

## **THE PROBLEM OF SMALL BUSINESS DEVELOPMENT IN RUSSIA**

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Small business is one of the most actual directions of economic growth in Russia nowadays. It has to become the basis of social restructuring of society providing readiness of the population and transition to market economy. However formation processes in various spheres of public life in Russia go very slowly. Despite difficulties and failures, small business develops, achieves some rates in growth, solving economic, social, scientific and technical problems. The solution of the problem of small business development will influence national economy. The purpose of this work is to consider the problems of small business development in Russia. According to the purpose the following tasks were solved:

- 1 . to consider small business as a sector in the economy of the country;
- 2 to analyse the state of small business in Russia;
- 3 . to reveal the prospects of small business development in modern Russia.

The legal definition of "small business" varies by country and by industry. In the United States, for example, a small business is specified as having fewer than 250 employees for manufacturing businesses and less than \$7 million in annual receipts for most non manufacturing businesses. In addition to number of employees, other methods used to classify small companies include annual sales (turnover), value of assets and net profit (balance sheet), alone or in a mixed definition. Small businesses are usually not dominant in their field of operation.

A big business can be started at a very high cost and on a full-time basis. Adapting to change is crucial in business and particularly small business; not being tied to any bureaucratic inertia, it is typically easier to respond to the marketplace quickly. Small business proprietors tend to be intimate with their customers and clients which results in greater accountability and maturity.

Independence is another advantage of owning a small business. Freedom to operate independently is a reward for small business owners. In addition, many people desire to make their own decisions, take their own risks, and reap the rewards of their efforts. Small business owners have the satisfaction of making their own decisions within the constraints imposed by economic and other environmental factors. However, entrepreneurs have to work for very long hours and understand that ultimately their customers are their bosses.

Small businesses often face a variety of problems related to their size. A frequent cause of bankruptcy is undercapitalization. This is often a result of poor planning rather than economic conditions - the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his anticipated expenses. In addition to ensuring that the business has enough capital, the small business owner must also be mindful of contribution margin. Contracting fraud has been an ongoing problem for small businesses in many countries. Another problem for many small businesses is termed the 'Entrepreneurial Myth' or E-Myth. The mythic assumption is that an expert in a given technical field will also be expert at running that kind of business. Additional business management skills are needed to keep a business running smoothly. Still another problem for many small businesses is the capacity of much larger businesses to influence or sometimes determine their chances for success.

The biggest part of Russian small enterprise is services – 60-80%%. About 50% is trading and services for other people. In recent years the amount of small enterprises in Russia slightly grew due to a simplified registration procedure, but the dynamic is negligible. Starting a

small business in Russia is a challenge despite large government investment and support programs. There are administrative pressure, high energy bills as major problems, as well as the lack of know-how among those running small concerns.

About half the owners of small and mid-sized enterprises in 40 regions of Russia say they faced serious difficulties starting the business. The Government spent billions rubles on support programs. But it isn't a plaster for all sores, experts say. Demonopolization of state corporations and fundamental change of the existing supply system would give access to governmental contracts for thousands of small enterprises.

According to the research, more than half of businessmen say, regional authorities should do more to support small business. Meanwhile about 70% of entrepreneurs consider their regions a favourable place to do business. Moscow region, Krasnodar and Stavropol regions in the south of Russia, Samara in the Volga region top the ratings for a good business environment.

The Russian Government launched a number of programs both federal and regional including creation of business incubators providing support resources and services for enterprises. The authorities also approved several decrees and amendments ensuring fairer competition.

Soon a new federal law in Russia will come into effect to consider public procurement as an instrument of economic policy. This new federal contract system will provide opportunities for the development of various economic actors, support small business in Russia, and foster the creation of an equitable economic space.

Here are the top five achievements of the new contract system:

1. Reducing corruption risks
  - Complying with documents that stick to goal-oriented program planning
  - Standardizing procurement/purchasing
  - Introducing bank-supported contracts
  - Creating a unified informational system with automatic monitoring
  - Prohibiting of family ties between supplier organization and contract customer
  - Mandating a public discussion of purchases more than 1 billion rubles
2. Creating transparent, open rules for businesses
  - A three year procurement plan and schedule for each year's procurements, to allow entrepreneurs and small business in Russia to plan ahead for business development, calculate demand of their products within a three-year time-frame, and prepare to participate in tenders and auctions
    - A unified information system for procurement, containing data on planned purchases, procedures for finding and determining vendors/suppliers, closed contracts and results of performance.
    - Information will be publicly accessible to anyone who wants to use it. No registration will be required to access the data
3. Conscientious suppliers
  - Anti-dumping measures to protect customers from dishonest supply and predatory pricing
    - The possibility to close a contract with a single supplier, with the approval of the controlling organ, if there are no other bids submitted to the auction
4. Support for socially oriented non-profit organizations, organizations for persons with disabilities, and small business in Russia
  - No less than 15 percent of all procurements should be made from small business in Russia
5. Creation of economic stimuli for innovation

- A two-part competition with limited participation for complicated or innovative products, such as scientific or creative products
- The first stage of the competition will allow competing suppliers to conduct scientific research or design work for a proposal. The customer will then specify the procurement specifications, taking into account the proposals of the qualifying participants, and then will determine the ultimate supplier in the second part of the competition.