in technology, new applications, online marketing and a new delivery system may be needed in the unpredictable future of the Covid-19 epidemic crisis. Governments need to strengthen mechanisms for the dissemination of incentive packages related to business and for dissemination of information.

Methodology

To analyze state policy regarding small and medium-sized businesses and their adaptation to new conditions in Kazakhstan, this study uses the method of secondary data research. The search for the necessary information was carried out from open sources, including statistical data from the Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, the Ministry of National Economy and the Ministry of Finance of the Republic of Kazakhstan. The advantage of the chosen strategy is to conduct research in a fairly short period of time, as well as the possibility of a comprehensive analysis of the government strategy in relation to small and medium-sized businesses.

In this study, an online survey was conducted of entrepreneurs in the largest region in Kazakhstan in terms of territory and industrial potential (Karaganda region). Karaganda region is located in the center of Kazakhstan and occupies 15.7% of the country's territory. 7.6% of the population of Kazakhstan (18.75 million, 2020) lives on the territory. The economy of the region has a pronounced industrial character and is represented by a high proportion of manufacturing industries. In May 2021, a survey was conducted using the Google Forms tool, in which 287 micro, small and medium-sized business entrepreneurs took part. The purpose of the survey was to study measures of state support, the consequences of the pandemic and strategies for the survival of SMEs, as well as to assess the understanding of SMEs of state policy in relation to them (Table 1).

The survey consisted of 4 main sections:

- general assessment of the state policy on the development of small and medium-sized businesses;
- assessment of the state policy on the development of small and medium-sized businesses during the COVID-19 pandemic;
- interaction of small and medium-sized businesses with other stakeholders;
- general characteristics of the business.

In order to comply with ethical standards within the framework of academic research, the survey questions were approved by the research Committee of the Academy of Public Administration under the President of the Republic of Kazakhstan.

Results

In Kazakhstan, the government attended to the development of small and medium-sized businesses even before the Covid crisis – it was one of the priorities of state policy. However, during the COVID-19 period, completely new tasks and challenges arose for the state administration. The pre-pandemic support tools could not fully support the activities of SMEs in the harsh conditions of COVID-19. Therefore, the Government initiated and presented three packages of anti-crisis measures, including urgent measures (1) to support the population and business, (2) to preserve socio-economic stability and (3) a comprehensive plan to restore economic growth (Ministry of National Economy of the Republic of Kazakhstan, 2021). The announced urgent measures of state support in summary consist of tax and customs benefits, simplification of administrative procedures, financial support, preferences in the field of public procurement and other steps. Financing of small and medium-sized businesses is carried out

through state programs. At the same time, it is necessary to indicate the absence of industry restrictions for participation in the state program for business support and development ("Business Roadmap 2025"). This expands the reach of entrepreneurs who can take advantage of support measures (Issenova, 2021). This represented an integrated approach of both administrative and financial instruments during the epidemic (Table 2).

Table 1: Survey characteristics

| Category | Percentage (%) |
|--|----------------|
| Gender | |
| Male | 76,0 |
| Female | 24,0 |
| Age | |
| 18-29 years old | 15,7 |
| 30-39 years old | 38,7 |
| 40-49 years old | 31,0 |
| Over 50 years old | 14,6 |
| The period of activity of the enterprise | |
| up to 1 year | 3,1 |
| up to 3 years | 37,6 |
| up to 5 years | 34,1 |
| up to 10 years | 20,2 |
| more than 10 years | 4,9 |
| The dimension of the business entity | |
| Microbusiness | 50,2 |
| Small business | 46,3 |
| Medium-sized businesses | 3,5 |
| The main market for the sale of products (goods, services) | |
| Inside the region | 67,1 |
| To other regions | 28,9 |
| Export to the near abroad | 3,9 |
| Branch of the economy (according to the General Classifier of Economic Activities) | |
| Agriculture, forestry and fisheries | 1,0 |
| Mining and quarrying | 1,0 |
| Food and beverage production | 5,2 |
| Light industry | 9,8 |
| Chemical industry | 5,6 |
| Pharmaceutical industry | 1,0 |
| Production of building materials | 4,5 |
| Metallurgy and metalworking | 11,1 |
| Mechanical engineering | 0,7 |
| Construction | 3,8 |
| Trading | 41,1 |
| Transportation and warehousing (including courier services, car rental) | 2,4 |
| Provision of catering services (restaurants, cafes, food delivery) | |
| Financial and insurance activities | 5,2 |
| Information and communication | 0,3 |
| Education | 1,0 |
| Healthcare | 1,0 |
| Art, entertainment and recreation (cinemas, museums, etc.) | 0,3 |
| Other public services | 1,0 |
| | 4,0 |

Table 2: Instruments of state support for SME support in the period of COVID-19 in Kazakhstan

| Measures to support SMEs | |
|--------------------------|--|
| 1 | Deferral of loan payments |
| 2 | Refinancing loans |
| 3 | Unification of the interest rate at the level of 6% on loans under government programs ("Business Roadmap 2025", "Economy of simple things") |
| 4 | Removal of industry restrictions for SMEs to participate in the state program "Business Roadmap 2025" |
| 5 | Deferred tax payments |
| 6 | Three-year moratorium on inspections of micro and small businesses (from January 1, 2020) |

Source: Ministry of National Economy, Republic of Kazakhstan. Table created by the authors.

Thus, the main objectives of the state policy on SMEs during the COVID-19 period are to reduce the tax burden for entrepreneurs, as well as to expand access to credit facilities. By the end of 2020, within the framework of state programs ("Business Roadmap 2025", "Economy of Simple Things"), a total of 20.9 thousand entrepreneurs' projects had been supported with 1 trillion 440 billion tenge (Finprom, 2021). This support was provided to entrepreneurs in the form of instruments subsidizing the interest rate on loans and partial loan guarantees. Thus, by its actions, the state makes a confident attempt to meet the expectations of citizens, increase public value and adapt to the current needs of its users. And this, in turn, is some of the characteristics of innovation in the public sector (Mulgan and Albury, 2003).

The measures taken to support entrepreneurs in Kazakhstan have made it possible to contain the economic crisis and neutralize the threat of an adverse scenario due to the impact of the pandemic. This is evidenced by the growth in the number of operating small and medium-sized businesses by the end of 2020 (Table 3).

Table 3: Dynamics of the number of operating small and medium-sized businesses in 2019-2020

| | 2019 | 2020 | % ratio to the same period last year |
|--|------------------|------------------|--------------------------------------|
| Number of operating small and medium-sized businesses as of January 1, units | 1 330 244 | 1 357 311 | 102,0 |
| Including: | | | |
| Legal entities of small business | 258 365 | 280 200 | 108,4 |
| Legal entities of medium-sized businesses | 2 502 | 2 486 | 99,4 |
| Individual entrepreneurs | 855 920 | 857 910 | 100,2 |
| Peasant and farm farms | 213 457 | 216 715 | 101,5 |

Source: Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan.

However, despite the positive dynamics of growth in the number of operating SMEs, the share of medium-sized businesses in the total economic structure remains low - 0.2%. Moreover, their number decreased by 0.6% in 2020 compared to 2019.

In addition, as a result of the announced lockdown in 2020, the activities of more than 430 thousand enterprises were suspended, which is 31.6% of the total number of operating SMEs (Inbusiness, 2021). The result was also a 2.3% decrease in the number of people employed in SMEs and a decrease in industrial production of 0.7%, an increase in the budget deficit by 118.3% (2020: (-) 2,806.2 billion tenge) (Bureau of National statistics, 2021). In addition, the volume of exports decreased by 19.1% and tax revenues by 18.4% (Ministry of Finance, Republic of Kazakhstan, 2021).

All this indicates the negative impact of the pandemic on the economy of Kazakhstan, in particular on the state of small and medium-sized businesses.

As in most countries of the world, in Kazakhstan, one of the most affected sectors of the economy is the service sector, which, as a result of restrictive measures during the pandemic, decreased by 5.6%. A similar situation is observed in the trade and transport sector. Thus, in 2020, the gross added value of trade decreased by 187.5 billion tenge, the gross added value of transport decreased by 726.8 billion tenge, the volume of passenger transportation decreased by 64.8%. The income decreased to 287.7 million tenge. In particular, air carrier passenger traffic revenues decreased by 51.6%, to 176.1 billion tenge (LS Aqparat, 2021).

Grant Thornton company conducted an analysis of the most affected sectors of the economy in terms of reduced tax revenues: a sample of industries is presented in Table 4.

Table 4: The most affected sectors of the economy of Kazakhstan due to the pandemic

| | Industry (according to the General Classifier of Economic Activities) | Decrease by the end of 2020, % | Share in the total volume, % |
|----|---|---------------------------------------|-------------------------------------|
| 1 | Other construction work requiring special professions | - 37,71 | 0,3 |
| 2 | Rental of other machinery, equipment and material assets not included in other categories | -27,85 | 0,3 |
| 3 | Wholesale of cars and passenger vehicles | -19,57 | 0,4 |
| 4 | Consulting on business and management issues | -17,39 | 0,5 |
| 5 | Repair and maintenance of other special purpose machinery and equipment | -16,62 | 0,2 |
| 6 | Rent and manage your own real estate | -14,97 | 0,6 |
| 7 | Activities of other human resources organizations, except for organizations established by national companies | -14,60 | 0,6 |
| 8 | Other wired telecommunications | -11,38 | 0,4 |
| 9 | Software development | -10,46 | 0,3 |
| 10 | Wholesale of other machinery and equipment | -2,31 | 0,6 |

Source: Grant Thornton (2021).

In order to restore the trade and services sectors as soon as possible, the Government of Kazakhstan initiated the widespread use of the Ashyq mobile application by businesses, which makes it possible to carry out activities during quarantine and restrictive measures. As of June 23,

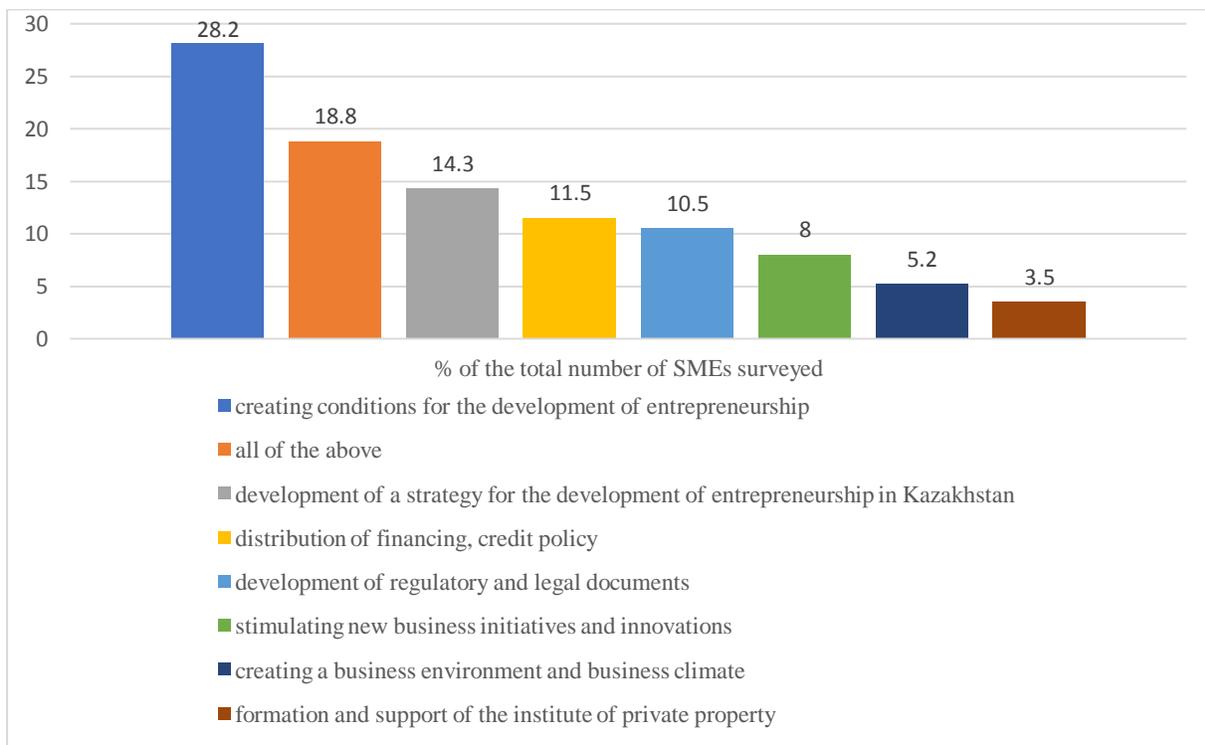
2021, the application was actively used – about 11,000 business entities participated in the project and used the application—it had 4 million active users (National Chamber of Entrepreneurs of the Republic of Kazakhstan "Atameken", 2021). This digital tool has multitasking features, thus benefiting both businesses and the state.

Survey results among SME entrepreneurs

The concept of "state policy for the development of SMEs in Kazakhstan" is understood by respondents differently, but for the majority (28.2%) it is the creation of conditions for the development of entrepreneurship. A substantial number of respondents (18.8%) chose the answer option "all of the above", which includes the development of regulatory and legal documents, developing a strategy to encourage of entrepreneurship in Kazakhstan, creating conditions for the development of entrepreneurship, distribution of financing, credit policy, creating a positive business environment and climate, formation and support of the institution of private property and stimulation of new business initiatives and innovations.

According to the results of a survey conducted among SME managers, 88.9% of respondents believed that there is a need for state support for entrepreneurship in Kazakhstan, while the most effective measures in the opinion of entrepreneurs are such actions as exemption and deferral of taxes, deferral of loan payments and preferential credit for replenishment of working capital (Figure 1).

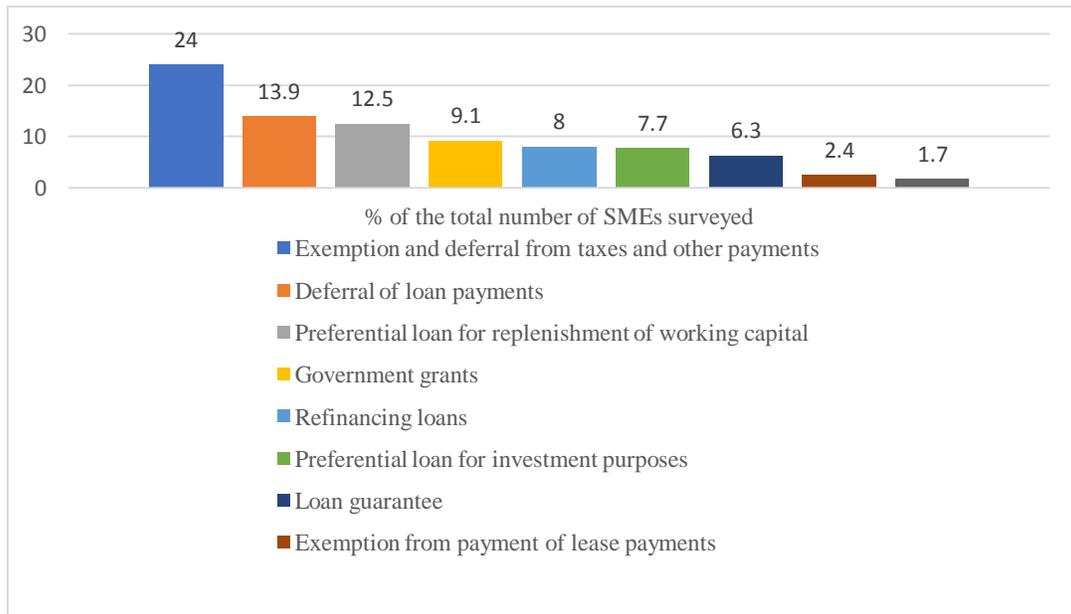
Figure 1: The concept of state policy for the development of SMEs in Kazakhstan



According to the surveyed entrepreneurs, the most effective measures of state support include exemption and deferral from taxes and other payments (24%), deferral of loan payments (13.9%), preferential loan for replenishment of working capital (12.5%), government grants

(9.1%), refinancing loans (8%), preferential loan for investment purposes (7.7%), loan guarantee (6.3%) (Figure 2).

Figure 2: The most effective measures of state support for business according to the survey results



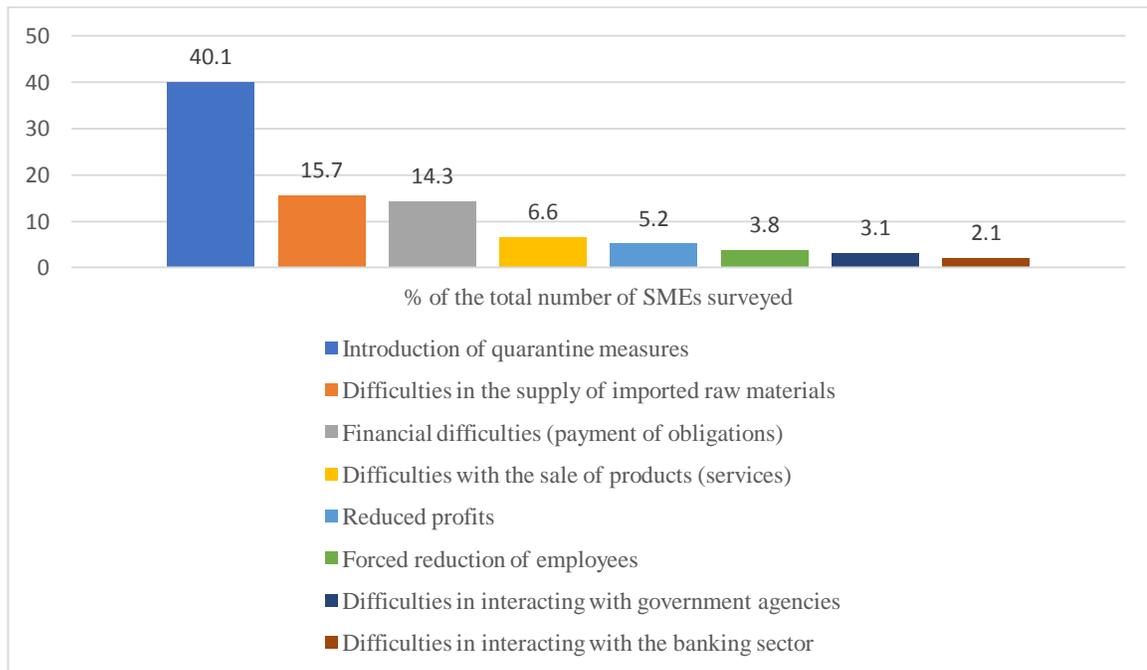
From a practical point of view, this is also evidenced by the statistics from the survey: before the pandemic, 35.2% of respondents had experienced using state support measures; during COVID-19, 43.9%. At the same time, the most popular (used) measures of state support are noted:

- exemption and deferral from taxes and other payments (32.4%);
- deferred loan payments (24.4%);
- refinancing of loans (13%);
- preferential loan for replenishment of working capital (5%);
- preferential loan for investment purposes (3.1%).

Thus, among the most necessary assistance measures, the most in demand are instruments for restructuring financial obligations aimed at improving the financial condition of SMEs.

In such a difficult period, SMEs faced serious challenges to preserve their activities and jobs - 63.1% of respondents report that they faced a decision to reduce employees due to various reasons during the pandemic, 48.8% of respondents plan further reductions in the near future. For public administration, this is a wake-up call and indicates the urgent need to continue and transform the policy to support SMEs. COVID-19, in addition to health-related risks, brought other difficulties of doing business (Figure 3).

Figure 3: The most difficult business situations during COVID-19 according to the survey results



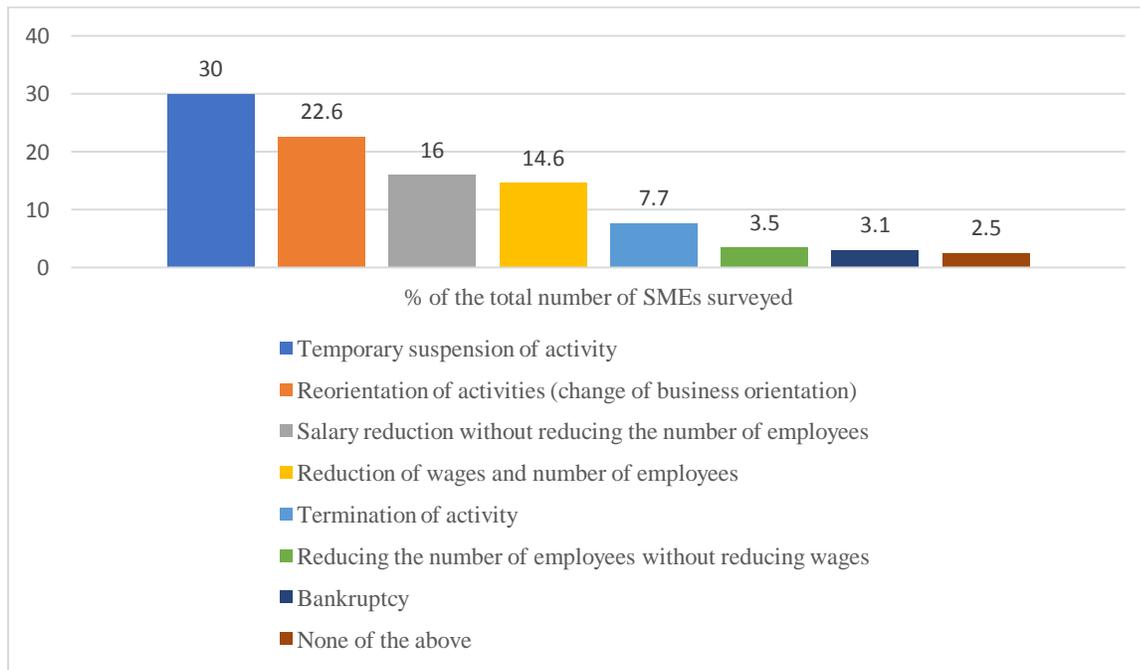
In this regard, more than half of respondents (56.1%) report a significant change in business strategy. The most used tool for these purposes, entrepreneurship notes the modernization of business processes (37.6%), the transition to online trading (28.9%), retraining of personnel (18.5%) and the use of digital technologies (12.5%). Thus, digitalization is currently a promising resource for business, which should be encouraged within the framework of the state policy of supporting SMEs.

According to the data of the Bureau of National Statistics of the Republic of Kazakhstan, as of June 01, 2021, 119,965 small and 95 medium - sized enterprises suspended their activities (Bureau of National statistics, 2021). For in comparison, the number of temporarily suspended operations as of June 01, 2020 was 98,786 small and 93 medium - sized enterprises (Bureau of National statistics, 2020). Thus, as official statistics show, the pandemic dealt a major blow to small businesses - an increase in the number of small enterprises temporarily suspending their activities of 21.4%. At the same time, among the respondents, entrepreneurs indicated temporary suspension of activities (30%) and reorientation of activities (change of business orientation) (22.6%) as the most frequently applied strategies (Figure 4).

It is important to note that business responded flexibly to the crisis – a significant part of it was able to reorient its activities / change its focus. This is some confirmation of the opinion of scientists Lves, Lok, Luo, Hao about the potential for small businesses to respond promptly to the crisis due to the Government’s low degree of bureaucracy and small size (Lves et al., 2020).

At the same time, an alarming situation is developing in connection with the choice of business survival strategies with the loss of labor resources (14.6% of respondents note a reduction in wages and the number of employees, 3.5% of respondents chose a strategy to reduce employees without reducing wages), thus increasing unemployment, as well terminating activities (7.7%).

Figure 4: Business strategies during COVID-19 based on survey results



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Discussion

This analysis examines the issue of interaction between public policy and small and medium-sized businesses, their adaptation, and the state's response to the economic crisis caused by COVID-19. The vulnerability of the SME sector and the decline in their business activity was transformed into attempts to adapt to new conditions. The reorientation of activities and the use of digital technologies confirms the efforts of business to survive. However, COVID-19 exposed the problem of the lack of anti-crisis management, the high dependence of business on government support measures in the form of tax benefits, concessional financing, etc.

Thus, the survival of a business directly depended on the ability to adapt to new realities in the form of restrictive measures, reduced business activity, instability. This is consistent with the conclusions of scientists Patricia Carracedo, Rosa Puertas, Luisa Marti (2021) about the affected SMEs that need to rebuild in order to survive in this unforeseen scenario. SMEs need to adopt to new features where virtual business systems have gained ground. This is also confirmed in the results of this study, where almost one-third of respondents indicated the transition to online trading as the most applicable business tool during the COVID-19 period.

In addition, as the work of Patricia Carracedo, Rosa Puertas, Luisa Marti (2021) shows, the survival of SMEs will depend on their ability to view this situation as a turning point - the introduction of innovations at all levels will strengthen the foundations of activity (Carracedo et al., 2021). And the authorities, in turn, should assist in this task.

According to the OECD, government support has always played a key role in shaping the scale, nature and direction of innovation in the economy. Public policy to support innovation should be able to direct private innovation efforts to where they are needed most, especially where market signals are insufficient and coordination is the most difficult task (OECD, 2021).

However, as the analysis shows, currently Kazakhstan does not pay enough attention to this aspect. The emphasis of state support is concentrated on measures of tax and financial regulation. At the same time, economic and financial instruments are widely used in the field of innovation policy (Edquist and Borrás, 2013).

Conclusion

Based on the results of this study, it is necessary to highlight the need for state support for business – as the survey showed, the use of these measures increased during the COVID-19 period. It is necessary to continue the line of tax and credit deferrals, but pay due attention to the support of innovation and the use of digital technologies.

There is a high risk of the release of employees. As a result, an increase in the unemployment rate is possible. The reason for the decision to reduce the number of employees can be identified as among the most difficult situations for business, as well as the introduction of restrictive quarantine measures and financial difficulties (payment of obligations).

Despite the difficulties experienced, small and medium-sized businesses are finding new approaches to managing activities, modernizing business processes and using digital technologies, including switching to online trading. However, there remains a high risk of an increase in the number of small enterprises that have temporarily suspended their activities. This indicates the need for a transformation of state policy in relation to small and medium-sized businesses.

According to an Asian Development Bank Institute Working Paper, the policy of stimulating innovation in small and medium-sized enterprises includes government actions aimed at stimulating innovation and/or accelerating the spread of innovation. The policy can be implemented through various instruments, including tax incentives, grants or direct subsidies, low-interest loans and direct government equity participation. At the same time, the volume, duration and continuity of state support programs are crucial (Asian Development Bank Institute, 2016).

Thus, public policy should be sufficiently flexible with regard to the support provided to SMEs (Guimón, 2015).

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