

# Problems of Small Business Development and Mechanisms of Its Support in the Region

Irina Zhuckovskaya<sup>1</sup><sup>a</sup>, Marina Krasnova<sup>1</sup><sup>b</sup> and Olga Yares<sup>2</sup><sup>c</sup>

<sup>1</sup>*Department of Commerce and Hospitality, Vladimir State University named after Alexander and Nikolay Stoletov, Gorky Street, Vladimir, Russian Federation*

<sup>2</sup>*Institute of Tourism and Entrepreneurship, Vladimir State University named after Alexander and Nikolay Stoletov, Gorky Street, Vladimir, Russian Federation*

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**Abstract:** The formation and development of the regional economy directly depends on the activities of business, including small businesses, since the latter is aimed at providing services and producing goods that are consumed mainly on the territory of the region, its residents and guests. Consequently, small business has a predominantly pronounced regional focus. In Russia, the contribution of small and medium-sized businesses to the gross domestic product (GDP) is about 20-22%, and the share of the employed economically active population does not exceed 20-25%, while in developed economic countries these indicators are several times higher. In addition, the SARS-CoV-2 (COVID-19) coronavirus pandemic and restrictive measures taken by the Government of the Russian Federation led to the fact that the turnover of small and medium-sized businesses, according to experts of the National Rating Agency, decreased by 2.8 trillion rubles in 2020, and its share in the country's GDP may fall to 18.5% (under a stress scenario) [18]. The article discusses the dynamics, the main problems of development and state support of small business in the Vladimir region.

## 1 INTRODUCTION

Small business plays a critical role in the modern economy. The effectiveness of the functioning of small enterprises is determined by many factors: flexibility, mobility, stimulating competition, mobilizing creative and financial resources of the population, accelerating the restructuring of industry, ensuring scientific and technological progress, solving the problem of employment, and others.

In the economy of most regions of our country, the potential of small business is not fully realized due to the presence of problems not only of a regional, but also of a national character, and in international ratings Russia looks unattractive for the development of entrepreneurship. For example, in the Global Entrepreneurship Monitor (GEM) at the end of 2019, the Russian Federation was ranked 41 out of 54 countries, and Switzerland, the Netherlands and Qatar topped the ranking (see file Global Entrepreneurship


Monitor. 2019/2020).


The purpose of the article is to analyze trends in the development of small business in the region and the effectiveness of the mechanism of its state support.


The objectives of the study are reduced to identifying problems, the solution of which is necessary for the further economic development of small business in the region.

## 2 MATERIALS AND METHODS

The priority of economic thinking in relation to the problems of entrepreneurship belongs to foreign economists who have made a significant contribution to the development of concepts for the development of entrepreneurship, defining its characteristics in various fields of activity and formulating its role in the economy. Among the classic works devoted to

<sup>a</sup> <https://orcid.org/0000-0002-2824-0247>

<sup>b</sup> <https://orcid.org/0000-0001-9022-5171>

<sup>c</sup> <https://orcid.org/0000-0001-8143-3999>

entrepreneurship, the scientific works of foreign researchers from R. Cantillon to J. Schumpeter and J.M. Keynes, as well as domestic scientists from M.I. Tugan-Baranovsky to A.A. Aganbegyan. Among modern studies, it is worth highlighting works that consider the problems of the development of small and medium-sized businesses in foreign countries (including the post-Soviet space) (di Federico and Dorigatti, 2020; Edmiston, 2007; Herr and Nettekoven, 2017; Mazzarol and Reboud, 2020; Sheppard, 2020; Kirby and Watson, 2017, etc.), as well as in Russia and its regions (Barinova et al., 2019; Bykovskaya et al., 2018; Chaplyuk, Sorokina & Al' Humssi, 2019, etc.), including in a pandemic (Lola, 2020). A number of scientific studies have considered the mechanism of state support, certain aspects of the regional economic policy of small business organizations (Belanova, 2020; Golovetskii et al., 2018; Kalmykov et al., 2019, etc.). It should also be noted that at present the state mechanism of influencing small business is shifting from the federal to the regional level, which necessitates scientific analysis and substantiation of developing processes in regions and municipalities.

The research was based on the analysis of the current legislative framework for the development of small business at both the federal and regional levels. To assess the factors of change in the small business sector, the parameters of the National Project and an intersectoral strategic planning document were used. To analyze the situation provoked by coronavirus infection, we used research by the National Rating Agency (NPA, 2020), government documents, the Federal State Statistics Service (Rosstat), materials published on specially organized information sites for population and business, etc. The analysis of small business (SB) and its support was carried out in the region of the Central Federal District of the Russian Federation - the Vladimir region.

### 3 RESULTS

The most frequently used to assess the development of the institution of small business is the number of its subjects. If you look closely, then in the Vladimir region (as well as in Russia as a whole) until 2016 there were relative stability and even a slight increase in the number of small enterprises. However, since 2017, we have seen a negative trend. In almost all spheres of activity decreased the number of

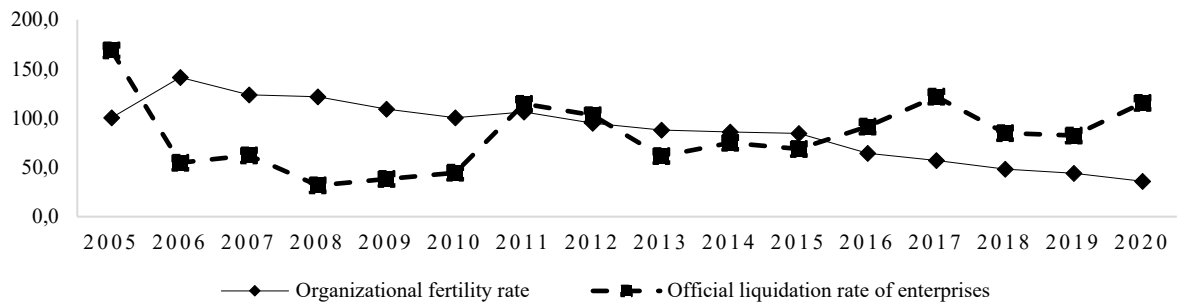
entrepreneurs and in 2020. As of January 10, 2021, the number of small enterprises (including microenterprises) amounted to 16.5 thousand units (in 2019 - 17.8 thousand units).

However, the growth of small businesses differs significantly from year to year. In order to conduct a deeper analysis of the dynamics of MB subjects, let us turn to the indicators of business demography, namely, the rates of «fertility» and the official liquidation of enterprises per 1000 organizations (Figure 1). In the modern world economy, about 50% of small businesses live for 5 years, and 33% for 10 years. In Russia and its regions this figure is much lower.

The data presented in Figure 1 clearly demonstrate three main stages in the development of entrepreneurial activity over the past 15 years. The first stage (2005-2010) - active growth of small business, when the birth rate significantly exceeded the death rate, despite the slowdown caused by the global financial crisis in 2008. The second stage (2011- early 2016) is characterized by significant instability and convergence of rates, and in 2015 even a drop in the official liquidation rate. The third stage (since 2016) is marked by a significant increase in the closure of small enterprises and a decrease in their number, especially since 2018. This indicates a steady and significant outflow of entrepreneurs from this sector of the Russian economy even before the start of the pandemic caused by the coronavirus COVID-19. In 2020, this situation was further aggravated after the adoption of restrictive measures to counter the pandemic. All this leads to a sharp decline in the number of employed workers and the turnover of small businesses (Figure 2).

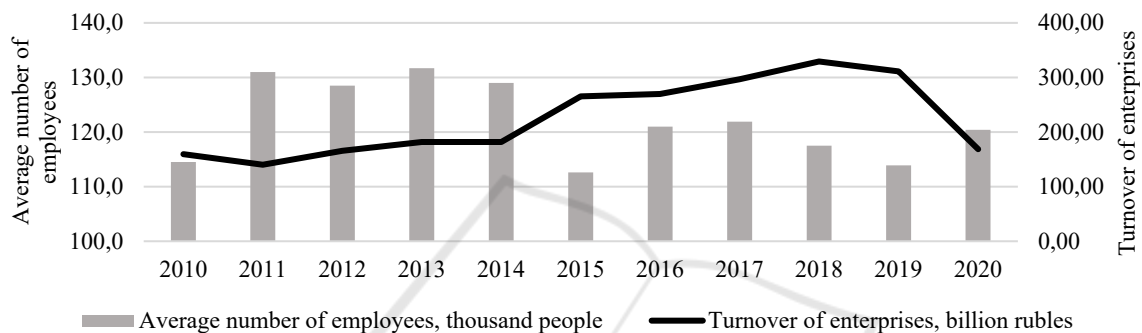
With regard to the sectoral structure, the first place among the number of enterprises was occupied by wholesale and retail trade (24.7%), the second and third most important spheres were manufacturing (9.82%) and enterprises engaged in construction (9.64%). The smallest number of small businesses in education, culture, sports, leisure and entertainment. If we compare these data with the indicators for Russia as a whole, we can see that in the small business sector the first places are also occupied by wholesale and retail trade (36%), construction (13%) and manufacturing (9%).

Analyzing the change in the volume of investments for the period from 2017 to 2019, we can observe a decrease in investments in fixed assets of small enterprises (by 41.9%).



Source: Federal State Statistic Service. URL: <https://gks.ru/>

Figure 1: Dynamics of demographic indicators of small businesses in the Vladimir region in 2005-2020.



Source: Federal State Statistic Service. URL: <https://gks.ru/>

Figure 2: Dynamics of changes in the average number of employees and turnover of small businesses in the Vladimir region in 2010-2020.

It should be noted that the innovation sector does not yet play a significant role in the regional economy: enterprises of the Vladimir region mainly produce traditional products. The share of technologically advanced and knowledge-intensive industries in the gross regional product does not exceed 2.2%.

The analysis of the state of small business in the region made it possible to single out the main problems hindering the development of small business.

The first problem standing in the way of the development of small businesses is the concept of entrepreneurship itself, which always implies the risk of activity, while this risk is often impossible to predict. In conditions of political and economic uncertainty, the risk does not allow a small business to establish its name and gain a foothold in the market, which, in fact, destroys the company, it simply ceases to exist.

The second significant problem is the excessive administrative and organizational barriers on the way to obtaining state support for small businesses.

The reduction of the tax burden by entrepreneurs

also speaks of the problem of the imperfection of the country's tax system and the imperfection of Russian legislation in general. For example, regional authorities, in order to support the MB, have the right to reduce the tax rate for certain types of entrepreneurial activity, but this right has not been implemented in the Vladimir region. However, in connection with the pandemic, entrepreneurs were provided with a measure of state support at the federal level - the provision of tax holidays.

The compulsory introduction of cash registers with a fiscal accumulator and labeling of goods has also become a problem for small and medium-sized businesses (especially in retail trade), which entailed additional financial costs for the business.

The next problem is the lack or complete absence of free own financial resources, as well as the inaccessibility of bank loan products for small businesses.

State support for small and medium-sized businesses is carried out on the basis of a whole package of regulatory legal acts, including the Federal Law of the Russian Federation «On the Development of Small and Medium Business in the

Russian Federation» (of July 24, 2007 No 209-FZ), the national project «Small and medium business and support for individual entrepreneurial initiative», Strategy for the development of small and medium business in the Russian Federation for the period up to 2030 (Order of the Government of the Russian Federation of June 02, 2016. No. 1083-r).

To provide assistance to business entities in the region, in accordance with Russian legislation, a program of its own was adopted («Development of small and medium-sized business in the Vladimir region» of November 05, 2013 No 1254-pg), which determines the results of its implementation in dynamics until 2024. This program also includes two subprograms: first – «Development of regional infrastructure for supporting small and medium-sized enterprises»; the second – «Financial support for small and medium-sized enterprises», which provides for measures of financial support for small and medium-sized enterprises.

Government support for small and medium-sized businesses within their competence is provided by the Administration of the Vladimir region (Department of Entrepreneurship of the Vladimir region) and local

government bodies. Infrastructure support of the Ministry of Railways has been operating in the region for several years, it includes 10 organizations, for example, such as the Fund for Assistance to the Development of Small and Medium-Sized Businesses in the Vladimir Region, the Vladimir Leasing Fund, the Business Incubator, etc.

At the level of municipalities, their own small business support programs were also approved.

Thus, we can conclude that regional and municipal authorities are trying to comprehensively help the development of both existing and newly opened businesses.

We will assess the effectiveness of the implementation of the regional program on the basis of the indicators specified in it. The data for calculating the effectiveness of the Program «Financial support for small and medium-sized businesses» and the state program «Development of small and medium-sized businesses in the Vladimir region» were also taken from the report of the Department of entrepreneurship of the Vladimir region.

Table 1: Evaluations of the effectiveness of the regional subprogram «Development of regional infrastructure to support small and medium-sized businesses».

Valuation type	Assessment procedure	Indicator
Assessment of the degree of achievement of goals and solves the tasks of the program as a whole	The assessment is made by comparing the actually achieved values of the program indicators and their program values	Lg - the degree of achievement of goals (solving problems) Lg = 142%
Assessment of the degree of compliance with the planned level of costs and the efficiency of using funds from the federal, regional budgets and other sources of resource support for the Program	The assessment is made by comparing the actual and planned values of financing of subprograms, from all sources of support for resources in general	Lf - the level of funding for the implementation of the main activities of the Program (subprogram) Lf = 128,4%
Assessment of the degree of implementation of the activities of the Program (achievement of direct results expected from its implementation) based on comparison of direct expected results and effectively obtained from the implementation of the main activities of the subprogram over the years based on the annual plans for the implementation of the Program	The program is considered to be implemented with high efficiency if: - the values of 95% or more of the indicators of the Program and subroutines are fulfilled by at least 95%; - the level of funding for the implementation of the main activities of the Program (UF) was at least 95%, the level of funding for the implementation of the main activities of all subprograms was at least 90%; - at least 95% of the activities planned for the reporting year have been fully completed. The program is considered to have been completed with a satisfactory level of effectiveness if: - values of 80% or more of the subprogram indicators are satisfied by at least 75%; - the level of funding for the implementation of the main activities of the Program (Lg) was at least 70%; - at least 80% of the activities planned for the reporting year have been fully implemented.	Lg = 80% Lf > 95% 100% of the activities planned for the reporting year were completed in full

Based on the results of the assessment, it can be concluded that the lowest level of goal achievement (Lg) was 0.6 for the indicator of measures in the development of municipalities. The high level of achievement of the program was 3.75 for the indicator of the creation of new enterprises.

After a full assessment of subprogram 1, it can be concluded that 80% of the indicators were achieved with a high level of efficiency. The level of funding

for the implementation of the main activities of the Program was more than 95%, and the activities planned for the reporting year were completed in full. It follows from the assessment that the level of effectiveness of the Program implementation is satisfactory.

We will assess the compliance of the degree of cost effectiveness under the second program (table 2).

Table 2: Evaluations of the effectiveness of the regional program «Financial support for small and medium-sized businesses».

Valuation type	Indicator
Assessment of the degree of achievement of goals and solves the tasks of the program as a whole	Lg = 142%
Assessment of the degree of compliance with the planned level of costs and the efficiency of using funds from the federal, regional budgets and other sources of resource support for the Program	Lf = 128,4%
Measure 1.1 - State support of small and medium-sized businesses in the constituent entities of the Russian Federation - a gratuitous subsidy to the Microcredit Company «Fund for Assistance to the Development of Small and Medium-Sized Businesses of the Vladimir Region» (to provide loans to small and medium-sized businesses)	Lf = 148,9%
Measure 1.2 - State support for small and medium-sized businesses in the constituent entities of the Russian Federation - free of charge	Lf = 100%
Measure 2.1 - State support for small and medium-sized businesses in the constituent entities of the Russian Federation - support for small and medium-sized businesses as part of the implementation of municipal programs (subprograms) for the development of small and medium-sized businesses, including single-industry municipalities	Lf = 100%
Measure 2.2 - State support for small and medium-sized businesses in the constituent entities of the Russian Federation - a subsidy to the «My Business» Center for the provision of services to small and medium-sized businesses	Lf = 100%
Measure 2.3 - State support for small and medium-sized businesses in the constituent entities of the Russian Federation - subsidy Autonomous non-profit organization «Coordination Center» to provide services to small and medium-sized businesses	Lf = 100%
Measure 2.4 - State support for small and medium-sized businesses in the constituent entities of the Russian Federation	Lf = 100%
Measure 3 - Subsidy to the «Business Incubator» for financial support of the fulfillment of the state assignment for the provision of public services in accordance with the list approved by the Department of Entrepreneurship	Lf = 102,5%
Measure 4 - Federal project «Popularization of entrepreneurship» of the national project «Small and medium-sized entrepreneurship and support of individual entrepreneurial initiative»	Lf = 100%
Measure 5 - Provision of leasing services by the VladimirLeasing Fund to small and medium-sized businesses	Lf = 101,9%
Measure 6 - Provision of services by the Prototyping Center to small and medium-sized businesses	Lf = 107,2%
Measure 8 - Support for small and medium-sized businesses in the framework of the implementation of municipal programs (subprograms) for the development of small and medium-sized businesses, including single-industry municipalities	Lf = 100%
Measure 9 - Provision of a range of services, services and support measures to small and medium-sized businesses in the Center «My Business»	Lf = 81,6%
Measure 10 - Provision of services by the center (agency) for coordination of support for export-oriented small and medium-sized businesses of the Vladimir region to small and medium-sized businesses	Lf = 81,3 %

So, after assessing the effectiveness of Subprogram No. 2, it can be concluded that the financing of activities in general is 95% completed, which was influenced by the underfunding of the «My Business» event and the provision of services by the coordination center to support export-oriented small and medium-sized businesses in the Vladimir region. From this we can conclude that entrepreneurs

are little aware of changes in legislation and support measures.

#### 4 DISCUSSION

Now we will consider in detail the problems of



implementing state programs for supporting small businesses and the proposed directions for improving the financial and credit mechanism of regional support for small businesses in the Vladimir region. Let's start with revising the instruments of state financial support for small businesses (Table 3).

Table 3: The main problems of instruments for regional financial support of small businesses in the region and ways to solve them.

Description of the problem	Solutions
Microcredit organization operates in competitive lending markets and is actually not a development institution	Consider the possibility of focusing activities on project financing for innovative businesses, industrial startups and other priority areas of small business
A small number of issued guarantees and sureties Guarantee Fund (GF)	The GF to double the number of unique small businesses that have received a surety / guarantee.
Lack of understanding of the small business entity about the reasons for the refusal by the GF	To oblige the participants of the GF to provide information on the reasons for refusals at the request of a small business entity (if information is obtained from open data sources).
The GF is not efficient enough	Form the Regional Development Council on the principles of representativeness of all stakeholders, primarily business and banking experts
VladimirLizin» - in demand by small businesses - no collateral required	Increase limits for small businesses. Subsidize lease rates.

The next step is to revise the program of the regional program to support small and medium-sized businesses (Table 4).

In our opinion, the operation of the mechanism of state support for small and medium-sized businesses in the region should be strengthened by attracting resources of state, targeted, departmental programs implemented at all levels, on a consolidating basis, as well as a comprehensive mechanism and support tools that have received the best development in other regions.

Table 4: Ways to solve the problems of regional financial support for small and medium-sized businesses in the Vladimir region.

Description of the problem	Solutions
A different list of documents and questionnaire forms complicates the process of submitting applications to several banks at once	Introduce a standardized list of documents requested from borrowers to obtain loans
A small business entity's lack of understanding of the reasons for the bank's refusal makes it impossible to reapply for support	To oblige authorized banks to provide information on the reasons for refusals at the request of a small business entity (if the information is obtained from open data sources)
Low margins and high labor costs of banks for consideration of applications of small businesses	To increase the amount of subsidies for authorized banks to compensate for lost income on loans to small businesses. Consider the possibility of developing special programs for financial support of small businesses and their startups

## 5 CONCLUSION

In conclusion, it should be noted that at present the activity of small business in the region is proceeding with complications, and its effectiveness remains rather low. Small businesses for the most part do not expand their production potential, do not participate in the implementation of innovative projects, but only perform certain functions of an intermediary between the manufacturer and the consumer directly. This situation is a negative factor for the development of the region's economy.

It should also be noted that the future of small business in Russia is directly determined by the possibilities for the development of real production and the formation of close cooperation ties between small and large businesses. As practice shows, in the current economic situation a large, if not dominant, part of small business is in one way or another in the sphere of interests of big business. At the same time, the stability of the situation, income, financial and investment opportunities of small enterprises directly depend on their relationship with large enterprises.

It is obvious that the development of cooperation between small and large enterprises is an important direction for the development of the entire business

environment. If small businesses continue to shrink, not grow, then there will be no medium or large business in the region. Therefore, stimulating cooperation between small and large businesses should become an important part of government and business policy.

Thus, the analysis and the identified problems allowed us to conclude that it is necessary to use a systemic mechanism of state support for small businesses in Russia and its regions. In our opinion, the operation of the mechanism of state support for small business in certain regions should be strengthened by attracting resources from state, targeted, departmental programs implemented at all levels, on a consolidating basis. Such a systematic application of the mechanism of state support for small business will not only increase the efficiency of the use of budgetary funds, but will also make it possible to quickly restore the turnover of small business to the pre-crisis level and develop further.

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