

# Providing Conditions for Functioning of Small Business of the Republic of Crimea

Yu P Maidanevich<sup>1</sup>, I N Dyshlovoy<sup>2</sup>, N N Grigor<sup>3</sup>

<sup>1</sup>Doctor of Economics, associate professor, professor of Public and Municipal Administration Department, V.I. Vernadsky Crimean Federal University, Sevastopolskaya Str., 21/4, Simferopol, 295015, Russian Federation

<sup>2</sup>Doctor of Economics, associate professor, professor of Department of Management, V.I. Vernadsky Crimean Federal University, Sevastopolskaya Str., 21/4, Simferopol, 295015, Russian Federation

<sup>3</sup>Graduate student, V.I. Vernadsky Crimean Federal University, Sevastopol Str., 21/4, Simferopol, 295015, Russian Federation

E-mail: maidanevich@rambler.ru; dintur@mail.ru, P82\_GrigoNN@gks.ru

**Abstract.** The article states that small business is a part of the developed market system. Small business in the Republic of Crimea is the important sector of the region's economy requiring comprehensive support and development. In this case to increase the level of entrepreneurial activity, the Ministry of Economic Development of the Republic of Crimea has developed and is implementing a number of programs. Together with republican measures at the level of each local municipal authority of the Republic, the municipal programs aimed to popularize and create favourable conditions for entrepreneurship and improve its efficiency have been adopted and are being implemented at the expense of local budgets. The establishment and functioning of a free economic zone has played a significant role in the development of the small business sector in Crimea. At the same time, the structure of the sector remains ineffective, that requires settling a number of tasks by state authorities contributing to the development of small business in the Republic of Crimea.

## 1. Introduction

The strategic goal of economic policy of the Russian Federation is the formation of a competitive socially oriented economy with a developed private sector, with entrepreneurship as its important component. The economic importance in the world economy of any developed country is determined by large companies and enterprises, and the availability of significant capital affects the level of scientific and technical potential and production capacity. However, small business which constitutes the most flexible, dynamic and mass form of organization of enterprises presents an equally important component of the developed market system. Thus, considerable attention is given to the formation and development of small business through necessary radical market changes and the implementation of the strategy of economic growth of the Russian Federation as a whole and its individual regions. It is this sector of the economy that stimulates competition, contributes to the weakening of monopolism, affects the structure of the economy and the quality of gross domestic product, expands the sphere of free market choice, is characterized by rational forms of management, provides faster implementation

of innovations. Small enterprises make a significant contribution to solving problems of transformative, productive-economic, financial-economic and socio-psychological nature forming the middle class in society; meeting individualized demand; assisting large businesses; forming new taxpayers (filling budgets at all levels); attracting private capital and external investment; reducing significantly unemployment; creating income sources for the population; preventing unwanted social consequences of market economy transformations.

Small business influences the structure of the market, the expansion and deepening of market relations primarily as a result of the change in the number of market entities, the improvement of skills, the involvement of increasingly wide segments of the population in the system of entrepreneurship, that promote the development of competition in the innovation sphere and significantly contribute to the improvement and diversification of the market structure in the economy [1]. In this way, the development of small business is essential, and its development depends on the level of support provided, both at the state and local level. In this regard, the trends in the development of small enterprises of the Russian Federation and certain regions with peculiarities of the competitive environment of the Republic of Crimea and its competitive advantages require more detailed analysis and revealing of problems and ways of development for the strategic perspective, which should become the basis of the state economic policy.

## **2. Literature review**

The essence and peculiarities of small business development attract the attention of researchers. So Lazarova, L.B., Kairov, F.A., Shanayev, G.T. [2] specify the need to develop small businesses; Sinetova, R.G. [3] in her study notes that the development of small business is the key to balanced social development of the country; Merzlyakova, S.B. [4] reveals the role of small business in the development of the region; Parasotskaya, N.N. [5] in her article defines the role of small medium-sized businesses in the development of the innovative economy of the country; Isayeva, G.N. [6] points out the problems of small business development in the country; Turenko, B.G. [7] notes that the development of small business is impossible without its effective management. At the same time, the changes taking place in the economy of the country require the research of the development of small business and encourage the search for methods to intensify the entrepreneurship of small business in the Republic of Crimea.

## **3. Purpose of the study**

The aim of the study is to identify the causes interfering the development of small business in the Republic of Crimea and to develop practical recommendations for their elimination.

## **4. Description of the main content**

The economic changes occurring in the country contribute to the formation and development of small business as a necessary component of the formation of market relations in the state. These issues are particularly relevant due to expansion of the economic autonomy of the regions, because the realization of regional interests is directly related to the territorial management and development of small enterprises.

Small entrepreneurship should be considered as a systemic component of the economic complex in the system of implementation of economic laws [8]. The main indicators, according to the Office of the Federal Service of State Statistics for the Republic of Crimea and Sevastopol, which characterize the position of small business in the Republic of Crimea are given in Table 1.

Having analyzed the data of Table 1, it can be concluded that the number of small enterprises of the Republic of Crimea increased by 72.2% during the analyzed period, that mean, we can talk about a stable growth of the number of small businesses in the region.

**Table 1.** Main economic indicators of small enterprises' activities (including micro-enterprises) of the Republic of Crimea.

Indicators	2014	2015	2016	2017
Number of small enterprises in entities.	12942	17189	22238	22282
Average number of workers in thousand persons.	41,4	81,5	83,4	86,9
Turnover of small enterprises in million rubles.	30115,9	180500,9	155729,0	192808,2

Source: made on the basis of materials [9]

It is not the number of small enterprises that should be identified, but their productivity that has a significant impact on the economic and social situation in the country and the region. One of the important indicators is the number of employed workers. The analysis of the dynamics in changes of this indicator allows to monitor strategically the unemployment rate. According to Table 1, it's possible to state that the employment of the population in the sphere of small business has increased more than 2 times since 2014-2019. It is necessary to note two main factors: 1. the simplifying of the tax system (contributed to the exit from the shadow economy of most small enterprises). 2. The pension policy implementing in the country, which requires contributions to the pension fund for a future pension, which forces the population to seek jobs with official employment. In addition, the stabilization of the political situation in Crimea has also had a positive impact on the development of small enterprises.

In 2017, the volume of sold products, works and services provided by small enterprises (in current prices) amounted to 155729 million rubles, in 2014 - 30115.9 million rubles [9]; the increase makes more than 5 times. That is, the role of the small sector of the economy of the Republic of Crimea in the commodity, works and services market is increasing during the researched period.

The majority of small and medium-sized enterprises in 2017 are concentrated in trade - 5,723 units, construction - 2,723 units, hotels and restaurants - 1,622 units and agriculture - 1,230 units [9]. Today the local industry structure of small business demonstrates that small enterprises in the sphere of creation and introduction of scientific and scientific and technical developments are not presented, so the development of such enterprises is not observed. At the same time, in the production sector, which requires significant financial capital for the organization of business and specialists of certain qualifications, the increase of the number of small enterprises is observed.

Small business in the Republic of Crimea is an important sector of the region's economy and requires comprehensive support and development. Thus, in order to increase the level of entrepreneurial activity, the Ministry of Economic Development of the Republic of Crimea provides grants to start-up entrepreneurs engaged in activities in the priority sectors of the Republic such as innovations and industrial production, agriculture, resort and tourist sphere, national art crafts. During 2015-2017, 73 business plans were supported and grants of 40, 79 million rubles were issued. In 2017, for the first time, social projects of four Crimean entrepreneurs who received grants of 1.5 million rubles each [10] were supported.

To update the major assets and expand the production equipment facilities in 2016 the Ministry of Economic Development of Crimea gave 10 million rubles for subsidies for the purchase of equipment, as well as 2.4 million rubles subsidies for reimbursement of part of the interest rate on credits related to the purchase of equipment. The Ministry of Finance of the Republic "through the mechanism of cheaper loans, financial lease (leasing) in 2017 provided subsidies to 22 enterprises for a total amount of 64.5 million rubles." [11, p. 23]. According to the total volume of provided financial support, the level of 2017 indicator is lower than that of 2016 by 22.1%.

Non-financial support for small and middle-sized enterprises (SME) development in the territory of the Republic of Crimea is provided by the Crimean State Fund for Support of Entrepreneurship. The main purpose of the Fund is "to plan and implement measures aimed at creating favorable conditions for the successful functioning of newly opened and existing small and medium-sized enterprises in the territory of the Republic of Crimea" [11, p. 11]. The Fund conducts free educational activities and provides information and advisory support on "financial planning, marketing support and business planning, legal support, information and legal support activities, selection of personnel, application of labour legislation of the Russian Federation" [12, p. 12]. According to the results of 2017, the Fund held more than 200 educational, information and consultation events with the participation of more than 3,200 people; three business forums were organized with the participation of more than 1,500 people [13], the website of the foundation containing a wide range of systematized normative and business information for beginners and active entrepreneurs was launched.

In addition to republican measures at the level of each municipal authority of the Republic, municipal programs aimed at popularizing and creating favourable conditions for entrepreneurship and improving its efficiency have been adopted and implemented at the expense of local budgets. Most of the program activities are of an information and educational nature and involve the organization and arrangement of round tables, exhibitions, competitions, seminars, forums, publication of information and reference materials [14]. A number of municipalities' (Simferopol City District, Evpatoria) small and medium-sized enterprise development programs include financial support in the form of subsidies and grants.

Thus, in absolute terms, the volume of revenue received by SMEs in 2017 amounted to 92676.4 thousand rubles, which exceeds the indicator of 2015 by 14 times, and 2016 - by 56.3%. The share of revenues of SME entities in the consolidated volume of revenues of FEZ participants amounted to 54.9% in 2015, 40.6% in 2016, 38.0% in 2017. The decrease in the indicator is due to the higher growth rate of revenue of large enterprises which are the participants of FEZ [15].

In general, despite the difficulties of the transition period and thanks to significant state support, the small business sector of Crimea is developing dynamically in number of registered enterprises. At the same time, in terms of the number of employed and the volume of turnover there is a significant lag in the level achieved by the SME of Crimea as a part of Ukraine in 2011-2013.

The structure of the sector remains ineffective. The dominant form of entrepreneurship is individual entrepreneurs and micro-enterprises, which show high sensitivity to the state of the business environment. Imbalances in the structure of small business enterprises by type of economic activity are showed in the dominance of wholesale and retail trade, the low share of productive entrepreneurship and insignificant share of professional, scientific and technical activities [16].

As the indicators of small business development in the Russian Federation have remained relatively stable for the last 15 years, and the Republic of Crimea is implementing the same economic policy as in the country as a whole, the following tasks need to be solved to stimulate the development of the sector together with financial, information and advisory support [17]:

- to improve the legislative and regulatory basis to create favourable conditions for the development of small and medium-sized enterprises in the region;
- to improve credit policy (organize state credit institutions to provide concessional loans to small businesses, especially beginners);
- to improve tax policy (ensuring the operation of a simplified tax system);
- to contribute to the strengthening of state support for entities of small and medium-sized business (financial, credit, property, information and personnel), the creation and maintenance of a network of business centers, business incubators, etc.;
- to stimulate the development of small business in industries that ensure the efficiency of public production and its competitiveness by using the achievements of scientific and technological progress, resource-saving technologies, production of fundamentally new types of products;
- to promote the renovation of small business production funds by subsidizing up to 50% of equipment purchasing costs;

- to ensure the implementation of measures to create a unified automated system of state registration of business entities;
- to conduct measures for step-by-step establishment in employment centers a network of studying centers for training the entrepreneurs among the unemployed;
- to strengthen the responsibility of the executive authorities and civil employees for the implementation of the relevant laws on the development of business activities, including small business;
- to develop measures for the development of youth entrepreneurship in the Republic of Crimea.

We believe that the settlement of the above mentioned tasks will contribute to the development of small business in the Republic of Crimea.

## 5. Conclusions

The present research identified a number of reasons that impede the development of the regional small business, the solution of which is impossible without state support. The structure of the sector remains ineffective. The dominant form of entrepreneurship is individual entrepreneurs and micro enterprises, which demonstrate high sensitivity to the state of the business environment. Imbalances in the structure of small business by type of economic activity are manifested in the dominance of wholesale and retail trade, the low share of industrial entrepreneurship and insignificant share of professional, scientific and technical activities.

In view of the fact that the indicators of development of small and medium-sized businesses in the Russian Federation have remained relatively stable for the last 15 years, and the Republic of Crimea proceeds the same economic policy as the country as a whole, to stimulate the development of the sector together with financial and advisory support, it's necessary to create a more favorable business environment, first of all, by optimizing the tax and administrative load on small business entities.

## References

- [1] Pinkovetskaya Y S 2014 Small and medium-sized business in regions: production functions *Organizer of production* vol 1 pp 18-24
- [2] Lazarova L B, Kairova F A, Shanayev G T 2015 Questions of development of small business *Modern problems of science and education* vol 1-1 p 671
- [3] Sinetova R G 2014 Development of small business as basis of ensuring balanced social development *Current problems of humanitarian and natural sciences* vol 9 pp 184-187
- [4] Merzlyakova S B 2014 The role of small business in development of the region (on the example of the construction industry of Kuzbass) *Young Russia The collection of materials VI All-Russian, 59th scientific and practical conf. of young scientists with the international participation* (Editor-in-chief: Blyumenstein V Y) p 546
- [5] Parasotskaya N N 2014 Small and medium-sized business in Russia and its role in development of innovative national economy *The Exchange of intellectual property* vol 8 8 pp 19-24
- [6] Isaeva G N 2010 Problems of development of small business at the present stage of development of economy *Economy and efficiency of the organization of production* vol 13 pp 35-38
- [7] Turenko B G 2015 Management of development of small business enterprises *Activation of intellectual and resource potential of regions: new challenges for the company management Materials of the All-Russian conf.* (by scientific edition of Chuprov S V) pp 137-141
- [8] Maydanevich Yu P, Bedrik K A 2017 Small business: concept and advantages *Azimuth of scientific research: economy and management* vol 6 2 (19) pp 177-180
- [9] Activity of small business of the Republic of Crimea for 2016-2017 *Economic review* 2018 Management of Federal State Statistics Service in the Republic of Crimea and Sevastopol (Krymstat) (Simferopol) 43 p
- [10] Annual summary reports on the course of implementation of state programs of the Republic of Crimea URL: <https://minek.rk.gov.ru/ru/structure/1132>

- [11] The activity report of the Ministry of Finance of the Republic of Crimea for 2017  
URL:[https://minfin.rk.gov.ru/ru/structure/2018\\_04\\_13\\_17\\_07\\_otchety\\_o\\_deiatelnosti\\_ministerstva](https://minfin.rk.gov.ru/ru/structure/2018_04_13_17_07_otchety_o_deiatelnosti_ministerstva)
- [12] The state support in the territory of the Republic of Crimea 2017 (The information collection materials for the Crimean businessman) *Simferopol: BUT "Fund of support of business of the Crimean entrepreneurship"* 84 p
- [14] Olkhovaya G V 2019 State support of small and medium-sized business in the Republic of Crimea *Synergy of sciences* vol 31 pp 373-381
- [15] The report on results of functioning of the free economic zone in territories of the Republic of Crimea and Sevastopol for 2017 (Moscow: Ministry of Economic Development of the Russian Federation) URL: <http://economy.gov.ru/minec/about/structure/reginvdev/201818071>
- [16] Reports on activity of the Ministry of Economic Development of the Republic of Crimea for 2015, 2016, 2017 URL: <https://minek.rk.gov.ru/ru/structure/83>
- [17] The information and consulting portal for businessmen of the Republic of Crimea  
<http://www.business-rk.ru/>