

# Russian Federation

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Support given by the Russian Federation to Small and Medium Businesses

The first law to create the ground for the small businesses development in the Russian Federation was adopted 11 years ago. It's difficult to overestimate its role in their development: The law stipulated criteria for the small businesses that still remain valid today, established the base to form the infrastructure to support small businesses at the federal, regional and municipal levels and has given a start for programs to support small business.

The role played by this law lost in importance with adoption of specific laws to provide for the norms of the small businesses development, being the Russian Federation's tax code and the laws on registration

with the government bodies, on the government purchases, on inspections, etc. By 2004, only selected fragments of this law were still operational.

Taking this into consideration, a new concept and text of the law have been prepared.

The basic novelties of the drafted law are as follows:

- in harmony with European practice, introduction of new types of enterprises: micro-enterprises employing no more than 15 persons, small enterprises – from 16 to 100 persons, and medium enterprises – from 101 to 250 persons. Desire to move closer to the European criteria is explained by the fact that European Union is Russia's main trading and economic partner. The introduction of these new criteria is far from being just a formality: It implies that in Russia as in Europe, small and medium businesses are regarded from now on as a single sector and included into support programs for the medium enterprises;
- introduction of authority division for the federal, regional and local authorities engaged in the small businesses development, and
- provision of equal opportunities in access to the governmental and municipal support for small and medium enterprises.

Adoption of the law is far from being an overall remedy. Legislation and legal practices continue creating such administrative barriers, that to start and carry on a business are for courageous people only.

An important step forward in reforming the system of permissions has become a federal law adopted on July 2, 2005 about the changes into the Federal law on Licensing Specific Types of Activity. According to it,

- time terms for granting a license are reduced from 60 to 45 days;
- the list of documents to be presented for receiving and registering anew a license is shortened;
- the mechanism for simplifying the way of licensing some selected types of activity is introduced (when making an insurance agreement for civil responsibility or when the licensee has a compliance certificate of his activity with the international standards).

A step-by-step abolition of 49 types of licensed activities is envisaged (reduction by one third from the currently valid list).

The list of licensed activities to be abolished includes the activities actively pursued by small businesses: Construction, tourism, passenger transportation by light automobile transport (taxi) and others.

Taking into consideration that more than half a million licenses were previously granted for the activities now exempt from licensing, it is expected that envisaged by law direct expenses of enterprises for licensing will go down by 650 million rubles, and including expense for expertise and conclusions – down by 3-5 billion rubles a year.

A valid guarantee for the entrepreneurs rights have become the changes into the Russian Federation Code on Administrative Abuse of Legal Power, KoAP effective from August 2005. The changes stipulate a ban on suspension of the legal persons activity beyond court procedures.

Creation of a friendly environment for enterprises activities is facilitated by the programs in support of small business.

The 2005 federal budget, for the first time after a long break, envisaged allocation of substantial funds for government support granted to small business and being 1.5 billion rubles.

The Russian Federation Governmental Decree \_ 249 dated April 22, 2005 envisaged that the budget funds allocated for these purposes are granted to the Russian Federation's subjects on competitive basis provided that the expenses for their realization are jointly financed by regional budgets.

This approach makes it possible:

- in addition to the funds from the federal budget, to attract regional financial resources;
- to stimulate the regions to adopt new and more efficient programs for support and development of small enterprises;
- to keep authority and responsibilities for realization of activities on the regional level, bringing by this the center for taking operational decisions closer to the final recipients of every activity, i.e., small enterprises.

In order to achieve the maximum economic result and budget efficiency, as well as in compliance with the best world practices of priority for granting governmental support, the following task groups for small enterprises were identified:

- entrepreneurs the beginners;
- small enterprises actively investing in increasing efficiency of their activity, including in science and technology, and
- fast growing and export oriented small enterprises.

In 2005, four directions were chosen as of first priority:

- establishment and development of business incubators being the entities to provide on beneficial terms the working places for beginning entrepreneurs and service in complex;

- support for small enterprises engaged in production of export oriented goods (works, services);
- development of system for crediting small enterprises;
- establishment and development of infrastructure to support small enterprises in the field of science and technology.

### Business Incubators

Lowering the entrance barriers for small entrepreneurs to start the business and increasing the chances for them to survive are the tasks for creating the business incubators.

In compliance with requirements adopted by the Ministry of Economic Development of Russia, the entrepreneurs the beginners selected on competitive basis could be placed in business incubators for the time period not exceeding three years and on beneficial terms.

The placement of starting entrepreneurs into business incubators substantially increases by 15-85% their chances for survival.

### Support for the Small Enterprises Export Operations

With the world economy becoming global, Russia's joining the World Trade Organization and the ability of Russian companies, including the small and medium businesses, to compete at both domestic and external markets become one of the major factors to secure sustainable economic growth on a long term basis.

The program to support exporters being the small companies started in 2005 targets these developments. Allocation of funds from the federal and regional budgets compensate expenses of small enterprises for

paying interest from loans given to exporting enterprises, receiving certificates and other permission documents and for participation in expositions abroad.

To develop export potential of small entrepreneurs and with financial support of the European Union, in beginning of 2006 started a project amounting to three million Euro aimed at establishing pilot centers in support of exports carried out by small innovative businesses in five subjects of Russian Federation. The project envisages connection of the established pilot centers with the European networks for marketing information exchange.

### Development of System for Crediting and License Relations in the Field of Small Enterprises

The present program is aimed at increasing the volumes of supply and reducing the loan cost for beginning and fast growing entrepreneurs.

The program for development of micro-finance sector initiated in 2005 is aimed at reducing the cost of micro-credits (ranging from three to three hundred thousand rubles). This support is granted to co-operatives by means of subsidizing the Russian banks interest rates used by co-operatives for further granting the credits received to their members the entrepreneurs.

### Creation and Development of Infrastructure to Support Small Enterprises in the Field of Science and Technology

In order to provide small innovation enterprises possessing substantial growth potential at the market with a larger access to the sources of

their own (equity) capital and of innovation development, a program for establishing a network of private-public regional venture funds was started in 2005.

Creation of the funds is secured from three sources:

- funds from regional budgets – up to 25 %;
- funds from federal budget – up to 25 % (in volume equal to the regional budget expenses);
- funds from the non-budget sources – no less than 50%.

The funds management is to be performed by selected on competitive basis professional managing companies for the period of duration from five to seven years. After the operation time for a fund expires, the public funds are allocated to the establishment of the next public-private venture fund or returned into the revenue of the Russian Federation budget.