Specificity of the territory of small business
and its state support in Russia

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Abstract

The crisis in Russia caused a new wave of state attention to small and medium-sized enterprises (SMEs). However, all previous attempts of the state to bolster SMEs development have not been successful. Russian SMEs differ significantly from their foreign counterparts. This article is devoted to economic and historical analysis of the causes of the Russian SMEs specific features. The Russian small and medium-sized business is developing quite differently than it was expected in the beginning of market reforms. Sectoral structure of the Russian economics, sharply focused on the export of primary products and fuel, and common institutional structure of the country economics don't let the Russian small and medium business reveal their many-sided opportunities. The Russian small and medium-sized business embodies in itself underdevelopment of basic market institutions, the lack of competent institutions of civil society. To the damage of Russia's interests, by the efforts of bureaucracy and big business small business was given a secondary, subordinate role in the Russian national economy. From the locomotive of changes, as it was declared in the initial stage of Russian market reforms, small business for a long time has been nothing more than a means of survival for the population, at the same time servicing processes of secondary and tertiary redistribution of excess profits of large business. SMEs cannot provide for the anticipated leap in the development of the Russian economy.

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Introduction

In the late 80s of the twentieth century a new Russian small business legally emerged as a result of the resolutions on cooperation and self-employment adopted by the USSR Government. The huge benefits of all kinds, including the ones from the state budget, and the overall favorable government's attitude towards small entrepreneurship determined the period of time that veterans are still calling the "golden age" of small business. It should be noted that the "golden age" of small business and its role of "perestroika accelerator" attributed to it then, largely contradicted the country's unsuccessful reforms attempt while relying on the government apparatus.

It is well-known that Egor Gaidar's shock therapy and its consequences have been getting very mixed reviews. 1992 was the year of shock therapy in the absence of a viable statehood and, accordingly, a state policy for small business support. Nevertheless, it was the year of the highest growth rate of the amount of legal small businesses (210% according to the official statistics) and the number of employed in SMEs.

The basic features of the sectoral and regional structure of SMEs revealed during the first year of market reforms and have not changed significantly to date. Trade and services then were and now remain the dominant sectors of the Russian small business.

As per the regional structure of small businesses, Moscow became the absolute leader in SMEs development. It was followed by St. Petersburg, the Republic of Tatarstan and the Sverdlovsk region.

The first period of national economic policy on small business (1992-1994)

The first period of national economic policy on small business (1992-1994) featured initial comprehension of economic problems of small business and its role in shaping the foundations of a modern model of a social market economy. The new legislation on SMEs emerged at this stage as the Presidential Decree "On measures aimed at the development of small and medium-sized business in the Russian Federation" No. 1485 of November 30, 1992 and the Russian Federation Government Resolution "On the network of regional agencies for small business support" No. 1434 of December 29, 1994 and others were adopted.
All of these government resolutions recognized small business support as one of the most important areas of the economic reform. They established sectoral priorities for small business development; provided for tax exemption of the amount of profit used for the production development, established preferential income tax rate for small businesses; provided for the allocation of credit resources to priority production of consumer goods, food and other commodities. However, all these documents remained only a declaration due to the specific economic situation of the first half of the 1990s and obvious low capacity of the new Russian state.

The Russian Foundation for support of entrepreneurship and the development of competition was established in 1993. It was reorganized into the Federal Fund for the Support of Small Business in 1995. But in practice, the first Foundation did not work due to lack of funds.

In early 1994, the government established the Foundation for Small Innovative Enterprises Assistance in the scientific and technical sphere. The Fund was a non-profit organization, which received 0.5% of the Federal funds for science, and in 1996 – 1.0% of the funds. The first private venture capital funds were founded.

A distinctive feature of this stage was the mass emergence of different infrastructural organizations formally acting in the interest of small business development, namely: regional support centers, business incubators, foundations, consulting firms, training centers, various associations and others.

Sectoral, territorial and non-governmental associations of small businesses were mass created. Thus, in November 1994, the Russian Association of Small Business Development (RARMP) was established. First All-Russian Congress of Unions and Associations was held in February 1996. Afterwards such conventions were conducted annually (with some exceptions).

It should be noted that activities of new Russian small enterprises relied heavily on the Soviet legislation before 1995. The same applied to the criteria of economic entities in this category earlier introduced in the USSR (15-200 employees industry sector-wise). But the new Russian rigid legislation on taxation and control pushed small enterprises to violate the law. They found themselves in a situation where any small business could be held potentially liable for violation of certain laws or regulations. This institutional trap transitioned from the Soviet times to the new Russia.

Since 1995, state policy for SMEs featured intensification of goal-setting in development and support for small business in the country, the growing diversity of institutions and instruments of state economic policy, and a certain trend for its decentralization. Specific measures were generated to provide real help to small businesses across the country with the provision of the relative autonomy of the regions in addressing this range of problems.

The State Committee of the Russian Federation for support and development of small business (GKRP RF) was formed in 1995. This committee got a broad mandate. It was assigned the development of the main directions of the state policy for the development and support of SMEs, including the framework of the central unit and the main instrument of this policy – targeted state
programs. The Committee was also assigned an important role of coordination and the practical implementation of all the programs of international technological assistance to the Russian Federation in this area. No law was adopted without consultations with Western advisers and experts working on the numerous programs of technological assistance to Russia. Significant progress was achieved in terms of legal support for the state economic policies: The Federal Act "On State Support of Small Business in the Russian Federation" No. 88-FZ was adopted on June 14, 1995, which in Art. 3 legislatively defined the status and the criteria of a small enterprise. Due to the lack of state funds the quantitative criteria of the small economic entities (100-200 people) earlier introduced in USSR were reduced by half. The Act specified three groups of the Russian small businesses: legal entities, entrepreneurs without a legal entity and farms.

The direction and the main instruments of state activities in the area of small business and its support were then determined by "Federal program of state support for small business in the Russian Federation during 1996-1997". The goal of this program was to ensure the sustainable development of small businesses in the industrial, innovation and other sectors of the economy. As well as the above-mentioned Act, the program was created with the active assistance of Western advisers on the basis of the best Western practices. The only downside was that neither this program nor any of the following programs for Russian small business support were carried out in due course. State and municipal programming of SMEs support became the sustainable form of an institutional trap in Russia.

During this period, certain efforts were made to expand the infrastructure of small business support. As of June 1997 74 regional SMEs support funds, 60 business incubators, 80 educational and business centers, 40 regional leasing companies, 44 techno parks, 60 information and analytical centers for development of small business operated in Russia.

But 1995 being the year of the adoption of these basic laws and the first Russian program for SMEs support, at the same time turned out to be the first year of decline in the number of Russian small businesses and legal entities and the average number of employed by SMEs. Legal entities number was decreased by 8.8%, and employment was decreased by 4.5%. The decline continued in 1996. According to the Russian official statistics, the number of small businesses and legal entities remained at the same level (about 900 thousand) between 1995 and 2007 with about 7-8 employees at an average. The number of farms fluctuated within the range of 260-270 thousand for many years. The long-term period of stagnation in the development of Russian small business begun then, and is still ongoing.

The reason for the stagnation was that the small business focused government policy was pushed away from participating in the appropriation of residues of the former Soviet state monopoly on the control over the major resource flows movement. Opportunities to participate in this appropriation were almost completely transferred to actively shaping large Russian oligarchic capital. In its turn, this large capital was tightly interconnected with corrupt bureaucracy and blocked the participation of small businesses in the control over any significant resource flows.
movement whatsoever. Thus, the large capital inflicted a crushing defeat to small businesses as potential competitors. Small business was deprived of the opportunity to properly participate in the privatization. The benefits of privatization were gained by large business.

To the prejudice of Russia's interests, by the efforts of bureaucracy and big business, small business was assigned a secondary, subordinate role in the Russian economy. From the locomotive of changes, as it was declared in the initial stage of Russian market reforms, small business for a long time was nothing more than a means of survival for the population, at the same time servicing processes of secondary and tertiary redistribution of excess profits of large business.

During the financial crisis of 1998 a large number of small businesses actually closed, particularly in trade, domestic services and mediation sectors. But small business due to its natural flexibility could overcome the crisis faster than large and medium-sized business, in the form of a new increase in the number of small enterprises and the number of people employed by them.

The main features of the Russian small business were formed:

Formally, the crisis and post-crisis periods were supposed to be the time for a qualitatively new formation of small business, a radical change in priorities, sectoral structure and mechanisms of development. During this period, the state begins to experience discomfort from rigid dependence of financial and economic systems on world commodity markets – oil, gas, gold, non-ferrous metals – industries traditionally dominated by large enterprises exclusively. The least dependent on these factors, small business experienced the most rapid recovery from the financial crisis and became the important guarantee of economic sustainability and social stability. The government was aware of the need to strengthen the small business sector. Federal Acts "On the single tax on imputed income," "On Licensing Certain Types of Activities", "On Leasing" were adopted to progressively support SMEs' development as well as the new Tax Code of the Russian Federation Chapter "On the special tax regimes" along with a number of other Federal Acts aimed at the general de-bureaucratization of the Russian economy.

But then the government started to lose interest in small business. The reason lied in the acceleration of economic growth of Russia being the energy exporter, that was happening along with hiking world prices for oil and gas. The anti-crisis demand for small business was exhausted. GKRPF RF and the Federal Fund for Small Business were closed. At that time, senior officials of the Ministry of Economy and Trade of the Russian Federation repeatedly expressed the idea to reduce not only the support for small business, but also to delete the concept of "small business" from the national legislation. The Federal programs for the development and support for small business were turned off.

The major feature of that period was an increase in the bureaucratic pressure on small businesses at all levels, nominally combined with the Federal government policy of deregulation. According to polls, the rating of negative impact of state racketeering on SMEs exceeded criminal pressure of the late 1990s. Transaction costs of doing business legally sharply increased which, combined with the ongoing high-level corruption, triggered a new wave of withdrawal of Russian
SMEs from legal operations towards "shadow economy". Moreover, the increase of bureaucratic pressure occurred against the policy of "de-bureaucratization" officially proclaimed as the main element of policy for the state support for small business.

The new Federal Act "On the development of small and medium-sized enterprises in the Russian Federation" was adopted in 2007. The only difference from the previous Act was in the introduction of the concept of "medium-sized business" based on the experience of European Union legislation. However, no special support for medium-sized enterprises was stipulated for in the Act.

On the one hand, the crisis of 2008 caused the reduction in the number of SMEs. On the other hand, it provided the impetus to the revitalization of quality policies to support SMEs in all possible ways. It was declared that, as in Western countries, support for SMEs is the major goal of public economic policy as a part of its anti-crisis measures, and that the government would take Russian SMEs to the level of developed countries in the next few years.

During this period the infrastructure to support SMEs was fully developed and various supportive organizations fully covered all Russian regions. Russia became the owner of one of the most comprehensive systems of SMEs support in the world. The amount of public funds spent on SMEs support multiplied up many times. The public policy for the development and SMEs support relied on the budget injections. Prior to that, the total volume allocated for these purposes was close to 6 billion rubles annually. In 2013, total budget expenditures to support SMEs in the country exceeded 32 billion rubles. In addition, 20 billion rubles were granted as state guarantees for lending to SMEs [O dopolnitel'nykh merakh po podderzhke…, www]. Subsidies and preferential loans for small businesses became the priority direction of support. It was carried out in the form of the SMEs financing program, developed and implemented by the Ministry of Economic Development of the Russian Federation, and by the newly-created SMEs State Bank. Nearly all Russian banks with state participation were connected to the SMEs preferential financing system. During 2013-2014 more than 135 billion rubles were allocated from the federal budget to support SMEs" [O merakh po razvitiyu malogo i srednego predprinimatel'stva…, www].

It became difficult to find a type of assistance to small businesses in western countries, which would not exist in Russia. The number of officials nominally involved in SMEs support also increased sharply.

For the long-term planning of public policy on SMEs the "road map" of priority measures for the most problematic areas of SMEs state regulation was developed. Namely, SMEs preferential financing system, improving accessibility of energy infrastructure, support for foreign markets penetration and export promotion, development of competition and improvement of anti-monopoly legislation, simplification of procedures for legal entities and individual entrepreneurs establishment, improving SMEs access to public procurement of infrastructure monopolies and state-owned companies from federal to municipal levels as a part of decentralization of public policies for SMEs.
Public organizations of SMEs development such as Skolkovo, RUSNANO, Russian Venture Corporation, the Foundation for Assistance to Small Innovative Enterprises in the scientific and technical field, and similar regional infrastructural organizations annually selected and funded hundreds of innovative start-ups. They created web-based virtual platforms for consultation and discussion of innovative ideas and, ultimately, for the selection of start-ups candidates.

A very strange situation occurred: on the one hand, volumes of state support for small and medium-sized enterprises multiplied up many times. Almost all of the recommendations and requests of large Russian unions and associations of SMEs such as OPORA Russia and Business Russia were embodied in laws and regulations. On the other hand, the total number of SMEs, especially their predominant form of individual entrepreneurs, began to decrease.

The number of actually existing individual entrepreneurs dropped to 8.9% between 2008 and 2013. The number of medium-sized enterprises decreased by 2.1% over 2008-2013. The number of their employees decreased by about 25%, and investments volume decreased twice [Federal State Statistics Service of the Russian Federation, www]. Some increase in the number of small businesses – legal entities greatly exceeded the increase in their operations volumes [Ibidem]. That means, many of the newly opened small businesses didn’t know what business to engage in and their establishment was nothing but imitation. Negative trends in the Russian economy had a much greater impact on small and medium-sized rather than larger businesses. The share of SMEs in the turnover of enterprises of the economy, according to Rosstat steadily decreased from 26.4% in 2011 to 23.9% in 2014, this trend was observed in the segment of medium-sized and small businesses. The share of medium-sized enterprises in the economy shrank from 3.9% to 3.5%, and the share of small enterprises – from 22.5% to 20.4% [Ibidem].

A record number of nominally breakthrough Acts on the development of SMEs were adopted in 2015. Severe restrictions on the inspection of enterprises were introduced, regions were entitled to reduce their tax rates and create new programs and organizations to support SMEs and other helpful measures were introduced. The tone of these activities was set by the decisions of the State Council of the Russian Federation in 2015, dedicated to the SME sector. But at the same time, the policy for SMEs support turned out to be a major disappointment.

Concluding remarks

The Policy for SMEs support falls short of expectations to become an anti-crisis instrument. As a consequence, in mid-2015 the Government of the Russian Federation was compelled to shift the timing of the "road map" for SMEs. By the governmental decision only 16.9 out of scheduled 26.0 billion rubles assigned to 85 regions of the Russian Federation were eventually approved to fund SMEs support as a result of public tenders. According to the Ministry of Economic Development, only 11.0 billion rubles will be allocated to the entire federal SMEs support in 2016 ["Gazeli" b’yut kopytom, 2015, www]. It is being declared that in the future, support for SMEs will
focus on medium-sized enterprises. Declarations of this kind were heard before, but they were not implemented.

It should be noted that despite all the progressive innovations, SMEs support remains largely centralized. Under the current Russian centralized model of fiscal federalism most Russian regions and, especially municipalities, simply have neither funds nor interest in encouraging the development of SMEs.

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Специфика территории малого предпринимательства и его государственной поддержки в России2

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Аннотация
Российское малое и среднее предпринимательство (МСП) развивается совсем иначе, чем это ожидалось в начале рыночных реформ. Отраслевая структура российской эко-

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