PROBLEMS OF DEVELOPMENT AND REGULATION OF SMALL AND MEDIUM-SIZED BUSINESS IN MODERN RUSSIA

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Abstract

The article deals with the current state of small and medium-sized business (SMB) in the Russian Federation. The authors carry out the analysis of the main problems and factors which impede the development of SMB, describe the system of state regulation of small and medium-sized enterprises in Russia. The solutions to the problems are based on the improvement of the mechanisms of resource provision and financial support to entrepreneurs, the reduction of their tax burden and facilitation of taxation procedures, the reduction of administrative barriers and ensuring access of small and medium enterprises to government orders and technological infrastructure.

Key words: *small and medium-sized business, state regulation, entrepreneurship support, taxation of small and medium-sized enterprises (SMEs), administrative barriers, problems of SMB development in the Russian Federation.*

1. STATE AND STRUCTURE OF SMALL AND MEDIUM-SIZED BUSINESS IN THE RUSSIAN FEDERATION

Small and medium-sized business (SMB) is one of the major subsystems of the market economy which creates prerequisites for its sustainable development. SMB provides the creation of jobs with low capital costs, market saturation with goods and services, tax revenues to the budgets of all levels, employment of population; it also contributes to the development of human capital, competitive markets and innovation sector, to the improvement of living standards and social stability. Due to the mentioned factors, the active state policy is carried out in Russia since the second half of the 2000s which aims at ensuring sustainable development of small and medium-sized business (SMB). However, the goal has not yet been achieved, and this fact actualizes the problem of improving the measures of Russian small and medium-sized business state regulation and support.

The existing criteria used in the Russian Federation for attributing economic entities to micro-, small and medium enterprises are given in Table 1.

Table 1. The criteria of attributing economic entities to different categories of small and medium-sized enterprises in the Russian Federation

Category of enterprise	Employment at enterprise	Turnover of enterprise
Micro-enterprise	Up to 15 employees	Up to 60 million rubles
Small enterprise	From 16 to 100 employees	Up to 400 million rubles
Medium-sized enterprise	From 101 to 250 employees	Up to 1 billion rubles

Source: Federal Law 2007, 'On the Development of Small and Medium-Sized Enterprises in the Russian Federation' of July 24, 2007 no. 209-FL, (Russian), viewed 15 May 2015, <http://base.garant.ru/12154854>.

The major part of the smallest SMEs operates in the service sector. These include 54% of the total number of individual entrepreneurs, as well as 45.8% of all micro-enterprises-legal entities and 34.4% of small enterprises-legal entities. As a rule, in other economic sectors larger SMEs implement their

activity. Thus, 27.3% of all medium-sized enterprises are engaged in the industry (Ministry of Economic Development of the Russian Federation 2015, p. 94).

The dynamics of SMB's share in the key indicators of the economy as a whole for the period from 2010 to 2013 is shown in Table 2.

Table 2. The share of small and medium-sized enterprises in the national economy (in % from the total values of indicators of economy as a whole)

	Medium-sized enterprises				Small enterprises, including micro-enterprises			
	2010	2011	2012	2013	2010	2011	2012	2013
Average number of employees (excluding external part-time employees)	5,2	4,3	3,7	3,6	21,0	22,7	23,4	23,5
Turnover of enterprise	7,1	5,1	5,4	4,9	21,4	22,2	21,1	20,5
Investments in fixed assets	2,3	2,4	1,7	2,3	7,2	3,9	4,1	4,3
According to accounting reports:								
Fixed assets	1,6	1,6	1,7	1,1	21,9	20,3	19,8	40,6
Current assets	3,8	4,0	4,4	2,3	22,4	23,0	23,1	39,1
Reserve assets	1,3	1,4	1,5	1,4	21,7	21,0	21,2	20,5

Source: Federal State Statistics Service (Rosstat) 2014, 'Small and Medium Entrepreneurship in Russia: Statistical Compilation', Rosstat, (Russian), viewed 8 June 2015, <http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359>.

The Table 2 indicates that the turnover share of SMEs-legal entities decreased slightly in the given period. In 2013 it amounted to about 25%, or 38.8 trillion rubles (901.6 million of US dollars) (Ministry of Economic Development of the Russian Federation 2015, p. 96) of the total turnover of all Russian enterprises. The total share of SMB in the total volume of investments in fixed assets reduced from 9.5% in 2010 to 6.6% in 2013. The total share of SMB capital and reserves decreased as well. The slight upward dynamics was revealed only in the number of employees in this economic sector as well as in the share of SMB assets which, according to the financial statements of firms, leaped in 2013 apparently due to the revaluation of assets.

2. THE MAIN PROBLEMS AND FACTORS CONSTRAINING DEVELOPMENT OF SMB

The current level of Russian small and medium-sized business development is assessed as nonsufficient (RosBusinessConsulting Information Agency 2014; National News Service Information Agency (NSN LLC) 2015). The contribution of this sector to the Russian GDP reaches 20-21%, and its share in the total employment is 25% (Ministry of Economic Development of the Russian Federation 2015, pp. 95-96; National News Service Information Agency (NSN LLC) 2015) while in the countries with developed market economies these indices reach 60% and 83% (Vlasov, MM 2014), respectively. The reasons of such state of affairs are the following (Kiryushin, P 2011; Murmansk Regional Department of the All-Russian Public Organization of Small and Medium-Sized Business *Support of Russia* 2015): insufficiently flexible system of taxation; numerous administrative barriers; difficulties associated with the attraction of credit resources; imperfection of the legal framework governing the activity of SMEs; the need to improve state support measures

Table 3 illustrates the results of the annual surveys of entrepreneurs conducted by Russian Federal State Statistics Service in 2010-2013. The results allow determining the degree of negative impact caused by different factors to the SMB investment activity.

Table 3. Distribution of small [1)] enterprises by the assessment of factors impeding their investment activity (in % from the total number of enterprises)

Factor \ year	2010	2011	2012	2013
Deficient demand for production	24	22	22	24
Insufficient private funds	58	54	59	49
High interest rate of commercial credit	27	29	29	28
Complex procedure of obtaining credits for investment projects implementation	15	17	17	14
Investment risks	10	11	11	11
Inadequate state of technological infrastructure	7	7	9	7
Low profitability of investments in fixed assets	7	8	9	9
Ambiguous economic situation in Russia	26	28	25	24
Imperfect legal and regulatory framework of investment procedures	6	8	6	7

[1)] Except for micro-enterprises. Source: Federal State Statistics Service (Rosstat) 2014, 'Small and Medium Entrepreneurship in Russia: Statistical Compilation', Rosstat, (Russian), viewed 8 June 2015, <http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359>.

As can be seen from Table 3, the insufficient private funds is the most negative factor supplemented by a high interest rate of commercial credit and the complex procedure of its obtaining. The deficiency of effective demand and the ambiguity of economic situation in the country have stable negative impact on MSB. The impact of such factors as imperfect legal and regulatory framework, investment risks, low profitability of investments in fixed assets and inadequate state of technological infrastructure is relatively nonsignificant.

3. THE MAIN DIRECTIONS OF STATE REGULATION OF SMALL AND MEDIUM-SIZED ENTERPRISES IN RUSSIA

The intensive activity on improving the mechanisms of MSEs state regulation at all business stages has been carried out in Russia during last years in order to stimulate the entrepreneurial activity. The main directions of this work consist in providing access to financing, introducing special tax regimes, reducing administrative barriers and creating the infrastructure for SMEs development (Ministry of Economic Development of the Russian Federation 2015, p. 5).

The infrastructure for SMB development includes the system of commercial and non-profit organizations that purchase goods and services from SMEs for executive authorities during the implementation of federal, regional and municipal programs. The infrastructure of SMEs support also includes: centers and agencies for the development of entrepreneurship; state and municipal credit assistance funds; investment funds accumulating investments for MSEs; technological and scientific parks, innovative and technological centers; business incubators; chambers and centers of crafts; marketing, educational and business centers; leasing companies; consulting centers; manufacturing, industrial and agro-industrial parks; centers of technology commercialization; centers of collective

access to high-tech equipment; state funds of research, scientific, technological, innovative activity support and other organizations.

The financial and system-wide measures for SMB support have been implemented in the Russian Federation. The system-wide measures include legal and regulatory framework – ensuring access to real estate, taxation, government orders, reduction of administrative barriers (Ministry of Economic Development of the Russian Federation 2015, pp. 97-115).

4. FINANCIAL SUPPORT OF SMB

The program of the Ministry of Economic Development of Russia is one of the key elements of financial support system (Decree of the Government of the Russian Federation 2009). According to this program the federal funds are provided on a competitive basis in the form of subsidies to the budgets of Russian Federation entities for the implementation of activities under the regional programs for SMEs development. Most of the RF entities receive co-financing at the rate of 4 rubles from the federal budget for 1 ruble from the regional budget.

In 2013, the financial measures for SMEs support under the program of the Ministry of Economic Development of Russia included (Ministry of Economic Development of the Russian Federation 2015, pp. 98-99):

– support to small enterprises leasing (funding of lease payments and first installments – up to 10 million rubles, providing leasing grants to start-up entrepreneurs – up to 1 million rubles per one recipient of support);

– modernization of production (covering expenses on interest rates payment, purchase of equipment – up to 10 million rubles per one recipient of support);

– grant support to start-up entrepreneurs (providing grants to start-up entrepreneurs in the amount of 300 thousand rubles);

– creation of micro-financial organizations (providing loans of up to 1 million rubles for a period of no more than 1 year at the annual interest rate not exceeding 10%);

– creation of guarantee funds (providing security for debts on loans to entrepreneurs in case of shortage of their own mortgage security - up to 70% of the loan amount);

– development of youth entrepreneurship, including the creation of innovative creativity centers for youth (subsidies for the establishment of centers of up to 7 million rubles per one recipient of support);

– establishment and development of infrastructure for small business support (business incubators – from 900 m^2, reduced rent; industrial parks – from 20, 000 m^2, technoparks – from 5, 000 m^2);

and others.

5. SYSTEM-WIDE MEASURES FOR SMB SUPPORT

We will start the consideration of system-wide measures of SMEs support with the privileged access to immovable property Article 18 of the Federal Law no. 209-FZ (Federal Law 2007). State and local authorities may transfer land, buildings, constructions, facilities, equipment, machinery, mechanisms, vehicles, inventory, tools in possession or use of SMEs on favorable for SMEs conditions. The lists of assets should be published in the media and posted on the Internet. Besides, SMEs have the right to purchase the property owned by the state and leased by SMEs for at least two years. As of January 1, 2014, the total number of repurchased premises amounted to 36, 076.

The use of special tax regimes is an equally important system-wide measure of SMEs support in the Russian Federation (Ministry of Economic Development of the Russian Federation 2015, pp. 102-103; Yugay, S 2015). Small business and individual entrepreneurs may choose one of the following

taxation ways: common system of taxation; simplified system of taxation; a single tax on imputed income for certain types of activity; patent system of taxation.

The common system of taxation allows for the payment of all taxes prescribed by the Tax Code, thus the procedure involves substantial expenses. Therefore, as a rule, entrepreneurs are trying to transfer their firms to more preferential taxation systems.

The simplified tax system (STS) was introduced by the Federal law of July 24, 2002 no. 104-FZ (*Simplified Tax System* 2002). Transfer to such regime can be accomplished by the enterprise with limited incomes and resources (in particular, with annual revenues not exceeding 60 million rubles; with the assets value less than 100 million rubles and a staff of at least 100 employees). The simplified system integrates value-added tax, corporate income tax and tax on corporate and individual property in one aggregated tax. The advantages of STS consist in the entrepreneurs release from the obligation to provide financial statements to the Federal tax authorities and the ability to avoid drawing up invoices. The obstacles of this regime application may be associated with the limitedness of business size and resources, as well as with the ban on the opening of branches that hinders the development of the enterprise.

The entrepreneurs can also choose the single tax on imputed income. In this case the tax is calculated on the basis of the potential income. According to the Chapter 26.3 of the Tax Code of the Russian Federation (*Garant* Information and Legal Portal 2015) this taxation regime can be selected if the firm specializes in a certain activity: personal services; repair services, maintenance and vehicles washing; retail trade in limited sales areas. The amount of tax will make 15% of the tax base reduced by the insurance contributions and payment of temporary disability benefits. The disadvantages of the single tax on imputed income include the fact that the tax rate represents a fixed sum that is independent of the results of the enterprise activity (unless the enterprise has a budget deficit).

The patent regime of taxation is intended for individual entrepreneurs employing no more than 15 workers. The regime was introduced in 2013 and has been currently regulated by the Federal Law no. 94-FZ of June 26, 2012 (Federal Law 2012). The patent covers 47 kinds of activity. The enterprise obtains the patent for a certain type of activity, and the law regulates the potentially possible income within each type. The entities of the Russian Federation determine independently the size of potential income in the region for each type of activity, but not exceeding 1 million rubles. The cost of a patent amounts to 6% of the annual income. The patent is purchased for a period from 1 to 12 months of the current year at a price depending on the period of the patent's validity. The relative disadvantages of this tax regime are as follows: prepayment system, as an individual entrepreneur shall pay the tax without regard to the expected profitability; the inability to deduct the insurance expenses from the amount of a patent, as provided for other tax regimes; as well as the fact that carrying out various activities or the same activity but in different entities of the Russian Federation, an entrepreneur has to purchase patents for each activity or for each region, respectively.

On December 29, 2014, the Federal Law no. 477-FZ (Federal Law 2014) was adopted. For the period from 2015 to 2020 it provides the entities of the Russian Federation with the right to completely exempt start-up individual entrepreneurs applying the simplified or patent taxation systems from taxes for two tax periods.

The system-wide measure of SMEs support also consists in ensuring access to the state order that plays an important role in the conditions of low-volume market demand for goods and services of SMEs. In 2013 the Government of the Russian Federation approved the roadmap on "Improving access for small and medium-sized enterprises to the procurement of infrastructure monopolies and state-owned companies" (Resolution of the Government of the Russian Federation 2013). It is expected that in the mid-term prospects at least 1 trillion rubles a year will be invested in SMEs support due to the implementation of the roadmap.

The administrative load on business is regulated by the Federal law of December 26, 2008 no. 294-FZ (Federal law 2008). Aimed at reducing the administrative barriers, the National Business Initiative was formulated in 2013. It consists of roadmaps – plans of priority measures on the most problematic sectors of state regulation. More specifically, these measures include: increasing the availability of

energy infrastructure; development of competition and the improvement of antimonopoly regulation; optimization of procedures for legal entities and individual entrepreneurs registration, etc. The criterion of roadmaps efficiency is represented by the Russia's status in the international rankings, and the target indicator – by Russia's entry into the top 20 countries on the investment climate index by 2018.

5. CONCLUSION

Thus, the key problems of small and medium-sized business development in Russia are associated with the low level of market demand, large tax deductions, numerous administrative barriers, lack of funding and state support. The solution of these problems will contribute to the modernization of resource and system-wide measures of state regulation – ensuring access to government orders, more flexible system of preferential tax regimes and tax holidays for start-up entrepreneurs, implementation of developed roadmaps aimed at reducing the administrative load, subsidies and grants for start-up entrepreneurs, development of SMEs support infrastructure.

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