Increasing business activity of Russian SMEs: problems and solutions illustrated with the example of Volgograd region

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Abstract — Small and medium-sized businesses (SME) are among the drivers of territories’ economic development. In modern Russia, it has not yet been possible to ensure the sustainable development of this economical sector. The increase in SME activity in Russia is an actual scientific and practical problem, especially for the Volgograd region, the development of which has signs of depression. The purpose of this work is to identify promising areas for improving the SME regulation to ensure the increase of its activity in the Russian Federation on the example of the Volgograd region. To achieve the goal, the following tasks were solved: the current state of SME and its regulation policy were characterized; the problems hindering the SME development were analyzed; the structural and dynamic analysis of Volgograd region economic development indicators and regional SME activity was performed; the main directions of SME regulation improvement in the Russian Federation and in the Volgograd region were determined. The following general scientific methods are used: generalization and abstraction, statistical and comparative analysis, graphic modeling, tabular visualization of the results. The source of statistical data was the Federal Body of State Statistics of the Russian Federation – Rosstat. As a result of the statistical analysis it was found that the SME sector in the economy of the Volgograd region (in general) and in the agricultural sector (in particular) from 2014 to 2017 was developing successfully. However, in other sectors, including the priority manufacturing sector, its business activity increasing is problematic. The acceleration of SME development in all economic sectors of the Russian Federation and the Volgograd region will be facilitated by: harmonization of SME regulation with cluster construction and other areas of economic policy; creation of a unified integrated system of accounting for indicators of SME sector development; modernization of the tax system; development of rural cooperation; creation of a single integrated digital platform to support entrepreneurs, as well as to monitor and regulate the SME development.

Keywords — SMEs, state regulation, entrepreneurship support, SME turnover, business activity, regional economy

I. INTRODUCTION

Small and medium-sized businesses (SME) are among the drivers of territories’ economic development which increase their competitiveness. SME sector includes legal entities – small and medium-sized enterprises (SMEs), as well as individual entrepreneurs (IEs) who don’t form a legal entity. Russia lags far behind developed market economies in terms of the level of this economy sector development. For Volgograd region, as a region exhibiting signs of depression, the SME sector development is of particular importance and is an important national economic task and an urgent scientific problem.

The statistical relationship between business activity in the SME sector and economic growth, as well as the welfare of the population is confirmed by numerous studies on the examples of different countries, which is reflected in publications such as [1-7] and others. This correlation is manifested in the Russian trends of territorial development. The best growth indicators of the SME sector are demonstrated by the regions-leaders of economic development, and the worst – by the regions-outsiders [8].

In modern Russia, an active state policy aimed at improving the SME functioning [8-12] is carried out, but it has not been possible yet to bring this sector to the path of sustainable growth, which was noted in the national strategy for the development of small and medium-sized enterprises [13, P. 3]. Analysis of the SME regulation problems that hindered the development of this economic sector is based on
extensive scientific and business literature, including [14-24]. This work is a contribution of its authors into study of these problems and finding solutions.

The purpose of the study is to identify promising areas for improving SME regulation to ensure the growth of its business activity on the example of Volgograd region. The paper solves the following problems: the current state of SME regulation and functioning in the Russian economy is characterized; the actual problems of SME state regulation in the Russian Federation are analyzed; the structural and dynamic analysis of indicators of economic development in Volgograd region and SME business activity in the region is carried out; the main directions of improvement of SME sector regulation in the Russian Federation and in Volgograd region are defined.

II. MATERIALS AND METHODS (MODEL)

General scientific methods are used: generalization and abstraction, statistical and comparative analysis, graphic modeling, tabular visualization of the results. The source of statistical data was the Federal body of state statistics – Rosstat.

III. RESULTS AND DISCUSSION

A. Brief description of SME regulation and functioning in the Russian economy

The modern Russian economy has developed and is implementing system-wide and financial measures to support SME. Legislative regulation provides for a special tax regime; increased access to public procurement and procurement of companies with state participation, as well as to real estate; elimination of administrative barriers. SME support infrastructure includes lending assistance funds; investment funds; techno-scientific parks, innovation and technology centers; business incubators; chambers of crafts; marketing, training business and advisory centers; leasing companies; industrial and agro-industrial parks; technology commercialization centers; state innovation support funds and other organizations. Their activities are coordinated by the Federal Corporation for the development of small and medium-sized enterprises, established in 2015 [8-12].

However, the sustainable development of the SME sector has not yet been achieved. From 2013 to 2014, the share of SME sector in the total turnover of all Russian enterprises decreased from 34.2% to 32.4% [13, P. 3]. Then, by 2016, the value of this indicator fell even lower – to 31.8% [19]. All the attempts to overcome the negative trend failed despite the fact that in 2016 they revised criteria for the assignment of firms to small and medium-sized enterprises. As a result, the bulk of SMEs has considerably increased. In 2019, for the first time, Rosstat published an estimate of another aggregate indicator of SME development – the contribution of this sector to the country's GDP. Currently, the value of this indicator is calculated only for year 2017 and is 21.9% [25]. For comparison: in advanced market economies, the share of the SME sector in GDP reaches 50-60 % [26].

Entrepreneurs note the following factors that have a negative impact on business development [26]: excessive tax burden; administrative barriers (complexity of bureaucratic procedures, frequent inspections); corruption; high interest rates to attract long-term credit resources; high operating costs with a low level of domestic demand; the vulnerability of small firms facing the arbitrariness of dominant monopolies in the markets.

In recent years, the Federal government has adopted and implemented a national strategy and a number of state programs and projects for SME development, which are allocated hundreds of billions of rubles from the budget.

Since 2013, Sub-program-2 “Development of small and medium-sized businesses” has been implemented within the framework of State program "Economic development and innovative economy" for years 2013-2020 [27]. SME support measures are also included in a number of sectoral development programs for the same period, for example: the state program for the development of agriculture and regulation of markets for agricultural products, raw materials and food for 2013-2020 [28].

In 2016, the strategy of SME development in Russia was approved, in which it is planned by 2030 to achieve such results as increase of SME turnover by 2.5 times compared to 2014 (in real terms); increase to 20% of the share of the manufacturing industry in SME turnover (excluding sole traders); a 2 times increase of SME share in gross domestic product (from 20% to 40%) and others [13].

In May 2018, the decree of the President of the Russian Federation was published, providing for the modernization of SME state regulation [29], pursuant to which the national project "Small and medium – sized enterprises and support for individual entrepreneurial initiative" (hereinafter — National Project) was approved in December 2018 [30]. In the National Project, the executive authorities’ representatives at all levels are tasked with increasing the share of SME in the GRP structure to 32.5% by 2024. At the same time, the number of employees in the SME sector should increase from 19 million to 25 million people. Depending on the completeness of this task, the heads of regions’ activity will be assessed. In April 2019, SME development indicators were included in the criteria for evaluating the governors’ activities [31].

Thus, ensuring outstripping growth rates of Russian SME business activity is an important national economic task and an urgent scientific problem.

B. Problems of state regulation of SME in Russia

The need to improve the regulatory framework for SME regulation and operation. Russian researchers emphasize that the current policy of SME support in the Russian Federation is not integrated into a single system of strategic planning. A more precise legislative definition of the national, regional and municipal SME development strategies is required, indicating the powers of the federal, regional and sub-regional authorities [15]. In addition, the legal regulation of entrepreneurs provides for their criminal liability under a number of articles and needs to be decriminalized for development purposes instead of the SME sector restriction. The fact is that in the
conditions of tax and other fiscal burdens’ growth, the number of offenses related to attempts to evade these encumbrances as well as the number of criminal cases increases, which in turn negatively affects the current and future development of business [26]. It is advisable to study and implement the possibility of transferring some economic offenses from the criminal to the administrative code. A number of such mitigation of liability for offenses is currently being considered by the Supreme Court of the Russian Federation.

The ineffectiveness of financial support measures provided for SME. The press service and the head of the Accounts Chamber of the Russian Federation have repeatedly made statements about the inefficiency of spending budget funds allocated to support SME. Auditors identified irrational, uneven and non-transparent distribution of Federal subsidies between the subjects of the Russian Federation.

It was found that in 2015-2017, only about 0.1% of the total number of SME entities applied for support from regional guarantee organizations (RGOs) and microfinance organizations (MFOs), and 0.3 – 0.4% of them applied for microloans. Most of the supported SME entities have not improved their financial performance [20, 32]. To solve this problem, it is advisable to develop and implement in the federal, regional and municipal programs to support SME universal criteria, indicators and methods for assessing the financial effectiveness of the measures taken [18].

The shortcomings of accounting and analysis of SME functioning and regulation indicators. The existing government programs, Strategies and National Project of SME development use a variety of different targets (often not consistent with each other), a comprehensive system of accounting and analysis of which is not formed [18]. The data published by Rosstat and the Federal Tax Service (FTS) differ significantly. This is due, in particular, to differences in the methodology of data collection and processing [19].

The difference between the estimates of the number of SMEs and IEs published by Rosstat and FTS reaches one million business entities. It is necessary to create a single integrated system of accounting and analysis of indicators of functioning and regulation efficiency in this sector, including it into a specialized digital platform, which is developed in pursuance of the May decree of the President of The Russian Federation [29].

Insufficient development of SME’s cooperation and involvement in cluster construction. The Russian economy is characterized by a high degree of markets’ monopolization by large vertically integrated companies [14]. It simplifies taxation and government interaction with business, on the one hand, and prevents SME development and competitiveness of small businesses on the other. In world practice, SME support is provided through the development of contractual relations, which are a form of production cooperation in which the customer includes the supplier in the reproduction process and instructs him to create one or more links in the added value chain. This makes it possible to increase the competitiveness of both sides.

Negative consequences of underdevelopment of contractual relations are clearly manifested in agriculture [21, 23]. The number of farms in Russia is steadily decreasing against the background of active development of vertically integrated agricultural holdings. In contrast to international experience, demonstrating the cooperation of small and large farms in agricultural production [21], in Russia, this partnership did not work out. A significant part of the budget funds intended to support agricultural producers goes to agricultural holdings and less than 2% of these funds are received by farmers [21, 23, 32]. The development of mobile trade and a significant increase in financial assistance provided by the National Project will contribute to the competitiveness of farmers and private farms.

A significant share of the SME sector’s shadow component. In order to achieve the National Project's target indicators of employment and business activity in the SME sector, the problem of bringing the self-employed (babysitters, maids, tutors, drivers, etc.) out of the shadow is actualized. World experience shows that it is almost impossible to solve this problem by administrative measures. Economic incentives are needed. At the end of last year, the State Duma adopted a new Federal law (№ 422-FZ of 27.11.2018) on the tax on income of self-employed. It provides, as an experiment, preferential taxation of this category of entrepreneurs in four pilot regions for 10 years. At the end of this period, the effectiveness of this measure will be assessed. Opponents of this innovation believe that more powerful economic incentives are needed, up to tax holidays for self-employed for a long period of time and preferences concerning pensions [24].

C. Structural and dynamic analysis of economic development indicators and SME business activity in Volgograd region

In the second half of the last century until its end, Volgograd region was the largest industrial and agricultural region in the South of Russia. In 1998, it still ranked first in terms of GRP per capita among the subjects of the Russian Federation, now included in the Southern Federal Okrug (SFO) with the exception of Crimea and Sevastopol (which joined the SFO only in 2014). However, in the following years, the Volgograd region lost its leading position: from 2000 to 2015, it took the second and third places, yielding to Krasnodar territory and/or Astrakhan region, and in 2016 and 2017 fell to the fourth place, letting Rostov region go ahead [33].

Figure 1 shows the dynamics of Volgograd region’s contribution to the total GRP of the southern Federal district: for 2009-2017 its value decreased from 19% to 15.6%. This negative trend contrasts with the upward trend of the contribution of the SFO regions (taken together) to the total GRP of all regions of the Russian Federation, even without taking into account the Republic of Crimea and the city of Sevastopol (from 6.2% to 6.6%). This indicates a significant lag in the economic development of Volgograd region from other regions of southern Russia.
The contribution of Volgograd region in GRP of the Southern Federal Okrug (SFO) – axis to the left; the contribution of SFO in total GRP of all the subjects of the Russian Federation (excluding Republic of Crimea and Sevastopol city) – axis to the right. The diagram is composed by results of calculations on the basis of Rosstat data.

The gradual transition of Volgograd region into the category of anti-leader of economic development is also evidenced by the data given in Table 1.

**TABLE I. AVERAGE ANNUAL GROWTH RATE OF GRP OF ALL THE SFO REGIONS FOR 2010-2017 PERIOD (GRP IN REAL TERMS, INCREASE IN % TO THE PREVIOUS YEAR)**

<table>
<thead>
<tr>
<th>Territories</th>
<th>Average annual GRP growth rate for the period&lt;sup&gt;a&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>All the subjects of the Russian Federation</td>
<td>2.28&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Southern Federal Okrug</td>
<td>3.19</td>
</tr>
<tr>
<td>Astrakhan Region</td>
<td>6.51</td>
</tr>
<tr>
<td>Republic of Crimea (since 2014)</td>
<td>6.17</td>
</tr>
<tr>
<td>Sevastopol (since 2014)</td>
<td>4.80</td>
</tr>
<tr>
<td>Rostov Region</td>
<td>3.93</td>
</tr>
<tr>
<td>Adygeya Republic</td>
<td>3.53</td>
</tr>
<tr>
<td>Krasnodar Region</td>
<td>2.93</td>
</tr>
<tr>
<td>Volgograd Region</td>
<td>1.03</td>
</tr>
<tr>
<td>Republic of Kalmykia</td>
<td>0.20</td>
</tr>
</tbody>
</table>

<sup>a</sup> Calculated on the basis of Rosstat data

<sup>b</sup> The rate of total GRP growth in all regions of the Russian Federation, average for the period

The average annual rate of total GRP growth in regions of the Russian Federation for the 2010-2017 period made up 2.28%, 3.19% in the whole of the Southern Federal Okrug and 1.03% in the Volgograd region. Judging by the real GRP growth rate, Volgograd region is inferior to all subjects of the Southern Federal Okrug, except the Republic of Kalmykia (0.2%). Such trends can be considered as signs of depression in Volgograd region: the category of depressed regions includes lagging areas, which in the past were leading in one or more spheres of development [34]. For such territories, the SME sector rapid growth is of particular importance as an opportunity to launch a mechanism to accelerate the growth of the entire regional economy.

One of the main indicators used to analyze the state and dynamics of SME development in Russia is turnover. The turnover of the small and medium-sized business (SME) sector is the sum of the turnover of small and medium-sized enterprises (SMEs) plus the revenue of individual entrepreneurs (IEs) [19]. "The turnover of an organization... is the total volume of shipped goods of own production, work performed and services rendered..." [36]. Turnover dynamics characterizes business activity [37, 38], or economic activity of the SME sector in the same way as GRP reflects the economic development of the region [35].

Currently, the official statistics required for the calculation and analysis of the SME sector turnover are available only for 2010 and 2015 (based on the results of a complete survey) and for 2014, 2016, 2017 (based on sample observations and extrapolation of data). Therefore, the annual dynamics of SME turnover of Volgograd region is considered here only for the period from 2014 to 2017; while the changes in the sectoral structure of turnover are analyzed on the basis of data for 2010, 2014, and 2017.

One of the targets of the current Strategy for the development of small and medium-sized businesses in Russia is to increase the turnover of this sector by 2.5 times (or 150%) in 2030 compared to the level of 2014 (in real terms) [13].

This means that within 15 years (from 2015 to 2030) turnover should increase by an average of 10% per year from the level of 2014 (in constant prices). As Table II shows, the development of the SME sector in Volgograd region in 2014-2017 fully corresponded to these settings: its turnover in real terms for 3 years increased by 46% from the level of 2014 (on average by 15% per year). Moreover, the growth rate of SME was 2 times higher than in the whole economy of the region: for the same 3 years GRP in real terms increased by 15% (an average of 5% per year).

**TABLE II. VOLGOGRAD REGION GRP AND SME TURNOVER IN THE REGION (IN REAL TERMS, IN % BY THE BEGINNING OF THE PERIOD)**

<table>
<thead>
<tr>
<th>Indicators&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRP total</td>
<td>100</td>
<td>106</td>
<td>110</td>
<td>115</td>
</tr>
<tr>
<td>SME turnover&lt;sup&gt;a&lt;/sup&gt;</td>
<td>100</td>
<td>124</td>
<td>108</td>
<td>146</td>
</tr>
<tr>
<td>SME turnover in agriculture</td>
<td>100</td>
<td>142</td>
<td>149</td>
<td>160</td>
</tr>
</tbody>
</table>

<sup>a</sup> Calculated on the basis of Rosstat data
Fig. 2. Sectoral structure of GRP in Volgograd region and SME turnover in the region (the sum of the SMP turnover and IE’s revenue). Calculated on the basis of Rosstat data. Branches are grouped by the integrated sectors: agrarian and bioresources (agriculture; hunting and forestry; fishery and fish farming); raw materials (mining); industrial (processing productions; production and distribution of the electric power, gas and water; construction); trade and financial (wholesale and retail trade, repair of vehicles, motorcycles, household products and subjects of personal consumption; hotels and restaurants; transport and communication; financial activities; operations with real estate, rent and granting of services); budget-dependent (education; activities in the field of health and social services; activities in the field of culture, sport, recreation and entertainment; and all other types of services).

The sectoral structure of SME turnover and Volgograd region GRP for 2010, 2014 and 2017 is illustrated in Fig. 2, from which it can be seen that from 2010 to 2017 the greatest business activity was demonstrated by economic entities of the agricultural and bioresources sector. The share of this and only this sector has steadily increased both in the GRP structure and in the SME turnover. From the point of view of SME development, this may indicate that the development of small farms in rural areas in Volgograd region was not prevented by the conflicting interests of agricultural holdings and farmers. The strong growth of SME turnover in the agricultural sector is also reflected in the third line of Table II: for 3 years (2014-2017), this figure increased by 60%, which significantly exceeds the increase of both GRP (15%) and of SME turnover sector as a whole (46%) in the same period.

As we can see in Figure 2, the input of mall and medium sized business into the turnover of small and medium sized sub sector reduced. the shares of other enlarged sectors of the economy (other than agro-bioresource) in the GRP structure and in SME turnover fluctuated near the average values. The industrial sector (which includes, in particular, the manufacturing industry) did not show an increase in its share in the GRP structure and in the SME turnover. This may indicate the difficulty of achieving the target value of this indicator in the Strategy for the development of small and medium-sized enterprises by 2030 [13].

D. Issues for discussion

The results are obtained on the basis of official Rosstat data in conditions when the system of accounting for SME development indicators needs to be improved. In addition, in the middle of the considered period (in 2016) there were changes that objectively caused large errors in the calculations. First, the criteria for classifying firms as small businesses have changed, and the number of SME entities has increased exponentially, not as a result of the new businesses set-ups, but because of the inclusion of firms that were not previously considered small and medium-sized. Secondly, adjustments were made to the list of economic activities, and there was a problem of “bringing together” the old and the new list, which does not have the correct solution in terms of the time series analysis of the indicators under consideration. However, the results can be considered as an initial approximation and can be refined as the statistical system improves.
IV. CONCLUSION

Structural and dynamic analysis of SME business activity in Volgograd region, based on Rosstat data for 2010 and 2014-2015, allows us to draw the following conclusions. Growth rates of business activity of SME sector (as a whole) and its subsector in the agrarian branch in the considered period corresponded to ideas of the state strategic planning. However, in the priority manufacturing industry, the development of SME seems problematic. The performed calculations are objectively associated with large errors, but their results can be used as initial approximations, which can be clarified with the development of the system of statistical accounting of SME development indicators in the Russian Federation.

In general, SMEs in Volgograd region face all the common problems of the Russian SME: the need to improve the regulatory framework and the system of accounting for the sector's performance; inefficient allocation of budgetary funds allocated to support SME; insufficient development of cooperation and involvement of SME in cluster construction; a significant shadow component of the sector.

These problems can be solved by: systematization and integration of SME development programs, strategies and projects; harmonization of SME regulation with cluster construction and other areas of economic policy; creation of a unified integrated system of accounting for SME development indicators; modernization of the tax system, including tax incentives for self-employed people and simplification of tax reporting of entrepreneurs; development of rural cooperation; creation of a single integrated digital platform to support entrepreneurs, as well as monitoring and regulation of SME development.

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