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ENTREPRENEURSHIP AND SMALL BUSINESS IN THE RUSSIAN FEDERATION

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FOREWORD

In September 1996, the OECD organised, in co-operation with the Russian Federation's State Committee for the Support of Small Enterprises (SCSME), an Experts Meeting on entrepreneurship and small firms in Russia. This study was undertaken as part of the overall programme of work of the OECD's Centre for Co-operation with the Economies in Transition (CCET) in 1997 and formed the basis for a discussion, which involved several international experts, representatives of international donor institutions active in Russia, and representatives of Russian authorities involved in policies dealing with small firms.

As acknowledged by several studies, small businesses are one of the most dynamic factors in the transition process. Even though small business development may be neglected during the first phases of the transition, when attention is focused particularly on macroeconomic stabilisation, it is a key element in any democratic society with a market economy, which must be addressed at some point during the transition period.

This study provides substantial information on the development of small and medium-sized enterprises in Russia since the collapse of the Soviet system. To compensate for the uncertain reliability of available statistics, it seeks a more complete picture through sociological surveys, which provide a better picture of the situation of entrepreneurs in contemporary Russian society. The positive image now enjoyed by entrepreneurs can be partly attributed to the emergence of a relatively favourable policy framework.

Nevertheless, the situation in Russia is far from satisfactory: For example, the number of small firms is far below the average of other transition countries. Heavy and frequently-changing fiscal policies and administrative requirements still represent a difficult burden for small firms. Moreover, the situation differs greatly from one region to another, for a variety of reasons.

Another important aspect that the study examines extensively is action by international donors in favour of small firms. Many programmes are being implemented in Russia, often either concentrated in selected regions or targeted specifically at entrepreneurs and small firms. But it is still unclear whether these programmes, like business centres and incubators, are sustainable in the long term, when international support will likely end.

The main policy conclusion of the study is that it is still necessary to develop further our knowledge and understanding of this fundamental sector of the Russian economy, and to prepare the groundwork for the implementation of sound policies. An essential element which emerged from the study and the Experts Meeting is that policies for small firms must be conducted at the local level. In the Russian federal system, this means that regions should have the main responsibilities in designing and implementing programmes, and that the central government should concentrate on creating a positive overall environment for SMEs, making local policies more coherent; on providing counselling and examples of best practices to local authorities; and on helping them establish relations with foreign

investors and partners. Only when all the necessary policies and framework conditions are in place will SMEs be able to realise their full potential to contribute to a successful transition and economic recovery.

This report is published on the responsibility of the Secretary-General of the OECD.

TABLE OF CONTENTS

FOREWORD.....	1
SMALL FIRMS IN RUSSIA: AN INTRODUCTION	6
Objectives of this report.....	6
Small and medium-sized firms in OECD economies	6
Entrepreneurship in central and eastern European countries	6
Entrepreneurship issues in the Russian Federation	7
SMEs in the Russian Federation	7
Policies for SMEs in OECD countries.....	9
Policies for SMEs in central and eastern European countries	10
Policies for SMEs in the Russian Federation	10
International donor programmes.....	12
Main conclusions	12
CHAPTER 1 SMALL ENTERPRISES IN THE RUSSIAN ECONOMY	14
1.1. Macroeconomic developments in Russia	14
1.2. Main stages in the formation of the SME sector	17
1.3. Definitions of “small enterprise”	19
1.4. Main problems facing small enterprise activities	21
1.5. Structure and dynamics of the SME sector (statistical review)	25
CHAPTER 2 STATE REGULATION OF SMALL ENTERPRISES	40
2.1. Legislative and regulatory basis	40
2.2. Taxation	45
2.3. Registration and licensing.....	49
CHAPTER 3 SMALL ENTERPRISE PUBLIC SUPPORT SYSTEMS.....	54
3.1. Public support programmes for small enterprises	52
3.2. Public regulatory bodies	55
3.3. SME support foundations and funding schemes	59
3.4. Training, information and counselling agencies.....	70
3.5. Entrepreneurial associations and unions.....	76
3.6. International assistance to small enterprises	80
CHAPTER 4 THE SOCIAL ENVIRONMENT FOR SMALL ENTERPRISES.....	88

4.1. Social portrait and recruitment of entrepreneurs	88
4.2. Entrepreneurs as seen by public opinion	90
CHAPTER 5 MAIN CONCLUSIONS AND RECOMMENDATIONS	94
BIBLIOGRAPHY.....	100
DATA SOURCES	105
Interviews.....	105
Official reports and papers.....	106
Research results.	106
Media reports.	106
OECD and SCSME seminar.	107
ACKNOWLEDGEMENTS:.....	108
APPENDIX 1 PROCEEDINGS: OECD EXPERTS MEETING ON FEDERAL AND REGIONAL SUPPORT FOR ENTREPRENEURSHIP IN THE RUSSIAN FEDERATION, MOSCOW, SEPTEMBER 1996	113
Background and rationale	113
Participants.....	113
Key issues of the Seminar.....	115
Points of disagreement and uncertainty	122
Points of general consensus	123
APPENDIX 2. MAIN ABBREVIATIONS.....	125
APPENDIX 3. AVERAGE ANNUAL EXCHANGE RATES IN 1992-1995.....	126
APPENDIX 4. RELEVANT FEDERAL LEGISLATIVE DOCUMENTS.....	127
Russian Federation Laws	127
Russian Presidential Orders	128
Russian Federation Government Decrees	128
APPENDIX 5. SME FEDERAL SUPPORTING INSTITUTIONS.....	130
Parliamentary Committees.....	130
Government Institutions (first-line actors)	130
Government Institutions (second-line actors).....	130
Main Foundations	130
Non-State Associations and Unions	131
APPENDIX 6. THE STATE OF DATA BASES ON SMALL ENTERPRISES.....	132
Conclusions: deficiencies of the database on SMEs.....	134
APPENDIX 7	136

Tables

Table 1. Small Enterprise Employment Criteria by Industry	21
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Table 2. Newly Established SMEs in Russia in 1988-1990.	27
Graph.....	27
Graph.....	28
Graph.....	30
Graph.....	31
Table 3. Number of Small Enterprises in Russia by Industry (1991-1995) (thousands).	32
Table 4. Growth Rates in Number of Small Enterprises in Russia by Industry (1991-1995) (%).	33
Table 5. Numbers of Small Enterprises, Employment and Financial Indicators	35
Table 6. The Structure of Employment in Small Enterprises by Industry in 1995.	36
Table 7. Small Enterprise Financial Parameters by Industry (January-June 1995).	37
Table 8. Budget of the Federal Foundation for SME Support in 1993-1995 (billion roubles)	63
Table 9. Financial Support of Entrepreneurship from State Employment Fund in 1993-1995.	67
Table 10. A model of integrated institutional support of small enterprises (Moscow)	98
Table 11. Small enterprise numbers and employment by region in 1995	138
Table 12. Small enterprise output by region and economic branch in 1995 (billion roubles)	141
Table 13. Financial support of entrepreneurship from state employment fund (mln. rbl.) and its share in total fund expenditures (%) by region (1993-1995).	143
Table 14. Job preservation, job creation and start-up subsidies as a percentage of total financial support of entrepreneurship from state employment fund by region(1994).	146

SMALL FIRMS IN RUSSIA: AN INTRODUCTION

Objectives of this report

This study takes stock of the present conditions for entrepreneurs and small businesses in the Russian Federation. It also assesses existing policies in support of entrepreneurship at federal, regional and local levels, focusing specifically on issues of policy co-ordination in the context of decentralisation. It is based on the initial findings of an OECD paper prepared in collaboration with the Russian Academy of Sciences, supplemented by comments made during the Experts Meeting on “Federal and Regional Support for Entrepreneurship in the Russian Federation” which was held in Moscow in September 1996. Specific results of the Meeting are included as an annex.

Small and medium-sized firms in OECD economies

Small and medium-sized enterprises (SMEs) are one of the most important elements of free market economies. In number, SMEs constitute over 99 per cent of the total number of enterprises in almost every OECD country. They account for almost half or more of total employment. Their contribution to GDP is important, and ranging from 34.9 per cent in Germany, to 48 in the United States, 57 in Japan and 61.8 in France.¹ The term SME possesses a variety of definitions, and there is no official or universally accepted one. Definitions vary widely among countries, but the most common criteria used in OECD countries are employment and / or the size of the capital. In the European Union, SMEs are defined in terms of employment (less than 250 employees for the medium-sized enterprises, less than 50 for the small, and less than 10 for the micro-enterprises), turnover (less than 40 million ECU for the medium-sized enterprises, less than 7 for the small), and assets (less than 27 million ECU, and less than 5 million ECU, respectively).

In the US, on the contrary, size standards have been established for types of economic activity, or industry. A similar procedure is used in Japan. These countries differentiate between manufacturing and service SMEs - with service SMEs usually defined as smaller than in manufacturing. Some countries distinguish between autonomous SMEs and those that are connected to a larger enterprise or group, or identify an SME in terms of management structure (personal involvement of the owner or family-owned, for example). Finally, statistical definitions of SMEs often differ from those used for policy implementation purposes.

Entrepreneurship in central and eastern European countries

The development of small and medium size enterprises in central and eastern Europe was less important to policy makers compared to other aspects of economic reform early in the transition. Today, small enterprises play a very important role in Poland, Hungary and the Czech Republic. The most recent

statistics show more than one million SMEs in Poland (1 057 102), more than half a million in Hungary (519 502) and around 700 000 in the Czech Republic.² More importantly, most of these enterprises have been created during the transition period.

But the importance of most small enterprises is not just economic: Small firms offer freedom of choice. While in some non-market economies large firms still play an important role, small firms are a distinguishing characteristic of most free-market economies. The freedom implicit in small firms is incompatible with a planned economic system, and the private ownership they suppose was absent in the Soviet system. Moreover, the theoretical background of planned economies was completely based on economies of scale, in which there was no role for small firms; and, the command system would have been even more ineffective if it had had to deal with small units.

Entrepreneurship Issues in the Russian Federation

In Russia, private ownership completely disappeared during the Soviet period, perhaps to a larger degree than in other transition countries (Poland or Hungary, for example). Communism lasted over 70 years in Russia, nearly thirty years more than in the central European countries, where forms of private ownership continued to exist.³ The starting point or level of economic development in Russia before 1917 was far inferior to that in western or eastern European countries. And since then, it has been concentrated in large companies.

In contrast to a society with a natural “entrepreneurial spirit”, Russia has a long bureaucratic tradition. Nineteenth-century Russian literature gives many examples of this bureaucratic tendency. On the contrary, few examples of entrepreneurial spirit can be found. Traditionally, Russian entrepreneurs belonged to two categories: large entrepreneurs, linked to the ruling power, and minority entrepreneurs, from many of the numerous peoples present in Russia. Hence, the historical and sociological background for Russian entrepreneurs is weak. Although this weakness is not enough to impede the present development of entrepreneurship in Russia, it is sufficient to make it more difficult.

The Soviet system relied heavily on large military production complexes, with a high concentration of investments and highly-skilled workers. Today, these complexes are having critical effects on the growth of SMEs. On the one hand, they maintain the focus on large-scale industries, thus taking away funds and political attention from small firms. On the other hand, in some local situations, the presence of highly-skilled workers has permitted the development of SMEs specialised in high-technology related sectors⁴.

Another underlying aspect is the vastness of the territory that now comprises a complex federal system, in which complication between levels of power is great, interferences are common practice, and the transition proceeds at differing paces, depending on the region. One particular difficulty for small firms is the lack of developed fiscal federalism, which engenders confusion and often duplication of roles in taxation between different levels of government. The diversity of local historical experiences makes this picture even more complicated.

SMEs in the Russian Federation

Small businesses reached the number of approximately 900 000 in 1994, a huge increase from 1991 when there were 250 000. Since then, growth appears to have stopped or at least reached a plateau. In terms of total employment, SMEs are said to account for 13 per cent of the active population.

Compared to those of other transition countries, these figures indicate that entrepreneurship is still underdeveloped.

This study attempts to provide a perspective on the situation of small firms in Russia today, and the specific policies and programmes that have been developed since 1992. Some general caveats should be noted. First, data on small firms are scarce and complex to analyse. The contribution to job creation, even if it is recognised as most important, is measured only with approximation. Moreover, the overall process of entrepreneurship is more complex than simply looking at SMEs. The lack of reliable information hinders the analysis of the formation and growth of SMEs in transition economies, and in Russia in particular. Sometimes interpreting the data can be hazardous. Official data typically cover only registered enterprises, excluding the informal sector, which in transition economies may be large⁵. Another problem that may arise is linked to inactive firms that are not recorded as such in official data.

In Russia the situation is complicated by the fact that small firms are new to the Russian tradition. Laws, regulations and policies finally evolved in the 1990s, and only after a contradictory and confused debate. The definition of small firms changed several times in the last five years, as did the ministers and agencies in charge of the implementation of the policies. Only recently the situation seems to have stabilised, with a law on state support of small enterprise passed in June 1995, and with a new ministerial body, the State Committee for the Support and Development of Small and Medium Enterprises (SCSME), whose task is to co-ordinate all aspects related to small firms.

Bearing in mind these aspects, the paper offers substantial information and statistics on Russian small enterprises. Aiming to take stock of the present situation, after several years of transition, it constitutes a good starting point for the political and economic agenda of the future. In this respect, the main message of this report is that, even in a difficult context, SMEs are growing in importance in Russia, their role as economic actors is consolidating, and their contribution to the economy is constantly increasing.

Hyper-inflation, economic instability and uncertainty were the main obstacles that Russian SMEs had to face in recent years. Economic stabilisation is quite recent, and not yet completely effective. Fiscal policy and regulation have not been favourable for the development of small firms. In many cases, small firms may be active but do not register in order to avoid the heavy fiscal and administrative burden.

A broader look at entrepreneurship should also analyse the informal sector, which is quite large in transition countries. In periods of great economic and political changes, many activities emerge, but tend to stabilise only after a period when uncertainty in the economic and regulatory environment is reduced. In transition countries, the informal economy and the black market are quite developed. There are many estimates, more or less reliable, of the contribution to GDP of the informal economy. This is of particular relevance in Russia, where much has been said about the criminal economy, and where the superficial image given by the media tended to identify entrepreneurs as criminals.

In fact, what is normally called the “mafia” embraces four different groups which actually are distinct, following the classification made by Layard:⁶

The first group in this definition is composed of the “real mafiosi”: they are the violent enforcers who collect protection money, run prostitution rings, peddle drugs, and sell weapons. The second and the third groups would not be called criminals elsewhere. The second group consists of the small businessmen who own shops or sell goods from a kiosk on the street. They are assimilated to criminals as they are “protected” by them, their prices are high (also due to the payment of extortions) and partly because of communist indoctrination, under which many forms of private trading were illegal. The third category consists first and foremost of businessmen, who are criminals because it is still hard to make deals in Russia without becoming involved with crime. The last type is the state mafia, corrupt officials who sell licences to import or export at controlled prices, licences that bear with them the chance to siphon off goods for sale at uncontrolled and highly profitable prices.

(Layard, p. 152)

According to surveys cited in this study, criminality has been perceived by entrepreneurs as the second most acute problem in public opinion polls during the last five years. Eighty-three per cent of SME managers complain that they are subject to coercion or threats⁷.

The fact that the growth in numbers of SMEs seems to have stopped in 1994 may be linked to the end of the process of “small privatisation”, and the relative crisis in the financial sector, which hit small firms particularly severely. Moreover, it is possible that even active firms “disappear” for a time, while the financial situation is difficult, or to avoid taxes and / or other excessive regulatory burdens, only to re-emerge at a later period. Hence, figures presented in this report may hide larger phenomena. For example, self-employment may well be largely diffused, even in its simplest forms of surviving in a rapidly changing economic environment.

Policies for SMEs in OECD countries

In recent years, many OECD countries have implemented specific policies to address issues related to development of small firms and entrepreneurship. In some cases, these policies were in response to major plant closures in specific sectors, and often in specific areas. At the same time, governments have tried to design programmes that were compatible with the changing and flexible economic environment. Recent OECD research has revealed the following trends. Public intervention has addressed specifically the numerous market failures that small firms meet from the start-up to the development phase. Policies were designed to support the creation of new enterprises, especially among specific groups, like young people. In many cases, the support has been in the form of services and / or premises rather than direct financial contributions. Typically, business centres, incubators or technological parks were created⁸.

Another form of public intervention addresses the problem of access to finance for SMEs, and involves the creation of national and / or local institutions, such as specialised banks or loan guarantee schemes. Targeted SME finance instruments have been developed in OECD countries for the unemployed and young people, for women, and for minorities, in order to give these groups the possibility of re-entering the work force through entrepreneurship. A third and perhaps most important field of policies for small firms consists of initiatives linking education and entrepreneurship. Training has become a critical concern for public policy, as illustrated by various efforts to address the skills gap in small firms.

A fourth set of policies consists of programmes designed to assist the internationalisation of small firms, helping them compete in world markets, improve their capacity to innovate, and introduce and use new technologies. At the same time, other more traditional policies, for instance, fiscal policy, are progressively being reassessed by OECD countries, as they no longer respond to the goals for which they had been designed.

Policies for SMEs in central and eastern European countries

The rationale for supporting entrepreneurship in transition economies is even stronger than in OECD countries.⁹ In fact, “an indigenous grassroots entrepreneurial class can only develop when potential entrepreneurs have a positive institutional and economic environment for their activity”.¹⁰ As mentioned earlier the development of institutional and macroeconomic framework conditions and consequent reforms were adopted prior to specific SME policies. Attention was concentrated on the creation of a legal framework and on implementation and co-ordination. Privatisation and microeconomic restructuring followed.

Direct state intervention in support of the private sector has nonetheless proved necessary in central and eastern European countries for three reasons. First, the fact that private initiative was systematically suppressed for decades justified the state’s attempting to address the negative effects of its own former action. Second, considerable financial resources have been channelled by the state to state enterprises and privatised firms to assist restructuring necessary to the transition process, hence it is also important to direct some resources to firm creation and existing SMEs. Finally, the market structures of the Soviet era largely favoured big companies, hence, it proved necessary to help small businesses overcome this disadvantage.

Policies specifically directed towards small firms had a secondary role in the transition process. However, looking at the figures, policies adopted in Poland, Hungary, the Czech and the Slovak Republics appear relatively successful, as a wide and developed SME sector is now in place. Support measures focused principally on microeconomic aspects, and covered three main areas: financial assistance to improve the financial situation of SMEs; qualification and consultancy measures to broaden the understanding in SMEs of the functioning of a market economy; and measures designed to increase infrastructure provision (commercial and industrial centres).

Policies for SMEs in the Russian Federation

As mentioned above, legislation and policies in favour of entrepreneurship in the Russian Federation took time to clarify and to render coherent. A specific law for the support of SMEs - approved in 1995 - gives a definition of SMEs and provides a framework of policies, such as the development of specific infrastructures, the creation of specialised institutions, the possibility of simplified bookkeeping and authorisation, and training programmes for entrepreneurs. The law states that 15 per cent of the expenditures made by public bodies must be earmarked for small firms. However, it is unclear how these policies have been implemented. Some parts of the laws are ineffective or even counter-productive (the quota in public expenditure is a type of instrument that has become less common in OECD countries).

According to the law, the Russian Government must submit an SME Support Draft Programme to the Parliament every year before the Federal Budget submission. In addition, programmes of support for small firms are also drafted at the regional and local levels. Federal and municipal SME Support Programmes are expected to include: measures for infrastructure development and SME support on all

levels, measures to integrate vulnerable social groups (disabled individuals, women, young people, retired military officers, unemployed, refugees, discharged prisoners) into the SME sector, allocation of budget resources and tax privileges for SMEs, and finally, measures to facilitate SME access to information and new technologies, equipment purchasing and space rentals.

Co-ordinated by the Ministry of the Economy, but actually drafted by the SCSME, the 1996-1997 Programme for SMEs was adopted by the Governmental Decree of 18 December 1995 (N 1256). The Programme is focused on a legislative and regulatory framework, financial support, infrastructure development, scientific support and personnel training, with special priority given to the stimulation of investments (risk capital funds, leasing), and the development of innovative and R&D businesses. Other key innovations involve a move from direct Federal funding for SME programmes to the use of a variety of funding sources. The creation of regional credit guarantee funds and other mechanisms are examples.

The Programme aims at developing a minimum infrastructure in every region, including SME Support Foundations, banks and insurance companies working in the SME sector, business incubators, development agencies, business training centres, and information networks. According to the initial estimates, the cost of the Programme was 883 billion roubles (US\$ 190 million) — with 707 billion roubles from the Federal budget and the rest from regional and non-budget sources.

Efforts at Regional level

This paper reveals that extensive institution building has been carried out at the regional level. Some SME Support Committees were even established before the Federal Committee. The structure of the regulatory bodies and their functions are determined by regional authorities, and vary considerably from region to region. Specialised SME regulatory bodies exist in more than half of all regions, carrying out SME policy and creating links with business associations (43 out of 89 regions by the end of 1994 according to the SCAMP [State Anti-Monopoly Committee] survey). However, several regions were reported to have no responsible department. It is too early to draw conclusions on the effectiveness of these policies. On paper they represent a fairly complete set of policies and programmes. Yet, the implementation process will be much more difficult due to a clear lack of co-ordination at the federal level: an issue that the SCSME is expected to solve.

Problems of Small Firms

The obstacles encountered by small firms (which policies should aim to reduce) by far exceed the narrow limits of specific SME policies. For instance, the general climate of fiscal uncertainty is hampering SME development, with arbitrary and cumulative levels of taxation, and difficulty in measuring the exact fiscal burden. In some cases, taxes can be up to 90 per cent of profits. In addition to the classic problems of small firms (lack of capital), the Russian situation adds a weak financial system, high interest rates, and little short-term lending. Finally, equipment leasing schemes are undeveloped and credit conditions are inappropriate for starting businesses. Tensions are also aggravated by the periodic resurgence of inter-enterprise arrears and the curtailment of effective demand which immediately places small enterprises on the brink of bankruptcy. As a result, private high interest credit and informal and semi-legal forms of financing are widespread. An insufficient and unstable legislative and regulatory framework is also a critical issue. Property rights, taxation, labour relations and many special SME regulations are awaiting legal specifications. At the same time, enforcement mechanisms for regulation are weak. The role of regional and local authorities in the regulation of economic life is traditionally high,

and additional bureaucratic interference with SME activities by these actors is frequently cited as an obstacle. This often consists of bureaucratic barriers and delays, excessive control and reporting requirements, corruption and bribe-taking.

International Donor Programmes

Many international programmes have been established in recent years with the precise goal of developing small businesses. Nearly 156 SME support programmes had been funded by international institutions (EU-TACIS, USAID, EBRD and others) in Russia by 30 October 1995. These technical and financial assistance programmes were carried out by 53 donors, including governments and international financial organisations. For example, Germany is carrying out 170 projects (75 million DM), 60 per cent of which relate to SME support. The international projects vary in length from 1 month to 3 years. There are questions, however, about the sustainability of these programmes once the effort provided by international donors has been reduced.

Some of the programmes have focused directly on creating funds to help small firms start up and develop, or on setting up micro-credit programmes, and have operated through local banks. Some have focused on services and facilities like business centres and incubators. Others have focused on training as a necessary tool for entrepreneurship. It is impossible to give an exact evaluation of results. Certainly, the attention that international donors have devoted to small firms has made more clear their importance for sturdier economic and social development and has also highlighted the contradictions and limits in the regulatory and administrative approach in Russia, as well as in the fiscal system. Similarly, the Russian authorities seem to understand more clearly that 'good' policies for small firms do not necessarily come from direct financial support, but rather, from indirect services and positive framework conditions.

Nevertheless, it is unclear whether local programmes developed by international donors have really been effective. In some cases, they lack links with local realities, thus remaining somehow only "on paper". Another limit is that the effective result of nationwide-designed programmes depends on local situations, which differ greatly. A third, and probably the most important limit, is the sustainability of international intervention in the medium term. It is clear that the international financial effort will not last forever. It is hence essential that the programmes, especially in the case of local structures and centres, have a financial and institutional viability once the external aid comes to an end. One answer to these problems and limits is to concentrate efforts in specific regions, possibly those most ready to receive international investors. At the same time, a regional approach may also enable better co-ordination of the various forms of instruments.

Main conclusions

The purpose of this study is to set a framework for policy advice to Russian public officials in their effort to support SMEs, and also, help donors to understand the Russian context. The first conclusion is that the overall regulatory framework for SMEs is still insufficiently developed. The numerous programmes favouring small firms now have to be implemented, and this will require co-ordination at both the federal level and between central and regional authorities. Second, there is an evident lack of valid statistical sources on small enterprises at present, and changes in the SME employment census according to the Law of 14 June 1995 will likely cause new problems of data comparison. Extensive efforts are required to create a statistical framework. Regular selective monitoring in the regions is needed as an instrument for diagnosing the current status of SMEs. Special attention should be paid to monitoring of the results of support programmes provided by SME foundations and

other Russian institutions, as well as by international donors, in order to verify the effectiveness of the support systems.

A third and final conclusion is that policies and programmes should continue to be developed specifically at the regional and local levels, which have proved to be highly effective in other transition countries. Regional actors are better equipped to deal with the needs of small enterprises and to establish partnership relations between public authorities and small businesses. At the same time, decentralisation does not mean a simple deconcentration of power. It implies a strategy of gradual redistribution of functions among all levels of government, with regional differentiation and local initiative taken into account.

CHAPTER 1 SMALL ENTERPRISES IN THE RUSSIAN ECONOMY

1.1. Macroeconomic developments in Russia¹¹

Since 1990 there has been a continuous decline in GDP which fell by almost 38 per cent in 1991-1995, according to official figures. In 1996, real GDP was estimated to have shrunk by another 5 per cent. At the same time, industrial output was reduced by more than 50 per cent.

Structural change. There has been a decline in the share of industrial output in GDP, accompanied by the respective expansion of services as a share of GDP. production of services exceeded production of goods for the first time in 1994, and, of these, retail and financial services have shown the most rapid growth. The largest decline appeared to be in larger enterprises, whose output declined by more than half in the period 1991-1996. The share of resource-based goods in exports has increased, and there has been a drastic reduction in military output to one-seventh of its 1991 level.

Investment. Investments in the Russian economy are reported to have fallen by 75 per cent over 1991-1995. The decline of investment activity is considered to be one of the most dramatic negative economic changes. The deep economic recession, combined with high levels of inflation, and an unclear legal environment help to explain this figure. One of the reasons for low investment activity is also that the financial sector as a whole is still underdeveloped. Risks of extending credits, especially to material production, are high due to the frequency of enterprise insolvency, and the limits of legal procedures.

Foreign direct investment is still negligible in the early years of transition, but then increased sharply in 1995-96, from \$ 0.6 billion in 1994 to \$ 2.0 billion in 1995 and \$ 2.5 billion in 1996, and portfolio investment from virtually nothing in 1994-95 to \$ 7.5 billion in 1996. Foreign investments are unevenly spread and concentrated in a small number of resource-based regions and capital cities: Archangel, Moscow and Tumen account for some 70 per cent of the total amount in 1995.

Financial policy and inflation. Since January 1992, a financial stabilisation policy has been pursued, including price liberalisation and hard budget constraints. The shock to the price level - a 245 per cent increase in January 1992 - was followed by declining inflation rates. Monthly inflation rates fluctuated 10-25 per cent in 1992-1993 and 5-20 per cent in 1994-1995, before stabilising at around 2-4 per cent in 1996. By early 1997, the annual inflation rate had actually converged to those observed in Poland and Hungary.

The rouble declined enormously in absolute terms. The monthly decline in the exchange rate against the US dollar averaged 8-9 per cent in 1992-1994. The rouble has become relatively stable since 1995. This result has been obtained through a tight monetary and fiscal policy, and the introduction of a fixed rouble/\$ 4 300 - 4 900 exchange-rate corridor in mid-1995. In 1996, subsequently the last presidential elections, interest rates declined sharply, ending the year below 40 per cent per annum in nominal and 15 per cent per annum in real terms.

The restrictive monetary policy also contributed, in a context where the legal infrastructure does not ensure the enforcement of contracts, to the proliferation of various money surrogates and to the resurgence of barter transactions. It has also led to a periodical resurgence of inter-enterprise arrears, making up about 10 per cent of annual GDP.

Privatisation. As part of the privatisation programme, small enterprises were to be sold in their entirety through competitive bidding or lease buy-out. SMEs in retail trade, food service and consumer service were subject to mandatory privatisation through auctions and tenders organised by municipalities. Large-scale enterprises had to be transformed into joint-stock companies, while for medium and small-sized enterprises both methods have been used.

The spontaneous privatisation of 2 000 enterprises took place before the start of the privatisation programme in mid-1992. At the beginning of the official programme 150 million vouchers with a nominal value of 10 000 roubles (\$ 50) were distributed among the population. Three different privatisation options were proposed. The majority (70 per cent) of enterprises chose the option giving enterprise insiders 56 per cent of the assets (including 51 per cent to employees).

The highest rates of enterprise privatisation were observed in 1992; after the number declined considerably. However, the privatisation of land remains incomplete, as the necessary legislation has not been elaborated. In urban areas, about one-third of housing stock has now been privatised.

Labour market and unemployment. The unemployment rate is steadily increasing according to both official statistics and ILO figures. Despite the decline of output, unemployment figures are not very high (less than 10 per cent in 1996). In effect, it is probable that the official unemployment figures understate the actual level. In fact, declines in overall production and shifts in the structure of output have been accomplished so far with much lower unemployment than might be expected. This is due also to wage arrears, whose level is spectacularly high, especially in regions far from Moscow, where few market alternatives exist.

Although the cumulative fall in employment was much smaller than that of real GDP, the structure of employment evolved more directly in line with changes in the output mix. Employment sank in industry (by 25 per cent in the first half of the 1990's), stagnated in agriculture, but rose rapidly in services, like trade, banking, insurance and public administration. Also, employment in larger enterprises declined, whereas through 1994 small business employment increased substantially (although partly in the form of secondary employment).

The "marginal" segments of labour market, including temporary, part-time employment and short-term contracting, are being extended, and the flexibility of the labour market is increasing, in terms of relative wage levels and labour mobility across enterprises, industries and economic sectors. However, a general decline in participation rates, especially among women, is observed.

Income and living standards. In contrast to the decline in output, there has not been a uniform decline in income. Real wages have fluctuated in a cyclical pattern. Average real disposable incomes decreased in 1991-1992, but grew in 1993-1994, a trend that was interrupted by a fresh decline in 1995. At the same time, the share of "labour-income" in total income has fallen considerably - from 70 to 40 per cent in 1992-1995, while revenues from property ownership and entrepreneurial activity increased from 16 to 44 per cent.

Much attention has been given to the increasing differentiation of income among different social groups. The 20 per cent of households receive almost one-half of the total household income. The Gini

coefficient is steadily increasing (from 0.256 to 0.412 in 1991-1994). Poverty has affected the most vulnerable social groups, including large families, single-parent families with young children, the elderly and the disabled.

Differentiation of regions. The implementation of economic reform has been increasingly influenced by sub-federal administrations. Economic decentralisation took place at the same time as the decentralisation of political decisions.

There are 89 “federation subjects” in Russia, including: 21 autonomous republics and one autonomous region, 6 *krais*, 49 *oblasts*, 10 autonomous *okrugs* and 2 metropolitan centres (Moscow and St. Petersburg). According to the new Constitution adopted in 1993, all federal subjects are equal in relation to federal authorities. But, in reality, some regions are granted special rights through bilateral arrangements with Moscow.

There is a dramatic differentiation of the economic situation in the regions. Among the most prosperous provinces are the resource-rich autonomous republics (Komi, Kareliya, Sakha-Yakutiya) and *oblasts* (Amur, Irkutsk, Tumen), three large territories in Siberia and the Far East (the Krasnoyarsk, Khabarovsk and Primorsky *krais*) and the capital of Moscow. The group containing the poorest provinces includes some ethnic republics (Kabardino-Balkariya, Karachayevo-Cherkessiya and others) and predominantly Russian *oblasts* in the European part of the country (Astrakhan, Ivanovo, Kirov, Kursk, Penza). The per-capita income can be up to ten times higher in certain regions than in others.

These general economic conditions may help to explain many of the difficulties experienced by entrepreneurs in Russia today. Small and medium size enterprises may fulfil essential functions listed below, which are important for improving the general economic environment but actually go far beyond this (for specific data on the contribution of the SME sector, see Section 1.4.):

- creating additional output in a period of continuous economic decline and depression;
- establishing new sectors of economic activity, including innovative businesses and services not catered for by larger firms;
- providing a source of revenues for state budgets through taxation;
- creating jobs under conditions of increasing unemployment and mass redundancies at large-scale enterprises;
- implementing individual initiatives of potential entrepreneurs and establishing private property rights as an element of civil society.

When all these elements are considered, SME promotion presents a policy goal of crucial economic and social importance.

Today, Russia is characterised as an “economy in transition”. This not only refers to political and economic instability, or decline in GDP and industrial output. It is also associated with numerous controversies in regulations, underdevelopment of institutional systems, and painful changes in the mentality of its people. This paper will analyse the outcome of this process as regards small and medium enterprises

1.2. Main stages in the formation of the SME sector

Small enterprises never played a decisive role in the Soviet economy. On the contrary, progressive concentration and centralisation of capital and labour resources were carried out in large-scale enterprises. The regulation of the economy was dominated by the paradigm of economies of scale, with a strong bias towards everything that was large. In the mid-1980s, it would have been hard to find one hundred thousand SMEs in Russia. Taking this into account, the development of small enterprises should be considered within the context of the reforms of the last decade of the Soviet economy: It was closely connected with the rapid expansion of the non-state economy and the formation of entrepreneurship, even in cases where small enterprises had not formally left the state-run sector. From the viewpoint of macroeconomic policy, legislation and institutional changes, small enterprises, as a group, have struggled through at least three distinct stages during the last decade.

1. **The first stage (1986-1990).** Private entrepreneurship began to spread in Russia in the late 1980s, based on the first strong legal support provided in the Law "On Co-operation in the USSR" (1988) considered as the conventional starting point for the emergence of new entrepreneurship. (Those who created their enterprises before 1988 probably account for less than two per cent of today's number). According to state statistics, the year following this Law saw the number of co-operatives increase five-fold, the number of employed, eight-fold, and the quarterly output of co-operatives, thirteen-fold. The number of newly established co-operatives - the major part of which were small enterprises - grew rapidly in 1989 and 1990.¹²

A considerable proportion of these newly-created enterprises had little in common with traditional Soviet co-operatives, which were supposed to integrate common property rights with joint work obligations. The diversity of non-state enterprises was concealed behind the legal status of the co-operative: It was the only entity of this kind to be legitimately recognised by the authorities. In this period, lease-holdings of state-run enterprises and joint ventures became important among the other forms. During this first stage, reform of the legislative system was fulfilling primarily a liberalisation function. The purpose was to allow the creation of new business activities (which included SMEs). At the time, small enterprises were not distinguished from the medium and large-scale holdings in either legal or statistical terms. No special institutional support system was introduced, except for the first co-operative unions and associations.

During this first stage, SME activities were largely focused on production of consumer goods, housing construction, communal services and catering. It is important to note that economic conditions favoured enterprise creation at this time. The state-run sectors had left vacant many niches in the production and services markets, and it was possible to obtain bank loans at reasonable terms. Imports of competing goods were limited. Low wages and salaries at large state-run enterprises provided the possibility of attracting the most skilled workers and employees with wages that were on average three times higher. At the same time, the start-up of new enterprises brought serious political risks because the reverse movement was viewed as impossible. Overall, and in spite of many difficulties, the first stage is often referred to with nostalgic feeling as a "Golden age" which soon disappeared. It can be called **the stage of political liberalisation and economic initiative in the SME sector.**

2. **The second stage (1991-1993).** The initial liberalisation function of legislative reform was largely completed when all forms of non-state legal status, including individual private enterprises, as well as open and closed joint-stock companies, received their legal status. The number of newly established co-operative enterprises began to decline in 1991. Many co-operatives changed to other legal forms. Private entrepreneurship started to flourish. Since 1991 small enterprises have become a distinct policy subject for legal regulation. The first measures were introduced in the form of tax incentives which contributed to a boom of small firms in the state-run sector.

The first systematic attempts to elaborate SME support programmes and targeted legislation were made on Federal and regional levels. Many of those attempts failed, and there is insufficient evidence to claim that SME support systems had already been created. However, by the end of this stage an initial number of SME support foundations and associations had come into being (see Part 3 on SME support systems).

SMEs were also separated into a distinct category for statistical observation purposes (see Appendix on SME database). However, there still remained some uncertainty regarding the status of the "small enterprise". For example, for some time the size of an establishment was confused with its legal status, *e.g.* many enterprises were registered as "small enterprises" alongside co-operatives, joint ventures *etc.*

The second stage was characterised by the fast expansion of small enterprise numbers in the economy. The majority of SMEs were established in 1991-1993 (see Section 1.4 on SME statistics). It is remarkable that SME expansion was taking place at the same time as macroeconomic conditions deteriorated. The monetary policies pursued since the beginning of 1992 imposed hard budget restrictions and limited access to credit resources, heavy profit taxes, VAT and many other taxes. This led to inter-enterprise arrears, production curtailment, and, especially, investment decline which strongly influenced SME development prospects. Under these circumstances, an increasing number of SMEs were forced to place at least some of their resources into trade and intermediary activities, requiring less start-up capital and providing faster returns. More than 80 per cent of SMEs had to diversify their activities in order to survive during 1991-1993.¹³ This stage was marked by the appearance of commercial banks, commodity markets and the founding of the stock market. Easy fortunes were made from wholesale trade, especially foreign transactions, and currency exchange dealings.

Nevertheless, SMEs in the production and construction sectors continued to grow in spite of the deteriorating environment. This was due to the fact that SMEs remained the principal channel for the conversion of state-owned resources into private holdings, as the privatisation of large-scale enterprises was only starting. This second **stage** was that of **indifference to SME policies and the SME economic boom.**

3. **The third stage (1994 up to the present time).** Small enterprises have become the target of a complex series of legislative and regulatory measures. The first two-year national SME support programmes were adopted for 1994-1995 and then for 1996-1997. A special Law of 14 June 1995 laid down the integral legal basis for SME support, and a special State Committee for SME Support and Development was established by the end of 1995. Rapid institution building on a regional level has been carried out throughout this period (details may be found in sections 2.2, 3.1-3.2).

A number of large-scale support programmes were initiated by foreign institutions (EBRD, TACIS, USAID and others) in 1992, but the main funds started allocating resources in 1994. These stimulated the involvement of Russian commercial banks, the creation of business centres, and consulting and training agencies for small entrepreneurs (for details, see Section 3.6).

In parallel with this institution building for SME support, a relatively sharp decline in growth rates of SMEs has occurred since 1994. The crisis of Russian SMEs is usually explained by the unfavourable macroeconomic situation, in which there is a negative bias towards new production. It is true that financial resources are still severely limited for SMEs, the taxation burden is too heavy and business infrastructure for SMEs is underdeveloped. However, the fact that such unfavourable conditions did not prevent the SME sector from rapid expansion in 1992-1993 cannot be denied. Also, the decline is clearly observed not only in production and construction but also in trade and services.

The following explanation may clarify this paradox. In the first two stages, "small privatisation" was the main mechanism of legitimate state-run resource conversion into private property. By the time the official large-scale privatisation programme was initiated by federal authorities, the SME sector had lost much of its importance. The most dynamic parts of economic, political and human resources were withdrawn from SME promotion and moved into large joint-stock companies' resource allocation (for further discussion of SME dynamics see Section 1.4).

This third period can be called **the stage of an emerging policy framework for SMEs and a difficult economic environment for small business**

1.3. Definitions of "small enterprise"

There are several criteria used in OECD countries for the definition of SMEs. The number of workers and employees was selected for reasons of simplicity in the case of Russia, based on standard criteria. The "small enterprise" was first defined by the Russian Federation (RF) Council of Ministers' Decree "On Measures for Support and Development of Small Enterprises in Russia" (18 July 1991, N 406). The maximum number of workers and employees (including part-time and contract workers) was determined with respect to industries as follows:

- Industrial production and construction 200
- Science and scientific services 100
- Other production activities 50
- Retailing, catering and other non-production activities 15

This was substantially modified by the Law "On State Support of Small Enterprises in the Russian Federation" of 14 June 1995. The employment limitations for the small enterprise were reduced / increased:

- Industrial production and construction from 200 to 100

- Science and scientific services from 100 to 60
- Retailing and consumer services from 15 to 30
- Catering, other non-production activities from 15 to 50

In accordance with the new law, this employment census must be calculated taking into consideration the actual working time of part-timers and sub-contracted workers, although the mode of calculation has not been specified. In the draft law, regional authorities were allowed to raise the employment limitations but had to pay for SME privileges from their own funds. This provision was finally excluded from the final version. Thus, a considerable number of enterprises have been excluded from SME category. It is worth noting that employment decreased in the branches entitled to tax privileges (industry, construction) and increased for those not entitled (trade and services).

The Law of 14 June 1995 determined the "main activity" as being that which accounts for 35 per cent or more of annual market sales or 50 per cent or more of annual profit. It does not take into account the increasing diversification of SMEs. The problem is that the majority of today's SMEs are multi-profile. Thirty per cent of SMEs which began activities as industrial and construction enterprises became involved in trading activities at a later date.¹⁴ This method also gives enterprises an incentive to conceal at least part of their trade activities.

Additional limitations on "small enterprises" emerged in the law. The share of federal subjects, public and religious associations, and charity foundations, as well as the share of large and medium enterprises in SME equity capital should not exceed 25 per cent. It is worth noting here that in the initial stage, privileges were kept for state-run SMEs. Today, state-owned enterprises are being discriminated against in turn.

Conclusions

1. A number of co-existing SME employment criteria exist at the present time:
 - 100 workers or less (SME Support Law)
 - 50 workers or less (statistical reporting Draft Tax Code)
 - 15 workers or less (abridged taxation and reporting).

Moscow SME Support Laws (see Table 1). Overall, these discrepancies tend to work against efforts to regulate. There are disparities regarding the definition of an SME: for example, between federal and the SME sector.

2. The category of medium enterprises has never been used in Russian enterprise policy. The widespread logic is as follows: There is a necessity to control large enterprises with inherent monopolistic tendencies and to support small enterprises, while medium business is expected to survive by itself and does not constitute a subject for state policy.
3. We are reluctant to explain employment census changes with common references to the "western experience" as some officials do (these experiences in OECD countries are diverse). The actual reasons

for the state's lowering the census for SME employment in Russia are more likely to be of a mere fiscal nature, *e.g.* to reduce the number of SMEs subject to tax privileges.

Table 1. **Small Enterprise Employment Criteria by Industry**

Industries	Government Decree (1991)	Federal Law (1995)	Moscow city Law (1995)
Industrial production and construction	200	100	200
Transport	-	100	100
Agriculture	-	60	-
Other production activities	50	-	100
Non-production activities	15	50	60
Wholesale trade, retailing, services	15	30	60
Science and science services	100	60*	60
Others	-	50	-

Source: E. Bukhvald, p. 78.

1.4. Main problems facing small enterprise activities

This section is devoted to the main problems faced by small enterprises in their day-to-day activities. Problems are listed in order as ranked by SME managers, based on data from the First Russian Congress of SME Representatives (19-21 February 1996), and a number of sociological surveys.¹⁵

Finance

Most SME managers identify the negative financial environment as the first problem or even as the source of a wide range of problems for SME activity today. The financial situation of SMEs deteriorated in 1992-1993, due to monetary restructuring policies which made financial resources inaccessible to SMEs, except for those in mediating services. Among the most important are the following:

- taxation burden;
- limited access to financial resources;
- inter-enterprise arrears.

Taxation. The burden of taxes is reported to take up to 90 per cent of profits in many cases (all taxes and payments being considered). Ongoing instability in the taxation system together with the extent of the taxation burden itself are pointed to as the main obstacles to the economic development of SMEs by

60-75 per cent of entrepreneurs. However, these entrepreneurs have replied that they do not intend to make significant attempts to avoid payments (for detail see Section 2.3).

Lack of capital. The lack of capital renders enterprise creation a difficult task, particularly for small enterprises in the production sector. Entrepreneurs are usually able to cover 15-20 per cent of the initial costs from their personal savings. Less than one-half are able to access bank loans, and a very low percentage of small enterprises have secured access to such loans. Equipment leasing practices are undeveloped, and credit conditions are currently inappropriate for starting a serious business:

- loans are small, at 250-300 million roubles (less than US\$ 100 000) on average in 1994-1995;
- credit reimbursement limits are short (within one year, 3 months on average);
- annual interest rates are high (varying from 50 to 230 per cent. The average is 95-100 per cent).

There are additional reasons mentioned by 12-14 per cent of SME managers: b

anks refuse to provide loans, cause long delays, require large security deposits, and impose some informal requirements.¹⁶ All in all, two-thirds of the small entrepreneurs questioned do not expect to secure any support from the banks, against 14 per cent who do expect support, and 19 per cent who were not sure.¹⁷ It is also important to understand the positions of possible investors (banks, foundations) which complain about high credit risks and the low quality of business plans in the SME sector.

Inter-enterprise arrears. Tensions are aggravated by the periodical resurgence of inter-enterprise arrears and the curtailment of effective demand, which immediately places small enterprises on the brink of bankruptcy. As a result, private high interest credit and other informal and semi-legal forms of financing are widespread. "Black" mutual aid funds (*chernye kassy*) are collected by some enterprises in order to cope with financial difficulties.

Legislation

An insufficient and unstable legislative and regulatory framework is normally ranked second among the most difficult issues. Property rights, the taxation mechanism, labour relations and many special SME regulations are awaiting legal specification. Gaps in legislation are accompanied by the frequent absence of enforcement mechanisms. This has been even more problematic than the lack of regulatory texts in contemporary Russia (for details, see Section 2.2).

There is evidence that the legal rights of entrepreneurs are not secure. Few entrepreneurs would refer cases of violation of these rights to a court. Moreover, it is difficult to comply with contradictory legislative statements. Thus, the majority of entrepreneurs will avoid binding regulations although most aim to remain within the fringes of the legal framework whenever it is possible.¹⁸ It is difficult to estimate the number of those involved in the "shadow" economy; however, according to CCI data, approximately 15 per cent of small enterprises are forced to move into this area.

Macroeconomic situation

Entrepreneurs inevitably refer to the overall unfavourable economic situation, which usually ranks third among their worries. The reasons listed below are often mentioned:

- inflation;
- economic instability;
- unfavourable investment climate.

In the period between 1991 and 1995, the Russian economy is reported to have lost one-half of production output and up to three-quarters of investment. Entrepreneurs dealing with production tend to suffer more than others from the weakness of the national currency and market fluctuations. All in all, the evaluation of the macroeconomic situation for SMEs in Russia varies from highly pessimistic to the acknowledgement of some positive trends. Sustainable development and consistent investment policies are universally demanded.

Relations with the authorities

The role of regional and local authorities in the regulation of economic life is traditionally large. As a result, the problem of bureaucratic interference in SME economic activities is frequently raised. Firstly, this means:

- bureaucratic barriers and delays;
- excessive control and reporting requirements;
- corruption and bribe-taking.

In addition to common red-tape procedures, the authorities place barriers at the stage of enterprise registration and limit access to the leasing of premises. Officials are well-known for conducting numerous spontaneous control surveys and are capable of ruining any prosperous firm over time. Bribery has been classed as the most widespread illegal action in the Russian economy today, according to experts. According to survey data, about 90 per cent of entrepreneurs experienced pressure from the authoritative bodies. More than 40 per cent of these are frequently confronted by such pressure.¹⁹

Business links and information

An undeveloped business infrastructure makes it difficult to build up efficient business networks for small enterprises. Many SME managers suffer from:

- deterioration of long-standing economic ties;
- problems with sales;
- problems with supplies;

- lack of basic commercial information.

The split of the Soviet Union and progressing regionalisation, as well as the serious restructuring of the economy, dealt a strong blow to the well-established economic ties of large enterprises in many branches. This, of course, influenced the SME sector. One dramatic change in the transitional economy concerns the increase in sales combined with the shortage of supplies, which was a crucial issue in the Soviet system. SME managers also experience many difficulties in establishing their business networks, as principal information is lacking. Information on funding sources and foreign contractors is also lacking. The absence of formal data is normally compensated for by extensive informal networks through which managers search for clients and suppliers, and negotiate with banks and large enterprises.

Business ethics and security

Criminality has been ranked the second most acute problem in nation-wide public opinion polls during the last five years (price increases rank first). These are distinct from the surveys conducted strictly of entrepreneurs. This has also become a painful issue in Russian business life. Ninety-four managers of business firms were assassinated during 1994. Seventy per cent of commercial firms have to pay off criminal groupings (racketeers) according to some surveys.²⁰ According to V. Radayev, 83 per cent of SME managers complain that they are subject to coercion or threats (26 per cent experience it frequently).²¹ Both large and small enterprises are forced "to get a roof", e.g. to attract business security agencies. These include three categories at the present time:

- commercial police department services;
- private security and search agencies;
- criminal bands and groupings.

Only 7 per cent of SME managers claim that they do not suffer from violations of business agreements, while 41 per cent encounter them frequently and 52 per cent occasionally.²² These violations are frequently dealt with by force. Both legal and criminal agencies are regularly employed to solve cases of insolvency. The royalty is usually 50 per cent of total debt for criminal groupings and 15-40 per cent for legal agencies. These criminal affiliations, widely discussed in the mass media, together with the business ethics deficiencies have resulted, amongst other things, in a lack of confidence on the part of foreign business partners.

Business training

SME managers often place the lack of skilled personnel and demands for professional training at the bottom of the list of problems. Attention still seems to be held predominantly by financial issues. However, a common disadvantage of small businesses is being unable to pay for training programmes. It is important to note that in the first stages of Russian reform small enterprises had many good opportunities to attract better workers from the state-run sector. Now it is becoming more and more problematic. At the same time, the general requirements for business plans and production performance are becoming higher, so there are grounds for much disappointment in the near future, due to a need both for management training for small entrepreneurs and vocational training for their skilled workers (for details see Section 3.4).

Social and political climate

The tolerance towards entrepreneurship and especially small business activities has been growing throughout the last decade. Nevertheless, the social climate is characterised by a certain ambivalence towards the entrepreneurial strata which has been expressed in public opinion polls.

The political climate is influenced by the system of representation of interests. Many government departments, public entrepreneurial associations and commercial agencies have been established throughout Russia to secure and lobby for SME interests (for details see Section 3.5). Nevertheless, SME policies still suffer from a lack of political representation. For example, only one-third of SME managers consider that business associations are active in the political lobbying of their interests, not to mention the results of their lobbying efforts²³.

Other problems

There is a range of very different problems (competition pressures and incentives for R & D programmes, industrial conflicts and social security) which are referred to either infrequently or not at all. This certainly does not mean that they do not exist. They are simply overshadowed by those listed above.

Conclusions

1. There is no great difference between small and large enterprises concerning the ways in which their managers formulate the problems they face. Small enterprises face difficulties which are of a similar nature to those of the larger firms, but these are possibly more damaging to and harder to absorb by SMEs, especially regarding access to resources and bureaucratic pressures.

2. The general situation, as viewed by the entrepreneurs, is not very favourable for small businesses. Sixty-eight per cent consider the conditions for small entrepreneurship as fairly bad, 30 per cent consider conditions to be more or less satisfactory, 1 per cent good, 1 per cent are not sure. At least two-thirds of SME managers expect an increase in the number of SME bankruptcies within the coming year.²⁴

3. Small enterprise managers associate their major problems with external, mainly macroeconomic, factors. The influence of the mass media, which discuss the economic crisis on a daily basis, is evident here. Apart from this, it is characteristic of respondents to stress deficiencies which reach beyond their own control. In making references to the unfavourable environment, SME managers are often not yet fully sensitive to the effects of their own policies. The problems of business planning, personnel training, conflict resolution and many others are referred to less frequently. However, we cannot dismiss these as being unimportant.

1.5. Structure and dynamics of the SME sector (statistical review)

Basic data on the small enterprise sector are listed below including SME numbers and their dynamics, SME distribution by industry and region, the structure of employment and some financial parameters of SME activities. Most information is drawn from the State Committee on Statistics (SCS) official data, due to a lack of other valid sources at this time.

SME statistics

It was mentioned in the introductory section, small enterprises began to flourish at the beginning of the 1990s after the passage of the Law "On Co-operation in the USSR" (1988). Sixteen, thirty and forty-six thousand SMEs, most of which were co-operatives, were established in 1988, 1989 and 1990, respectively (see Table 2).

Table 2. **Newly Established SMEs in Russia in 1988-1990.**

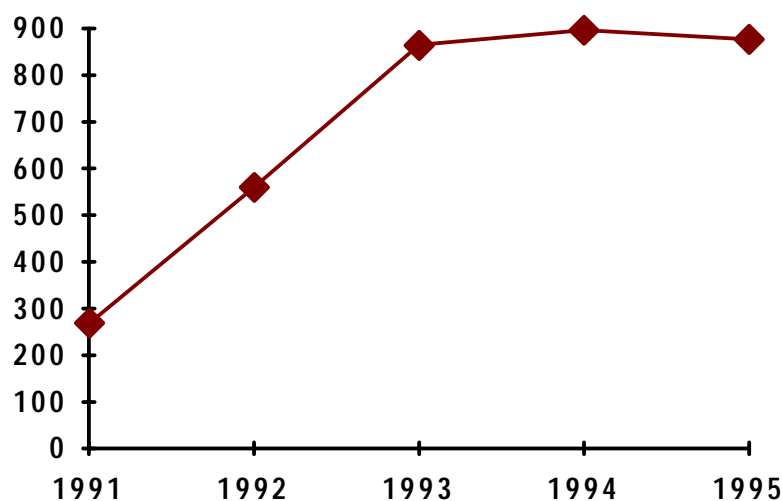
	1988	1989	1990
Total SME number	15 880	29 993	45 830
Co-operatives (% of total SME number)	94.3	96.1	75.8

Source: Ye. Bukvald, A. Vilensky, p. 45.

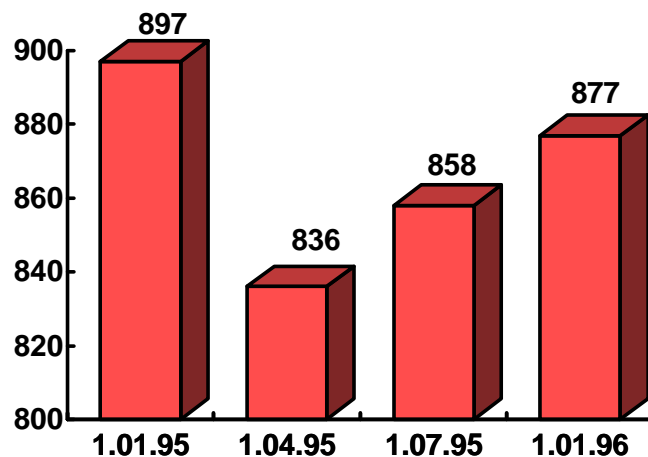
The number of SMEs totalled 268 000 by the end of 1991. This rapid growth in the number of SMEs continued over the next two years. SMEs increased 2.1 and 1.5 times in 1992 and 1993, respectively. In 1994, the increase was abruptly cut short. SME numbers continued to grow, but only by 3.7 per cent. In 1995, numbers stabilised within the limits of 840-890 000 units, with some quarterly fluctuations. For example, SME numbers dropped by almost 7 per cent in the first quarter of 1995, but numbers were almost fully restored by the end of the year (see Graph 2). Growth rates in SMEs, hence, stagnated throughout 1995. (see: Graph 1, Tables 3 and 4). By January 1 1997, the number of SMEs totalled more than 842 000, however this number is not strictly comparable with previous years due to the recent change in criteria of number of workers.

Graph 1. **The Number of Small Enterprises in Russia**

(1991-1995, thousands)



Source: Maloye Predprinimatelstvo v Rossii v 1994 godu, p. 10; Maloye Predprinimatelstvo Rossii v 1995 godu, p. 13.

Graph 2. The Number of Small Enterprises in Russia in 1995 (thousands)

Source: Sotsialno-Ekonomicheskoye Polozheniye Rossii, p. 208; Maloye Predprinimatelstvo Rossii v 1995 godu, p. 13.

What hypotheses can be elaborated to explain this surprisingly rapid rate of small firm creation in 1991-1993 followed by the sharp decline in growth rates in 1994-1995? First, the rapid growth rate at the beginning must be seen in relation to the low point which preceded it. Second, growth resulted from the fact that an attractive new field of opportunities opened up. Entrepreneurship absorbed emerging energies at a time when the range of opportunities was still limited. Third, different rules of the "economic game" were established in the first stages of privatisation in favour of small enterprises compared to medium and large establishments, including more liberal price and wage formation, tax privileges and less administrative control over activities. Many of these advantages disappeared as an outcome of the general liberalisation policies of the E. Gaidar government in 1992.

What accounts for the break in growth rates which occurred in 1994? It would not be correct to assume that the number of SMEs has reached the optimum level from the standpoint of economic efficiency. According to Ministry of Economy expert estimations, an optimum number may be four times greater in total than at present, *e.g.* increased up to 3.5 million to create an efficient competitive environment,²⁵ though in some branches of mediating activities "saturation" may take place.

The common view is that small firms are experiencing the same economic difficulties as others - from inflation and overall production decline, inter-enterprise arrears and a heavy tax burden, shortcomings in economic legislation and increasing criminal activities - but it is especially hard for small firms to cope with these. The policies of the Government since 1992 have not favoured small business and have not paid attention to its mounting problems. The Government has aimed to create equal conditions for everybody. Initial privileges enjoyed by SMEs were insufficient to ensure stability, particularly in view of the lack of infrastructure services to meet their needs.

The underlying influences on small firm creation rates within the last seven years, as we briefly mentioned in Section 1.2, were as follows: During 1988-1992 small entrepreneurship of all types was fulfilling the crucial political and economic function of legitimate state-run conversion of resources into

private property. By the time the federal authorities had begun the large-scale privatisation programme, SMEs had lost their exclusive position. Progressive liberalisation was levelling price and income opportunities for establishments of varying sizes. The most flexible elements of economic, political and human resources were withdrawn from the SME sector and transferred into the field of large joint-stock companies' resource allocation. After a certain period of time this led to a decline in SME growth rates.

SMEs by industry

The situation in all economic branches will not be reviewed in detail. This analysis is confined to the five main areas of economic activity which comprised 85 per cent of the total number of small enterprises, namely (%):

- Trade 42.7
- Construction 16.6
- Industrial production 14.6
- Scientific services 5.6
- Market services 4.8

Other industries attract less than 1-2 per cent of the total number of SMEs (see Graph 3).

Data from 1996 revealed slight modifications, industrial production increased to 16%, scientific services to 6%, and trade to 43%.

Trade. SMEs dealing with trade and trade intermediaries increased 2.2 times (123 per cent) in 1992 and then 1.5 times (44 per cent) in 1993. However, in 1994, their number increased by only 5 per cent and fell by 11 per cent in 1995. The decrease of SMEs in the trade sector was most noticeable in large cities. A common explanation is that a point has been reached where the needs in SME trade activities have been fulfilled. This contradicts another widespread point of view (put forward by the same experts) that the number of SMEs in all industries is 4-5 times lesser than the proposed optimum. The problem arises from a strong ideological assumption that development should favour production-based activities rather than non-manufacturing activities. Other explanations include firstly, that trade activities in large urban areas tend to be monopolised and put up barriers to new SMEs entering the market. Secondly, production enterprises are attempting to develop their own wholesale and retailing networks in order to bypass costly mediating services.

Industrial production. One-seventh of all SMEs in 1995 were in the industrial production sector. The most developed industrial branches under consideration are the following: Engineering and metal-working (34.3 per cent of all industrial SMEs); light industry (16.9 per cent); wood manufacturing (12.1 per cent); and the food industry (9.9 per cent). Compared to trade, industrial SMEs exhibited relatively steady annual growth, increasing by 34-58 per cent, until 1995 when growth slowed to 1.6 per cent.

Construction. The increase in the number of SMEs in the construction sector (annual growth rates varied between 26 and 40 per cent) and which continued into 1995 (+18 per cent) is even more impressive. Those involved in construction displayed efficient adaptation capabilities enabling them to

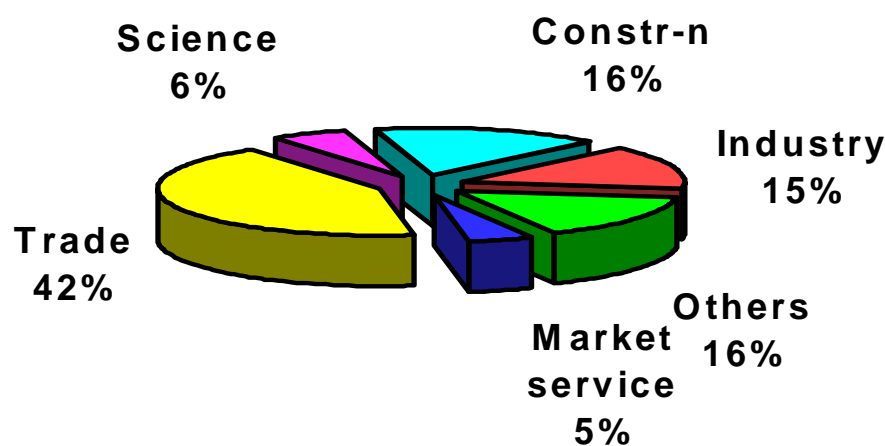
ride out the difficulties of 1994-1995. SMEs undertake 98 per cent of all contracting work in the Altai Republic and about 70 per cent in the Kostroma and Novgorod regions. As industrial and municipal housing construction activities slowed, SMEs became active in the construction of private housing (mainly in rural areas) and the rebuilding of offices and warehouses. However, almost one-fifth of all the small enterprises which failed to become operational following registration are construction companies.

Market services. Market services include, among others, mediation in the stock markets, consulting, and advertising. The number of companies grew three-fold from 1991-1992, and then experienced the most acute fall in 1994-1995. This is attributable to the mass bankruptcies and concentration of services as a result of emerging competition.

Science. SMEs in science and skilled scientific services grew by 340 per cent in 1992 and 181 per cent in 1993, but were unable to avoid the slump in 1994, when numbers decreased by one-fifth, and by a further 6 per cent in 1995.

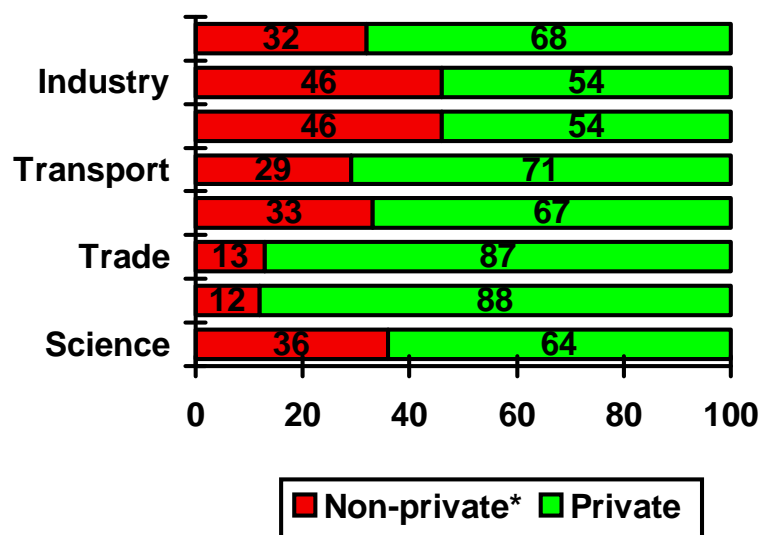
Other branches. Almost all other branches of SME activity dropped by 10-35 per cent in 1994 in spite of their modest numbers. Real estate service, however, education and culture showed some more positive dynamics in 1995 (+20-22 per cent). It is too early to speak of positive trends.

Graph 3. Small Enterprises by Main Industry (January 1, 1996) (%)



Source: Maloye Predprinimatelstvo Rossii v 1995 gody, pp. 19-20.

Graph 4. Employment in Small Enterprises (Non-private and Private Ownership)
by Main Industry (%).



Source: Maloye Predprinimatelstvo Rossii v 1995 godu, pp. 40-41.

Table 3. **Number of Small Enterprises in Russia by Industry (1991-1995) (thousands).**

	1991		1992		1993		1994		1995	
	N	%	N	%	N	%	N	%	N	%
Total	268	100	560	100	865	100	897	100	877	100
Industrial production	38	14	60	11	95	11	127	14	129	15
Agriculture	2	1	7	1	11	1	10	1	10	1
Transport & communications	7	3	14	3	19	2	18	2	21	2
Construction	52	19	73	13	92	11	124	14	146	17
Trade & catering	124	46	276	49	398	46	419	47	375	43
Supplies & sales	5	2	15	3	18	2	16	2	16	2
Information	4	2	6	1	8	1	6	1	7	1
Real estate	.5	.2	1	.2	2	.3	2	.2	2	.3
Market services	7	3	21	4	64	7	52	6	42	5
Other production	5	2	14	3	21	3	16	2	14	2
Communal services	4	2	11	2	17	2	14	2	15	2
Health & social maintenance	3	1	9	2	14	2	15	2	17	2
Education	2	1	6	1	9	1	7	1	8	1
Culture & art	2	1	5	1	8	1	7	1	8	1
Science	11	4	36	6	65	8	52	6	49	6
Finance, pension, insurance	2	1	4	1	15	2	10	1	12	1

Source: Maloye Predprinimatelstvo v Rossii v 1994 godu, p. 10; Maloye Predprinimatelstvo v Rossii v 1995 godu, pp. 17-20.

SMEs by form of ownership

The trend towards privatisation is evident over the period under consideration. At the beginning of 1991, only one-third of small enterprises observed by SCS were privately owned. By the end of 1993, private establishments already made up two-thirds of SMEs,²⁶ and by April 1995 only 4 per cent of all SMEs had preserved their state-owned status, including federal and municipal enterprises (2.2 per cent and 1.7 per cent, respectively). The remaining 96 per cent are classified as non-state enterprises, including 83.9 per cent under private ownership; 0.9 per cent under the ownership of public organisations; and 11.3 per cent under mixed ownership (see Table 5). By 1997, 89 per cent of all SMEs were under private ownership.

Table 4. **Growth Rates in Number of Small Enterprises in Russia by Industry (1991-1995) (%)**.

	1992/1991	1993/1992	1994/1993	1995/1994
Total	209	154	104	98
Industrial production	160	156	134	101
Agriculture	210	158	87	103
Transport and communications	200	137	92	116
Construction	140	126	134	118
Trade & catering	220	144	105	89
Supplies and sales	290	120	85	105
Information	160	140	76	108
Real estate	220	200	81	122
Market services	290	310	81	82
Other production	280	155	73	108
Communal services	270	160	78	114
Health and social maintenance	260	157	102	114
Education	280	152	74	120
Culture and arts	230	147	90	122
Science	340	181	80	94
Finance, insurance and pensions	200	337	70	114

Source: Maloye Predprinimatelstvo v Rossii v 1994 godu, p. 10; Maloye Predprinimatelstvo Rossii, pp. 17-18; Maloye Predprinimatelstvo v Rossii v 1995 godu, pp 13-14.

Employment

The SME sector in Russia is characterised by a large proportion of micro-enterprises. The average, relatively stable number of employed per firm is 7.

Statistics. Almost 9 million workers were employed in SMEs on a full-time basis at the beginning of 1996. The sector attracts 1.3 million part-time and 3.6 million contract workers, for a combined total of 13.9 million (see Table 6). Secondary employment is especially important for SME development. About 70 000 SMEs did not employ any full-time workers during 1994.²⁷ One might expect secondary employment to grow faster than primary. In this sector, however, in 1995 the number of part-time and contract workers decreased by 10 and 31 per cent, respectively.²⁸ One explanation for this could be that these categories of workers must be included when calculating the SME employment census. Thus, SME managers have an incentive to use informal contracts and conceal employees.

Industry. SMEs in industrial production and construction are usually larger (18-20 full-time workers on average), and account for almost 60 per cent of total employment in the SME sector. The relative share of employed persons in trade (25 per cent), market services (4 per cent) and science (2.3 per

cent) is smaller in proportion to their number. The highest rates of secondary employment in proportion to the number of full-time employees are found in the scientific domain, while the lowest rates are in industry. SMEs in trade and market services tend to rely more upon part-timers, while the construction enterprises attract more contract workers (see: Table 6). By 1997, trade accounted for 30 per cent of employment, science 3 per cent, trade and catering 30 per cent.

Ownership. State-run enterprises tend to have larger establishments. They attract 12 per cent of the SME workforce, while non-state enterprises employ 88 per cent of workers in SMEs (see Table 5).

Financial indicators in SMEs

The following indicators are used to outline financial status: Investment, sales, profit and the share of enterprises which had not started working at the time of observation.

Statistics. SMEs invested 12.2 billion roubles over the period January-March 1995. They had sales worth 111 billion roubles and profits of 20.8 billion roubles. According to their accounts, 60 800 SMEs (predominantly "micro-enterprises") employing 141 000 workers had not started activities as of April 1995.

Industry. Despite the fact that trade units cover more than 40 per cent of all SMEs, according to SCS data these account for only 12 per cent of total investment, 20 per cent of sales and 26 per cent of profits, which corresponds more to their employment share (employee numbers in trade enterprises are usually below the average). Industrial enterprises account for 18 per cent of investment, 30 per cent of sales and 22 per cent of profit. Industrial enterprises represent the largest share of sales, while construction enterprises made the greatest contribution to total investment, at 47.2 per cent (see Table 7).

Ownership. State-owned SMEs accounted for 7 per cent of total SME investment (including municipal SMEs: 1.6 per cent), 7.3 per cent of total sales (municipal SMEs: 2.2 per cent) and took 5.8 per cent of profit (municipal SMEs: 1.3 per cent). Non-state units accounted for 93 per cent of investment (including private SMEs: 56.8 per cent), 90.5 per cent of sales (private SMEs: 67.6 per cent) and 92.9 per cent of profit (private SMEs: 69.2 per cent). This statistical evidence implies that state-owned enterprises are not necessarily economically inefficient compared to non-state firms. However, it must be acknowledged that financial indicators are slightly in favour of private enterprises if taken in per capita terms (*i.e.* per individual full-time worker).

Non-starters. One-third of all small enterprises on average (up to one-half in some regions) have not yet commenced activities. The majority of these are concentrated in the trade and construction industries. The number of "non-functioning" enterprises at the beginning of 1995 is given below (%):

- trade 36.6
- construction 19.8
- industrial production 12.7
- science 8.2
- market services 8.0

The first reason for the existence of these “idle” SMEs stems from the lack of resources. The second originates in a common practice of carrying out transactions which are not noted in a company's accounts. There is no factual data about such pseudo-enterprises at the present time, neither are there valid data on the survival rates of the new small firms despite the crucial nature of this issue for SME policy development.

Innovative SME sector

Innovative and “venture” businesses are not registered in the official statistics. According to educated guesses, 40 000 innovative firms with 200-300 workers are reported to be functioning in Russia today. These create new production methods and introduce new technologies. This sector includes 3-4 000 firms and 20-30 000 workers dealing with skilled scientific services (engineering, leasing, consulting). Innovative entrepreneurship is expected to expand rapidly in 1996-1997.²⁹

**Table 5. Numbers of Small Enterprises, Employment and Financial Indicators
by Form of Ownership in 1995***

	Total	Federal	Municipal	Public	Private	Mixed
Number:	856 774	19 646	15 162	8 728	722 562	90 676
%	100	2.3	1.8	1.0	84.3	10.6
Employment:	8 861	686	294	83	6 018	1 779
%	100	7.8	3.3	.9	67.9	20.1
Investment:						
billion rbl.	12 194	659	195	49	6 926	4 365
%	100	5.4	1.6	.4	56.8	35.8
Sale:						
billion rbl.	111 083	8 109	2 444	1 555	75 092	23 883
%	100	7.3	2.2	1.4	67.6	21.5
Profit:						
billion rbl.	20 792	1 206	270	166	14 388	4 503
%	100	5.8	1.3	.8	69.2	22.9

Source: Maloye Predprinimatelstvo Rossii v Pervom Polugodii 1995 goda, pp. 15, 17, 31, 33, 80-81, 83.

Table 6. The Structure of Employment in Small Enterprises by Industry in 1995.

	Employment			Contracting thous.	Total wage fund bln. rbl.
	Full-time thous.	%	Part-time thous.		
Total	8 945	100	1 305	3 621	43 957
Industrial production	2 590	29.0	247	488	12 428
Agriculture	94	1.0	8	9	314
Forestry	7	.1	.4	.7	31
Transport	167	1.9	27	57	1046
Communication	18	.2	8	28	
Construction	2 624	29.3	323	1 202	15 912
Trade & catering	2 196	24.6	335	883	7 633
Supplies & sales	141	1.6	25	32	774
Information	34	.4	11	20	129
Real estate	13	.1	3	5	41
Market services	321	3.6	45	177	1 839
Other production	115	1.3	28	61	531
Communal services	107	1.2	20	33	336
Health and social maintenance	88	1.0	37	54	424
Education	46	.5	31	66	279
Culture and arts	48	.5	15	33	198
Science	232	2.6	112	396	1 403
Finance, pension and insurance	74	.8	23	31	483
Others	31	.3	8	46	157

Source: Maloye Predprinimatelstvo Rossii v 1995 godu, pp. 48-56.

Regional aspects

The Russian Federation inherited from the Soviet era 89 administrative regions distributed among 11 economic districts. This study concentrates on the most developed territories in the brief review below (for detailed statistical data on all the regions of Russia see Tables 12-13 in Appendix 6).

SME Statistics: regional distribution. The heaviest concentration of SMEs and their employment is observed in the Central district (30.5 per cent and 28 per cent, respectively) with Moscow city as the clear leader. North Caucasus, Ural and West Siberia districts are the next most concentrated. The leading regions in terms of SME numbers and employment are detailed below (%)³⁰:

	Numbers	Employment
Moscow city	20	15
St.Petersburg city	7.8	5.5
Tumen	3.8	3.3
Krasnodar	3.5	3.5
Moscow region	3	3
Rostov, Krasnoyarsk, Chelyabinsk,	2	2

Tatarstan, Volgograd

Small enterprises are concentrated in the administrative centres and large urban areas. In the Volgograd region, 80 per cent of SMEs are registered in the two largest cities. In the Omsk region 85 per cent are concentrated in the city of Omsk. The number of SMEs in the city of Moscow is five times higher than that in Moscow region.

Table 7. **Small Enterprise Financial Parameters by Industry (January-June 1995).**

	Investment		Sales		Profits	
	bn. rbl.	%	bn. rbl.	%.	bn. rbl.	%
Industrial production	2 203	18.1	33 141	29.8	4 692	22.6
Agriculture			493	.4	787	.4
Forestry			24	0	6	0
Transport			3 491	3.2	767	3.7
Communication			352	.3	63	.3
Construction	5 756	47.2	31 056	28.0	5 525	26.6
Trade & catering	1 464	12.0	21 787	19.6	5 314	25.6
Supplies & sales			2 999	2.7	793	3.8
Information			442	.4	101	.5
Real estate			136	.1	78	.4
Market services	503	4.1	3 516	3.2	892	4.3
Other production			1 436	1.3	269	1.3
Communal services			1 525	1.4	116	.6
Health and social maintenance			2 760	2.5	277	1.3
Education			381	.3	67	.3
Culture and arts			504	.5	88	.4
Science	266	2.2	4 164	3.7	626	3.0
Finance, pension and insurance			1 961	1.8	943	4.5
Others	2 001	16.4	913	.8	96	.4
Total	12 194	100	111 083	100	20 792	100

1. Data on investment are confined to the main economic branches.

Source: Maloye Predprinimatelstvo Rossii, pp. 37-40, 78-81; Maloye Predprinimatelstvo Rossii v Pervom Polugodii 1995 godu, pp. 80-84.

SME growth rates. SME numbers dropped in almost all the Russian regions in 1995. The most noticeable decline was observed in the Central-Chernozemny, Western-Siberian and Far East districts. Some regions (Kaluga) recorded an absolute decrease in 1994 (for the first time since 1989) for both numbers and employment, especially in industry and construction.³¹ At the same time, there are exceptional cases of SME growth (Moscow, Tumen region, Dagestan republic, North Western district).

Industries. As a detailed description is not possible, only a few general comments on SME branch divisions in the leading regions are presented here.

Industrial enterprises dominate in Moscow city, although Moscow is also renowned for its scientific and market services. There is nevertheless a deficiency of SMEs in trade and catering. SMEs in the Moscow region are more focused on industry and construction. The majority of SMEs in St. Petersburg are registered in industry and retailing. The distribution of SMEs among industry, construction and retailing is more evenly spread in Rostov and Krasnodar, where agricultural SMEs also play a significant role (especially in Krasnodar). SMEs in Chelyabinsk, and especially in Krasnoyarsk, are largely involved in industrial production. The Tumen region is more heavily engaged in construction and retailing.³²

Contribution to the economy

The overall contribution of the SMEs to the Russian economy was characterised by the following parameters in 1995:

- 70% of all registered enterprises
- 3.4% of main assets
- 14% of employment
- 12% of GDP
- 34% of all contracting work in construction.
- 30-35% of profit.

Conclusions

1. SMEs have begun to play a considerable role in the Russian economy. As to the widely debated "problem of effectiveness" of small enterprises in relation to larger ones, for the purposes of this report, this issue is seen to be more related to ideological views than to SME-specific problems.

2. The decline of SME growth rates arising from political and structural economic changes indicates a moderate rather than an optimistic viewpoint on prospective SME sector dynamics. While some estimates indicate that 2.5-3.5 million small enterprises employing 30 million workers can be reached within two years,³³ these estimates seem totally unrealistic at the present time. The latest SCSME prognosis for the year 1997 is the following: about 1 million small enterprises employing 10.5 million of employees are expected to contribute up to 15 per cent of Russian GDP.

3. Differentiation of SMEs by form of ownership and legal status was important at the first stage of economic reform when regulations in favoured of non-state enterprises. Under today's legislative and regulatory conditions, ownership is becoming increasingly less important, while areas of economic activity (production/services) and the enterprise background (privatised/new) are becoming more important.

4. In spite of the recent decrease in the number of SMEs in trade (down by 11 per cent in 1995), the trade sector is the largest in the Russian economy. Enterprises in industry and construction are maintaining their stable positions. However, the fact that SME managers have greater incentives to register as "productive" enterprises in order to obtain certain SME privileges (see Section 2.3) must be taken into account.

5. To what extent SMEs are capable of absorbing the increasing mass of unemployed is disputable. The data from OECD countries do not provide a definite answer either. In Russia unemployment growth rates have been higher than the increase in SME employment in recent years. However, this function of SMEs is commonly acknowledged.

6. Official statistics conceal an important fact concerning SME sectoral divisions. Contrary to the developed market economy in which SMEs often specialise their activities to find market niches, small enterprises in Russia pursue policies of increased diversification of economic activities. They are tempted to carry out projects in ten fields in order to succeed in one. Economic actors which began activities in construction and consumer goods production are forced to add trade-and-purchasing in order to maintain their principal activities. Many had to change their profile completely in favour of mediating services in order to survive. Despite this, the rate of diversification has been gradually decreasing over the last five years.³⁴

7. There are a number of alternative ways in which SMEs are created:

- Reorganisation of existing enterprise vs. newly established enterprise;
- Privatisation of state-run resources vs. attraction of private capital;
- Financial outsourcing (subsidies, loans, leasing) vs. use of private savings;
- Spin-off from a large firm vs. independent start-up;
- Family and ethnic enterprise vs. non-family and non-ethnic enterprise;
- Technological entrepreneurship vs. use of standard technologies.

Complete data on these types and groups of small enterprises are still not available. However, all of these are important alternative methods of SME creation and may require different policy approaches.

CHAPTER 2 STATE REGULATION OF SMALL ENTERPRISES

This chapter outlines the basic regulatory framework of small enterprises: the legal framework for their activity, taxation and conditions for market entry.

2.1. Legislative and regulatory basis

As mentioned above, legislation concerning SMEs has been through three stages during the last decade. In the **first stage** (1986-1990), legislative reform was fulfilling primarily liberalising functions for new business activities. Small enterprises were not distinguished from medium and large-scale holdings in legal terms. In the **second stage** (1991-1993), small enterprises became a distinct policy subject for legal regulation and taxation on Federal and regional levels, although the policy was rather fragmented. In the **third stage** (1994 to the present), small enterprises became the main subject for a system of legislative and regulatory measures, including special SME support and regulation. The legislative and regulatory basis will be reviewed in later sections. This section concentrates on the most important legislative documents devoted specifically to SME issues.³⁵

The first laws

The USSR Law *On Individual Working Activity* (1986) is usually referred to as the first legislative step concerning small business activities, although it was a rather restrictive socialist document which could not lead to substantial change. However, it attracted many enthusiasts into non-state economic activities; 168 100 persons in Russia and 369 400 in the USSR had become involved in such activities by spring 1988, according to official data.

The Law *On Co-operation in the USSR* (1988) was much more important as the first post-socialist legislative act, as it postulated the formal equality of state and non-state ownership. It opened the way to the privatisation process in which the role of SMEs was crucial, along with the Law "Fundamentals of the USSR and Union Republics Legislation for Lease-Holding" (1989), which anticipated the subsequent buy-offs of state-owned property in the future. The next law to hold particular importance for the issues under consideration was *On Enterprises and Entrepreneurial Activity* of 4 January 1991. The range of legal statuses for non-state enterprises was extended, and the legal status of "private enterprise" was made legitimate for the first time since the 1920s.

A set of Russian Federation laws giving a general framework for privatisation and SME development followed in 1990-1992, namely:

- *On Basics of De-Etatization and Privatisation* (1 July 1991);
- *On Privatisation of State-run and Municipal Enterprises* (3 July 1991);
- *On Foreign Investments* (1 July 1991);

- *On Land Reform* (22 November 1990; amendments of 27 December 1990);
- *On Peasant Farming* (22 November 1991);
- *On Private Property Rights of Russian Federation Citizens to Buy and Sell Land Plots for Individual Farming, Gardening and Private Housing Construction* (23 December 1992).

Since 1991 special regulatory norms have been elaborated. The RF Council of Ministers' Decree "On Measures for Support and Development of Small Enterprises in Russia" of 18 July 1991 (N 406) enforced the Law "On Enterprises and Entrepreneurial Activity". The former provided organisational, economic and legal guidelines for SME development not only for co-operatives but irrespective of forms of ownership (state-run, private, mixed, *etc.*). All were allowed to start up any economic activities which were not restricted by the law. Initial liberation functions were completed. The Complex of Priority Measures for SME Development and Support adopted by the RF Government Decree of 11 May 1993 (N 446) enforced the Law "On Competition and Monopoly Constraints at the Commodity Markets". The latter presented the first official document providing an organisational framework and fixing the concrete responsibilities of state ministries in the field of SME support.

Not mentioned here are many supporting Presidential Orders and Government Decrees, as well as numerous legislative documents devoted to vouchers and citizen participation in privatisation which are beyond the scope of this analysis. The first set of laws established legal framework for privatisation and economic restructuring, and also provided a basis for special SME legislation.

Special Law on SME Support

The long-awaited special and comprehensive Russian Federation Law *On State Support of the Small Enterprise in the Russian Federation* was finally issued on the 14 June 1995, and proposed six main directions for state SME support :

- infrastructure development;
- introduction of privileges for SME activities;
- transition to abridged reporting;
- licensing and certification;
- foreign economic activity support;
- personnel training.

The Law determines the subjects of small entrepreneurship, including small enterprises and individual entrepreneurs. The employment census was changed for different SME activities (see section 2.1), and sanctions for exceeding the employment census were also introduced. The Law regulates the norms of SME registration. Federal and regional authorities' actions are subject to prosecution if these norms are violated.

According to the Law, the Russian Government must submit an *SME Support Draft Programme* to the Parliament every year before the Federal Budget submission. Funding for SME Programmes forms

a separate item in the annual Federal Budget. Federal and municipal SME Support Programmes are supposed to include the following provisions:

- measures for infrastructure development and SME support on all levels;
- high priority SME activities;
- measures to integrate vulnerable social groups (the disabled, women, young people, retired military officers, unemployed, refugees, discharged prisoners) into the SME sector;
- budget resources allocation and tax privileges for SMEs;
- SME access to information and new technologies, equipment purchasing and space rentals.

The Law urges the Government to allocate not less than 15 per cent of state orders to small enterprises and to encourage SME participation in export and import transactions.

SME support foundations are defined in the Law as non-commercial organisations which may have any legal status. The main guidelines for their activities are the following:

- competition development by means of special SME support programmes;
- project review and selection;
- market infrastructure development;
- attraction of foreign and domestic investment;
- consulting on legal and taxation issues.

Foundations are allowed to grant subsidies and low interest loans to small enterprises and also to provide guarantees to commercial institutions financing SME structures. The Federal SME Support Foundation is identified as the main state programme contractor. The earnings from its activities are reported to be exempt from taxation.

The Law pursues the principles of taxation stability and tax privileges for the SME sector:

- SME tax privileges are to remain fixed during the first four years of activity if tax legislation imposes a heavier burden during this period;
- two-fold depreciation norms are allowed;
- up to one-half the value of main assets for equipment with more than three-year depreciation may be transferred to the enterprise's costs;
- privileges are granted to banks, insurance and leasing companies, and information and training agencies providing services to small enterprises. SME Support Foundations will cover a part of their expenses or lost revenues.

The creation of mutual credit associations for entrepreneurs which provide assistance exclusively to their members as well as entrepreneurship associations are encouraged. The establishment of SME Development Councils under regional and local governments is recommended.³⁶

The Law of June 1995 was enforced by the RF Presidential Order *On Priority Measures in SME State Support in Russian Federation* of 4 April 1996 (N 491) (for details see Section 3.3).

Regional level

Regional SME legislation existed prior to the Federal legislation, with the first specific SME Support Laws issued on the regional level in 1993-1994:

- "On SME State Support in the Chuvashia Republic" (May 1993)
- "On SME State Support in the Adygeya Republic" (November 1994)

The Federal SME Law of June 1995 stimulated legislative activities in the regions. By the end of 1995, the legislative and regulatory framework governing the SME sector was the most advanced in the following regions: Chuvashia, Irkutsk, Khabarovsk, Moscow, Nizhnii Novgorod, Samara, Voronezh. SME Support Laws were adopted in the Adygeya Republic, Irkutsk and Leningrad regions. Work on legislation is currently in progress in many regions. The SME Support Law in Ekaterinburg is one of the most recent examples. The absence of legal and regulatory frameworks for SMEs was observed in the regions of Amur, Buryatia, Ivanovo, Kirov, Komi, Oryol, Sverdlovsk, Tambov, Tomsk, Vladimir, Voronezh and some others. It is remarkable that in spite of the lack of a regulatory basis in some regions, small enterprises are receiving some state support (Vladimir).³⁷

According to data from the Russian Procurator's Office, one-third of Federal law violation at the regional level has been in connection with the issue of "supporting" regulatory documents. Several years ago some regions prohibited export of certain goods to the other regions. At the moment, import prohibitions have become more common.³⁸ For example, more than half of regional authorities put limits on the import of strong spirits. In some instances these limitations are even backed by regional laws. As a result, 44 per cent of small entrepreneurs believe that regional laws often contradict their interests; 36 per cent encounter such contradictions occasionally, whereas 5 per cent have never encountered them and 14 per cent were unable to give a definite answer.³⁹

There are also controversies between Federal and regional legislative acts (see Box 1)

Box 1. Regional SME law controversies: The case of Moscow.

Contradictions between Federal and regional legislation may be illustrated by the case of the Moscow Law "On Fundamentals of Small Entrepreneurship in Moscow" of June 28, 1995. The Moscow Law:

- imposed additional limitations in relation to the Federal Law definition of SMEs as a subject for state support;
- ignored some changes made on the Federal level (the SME employment-census was not changed accordingly) (for details see Table 1 in Section 1.3.);
- was more far-reaching than Federal legislation (SME abridged reporting system);
- duplicated many Federal provisions; and
- invented new provisions (establishment of special SME security Department)

More importantly, additional limitations were imposed by the Moscow Law when defining the SME as a subject for the support of Moscow authorities. The conditions were that:

- the SME is situated in Moscow;
- the SME does not have branches outside the city;
- the SME is not registered as a branch of a non-Moscow firm; and
- the SME is registered in the Moscow SME Register (registration procedure is not specified).

At the same time, the Moscow Law has made some positive specifications, one of which concerns the support of SMEs through rental of premises. Thirty per cent of non-dwelling space is reserved for SMEs and their infrastructure development. The reason for duplications and disparities between Federal and Moscow Laws emerged because they were elaborated simultaneously with little co-ordination.⁴⁰

Conclusions

1. The initial legislative and regulatory basis for small firms emerged at federal level by the end of 1995. It is now also supported by legislation in many of the regions. However, the current situation is a general framework which lacks two basic requirements: legal enforcement via "specialised" laws and the mechanisms of policy implementation. For example, 50 per cent of small entrepreneurs consider that the Law of June 1995 will be effectively implemented, while only 4 per cent are sure it will have a positive outcome.⁴¹

2. Additional regulatory documents are needed in many of the fields mentioned in order to guarantee law enforcement and to set the mechanisms of SME support into action. For instance, the absence of a law regulating property rights on land prevents farmers and SMEs in urban areas from using their land plots as a basis for bank loan guarantees.⁴²

2.2. Taxation

Expert estimations report that Russian enterprises, both large and small, are subject to a total of 40 to 50 federal, regional and local taxes. This section reviews the main tax payments followed by SME-specific tax conditions and privileges. Taxes are divided into three main types: indirect taxes, income taxes and property taxes.⁴³

Indirect taxes

Value-added tax (VAT) is the first indirect tax and was initially introduced at a level of 28 per cent (15 per cent for certain goods) by the Law "On Value-Added Tax" of 6 December 1991. The level was then lowered to 20 per cent by the Law "On Changes to the Law on Value Added Tax" of December 22, 1992. Producers of food and goods for children, according to a special list, were granted a rate of 10 per cent. The more general 20 per cent rate has survived up to the present time. However, VAT privileges were provided in 1992-1995 for certain branches of activity (gold extraction, medical services, printing shops, housing construction, science and culture).

The **tax on stock issuings and transactions** was introduced on 12 December 1991. The following rates were established:

- 0.5% of an issue;
- 0.1% of a state share purchase;
- 0.3% of a sales deal.

This tax was confined to a single 0.8 per cent payment for the first issue by a Government Degree of 18 October 1995.

Enterprises also pay from 10 to 50 per cent of excise duty on a broad range of goods (spirits, cigarettes, furs, chocolates, cars, *etc.*) according to the Law "On Excises" of 6 December 1991. Users of oil and gas pay 5 to 30 per cent in excise duty according to the Presidential Decree "On Excise Payment for Sub-Soil Resource Users in the Russian Federation" of 14 August 1992. **Tax on car purchases** at the rate of 20 per cent is also included among the indirect taxes.

Enterprise income taxes

The **profit tax** was established at 32 per cent (45 per cent for intermediaries) as the main tax on monetary flows, according to the Law *On Profit Tax for Enterprises and Organisations* of 27 December 1991. Enterprises currently pay 35 per cent. The first part of the profit tax (13 per cent) is earmarked for the federal budget and the second (22 per cent) for regional budgets as of 1 January 1995 (the Law "On

Changes and Additions to the Russian Federation Law 'On Profit Tax for Enterprises and Organisations'" of 25 April 1995).

Some tax privileges were introduced in 1991. Profit directed to investment was exempted from tax in several sectors: the oil and coal industries, medical equipment, food processing, medicine and consumer goods production (this range was later extended). Enterprises employing 50 per cent or more disabled persons and 70 per cent or more pensioners benefited from a 50 per cent tax reduction. The loans taken for capital investment were also exempted from profit tax duties by the Presidential Order *On Some Changes in Taxation and Interaction of Different Budgets* of 22 December 1993 (N 2270).

The enterprise's wage funds are also a basis for compulsory payments to four main **social funds**, namely (%):

- Compulsory medical insurance fund 3.6
- Pension fund 28.0
- Social insurance fund 5.4
- Employment fund 1.5

These represent almost 40 per cent of wages and salaries paid by the employer for duties in total. The enterprise is also supposed to earmark 0.4 per cent of its sales for the Road funds.

Property taxes

Property taxes for enterprises have been continuously changing: 1991 — 0.5 per cent; 1993 — 1 per cent; 1995 — 2 per cent. Certain categories of enterprises were exempted from this payment:

- agricultural production, storage and processing;
- education and culture;
- housing and communal economy properties;
- public associations for the disabled;
- new enterprises in the first year of activity.

Enterprises are also expected to pay sub-soil tax, land tax and land leasing duties.

SME tax privileges

The first tax reductions for SMEs were introduced in December 1991. Additional privileges for small enterprises, as well as for commercial banks and insurance companies providing loans and insurance for small business activities, were introduced by a RF Presidential Order in December 1993 (N 2270). The Law *On State Support of Small Enterprise in Russian Federation* of 14 June 1995 confirmed these privileges. But according to Russian legislation, any changes to the taxation system must be adopted by

special laws. Thus, the SME Support Law was supported by the special Law *On Changes and Additions to the Russian Federation Law 'On Profit Tax for Enterprises and Organisations'* of 31 December 1995.

SME privileges are listed below:

- profit tax exemption for the first two years from the date of official registration;
- profit tax of 25 per cent and 50 per cent of normal tax rate for the third and fourth years, respectively;
- exemption from the tax on profits used for construction, reconstruction, technological renovation;
- exemption from the property tax for the first year of activity;
- exemption from advance profit and VAT payments;
- privilege of 8 per cent profit rate for banks and insurance companies which allocate no less than 50 per cent of their loans to SMEs or collect no less than 50 per cent of their insurance fees from SMEs.

There are some important limitations imposed on tax privileges:

- Privileges apply only to economic activities contained in the adopted “list of priorities”.
- Privileges are not granted to SMEs established on the basis of liquidated enterprises and their branches.

Since 1991, the **list of priorities** includes: agricultural production and processing, consumer goods production, construction, maintenance and construction, and construction materials production. This list was extended to include food production, medical equipment and pharmaceutical production in 1995. At the same time, not all construction and maintenance-and-construction enterprises were allowed privileged status; only those in the construction of housing, production, social and environmental facilities are now listed.

Profit tax holidays for the first two years of SME operations are allowed if more than 70 per cent of sales come from the activities “of first priority” and tax privileges for the third and fourth years if this share exceeds 90 per cent. Thus, for example, economic actors dealing with trade-and-purchasing and other mediating activities were deprived of these benefits. As a result, only about 30 per cent of all SMEs are subject to tax privileges.⁴⁴

The practice of SME registration for one or two profitable transactions is well known. Thus, corresponding **sanctions** have been introduced. If the small enterprise is liquidated within the first five years of activity, it becomes subject to sanctions of full-scale profit duties and additional interest rates payments. The Law of 1995 also imposes new sanctions for violation of the employment limitations, whereby small enterprises must pay all the taxes not only for the reported period but also for the ensuing three months. SME tax privileges have become a subject for recent debate. While working on the 1996 Draft Federal Budget, the Ministry of Finance proposed cutting tax privileges for small enterprises despite

the fact that this directly violated the statements of the Law of 14 June 1995. Government officials aimed to save about 2 000 billion roubles for the budget in this way. However, the State Duma deputies rejected the proposal and SME privileges were extended.

Abridged taxation and reporting

A new taxation system was recently introduced alongside the former one, through the RF Law *On the Abridged System of Small Enterprise Taxation, Recording and Reporting* of 29 December 1995. The small enterprises, along with individual entrepreneurs, were allowed to change to another type of payment if they desired. This option translates into the purchase of a “tax licence” for a one-year period on which one integral 30 per cent tax on their gross income is paid, instead of the profit tax, VAT, property tax and many other federal, regional and local duties. The option was valid irrespective of the area of economic activity. However, small enterprises are still subject to custom duties, state duties, licence duties and assessments paid to four state social funds (medical insurance, pension, social insurance and employment).

The general idea behind the Ministry of Finance's abridged taxation system was that the vast majority of small enterprises employ fewer than 15 workers but still have to fill out all the accounting forms. The range of enterprises given the possibility to choose the new system is limited. SMEs are excluded if they:

- employ more than 15 workers (all branches included);
- deal with production of goods which are subject to excise, finance and insurance; professional stock market dealers; investment funds; entertainment and gambling - for which special accounting reporting systems exist;
- are created from liquidated enterprises;
- have annual gross sales which are one hundred thousand times superior to the minimum wage.

The basis for taxation is decided by state authorities, and is based on either:

- a 30 per cent charge on total income divided between the Federal budget (10 per cent) and regional budgets (20 per cent);
- a 10 per cent charge on gross sales divided between the Federal budget and regional budgets in the same proportion.

All payments from individual entrepreneurs are transferred to regional budgets. Annual “tax licence” costs are calculated on the basis of the integral tax rate and are paid on a quarterly basis to cover SME tax duties.

Many of the Laws have been criticised by experts and businessmen. Using both total income and gross sales as a basis for taxation places an additional burden on SME wage and salary funds. Paying for the patent in advance means losses to the enterprise in favour of the authorities. In addition, the average taxation burden is likely to increase up to 1.5-2 times for those who implement the new order. It is hard to explain disparities between the legal notions of SME size and the Law on licensing for any other

reason than fiscal considerations. In addition, the interests of local budgets are not secured due to the fact that the resource division rate among regional and local budgets is not specified. The Ministry of Finance instructions are to clarify many indistinct issues: how to calculate the taxation base indicators, how to make accounts of VAT for SME clients. The abridged taxation system also contradicts the RF Draft Tax Code that is being discussed in the State Duma.

Regional level

All 89 regional authorities are permitted to give incentives to SMEs by introducing their own tax privileges at the expense of regional and local taxes. This option was chosen by a number of regions (Chuvashia, Irkutsk, Moscow region, Nizhnii Novgorod, Perm, Samara). Examples of this follow:

- In Chuvashia, a special regime was introduced in order to achieve a favourable investment climate for SMEs. SMEs are completely exempted from all state and local duties during the first three years of their activities. The tax on property rate is reduced by half for the second year of the firm's activity.
- In Irkutsk, the profit tax and the property tax were reduced by 15 per cent and 0.1 per cent, respectively, by a regional authority decision.
- In Perm, profit tax was lowered to 17.5 per cent by the regional Law *On Rates of Tax on Profit and Property*.
- In Moscow, profit taxes were reduced by 10 per cent for bakeries and certain other activities as of July 1993. This applies also to profit used for investment and technical restructuring.
- In the Noginsk district of the Moscow region, a flexible tax system was tested. A number of local duties were abolished and tax privileges for trade in some of the more important consumer goods were introduced.

However, not all the policies pursued by regional authorities favour small enterprises. Regions are not always interested in introducing tax privileges, because this means lesser revenues for their own budgets. In some regions, the authorities introduced additional taxes on trade activities (Kursk, Smolensk). Some regional duties were abolished only as a result of the intervention of the State Committee for Anti-Monopoly Policy. In general, the majority of regions are experiencing an increase in the local tax burden.

Extraction of taxes and fines by the authorities from delinquent SMEs is a fairly commonplace occurrence in all regions and has often led to the near-bankruptcy of small enterprises. Tax evasion may also be in the interest of tax authorities who draw part of the fine. A low level of competence among tax inspectors also leads to frequent invalid payments. Many enterprises have successfully appealed to the Arbitration Courts. An inspection carried out by the Russian Procurator's Office revealed that such payments amounted to 80 billion roubles in 1994. The Federal Treasury also reported 46 000 such tax violations by commercial banks as intermediaries of duty payers in the same year.

Moscow city may have the most positive record of SME support, but it also has some of the most negative aspects. It has the highest prices for office space rental. The Moscow authorities increased the enterprise property tax three-fold. Engineering and communal services payments have also been

considerably increased, and additional local taxes were introduced to support housing, cultural and educational institutions and road maintenance. A tax on stock-market deals was also introduced.

Conclusions

1. Taxation for SMEs in Russia is characterised by five features:

- Taxes are numerous and the system is complicated.
- The overall tax burden is heavy, despite the existence of certain privileges covering a limited range of activities.
- Tax rates are subject to continuous change and are rarely stable for more than 1-2 years. Information on these changes is limited.
- As far as the RF government is concerned, the fiscal function of payment usually prevails over regulatory functions creating economic incentives.
- Many taxes are not collected efficiently, due to tax evasion and the low level of competence of the tax inspectors.

2. The heavy taxation burden provides an obvious incentive to tax avoidance through the concealment of profits. Despite frequent complaints regarding the weight of the taxes, there are many attempts to avoid their payment. This also encourages the expansion of the "shadow" economy. Experts consider that about one-third of SME activity is not set out in any formal agreements⁴⁵. According to State Tax Service reports, small enterprises are the most frequent offenders in matters of tax avoidance. However, many SME observers disagree, and consider that small enterprises have less opportunity of concealing their revenues. The former cites the necessity for more severe tax exemption control while the latter advocate the lowering of tax rates in order to encourage the legalisation of activities.

3. The efficiency of tax privileges bestowed on SMEs remains one of most controversial issues in SME policy. All Russian officials and experts in the field of SME support cite the necessity for taxation privileges for SMEs, while OECD experts are more reserved in this respect. The evidence on the effects of tax vacations in the OECD countries is mixed. The general trend in these countries is more towards tax neutrality, which means abolition of tax privileges accompanied by tax-rate reductions. In case of Russia, the "high tax - special privileges" policy is being pursued.

4. The issue of "fiscal federalism" is attracting much attention today. There is no general agreement as to what extent taxation revenues coming from the SME sector should be left to regional and local budgets. However, opinion seems to tend in favour of such redistribution, which can prompt regional and local authorities to pay more attention to SME deficiencies. This issue is particularly important because at the moment tax exemptions play a significant role in regional budget revenues. For example, they make up 50 per cent of the municipal budget in Moscow, 80 per cent in Zelenograd, 29 per cent in Samara, 20 per cent in Novgorod, 18 per cent in Oryel, 16 per cent in Tula.⁴⁶

2.3. Registration and licensing

Registration and licensing practices play an increasingly important role for SME development, especially as far as new projects are concerned.

Registration

The new order of registration upon the submission of an application to the municipal authorities was introduced in 1990. It was backed by the special Presidential Decree *On Ordering of State Registration of Enterprises and Entrepreneurs* of 8 July 1994 (1482). Therefore, the registration of a new enterprise would appear to be clearly defined. On paper this is the case, but, in reality, there are many obstacles. A large number of documents must be submitted, many of which must be witnessed by the notary offices. It is known that up to 90 per cent of registration papers are never referred to at a later date, but at least one to three months are needed to complete the process. The registration of an enterprise has also become costly. The costs varied between 1.5 and 5 million roubles (US\$ 750-2 500) in 1994, depending on the region. These costs can be a dissuasive factor to new companies. It is also not clear why newly-created enterprises are still required to register as "small enterprises" when employment is monitored on a quarterly basis.

Regional aspects

Registration is largely a regional problem. The Tver region is an example. The total registration costs for one company amounted to some 2.5 million roubles (US\$ 1 500) in October 1994, and covered the following items (thousand roubles).⁴⁷

- preparation of status documents 30
- notary witnessing of constitutive documents 30
- state registration duty 205
- certification by notary of signatures for bank purposes 82
- registration at the statistical office 33
- opening of a bank account (depends on the bank)
- legal address acquisition (depends on the area)
- environmental review 33
- equity capital 2 050
- stamp issuance 25

It should also be noted that the above list does not include the cost of licensing and certification. Obtaining a bank account can present numerous difficulties. Some regions introduce higher state registration payments because they are the recipients. Others require additional information or payments

to municipal funds, which are not defined by law. In some cases, registration applications have been rejected by the authorities, citing to local market "overloading" (Stavropol, Tambov). The registration information system is not yet fully developed, especially not at the inter-regional level. The duplication of enterprise names has become a widespread phenomenon, which can be damaging, especially in cases of insolvency.

Licensing and certification

The entry of SMEs into the market can also be hindered by the licensing requirements. Licensing is viewed by the authorities as having a fiscal regulatory function. The licensing procedure is complicated and licensing payments are high. These are calculated on a basis of between 10 and 300 minimum wages and vary from 1.5 to 10 million roubles (US\$ 750-5 000) depending on the type of activity. A decision must be made by the relevant administrative body within 30 days. Numerous administrative resolutions are issued every year. Above all, the period of license validity was limited to one year (in Moscow, this was three months) before the end of 1994.

The Government Decree *On Licensing of Certain Activities* of 24 December 1994 (N 1418) was long-awaited, but failed to meet liberal expectations. The list of activities subject to licensing was reduced but the changes were not far-reaching. Licensing is now required for 88 activities. However, the Decree introduced some important statements, including:

- The intention to impose a single order of licensing in RF, in order to replace practices of bureaucratic voluntarism.
- The minimum licensing period was increased to three years.
- The holding of a license in one region along with a number of copies is now sufficient to be present in several regions, although a different license for each activity is still required.

The Government Degree of 24 December 1994 made some positive changes, but was not far-reaching enough. In addition, special legislative documents are required for its enforcement. The certification of goods and services presents one more form of control over SME activities. The State Committee for Standards (Gosstandart) frequently follows outdated standards. The cost of certification was 1-5 million roubles (US\$ 500-2 500) per item in 1994.

Regional aspects

There has been a tendency to apply *ad hoc* licensing as a channel for expanding revenues of the regional funds. As a result, the costs entailed for new enterprises entering the market are growing. The costs of market entry for a new enterprise reached the following level in St.Petersburg in 1994 (million roubles).⁴⁸

- Wholesale trade and retailing 10.0
- Transportation 7.0
- Construction 6.5

These entry costs account for 50 million roubles (more than US\$ 10 000) on average per firm at 1995 prices (with variations across the regions).⁴⁹

In addition to a license on certain activities, a license for the sale of certain imported goods is also necessary. In the Tver region the licensing of trading stalls was introduced. A large amount of information on the future enterprise is required in order to be licensed for one year in Smolensk. Licenses were also required in order to start some activities which were not included in the licensing list in Novgorod and Volgograd.

Fees required to undertake trading activities are a camouflaged form of licensing. In order to open a trading stall in Moscow, documents must be submitted to seven different organisations, with payment totalling 6 million roubles (more than US\$ 1 500) at the beginning of 1995. Administrative approval takes at least one month. The costs included (thousand roubles):

- Trade certification for half a year 3 500
- Architectural Bureau 2 000
- Administrative-technical inspection 350
- Sanitary inspection 150-200

(Delovaya Moskva Segodnya, 1996, 4, p. 2).

Conclusions

In spite of recent regulatory measures, the registration and licensing of a wide range of economic activities still act as a barrier to SME market entry. They are largely viewed as the sources of earnings for municipal funds, while they are not properly fulfilling regulatory functions. Numerous supervisory bodies become involved to the point of interference and duplicate each other. This often leads to unethical actions by inspectors. Finally, there are controversies regarding the regulatory basis in respect of the new Civil Code. There is also a need for special Laws on registration and licensing.

CHAPTER 3 SMALL ENTERPRISE PUBLIC SUPPORT SYSTEMS

This chapter examines the main SME support systems, including special programmes and foundations, state regulatory bodies, public associations, commercial agencies and international donors.

3.1. Public support programmes for small enterprises

Before 1994, SME policy was not distinctly separated from that of large and medium-size enterprises in major State development programmes. For example, the RF Government programme "Development of Reform and Stabilisation of Russian Economy in 1993-1995" was important in that it defined entrepreneurs as the leading force behind the market transformations. However, very few provisions were devoted to SME-specific issues.

The State Committee of Anti-Monopoly Policies and Competition Development undertook certain efforts to elaborate a special programme for SME state support in 1991. The first Draft Programme was submitted to a Government collegium in September 1991. However, a new governmental team led by Egor Gaidar came to power, and as it concentrated on the policies of macroeconomic financial stabilisation, interest in SME programmes ebbed. This postponed the idea of a special Legislative Act on SME for another four years.

Programme for 1994-1995

The first specific Federal Programme of SME State Support in 1994-1995 was prepared under the guidance of the Ministry of Economy and was adopted by the RF Government Decree of 29 April 1994 (N 446). Ideologically, it was oriented more towards the creation of a favourable environment than towards directly supporting small enterprise. Two hundred and ten billion roubles of purpose funding was to be allocated for the promotion of small enterprises. As a result of endless bureaucratic corrections and concordances, the Ministry of Economy was obliged to submit the Programme for Governmental approval on three occasions in 1994-1995. Approval was obtained after two years; however, only 20-25 billion roubles were actually allocated, representing about 10 per cent of planned funding. As 40-45 per cent of Federal Budget funding in 1995 was received at the end of December, the programme was financed on a *remainder basis*, e.g. after "more important" federal programmes.

Programme for 1996-1997

The work on the Draft of the Federal Programme for SME State Support in 1996-1997 was again co-ordinated by the Ministry of Economy, however, the functions were undertaken by the new State Committee for Support and Development of Small Firms (SCSME) and the programme was adopted by the Governmental Decree of 18 December 1995 (N 1256). For the first time, the Programme received status as one of twenty-four special purpose Federal Programmes. Major sections are listed below as they are given in the Programme:

- creation of legislative and regulatory bases for small firms;
- financial and investment support;
- creation of job opportunities;
- supporting infrastructure development;
- scientific support and personnel training;
- social security.

Among the Programme **priorities** the following are worth special mention:

- stimulation of investment activities (risk capital funds, leasing development);
- innovative and R & D business development.

The following are the **principal provisions** of the Programme:

- transition from pilot projects to the comprehensive infrastructural development of urban territories;
- greater emphasis on regional level programmes for funding (see section 3.3);
- shift from direct SME project support to the establishment of guarantee funds for SME credit lines;
- transition from Federal funding to the principle of variety in funding sources;
- linking SMEs to large corporations and financial-industrial groups.

In elaborating the second Federal Programme, the Ministry of Economy received fifty SME promotion projects from regional authorities asking for Federal support. The aim was to develop a minimum infrastructure in every region, including: SME Support Foundations; banks and insurance companies working on SME development; business incubators; development agencies and business training centres; information networks.

According to the initial plan, the cost of the Programme was estimated at 883 billion roubles (US\$ 190 000 000) — 707 billion from the Federal budget and the rest from regional and non-budget sources. The funding would be allocated through the State Treasury to the following areas (bln. rbl.):

- Share funding of regional projects 140
- Risk capital Fund for investment loans 250
- Leasing Promotion Fund 120
- Information networks 28

- SME support in the regions in emergency situation 20
- Educational and training programmes 1
- Business security systems 0.2

In spite of the negligible amount of allocated resources, a multiplication effect is expected. A 1.5 to 2-fold increase in both SME numbers and their contribution to GNP within the next two years were expected as the outcome of the proposed Programme.

The first disappointments came even before the Programme had begun. Because of the Governmental Decree on the SME Support Programme, the RF State Duma deputies cut a large share of SME support. The amount of federal resources (which was not significant) was decreased from 707 to 386.6 billion roubles. Russian MPs did not vote against SME development projects, but they did approve a number of revisions to the State Budget which granted additional funding to other programmes. SME funding was evidently viewed as residual or non-priority. The SME Support Programme was officially adopted by the Duma on 7 June 1996, and the allocation of funds had not started by autumn 1996.

Several other Ministries are also supporting small firms, through specific sectoral programmes: for example, the State Committee on Industrial Policy is carrying out a Programme on innovative businesses; the Ministry of Economy is implementing a Programme on engineering; the Government Commission of Science and Technology is also working on these issues. All of them are dealing with different aspects of SME development; hence there are overlapping initiatives .

Guidelines for the year 2000

The latest programme document, *Main Guidelines for SME Development in Russia and Its State Support till the year 2 000*, has been drafted by the SCSME on the basis of the Federal 1996-1997 SME Support Programme. It focuses upon the stimulation of innovative and investment activities, and aims at developing technological entrepreneurship in the formerly closed high-tech cities, such as Arzamas-16, Chelyabinsk-40 and Obninsk. The Programme states the strategic importance of extending the legislative and regulatory norms to the new categories of small- and medium-size enterprise (up to 500 workers).

Four main **policy principles** are pursued by the Guidelines:

- focus on the regional level;
- development of first-priority branches;
- support to "weak" social groups;
- increased emphasis on business creation.

It is hoped that the implementation of these Guidelines will lead to increased SME creation - up to 1.6-2.0 million with 12-15 million full-time workers and employees by the year 2 000 (27-30 million if secondary employment is considered). The contribution of SMEs to GDP could reach 20-25 per cent.

Regional programmes

As already mentioned, regional SME Support Programmes began to develop before Federal programmes. The first five regional Programmes for Enterprise Support for the period of 1993-1994 were approved in 1992 (Altai *Krai*, Lipetzk, Murmansk, Penza and Perm regions). The number of projects developed within these programmes varied from seven (Murmansk) to forty-four (Perm). Similar Programmes were introduced in 1993 in seven other regions (Kalmykia Republic, Arkhangelsk, Irkutsk, Kurgan, Novgorod and Tula regions, Chukotkii *okrug*). Twenty-four regions began programmes in 1994. Two-year Programmes for 1994-1995 were initiated in Karelia, Khakassia and Mordovia Republics; Astrakhan, Chita, Kamchatka, Kostroma, Kurgan, Leningrad, Moscow, Nizhnii Novgorod, Omsk, Pskov, Rostov, Ryazan, Samara, Saratov, Tambov, Tver, Tumen, Volgograd, Voronezh and Yaroslavl regions; Primorsky *krai*. The average number of entrepreneurial projects in such Programmes has increased, to reach 60-70.

By the end of 1995, Programmes had been launched in 40 regions, and projects for such programmes were being developed in the other 36 regions. These regions followed the *Guide on SME Support Regional Programme Elaboration* issued by the Ministry of Economy, State Committee of Anti-Monopoly Policy and Competition Development and State Committee on Industrial Policy. Many other regions are developing programmes of their own. The regional aspect of the state SME policy was summed up in the Draft Main Guidelines for Regional Policy of SME Support in the Russian Federation presented by the SCSME in the Government Presidium on 27 June 1996.

Conclusions

SME Support Programmes emerged at a regional level at the initiative of regional and local administrations, and were then stimulated by the adoption of Federal Programmes. These Programmes are facing numerous difficulties in their implementation. Funding is not sufficient and the actual delivery of funds is usually delayed. About 0.001 per cent of total Federal Budget expenditures were allocated for SME support in 1994-1995, and 0.16 per cent of the Federal Budget was to be allocated for SME support according to the plan for 1996. Actual support will be even less. The lack of resources implies the low political status of the Programmes. According to expert opinions, SME promotion should benefit from 0.5 per cent of Federal and regional budget expenditures. The main problems concerning the implementation of SME support programmes are analysed in the following sections.

3.2. Public regulatory bodies

The functions of public regulatory bodies in the field of SME support include bringing about modifications to legislation, elaborating support programmes, and allocating budget funding and tax privileges. The first attempts to build up such state institutions to co-ordinate SME policy failed. The following are some examples:

- USSR Committee for SME and Entrepreneurship Assistance (1991).
- Committee for SME Development and Support under the State Committee for Management of State Property (1992).
- Russian Federation Committee for SME Support (March-November 1992).

The first two Committees were liquidated almost immediately without even having begun their activities. The third existed for about six months before being abolished. The reason for this was that many state bodies were established for political ends, and were not backed by funding and programmes of action.

The State Committee for Anti-Monopoly Policy and Competition Development made continuous attempts to take responsibility for SME support and development, but it was not successful. The responsibilities frequently changed. The following state institutions were in charge of SME policy promotion:

- State Committee for Industrial Policy (1992-1993);
- Ministry of Economy (1993-1995);
- State Committee on Small Enterprise Support and Development (SCSME) (1995 to present).

When the co-ordination of SME policy was transferred to the Ministry of Economy in summer 1993, the regulatory functions of SME support were distributed among a number of Ministries and Committees.⁵⁰ Departments for SME development were established in these Government institutions in 1994-1995. In addition, Committees for entrepreneurship support have been established by both the Upper and Lower Houses of the Russian Parliament:

- Committee on Ownership, Economic Reform and Property Relations at the Federation Council.
- Committee on Economic Policy and Committee on Property, Privatisation and Economic Activity with special Sub-Committee on Small Enterprise at the State Duma.

Regional level

The problem of co-ordination between federal and regional regulatory levels is of crucial importance for SME policy, yet satisfactory solutions have not been found. Some of the state regulatory bodies involved in SME support programmes are capable of using a network of regional branches to implement SME programmes, but they deal predominantly with their special tasks, namely:

- State Committee of Anti-Monopoly Policy and Competition Development;
- State Committee for Management of State Property;
- Federal Employment Service;
- Ministry of Foreign Economic Affairs.

The Council of Enterprise Development was also set up under the RF Government to establish links between Federal authorities and business associations (RF Governmental Decree of 30 May 1993, N 510). The Public Council for Small Entrepreneurship under Federation Council (Upper Chamber of Parliament) was set up in 1996.

Extensive institution building has been carried out at the regional level. The structure of the regulatory bodies and their functions are determined by regional authorities, and vary considerably from region to region. This diversity in Governmental structures is shown below⁵¹:

- SME Support Committees (Krasnodar, Moscow, Nizhnii Novgorod, Samara, Volgograd, Ingushetia, Udmurtia);
- Departments of Economy, Planning, Foreign Economic Affairs, Industry (Sakhalin, Stavropol, Voronezh, Yaroslavl);
- Committees for Entrepreneurship Support (Altai krai, Oryel, Tula, Tumen regions);
- Committees for Entrepreneurship Support and Problems of Economy, Industry, Programming (Primorsky krai, Kirov, Moscow, Pskov regions);
- Enterprise Development Councils and Centres (Bashkortostan, Chuvashia, Komi Republics, Astrakhan, Irkutsk, Kaliningrad, Kaluga, Tver regions).

Specialised SME regulatory bodies exist in more than half of all the regions, carrying out SME policy and creating links with business associations (43 out of 83 regions by the end of 1994, according to SCAMP surveys). Several regions were reported to have no department responsible for SME issues in 1995: Buryatia, Evenkia, Kabardino-Balkaria, Karachayevo-Cherkessia, Khakassia and Northern Ossetia Republics, Bryansk and Vologda regions. In addition, according to an SCSME Report, no special state SME support institutions have been established in the Amur, Archangel, Kostroma, Novosibirsk, Oryol and Pskov regions.⁵² However, this number is decreasing.

Box 2. SME state support in the region: The case of Zelenograd

A prominent example of fruitful co-ordination among local and regional authorities, commercial banks and international donors was presented by the case of Zelenograd, a town with 200 000 inhabitants in the Moscow region. Sixty thousand workers were employed in the microelectronic industry at the end of the 1980s. This number decreased by three times by 1996 as an outcome of production decline.

A Department of Entrepreneurship Development in the Zelenograd administration was established in 1991 to stimulate SME activity and absorb unemployment. The first programme of SME support was worked out in 1993. Currently, the third SME support programme is being implemented with funding of 40 billion roubles (US\$ 8 000 000). The following institutions have been created:

- an Association of SMEs (160 enterprises);
- two leasing funds one of which is supporting innovative businesses;
- a Development Agency (in co-operation with the Moscow Department of Entrepreneurship support);
- a Business incubator (20 SMEs, credit fund of US\$ 1 000 000);
- a Technopark (45 enterprises);
- a College of Management and Commerce (supported by USAID).

As a result, 3000 SMEs are operating in the area and employ about 25 thousand people. Many of these enterprises were provided with loans at interest rates up to 60 per cent of the Central Bank level. Apart from local funds, in 1994-1995 the Zelenograd SME support programme has attracted funds from Federal programmes and the Federal Employment Service, as well as from Mostbank, Stolychnyi Bank of Savings and other non-state sponsors. This is a positive example of a local strategy on support for entrepreneurship which reduced the negative effects of industrial restructuring and enhanced social cohesion.⁵³

Conclusions

1. Federal and regional policies during all development stages have been characterised by controversies. Even in the "golden age" of the co-operative movement, continuous attempts to suppress co-op rivalries were undertaken using the following methods: restrictions in the field of activities, heavier taxation burden, freezing of bank accounts, price fixation policies to keep co-operative output prices low and input prices high, *etc.* Co-operative enterprising was actively advertised and discredited at the same time by the mass media. Now the State is not hostile but displays a rather indifferent attitude towards small business.

2. SME policy has never been considered a top priority, and even the Russian liberal government did not favour small entrepreneurship in 1992-1994. The ideology of equal conditions for all economic agents was dominant. It is noteworthy that the heads of at least three key ministries responsible for SME

support (Ministry of Finance, Ministry of Economy and State Committee on Management of State Property) have never favoured the idea of special conditions and policies for small enterprises.

3. The issue of SME support has become part of the political rhetoric of electoral campaigns and political party programmes, but it is largely of a declarative nature. Neither of the Sub-Committees on SME issues in the Russian Parliament wields a great deal of influence compared to government institutions, although they have succeeded in winning some political influence.

4. SME policy still suffers from a lack of political representation, as illustrated by the following example. When the new Law *On State SME Support in the Russian Federation* was voted in the State Duma in June 1995, an almost critical mass of 186 deputies out of 450 did not support the key legislative act (this number includes all the deputies who voted against the act or abstained from voting). It is also remarkable that these negative votes and abstentions were divided proportionally across Duma factions irrespective of their liberal or communist affiliations. The only reasonable conclusion to be drawn from this is that there is an absence of distinct SME interest support groups in Parliament.⁵⁴ Business associations have managed to lobby some important decisions, such as maintaining tax privileges by the State Duma at the beginning of 1996 (for details on business associations see section 3.5).

5. Small business has been disadvantaged by the frequent changes of responsibility within the main regulatory committees and long-run bureaucratic procedures concerning SME support prerogatives among government ministries. Moreover, barriers were put up to the first SME support programmes and the elaboration of a consistent policy in the field. The creation of the SCSME is viewed as a serious step which could clarify many uncertainties. It is not expected to solve all the problems, but it could play a co-ordinating role, which is badly needed at the present time.

6. It is acknowledged that co-ordination of SME policies on the federal level is weak. It was said that "any co-ordination on Federal level is virtually absent".⁵⁵ The functions of parliamentary committees and state ministries are not clearly differentiated. The duplication of functions and parallel initiatives is frequent.

3.3 SME support foundations and funding schemes

Before 1993 there was no institutional framework or functioning mechanism for providing state financial support to small enterprises. Three hundred million roubles of state support reverted to the Federal budget, unused by entrepreneurs in 1992. The situation began to change when three main SME support foundations were created in 1993. This section outlines their activities and summarises basic state SME funding schemes.

Foundations for SME support

The Foundation of Enterprise Support and Competition Development under the authority of the State Committee on Anti-Monopoly Policies and Competition Development was created according to the RF Law *On Competition and Monopolist Constraints in the Commodity Markets* (March 1993) and the RF Governmental Decree of 1 April 1993 (N 268). This Federal non-commercial institution was appointed as the main SME Support Programme financial contractor by the Government Decree of 29 April 1994 (N 409). The main objective of the Foundation is the implementation of Federal policy in the field of SME support.

A **Supervisory Board** was created which included Deputy Chairs of the Ministries appointed as the main SME Support Programme executives:

- Ministry of Finance;
- Ministry of Economy;
- State Committee for Anti-Monopoly Policy and Competition Development;
- State Committee for Industrial Policy;
- State Committee for Management of State Property.

A dual-power situation was characteristic of the Foundation management. Created as an Anti-Monopoly Committee structure, the Foundation's Supervisory Board was headed by the Ministry of Economy's Deputy Chair.

The Foundation's **resources** were to come mainly from Federal budget subsidies and from its own activity returns. From the very beginning, the Foundation suffered from a lack of funds because the real budget financing of SME Support Programmes was one-tenth of the approved Federal funding. The situation improved when the Foundation began to receive 5 per cent of privatisation earnings in accordance with the State Privatisation Programmes of 1994 and 1995. Input from these privatisations has become the main source of Foundation revenues and is 5.5 times greater than the direct Federal budget subsidies.

The Foundation received 7.5 billion roubles from the state budget in 1993. In 1994-1995, approximately 180 billion roubles (about US\$ 60 000 000) were spent on the SME Support Programme in total. Eighty-six billion roubles came from Federal sources; more than 60 billion roubles were contributed by the regions; and the remainder came from foreign assistance programmes. The structure of the Foundation budget in 1993-1995 can be seen in Table 8.

The Federal Foundation for SME Support signed agreements with 20 regional administrations, including Kaliningrad, Kemerovo, Komi, Mordovia, Tomsk, Udmurtia, Voronezh and others. Forty-seven agreements with SME support institutions in the regions have also been signed. Low-interest loans were chosen as the main funding scheme. Commercial Mezhekonomsberbank was selected as the financial intermediary. In 1994-1995 the Foundation provided credit support to 35 out of 59 regional programmes (including 23 programmes in 1995) and to 83 entrepreneurial projects costing 53 billion roubles (US\$ 18 000 000). Twenty-seven projects were funded directly from the Mezhekonomsberbank. Seventy-four other Banks were also involved in the transactions. The loans are given at annual interest rates of 50-70 per cent for the period of one and a half years.⁵⁶

Table 8. **Budget of the Federal Foundation for SME Support in 1993-1995 (billion roubles)**

	1993	1994	1995	% in 1995 Budget
Remaining	0.02	4.09	18.43	0.02
Income				
1. Privatisation earnings	-	29.58	78.36	107.94
2. Federal budget	7.50	2.00	-	9.50
3. Voluntary donations	-	0.02	0.25	0.27
4. Commercial activities	-	8.64	28.16	36.80
5. Loan returns	-	1.72	7.27	8.99
Total	7.5	41.96	114.04	163.50
Expenses				
6. Federal and regional SME programmes support, including:	3.38	24.98	51.43	79.79
- Federal SME programme	0.19	0.84	15.08	16.11
- Pilot projects in the regions	-	2.07	5.08	7.15
- Regional programmes and entrepreneurial projects	1.19	20.57	30.19	51.95
- Leasing activities	-	1.25	-	1.25
- Risk-capital funds in Mezhekonomsberbank	2.00	-	-	2.00
- SME infrastructure	-	0.25	1.08	1.33
7. Conferences, exhibitions, research <i>etc.</i>	0.002	0.38	1.82	2.20
8. Risk-capital fund	-	-	25.00	25.00
9. Others	0.05	2.26	12.80	15.11
Total	3.43	27.62	91.05	122.10
Balance	4.09	18.43	41.42	41.42

Source: SCSME Report, 1996.

During the **first stage** (1993-1994), funding was concentrated on the federal level and focused on providing loans directly to entrepreneurial projects submitted by small enterprises, local authorities or local foundations. It was largely a disappointing experience given the limited finances and long bureaucratic delays for project selection. A small enterprise received approximately 300-500 million roubles (US\$ 150-250 000). Part of the resources linked to the Mezhekonomsberbank were used inefficiently, and not all the projects have been fulfilled. Some funding was allocated for the wrong purposes. The Foundation also had up to 35 billion roubles of non-allocated cash. In addition, the Mezhekonomsberbank faced financial difficulties after the banking crisis in autumn 1995.

In the **second stage** (1995-), two basic solutions have been found to improve the situation. First, there was a shift of emphasis to the regions, with the support of regional programmes only. Not less

than half of the funding is to be provided by regional funds and by the entrepreneurs themselves. Second, direct loans and subsidies were avoided and risk-capital funds were developed. By mid-1995, the practice of direct project funding had almost disappeared. The major resources will be directed to initiate special credit lines, piloted in the Guarantee (Garantia) Programme.

Guarantee Programme

The Guarantee Programme was started by the Federal Foundation and the SCAMP to develop a new mechanism for SME credit. The basic mechanism is the following. Risk-capital funds are accumulated by the Foundation. These resources are placed in the most reliable stocks (mainly state securities), and reliable banks are selected for the Programme. Small enterprise management submits a set of documents to a commercial bank in the region. After making a provisional agreement they apply to the regional SME Support Foundation for the loan guarantees and / or partial interest rate compensation. These are given to those who are able to back the loan at 30 per cent with their own property. To obtain financial support, SMEs were required to submit the following documents:

- general application form;
- statute copy;
- business plan;
- accounting balance approved by tax inspection;
- loan application.

Enterprises then are able to access bank loans with interest rates nearly half those charged by the Central Bank, which means 80 per cent less per year compared to the 110 per cent charged by leading commercial banks. In hard currency, 18-20 per cent is viewed as an appropriate annual interest rate for the privileged credit line.

The Programme has been piloted in the Moscow and Tula regions and Federal Funds contributed 40-50 per cent to the risk-capital funds. The Programme will now be extended to other regions. The regions are currently being ranked in order to define top priority areas. The following criteria are used to this end: regional SME funding, regional SME support Programmes and institutions, employment level, investment activity. A risk-capital fund of 30 billion roubles (US\$ 6 000 000) had been accumulated by January 1996 by the Foundation for these purposes. It is planned to raise five roubles of private credit for one rouble of risk-capital funds (in 1994 this rate was only one to one).

According to the Law on State SME Support of 14 June 1995, the Foundation was to be transformed into an inter-departmental body with the Head of the State Committee for SME Development as the Supervisory Board Chair. Surprisingly, there were long delays in the adoption of the Foundation Statute, so the Supervisory Board was not formed until 19 February 1996. It started to function in mid-1996. It is still debatable whether or not all SME Foundation activities should be exempt from taxes. The Law of 14 June 1995 was not supported by a special regulatory decree. The privileges were also not included in the draft of the new RF Tax Code. As a result, the Federal Foundation paid 10 billion roubles of tax in 1995.

Regional solutions

Seven regional programmes and fifty SME projects were selected in 1993 by the Federal Foundation, with the Tula region selected first. The Federal Programme for 1994-1995 supported 16 pilot projects in eight regions (Murmansk, Pskov, Primorye, Ryazan, Sverdlovsk, Tomsk, Novgorod, Yaroslavl) and four cities (Moscow, St. Petersburg, Tver and Zlatoust). Federal support was granted to these regions, mainly due to the initiative of regional administrations in SME support for institution building and their personal network relations with Moscow. According to the Federal Programme of SME State Support in 1996-1997, not less than 20 per cent of the SME Foundation's resources should be allocated through regional Funds.

The first Foundation for SME Financial Support and Development Assistance appeared in Murmansk in 1990. The Funds in Moscow and Tatarstan were next, and were set up within one year. There were only 14 regional Foundations in Russia in 1993. By January 1996, seventy-one Foundations had been registered. "Foundation" has become a term used to denote a group of institutions with different legal statuses. One can find state-run, public and joint-stock establishments in this group. Some Foundations (Irkutsk, Lipetzk) expanded their actions despite having no legal status. Normally, foundations are registered as non-commercial institutions although with certain commercial functions carried out for the sake of main donation activities.

SME Support Foundations had been created in more than 60 regions by 1996. The executive heads of 35 regional Foundations joined the Russian Council chaired by the Federal Foundation director in May 1996. Several Foundations have become as large as the Federal Foundation with the help of local budgets (Moscow, Nizhnii Novgorod, St. Petersburg, Penza). These funds' expenditures increased several times in 1995. Still, only a small number of Funds (Ekaterinburg, Moscow, Nizhnii Novgorod, Tumen) have managed to attract considerable financial resources from the large European banks at the present time.

The amount of allocated resources and the sources of funding differ depending on the region. In the Komi Republic, five per cent of privatisation earnings must be allocated for SME support according to a Presidential Order. In Nizhnii Novgorod, funding is taken directly from the regional budget according to the Law "On Nizhegorodski Region Budget System in 1994". In Vladimir, the authorities fixed the share of SME support at 3 per cent of regional budget earnings.

A more frequent method now in use is to combine a number of financial sources. For example, the Vologda region authorities allocated 2.5 billion roubles to SME support in 1995, including one billion from the regional budget, one billion from the Employment Fund, and half a billion from the Federal SME Support Fund. A Programme for State SME Support in 1996-1997 was adopted in the Kostroma region with a financial backing of 36 billion roubles (US\$ 7 600 000) from Federal, regional and non-state sources. The North Rhine-Westphalia region of Germany contributed with 1.2 billion roubles. Foreign technical and financial assistance has been playing an important role since 1994, in Tula and other regions (see section 3.6).

Box 3. Regional SME Support Foundation: The case of Moscow

According to the Moscow Law on SME support, 0.5 per cent of the city's budget and 5 per cent of privatisation earnings are allocated. Funding is carried out through the SME Support Foundation under the Moscow Mayor's office, which was established in 1990.

In 1994-1995, the Moscow government supported 61 projects of the 675 considered. Municipal services, repairs and construction, and catering were determined as priority branches for the Muscovite economy. Loans of 24 billion roubles were granted for 5 to 18 months at annual interest rates varying from 30 to 80 per cent. Average credit fluctuated from 17 to 600 million roubles. Financial returns of 4.2 billion roubles were reinvested in new projects. Commercial Banks (Stolichny, Mosvodokanalbank and Pervy Vaucherny) participated as intermediaries. In addition, nine billion roubles were allocated to city infrastructure development. Moscow also leads in developing leasing services for SMEs (see this section below).

Conclusions

State funding is still negligible when compared to SME sector requirements. Under these conditions, the transition from direct funding to the creation of risk-capital funds to encourage investment in the SME sector is seen as a well-adapted solution. However, it is still unclear how long it will take to develop new mechanisms based on the pilot programmes.

Employment Foundation

The activities of the Federal Employment Service (FES) were established by the Law "On Employment of the Population in the Russian Federation" of 19 April 1991, with modifications and additions of 15 July 1992. This service provides an independent source of SME support. The Federal Foundation of Employment has been providing resources for the financial support of entrepreneurship since June 1993 according to the FES Statement of 30 March 1993 (N 37). These resources are significant compared to those coming from the Federal SME Support Foundations (see Table 9).⁵⁷

Table 9. Financial Support of Entrepreneurship from State Employment Fund in 1993-1995.

	1993	1994	1995*
Enterprise support (ES) (million of roubles)	94 385	401 788	666 073
ES in total Fund expenditures (%)	25.1	16.7	16.5
Job maintenance in ES (%)	—	34.4	38.4
Job creation in ES (%)	—	62.6	54.3
Subsidies for start-ups in ES (%)	—	3.0	

* January-September 1995.

Source: Centre for Labour Market studies, Institute of Economics, RAS.

The financial support of entrepreneurship is divided into three budgets in Federal Foundation expenditures:

- job maintenance;
- job creation;
- subsidies for start-ups.

Job maintenance and job creation support are provided to existing enterprises (both large and small), so “support of entrepreneurship” is not the most accurate term for use in this case (see Table 9).

Financial support for **job maintenance and job creation** is provided in the form of subsidies and loans. Subsidies are usually given to enterprises which employ the disabled, young people, mothers of large families, and former prisoners. The **loans**, which are limited to one-year's average wage per job, are provided with interest at half the Central Bank rate (80 per cent) with a maturity of one year. Entrepreneurs are normally required to contribute more than one-half of project resources. Financial support is allocated to the priority activities as determined by the region (usually for certain production activities). The loans were first backed by regional administration guarantees in 1993 and the rate of return did not exceed 80 per cent. Requirements for bank loan guarantees were introduced in 1994 and the rate of return is now about 90 per cent. The FES intends to modify its policy to favour new job creation, and the share given to job preservation is to decline. In 1996, the regions were only permitted to grant job preservation projects in the framework of Federal Branch Agreements signed by FES. The major part of the resources were to go towards new job creation.

Start-up subsidies are made available to unemployed persons registered at FES Centres. Potential entrepreneurs are selected through screening and then are trained to obtain initial entrepreneurial skills. After the training, FES provides interest-free subsidies within the limits of 12-month unemployment payments together with free counselling for the first year after the start-up. These subsidies are delivered on condition that savings of up to 25 per cent of the granted subsidy are used. The level of subsidies is insufficient for starting up an enterprise, and those who apply to the Employment Centres usually have relatively low marketing skills (this means that self-employed and home workers have become the main recipients). Subsidies are usually granted after special training courses have been completed. The share of these self-employment subsidies in Foundation expenditures is steadily

increasing to 2-3 per cent. Social groups considered as "vulnerable" to potential unemployment are most favoured by SME programs, *e.g.* young people, women, military officers, workers from redundant defence enterprises.

The Draft FES Statement on Financial Support of Entrepreneurship is being worked on in order to improve the financial mechanisms. Estimations on the share of financial support given to small enterprises differ, but given the modest amount of allocated resources and the large number of papers to be submitted, the large enterprises are said to take little interest in such projects.

Regional approaches

Eighty per cent of resources accumulated by the Employment Funds are concentrated in the regions, while 20 per cent are redistributed by Federal bodies. The regions make their own decisions regarding the division of resources, and there is a strong variation of support across the regions. This is illustrated below (1994):

- the share of financial support for entrepreneurship in the Employment Fund varies from 0.1 per cent (Kalmykia) to 64.4 per cent (North Osetia);
- the share of job maintenance funding in financial support varies from 0 per cent (Yaroslavl) to 99.7 per cent (Ivanovo);
- the share of job creation funding in financial support varies from 0 per cent (Ivanovo) to 97.6 per cent (Moscow);
- the share of start-up subsidies in financial support vary from 0 per cent (Moscow, Pskov) to 74.8 per cent (St. Petersburg).⁵⁸

Thus, there is a lack of consistency in resource allocation across the regions, although the variations have become less distinct compared with 1993. The amount of support depends not only on the earnings of the regional Employment Foundation, but also on the employment situation. The more unemployment benefits the region pays, the less funds remain for entrepreneurship. Among the regions most active in the field are: the Moscow region, Nizhnii Novgorod, Samara, St.Petersburg, Tula.⁵⁹

Box 4. Regional Employment Centre and SMEs: The case of Zhukovsky

A successful example of regional Employment service activities is demonstrated by the case of Zhukovsky (Moscow region), a town with 100 thousand residents. Fifty-seven per cent of workers and employees are concentrated in two main centres of the aerospace industry. The number of workers employed at the leading Central Aerodynamic Institute (TsAGI) decreased by almost two times in 1990-1996 as a result of programme cuts. Aimed at the labour market adjustment, the Zhukovsky Employment service supported by a group of volunteers in the local community has managed to use private sector abilities to decrease the unemployment rate from 6 to 0.2 per cent in 1993-1996. More than 60 per cent of new jobs have been created in SME sector with 2 000 small enterprises. A joint project in collaboration with White Reynolds Int. (Canada) was started in 1992. An Investment Fund for SMEs was established for the support of enterprises maintaining and creating new jobs in the area with the initial fund of 100 000 Canadian \$. It has supported 14 enterprises that have created about 200 jobs. A self-employment training course is provided. The Zhukovsky project was a result of a workshop organised in 1992 by the LEED Programme of the OECD on local employment creation as part of the activities of the Centre for Co-operation with the Economies in Transition (CCET).⁶⁰

Conclusions

1. The total share of entrepreneurship support has decreased in comparison with the first year of Foundation activities. Considerable amounts of Employment Foundation resources are still allocated to job preservation, which is not easily controllable. Subsidies for start-ups (which are not singled out into a separate budget) remain negligible.
2. It is not a simple task to estimate the effectiveness of Employment Foundation activity and specific contributions to SME support due to the absence of evaluations. However, in all, approximately two hundred thousands jobs are reported to have been preserved and created in the course of 1995. Many of these were in SMEs. The training of small entrepreneurs constitutes the second most important part of FES activity (see section 3.4).

Science and Technology Foundation

The Foundation for Small Enterprise Development Assistance in Science and Technology, under the administration of the Ministry of Science, was established by the *RF Government Decree of 3 February 1994 (N 65)*. An initial financial base was to be provided by 0.5 per cent of the Russian science Federal budget funding. This Foundation had much in common with the Foundation for Enterprise Support: both were created by federal authorities, based on state subsidies with their chairs adopted by the Government.

During 1994-1995, the Fund was providing subsidies to SMEs on a market basis carrying out innovative activities. The interest rates varied from 0 to 80 per cent, and within 20 per cent for SMEs in education and medicine. The Foundation attracted more than five hundred experts representing the Ministry of Science, Moscow State University, various research institutes and the small business sector. In 1995 alone, 443 projects were considered; 49 per cent were submitted from Moscow and the Moscow

region and 51 per cent from the other regions; 148 projects received financial support of 200 million roubles (US\$ 45 000) on average. Enterprises involved in medicine, instrument-making, mechanical and electrical engineering feature strongly among the enterprises which received grants.⁶¹

A special Government Decree, *On Financing the Foundation of SME Development Assistance in Science and Technology* (N 1213), was released in December 1995 in order to raise the contribution of the Federal budget for these purposes to up to one per cent of funding for science. As a result, a new programme for SMEs in science and technology was announced in January 1996. Up to one-half of Foundation resources will be allocated to innovative research at academic institutions, the results of which can be applied to SME production. An important feature is that subsidies are not subject to reimbursement under the new Programme conditions. The Foundation is also starting a programme focusing on the training of technological entrepreneurs. The programmes are supported by the Russian-American "International Incubator of Technologies" Foundation and the "Technopark" association.

Other funding schemes

This section refers to state orders, investment tenders and leasing programmes among the other important prospective channels of SME financial support.

SME State Orders. The new Law on State SME support includes an important element concerning the allocation of 15 per cent of state orders to the small business sector. A Draft Government Decree *On State Order Reservation for Small Enterprises* is now being elaborated. Experts express strong reservations concerning the practical introduction of this measure, feeling that it will bring about too many changes in production links within a short period of time.

Investment tenders. The necessity for investment projects selected on a competitive basis and funded for two years on a reimbursable basis was examined in the Presidential Order *On Private Investments in the Russian Federation* of 17 September 1994 (N 1928). The state was to give a contribution of 20 per cent of the costs, with the rest being covered by private capital. The first investment tenders were launched in 1995 by the Ministry of the Economy, allocating approximately 1.4 billion roubles to stimulate investment activities. Six hundred and twelve projects were considered. The Ministry does not intend to make distinctions between large, medium and small enterprises, although there has been an attempt to devote at least 10-15 per cent of financial support to the SME sector.

Leasing services

The development of equipment leasing services to small enterprises is currently seen as an important element of SME support. One advantage of leasing is that the need for risk-capital funds disappears, because, in contrast to monetary loans, the leased equipment serves as a guarantee until such time as the principal is paid off. Leasing companies function in accordance with the Government Decree *On the Development of Leasing in Investment Activity* of 29 June 1995 (N 633), as well as the *Temporary Statement on Leasing*. SME leasing deals have not been subject to VAT since 1 January 1996. But the need for a special Law "On Leasing" is postulated by many experts.

Regional examples. The Moscow Leasing Company, established in 1993, is an example of a successful leasing experience. Low-interest loans from the Moscow Government provided the main source of funds. One and a half thousand projects were submitted to the Moscow Leasing Company in

1994-1995. Forty-seven entrepreneurial projects were supported (mini-bakeries were the most popular example). Equipment worth US\$ 60 000 000 was provided, and 630 job opportunities were created. However, SME demand for equipment is estimated at US\$ 2.5 billion, a demand which appears far from being satisfied in the near future.⁶²

The Moscow Leasing Company is considered to be a leader in this field. However, 30 leasing companies were operating in Russia by the beginning of 1996. These companies operate in Krasnodar, Omsk, Smolensk and Tula. Preparations were conducted in Bryansk, Irkutsk, Ryazan, Tomsk, Volgograd, Vologda and other regions. The major resources are concentrated in Moscow and St.Petersburg. All the companies face the problem of obtaining equipment for leasing, and securing financial returns. Experts claim that the share of leasing in total investment may rise from 1 per cent in 1996 to 20 per cent in the year 2 000. Franchising activities have also been widely advertised as a prospective field recently, but few steps have been taken in this direction.

The following is a summary of the most important provisions from the recent regulatory document enforcing the SME Support Law of June 1995, e.g. RF Presidential Order *On Priority Measures in SME State Support in the Russian Federation* of 4 April 1996 (N 491):

- to allocate 500 billion roubles (US\$ 100 000 000) to SME investment tenders in 1996, under Federal and regional SME Support Foundations programmes;
- to deliver not less than US\$ 200 000 000 per year beginning in 1996, as the state guarantees foreign institutions providing SME credit;
- to allocate 150 billion roubles for the purposes of the Federal SME Support Foundation;
- to provide not less than 500 billion roubles per year beginning in 1997 for low-interest-rate loans to SMEs;
- to allocate not less than 40 per cent of Federal Employment Fund expenditures to job creation in the SME sector;
- to preserve SME tax privileges and extend these to innovative activities;
- to extend the abridged system of taxation and reporting to a wider group of SMEs.

Conclusions

1. Despite these programmes, lack of finance remains the most critical issue. Only 5.5 per cent of the small entrepreneurs surveyed consider the financial situation of their enterprises as “good”. At the same time 73 per cent of them define the financial situation as “more or less satisfactory”, and 21 per cent of respondents think it is “fairly bad”.⁶³
2. Risk-capital funding and the development of leasing services will not radically change the situation as long as both interest rates and prices on equipment are high for the majority of small entrepreneurs. However, these funding mechanisms are capable of decreasing the economic barriers to SME market entry and establishing a more favourable economic environment.
3. The main problem with the principal SME funding schemes is that they are all too often left in the bureaucratic stage, not followed by implementation. This may also be the case regarding the provisions of the Presidential Order of 4 April 1996 (N 491). Both the state authorities and financial institutions are considerably more attentive to large investors than to small business.

3.4. Training, information and counselling agencies

Training, information and counselling services are separate but complementary areas of SME support, but it is difficult to separate descriptions of these activities as they are provided by the same institutions in most cases: state-run schools, commercial business schools and development agencies. A review of the most advanced experiences follows, along with some concluding comments:

Federal Employment Service

In view of the conditions of severe shortage of Federal funds for SME support in Russia, secure public resources are directed for those investment purposes which are considered most urgent, while education programmes for SMEs receive very little funding. Employment Foundation programmes may be an exception. The Federal Employment Service (FES) and its regional agencies play a leading role among state-run training institutions and control up to 60 per cent of educational services in the labour market. It provides business training services for the unemployed, which are organised in accordance with the RF Government Decree *On Organisation of Training of Unemployed in Fundamentals of Entrepreneurial Activity* of 7 March 1995 (N 224). FES Centres run courses for training (or re-training) in certain professions and crafts, after which many graduates begin to work on a self-employed basis. FES Centres also select candidates for special business training which lasts three or four months on average.

The FES system provided training services to 65 000 unemployed persons in Russia in 1995. Approximately 12 000 former unemployed individuals established small enterprises or became self-employed with the help of FES and created 15 thousand new jobs in 1995, according to FES official estimations. However, the FES is not able to meet all the needs in professional and business training for the unemployed. There are about 70 Training Centres in the regions, for 2 500 Employment Centres in Russia. The Centres have to attract business schools and business training centres as their contractors. Links with the training agencies of the Morozov Project are also encouraged (see below).

Retired officers retraining

Retired Army officers are considered to be a vulnerable social group while constituting a capable part of the workforce. Special programmes for the retraining of men / women from a military background, and assistance in starting a business were initiated in 1991-1995: the Directorate for Employment, Education, Labour and Social Affairs of the OECD was involved in this initiative as part of the activities of the Centre for Co-operation with the Economies in Transition (CCET). These programmes are of particular importance due to ongoing Army redundancies. In the Moscow area alone, some 150 thousand officers are expected to retire in 1996-1997 (of these, more than 50 per cent will retire without pensions).

Box 5. Retired officers retraining: The case of MIRBIS

The Moscow International Higher Business School, under the Russian Economic Academy, began a retired officers' retraining programme known as DEMOS (Demilitarisation-Education-Co-operation) in 1991. It was placed under the patronage of the Russian Duma Defence Committee in June 1995. Three hundred officers and their family members have undertaken the six-month intensive training programme during the last five years (including 54 people in 1995 / 1996). One-quarter of all students are now active entrepreneurs. About 30 per cent became heads of enterprises one or two years after the training.

The cost of the six-month retraining was US\$ 800 in January 1995. Only one of ten students possess sufficient means to pay for courses themselves. Despite the existence of Federal Employment Service support, financial limitations are considered the most important obstacles. In general, special SME training programmes can barely survive without external financial support.

Business schools

The number of commercial business schools and Marketing and Management Centres in Russia totalled more than 600 by 1996. One hundred and fifty leading business schools are certified in the Chamber of Commerce and Industry (CCI) Register under *Business Education*. Fifty institutions are members of the Russian Association of Business Education established in 1990.

Business education has experienced three stages in Russia (A.N. Kolesnikov., L.A. Kolesnikova, pp.11-13). In the first stage (1987-1991), business schools aimed to provide maximum information on legal and economic regulations to the trainees. Civil servants and foreign experts were invited as lecturers in order to raise a programme's prestige. In the second stage (1992-1993), business schools focused mainly on short-term teaching programmes for practising managers. They also began to diversify their activities, to include counselling, information services and the organisation of business tours. The third stage (1994-) is characterised by an increasing involvement in training courses for small businesses.

The sources of finance for small business training programmes are listed below. These data are taken from a special survey (%)⁶⁴:

- Trainees' payments 49
- Employment Foundation 25
- Foreign donors 9
- Regional authorities 7
- Founders 4
- Others 6

Given that they work on a self-financing basis, business schools face obvious difficulties when starting up the training programmes for (potential) small entrepreneurs because the majority of trainees are unable to cover the costs, which are considerable for the Departments of Economics, Finance and Business Administration. The most prestigious schools charge US\$ 2 500-3 000 on average. The cost of the short-term business courses may vary from US\$ 10 to 200 per day.⁶⁵ As a result, even the leading business schools are giving courses on enterprise start-up and development, although they are reluctant to carry out special programmes for SME owners. These programmes require state financial support.

Morozov Project

The Morozov Project (Morozovskii Proekt) has been in operation since 1992. It is supported by the USAID, EBRD and a number of Russian institutions. The Plekhanov Russian Economic Academy and Inkombank are among the founders. The Academy of Management and Market acts as the main executive body. The achievements of Morozov Project as of 1 January 1996 are listed below:

- 48 business training centres have been established in many regions of Russia. All of these are based at the leading educational centres which received Project certification.
- 14 business training centres have been supplied with additional equipment.
- 37 training courses (Small Business Development; Entrepreneurial Law; Entrepreneurial Psychology; Corporate Management, *etc.*) have been elaborated.
- 2 100 teachers and consultants as well as 700 officials have been retrained in Russia and in the USA.
- 50 000 SME representatives have studied in business training services.
- 25 000 clients have been provided with consultancy services.
- 38 000 new job opportunities were opened up by business training centres.⁶⁶

The most advanced of the Morozov Project's regional centres have started to develop networks of their own in regional cities (Ekaterinburg, Samara, Petrozavodsk).

In all 150 thousand entrepreneurs and employees were trained for the small enterprise sector in 1995, including (thousands)⁶⁷:

- FES Training Centres 55
- Higher School institutions 40
- Morozov Project 52

Development Agencies

Training of SME personnel is also provided by Development Agencies. Two main Agencies, which combine training and consulting services to SMEs and which have established regional networks of their own, are:

- the Russian Agency for SME Support
- the Moscow Agency for Development of Entrepreneurship

These agencies have close links with the SCSME and other Federal institutions. They are also closely involved in political lobbying.

The **Russian Agency for SME Support** was established by a Russian-British Government Agreement as a non-state organisation in 1992. The SCAMP and the British Foundation "Know-How" were directly involved. CCI, the Uralmash joint-stock company, Avtovazbank and other influential institutions became supporters of the Agency. Since the end of 1994, the Agency has been fulfilling an EU TACIS project for the creation of a network of regional SME support agencies in Russia. "Know-How" sponsored the rebuilding of the office and trained staff members and teachers in the UK. The Russian Government Decree "On the Network of Regional Agencies for SME Support" of 29 December 1994 (N 1434) defined the main guidelines for this kind of activity. Twenty-eight regional agencies had been established by mid-1996. The foundation of thirty-nine regional agencies is planned according to the Federal Programme of State SME Support in 1996-1997.

At present, the Russian Agency operates mostly on a self-financing basis. It provides a range of consulting and training services from SME registration to establishing foreign business contacts. The Agency reports that it has 3 000 clients. Among the main services, they propose consulting, registration assistance, training certified by the London Entrepreneurial Agency, information, and advertising. More than 1 000 consultations were provided in Moscow alone during 1995.

The Moscow Agency for the Development of Entrepreneurship (MADE) was established in 1994 with a similar Agency in St.Petersburg, as the result of a TACIS SME support programme. Providing information and consulting services for small enterprises, some free of charge for starters, are defined as the Agency's main aim.

The Moscow Agency provided about 2 000 consultations from 1994 to the first half of 1995. In addition to 10 branches in Moscow, the Agency is aiming to develop its own network of SME Development Agencies in more than 20 regions. The Agency is using a "Project Expert" computer programme for assistance in creating SME business-plans. It has the status of Correspondent of the *Bureau de Rapprochement des Entreprises* (BRE). In collaboration with the Berlin based consultant company MADE, it is carrying out a programme called "NIS-Partenariat-Moscow-97" funded by EU-TACIS.

It is important to note that small enterprises often suffer from a lack of skilled professionals, while the **market prices for consulting services** are too high for many. Some of the prices are listed below (Moscow, end 1995, US\$)⁶⁸:

- Consulting on tax issues (1 hour) 50-100
- Accounting services (1 month) 300-700
- Auditing (n.a.) 3000-5000

Technological Parks and business incubators

There were more than 50 technological parks and 40 business incubators and innovative centres by the beginning of 1996 in Russia. They integrated about 2 000 SMEs implementing 286 innovation projects (75 per cent on a return basis).⁶⁹ Among them, about 900 innovative firms and more than 150 small service firms were attracted. Seven thousand new jobs have been created. The Union of Innovative Enterprises has become active. Among prominent examples are the following three cases.

1. The "**Technopark**" **Association** has been conducting a three-year project of SME management training in collaboration with the University of Warwick (UK). More than 50 professionals have received international certificates in the project, which is supported by EBRD, TACIS, the RF Ministry of Science and the Foundation for SME Assistance in Science and Technology.⁷⁰
2. The **International Incubator of Technologies** was established under the RF Government Academy of the People's Economy. During the first year of activity, the Incubator examined 200 projects and lent its support to 32 projects, more than 50 per cent of which were submitted from the regions (Ekaterinburg, Krasnoyarsk, Severodvinsk, Vladivostock, *etc.*). It has also introduced a short-term (four-week) training programme, "Technological Business", for innovative enterprise managers.
3. Business Incubators in 6 regions have been created under the framework of the Morozov Project (BINK program). The incubator in the Tula region expects to assist 20 start-ups every year, following a 2-3-month business training programme.

Information systems

Information systems are being developed according to the RF Government Decree *On Information Support of Entrepreneurship in Russian Federation* of 1 December 1994 (N 1319). The Chamber of Commerce and Industry (CCI) is developing the Russian Business Co-operation Network (RBC-Net) on the basis of the Integral Information System, which included 84 Russian agencies and 12 agencies in other countries by the end of 1995. The exchange of 500 business proposals a day is encouraged. Requests for information mainly concentrate on the following issues (%)⁷¹:

- export / import transactions 43
- business firms' addresses 33

- price lists and market indicators 8

The State Committee for Industrial Policy has created a **Special System of Informational Support of Small Entrepreneurship** (SIOMP). In the first stage, one federal and thirty-six regional Informational-and-Analytical Centres were established in Chuvashia, Kaliningrad, Rostov, Samara, Vladimir, Volgograd and other regions. In parallel there are the Information Centres of the Chamber of Commerce and Industry, of the State Committee for Higher Education, of the Morozov Project, *etc.*

The Russian-French project **Creation of the "Micro-Pitomnik" Information Centre** was initiated by the Moscow Department for Development and SME Support, the Moscow Fund for Personnel Training and a French Chamber of Crafts. The project has been financed by the EU since February 1995. The self-training business computer programmes presented by the EU are piloted at the Centre for Informatization and Economic Research in Construction. Similar "micro-pitomniks" are planned for all ten Moscow administrative districts.

Conclusions

1. SMEs face a lack of skilled personnel. They do not know how to deal with commercial banks and Western investors. One of the reasons for financial deficiencies in the SME sector from the standpoint of donors is a lack of skilled financial project managers. At the same time, many small entrepreneurs are not able to pay for training programmes. An OECD study (1996) on SME development in the Czech Republic, Poland, Hungary and Slovakia, clearly states that in total only 40 per cent of all SME managers take advantage of any kind of support and 3-5 per cent get some kind of consulting. The main question is how communication strategies can be improved to encourage a bigger segment of potential and actual entrepreneurs to address consulting and training agencies.

2. Business training is characterised by the following features in Russia:

- Management training takes precedence over entrepreneurial training (courses on start-up problems are usually included as an element of management programs).
- Short-term management training is more widespread than to MBA fundamental training (although MBA programmes are rapidly developing).
- Theoretical study is more popular than "on-the-job" training (with the exception of business tours to Western firms).
- Special programmes on small businesses mostly depend on special-purpose funding sources.

3. The lack of institutions is not the main problem regarding SME training programmes. There are hundreds of small organisations, but these based on one-off donations, not integrated and largely incapable of service development. The state institutions together with the Chambers of Commerce and Industry are in a position to raise the sustainability of training programmes by improving the licensing of educational institutions, and by covering at least a part of the training costs, which are high with regard to SME financial possibilities. Three types of specific training programmes are equally important, namely, for entrepreneurs, for civil servants, for banks and development agencies employees.

4. Russian entrepreneurs, like others, are much more concerned with making money than obtaining advice. Surveys show that Russian businessmen receive 90 per cent of their business information through personal contacts. Only four per cent refer to specialised literature or use consulting services⁷². Nevertheless, the demand for training and consulting is said to be gradually increasing. For example in Moscow the demand for business training is satisfied at a level of 12 per cent and in Russia as a whole by 2 per cent.⁷³

5. The lack of information systems and poor communication opportunities are traditional problems in Russia, as the country is vast. Information sources were concealed during the Soviet period for ideological and security reasons. Now these are not being shared for commercial reasons. Data research is often time-consuming, and the validity of the data unclear. Business actors are not accustomed to using electronic networks extensively, and in order to progress, time and training will be needed.

3.5. Entrepreneurial associations and unions

Self-organisation of entrepreneurs has become an important way for securing and promoting small business interests. The first Associations of new entrepreneurs were formed in the USSR as early as summer 1988 (Moscow Union of Co-ops, Union of Aligned Coops of the USSR). Now there are hundreds of voluntary entrepreneurial Associations and Unions established mainly as public non-commercial organisations and divided into three main categories:

- joint associations;
- special SME associations;
- special associations, including SMEs.

Joint Associations consolidate enterprises irrespective of their size, branch and ownership (Chamber of Commerce and Industry, Round Table of Business of Russia, Russian Union of Industrialists and Entrepreneurs), and are the most influential in politics. However, the main focus of their activity is on large businesses.

The role of the Russian **Chamber of Commerce and Industry** is becoming increasingly important. The number of regional Chambers was extended from 63 to 85 in 1995. Chambers are being created in four regions of Russia (Bryansk, Kurgan, Orenburg and Tambov). The Chamber links together 41 federal and 131 regional Business Associations and Unions, many of which deal with small enterprises. CCI has a special Committee on SME Development. A special section on SME issues appeared for the first time in the annual report of 1995 which describes the role of SMEs in the modern market economy and discusses backing SME support measures.⁷⁴

Special SME Associations deal predominantly with small enterprises (Russian Association of Small Entrepreneurship Development, Union of Small Enterprises of Russia).⁷⁵ The Russian Association for SME Development is becoming one of the most influential public SME organisations. It began activities in November 1994 and was reported to have 63 regional branches by May 1996. The second Congress of the Association took place in Moscow in May 1996.

There are many **other special Associations** which include SMEs. They unify enterprises and their managers based on a variety of criteria:

- related work activities (Association of Russian Banks, Association of Peasant Farms and Agricultural Co-ops of Russia);
- similar legal status (League of Co-operative Enterprises and Entrepreneurs);
- gender basis (Association of Women Entrepreneurs of Russia);
- religious affiliation (Association of Christian Entrepreneurs).

The First Russian Congress of SME Representatives was held in Moscow in 19-21 January 1996. SCSME and CCI were the main parties responsible for its organisation. The Congress, which was opened by the Russian President, aimed to consolidate all the main institutional forces providing SME support. The work was organised in the following sessions:

- legislative and regulatory framework for SMEs;
- regional problems of SME development;
- innovative entrepreneurship;
- leasing and franchising in SME development;
- personnel training for SMEs;
- information services to SMEs;
- system of SME state support;
- international programmes of SME support;
- small businesses and employment;
- youth and the small business;
- labour relations in SME sector;
- public associations of entrepreneurs.

Regional level

About 50 Associations and Unions dealing with SME support are registered in Moscow. It is claimed that there are currently more than 100 regional Associations which act as “intermediaries” between the private and public sectors in Russia, although the real number is not known. These data are disconnected rather than systematic information or a complete database: 20 business associations in Voronezh; eleven in Smolensk; five in Omsk, *etc.* When a systematic database is developed, the total number may be surprising. For example, there were 65 business associations registered in Novosibirsk and the Novosibirsk region by 1 October 1995, including those directly associated with small business⁷⁶:

- Novosibirsk Association of Small Enterprises;

- Association of State Leasing, Co-operative and Small Enterprises;
- Siberian Foreign Affairs Association of Large, Medium and Small Enterprises;
- Association of Small High-Tech Firms.

Participation problem

The majority of entrepreneurs usually display little enthusiasm for joining Associations, due to lack of confidence and the feeling that they do not offer real support. According to sociological survey data presented by the Institute of Strategic Analysis and Enterprise Development, SME participation in associations is as follows (% of those surveyed):

- Regional and local association members 17
- Their potential members 8
- Nationwide association members 10
- Their potential members 7
- Principal non-members 58

Newly established enterprises joined regional and local associations more often than the "older" ones (21 and 12 per cent, respectively).⁷⁷

Forms of assistance

Small entrepreneurs often are sceptical regarding the efficiency of the assistance provided by business associations. Almost 60 per cent of the SME representatives surveyed respond either that there is no assistance at all (42 per cent) or they were not able to give a definite answer (17 per cent). More than 90 per cent of the small entrepreneurs declare that the entrepreneurs themselves are lobbying their interests. The type of assistance more actively provided by Associations and Unions is listed below (%)⁷⁸:

- Moral support 21
- Consulting services 12
- Information services 11
- Financial support 6
- Political lobbying 5

As they dispose of no real funds for direct financial support and suffer from a lack of political influence, business associations prove more efficient in providing a variety of consulting and information services.

Security issues

As mentioned in Section 1.3, security and business ethics are one of the most serious problems for Russian business today. This represents an area for initiative on the part of the Associations. The first attempts to work out a Code of Honour for Russian Entrepreneurs were undertaken in 1990-1991 and a number of Business Ethics Codes were elaborated in 1995⁷⁹:

- Code of Honour of the Banker;
- Code of Professional Ethics of the Russian Assessment Society;
- Code of the Russian Guild of Realtors;
- Rules of Fair Play of the Professional Association of Stock Market Dealers;
- Code of Advertising Activity.

The Round Table of Business in Russia put forward a Charter of Business of Russia, with the main message being the limiting of violence in business relationships (RTBR Chair Ivan Kivelidi was poisoned to death in 1995). The Charter is similar to the US Bill on Honest Competition.

The major problem with all Codes of Honour is that there are few ways in which these can be enforced in the marketplace. The International "**Technologies of Security**" Congress was held in Moscow on 16-20 January 1996 in order to discuss some of these issues. However, the transformation of business relationships certainly is not confined to security matters. As a result, the Chamber of Commerce and Industry adopted a new national project named "**Russian Business Culture**" in February 1996 which is expected to raise public concern about criminality and business ethics.

Conclusions

1. The principal intention of the leading SME Associations is to lobby SME interests without forming a special political party for small business (although such a party has been created). The prospects for establishing a new All-Russian Union of small enterprises were also unclear at the beginning of 1996. Associations have to achieve efficient methods of political lobbying. This is illustrated by a survey which found that: 38 per cent of managers consider that there are no efficient ways to gain political influence at the moment; 21 per cent point to the effectiveness of personal networks, and only 12 per cent of the managers surveyed see the activities of the public associations as being an efficient way of placing pressure on the authorities.⁸⁰

2. The problem of real influence exists for many nationwide and regional organisations, which may have been established for political reasons and often lack infrastructure. There is a strong need for valid information on the activities of the Associations. Co-ordination of their work through the Chambers of Commerce and Industry and Public Councils under Federal and regional Governments is also acknowledged as a demanding task for the near future.

3.6 International assistance to small enterprises

International assistance is the last of the SME support systems to be considered here, although it is not the least important; 156 SME support programmes had been funded by international institutions in Russia by 30 October 1995. These technical and financial assistance programmes were carried out by 53 donors, including Governments and international financial organisations. For example, Germany is carrying out 170 projects (75 000 000 DM), 60 per cent of which relate to the SME support. The international projects vary in length from 1 month to 3 years.⁸¹ The following is a brief review of the principal donor programmes (EU-TACIS, USAID, EBRD) and selected others.

Box 6. Donor support for SME development in the Russian Federation: an initial assessment

In the framework of the assistance offered by OECD countries to Russia after the collapse of the Soviet Union in 1991, a small part is devoted to job creation programmes. Enterprise-specific activities accounted for approximately 4 per cent of donations, in which activities targeted at small enterprises played a small yet significant role. In fact, donations are concentrated in sectors like agriculture, energy or transportation, which require rather urgent assistance. On the other hand, the registered unemployment rate is quite low, so there is little pressure for job-creation initiatives.

Training and advisory services were among the first activities created in Russia by donors. Business training and counselling were viewed as an essential element in the educational needs of a country moving from a planned to a market economy, and many small business agencies were created, starting in 1991 mostly in Moscow and St. Petersburg. By 1993, a number of donors had moved their activities into the smaller regional capitals. Most of the agencies, which are modelled on those active in OECD countries, offer a broad range of business services. In some cases they also offer more specialised assistance, such as technological or export advice.

The banking system left behind by the communist regime was unsuitable to a market economy and significant reforms have been introduced. Access to credit, which is a pressing problem for small firms, has therefore been a key feature of donor policies for SMEs. Many donors deliver through local commercial banks micro loans - up to 100 thousand US dollars. In practice, donors have developed credit lines which are lent to banks for the sole purpose of on-lending to SMEs. These credit lines are accompanied by training for banks on how to lend to small business.

Some general recommendations can be gleaned from the experience of the first few years:

- Donors have had some difficulty adapting their programmes to ensure that they are relevant to the Russian context. Important private-sector bodies or institutions are in the formative stages in Russia, which makes the delivery of small business programmes difficult for OECD donors.
- Institutional infrastructure is also lacking, and many donors have found themselves having to do considerably more staff training than they would have done in an OECD country.
- Common market indicators are difficult to gauge, in particular, prices and interest rates, making it difficult to establish a lending rate which is fair to both lenders and borrowers.
- Many of the programmes reflect the trend towards regional and local initiatives, but in Russia there are implementation and co-ordination problems beyond those experienced in the OECD.
- The legal position concerning the responsibilities of the different levels is still unclear, and varies from region to region. As a result, donors have difficulty in identifying the appropriate partner for their activities. Also, local and regional administrations are often underfunded and understaffed.
- There is little evidence as to the effective results in terms of jobs created by these programmes. It must be considered, however, that the objective is also to improve a sector which is crucial in the transition process.

Source: "Job creation through Small Business Development: OECD Experience Transferred to the Russian Federation", Working Party N.6 on Regional Development Policies, OECD, 1996

EU-TACIS

The EU Commission began a number of SME support projects in Russia in 1992. The list of these projects is long, so only those commenced in 1995 have been listed (below):

- Support for the network of SME Development Agencies (24 months): US\$ 3 900 000;
- Support for SME Development Agencies and the Business Communication Centres in Moscow and St. Petersburg (12 months): US\$ 900 000;
- Resource Centre for the network of SME Development Agencies (24 months): US\$ 1 950 000;
- Joint Opportunities Programme (JOP) (24-36 months): US\$ 2 600 000;
- Joint Venture Opportunity Programme (24-36 months): US\$ 3 900 000;
- Organisation of a "Partenariat" for the NIS (24 months): US\$ 1 800 000.

TACIS support of the SME **regional agencies network** began in 1992. The Russian Agency for SME Support took the main role in the programme. The latter found support through the Government Decree *On the Network of Regional Agencies for SME Support* of 20 December 1994 (N 1434). Now additional resources are allocated to allow certain agencies to develop additional services in key sectors to attract SME clients. Agencies in the north of Russia (Arkhangelsk, Murmansk, Petrozavodsk) benefited in 1995. Agencies in Moscow and St. Petersburg were also established in 1992. One more year of their support is desired in order for them to achieve long-term sustainability. A local resource Centre for the Development Agencies network has been designed with the assistance of the Russian Foundation for SME Support, to provide standardised procedures of service.

Joint Opportunities and **Joint Venture Opportunity** Programmes are being developed to encourage the establishment of SME joint ventures on the condition that entrepreneurs contribute 30 per cent or more of the project resources.

The EU Commission also made a decision to start "**NIS-Partenariat-Moscow-97**", a programme similar to "Europartenariat". A large forum is being planned for hundreds of CIS companies. The programme is being carried out by the Moscow Agency for Development of Entrepreneurship, and Berlin-Consult for the EU.

Another TACIS project, "**Support for enterprise: SME component. Institution / capacity building**", was commenced in November 1994 to last two years, and with the aim of applying SME policies in nine regions. The EU is represented by the European Network for SME Research (ENSR), with EIM Small Business Research and Consultancy (Netherlands) as the leading agency. A pilot research programme was started in Udmurtia and Krasnodar in 1995.

One research project on SMEs is being carried out within the TACIS ACE programme in Moscow, Syktyvkar, Tula and Volgograd.

USAID

The US Agency for International Development started an SME programme in September 1993 with funding of US\$ 40 000 000, allocated for four years. In all, USAID provided \$76 200 000 for the Program of Entrepreneurship Development in Russia in 1993-1995.⁸² USAID provides resources not for direct investment but for technical assistance according to the following **guidelines**:

- Consultations of regional officials and entrepreneurs;
- Training of SME managers and business centre staff;
- Working with authorities and entrepreneurial associations stimulation;
- Development of information networks;
- Conducting relevant research.

Deloitte & Touche was appointed the main contractor for the programme. The grants were given to the following **US non-government organisations**:

- The Citizens Democracy Corps (business consultancy);
- US West (training);
- Centre for Citizen Initiative (US probation trips);
- University of Alaska Anchorage (Business Centre co-ordination in the Far East);
- Junior Achievement (secondary school textbooks);
- Washington State University (consultancy and Business Incubator in Krasnoyarsk);
- Opportunity International (Business Incubator for micro-enterprises in Nizhnii Novgorod).

Eight regions were selected as assistance recipients, namely, Ekaterinburg, Novosibirsk, St. Petersburg, Smolensk, Tomsk, Vladivostock, Voronezh, and Zelenograd. Eight Business Centres were established and provided with technical equipment and consulting assistance. In 1997, USAID support for these centres was terminated, and they must now seek to become sustainable. USAID organised a series of seminars in the regions. Russian managers attended seminars in the USA. The Russian-American Business Collaboration Centre (BCC) with 114 offices all over Russia is sponsored by USAID. BCC produces information and counselling services and supports the other agencies by exchanging products. US assistance to the Russian Federation will likely be concentrated in four geographical regions, and measures will be better integrated.

USAID is co-operating with the Working Centre for Economic Reform under the Russian Government. It supported the founding of the Institute for Strategic Analysis and Private Sector Development and the journal "Entrepreneurship in Russia" (Predprinimatelstvo v Rossii). USAID also supports the Morozov Project (noted in the previous section). Two Business Incubators Programmes with funding of US\$ 1 600 000 each were among the projects started in 1995.

EBRD

The European Bank for Reconstruction and Development established the Foundation for Small Business Support with resources of US\$ 303 000 000. In December 1993, the EBRD started a programme called "Small Business Fund Pilot and Extended Pilot" in the Tula, Nizhnii Novgorod and Tomsk regions. In one year, the programme was extended to ten regions, including Novgorod, Moscow, Samara and St. Petersburg. Chelyabinsk, Omsk and Vladivostok will join the programme in 1997.

Seventy Russian banks were involved in the programme of EBRD **credits** of US\$ 1-5 000 000. Forty million dollars had come through these credit lines to Russian small enterprises by the beginning of 1995. The loans of up to US\$ 75 000 (US\$ 100 000 for Moscow) are provided with average interest rates of 18-20 per cent in hard currency. Financial risks are shared between EBRD and Russian Banks (Stolichny, Avtovazbank, Kuzbassotsbank, Russian Credit, Sberbank *etc.*). The programme has been highly successful in training Russian banks on how to conduct small business lending. Emphasis on good credit analysis allows banks to forego traditional collateral requirements which are prohibitive to most small entrepreneurs.

Box 7. SME credit lines: The case of the Stolichny Bank.

The Stolichny Bank Sberezhnii (Capital City Bank of Savings) is a leading EBRD / Moscow financial intermediary providing special purpose loans to SMEs. In the first programme, the Bank provides loans of US\$ 10-125 000 for enterprises with 50 workers or less. The loans are given mainly for capital production investment for a period of 3-24 months at a hard currency interest rate of up to 18 per cent. The second programme provides loans to SMEs with 20 workers or less, and to individual entrepreneurs. These loans, which do not exceed US\$ 30 000, are provided over a maximum of 24 months for production enterprises and 6 months for trade-and-purchasing firms. The rate of annual interest is higher than 25 per cent (60 per cent in roubles). These two programmes are currently operating through twelve branches of the Bank under the guidance of EBRD officers dispatched for two years.

By the end of 1996 the bank had a credit fund of US\$ 3 500 000 (including 3 000 000 for microcredits). Twenty to twenty-five loans are provided per month on average to SMEs in food production and transport, and in the trade of foods and other consumer goods. Some successful clients are upgrading to the second programme after paying back their microcredit.⁸³

Three similar programmes encouraging **regional Venture Funds** were started by the EBRD with equal funding of US\$ 30 000 000 in 1995 in the following regions:

- Northwest (Murmansk);
- Lower Volga River (Samara, Saratov, Volgograd);
- Western Siberia.

Since October 1995 the EBRD Foundation has been implementing a second component to the small business loan fund: a programme of **micro-credits** to SMEs in Moscow and other cities. The loans are granted to enterprises with 20 employed workers or less for a period of 6 months, for a maximum of

90 million roubles (US\$ 20 000). Monthly interest rates are 13 per cent and annual interest rates are 156 per cent. These loans have since been increased to US\$ 30 000 for SMEs in Moscow. The project supports only established enterprises after financial auditing, and the enterprise must cover 30 per cent of the project costs. The programme is implemented with the participation of local banks. For example, in Ekaterinburg, the local departments of the Russian Sberbank, Uralpromstroibank and Mosbiznesbank are involved. The German firm IPC acts as a mediator between the Ural banks and the EBRD. The EBRD is planning to discontinue the support within two years, and its partners are expected to develop on their own.

The Know-How Fund. The Know-How Fund (KHF) has been active in SME support and development since 1990. It offers advisory, training and support services through contracted British consultants. The KHF was helping to found the Russian Agency for SME Support and Development in 1991-1992. The priority is given to projects in Moscow, St. Petersburg, Nizhnii Novgorod, Ekaterinburg, Kemerovo, Samara, Novosibirsk and Rostov. Current projects in the SME sector are worth almost £10 000 000. They include among the others:

- Strategy and Project Development Support to SCSME;
- Financial Planning Support to the Federal Fund;
- Development of a Centre of Excellence at the Academy of the National Economy;
- Strategy / Project Development Support to Ekaterinburg and Kemerovo City / Oblast;
- Computer Training support for the Russian Agency for SME Support and Development;
- Assistance to Eight Russian Technoparks (jointly funded by TACIS);
- Retired Military Officers Enterprise Retraining;
- Strategy / Project Planning Support to the Moscow City Council; and
- Moscow Fund for SME Support.

Far East Programme. A co-operation programme in the Far Eastern regions of Russia was developed by the State Committee for Anti-Monopoly Policy and Competition Development, Primorskii Krai administration and SME Department of Ministry of Foreign Trade and Industry of Japan in November 1991. The Programme is divided into five areas:

- training of Russian SME policy makers in Japan;
- Japanese expert consulting services in Russia;
- visits for Japanese businessmen to Russia;
- regional seminars on SME issues in Russia;
- SME information exchange.

The International SME Policy Centre and Far East Foundation were established in Vladivostok. Japan provided US\$ 30 000 000 of funding in 1993 to supply the equipment for a number of technological training centres for small enterprises. These Technological Centres, established at four main Far East technical universities, became a training base for more than 200 managers. More than 60 SME Russian policymakers were trained in Japan in 1992-1995. A similar Management Centre supported by Japanese funding and expertise was established on the basis of the Moscow Foundation for SME Support in Moscow in 1993. More than 1 000 managers and professionals have studied in these centres in total.⁸⁴

The American Foundation for Small Business Assistance allocated about US\$ 30 000 000 for post-privatisation support to enterprises in 1995. The programme was backed by the State Committee for State Property Management. However, this support was directed not specifically to small enterprises but to those employing up to 1 000 workers.

The **Kreditanstalt Bank** has proposed a programme providing equipment for SME leasing in the regions.

The Russian-Swedish Fund, established in October 1993, takes part in the Ministry of Economy investment tenders. The Fund provides 25 per cent of project costs, which is paid back at low interest rates (one quarter of Central Bank interest rates).

Two **Russian-Swiss Foundations** have been established in Kaluga and Voronezh with total funds of 10 000 000 FS, 80 per cent of which is **delivered to support SMEs**.

Other programmes. Financial support for SMEs in Russia is also provided by institutions such as the Eurasia Foundation and the Russian American Investment Fund. Technical assistance programmes are subsidised by the World Bank (Personnel Training Fund), UNIDO, ILO and others.

There is also the prospect of more international assistance. For example, one of 27 documents signed at the seventh session of the Russian-American Government Commission on Economic and Technical Assistance on 15-16 July 1996 in Moscow is devoted to SME support.

Conclusions.

1. International financial assistance plays a very significant role not only for stimulating new institutional capabilities but also in quantitative terms. This is illustrated by the situation in Tula. The EBRD allocated US\$ 2 000 000 of credits for equipment purchases in the Tula region in 1993-1994. Only 70 million roubles (US\$ 35 000 at the 1994 rates) were provided in SME credits from the regional budget, 100 million roubles were added from the Federal budget, and 1 019 million roubles came from the regional Employment Centre. Thus, EBRD credits became unquestionably the major source of SME funding in the area.⁸⁵

2. One of the most controversial issues concerns the sustainability of international assistance programs, *e.g.* whether SME Development Agencies in Russia will survive after international donors stop supporting them. At the moment, many of these agencies are not set up to the point where they can charge for their services and put their activity on a self-financing basis. Expert views differ in this respect, and relevant data on the programme outcomes are still very scarce. The results of SME support programmes in the OECD countries are mixed. More co-ordinated efforts and systematic information exchange on the project activities among international organisations can facilitate better results. (The following indicator

was suggested for the purposes of international assistance evaluation: percentage of clients who received free services before and stayed with the agency when it started to charge for its services).

3. International Donor representatives acknowledge that the specific needs of SME clients and specific conditions of Russia are not always fully considered. One of the reasons for this is that international assistance programmes are not based on preliminary research, although there are exceptions to this.

4. International institutions are careful to avoid the Moscow city area, which is more advanced, in favour of regional projects, and they often concentrate on the same regions. There is a surprising lack of co-ordination among International Donors. The structure of the programmes is sometimes very complicated, and it is very difficult to obtain complete systematic information even within one institution. For instance, it may help to build up the continuous programmes in which direct investments follow the technical assistance programmes.

The take-up of services by SME support agencies should be measured to determine the level of demand. Recent data revealed that only 8 per cent of small entrepreneurs reported that they received real support from institutions in the first half of 1995, namely (those who gave positive answers) (%)⁸⁶:

- Regional and local authorities 45
- Foreign business partners 23
- Associations of entrepreneurs 15
- Federal authorities 12
- Chamber of Commerce and Industry 3
- International institutions 2

This survey, which was conducted in mid-1995 in four regions of Russia within the TACIS ACE research project, would seem to reflect the general state of affairs in the field of SME support. There are many programmes and institutions but actual assistance is usually modest. The data also demonstrate the considerable role of regional authorities in SME support as seen by small entrepreneurs, and in the creation of a specific social environment, which is described in the next chapter.

CHAPTER 4 THE SOCIAL ENVIRONMENT FOR SMALL ENTERPRISES

As it is essential to understand the social environment when elaborating policies to promote entrepreneurship, this chapter analyses the social characteristics of emerging entrepreneurs and public attitudes towards them.

4.1. Social portrait and recruitment of entrepreneurs

The basic social characteristics of the entrepreneurial groups which have emerged in contemporary Russia are presented here, using the results of a number of sociological surveys.

Recruitment of entrepreneurs

New entrepreneurs have been recruited mainly from the following social groups⁸⁷:

- Political “nomenclatura” and members of their families;
- Managers of state-run enterprises and their deputies;
- Skilled professionals;
- Dealers from the “informal” economy.

State, Party and Komsomol “nomenclatura” representatives are not great in number, but make up a very influential group, which has managed to transfer political capital into private economic property. State-run enterprise directors and their high-rank managers make up a larger group, which tends to maintain the same economic activities following the modification of their enterprise's legal status. The entrepreneur-newcomers have been largely recruited from the ranks of skilled professionals or middle-rank managers coming from construction, manufacturing and science. They often had to leave their area of professional expertise and change activities. Finally, informal and “shadow” economy dealers have been mentioned. Many of these were the “natural” entrepreneurs, who started “semi-legal” or illegal economic activities long before the institutional reform took place. There are no valid or recent statistics detailing the numbers of these groups, as entrepreneurs are reluctant to discuss their “nomenclatura” or “shadow” origins.

The “cultural capital”, *e.g.* the occupational standing of parents, has had little influence on the recruitment of entrepreneurs in Russia. The main entrepreneurial groups and activities having been dismantled in the late 1920s, a negligible number of new Russian entrepreneurs could inherit entrepreneurial values and norms from their families. Thus, family origins are diverse. Entrepreneurs may come from families with a “rank-and-file” background, or of top management origin. Regarding

occupational background, the majority of small businessmen worked as managers or professionals in their jobs before the start-up of a new enterprise.

There is also a diversity of ways by which a small enterprise may form, namely:

- Privatisation of state-run assets;
- Company take-overs;
- Franchising concepts;
- Outsourcing by spin-offs;
- Management buy-outs;
- Family businesses;
- Local initiatives.

This factor influences the SME profile and is associated with the entrepreneur's social portrait.

Social portrait of the entrepreneur

The following is a social portrait of the new entrepreneur according to sociological studies.⁸⁸ In most cases, entrepreneurs are “middle-aged”, between 36-45. However, the appearance of very young business cohorts has to be mentioned as a remarkable change bearing in mind the gerontocratic tendencies of the late Soviet period. New Russian entrepreneurs are predominantly male. This fact can be explained by the traditions inherent in the Soviet management system. The number of female entrepreneurs accounted for 10-15 per cent during the first stages of SME formation. It is now increasing, but there are estimated to be twice as many male property owners in the private sector. Women also suffer from higher unemployment rates, and are contributing increasingly to the secondary labour market. Entrepreneurship is emerging in many regions. This is by no means surprising, as there is much world-wide evidence to suggest that some minorities are more active in small business development.⁸⁹

The average level of education of entrepreneurs is high. About 80 per cent hold university diplomas, and approximately 10 per cent of new entrepreneurs have doctoral degrees. A considerable number, especially in the first stages, came from the ranks of the “technical intelligentsia”, *e.g.* professionals with engineering and other technical backgrounds. It is worth mentioning that such highly educated small entrepreneurs are somewhat less common in developed Western societies.⁹⁰ We expect the average educational level of small entrepreneurs in Russia to gradually decline.

Entrepreneurs prefer not to take on new people when they are starting up their companies. The majority try to take on family members, friends and acquaintances, because business activities require confidential relations and personal loyalties. Many small businesses are family-based and serve the purpose of economic maintenance rather than the acquisition of profits.

Most entrepreneurs are aiming to create sustainable positions within their enterprises, and were among the main organisers, or, at least, were part of the first organisational team. More than one-half are both enterprise managers and enterprise owners (or co-owners). Business activities have become the main

occupation for many entrepreneurs, but some prefer to retain their jobs in state-run institutions in order to reduce the element of risk.

“Waves” and stages of small entrepreneurship

There have been several attempts to categorise the emerging social groups of entrepreneurs with reference to a chronological order.⁹¹ Despite the risk of over-simplification, the following breakdown is offered:

The **first stage** of the formation of small business groups (1986-1988) was characterised by high political risk. It attracted enthusiasts and marginal groups who were seeking to move away from their unfavourable positions in the state-run sector. Many of those with an experience of informal and criminal economic activities are reported to have either started up or developed their businesses during this period. At the same time, Young Komsomol League leaders, at the top of the political ranks, were allowed to undertake experiments in entrepreneurship.

This was followed by the **second stage** (1989-1990), when groups of skilled professionals became more active in SME formation. Simultaneously, latent “*embourgeoisement*” of Party officials and state enterprise managers began.

After the complete legalisation of the private economic sector in 1991 - in the **third stage** - the social basis for entrepreneurship was becoming increasingly diverse from the demographic viewpoint, regarding the skills of entrepreneurs and the types of professional careers they had.

Conclusions

1. An attempt to present the most widespread view of the new small entrepreneur would probably produce the following profile: a man of middle age, Russian nationality, married, with a background in engineering. He began working as a professional in production before becoming a manager at the state-run enterprise. About 4-5 years ago he established his first non-state firm and placed the property and economic activity of this firm under his personal control. This would be only one entrepreneurial profile among many others.

2. SME policy is targeted to encourage entrepreneurial personalities. Thus, it is important to reveal the types of small entrepreneurs which differ greatly by the origins of their capital and their recruitment channels. Entrepreneurs may be recruited from highly-skilled professionals or managers of big companies but also from the ranks of socially vulnerable groups (women, the unemployed, immigrants). Different sorts of policies have to be elaborated in respect to these entrepreneurial categories. At the same time, all attempts to build up such typologies face the principal lack of relevant statistical and survey data and low access to existing data sets in Russia.

4.2. Entrepreneurs as seen by public opinion

Public opinion polls reflect the most common attitudes towards various kinds of entrepreneurial activities. The findings of these surveys are important for understanding of the characteristics of the social and psychological environment for small businesses in Russia.

The most extensive research results in this field have been produced by the All-Union Social portrait of the entrepreneur.

(All-Russia) Centre for Public Opinion Studies (VCIOM) since 1988.⁹² The following are the most valuable observations collected from dozens of surveys based on nationwide samples of the Russian population.

1. Public attitudes towards the new entrepreneurship, as a whole, have been relatively positive.
2. Public attitudes towards enterprise owners and managers themselves have been more ambivalent than attitudes towards the idea of entrepreneurship.
3. Public attitudes to small businesses and small ownership of main assets have been much more positive than attitudes to large enterprises and large-scale ownership.
4. Public opinion has been more tolerant of business activities in industry, construction and agricultural farming compared to those in trade and services.
5. Public opinion has been more positive towards ownership of small land plots in comparison to small workshops in other branches.
6. Respondents usually have more reservations when asked about the possibilities of ownership of foreign firms and foreign citizens in Russia.
7. Among the groups claiming a more positive attitude to entrepreneurial activities are the following: youths, more highly educated groups, residents of large cities.
8. There is a belief that private entrepreneurs are industrious and act with more efficiency than many others in economic terms. However, they are said to be involved in criminal affairs and “unjust” economic deals to a greater degree. Thus, their business abilities have been ranked positively while their moral qualities ranked negatively.
9. The level of entrepreneurs' earnings tends to be overestimated, because examples of the most wealthy businessmen related to conspicuous displays of wealth are considered.
10. Entrepreneurial groups tend to be placed highest in terms of their social, and, especially, their economic status. This does not mean that attitudes are totally positive, rather, it means that there is a complex mixture of envy and respect.
11. Small entrepreneurs are ranked as being prestigious, although this largely results from the fact that they are often confused with big business representatives.
12. In the public opinion the Federal authorities have been seen as the main force encouraging new entrepreneurial activities. During the first stages in particular, this was seen as a campaign initiated by the authorities.
13. Public opinion has never considered impediments to small entrepreneurs to be the most serious of problems.
14. Public opinion is heavily influenced by the mass media, and the role of the mass media has been controversial. There have also been continuous campaigns aimed at discrediting the

first entrepreneurs, who became scapegoats, responsible for economic deficiencies during all the stages of “*perestroika*” and economic reform.

Conclusions

1. Public opinion in general is becoming more supportive of small business activity. This coincides with the evolution in opinions of small entrepreneurs. Fifty-four per cent of SME representatives surveyed agree that opinion of SMEs is becoming more positive, while only 7 per cent think it is becoming more negative. Thirty-one per cent said there was no change, and 9 per cent were not able to give a definite answer.⁹³ Fewer distinctions among different forms of ownership and labour relations are being made. An increasing number of workers and employees are becoming involved in the SME sector on a full-time and part-time basis. The gap between the state and non-state sectors is diminishing, and it is also becoming more difficult to make clear distinctions between “old” and “new” businesses, or to trace their origins.

2. Since 1992, public opinion polls have switched to a predominantly different set of questions, namely, public attitudes to mass privatisation, attitudes of workers to the privatisation of their own enterprises and the use of vouchers. The focus of attention is no longer on public impressions of entrepreneurial activity. However, it is still an important issue for the examination of the SME social environment.

3. The influence of the media is still controversial in the case of SMEs. Eighty-one per cent of surveyed small entrepreneurs are dissatisfied with the work of mass media (8 per cent were satisfied; 11 per cent gave no definite answer).⁹⁴ However, this does not necessarily mean that the media are hostile, rather, it means that the problems facing the SME sector are not being sufficiently discussed.

CHAPTER 5 MAIN CONCLUSIONS AND RECOMMENDATIONS

This final chapter summarises the main public as well as international findings and proposes recommendations on the ways and means of improving policies in support of entrepreneurship in the Russian Federation. They are addressed first to the officials, SME-policy experts, and actors at the federal level, including State institutions such as the SCSME and public associations such as the CCI and the Russian Association for SME Development. These main federal policy actors are responsible for lobbying small entrepreneurs' interests at the State Duma, in the Presidential administration and with the RF Government. In addition, they undertake serious attempts to re-organise their relations with the regions, which are expected to play an increasingly important role in SME promotion policy.

Small enterprises have grown in substantial sectors of the Russian economy. The increase in their output and employment levels has compensated, to a certain extent, for the general economic decline of the last five years. Small enterprise development has struggled through three main stages during the last decade:

- the stage of political liberalisation and economic initiative in the SME sector (1988-1990);
- the stage of indifference to SME policy and SME economic boom (1991-1993);
- the stage of SME policy awareness and SME economic decline (1994 to the present time).

There is a call for a next, fourth stage which could be called **the stage of consistent policy and sustainable economic development**. The fact that the economic situation for the small enterprise sector is worsening has to be taken into account. Many potential resources have been withdrawn and switched for the gains of privatisation of the large-scale enterprises. A concentration of assets is taking place. This may have contributed to the decline of SME growth rates in nearly all branches in 1994-1995. Small businesses will be forced to restructure their economic relationships with the large enterprise sector. SMEs will also be increasingly forced to take on the function of a social buffer, providing new job opportunities.

Introduction of updated SME definitions

Medium-size enterprises are not established as a distinct category in Russia. There are also too many disparities in the definition of the "small enterprise". The following standard scale with respective policy specifications is proposed:

- Micro-enterprises 1-9 workers
- Small enterprises 10-99 workers
- Medium enterprises 100-499 workers

Extension of specific legislation and law implementation mechanisms

In the first stage (1986-1990), legislation reform brought about a particular legal status for economic activities (co-operative enterprises, joint ventures). The second stage (1991-1993) was marked by the legitimisation of all forms of non-state and private enterprise with some distinct references to the SME situation. The third stage began in 1994 with the adoption of special laws in support of SMEs at the federal level, while many regions have created complementary legislation for the support of SMEs. There is now an overall, but still insufficient, regulatory framework which needs to be completed. The following laws are usually listed among the most urgent⁹⁵:

- On Licensing of Certain Activities;
- On Leasing;
- On Foundations and Foundation Mechanisms;
- On Societies for SME Mutual Credit;
- On Associations of Small Entrepreneurship for the Protection of Private Property Rights;
- On Innovation Activity.

The creation of more advanced mechanisms for policy implementation is an even more pressing issue: in fact, it is needed for bringing SME support programmes into action.

Taxation system improvement

The taxation burden on small enterprises is still heavy. The entire tax system is complicated and subject to frequent change. This heavy taxation burden provides an obvious incentive for avoiding payment duties by the concealment of profits. In turn, it results in less tax collection. If the tax burden were lower, small enterprise sector contributions to federal and regional budgets could be greater in the long run. Attention should be drawn to the following issues:

- The fiscal pressure is too high, and should be lowered, including the rates of tax on profits and certain special taxes (for example, the tax on inherited property).
- The fiscal system should be clearer: changes in tax regulations introduced in the course of the financial year should be limited.
- The fact that SME privileges are provided only to a list of priority economic sectors is debatable and should be reconsidered.
- Tax privileges would be more efficient if they were to start not from the date of registration but from the first day of actual activity, in view of the fact that there may be a lengthy time period between these two dates.

Reduction of barriers for market entry

Registration and licensing continue to be subject to time-consuming and costly bureaucratic procedures, creating a field of restrictive actions by regional and local authorities. In order to create opportunities for successful start-ups, the following steps could be taken:

- abridge the formalities of registration;
- reduce the range of activities subject to licensing;
- extend the licensing period to five years;
- introduce uniform payment rates.

Introduction of mechanisms of financial support

Current financial support policy is characterised by two basic features:

- A shift in emphasis towards regional programmes, often funded on a joint basis.
- Policies to avoid direct loans and subsidies in favour of the development of risk capital funds and insurance mechanisms.

There is a need for institutions (commercial banks, leasing companies, insurance companies) specialised in SME services in order to develop new financial mechanisms, following the pilot programmes conducted in 1994-1995. Special attention should be paid to:

- newly established enterprises;
- innovative enterprises, especially in the defence industry.

The spread of the experience of **leasing** services to small enterprises is an important element of SME finance. A large amount of equipment in industry is no longer in use, *e.g.* the equivalent of approximately 400 billion roubles (US\$ 200 000 000) in 1994, according to unofficial estimations. A special programme could be developed to encourage SME access to a part of this equipment with reasonable terms.⁹⁶ The practice of investment tenders should also be further developed to stimulate innovative activities.

Space rental is another major problem for small enterprises, although there are cases of advanced regional policy in the field. The Moscow authorities have established a fund of non-housing dwellings for SME rental. Experiments for creating Territorial-Production Zones based on defence enterprises have been undertaken in Nizhnii Novgorod, with five-year investment tax loans and low-interest leasing conditions guaranteed for participants. Some of these practices could be imitated in other territories.

Complex infrastructure development in the regions

The main task for current policy should be institution building, as outlined above. This means creating a minimum complex of services in every region, and developing integrated institutional systems of SME support. An attempt to develop such an integrated system is observed in Moscow. This system, which includes the following SME support institutions, is presented in Table 10.

Table 10. **A model of integrated institutional support of small enterprises (Moscow)**

Institutions	Year	Main Functions
Government Department for Development and Support of Small Enterprise	1993	Governing
Fund for Small Enterprise Support	1990	Finance
Public-Expert Council under the Mayor	1989	Public Expertise
Leasing Company	1994	Leasing
Agency for Enterprise Development	1994	Consulting, training
Centre for Individual and Property Security	1994	Security
Editorial House of Small Business	1995	Information
Centre for Business Contacts	1996	Conferences, exhibitions

Source: Compiled from the Russian Association for SME Development. Information and Methodical Bulletin. N 3, December 1995.

Training of entrepreneurs and their personnel

Requirements for new skills in business activities are now evolving. For example, many small entrepreneurs are not accustomed to dealing with commercial banks. Given the increasing role of banks in SME Support programmes, a need for special training in business relations with the bank system must be recognised. There is also a need for training programmes for civil servants and development agency personnel, especially in relation to **programme evaluation**. The latter is a set of research procedures for assessing the conceptualisation, design, implementation and utility of public programmes. It presents a field in which the experience of Russian agencies is not so rich, especially when formal methods of evaluation are concerned.

Some training centres have been created over the last 3-4 years. However, many suffer from a lack of funding, the absence of skilled trainers and a shortage of up-to-date methods. Improvements in the certification system are desirable at this time. Another problem stems from the fact that SME managers usually cannot afford to pay for training services on a commercial basis. New schemes of sharing funding for training courses may help managers take advantage of the opportunity for acquiring new skills. The state may support medium and long-term educational programmes to potential and practising small entrepreneurs. The introduction of economic and business subjects as part of the secondary school curriculum may also help to create a positive cultural environment.

Public promotion of business training and education should be improved, as it is largely neglected by entrepreneurs. It is very important to make serious attempts to establish and maintain long-standing traditions of business culture.

Security issues

As mentioned above, the SME sector suffers from crime. The Government does not appear to have any distinct policy in the field except for declarations and sporadic campaigns. Security issues are left to the entrepreneurs themselves.

Labour relations

Special attention should be drawn to the labour relations and social protection of workers in SMEs. These issues have usually been neglected, and available data on the subject are scarce. Given the principal weakness of trade union influence in the SME sector, general regulation of the labour contracting system is required in order to prevent SME workers from unfair and unsafe conditions in the workplace.

Development of databases and information systems

There is an evident lack of valid statistical sources on small enterprises at the present time, and changes to the SME employment census according to the Law of 14 June 1995 will cause new problems of data comparison. Extensive efforts are required to create a statistical framework, conduct systematic research and analytical studies backed by regular selective monitoring in the regions. These are good instruments for diagnosing the current status of the SME sector. Special attention should be paid to the selective monitoring and evaluation of the results of SME support provided by SME Foundations, FES Centres and International Donors to verify the effectiveness of the support systems.

Information systems should be made accessible to SME clients. This is currently not the case, even for the most basic aspects, such as information on legislative and regulatory documents. Moreover, this information is not effectively distributed and materials are not always available. Consulting on legislative and regulatory framework is underdeveloped and information systems for business networks, investment tenders and support systems are also needed.

International assistance co-ordination

International technical and financial assistance plays a very significant role in encouraging new SME policy and bringing about the best entrepreneurial practices in Russia. Increased co-ordinated effort and systematic information exchanges about project activities may facilitate better results. These projects would have been more efficient if they had been based on more extensive preliminary research provided by both foreign and local experts. As an example, no clear solution has been found yet to the important question of the sustainability of technical assistance programmes at the end of the period of international support.

Political representation of small business interests

In spite of much institution building over the last two or three years, the situation has not changed dramatically. The funding for SME programmes is usually allocated on a "remainder" basis, as noted above. Given the lack of political representation of small business interests, there is a possibility that major economic policies will be focused on large investment projects and social benefit programmes. Disputes over SME policy responsibilities are counterproductive. A balanced system of SME policy

co-ordination headed by the new state committee (SCSME) and supported by a range of state and non-state institutions should be established.

At the same time, it is necessary to work persistently on public opinion to improve the social environment of small business.

Regional aspects

The duplication of SME support functions of the federal ministries is often reflected at the regional level. Institutional development in the regions is proceeding through *ad hoc* campaigns in which numerous agencies and foundations are created. There are many institutions carrying out similar functions which are reluctant to co-operate or to specialise in certain activities (leasing, franchising, *etc.*) due to their "departmental affiliations". In general, in the regions, these agencies are more co-operative in comparison with those in the capital cities of Moscow and St. Petersburg.

The creation of co-ordinated policy mechanisms between federal and regional actors is currently on the agenda. The decentralisation of SME promotion from the federal level to the regions is viewed as the main solution and policy direction at the present time. Regional actors are in a better position to deal with the needs of small enterprises and to establish partnership relations between public authorities and small businesses. At the same time, decentralisation does not mean a simple "give-away" move. It presumes a strategy of gradual redistribution of functions taking into account regional differentiation and local initiatives. Between state centralism and the market, there is an area for local initiatives and partnerships. Their main purpose is to encourage links and reshape projects rather than to manage directly.

Many conditions for efficient policy decentralisation may come from the federal level. These are not confined to financial resources, which are obviously scarce. Federal financial contributions to regional programmes funded on a parity basis can help the regions develop SME credit lines, training and counselling networks for small business. A **balance between competition and co-ordination** both for entrepreneurs and for agencies has become a main point. Sometimes there is a lack of will in co-ordination on the part of authoritative bodies and a lack of sense of competition on the part of entrepreneurs.

Many of the advanced experiments at the moment are concentrated in the centre and in a limited number of regions. Regions could be divided into three groups, based on the level of SME development. The first group of regions is characterised by an active and pervasive policy for SME support (Chuvashia and Komi Republics, Irkutsk, Krasnodar, Moscow, Nizhnii Novgorod, Novgorod, Samara, St. Petersburg, Ekaterinburg, Tula, Yaroslavl). The second group includes the regions that are still at the initial stage (Kaliningrad, Kirov, *etc.*). The third group includes lagging regions (Chita, Magadan *etc.*).⁹⁷ The policy for small firms in the advanced regions has the following characteristics:

- a developed institutional and legislative framework;
- considerable funding from SME Support and Employment Funds;
- participation in international assistance programmes;
- an increasing number of small enterprises.

The attitude of the regional administrations to SME policy is often seen as more important than the local structural conditions and the economic situation. Nevertheless, supplying support and systematic information on “best practices” to all regions would provide further assistance.

Many regional authorities erect “barriers” to SME development, namely:

- rejection of registration and licensing applications;
- limited access to premises (land, space rental);
- discrimination over loans and subsidies;
- submission of individual privileges and exclusive rights;
- bans on exporting products across regional borders;
- increase of prices for communal services and space rentals without prior notice;
- numerous and chaotic controlling inspections by local institutions, duplicating one another.

The term "policy regionalisation" refers to a tendency for the imposition of additional limitations on SME development at the regional and local levels. The main task of federal bodies could therefore consist of introducing and enforcing general standards of SME regulation. This does not mean direct interference in regional activity but refers to general limitations on SME registration payments, the number of activities subject to licensing, the overall taxation load and the number of taxes, the list of controlling bodies, *etc.* These upper limitations enforced by the law and the necessary control from the Centre not only leave room for regional and local initiative in favour of small business but also stimulate these regional initiatives. In conclusion, it is proposed to support local and regional SME development policies without “regionalisation”.

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DATA SOURCES

Sources for data are of particular importance in the case of Russia, because access to substantive information is limited. A great deal of basic data is either not published, or is presented in a non-systematic way (for further details, see Appendix 5, "The State of the SME database"). To fill numerous gaps, we have made efforts to find different but complementary sources, such as legislative documents, statistical and survey data, analytical reviews, interviews with officials and experts, research papers and media reports.

Interviews.

Interviews have been conducted for this study with officials including Chairs, Deputy Chairs and Department Heads of the following state and non-state institutions:

- State Committee for Small Enterprise Support and Development (SCSME)
- Ministry of Economy
- State Committee for Anti-Monopoly Policy and Competition Development (SCAMP)
- State Committee on Statistics (SCS)
- Federal Employment Service (FES)
- Chamber of Commerce and Industry (CCI)
- Moscow Agency for Development of Entrepreneurship
- Russian Agency for SME Support
- TACIS Co-ordination Unit
- US Agency for International Development

Several interviews with experts and practising entrepreneurs have also been conducted.

Official reports and papers.

Among the reports and papers of SME support institutions we wish to acknowledge the following:

- EBRD: Annual Report (1995)
- TACIS: Annual Report (1995)
- Russian CCI: Annual reports (1994, 1995)
- SCS: Statistical reports (1994-1995)

- SCAMP: Analytical report (1995)
- TACIS: Analytical SME Paper (1995)
- Russian Association for Small Entrepreneurship Development: Analytical Report (1996).
- Papers of the First All-Russian Congress of SME Representatives (1996).
- SCSME Report to the Russian Federation Government (1996).

Research results.

Expert estimations, research results and sociological survey data from the following main research institutes have also been used:

- Institute of Economics, Russian Academy of sciences
- Institute for Private Sector Development and Strategic Analysis
- Institute of Sociology, Russian Academy of sciences
- Institute of Small Entrepreneurship, Higher School of Economics
- Russian Independent Institute for Social and Ethnic Studies.

An extensive use of data from the sociological survey conducted with the participation of the author at the First Russian Congress of Small Enterprise Representatives (Moscow, February 1996) is also made. Over 1 500 questionnaires were collected in total at this forum. We describe the views of 887 respondents who qualified as small enterprise managers.

Media reports.

The following business publications have been used in order to collect current information and comments:

- Business World (Delovoi Mir)
- Business for Everyone (Biznes dlya Vsekh)
- Business in Moscow Today (Delovaya Moskva Segodnya)
- Economy and Life (Ekonomika i Zhizn)
- Expert (Ekspert)
- Financial News (Phinansovye Izvestiya)
- Commercant (Kommersant)

- Money (Dengi).

OECD and SCSME seminar.

The draft of this paper was discussed at the seminar on “Federal and Regional Support for Entrepreneurship in the Russian Federation”. The Seminar was organised by the OECD and the Russian Federation State Committee for the Support and Development of the Small Enterprise (SCSME). It was hosted by SCSME in its Moscow Headquarters, 26-27 September 1996. The seminar brought together high-level officials from the Russian Federation State Committee on the Support and Development of the Small Enterprise (SCSME), representatives from federal and regional institutions, and experts from several OECD committees: Working Party on SMEs, LEED and Regional Development. Comments and conclusions of this seminar have been largely used in the paper.

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NOTES

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1. OECD, *Globalisation and Small and Medium Enterprises*, 1997.
 2. Eurostat, *Enterprises in Central and Eastern Europe*, 1996.
 3. A. Åslund, *How Russia Became a Market Economy*, The Brookings Institution, Washington, D.C., p. 9.
 4. For example in the district of Tomsk.
 5. EBRD, "Transition Report", 1995.
 6. This paragraph is based on: Layard, *The Coming Russian Boom*, The Free Press, New York.
 7. See page 21.
 8. OECD, "Jobs Study Follow Up: Thematic Review of Entrepreneurship and Job Creation Policies Interim Report", 1996.
 9. OECD, "Small Business in Transition Economies", 1996.
 10. Ibidem, p. 65.
 11. This material draws from Russian Federation State Committee on Statistics data, and OECD (1996), "Economic Survey of the Russian Federation".
 12. L. Belokonnaya.
 13. A. Chepurenko.
 14. T. Alimova *et al.*, *Zakon "O Gosudarstvennoi Podderzhke"*, p. 24.
 15. For examples, see T. Alimova *et al.* *Maly Biznes*, pp. 13-69; J.M. Roschina, pp. 94-107.
 16. A. Chepurenko, p. 35.
 17. The survey data from the First Russian Congress of SME Representatives, 19-21 February 1996 (below, SME Congress data).
 18. V. Radaev, *Nekotorye Cherty*, p. 33.
 19. V. Radaev, 1996, pp. 80-82.
 20. *Rossiiskoye Predprinimatelstvo*, p. 48.
 21. V. Radaev, 1996, pp. 77-78.

22. V. Radaev, 1996, pp. 74-76.
23. T. Alimova *et al*, *Maly Biznes*, p. 59.
24. SME Congress data.
25. *Maloye Predprinimatelstvo Rossii v 1994 godu*, p. 9.
26. L. Belokonnaya, p. 4.
27. L. Belokonnaya, p. 11.
28. State Committee on Statistics (1996), *Razvitiye Malykh Predpriyatii Rossii v 1995 Godu*, p. 64.
29. *Tezisy dokladov*, p. 59.
30. For data on all the regions of Russia, see Table 8 in Appendices.
31. The data of the State Committee for Anti-Monopoly Policy and Competition Development (below, SCAMP data).
32. For data on all the regions of Russia, see Table 8 in Appendices.
33. *Malyi Biznes Rossii*, p. 73.
34. A. Chepurenko, p. 17.
35. For the list of the most relevant legislative documents, see Appendix 3.
36. For detailed comments on Federal Law, see T. Alimava, V. Buyev, pp. 23-27.
37. Refers to end of 1995; SCAMP data.
38. SCAMP data.
39. SME Congress data.
40. For detailed comments on Moscow Law, see V. Buyev, pp. 23-28.
41. SME Congress data.
42. For more details on the legislative and regulatory context and the implementation of laws, see the following sections of Part 2 and Part 3.
43. For a detailed review, see M. Rubchenko, A. Shmarov.
44. *Malyi Biznes Rossii*, p. 124.
45. Orlov, A. Chepurenko, p. 16.
46. State Committee for Small Enterprise Support and Development Report, 1996 (below - SCSME Report, 1996).

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47. SCAMP data.
 48. SCAMP data.
 49. Malyi Biznes Rossii, p. 84.
 50. For the list of state regulatory bodies, including first-line and second-line actors, see Appendix 4.
 51. SCAMP data.
 52. SCSME Report, 1996.
 53. Information was collected at the OECD and SCSME seminar (Moscow, 26 September 1996).
 54. Galiyev, p. 11.
 55. From the presentation of SCSME Vice-President A. Prilepin at the OECD and SCSME seminar (Moscow, 26 September 1996).
 56. Tezisy Dokladov, p. 36; SCSME Report, 1996.
 57. For data on all the regions of Russia, see Tables 13 and 14 in Appendices.
 58. See Table 14 in Appendix 6.
 59. For data on all the regions of Russia, see Tables 13 and 14 in Appendices.
 60. L. Makhova; OECD and SCSME seminar.
 61. A list of Foundation projects supported in 1995 can be found in: Poisk, weekly, January 1996, n°. 3-4 p. 12.
 62. Tezisy Dokladov, pp. 72-73.
 63. SME Congress data.
 64. Kolesnikov., L.A. Kolesnikova, pp. 13-14.
 65. For more detailed information, see: Delovaya Moskva Segodnya, 1996, no. 4, p. 4.
 66. Tezisy Dokladov, p. 136-137; Morozovsky Proekt.
 67. SCSME Report, 1996.
 68. Malyi Biznes Rossii, p. 130.
 69. SCSME Report, 1996.
 70. Tezisy Dokladov, p. 57-58.
 71. Rossiiskoye Predprinimatelstvo, 1995, p. 71.

72. Data of the Institute for Micro-Economic Research, Ministry of the Economy. See: Rol Malogo Biznesa, p. 44.
73. Chamber of Commerce and Industry estimations. See: Rossiiskoye Predprinimatelstvo, p. 68.
74. Rossiiskoye Predprinimatelstvo, pp. 18-21.
75. For the list of the most established nation-wide Associations, see Appendix 4.
76. USAID data.
77. Sociological survey data of the Institute of Strategic Analysis and Enterprise Development
78. SME Congress data.
79. Rossiiskoye Predprinimatelstvo, 1995, pp. 18-21.
80. Malyi Biznes Rossii, p. 187.
81. Tezisy Dokladov, p. 138-139.
82. SCSME Report, 1996.
83. Information was collected from the conference on Microcredit policy, Moscow, 30-31 October 1996.
84. SCAMP data.
85. Babanov, pp. 68-69.
86. Orlov, A. Chepureenko, pp. 17-19.
87. Gimpelson, 1993; V. Radaev, 1993.
88. Chepureenko, pp. 157-161; M. Gorshkov *et al.*, pp. 5-14; V. Radaev, 1993, pp. 3-13.
89. R. Waldinger *et al.*, 1990.
90. For example: J. Stanworth, J. Curran, p. 161.
91. Babayeva, pp. 15-16; I. Bunin, pp. 152-154; A. Chepureenko, pp. 14-15.
92. For examples, see: Otnosheniye naseleniya k razvitiyu kooperatsii, pp. 129-130; Obzschestvennoye mneniye v tsifrakh, 1988-1990.
93. SME Congress data.
94. SME Congress data.
95. For a detailed list of necessary legislative documents, see Malyi Biznes Rossii, pp. 248-251.
96. Orlov, A. Chepureenko, p. 25.
97. SCSME Report, 1996.

APPENDICES

APPENDIX 1

PROCEEDINGS: OECD EXPERTS MEETING ON FEDERAL AND REGIONAL SUPPORT FOR ENTREPRENEURSHIP IN THE RUSSIAN FEDERATION

MOSCOW, SEPTEMBER 1996

Background and rationale

The Experts Meeting was organised by the OECD and the Russian Federation State Committee for the Support and Development of Small Enterprises (SCSME). It was hosted by the SCSME in its Moscow Headquarters, 26-27 September 1996.

The Seminar was devoted, first of all, to taking stock of the present conditions for entrepreneurs and small businesses in the Russian Federation based on the initial findings of an OECD background paper prepared in collaboration with the Russian Academy of Sciences. Secondly, it had the task of assessing existing policies in support of entrepreneurship at the federal, regional and local levels, focusing specifically on issues of policy co-ordination in the context of decentralisation, enterprise training, and programme evaluation. The seminar offered hands-on practical experience from Member countries, bringing together high-level officials from the Russian Federation State Committee on Support and Development of Small Enterprise (SCSME), representatives from federal and regional institutions, and OECD experts from several committees: Working Party on SMEs, LEED and Regional Development.

Participants

Seventy participants attended the Seminar. Thirty presentations were made by the representatives of:

- Russian State SME support bodies (SCSME, State Committee on Anti-Monopoly Policy, Federal SME Support Foundation, Federal Employment Service)
- Russian regional SME support agencies (Zelenograd, Zhukovsky)

- Russian non-State supporting agencies (Chamber of Commerce and Industry, Russian Agency for SME Support, Moscow Agency for Entrepreneurship Development)
- Russian training institutions (Morozov project, University of Economics, Statistics and Computer Science)
- OECD experts from eight countries (Austria, Canada, Finland, France, Germany, Ireland, Italy, Russia)
- International Assistance organisations (USAID, EBRD, Know-How Foundation).

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- Mr Almore RUBIN DE CERVIN
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Key issues of the Seminar

The Seminar was divided into four sessions:

- Main Issues of SME Development (chaired by A. Prilepine, State Committee for Support and Development of Small Enterprise)
- Regional Support for Entrepreneurship, Policy Co-ordination Issues (chaired by H. Pflaumer, Former President of the Konrad Adenauer Foundation, Germany)
- Training for Entrepreneurship (chaired by P. Cullen, Department of Enterprise and Employment, Ireland)
- Evaluating Programmes for the Support of SMEs (chaired by T. Thomas, Atlantic Canada Opportunities Agency, Canada)

Vadim Radayev of the Russian Academy of Sciences was the seminar *rapporteur*. The following summaries are organised in four parts based on the main themes discussed at the Seminar sessions.

I. Main issues of small enterprise support

The evaluation of the macroeconomic situation for SMEs in Russia varies from highly pessimistic to acknowledgement of some positive trends. The participants recognised that SMEs share the main problems as those encountered by large enterprises, but the intensity of the problems is greater for small businesses. The elaboration of a new policy for economic growth is on the agenda. It is important to achieve a "critical mass" of SME numbers. The SCSME prognosis for the year 1997 is the following: about 1 million small enterprises employing 10.5 million employees are expected to contribute up to 15 per cent of Russian GDP.

Under conditions of increasing concentration of assets in the Russian economy, small businesses will have to restructure their economic relationships with large enterprises. They will also have to take on more functions as social buffers, providing new job opportunities. It is disputable to which extent SMEs are capable of absorbing the increasing mass of the unemployed. Data from OECD countries do not provide a definite answer either. In Russia, current unemployment growth rates have been higher than increases of employment in SMEs in recent years. However, the job creation function of SMEs is still commonly recognised.

Financial problems are normally ranked first, at least by two-thirds of SME managers in all surveys and interviews conducted. Their access to loans is severely limited, while interest rates are high. Meanwhile, it is also important to understand the positions of possible investors (banks, foundations), which often complain about high credit risks and low quality of business plans. Present public financial support policies for small business in the Russian Federation are characterised by two basic features:

- the shift towards support of regional programmes funded on a joint basis;
- the avoidance of direct loans and subsidies in favour of the development of risk capital funds and insurance mechanisms.

The SCSME is establishing a priority for SME projects with high rates of capital return. The attraction of domestic and foreign capital for the most promising SME investment projects is seen as a main target for the future. There is a need for institutions (commercial banks, leasing companies, insurance companies) specialising in SME services to develop a new financial mechanism out of pilot programmes conducted in 1994-1995.

Taxation policy in relation to SMEs remains one of the most controversial issues linked to entrepreneurship. All the Russian participants in the seminar emphasised the necessity for taxation privileges for SMEs, while OECD experts are more reserved in this respect. The evidence on the effects of tax vacations in OECD countries is mixed. The general trend in OECD countries is towards tax neutrality, which means abolition of tax privileges, accompanied by reduced rates and a widening tax base. In the case of Russia, on the contrary, the "high tax - special privileges" policy is being pursued. Frequent tax regulation changes and limited access to information on these changes cause an even more damaging effect than the mere taxation burden.

The legislation governing SME activities is widely recognised as insufficient to protect the interests of small entrepreneurs. The first legislative documents regulating SME activities in Russia appeared in late 1980s. There have always been numerous bureaucratic barriers to SME-support Decrees and Programmes. Since the adoption of a special SME Support Federal Law in June 1995 the legislative base has not changed dramatically. The Law presumes that more than 10 special Decrees are to be issued to enforce its statements, but only two of them were realised by autumn 1996. Thus, the existing general legislative framework is to be supported by the regulation of specific areas of SME activity. Creation of advanced mechanisms of law implementation is an even more demanding issue for realising the programs of SME support. Time-consuming and costly bureaucratic steps in registration and licensing are still the norm, and also provide an additional field of restrictive actions by regional and local authorities.

SME policy is designed to target entrepreneurial personalities. Thus, it is important to reveal the types of small entrepreneurs which differ widely by the origins of their capital and their recruitment channels. We have to dispel the image of a male entrepreneur who starts overnight with an existing refined idea, works full-time, and is heavily technology-oriented. Small enterprise may come from:

- privatisation of state-run assets;
- company take-overs;
- franchising concepts;
- outsourcing by spin-offs;
- management buy-outs;
- family businesses;
- local initiatives.

Entrepreneurs may be recruited from the ranks of highly skilled professionals or managers of large companies, but also from the ranks of socially vulnerable groups (women, the unemployed, immigrants, *etc.*). The importance of encouraging women and youth entrepreneurship and family small business is underlined.

All the experts share the view that we need a set of socio-economic and psychological portraits of the small entrepreneur and that different sorts of policies have to be elaborated in respect to these entrepreneurial categories. At the same time, all attempts to build up such typologies face the principal lack of relevant statistical and survey data and low access to existing data sets in Russia.

SMEs in Russia, especially in construction and services, are closely linked to the "black" market. Co-operation of business with the authorities against the black market is seen as necessary.

II. Regional support for entrepreneurship, policy co-ordination issues

Federal level. It is acknowledged that co-ordination of SME policies on the federal level is a weak point in Russia today. It was even proclaimed that "any co-ordination on Federal level is virtually absent" (SCSME Vice-President A. Prilepine). The functions of Parliamentary committees and state ministries are not clearly differentiated. The **duplication of functions** and parallel initiatives are very frequent. The SCSME is criticised for the lack of clear and consistent policy in this respect. The role of the Chamber of Commerce and Industry and other non-State Associations of Entrepreneurs has also to be specified.

Despite a special Federal Programme for SME support in 1996-1997, the Federal Foundation for SME Support had received no funding from the state budget by the end of September 1996. At the same time, resources to SMEs are moving through various channels apart from this special Federal Programme. For example, the State Committee on Industrial Policy is carrying out a programme on innovative business; the Ministry of the Economy is implementing a programme on engineering; the Government Commission on Science and Technology is also at work. All of them are dealing with different aspects of SME development. This results in many overlapping initiatives taken by State ministries at the federal level.

Regional level. The duplication of the SME support functions of the federal ministries is reflected at the regional level. Institutional development in the regions is taking place in short-term projects in which numerous agencies and foundations are created. There are many institutions which carry out similar functions but which are reluctant to co-operate or to specialise in certain activities (leasing, franchising, *etc.*) due to their "departmental affiliations". It is noticed that in the regions these agencies are linked closer in comparison with those in the capital cities of Moscow and St. Petersburg.

The sensitive balance of competition and co-ordination for both entrepreneurs and agencies has become a point of discussion. There is a lack of willingness for co-ordination on the part of the authoritative bodies and a lack of sense of competition on the part of the entrepreneurs. Mediators in the dialogue between entrepreneurs and agencies also have to be found.

The competitiveness of the enterprise, apart from its own capacities, includes local opportunities as a basic element. The State Committee for Anti-Monopoly Policy has collected data proving that regional and local authorities introduce limitations and barriers which are not allowed by Federal Law. Several years ago some regions prohibited the export of certain goods to other regions. At the moment, import prohibitions have become more common. For example, more than half of the regional authorities put limits on the import of strong spirits. In some cases these limitations are even backed by regional laws.

There was common agreement that the main focus of SME policies should be transferred to the regional and local levels. Co-ordination of federal and regional policies is concentrated on the issue of decentralisation today. The latter does not mean a simple "give-away" move. It presumes a strategy of gradual redistribution of functions when regional differentiation and local initiative are taken into account.

To consider these problems, the *SCSME Report on Basic Provisions of Regional SME Support Policy* was issued and discussed at the meeting of regional representatives in Samara in 1996.

Additional problems in the case of Russia come from the vast territories and considerable differentiation of regions. There are a number of regions which have an advanced infrastructure for SMEs (Nizhnii Novgorod, Samara, *etc.*), while in other regions these infrastructures are still underdeveloped (Chita, Magadan, Northern Caucasus, *etc.*). The following dilemma was raised: is it more efficient to support SME programmes in advanced or backward regions? Two basic approaches were suggested:

- to provide support to “model” regions of all types, and then to compare the outcomes;
- to support non-advanced regions by means of technical assistance with the consequent capital investment in case of success.

All the regions can be divided into the following distinct categories:

- dynamic regions;
- old industrial areas;
- regions of industrial specialisation;
- underdeveloped regions;
- regions in extreme situations (areas of deterioration and conflict).

The issues linked to "fiscal federalism" were addressed. There was no general agreement on whether taxation revenues coming from SMEs should be left to regional and local budgets. At the same time, it is more common to speak in favour of such redistribution which can stimulate regional and local authorities to pay more attention to SME deficiencies.

An example of the fruitful co-ordination of local and regional authorities, commercial banks and international donor (USAID) was presented by the case of Zelenograd (Moscow region). According to regional SME support programmes, they have created an Association of SMEs and two leasing funds, a Business Incubator and Technopark, a Development Agency and a College of Management and Commerce in Zelenograd. Support for SMEs has helped to prevent mass unemployment in this declining area of micro-electronic industries.

Another successful example was the case of Zhukovsky (Moscow region). Aimed at labour market adjustment, the Employment service supported by a group of volunteers in the local community has managed to use private sector abilities to decrease the unemployment rate from 6 to 0.2 per cent in 1993-1996. More than 60 per cent of new jobs have been created in small businesses. An Investment Fund for SMEs was established in collaboration with White Reynolds Int. (Canada) for unemployed people wanting to start a small business. They receive advice and training through the local employment centre.

Between state centralism and the market, there is an area for local public initiative and partnership. The main role of the state is to encourage links and reshape projects, rather than to interfere directly. A new mentality for co-operation development is urgently required to move from direct control to the initiation and monitoring of programmes.

Given the lack of information on regional development, the necessity for an Analytical Centre for Regional Studies was proclaimed. The new Resource Centre under the SCSME, designed within the programme of EU-TACIS, can be also helpful in defining SME policy prerogatives on each level.

III. Training for entrepreneurship

The debate concerning SMEs in Russia focuses largely on financial issues, although these are by no means the only problems. SMEs have many difficulties concerning the lack of skilled personnel. They do not know how to deal with commercial banks and Western investors. One of the reasons for financial deficiencies in the SME sector from the standpoint of donors is a lack of skilled financial project managers. At the same time, many small entrepreneurs are unable to pay for training programmes.

Under the conditions of severe shortage of Federal funds for SME support in Russia, these minimal funds are directed for those investment purposes which are considered as the most urgent. Education programmes receive no funding at all except for Employment Foundation support.

There are also specific constraints in training programmes for SME managers:

- impossibility of leaving the enterprise over long periods;
- changeable production plans;
- overlapping of professional functions.

An OECD study on SME development in the Czech Republic, Poland, Hungary and Slovakia, completed in 1996, clearly states that, in total, only 40 per cent of all small entrepreneurs take advantage of any kind of support, and 3-5 per cent get some kind of consulting. The main question is how communication strategies can be improved to encourage a bigger segment of potential and actual entrepreneurs to address consulting and training agencies.

In contrast with the opinion widespread in Russia, Western experts tend to think that the main reason for small enterprise failures comes not from a heavy taxation load or money deficiencies as such, but from the absence of the business strategies which are necessary to win and maintain a market.

An EU study on vocational education for start-up companies in OECD countries shows that:

- there is too little knowledge about entrepreneurs;
- methods of recognising start-up potentials are only in the test stage;
- identifying the development problems of the new enterprises shows large gaps;
- start-up policies are widely different throughout the countries for no apparent reason.

An assumption that business training is necessary for successful enterprise was considered. From the standpoint of Western experiences, the small entrepreneur needs only some counselling support and is not ready for training at the start-up stage. Thus, training may be more fruitful during later stages. Russian experts noted that most small entrepreneurs address counselling agencies even later, because, during the

start-up phase, they rely heavily on "friendly" advice through their personal networks. Thus, training is effective but only at the right moment.

Four services in the sector of non-financial support are of crucial importance:

- assessment of the marketability of entrepreneurial ideas;
- securing a new market, new client relations and payments;
- training in business management;
- supporting the development of local business networks.

The work of two leading Russian Development Agencies was reviewed by their representatives, namely:

- the Russian Agency for SME Support;
- the Moscow Agency for Entrepreneurship Development.

The activities of the Federal Employment Service (FES) were reviewed. According to the Federal Employment Programme in 1995, the FES provides training services for a total of 150 thousand unemployed. About 65 thousand of them have been retrained for new professions and small entrepreneurship. Potential entrepreneurs are selected through testing and then are trained in initial entrepreneurial skills. After the training, FES provides interest-free subsidies within the limits of 12 month unemployment payments together with free counselling for the first year after the start-up. These new entrepreneurs are reported to have created 15 000 new jobs in 1995.

Similar self-employment programs for the unemployed have developed in several OECD countries since the 1980s, and have usually addressed less than 5 per cent of the unemployed. Programmes have had varying degrees of success depending on the country, but in many cases have disproved the stereotype that unemployed people are unemployable. There is also little evidence on the survival rates of the newly emerging small firms. A certain scepticism concerning the capabilities of unemployed people for successful start-ups emerged in the discussion. Only 7-8 per cent of them normally reveal a potential for entrepreneurial activities. However, the common opinion is that training programmes improve skills in the long run even if recipients do not start up a business immediately.

The main problems which should be solved in the course of the training programmes are:

- working out a business strategy
- getting business information
- obtaining credits
- building up local networks

The experience of the Moscow State University of Economics, Statistics and Informatics in running training programmes for retired army officers was shared. During the last two years more than 1000 military officers and their family members were trained for 4-6 months in the accounting, taxation and banking aspects of SME activity in 10 regional centres. German SME model technologies were applied in

these courses. The Chamber of Commerce and Industry is concentrating efforts on the marketing of business training programmes, business school certification, and the improvement of data sets. There were also reports on the activities of the Morozov Project regional training programmes presented by representatives of the project and USAID as their international sponsor.

Many participants, especially SCSME representatives, mentioned the importance of special training programmes for civil servants dealing with SME programmes. The reason is that new SME Support state authoritative bodies and Foundations have been created in more than 40 and 70 regions, respectively, within the last half decade. Special training programmes for bank officers are also required. The case of the South Shore Bank carrying out a Small Business programme for EBRD may be useful here. Specialised training programmes for leasing and franchising activities are also listed among the priorities.

Suggestions for co-operation among training institutions and for the creation of CD-ROM training programmes appeared in the course of the seminar.

IV. Evaluating programmes for SME support

Programme evaluation presents a field in which the experience of Russian agencies is not so extensive, especially when formal methods of evaluation are concerned. Evaluation was defined as research procedures for assessing the conceptualisation, design, implementation and utility of intervention programmes. A policy cycle scheme was suggested, including the following stages:

- planning of policy;
- implementation of policy;
- review of policy;
- development of policy.

There are three corresponding stages of programme assessment: before (*ex ante*), ongoing (*in itinere*) and after (*ex post*). Evaluation can be provided by Governments and academics, private / public institutions and tripartite arrangements (Governments, industry and unions). A mix of methods is usually used for efficient assessment. The importance of informal evaluation, especially in the case of Russia, was also stressed.

According to the experience of the Atlantic Canada Opportunities Agency (ACOA), programme evaluation can play an important role in:

- improving accountability and demonstrating programme results;
- improving programmes and resource allocation among programmes.

To raise the effectiveness of evaluation programs it is crucial:

- to establish success indicators relevant to programme objectives;

- to ensure a results / outcome-based perspective on evaluation to be built into programme management;
- to pay attention to the producing of credible measures of results.

The experience in the field of built-in evaluation practice was presented by the Russian-American Business Collaboration Centre (BCC), sponsored by USAID. BCC is producing information and counselling services itself and supports the other agencies by exchanging products.

A representative of the Federal SME Support Foundation defined three main criteria of project evaluation in Russia: implementation period, total costs, and project efficiency. The "entrepreneurial" character of the Federal SME Support Programme was proclaimed. It provides only initial funding for SME projects, which are supposed to become sustainable and self-financing. According to expert estimations, the major SME programmes supported by the state Foundations are not efficient in economic terms, and the SCSME may face negative results in one or two years. The new Federal SME support programme was also criticised for not meeting the criteria of programme management.

One of the most controversial issues concerned the sustainability of international assistance programs, *e.g.* whether SME Development Agencies in Russia will survive after their international donors stop their support. At the moment, many of these agencies are not in a position to charge for their services, in order to become self-sustaining. Expert views differ in this respect, and relevant data on the programme outcomes are still very scarce. The results of SME support programs in OECD countries are mixed. More co-ordinated efforts and systematic information exchange on the project activities among international organisations can facilitate better results. These projects would have been even more efficient if they were based on more extensive preliminary research provided by both foreign and local experts.

The following indicator was suggested for the purposes of international assistance evaluation: percentage of clients who received free services before and who stayed with the agency when it started to charge for its services. The participants agreed that this conversion rate may be a good indicator of programme sustainability.

The necessity for systematic research and the regular selective monitoring of the activities of former trainees and financial support recipients are required to improve all SME programme assessment.

V. General conclusions

Points of disagreement and uncertainty

- There are different estimates of the macroeconomic environment for SMEs in the Russian Federation today, though many experts tend to characterise it as totally unfavourable.
- There are many discrepancies in the estimation of SME sector development and its contribution to the Russian economy due to the lack of principal statistical data in many areas.
- Russian officials and experts tend to overvalue the financial support for SMEs, while OECD experts tend to stress non-financial assistance.

- Russian officials and experts often maintain the necessity for tax privileges for SMEs while the OECD experts are more reserved in this respect and consider the tax vacations as a controversial measure.
- Given the sharp differentiation of regions in Russia in terms of economic development and SME institutional capacities, it is not clear which types of regions should be placed in the first priority for resource allocation.
- The extent of “fiscal federalism” development and the share of tax revenues from SMEs left for the regional and local budgets are still issues for debate.
- A certain scepticism concerning the abilities of the unemployed and other vulnerable social groups to be successful entrepreneurs was evident on the part of the experts in their discussion of training programmes.
- Different views were suggested concerning the evaluation of the effectiveness of international assistance programmes for SMEs in Russia.

Points of general consensus

- Financial support to SMEs, legal enforcement of SME policies, and business training for small entrepreneurs were identified as the most urgent issues.
- There are two distinct SME policy directions: direct assistance to SMEs (case-by-case support) and indirect assistance (creating a favourable environment). A general trend in SME policy in Russia today is from the first to the second direction.
- Different support policies have to be elaborated for different groups of small entrepreneurs considering their social and psychological portraits and the type of enterprise.
- Frequent duplication of functions in SME programme initiatives on both the federal and the regional levels has been observed. The clear definition and efficient co-ordination of these functions among state ministries and development agencies are urgently required.
- The necessity for the decentralisation of SME regulation and policies is widely recognised. This means a definite shift of policy focus to the regional and local levels.
- Three types of specific training programmes are equally important, namely: for entrepreneurs, civil servants, banks and development agency employees.
- The main problem in the field of training and counselling lies with the recipients. Communication networks are to be developed to encourage the SME managers’ involvement in these programmes.
- Monitoring of project outcomes is the first priority measure for effective programme assessment.

Taking these issues into account, the main task of the Russian federal bodies at the moment is to introduce and enforce general standards of SME regulation. This does not mean a direct interference with regional

activity, but mainly the general limitations of SME registration payments and the number of activities subject to licensing, reduction of the overall taxation burden and the number of controlling bodies, *etc.* These broad framework conditions, enforced by the law and by necessary State control, not only leave room for regional and local initiatives in favour of small business, but also stimulate these regional initiatives. Only through supporting a favourable environment and effective instruments for new SMEs can the State help lay the foundation for the further growth of new enterprises.

APPENDIX 2. MAIN ABBREVIATIONS

CCI	Chamber of Commerce and Industry.
CIS	Commonwealth of Independent States.
EBRD	European Bank of Restructuring and Development.
FES	Federal Employment Service.
RF	Russian Federation.
RAS	Russian Academy of Sciences.
SCAMP	State Committee for Anti-Monopoly Policy and Competition Development.
SCSME	State Committee for Small Enterprise Support and Development.
SCS	State Committee on Statistics.
SE	Small Enterprise.
SME	Small and Medium Enterprise.
USAID	US Agency for International Development.

APPENDIX 3. AVERAGE ANNUAL EXCHANGE RATES IN 1992-1995

Date/US Dollar	Equivalent Rubles
1992: 1 US\$	= 205 rbl.
1993: 1 US\$	= 985 rbl.
1994: 1 US\$	= 2 012 rbl.
1995: 1 US\$	= 4 565 rbl.

APPENDIX 4. RELEVANT FEDERAL LEGISLATIVE DOCUMENTS

Russian Federation Laws

On Land Reform, 22 November 1990.

On Enterprises and Entrepreneurial Activity, 4 January 1991.

On Competition and Monopolism Constraints on the Commodity Markets, March 1991.

On Privatisation of State-run and Municipal Enterprises, 3 July 3 1991.

On Foreign Investments, 1 July 1991.

On Payments for Land, 10 November 1991.

On Peasant Farming, 22 November 1991.

On Excises, 6 December 1991.

On Profit Tax for Enterprises and Organisations, 27 December 1991.

On Employment of Population in the Russian Federation with Changes and Additions, 15 July 1992.

On Changes to the Russian Federation Law "On Profit Tax for Enterprises and Organisations", 16 July 1992.

On Changes and Additions to Some Russian Federation Laws on Taxes, 22 December 1992.

On Private Property Rights of Russian Federation Citizens to Buy and Sell Land Plots for Individual Farming, Gardening and Private Housing Construction, 23 December 1992.

On Chambers of Trade and Industry, July 1993.

Civil Code of Russian Federation, Part 1, 1 January 1995.

On State Support of Small Enterprise in Russian Federation, 14 June 1995.

On the Abridged System of SME Taxation, Recording and Reporting, 29 December 1995.

On Changes and Additions to the Russian Federation Law "On Profit Tax for Enterprises and Organisations", 31 December 1995.

On Changes and Additions to the Russian Federation Law "On the Value-Added Tax", April 1, 1996.

On Production Co-operatives, May 1996.

On the Adoption of the Federal Programme of SME State Support in the Russian Federation in 1996-1997, 7 June 1996 (State Duma Decree).

Russian Presidential Orders

- On Organisational Measures for Small and Medium Business Development in the Russian Federation, 30 November 1992 (N 1485).
- On the State Committee for Anti-Monopoly Policy and Support of New Economic Structures, 24 August 1992.
- On some changes in the taxation and interaction of different budgets of 22 December 1993 (N 2270).
- On Abolishing Quotas and Licensing of Goods and Services Export from Russia, 23 May 1994 (N 1007).
- On Ordering State Registration of Enterprises and Entrepreneurs in the Russian Federation Territories, 8 July 1994 (N 1482).
- On Private Investments in the Russian Federation, 17 September 17 1994 (N 1928).
- On Financial Leasing Development in Investment Activities, 17 September 1994 (N 1929).
- On State Duty, 17 September 1994 (N 1930).
- On Measures for State Regulation of the Stock Market in the Russian Federation, 4 November 1994 (N 2063).
- On Additional Measures for Production Development Stimulation, Including Foreign Loans Attraction, 24 November 1994 (N 2108).
- On the Russian Federation State Committee for SME Support and Development, 6 June 6 1995 (N 563).
- On Priority Measures in SME State Support in the Russian Federation, 4 April 1996 (N 491).
- On the Main Provisions of Regional Policy in the Russian Federation, 6 June 1996 (N 803).

Russian Federation Government Decrees

- On Measures for the Creation and Development of Small Enterprises, 8 August 8 1990 (N 790) (USSR Government Decree).
- On Measures for the Support and Development of Small Enterprises in RSFSR, 18 July 18 1991 (N 406).
- On the Foundation of Enterprise Support and Competition Development, 1 April 1 1993 (N 268).
- On Primary Measures for the Development of State Support of Small Enterprises in the Russian Federation, 11 May 1993 (N 446).
- On the Organisation of Work in Training of Personnel for the Market Economy, 4 November 1993 (N 1137).
- On the Foundation for SME Development Assistance in Science and Technology, 3 February 1994 (N 65).
- On the State Programme for Economy Demonopolization and Competition Development at Russian Federation Markets, 9 March 1994 (N 191).
- On Measures for SME State Support in the Russian Federation in 1994-1995, 29 April 1994 (N 409).
- On the Russian Federation Chambers of Commerce and Industry Issues, 6 July 6 1994, (N 792).
- On the Russian Federation Government Council for Industrial Policy and Entrepreneurship, 12 August 1994 (N 912).
- On Providing Information to the Entrepreneurship in the Russian Federation, 1 December 1994 (1319).

- On the Supervisory Council of the Foundation for Enterprise Support and Competition Development Under the State Committee for Anti-Trust Policy and New Economic Structures Support, 1 December 1994 (N 1320).
- On Measures for Non-State SME Participation in State Programmes and State Orders Fulfilment, 1 December 1994 (N 1322).
- On the Licensing of Certain Activities, 24 December 1994 (N 1418).
- On the Network of Regional Agencies for SME Support, 29 December 1994 (N 1434).
- On the Organisation of Unemployed Population Training to the Fundamentals of Entrepreneurial Activity, 7 March 1995 (N 224).
- On the Development of Leasing in Investment Activity, 29 June 1995 (N 633).
- On the Russian Federation State Committee for SME Support and Development, 28 October 1995 (N 1045).
- On the Federal Foundation for SME Support, 4 December 1995 (N 1184).
- On Financing the Foundation of SME Development Assistance in Science and Technology, 12 December 1995 (N 1213).
- On the Federal Programme of SME State Support in Russian Federation in 1996-1997, 18 December 1995 (N 1256).
- On Primary Measures For the Development and State Support of Innovative Activity in Industry, 26 December 1995 (N 1288).
- On the Attraction of Federal Republic of Germany Credits for SME Support and Development, March 6, 1996 (N 253).
- Issues of the Federal Foundation of SME Support, April 12, 1996 (N 424).
- On Participation of SMEs in the Production and Supply of Products (Services) for Federal State Requirements, 23 April 1996 (N 523).
- On State Support of Leasing Activities in the Russian Federation, June 27, 1996 (N 752).

APPENDIX 5 SME FEDERAL SUPPORTING INSTITUTIONS

Parliamentary Committees

Committee on Ownership, Economic Reform and Property Relations at the Federation Council (upper house).

Committee on Economic Policy and Committee on Property, Privatisation and Economic Activity with special Sub-Committee on Small Enterprise at the State Duma (lower house).

Government Institutions (first-line actors)

State Committee on Small Enterprise Support and Development.

Federal Employment Service.

Ministry of the Economy.

Ministry of Finance.

State Committee on Anti-Monopoly Policy and Competition Development.

State Committee on Industrial Policy.

State Committee for Management of State Property.

Department of Management, Property and Entrepreneurship, RF Council of Ministers.

Government Institutions (second-line actors)

Ministry of Foreign Economic Affairs.

Ministry of Labour.

Ministry of Science.

State Committee on Defence Industry.

State Committee on Statistics.

Main Foundations

Federal Foundation for Small Enterprise Support.

Federal Foundation for Employment.

Federal Foundation for Small Enterprise Development Assistance in Science and Technology.

Non-State Associations and Unions

Association of Christians-Entrepreneurs.

Association of Peasant Farms and Agricultural Co-ops of Russia.

Association of Women Entrepreneurs of Russia.

Chamber of Commerce and Industry.

League of Co-operators and Entrepreneurs.

National Russian Association of Leasing Companies (Rosleasing).

Round Table of the Business of Russia.

Russian Association of Small Entrepreneurship Development.

Russian Union of Private Owners.

Trade Union of Innovation and SE Workers.

Union of Entrepreneurs and Lease-Holders of Russia.

Union of Innovative Enterprises.

Union of Small Enterprises of Russia.

APPENDIX 6 THE STATE OF DATA BASES ON SMALL ENTERPRISES

This appendix will deal with the limits of the data on SMEs in Russia. The Russian Federation State Committee on Statistics (SCS) plays the most important role in the data-collection process.

State Committee on Statistics. SCS started to collect data on new non-state sector enterprises in the late 1980s to follow institutional changes. But there were continuous shifts in the object of their surveys:

- The data on the total number of co-operative enterprises were collected in 1988-1991.
- The data on new co-operative enterprises were collected only in 1992.
- Observations of all small enterprises irrespective of the form of ownership began in the first quarter of 1993.

Because of these shifts, the surveys lack cumulative tracking of SME dynamics. Data on SME numbers are therefore not comparable. For example, the data given on SME numbers for 1991-1992 in 1993 and then in 1995 are not comparable.

The work on SME data lacked co-ordination until recently. Before 1993, statistics on small enterprises were collected in an outdated way, *e.g.* separately by each Branch Department using their specific instruments. Very few integral indicators were made out by the Department of Labour and Wages, namely:

- SME numbers;
- employment structure;
- wage levels.

A special Analytical Department was established in 1993 to take responsibility (among many other tasks) for SME data provision. Finally, in October 1995, this was replaced by the new Department of Enterprise Statistics.

There were also many reporting problems: according to legal regulations, small enterprises were able to use abridged forms for statistical reporting in contrast to medium and large enterprises, which were to report on several thousand indicators. The standard statistical form (MP form) for small firms irrespective of their legal status and the branch of activity was introduced in 1994. These quarterly and annual forms included eight basic indicators, namely:

- full-time workers;
- part-time workers;
- sub-contracting workers;
- consumption fund (with wage fund separated);
- total output (including VAT);
- gross profit / losses;
- main assets;
- capital investments.

From the beginning, the Committee faced a low response rate. Many small registered enterprises avoided statistical reporting obligations, which are not considered to be important by the entrepreneurs. SCS experts have acknowledged the problem and estimate that almost half of small enterprises would not submit their reports to the state statistical bodies. SCS experts had to fill in the gaps by using data from the Integral State Register of Enterprises and Organisations and, in particular, more complete tax statistics (N 2H form) for recalculations. Together, these accounted for 30 per cent of data on average with variations from 20 to 60 per cent in certain regions and branches (Belokonnaya, 5). Thus, SME data published by the SCS are said to contain these corrections. Specific enforcement of statistical reporting was introduced and made a necessary pre-condition for accounting reporting to Tax Inspections. As a result, the situation has improved considerably.

There was another problem connected with observation. Due to an initial lack of co-ordinations, the SCS started to use a lower employment criterion for distinguishing SMEs, namely (number of all full-time and part-time workers):

- | | |
|--|------|
| – industry, construction and transport | – 50 |
| – agriculture and innovative business | – 30 |
| – science, retailing, catering and consumer services | – 15 |
| – wholesale trade and other activities | – 50 |

This approach obviously contradicted the legal definition propositions (see the section on SME definition in Part 2). As a result, data on enterprises employing 51-200 persons had to be extracted from the regular (extended) statistical forms.

In 1992, the Committee attempted to keep records on all enterprises. A new important stage began with the first selective observation in the first quarter of 1995. A ten^oper-cent sample by 15 criteria was

constructed with the help of the Committee Institute for Economic Research. It represents 29 branches of the economy and 18 branches of industry in all the regions.

The SCS' plans for improvement are elaborated in accordance with the RF Government Decree On the Improvement of the Informational System of Accounting Reporting dated 21 April 1995 (N 339) and additions adopted in the Government Decree of 18 August 1995 (N 817). These plans include the following items:

- to increase the Federal Statistical Register (Gosstar) by means of the permanent actualisation of registered entities;
- to rely more extensively on the accounting statistics collected by the Ministry of Finance in order to avoid increasing the number of SME reporting indicators. (Nevertheless, it will lead to the extension of forms submitted to statistical offices);
- to move from total to selective observations when the former and the latter are conducted on an annual and quarterly basis, respectively (this transition has now been made).

Conclusions: deficiencies of the database on SMEs

- Statistical data are insufficient and sometimes controversial.
- Comparisons referring to a substantial number of indicators and for several years are not available. The mode of recalculation is not clear.
- A considerable amount of data is not included in statistical reports; some of these are not openly and widely distributed.
- Cross tabs are used as the most sophisticated technique in the majority of the analytical reviews. At the same time, direct access to databases for analysts and researchers is prohibited.

Despite these critical remarks, it should be acknowledged that increasing attention is being paid to SME data collection and publication. This positive tendency raises hopes for the possibility of at least some improvement in the near future.

Other data sources. SCS data on SMEs can be supplemented with two basic sources: commercial statistics and sociological research. There are a number of analytical centres which produce **commercial statistics**, reflecting changes in market situations, including the dynamics of the sales, price and investment policies of enterprises, inflation expectations of their managers, *etc.* Listed below are some centres which conduct regular monitoring surveys:

- the Centre for Economic Conjuncture under the RF Government;
- the Institute of Economic Problems of Transitional Period;
- the Institute of World Economy and International Relations ("Russian Barometer").

However, the SME sector has not been a subject of special interest in most of the monitoring surveys. Since 1995, the SCS has been compiling its own commercial statistics collection on small firms to improve the situation.

As for SME **sociological research**, we have already listed the main research institutions involved in the section on Data Sources. Sociological survey methods for screening SMEs and entrepreneurs have also been used by the Institutes under the Ministry of the Economy (Institute of Micro Economics) and the Ministry of Finance. Regular surveys of managers are conducted in large “Congresses” of entrepreneurs. However, all the research results at our disposal are unable to fill many information gaps. Lack of funding is considered the main problem. Some research projects receive funding from international technical assistance programmes. However, research and systematic data collection in general are very far from constituting a major part of technical assistance budgets.

APPENDIX 7

Table 11. Small enterprise numbers and employment by region in 1995

Regions	Enterprise numbers 1.01.96		Employment 01-12.1995	
	N	%	Thousand	%
RUSSIAN FEDERATION	877 276	100	8 944.8	100
NORTHERN DISTRICT	25 716	2.9	313.4	3.5
Karelia Republic	4 672	0.5	51.8	0.6
Komi Republic	5 356	0.6	62.7	0.7
Archangelsk region	5 158	0.6	67.4	0.8
Murmansk region	6 139	0.7	54.8	0.6
Vologda region	4 391	0.5	76.7	0.9
NORTHWEST DISTRICT	84 568	9.6	692.8	7.7
St.Petersburg city	68 379	7.8	490.5	5.5
Leningrad region	9 976	1.1	100.9	1.1
Novgorod region	3 783	0.4	54.4	0.6
Pskov region	2 430	0.3	47.0	0.5
CENTRAL DISTRICT	267 559	30.5	2 499.4	27.9
Bryansk region	5 078	0.6	72.6	0.8
Ivanovo region	5 872	0.7	70.6	0.8
Kaluga region	7 303	0.8	74.5	0.8
Kostroma region	3 212	0.4	54.1	0.6
Moscow city	175 777	20.0	1 384.6	15.5
Moscow region	28 073	3.2	271.3	3.0
Oryol region	2 817	0.3	39.6	0.4
Ryazan region	5 838	0.7	76.1	0.9
Smolensk region	3 442	0.4	63.3	0.7
Tver region	5 897	0.7	100.5	1.1
Tula region	7 914	0.9	99.3	1.1
Vladimir region	8 029	0.9	94.6	1.1
Yaroslavl region	8 307	0.9	98.3	1.1
VOLGO-VYATSKI DISTRICT	25 418	2.9	381.3	4.3
Chuvashia Republic	5 229	0.6	69.7	0.8
Mari Al Republic	2 416	0.3	38.5	0.4
Mordovia Republic	2 137	0.2	31.2	0.3
Kirov region	4 274	0.5	70.3	0.8
Nizhnii Novgorod region	11 362	1.3	171.6	1.9

Regions	Enterprise numbers		Employment	
	N	%	Thousand	%
CENTRAL-CHERNOZEMNY DISTRICT	23 656	2.7	378.1	4.2
Belgorod region	5 036	0.6	82.5	0.9
Kursk region	3 200	0.4	66.1	0.7
Lipetsk region	3 681	0.4	61.2	0.7
Tambov region	2 902	0.3	53.0	0.6
Voronezh region	8 837	1.0	115.3	1.3
POVOLZHSKI DISTRICT	84 561	9.6	894.3	10.0
Kalmykia Republic	1 331	0.2	16.6	0.2
Tatarstan Republic	18 175	2.1	160.0	1.8
Astrakhan region	5 051	0.6	66.7	0.7
Penza region	7 147	0.8	83.6	0.9
Samara region	17 361	2.0	195.2	2.2
Saratov region	12 265	1.4	124.4	1.4
Ulyanovsk region	4 642	0.5	67.5	0.8
Volgograd region	18 589	2.1	180.3	2.0
NORTH CAUCASUS DISTRICT	86 461	9.9	870.6	9.7
Adygeya Republic	2 211	0.3	27.2	0.3
Dagestan Republic	13 609	1.6	78.3	0.9
Ingushetia Republic	616	0.1	5.7	0.1
Kabardino-Balkaria Republic	4 107	0.5	37.8	0.4
Karachayevo-Cherkessia Republic	2 116	0.2	24.2	0.3
North Osetia Republic	2 516	0.3	36.8	0.4
Krasnodar krai	31 844	3.6	316.8	3.5
Stavropol krai	8 041	0.9	134.5	1.5
Rostov region	21 401	2.4	209.3	2.3
URAL DISTRICT	93 717	10.7	980.4	11.0
Bashkortostan Republic	15 693	1.8	169.7	1.9
Udmurtia Republic	7 016	0.8	78.0	0.9
Chelyabinsk region	13 875	1.6	173.0	1.9
Kurgan region	3 780	0.4	50.2	0.6
Orenburg region	14 320	1.6	133.7	1.5
Perm region	12 180	1.4	154.6	1.7
Sverdlovsk region	26 853	3.1	221.2	2.5
WESTERN SIBERIA DISTRICT	91 736	10.5	961.0	10.7
Altai Republic	1 491	0.2	17.6	0.2
Altai krai	10 590	1.2	129.5	1.4
Kemerovo region	14 454	1.6	161.8	1.8
Novosibirsk region	16 937	1.9	192.5	2.2
Omsk region	9 507	1.1	107.3	1.2
Tomsk region	5 176	0.6	60.3	0.7
Tumen region	33 581	3.8	292.0	3.3

Regions	Enterprise numbers		Employment	
	N	%	Thousand	%
EASTERN SIBERIA DISTRICT	45 369	5.2	430.5	4.8
Buryatia Republic	5 373	0.6	55.1	0.6
Khakassia Republic	2 340	0.3	30.2	0.3
Tyva Republic	2 035	0.2	23.1	0.3
Krasnoyarsk krai	18 154	2.1	153.6	1.7
Chita region	3 785	0.4	44.6	0.5
Irkutsk region	13 682	1.6	123.9	1.4
FAR EASTERN DISTRICT	43 848	5.0	493.2	5.5
Sakha (Yakutia) Republic	3 835	0.4	52.8	0.6
Khabarovski krai	7 607	0.9	82.9	0.9
Primorski krai	14 530	1.7	143.6	1.6
Evreiskaya autonomous region	883	0.1	12.5	0.1
Chukotski autonomous <i>okrug</i>	553	0.1	13.2	0.1
Amur region	6 455	0.7	76.8	0.9
Kamchatka region	3 535	0.4	36.3	0.4
Magadan region	2 396	0.3	26.5	0.3
Sakhalin region	4 054	0.5	48.6	0.5
Kaliningrad region	4 667	0.5	49.8	0.6

Source: Maloye Predprinimatelstvo Rossii v 1995 godu, pp. 30-35, 65-70.

Table 12. **Small enterprise output by region and economic branch in 1995 (billion roubles)**

Regions	Industry	Agriculture	Construction	Retailing	Supply & sales
RUSSIAN FEDERATION	81 282	1 317	66 410	62 848	24 385
NORTHERN DISTRICT	4 380	32	3 036	2 177	695
Karelia Republic	467	11	375	356	115
Komi Republic	759	12	958	283	139
Archangelsk region	1 168	3	527	134	121
Murmansk region	984	1	181	772	22
Vologda region	1 002	5	996	633	298
NORTHWEST DISTRICT	5 916	41	4 814	7 845	2 500
St.Petersburg city	4 222	5	3 555	6 042	2 393
Leningrad region	786	10	636	1 206	57
Novgorod region	542	25	357	507	34
Pskov region	365	1	266	91	16
CENTRAL DISTRICT	22 285	253	18 727	12 450	6 458
Bryansk region	751	5	599	494	392
Ivanovo region	686	9	372	1 120	119
Kaluga region	832	21	429	539	177
Kostroma region	566	1	446	297	28
Moscow city	9 645	78	10 583	4 324	2 311
Moscow region	2 912	16	2 359	658	109
Oryol region	561	9	220	221	453
Ryazan region	999	45	708	260	288
Smolensk region	709	1	293	861	55
Tver region	1 179	40	687	850	276
Tula region	1 055	10	562	1 107	1 038
Vladimir region	1 000	7	622	1 126	155
Yaroslavl region	1 390	12	846	593	1 057
VOLGO-VYATSKI DISTRICT	3 022	51	2 551	2 106	1 237
Chuvashia Republic	467	7	287	249	71
Mari Al Republic	409	30	273	90	68
Mordovia Republic	258	1	140	206	252
Kirov region	877	5	440	139	707
Nizhnii Novgorod region	1 010	10	1 411	1 422	141
CENTRAL-CHERNOZEMNY DISTRICT	3 715	17	3 132	1 778	621
Belgorod region	645	1	916	181	26
Kursk region	775	2	635	698	90
Lipetsk region	731	5	526	408	31
Tambov region	596	5	344	281	368
Voronezh region	968	5	712	211	106

Regions	Industry	Agriculture	Construction	Retailing	Supply & sales
POVOLZHSKI DISTRICT	8 546	139	6 047	6 797	975
Kalmykia Republic	58	2	110	41	9
Tatarstan Republic	1 483	10	705	708	156
Astrakhan region	404	36	415	1 044	124
Penza region	808	9	511	513	37
Samara region	2 682	49	1 934	2 953	205
Saratov region	1 027	5	518	254	44
Ulyanovsk region	578	0.1	388	84	73
Volgograd region	1 507	29	1 466	1 200	326
NORTH CAUCASUS DISTRICT	5 734	173	4 706	3 304	1 788
Adygeya Republic	212	8	131	51	15
Dagestan Republic	155	3	180	26	3
Ingushetia Republic	19	3	7	2	1
Kabardino-Balkaria Republic	258	3	114	60	4
Karachayevo-Cherkessia Republic	192	3	120	120	27
North Osetia Republic	184	3	147	203	6
Krasnodar krai	1 989	91	1 418	1 157	216
Stavropol krai	1 050	25	1 243	704	226
Rostov region	1 677	34	1 347	981	1 293
URAL DISTRICT	10 884	349	8 123	12 548	6 308
Bashkortostan Republic	1 548	76	1 602	386	300
Udmurtia Republic	841	4	454	2 438	350
Chelyabinsk region	1 692	10	1 792	1 129	1 916
Kurgan region	405	8	249	218	71
Orenburg region	858	175	845	4 064	499
Perm region	1 906	13	1 294	1 310	153
Sverdlovsk region	3 635	64	1 886	3 003	3 020
WESTERN SIBERIA DISTRICT	6 847	64	8 282	6 595	2 336
Altai Republic	75	4	106	88	23
Altai krai	1 233	12	767	1 057	73
Kemerovo region	1 219	1	1 214	828	678
Novosibirsk region	1 229	14	1 065	590	195
Omsk region	1 021	27	872	713	806
Tomsk region	502	2	472	292	53
Tumen region	1 567	5	3 787	3 026	506
EASTERN SIBERIA DISTRICT	3 585	49	2 735	3 731	716
Buryatia Republic	376	7	282	732	57
Khakassia Republic	161	0.2	267	173	34
Tyva Republic	51	4	88	194	67
Krasnoyarsk krai	1 327	17	1 022	639	358
Chita region	311	1	174	523	63
Irkutsk region	1 359	21	903	1 470	138

Regions	Industry	Agriculture	Construction	Retailing	Supply & sales
FAR EASTERN DISTRICT	5 804	144	3 932	2 329	706
Sakha (Yakutia) Republic	369	16	579	46	26
Khabarovski krai	948	49	669	416	87
Primorski krai	1 082	23	833	611	138
Evreiskaya autonomous region	112	3	92	69	44
Chukotski autonomous <i>okrug</i>	170	4	109	92	9
Amur region	725	10	508	600	43
Kamchatka region	834	37	344	260	188
Magadan region	672	1	213	54	114
Sakhalin region	892	2	585	180	58
Kaliningrad region	566	7	324	1 191	47

Source: Maloye Predprinimatelstvo Rossii v 1995 godu, pp. 78-80.

Table 13. **Financial support of entrepreneurship from state employment fund (mln. rbl.) and its share in total fund expenditures (%) by region (1993-1995).**

Regions	1993		1994		1995 ¹	
	mln.rbl.	%	mln.rbl.	%	mln.rbl.	%
RUSSIAN FEDERATION	94 385	25.1	401 788	16.7	666 073	16.5
NORTHERN DISTRICT	2 510	13.3	17 406	10.4	8 172	3.2
Karelia Republic	178	11.5	2 001	8.9	1 503	4.1
Komi Republic	1 103	23.2	2 999	13.8	2 277	3.6
Archangelsk region	529	13.1	644	2.1	2 995	4.9
Murmansk region	457	8.3	2 672	8.3	309	0.6
Vologda region	244	9.3	5 377	19.8	1 068	2.7
Nenetsky <i>okrug</i>	0	0.0	19	1.1	20	0.5
NORTHWEST DISTRICT	3 565	11.6	14 871	7.3	19 028	7.4
St.Petersburg city	3 140	12.0	9 972	6.2	4 773	2.7
Leningrad region	315	14.2	1 260	6.1	1 493	4.3
Novgorod region	43	5.6	1 306	14.1	9 241	43.8
Pskov region	66	3.9	2 333	18.8	3 521	15.0
CENTRAL DISTRICT	17 914	33.5	98 652	21.2	343 686	30.6
Bryansk region	2 461	61.9	1 173	6.5	1 383	5.7
Ivanovo region	0	0.0	5 080	17.3	4 858	8.0
Kaluga region	220	8.8	331	2.3	1 296	6.2
Kostroma region	1 454	45.4	116	0.9	682	2.9
Moscow city	0	0.0	50 399	40.9	268 830	45.2
Moscow region	2 407	15.6	12 515	12.4	20 698	13.4
Oryol region	2	0.2	860	7.9	5 309	25.2

Regions	1993		1994		1995 ¹	
	mln.rbl.	%	mln.rbl.	%	mln.rbl.	%
CENTRAL DISTRICT (Cont./)	17 914	33.5	98 652	21.2	343 686	30.6
Ryazan region	3 482	74.4	3 341	16.9	4 353	15.8
Smolensk region	2 271	52.9	11 548	51.1	11 312	39.7
Tver region	2 460	59.5	4 276	16.8	11 839	29.4
Tula region	0.2	0.0	7 265	20.5	6 190	21.0
Vladimir region	2 060	38.8	1 137	4.6	4 158	7.9
Yaroslavl region	1 098	25.7	612	2.2	2 779	6.0
VOLGO-VYATSKI DISTRICT	4 356	21.4	13 216	11.2	15 399	8.0
Chuvashia Republic	252	9.7	5 608	32.0	6 268	21.2
Mari Al Republic	1	0.1	739	36.2	5 071	24.0
Mordovia Republic	0	0.0	3	7.4	312	2.2
Kirov region	0	0.0	454	1.6	1 293	3.6
Nizhnii Novgorod region	4 103	37.1	1 858	3.7	2 455	2.7
CENTRAL-CHERNOZEMNY DISTRICT	1 557	8.5	23 219	23.3	29 432	20.9
Belgorod region	0.7	0.0	16 030	59.5	18 596	51.3
Kursk region	0.6	0.0	3 142	25.2	4 740	29.9
Lipetsk region	1 070	20.1	823	4.1	1 542	6.9
Tambov region	229	11.9	1 824	10.7	2 636	9.2
Voronezh region	258	6.1	1 400	5.9	1 917	5.1
POVOLZHSKI DISTRICT	13 896	34.8	20 397	10.5	31 456	12.5
Kalmykia Republic	15	2.1	72	2.3	3	0.1
Tatarstan Republic	11 197	77.3	3 194	8.2	-	-
Astrakhan region	2	0.1	1 230	10.1	3 140	13.8
Penza region	5	0.3	1 794	11.3	2 210	8.6
Samara region	1 688	16.5	3 698	9.6	6 169	10.5
Saratov region	987	22.9	1 859	6.8	1 520	3.9
Ulyanovsk region	0.9	0.0	3 358	16.0	3 573	12.3
Volgograd region	0	0.0	5 191	14.1	14 840	21.0
NORTH CAUCASUS DISTRICT	7 738	29.9	54 701	27.6	45 503	15.9
Adygeya Republic	1	0.2	1 011	26.4	1 599	30.9
Dagestan Republic	0	0.0	1 254	11.1	1 884	10.9
Ingushetia Republic	50	25.4	2 231	38.7	3 175	24.9
Kabardino-Balkaria Republic	0.5	0.0	12 972	64.1	314	4.6
Karachayevo-Cherkessia Republic	0	0.0	344	12.6	106	2.2
North Osetia Republic	0	0.0	6 287	64.4	7 621	56.6
Krasnodar krai	1 528	27.6	9 631	15.9	9 370	11.6
Stavropol krai	81	1.6	4 056	16.4	9 843	19.4
Rostov region	6 077	53.1	16 916	28.4	10 581	12.7

Regions	1993		1994		1995 ¹	
	mln.rbl.	%	mln.rbl.	%	mln.rbl.	%
URAL DISTRICT	13 064	28.7	56 624	21.1	45 012	10.6
Bashkortostan Republic	0	0.0	0	0.0	0	0.0
Udmurtia Republic	0	0.0	1 211	4.4	1 429	2.5
Chelyabinsk region	1 462	15.2	3 031	6.2	6 085	8.0
Kurgan region	3	0.1	229	1.5	2 290	8.5
Orenburg region	8	0.6	20 079	52.8	7 073	13.7
Perm region	7 066	58.1	19 907	31.7	12 396	14.7
Sverdlovsk region	4 524	27.0	12 057	16.5	15 509	12.6
Komi-Permyatsky <i>okrug</i>	1	0.4	109	4.7	230	4.6
WESTERN SIBERIA DISTRICT	10 443	21.3	36 020	12.6	72 668	16.0
Altai Republic	14	5.2	34	2.2	423	16.7
Altai krai	14	0.4	6 247	15.1	15 936	32.9
Kemerovo region	28	0.9	2 647	5.7	16 815	19.8
Novosibirsk region	1 166	16.5	4 237	12.4	9 860	16.8
Omsk region	1 846	44.4	5 455	17.6	2 765	6.0
Tomsk region	722	15.2	1 926	12.0	685	2.4
Tumen region	2 397	64.4	8 203	28.0	7 647	19.1
Khanty-Mansiisky <i>okrug</i>	3 100	2.5	4 073	7.4	17 099	16.9
Yamalo-Nenetsky <i>okrug</i>	1 156	11.5	3 197	10.4	1 439	3.1
EASTERN SIBERIA DISTRICT	10 544	30.7	25 080	14.5	28 677	11.2
Buryatia Republic	406	14.8	755	5.9	791	5.4
Khakassia Republic	510	21.1	266	2.4	580	4.3
Tyva Republic	82	14.2	849	21.5	550	9.6
Krasnoyarsk krai	5 389	32.6	3 997	7.0	13 367	13.2
Chita region	650	30.0	1 332	5.8	2 091	7.6
Irkutsk region	3 439	37.8	17 374	29.2	10 961	12.9
Evenkiisky <i>okrug</i>	24	35.3	265	36.2	269	30.6
FAR EASTERN DISTRICT	7 144	20.7	23 161	12.5	19 179	6.1
Sakha (Yakutia) Republic	1 913	32.9	2 648	10.2	12 979	26.5
Khabarovski krai	1 728	17.3	3 790	9.4	1 649	2.8
Primorski krai	97	1.8	10 391	25.4	2 219	3.3
Evreiskaya autonomous region	360	49.5	335	7.1	672	7.7
Chukotski autonomous <i>okrug</i>	260	19.4	218	4.7	12	0.1
Amur region	2 012	41.5	2 619	15.6	439	1.1
Kamchatka region	732	30.8	1 549	11.3	665	2.7
Magadan region	25	1.7	117	1.0	463	3.6
Sakhalin region	18	0.7	494	2.5	29	0.1
Kaliningrad region	75	3.5	823	5.1	426	1.7
Atomash cities	1 577	24.3	17 618	49.8	7 437	15.3

1. January-September 1995.

Source: Calculated on the basis of the data from the Centre for Labour Market Studies, Institute of Economics, RAS.

Table 14. Job preservation, job creation and start-up subsidies as a percentage of total financial support of entrepreneurship from state employment fund by region(1994).

Regions	Financial support mln.rbl.	Job preservation %	Job creation %	Start-up subsidy %
RUSSIAN FEDERATION	401 788	34.4	62.6	3.0
NORTHERN DISTRICT	17 406	38.1	59.5	2.4
Karelia Republic	2 001	11.4	84.9	3.7
Komi Republic	5 851	51.3	45.2	3.5
Archangelsk region	644	76.6	13.9	9.5
Murmansk region	3 514	76.0	22.8	1.2
Vologda region	5 377	4.3	95.1	0.6
Nenetsky <i>okrug</i>	19	45.1	52.9	2.0
NORTHWEST DISTRICT	14 871	11.1	38.6	50.3
St.Petersburg city	9 972	6.3	18.9	74.8
Leningrad region	1 260	41.3	57.3	1.4
Novgorod region	1 306	32.8	66.9	0.3
Pskov region	2 333	2.9	97.1	0.0
CENTRAL DISTRICT	98 652	32.6	66.5	0.9
Bryansk region	1 173	32.1	47.9	20.0
Ivanovo region	5 080	99.7	0.0	0.3
Kaluga region	331	55.6	36.5	7.9
Kostroma region	116	20.3	62.1	17.6
Moscow city	50 399	2.4	97.6	0.0
Moscow region	12 515	45.8	53.5	0.7
Oryol region	860	57.5	41.2	1.3
Ryazan region	3 341	29.2	70.3	0.5
Smolensk region	11 548	77.8	21.9	0.3
Tver region	4 276	46.5	47.9	5.6
Tula region	7 265	90.8	8.9	0.3
Vladimir region	1 137	46.5	47.0	6.5
Yaroslavl region	612	0.0	83.2	16.8
VOLGO-VYATSKI DISTRICT	13 216	32.8	65.8	1.4
Chuvashia Republic	5 608	56.2	43.4	0.4
Mari Al Republic	4 579	16.1	83.3	0.6
Mordovia Republic	716	0.5	97.7	1.8
Kirov region	454	47.6	51.5	0.9
Nizhnii Novgorod region	1 858	11.9	81.6	6.5

Regions	Financial support mln.rbl.	Job preservation %	Job creation %	Start-up subsidy %
CENTRAL-CHERNOZEMNY DISTRICT	23 219	32.3	66.6	1.1
Belgorod region	16 030	12.8	86.8	0.4
Kursk region	3 142	96.9	1.1	2.0
Lipetsk region	823	33.0	60.2	6.8
Tambov region	1 824	81.9	15.3	2.8
Voronezh region	1 400	44.9	52.2	2.9
POVOLZHSKI DISTRICT	20 397	42.9	55.5	1.6
Kalmykia Republic	72	13.9	65.3	20.8
Tatarstan Republic	3 194	98.8	0.0	1.2
Astrakhan region	1 230	2.5	90.3	7.2
Penza region	1 794	56.4	41.6	2.0
Samara region	3 698	29.7	69.1	1.2
Saratov region	1 859	3.7	96.1	0.2
Ulyanovsk region	3 358	14.3	83.7	2.0
Volgograd region	5 190	55.7	43.8	0.5
NORTH CAUCASUS DISTRICT	54 701	30.8	68.3	0.9
Adygeya Republic	1 011	35.8	63.4	0.8
Dagestan Republic	1 254	65.1	34.8	0.1
Ingushetia Republic	2 231	11.2	88.8	0.0
Kabardino-Balkaria Republic	12 972	5.6	94.2	0.2
Karachayev-Cherkessia Republic	344	38.1	61.7	0.2
North Osetia Republic	6 287	4.0	96.0	0.0
Krasnodar krai	9 631	11.1	87.6	1.3
Stavropol krai	4 056	88.5	11.1	0.4
Rostov region	16 916	57.0	41.2	1.8
URAL DISTRICT	56 624	35.1	63.4	1.5
Bashkortostan Republic	0	0.0	0.0	0.0
Udmurtia Republic	1 211	1.2	96.1	2.7
Chelyabinsk region	3 031	40.9	47.3	11.8
Kurgan region	229	20.1	51.1	28.8
Orenburg region	20 079	38.3	61.5	0.2
Perm region	19 907	30.1	69.7	0.2
Sverdlovsk Region	12 057	40.2	57.4	2.4
Komi-Permyatsky <i>okrug</i>	109	14.7	79.8	5.5
WESTERN SIBERIA DISTRICT	36 020	28.0	70.9	1.1
Altai Republic	34	44.1	55.9	0.0
Altai krai	6 247	56.1	42.4	1.5
Kemerovo region	2 647	30.1	67.9	2.0
Novosibirsk region	4 237	28.5	70.4	1.1
Omsk region	5 455	41.6	57.6	0.8

Regions	Financial support mln.rbl.	Job preservation %	Job creation %	Start-up subsidy %
WESTERN SIBERIA DISTRICT (Cont./)	36 020	28.0	70.9	1.1
Tomsk region	1 926	1.8	95.4	2.8
Tumen region	8 203	9.6	89.8	0.6
Khanty-Mansiisky <i>okrug</i>	4 073	16.0	82.9	1.1
Yamalo-Nenetsky <i>okrug</i>	3 199	26.0	74.0	0.0
EASTERN SIBERIA DISTRICT	25 080	47.6	51.3	1.1
Buryatia Republic	755	5.0	92.7	2.3
Khakassia Republic	266	37.2	56.8	6.0
Tyva Republic	849	9.2	84.2	6.6
Krasnoyarsk krai	3 997	37.0	61.5	1.5
Chita region	1 332	0.0	98.4	1.6
Irkutsk region	17 374	57.9	41.6	0.5
FAR EASTERN DISTRICT	23 161	10.9	87.2	1.9
Sakha (Yakutia) Republic	2 648	22.6	76.2	1.2
Khabarovski krai	3 790	4.0	92.9	3.1
Primorski krai	10 391	6.7	93.2	0.1
Evreiskaya autonomous region	335	15.2	83.6	1.2
Chukotski autonomous <i>okrug</i>	218	99.9	0.0	0.1
Amur region	3 619	10.3	85.1	4.6
Kamchatka region	1 549	12.9	82.8	4.3
Magadan region	117	1.3	84.6	14.1
Sakhalin region	494	47.8	45.3	6.9
Kaliningrad region	823	9.4	89.6	1.0
Atomsmash cities	17 618	89.7	9.8	0.5

Source: Calculated on the basis of the data from the Centre for Labour Market Studies, Institute of Economics, RAS.