

## COMPARATIVE CHARACTERISTICS OF GOVERNMENT SUPPORT FOR SMALL-SCALE BUSINESS IN RUSSIA AND ABROAD

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Government strategies to support entrepreneurship in Russia and foreign countries are studied. The paper focuses on the legislation trends aimed at encouraging this segment of the economy. There is a comparative analysis of legislation, credit policy, and financial conditions both in the Russian Federation and abroad. The objective is to reveal the barriers hampering entrepreneurship development in this country.

The United States ranks are among the world leaders which support small-scale business and encourage their economic and social influence on the national economy. Small-scale business accounts for 99.7 % of all U.S. business and for 50 % of the private sector workforce. For many years the U.S. legislation has been strongly oriented towards small-scale business sustainable development.

The Small-Scale Business Act (1953) laid the foundation for the contemporary legislation regulating U.S. small-scale business. According to this Act, the Small-Scale Business Administration (SBA) became the legal successor of the Reconstruction Finance Corporation and the Department of Defense Small-Scale Business. SBA is authorized to make loans to small-scale business, to act as a prime contractor ensuring that small-scale business concerns receive an equitable portion of government purchases. In addition, SBA provides overall technical and managerial assistance to small-scale business. As small-scale business concerns playing such a vital role in the U.S. economy, SBA offers many services and programs designed to encourage small-scale business start-ups, promote growth, and provide protection within this economic sector.

SBA's Investment Division provides direct and joint loans (shared with private banking structures) to small-scale business. Small companies are ensured guarantees for loans offered by private banking to modernize and expand their business, to purchase the latest technologies, raw materials and equipment, to carry out research and development. According to this program SBA guarantees 90% reimbursement of loans and credits.

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These days, a large number of federal programs are being implemented in the United States to support small-scale business financially. Let's have a closer look at some of these programs.

The 7(a) Loan Program is SBA's primary program for helping start-up and existing small-scale business, with financing guaranteed for a variety of general business purposes. SBA does not make loans itself, but rather guarantees up to 75 % loans.

The 504 Program provides growing business with long-term, fixed-rate financing for major fixed assets, such as real estate, equipment and technologies. SBA secures covering up to 40 % of the loan; the total guarantee sum shall not exceed 1 million dollars.

"Ready to Earn" program is designed for a low-income business staffed with the potentially unemployed and those in need of retraining. These people deal with real estate trade, work in processing industry, in medicine, or are temporarily unemployed. To realize this program various funds are attracted, including municipal treasury as well as charitable donations from such large companies as Microsoft, Boeing, etc. Sponsors enjoy special privileges from the municipal, state and federal administrations for their charity.

Since 1965 the Small-Scale Business Administration has been offering purpose loans to enable small-scale business to pay rent. State guarantees secured by private companies' insurance policies are given; these companies insure lessors against risks related to nonpayment of the rent.

Low taxes help create favorable financial and economic environment for small-scale busi-

ness. In the USA the system of progressive taxation is adopted: up to \$25 thousand - 15%; \$25-30 thousand - 18 %; \$50-70 thousand - 30 %; \$75-100 thousand - 40%. Reduced tax rates are used to attract businessmen to backward depressed areas. Thus, in Connecticut taxes are reduced by 50 %. Tax levers are used to stimulate investment business and to establish new large venture capital funds. In the United States small firms investing risk capital enjoy tax privileges granted from special funds in exchange for a part of shares. The costs incurred by companies for R&D are tax-exempt. The multi-step tax structure is advantageous for low-income business.

Small-scale business enjoys special tax privileges. One of them is *the first-year bonus*, when the tax is paid only on the half of the taxable income.

In Germany, by 2009 there had been about 3.4 million enterprises of small-scale and medium-scale business types covering practically all branches of processing industry as well as service industry including tourism, wholesale and retail trade. In July 2006, the German government adopted the program aimed at supporting small-scale and medium-scale entrepreneurship. Within the framework of this program the following problems are to be solved:

**Creating more favorable business environment.** In 2006-2007, capital allowances on fixed assets (movable property) increased from 20% to 30%. In western Germany VAT collection limit was increased by 50% (up to 250 thousand); in eastern Germany, by the end of 2009 VAT collection limit (from 500 thousand) had not been changed.

Contributions into the Social Security Fund have been decreased from 50% to 40%. Contributions for the benefit of the Unemployment Insurance Fund has been reduced from 6.5% to 3.3%.

**Eliminating unnecessary bureaucracy.** In 2006-2008, three laws were passed to eliminate unnecessary bureaucracy for enterprises of small-scale and medium-scale business types. As a result, 95 administrative procedures have been simplified. Thus, 150 thousand enterprises took the advantage of increasing the annual turnover limit from 350 thousand to 500 thousand; every entrepreneur is obliged to keep books.

The number of enterprises obliged to submit the statistical reports reduced by 50% because obligatory statistical reporting for enterprises with less than 20 staff has been abolished. Statistical data are submitted to controlling bodies once a year (previously it was done on a monthly basis). Start-up companies are exempted from reporting their statistics to controlling bodies for the first three years.

The third federal law which proclaimed the removal of bureaucratic obstacles and lessening tax burden on the enterprises of small-scale and medium-scale business types came into effect in Germany on March 17, 2009. The law states that the amount of the company's untaxed profits is to be increased to 5 thousand (for agricultural businesses to 15 thousand). The amount of the untaxed source of income is to be increased from 3900 to 5000.

On July 1st, 2008 the Federal Ministry of Economics and Technology (Germany) launched its major innovation program designed for the enterprises of small-scale and medium-scale business types - *Zentrale Innovationsprogramm Mittelstand (ZIM)*. This program is to be accomplished by the year 2013. According to the program enterprises of small-scale and medium-scale business types will be provided government support through establishing branch enterprise networks and research institutions which are expected to encourage their successful cooperation when carrying out innovation projects.

**Taxation:** Tax reforms (1998-2005) enabled German enterprises of small-scale and medium-scale business types to get tax relief as individual income tax rates have been considerably reduced: the minimal tax rate - by 10 percentage points (from 25% to 15%) and the maximal one - by 11 percentage points (from 53% to 42%). Actual tax on trade repayments have been decreased as well. For example, partnerships and associations (open trade companies, limited liability partnerships) declare their profit in the status of a company, but they are exempted from paying income tax. It is the partners' duty to pay personal taxes.

**Creating favorable financing environment:** Since July 1st, 2007, German Bank for Reconstruction has been securing 50% of working capital loans granted by banks to a small-scale business. In 2007 these measures guarantees totaled 8.63 billion.

In 2008 German Bank for Reconstruction launched a new program aimed at crediting enterprises of small-scale business types. Initial capital and micro loans can be offered for start-up and newly established businesses. In 2009, German Bank for Reconstruction provided additional government loans totaled 15 billions to support enterprises of small-scale and medium-scale business types.

Companies in Great Britain fall into several categories: enterprises of small-scale business types (0-49 employees) - 99.2%; enterprises of medium-scale business types (50-249 employees) - 0.6%; enterprises of big-scale business types - 0.2%.

The British Government actively encourages the enterprises of small-scale and medium-scale business types; since 1977 the government has been taken every effort to provide the most favorable environment for these companies' sustainable development.

There are two taxation schemes in Great Britain: personal income taxation and taxation of corporations.

The businessman's profit is his/her personal income; hence, the bookkeeping is simple. Every entrepreneur is required to submit his/her income declaration to Inland Revenue. The tax is imposed on all kinds of profits as well as on the national insurance premium for the amount of these profits. Liabilities can be transferred to other types of profits.

Every start-up business or individual engaged in licensing business is allowed to expense up to 100% of the costs related to licensing activities. Only newly established enterprises of small-scale business types are allowed to expense up to 40% of the costs related to information and communication technologies. These privileges are not valid for the period when the company was not engaged in licensing activity.

It should be noted that banks readily agree to act as long-term creditors to the enterprises of small-scale businesses types. Credits are granted for the period of over 10 years. The government actively supports this policy securing all credit liabilities for small-scale and medium-scale companies. The British legislation follows a simplified registration procedure for an individual entrepreneur. To set up his/her own business (except for licensing business)

you are to notify the official body of your decision.

Among the most important programs aimed at providing financial support to the enterprises of small-scale business types are: "Grant scheme", "Agency offering help to local businesses", "Scheme to encourage business establishment" (focused on financial assistance to those unemployed who are willing to start their own business); "Credit guarantee". These programs are expected to support young people financially starting or expanding their business and to encourage municipal authorities to develop small-scale entrepreneurship in their towns and cities.

Unlike western economies with their long history of small-scale and medium-scale entrepreneurship, the legislation of the Russian Federation regulates small-scale business is in the state of infancy. In this country small-scale entrepreneurship dates back to 1988. We'd like to give you a deeper insight into the history of the RF legislation concerning the development of entrepreneurial activity.

The development of the legal base gave an impetus to business incubators; in 2007 their number increased to 60 units. The law "On the development of the enterprises of small-scale and medium-scale business types in the Russian Federation" passed on July 24<sup>th</sup>, 2007 entered into force on January 1st, 2008. This law enabled the business community in Russia to solve some of the urgent problems: qualitative and quantitative criteria of defining an organization as a small/medium-scale business; tax regulation in the sphere of small-scale business. The law covers the infrastructure of small-scale business support.

However, the law on small-scale and medium-scale business revealed some problems to be solved; in compliance with the current legislation some changes have been introduced into the procedure of statistical observations with regard to small-scale business activities. Thus, statistical information related to small entrepreneurship is collected without taking into consideration micro-businesses. This procedure is regulated by the rules of sampling observation approved by the Decree of the Government of the Russian Federation No. 79 dated February 16<sup>th</sup>, 2008. Enterprises of micro-business types are statistically observed once a year.

The dynamics of small-scale and medium-scale business development has been evaluated since January 2008 and can be considered a new experience for the Russian economy.

New credit programs are being developed to the enterprises of small-scale and medium-scale business types. On June 19<sup>th</sup>, 2009 Russian Development Bank (RDB) launched the program "Refinancing" - RDB offers funds to bank partners or organizations of infrastructure support, which in turn give these funds to the enterprises of small-scale and medium-scale business types. In 2009 30 billion rubles were budgeted for these purposes; in 2010 this sum increased twice. To ensure optimal distribution of funds through partner banks the regional limit is set for every subject of the Russian Federation.

From what has been said above the following conclusions can be made. On their way to competitive entrepreneurship enterprises of small-scale and medium-scale business types in the Russian Federation have to overcome serious obstacles and solve problems caused by:

- ◆ high level of taxation;
- ◆ unavailability of credit resources;
- ◆ administrative barriers.

As for western economies, the government strategy in these countries is strongly oriented towards practical support of enterprises of small-scale business types. Moderate tax regime policy is pursued and unlimited access to financial resources, including commercial credits, is ensured. The governments act as guarantors for these credits.

Every year 13-15 thousand of Russian entrepreneurs have free access to financial resources in this country. It means that organizations offering financial services to businessmen cover only 1% of the potential market. The most

crucial problem to be solved is the development of the resource environment - both material/technical and financial ones.

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