

Small entrepreneurship development prospect in the Murmansk region under state regulation measures activization circumstances

The article examines the issues of state support of small and mid-sized businesses in the region. The conclusion is made that it is necessary to search for new mechanisms of stimulation of small business activity.

Small and mid-sized enterprises, tax regulation, regional programs aimed at small business support.



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Since the time of transition to market economy the authorities at all levels have been taking a keen interest in small business as integral part of modern economic system. Development of entrepreneurship is encouraged at the state level and in different areas, such as creation of institutional environment, implementation of special programs of different levels, and the primary attention is given to small business bank lending.

In Murmansk region the support of initiatives in the sphere of small and mid-sized business is one of the main priorities and local administration should take more active existing measures and find new measures for small and medium-sized enterprises (SMEs) support.

The first law of Murmansk region "On the foundation of state support of small entrepreneurship" was adopted in 1996 and it regulated the relations between the authorities and small enterprises. The main regulations of the Federal Law №88-FZ "On State Support of Small Businesses in the Russian Federation" served as a basis for the regional law and on the whole it had a declaratory character, as well as the Federal Law itself.

During this period new methods of taxation were put into practice. On the basis of the Federal Law "On the Simplified System of Taxation" a special tax treatment was developed and established for SMEs in Murmansk region. There were considerable differences between the regional version of a simplified tax system and the federal one. The regional version set up tougher terms of taxation and excluded the possibility of the choice of tax basis and differentiated tax rate by taxpayers. As a result, such defective law-making initiatives of the regional law gave rise to the problems with tax payment by low-profit SMEs and consequently caused a sharp decrease in the number of SMEs, basically in the sphere of materials. Only seven years later the amendments that lessened the tax burden for small enterprises were adopted.

The first experience with the implementation of the simplified taxation system in Murmansk region was negative and it was the reason for a four-year delay in introducing the unified tax on imputed income for certain business activities (2001). In order to secure positive results the draft law was repeatedly discussed with the participation of entrepreneurs, experts

and scientists. When new tax treatment was introduced, fiscal interests of the state were taken into account and at the same time favorable tax terms were created for business activities.

Besides, three regional programs aimed to support small businesses were introduced, the first one being adopted in 1997 and the implementation of the last program was finished in 2008.

The first program was implemented during the financial crisis. Small business, in particular its main sector, managed to keep its positions during the financial crisis. By 1999 the number of SMEs in industry had decreased by just 5%, in trade – by 28% [1]. Positive tendencies in the development of small business were caused not by the implementation of the regional program (because it was not financed), but more likely by orientation of SMEs' activity toward serving regional enterprises of large scale, working for the external market.

The results of the implementation of the 2nd regional program of small business support (2000 – 2004) can be acknowledged to be more significant. The informative, consulting and educational elements laid the foundation for the small business support at the regional level. The State Fund of small business development and local authorities created the micro loan program in the cities of Apatity, Monchegorsk, Poljarnyje Zori. State authorities undertook measures to support economically viable small business enterprises and to protect them against negative impact of non-market factors.

Over a four-year period the number of SMEs has increased by 3,9%. The number of employed persons has also grown, accounting for 7,2% of the total number of employed in Murmansk region. Small business development caused the total growth of economic and financial indicators. Great results were shown by small business enterprises engaged in IT maintenance, science and manufacture and technical goods wholesale trade. Some

prominent results were achieved by SMEs engaged in industry, transport, housing and communal utilities and trade. The share of SMEs production made up 16% of the total regional industrial production and construction.

There were no significant changes in the structure of small business activities. The share of SMEs engaged in trade and public catering accounted for 46.8%, SMEs engaged in industry – 16%, in construction – 13%. The greatest share of employed persons in SMEs (49%) was observed among industrial enterprises and enterprises engaged in construction. Because of uneven territorial distribution of SMEs the amount of their tax payments differed by municipal entities and made up from 2% to 17% of local budget revenues [2].

The implementation of the program revealed a number of unsolved tasks and problems and they indicated the main directions of the next regional program of small business support for the years of 2005 – 2008. For the next 4 years the efforts of different entrepreneur associations, executive authorities and local government authorities were aimed at supporting the development of internal market of services, including housing and communal utilities, at providing target state support of small manufacturers in food and agricultural industries, fishing and forestry. Intensification of inter-economic cooperation and integration of regional SMEs into the market relations of the North-West Federal District and cross-border cooperation within the framework of Barents Euro-Arctic region were also the goals of the above-noted program [3].

Over the program implementation period (2005 – 2008) new instruments and tools were introduced in the region for small business development. In 2007 on the basis of the Federal Fund for SME support a guarantee fund was set up to secure loans taken out by entrepreneurs which had no sufficient loan security. The system of micro-crediting began to develop rapidly and new forms for small business finance and new mechanisms were introduced for the start-up entrepreneurs. Over the last 2 years

according to the normative acts of the Government of Murmansk region more than 100 entrepreneurs have received subsidies totaling 9 million rubles [3].

In May, 2007 the Department of Economic Development of Murmansk region adopted the administrative code "The Financial Support of Small Business Enterprises and Associations of Entrepreneurs". The Department is elaborating the administrative regulations to provide information and consultation support of SMEs and regulations of leasing procedures of municipal property.

It has become a tradition to hold "The entrepreneur of the year" contest and days of entrepreneurship in Murmansk region, and these events helped to stimulate the entrepreneurs' interest in quality improvement of their goods, to increase the level of public awareness about the entrepreneurship opportunities and to create favorable public opinion of entrepreneurs and small business.

Over the program implementation period there have been positive changes in the level of small business development. The number of SMEs has increased by 5,6%. The SME share of employment market has exceeded 9,2%. The turnover in SMEs has grown significantly (by rub. 20,8 billion) and amounted to rub. 70,1 billion at the beginning of 2008.¹ The biggest growth was achieved by SMEs operating in agricultural sector, in forestry, publishing and printing activities sector and manufacture of finished metal goods. 50% of the total regional cargo is carried by small business enterprises of the region. Small business enterprises also account for 50% of all construction works in the region.

Nowadays the conditions of employment have changed and become more civilized. The regulations of labour legislation are not violated, compulsory medical insurance and old-age insurance are available for the employees, working in SMEs. The level of wages has increased by 28%.

During the implementation of the regional program a survey was carried out among the employees of SMEs, operating in production, construction, transport and information and telecommunication services focusing on entrepreneurs' opinion. The survey was conducted in response to the request of the Department of economic development of Murmansk region and aimed at analyzing the entrepreneurship climate and small business problems [4].

The entrepreneurs cited the following main problems: high lease rates, high rate of tax burden, increase in prices on energy carriers, raw materials, tariffs; shortage of skilled and qualified staff, competition growth. For micro and small businesses the most vital problems are: shortage of financial resources for further development and investment projects, shortage of liquid assets, difficulties with obtaining necessary licenses, certificates and permissive documents; a great number of different administrative and authoritative inspections.

66% of all respondents admitted that they felt a need for additional finance to expand their business. In Murmansk region several programs for financial support of SMEs are available, but 62% of the entrepreneurs were not aware of existing financial support possibilities.

45% of respondents don't make use of the services of existing infrastructure net and they are not aware of its possibilities. As a rule, information and legal support in SMEs is provided by recruiting private persons (20,2%) and national companies (15,5%). Because of the low level of awareness about possible types of support it's difficult for the entrepreneurs to solve such problems.

Meanwhile, some activity has been observed in the banking sphere dealing with loans granted to small business enterprises. In 2007 more than half of the respondents (58%) received loans to expand their business. It should be noted that the majority of SMEs that receive loans is engaged in trade. 35% of SMEs that did not take loans consider reasonability of getting a loan in the future and 20% of small enterprises think that interest rates are too high for them.

¹ According to the data of the Department of Economic Development of Murmansk region.

There are still some difficulties in finding qualified specialists, up to 82% of respondents feel a need for qualified staff.

The results of the survey showed that the majority of respondents (66%) estimate the conditions for entrepreneurial activity as favorable, but 34% are not satisfied with the existing conditions and find the situation more likely as unfavorable and very unfavorable.

The results of the survey confirmed the need for such forms of entrepreneurial support as direct financing, favorable lease rates (for micro and small businesses), creation of loan guarantee schemes and investment funds, government contract opportunities for SMEs, a wide range of information and education support services for the enterprises of all categories. All these forms were reflected in the long-term target program "Small and Mid-sized Business Development in Murmansk Region for the Period of 2009 – 2011".

The program was developed in accordance with the Federal Law №209-FL "On Small Business Government Support in the Russian Federation" dated July 24, 2007 and the Regional Law №977-01-LMO "On a Assistance to the Development and Government Support for Small and Mid-sized Entrepreneurship in Murmansk region" dated May 27, 2008.

One of the most important principles of the new federal law became the principle of separation of duties between local and state government, implemented in order to provide favorable conditions for entrepreneurship development and establishment of new criteria (the number of employed persons and sales revenue, residual value of assets). The new criteria help to distinguish micro, small and medium-sized enterprises as entities of small entrepreneurship to provide the basis for the development of active support measures, oriented at these entities.

The existing conditions of Russian economy were taken into account when the new federal law was developed; nevertheless most of its regulations refer the recipients of support to the federal, regional and municipal development

programs for small and mid-sized enterprises, in particular, to the long-term target program of Murmansk region for the period 2008 – 2011.

It is declared that the program aims to increase the number of SMEs, to enhance their competitiveness and to increase the contribution of SME sector to the social and economic development in Murmansk region (including gross regional product) and to the revenue budget at all levels and to provide employment and social guarantees to entrepreneurs and employees.

In order to achieve the stated aims the following tasks of the law should be accomplished:

1. To remove administrative barriers which impede small business development in Murmansk region.

2. To create favorable conditions that will stimulate self-employment and entrepreneurship among different strata of the population.

3. To create favorable conditions that will stimulate the local government and non-profit organizations, promoting the interests of entrepreneurs, to implement measures aimed at entrepreneurship development in municipalities.

4. To develop regional entrepreneurship infrastructure, including commercial firms and non-profit organizations, specializing in providing services to different entrepreneurial entities.

5. To provide access to financial resources by means of different financial tools (to grant micro-loans and subsidies, to provide loan guarantees and financial resources from unit investment funds [4].

The main principle of implementation of the above-stated tasks is implementation of support measures aimed at particular target groups. Different measures are developed according to the category of entrepreneurial entity, stage of business development or type of entrepreneurship.

The program consists of two major parts: "Improvement of Public Administration for the Development of Small and Mid-sized Enterprises" and "The Implementation of Drafts and Programs Aimed at Supporting SMEs".

The first part of the program proposes a wide variety of measures to provide entrepreneurial entities with access to the financial resources.

The Economic Development Department approved the regulations on micro loan system where loan terms and conditions are defined according to the stages of business development: start-up entrepreneurs can open a line of credit based on the refinancing rate of the Central Bank of the Russian Federation, acting small business enterprises and entrepreneurs can receive reduced-rate loans (the refinancing rate of the Central Bank plus 4%) and there is also a line of credit for the replenishing of current assets (the refinancing rate of the Central Bank plus 8%).

The expenses of entrepreneurial entities are subsidized according to the decree of the Government of Murmansk region №253-PP/9 dated May 25, 2007. As different categories of entrepreneurial entities were singled out, it is supposed that the list of expenses, which can be subsidized, will be enlarged. According to the existing terms entrepreneurs are not limited in receiving subsidies under one agreement, the subsidy cannot exceed 50% of the documented costs. The total maximum amount of subsidy available is rub. 600 000.

Within the framework of the program consideration should be given to the advisability of establishment of unit investment fund or venture investment fund to provide entrepreneurial entities with access to the investment resources. The issue of replenishment of the guarantee fund is also very important. The Science Research Institute of the Russian Academy of Science is supposed to carry out research works on scientific validation of new financial tools of support.

To satisfy the needs of SMEs in qualified staff state contracts for the delivery of education services for business will be formed.

The second part of the program is aimed to encourage local government, representatives of organizations of entrepreneurial support infrastructure, non-profit organizations, initiators of different programs and drafts in the SME

sector to take more active measures for the creation of favorable environment for SMEs development in municipal entities.

Within the framework of municipal programs subsidies will be granted on a competitive basis at the expense of regional budget. The municipal programs on the development of entrepreneurial entities are adopted in 10 municipalities with the aim of implementing support measures for entrepreneurship.

The program stipulates state support of projects concerning the development of SME sector, including the projects of non-profit organizations, international, inter-regional and inter-municipal programs and projects of public-private partnership.

The priorities for public-private partnership in the sphere of development of SME sector are declared as follows: assistance for creation and development of regional clusters (fishing, transport&logistics, construction and others); assistance with cooperation between SMEs and large businesses; development of subcontracting and outsourcing; assistance with implementation of innovations and information and communication technologies; implementation of public-private partnership projects in municipalities with low social and economic development.

Within the framework of the activities the development of international project in Murmansk region is planned. The aim of the project is to create the system of public experts to provide consulting services to SMEs.

To summarize, by adopting any new program a variety of tools (including financial, property, legal, consulting, education and information tools) aimed to support SMEs development has been growing and improving. Meanwhile, the growth of entrepreneurial activity both in Murmansk region and in Russia falls short of economy growth rate. Therefore, there is an urgent need for additional stimuli, which help to achieve significant social and economic results of SMEs development, for example, tools of tax regulation.

Correlation between the Limiting Amount of Sales Revenue and Category of SME

Category of SME	Limiting amount of sales revenue (according to the Federal Law №. 209-FL and the Resolution of the Russian Federation Government №556), rub.	Maximum sales revenue under simplified tax system, rub.
Micro enterprise	60 000 000	15 000 000 – 20 000 000
Small enterprise	400 000 000	
Medium-sized enterprise	1000 000 000	

The easiest way to increase tax efficiency for entrepreneurial support is harmonization of norms of the Federal Law №209-FL dated July 24, 2007 with norms of the Tax Code, namely with the simplified tax system (*see the table*).

The new criterion, in particular sales revenue, will help to distinguish between micro, small and medium-sized enterprises and it must be adopted as a basic characteristic by transition to the simplified tax system. Other-

wise, following the resolution of the Russian Federation Government №556 dated July 22, 2008 “On the limiting amount of sales revenue for each category of small and medium-sized businesses”, none of the enterprises will be able to use the simplified taxation system, because the least amount of sales revenue for micro enterprises (rub. 60 000 000) exceeds the limiting amount of sales revenue adopted by the Tax Code for the use of the simplified tax system (rub. 20 000 000).

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