



29 MAY, 2020

International Virtual Conference on Management and Economics

The Role of Small and Medium-Sized Businesses in the Russian Economy

Ekaterina Erokhina ^{1*}, Olga Protasova ² and Martinovich Svetlana³

^{1*} *Candidate of Economic Sciences, Plekhanov Russian University of Economics, Head of directions JSC
Kommersant, Russia*

^{2,3} *Senior Lecturer, Peoples' Friendship University of Russia (RUDN University), Russia*

Abstract.

The role of small business in the Russian economy is multifaceted. Small enterprises are oriented towards satisfying consumer demand; they provide de-monopolization of the economy in comparison with producers-monopolists possess flexibility; contribute to the development of competition in the field of production, providing improved quality of products; more efficiently use equipment and material resources, etc.

Keywords: business, medium enterprises, micro enterprises, small enterprises

1. Introduction

The development of small forms of entrepreneurship meets the needs of all sectors of the Russian economy and the trends of world economic processes. Small business, being a purely market structure, is able to ensure freedom of entrepreneurial choice and stimulate the efficient organization of production. In all countries of the world, there are a large number of small enterprises of the most diverse profile. The contribution of such enterprises to gross domestic product in a number of developed countries exceeds 50%. The impact of the following factors directly related to small business creates favorable conditions for the recovery of the economy as a whole: a competitive environment is developing; the market is saturated with goods and services, while market niches are being filled both at the local level and on a wider scale, up to the scale of the country; additional jobs and conditions are created under which the level of wages is directly related to the results of labor, which increases the interest of all members of the labor collective; the consumer sector is expanding and dynamically changing; better use of local raw materials, labor and production resources (Knyazev, 2012) [5]. The results and prospects for the development of small and medium-sized enterprises in Russia became the subject of this scientific research.

2. Sources and methods

The methodology used consists of a number of procedural methods, the use of which made it possible to monitor the development of small and medium enterprises in Russia in

29 MAY, 2020

historical, normative, comparative, monographic and analytical approaches to research. The research became an information array: Russian legislation, scientific papers, information from the Federal State Statistics Service, the Ministry of Economic Development of the Russian Federation, the Federal Tax Service (FTS), and monitoring results of the P.A. Stolypin Institute of the Analysis Investment Policy, materials of the All-Russian Center for Public Opinion, and publications in the domestic and foreign mass media.

3. Results

According to the legislation of the Russian Federation [4], small and medium business is an entrepreneurial activity having the following features: independence; systematic profit; risky character.

The concept and criteria for classifying entities as small and medium-sized businesses are enshrined in the Federal Law of July 24, 2007 No. 209-FL “On the Development of Small and Medium-Sized Enterprises in the Russian Federation” (Tab. 1).

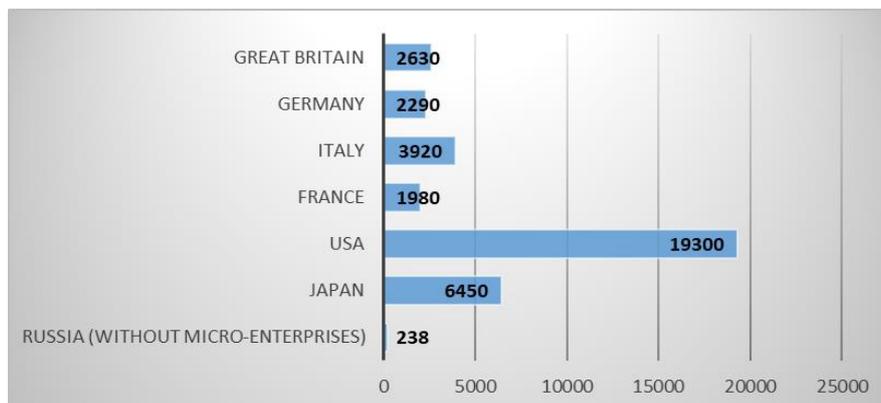
Table 1: General criteria for small and medium-sized businesses based on Russian law

№	Indicators	Criteria for business entities		
		Micro-enterprises	Small enterprises	Medium-sized enterprises
1	The limit value of the average number of employees for the previous calendar year (number of people)	15	16-100	101 – 250
2	Revenues for the year do not exceed (millions of rubles)	120	800	2 000

Source: compiled by the authors based on [4]

Most of the leading countries of the world adhere to the classification of the International Organization for Economic Cooperation and Development (hereafter - IOECD), where micro-enterprises are companies with up to 19 employees.; for small - up to 99 people; to average - from 100 to 499 people (Manaev,2007) [6]. In countries from the European Union, the share of small and medium-sized businesses in GDP is on average about 60%, since it provides most of the gross domestic product of any developed state (Fig. 1).

Figure 1: The number of small enterprises in different countries



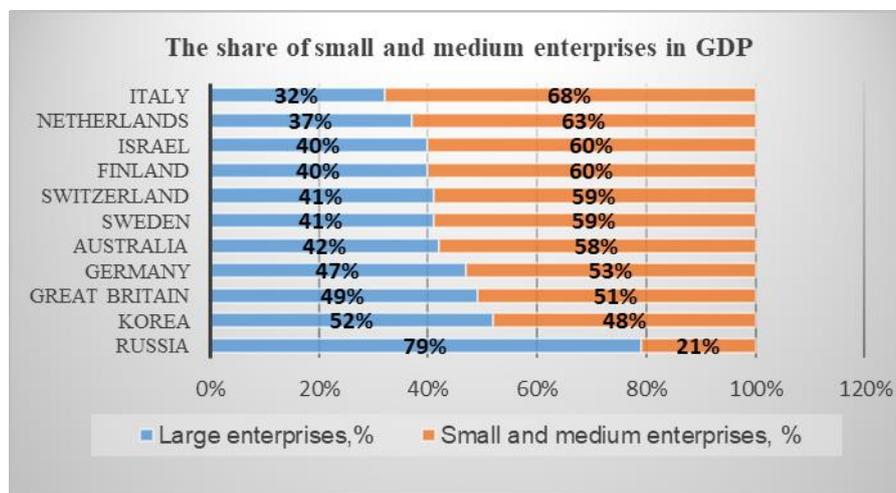
29 MAY, 2020

Source: compiled by the authors based on [4]

The results of comparisons below demonstrate, on the one hand, the significant role assigned to small and medium-sized businesses in the economies of other countries. Moreover, on the other hand, low level and great potential for the development of such enterprises in Russia.

According to the P.A. Stolypin Institute of Economic Growth, the share of production and services of small and medium-sized enterprises in GDP is only 21% (Fig. 2).

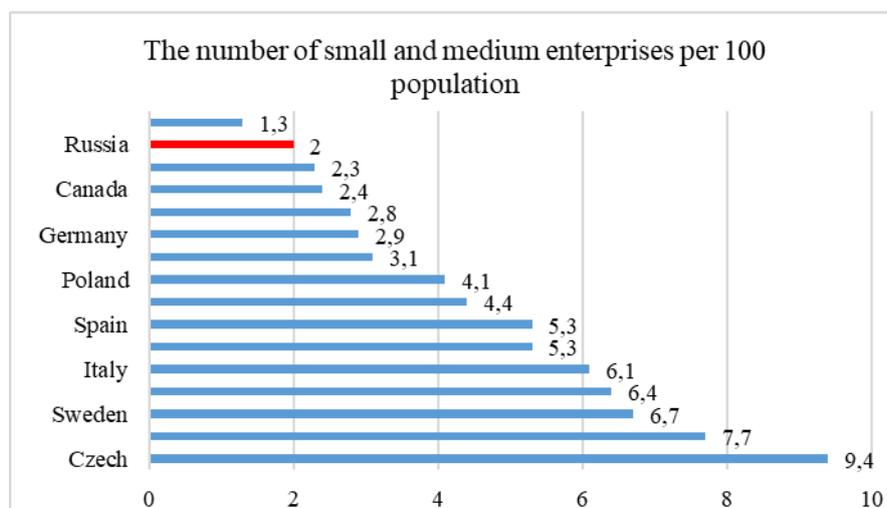
Figure 2: The share of small and medium-sized businesses in the country's GDP



Source: compiled by the authors based on [4]

In terms of specific indicators characterizing the share of the small and medium business sector in the economy, Russia is inferior to other countries (Fig. 3).

Figure 3: The share of small and medium-sized businesses in the country's GDP



Source: compiled by the authors based on (Titov, 2018) [12]

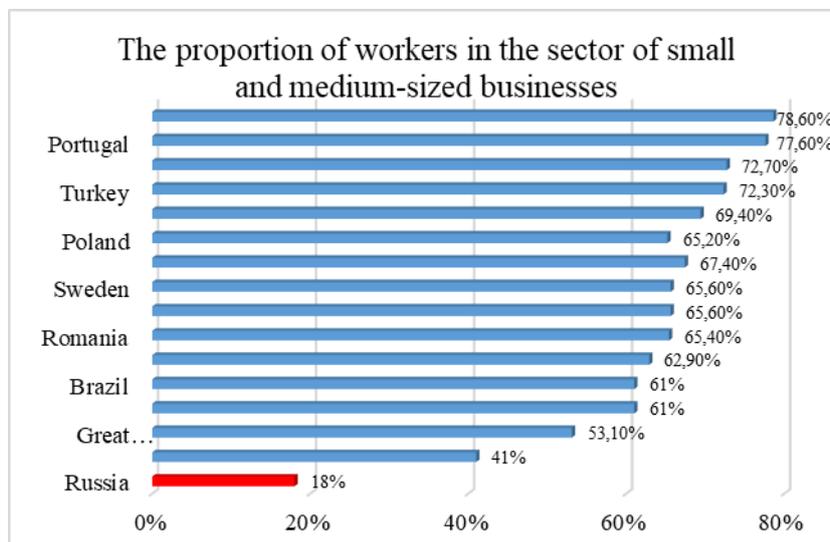
A comparison of countries in terms of the proportion of workers employed in the small and medium business sector also indicates a significant lag the Russian economy. If in Russia the

29 MAY, 2020

share of employees of small and medium enterprises does not exceed one fifth of all employed in organizations, then in other countries - with the exception of the United States - their share exceeds half, and in seven countries - more than two thirds of the total employment (Fig. 4).

The existing difference in USA position in Fig.3 and Fig.4 explained as follows. In the United States, small and medium-sized enterprises play an important role. Moreover, although there are fewer of them (Fig. 3), but there are more workers on them (Fig. 4).

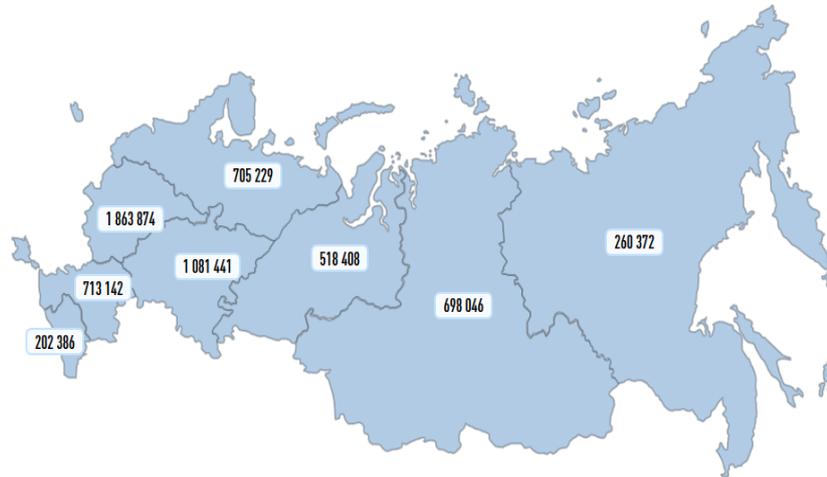
Figure 4: The proportion of workers in the sector of small and medium-sized businesses



Source: compiled by the authors based on [2], [3], and [7]

In addition, this allows such enterprises to make a greater contribution to the country's economy. In Russia, the share of micro-enterprises is much more significant (Titov, 2018) [12], accounting for more than 55% of the total number of small enterprises. The geography of distribution of small businesses in Russia is present in Fig. 5.

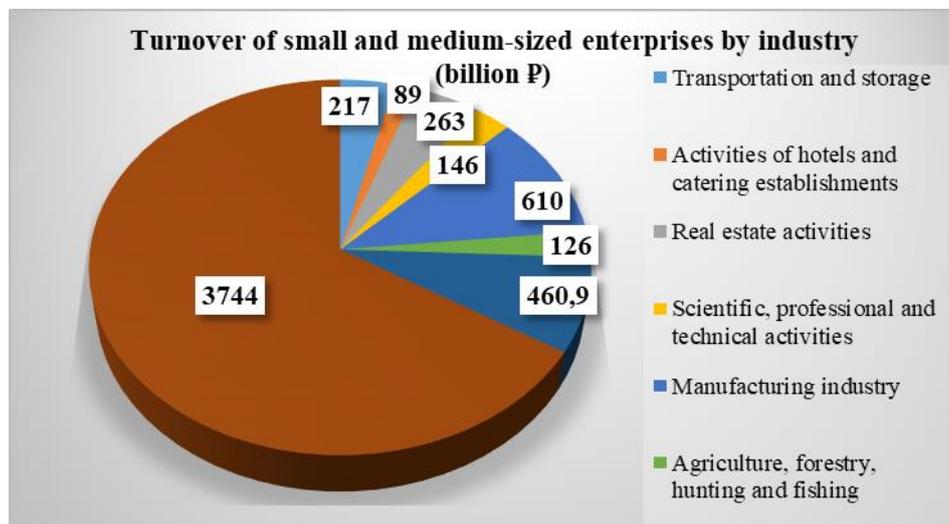
Figure 5: The number of small and medium-sized enterprises in the districts of the Russian Federation as of 10.10.2018



Source: [3]

More than 75% of enterprises of small and medium enterprises are concentrated in trade, construction and manufacturing. This analysis carried out on basis of data on the turnover of enterprises of small and medium enterprises [3] (Fig. 6).

Figure 6: Turnover of small and medium-sized enterprises by industry



Source: aggregated by authors based on [3]

Like employment, the turnover of the sector of small and medium enterprises — in contrast to the number of subjects of small and medium enterprises — does not depend on the structure of the sector of small and medium enterprises by the scale of enterprises. According to the Federal State Statistics Service, trade occupied 57% of the total turnover of the sector of small and medium enterprises. Manufacturing industries –10.6%.



International Virtual Conference on Management and Economics

29 MAY, 2020

The 25 % of the non-trading part of the sector of small and medium enterprises is the construction industry, another quarter - manufacturing. Quite substantial shares of non-trading turnover - from 5% to 10% occupied by sectors of activity on operations with real estate property (9.8%), transport and storage (8.9%), professional, scientific and technical activities (8.0%), agriculture and fisheries (5.3%).

The smallest share of the turnover of the sector of small and medium enterprises is less than 2%: healthcare and social services (1.6%), mining (1.3%), culture, sports and leisure (0.5%), education (0.1%).

Small and medium-sized businesses are strategically important sector of the economy of the Russian Federation. According to polls conducted by the All-Russian Center for the Study of Public Opinion [1], among the main problems, entrepreneurs name economic factors - rising costs and lower demand, but in the first place – economic uncertainty. Among the constraining factors for the development of small and medium-sized enterprises, respondents also include a high percentage of commercial credit (8.5%). For comparison, a similar loan in the European Union issued to such enterprises at 1.62% per annum (Titov, 2018) [12]. Administrative barriers play a negative role in the development of small and medium enterprises in Russia, the complexity of bureaucratic procedures, and corruption.

According to the Federal Tax Service [10], in 2019, the share of small and medium-sized enterprises applying special tax regimes in Russia increases from year to year and by the end of 2018 amounted to 71% compared to 59% in 2014.

At the same time, most taxpayers use a simplified taxation system because of a number of obvious advantages:

- Low (compared with the general tax regime) tax rate (15 or 6% depending on the chosen object of taxation);
- The possibility of accounting in a simplified manner;
- Cancellation of payment of corporate income tax, VAT and property tax of organizations / individuals (in relation to property that does not have cadastral value).

For 5 years (2014 - 2018), the number of taxpayers on the simplified tax system increased by 29%, with significant growth in 2017 and 2018 (106.3 and 106.1%, respectively). This trend noted in the vast majority of regions.

The tax burden of organizations on the simplified tax system is significantly lower than the tax burden of organizations operating under the general tax regime (in 2018 it amounted to 11.0%). At the same time, the tax burden of organizations applying the simplified tax system (on average for two bases: “income” and “income minus expenses”) is 2.5%. In addition, stable revenues indicate good tax discipline among small and medium-sized enterprises.

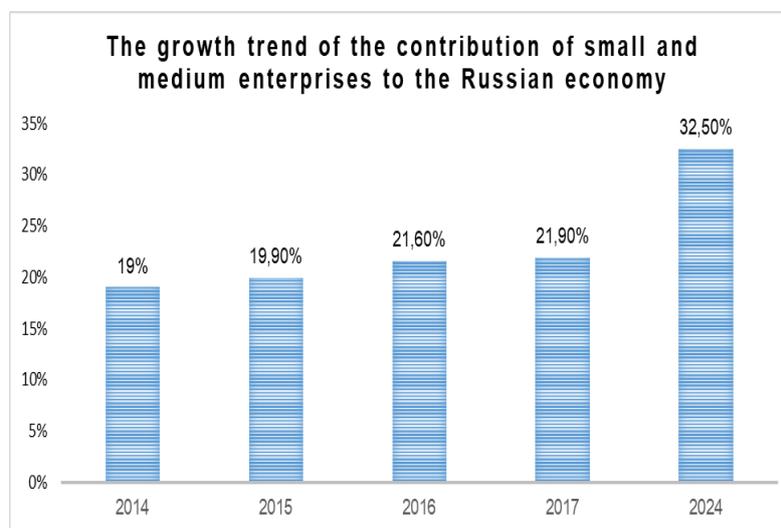
The Federal tax service of Russia notes [10] that in 2017, when the income of taxpayers working under the general tax regime decreased by 3.3%, the income of taxpayers applying special tax regimes, on the contrary, continued the positive trend and increased by 20.7%

29 MAY, 2020

compared to successful 2016 year. This once again suggests that small businesses are more resistant to various negative economic factors.

Good financial and economic performance of small and medium-sized is an indicator of stable tax revenues. In 2018, small and medium-sized businesses provided 512.7 billion rubles of tax revenues to the consolidated budget of the Russian Federation, of which 422 billion rubles, or 82%, were revenues from organizations working under the simplified tax system. For comparison: in 2014, their contribution to the total revenue was 73% (Fig.7).

Figure 7: The growth trend of the contribution of small and medium enterprises to the Russian economy



Source: compiled by the authors based on [3], [9]

President Putin V.V., speaking in March 2018 with a message to the Federal Assembly, said that by 2025, the contribution of small and medium-sized businesses to GDP should be close to 40%. In parallel with this, he set a goal to increase the number of employees in small and medium enterprises from 19 million to 25 million people.

Discrepancies arose in the program documents. The national project passport says that the share of SMEs is 32.5% by 2024, but there is also a strategy for the development of small and medium-sized businesses, adopted in 2016 and providing for growth of up to 40%. The 40% level in the document called a “strategic benchmark”, and the annual growth “should be 1% or more”. Growth plans for small and medium-sized enterprises (up to 32.5% and up to 40%) criticized.

At the beginning of 2019, RBC analysts suggested that the share of small and medium-sized enterprises in the economy might begin to take into account self-employed in the future, although in any case, the sector’s contribution to GDP will not increase significantly [8]. Their forecasts confirmed.

Since 2019, a new tax regime for self-employed has been introduced in four pilot regions (in Moscow, Tatarstan, Moscow and Kaluga regions). “Professional income tax” implies that self-employed citizens will pay tax at a rate of 4%, and if services are provide not to individuals but to legal entities, the rate will be 6%. At the same time, they exempted from



International Virtual Conference on Management and Economics

29 MAY, 2020

paying insurance premiums; except for payments to the Compulsory Medical Insurance Fund, (insurance premium in the Federal Compulsory Health Insurance Fund for 1.5% is included in the tax). Self-employed will have to independently bear responsibility for the size of their future pensions and can voluntarily deduct contributions to the Pension Fund, but the state guarantees only the payment of a social old-age pension.

According to Federal tax service of Russia [10] on 09.09.2019, more than 195 thousand people registered as self-employed; the total turnover amounted to 19.3 billion rubles and the amount of tax paid for the first six tax periods reached 406 million rubles.

The given indicators of economic activity of small businesses indicate their stable growth and ability quickly adapt to changing conditions. At the same time, small business has a significant potential for further growth and development of the constituent entities of the Russian Federation not only in terms of economic indicators (revenue of regional enterprises, taxes, etc.), but also in terms of a social nature (growth in employment, reduction in unemployment). The current development trend of small business allows us to talk about good development prospects in a future.

4. Conclusion

The instruments of state regulation, including limiting administrative pressure, simplifying the system for obtaining licenses and registration, tax benefits, acquire an important role in supporting and developing small and medium enterprises, which is due to the following factors:

- Small and medium-sized businesses contribute to the economic development of the economy as a whole.
- Ensure the filling of the domestic market with consumer goods and services.
- Guarantees tax revenues to the consolidated and regional budgets.
- Provides jobs and increases the level of employment, etc.

One of the factors ensuring the growth in the number of small and medium-sized enterprises should be their internationalization, examples of which may be exports or goods, attracting foreign investors, participation in the global value chain, and innovative cooperation.

However, the created difficulties not to suspend the development of domestic entrepreneurship, but also, on the contrary, even pushed for an early restoration and improvement. Thus, despite the serious difficulties in the development of small business in Russia, it is evolving, and is gradually reaching a new, higher quality level.

Acknowledgment

The results of this research were carried out on the basis of initiative research work of the Department of Accounting, Auditing and Statistics of the Peoples' Friendship University of



International Virtual Conference on Management and Economics

29 MAY, 2020

Russia (RUDN University), “Accounting and analytical support of business models”, No. 060605-0-000.

The publication has been prepared with the support “RUND University Program 5-100”.

References

- [1] All-Russian Center for the Study of Public Opinion. (2020). [Online]. Available: https://wciom.ru/database/baza_rezultatov_sputnik/?id=275&search=1&prevSql=KGB0cl96aF9xX3ZgLmBuYW11YCBMSUtFICcl0LzQsNC70Vv .
- [2] Eurostat (2020). <https://ec.europa.eu/eurostat> .
- [3] Federal State Statistics Service of Russia. (2020). <https://www.gks.ru/> .
- [4] Federal Law "On the Development of Small and Medium Enterprises in the Russian Federation" dated July 24, 2007 No. 209 - Federal Law (as amended on December 27, 2009 No. 474-FL). http://www.consultant.ru/document/cons_doc_LAW_52144/ .
- [5] Knyazev, I.O. (2012). The role of small business in the Russian economy. Innovations in the economy, No. 4, P.40-41.
- [6] Manaev, V.V. (2007). The formation and development of small business in the Russian Federation (1988-2006): monograph. Publishing House: Altai University.
- [7] MNIAP - Institute for the Analysis of Investment Policy. (2020). <http://xn--80aplem.xn--p1ai/analytics/Malyj-i-srednij-biznes-v-stranah-Evropy/>
- [8] RBC. (2020). <https://www.rbc.ru/economics/05/02/2019/5c5948c59a794758389cfd7> .
- [9] The Ministry of Economic Development of the Russian Federation (2020). <https://www.economy.gov.ru/> .
- [10] The role of small enterprises in the economy. (2020) <https://analytic.nalog.ru/portal/index.ru-RU.html>.
- [11] The site of the resource center of small business. (2020). <https://rcsme.ru/ru/statistics> .
- [12] Titov, B. (2018). Sector of small and medium-sized enterprises: Russia and the world. <http://stolypin.institute/wp-content/uploads/2018/07/issledovanie-ier-msp-27.07.18.pdf> .