
THE FACTORS AND CONDITIONS THAT DEFINE THE FUNCTIONING OF SMALL BUSINESSES IN THE FINANCIAL REPRODUCTION PROCESS OF RUSSIA

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Article considers the main problems related with the functioning of small-scale enterprises in the financial reproduction process of the Russian economy. Article proves the determinant role of small businesses in the reproduction of capital of society that is an important factor in the increase of quality of economic growth. Article discovers the main conditions that define the development of small business, the most important from which are institutional and production-economical conditions.

The main function of small business is satisfying the diverse needs of society on the local segments of the market. This function reflects its participation in the reproduction process and creation of conditions for good economic growth.

Impartially small business is not an independent party of the reproduction process in conditions of the modern market system as it is built in the system of social labour division within the limits of both national and world economy. That is why it is very important to consider small business as part of the social capital which performs definite specialized functions in this system. Small business in the system of both simple and extended reproduction is small form of capital organization aiming at its preservation and increase. Small capital is potentially medium and large capital as it contains cost self-growth as a leading tendency which defines the contents of the economic goals of small business. Small business reproduction conditions are the conditions of constant resources dependence, instability in all forms of its flows – cash, production and goods flows. That is why one more important goal of small business functioning is the provision of dynamic market stability on the basis of formation and more complete fulfillment of its innovation potential which is going to provide not only adaptation but also self-development of small business in the ever-changing environment. Under the influence of globalization the process of integration of small businesses in international sales and financial complexes is becoming stronger. There is a tendency to unite the advantages of large and small forms of busi-

ness which provides more effective functioning of social capital on all the stages of social reproduction regardless of cyclical fluctuations. The increase of the effectiveness of social capital reproduction is impossible without the defining of specialized reproduction functions of small business capital on the basis of social labour division. Small business makes it possible to speed up social capital turnover in general thus increasing GDP and mass of profit created in national and world economy. Effective functioning of business is possible only if there are certain conditions and factors in total providing formation of a definite business environment.¹ These conditions and factors² of small business development are classified in table 1.

Let's have a look at the most important from our point of view institutional, production and economic conditions of small business development in the Russian Economy. Institutional conditions are considered as the system of state and social institutions supporting small business. Institutional factors suppose provision of competitive conditions, acceptable level of transactional costs and complex security of entrepreneurship. Financial security of the federal policy in the sphere of the state support of small business is carried out by the Federal Fund of Small Business Support created by the government of the RF. The resources of the Federal Fund of Small Business Support are allocated from the federal budget and other sources. Along with the state institutions of small business support the problems of small business are being solved by a great number of different enterprises and social institutions. However the existing infrastructure of this support sometimes fails

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Table 1

Conditions and factors of small business development in the modern economic system of Russia*

Conditions	Factors
1. Institutional	a) legal foundation; b) tax burden character; c) administrative barriers; d) development of infrastructure providing functioning of small business; e) imperfection of competition on definite markets, monopoly; f) corruption, bribes
2. Production and Economic	a) resources provision; b) financial provision, in particular, availability of long-term credits; c) the level of involvement in the process of social distribution of labour; d) structural peculiarities of economy and key characteristics of branch markets.
3. Technological	a) state and development of scientific and technical progress in the basic spheres of the economy; b) the level of renewal of equipment; c) availability of quality resources; d) the level of new technologies introduction and the level of their development in social production
4. Social and Demographic	a) the level of economically active population and its structure; b) balance of labour resources distribution on the territory of the RF; c) structure, number, density and reproduction characteristics of labour resources; d) welfare level
5. Globalization	a) development of integration processes with the developed countries, in particular, RF entry in WTO b) creation of international forms of business organization; ?) realization of competitive advantages on the international market; ?) development of export-oriented sector of small business

*The table was made with the use of G.L. Bagiev Organization of Entrepreneurship: <http://www.aup.ru/books>.

to satisfy the needs of entrepreneurs. The reason is these structures are often small businesses themselves and their activities have commercial basis. As a result all the costs connected with different consulting services, business-plans development, informational support are shifted on the entrepreneur. We should also focus on such a factor of entrepreneurship development as administrative barriers. Though they are gradually decreasing the system of their interrelation stays the same and the entrepreneur wastes a lot of time and energy on it.³ Except traditional control of sanitary, fire and tax inspections many entrepreneurs also note vigilant control of such bodies as environmental police, municipal police and the body dealing with immigration problems. Totally there are about 30 bodies executing control. It's quite natural that such dominance of bureaucratic bodies leads to corruption and impede normal functioning of small business enterprises. According to the

information given by V. Radaev 40.7% of small businesses managers regularly come across extortion⁴. O. Shestoporov, the General Director of the Institution of System Research of Entrepreneurial Problems says that "corruption does not decrease. It provokes shadow turnover (of small businesses – T.K.). Great sums of money are spent on bribes and kickbacks. We have the figures that in the year 2002 small business "gave" officials about 12-13 billions dollars. Now this figure is much higher. Nearly 6% of small business turnover goes to the pocket of different officials. It means that 6% for bribe is built in the price of each commodity. According to our research data 53% of small business enterprises give bribes"⁵. That is why it is reasonable to submit the bill on the prohibition of small business inspections without sanction of the court suggested by the President of the RF D. Medvedev for the consideration of the State Duma. The given data are enough to admit the

systematic character of the negative influence of the researched factor. We think that the main reason of such state of things is the scheme of relationship between the state and the entrepreneur. Three interrelated principles lay in its basis. They are distribution - permission – control. The opportunity of officials to distribute resources necessary for small businesses functioning also leads to corruption. It is especially important when lease of premises is concerned. Unlike large enterprises which either buy or build necessary industrial or office buildings small companies more often lease them. The leased premises are usually uninhabited premises and land premises owned by municipal bodies. The above mentioned property gives them rich opportunities to put pressure on lessees. In the first half of 1990-s the practice of the so called “compulsory but made to appear voluntary” fees of entrepreneurs to municipal non-budget funds established with the approval of the authorities became widely spread. As for the tax burden of small business it does not influence much the effectiveness of small businesses functioning after the simplified tax scheme was introduced. On the other side the tax payment procedure is not always easy to understand and follow. O. Shestoporov says that taxes in Russia are not high. For example, the tax on salary fund in Sweden is about 90%. In our country small business pays the state about 15% in accordance with the simplified scheme. Naturally there are several taxes which irritate entrepreneurs, first of all these are salary taxes. You have to pay 40% above the salary fund and, of course, entrepreneurs try to avoid paying these taxes. Another reason of incomplete payment of so-

cial taxes is unclear perspective of pension reform and other social projects. Thus we can say that optimization of norms regulating entrepreneurship depends upon political and economic stability of social and economic system of society.

Our next object are production and economic conditions of small business functioning. The main problem faced by more than 60% of small businesses is limited assets and lack of access to financial resources. A lot of small businesses do not have enough external financing and the main obstacle here is bank credit terms. However there are some positive changes. According to statistics 5 years ago small business asked for credits of about 10-15 billion dollars. This demand was satisfied 7-10%. Now the demand is about 20-30 billion dollars and it is satisfied 20-25%. In the developed financial systems abroad this demand satisfied 60-70%⁶. So we can speak about positive dynamics in the sphere of small business crediting. The financial risks are covered by higher credit rates though the level of nonpayment is traditionally low – 2%. In spite of this positive dynamics the problems connected with the capital reproduction, the formation of own material and technical base are still burning. The main factors impeding increase of production are: lack and wear of equipment, lack of demand for products and services on internal and external markets, general economic and political instability and high level of competition with foreign and domestic enterprise. (table 2).

Today we can not say that there are favourable conditions for small business development but there is some positive dynamics. For exam-

Table 2

Factors limiting the growth of production of industrial small business enterprises, % from the number of small business enterprises interviewed*

№	Factor	2005		2006	
		3 quarter	4 quarter	1 quarter	2 quarter
1	Absence and wear of equipment	31	30	31	29
2	Insufficient demand on internal market	35	36	37	37
3	General economic and political instability	29	28	28	25
4	Insufficient demand on external market	5	5	5	5
5	High level of competition with domestic enterprises	38	38	38	39
6	High level of competition with foreign enterprises	6	6	6	6
7	No limits	5	5	10	10

* Source: M.D. Ismailov. Improvement of the mechanism of small business efficiency increase: Thesis abstract ... candidate of economic sciences. M., 2007, p. 6.

ple, the share of profitable small businesses is increasing and the share of non-profitable is decreasing. Most profits were gained by small business enterprises in the sphere of industry, construction, trade and hotel services. However there are certain problems with the use of these profits. One of the main functions of small business is positive financial result. It reflects not only the profit but also possibility to invest assets in production development. The thing is the majority of small businesses use large part of profit to replenish working capital which decreases investment possibilities to a great extent. The volume and dynamics of debt receivable are also important for finding sources of investment. The increase of debt receivable is high in all spheres but it is the highest in the sphere of real estate transactions, lease and service sphere – 4.8 times, hotel services-2.8 times, construction – 2.3 times. It means that huge sums are distracted from active turnover, longer period of invested resources turnover and longer period of payback. The decrease of debt payable would make it possible to double investments in the stock capital. If you analyze the investment structure of small businesses you can see the following: small business investment structure is different from large scale business investment structure because of the differences in capital accumulation and capital reproduction. Additionally attracted capital is not substantial, has complicated structure of its sources, is attracted for rather short period of time and should be invested in the spheres with high profitability and quick payback (table 3).

in the previous years but the positive moment was the increase of profit share in the owned assets and the increase of the budget financing of small business. This tendency must be connected with the increase of attention of the government of the RF to the development of small business, stabilization of the Russian economy and the increase of the total volume of investments. Thus small business production and economic conditions are a bit contradictory. On the one hand according to statistics there is positive dynamics of the reproduction process; on the other hand there are some problems which do not allow hoping that positive tendencies will have long-term character. Summing up all the above-mentioned we can make the following conclusions:

- ◆ small business is integral part of the reproduction process as its functioning is connected with social distribution of labour, reproduction of capital and creation of conditions for economic growth;

- ◆ small business is a special, small form of capital organization with the aim of its preservation and increase. It is the main economic goal of small business;

- ◆ the most important economic function of small business is provision of dynamic market stability on the basis of innovation potential which helps small business to adapt to and develop in the changing environment;

- ◆ the peculiarity of small business participation in the reproduction process is its ability to speed up social capital turnover in general

Table 3

The dynamics of the structure of investments in the basic capital in Russian economy, financial sources % to the total*

Ratios	Years				
	1995	2000	2003	2004	2005
Investments in the basic capital, totally	100	100	100	100	100
Including owned assets:	49,0	47,5	45,2	46,8	47,7
- profit	20,9	23,4	17,8	18,3	22,4
- depreciation	22,6	18,1	24,2	24,4	22,1
Attracted assets:	51,0	52,5	54,8	53,2	52,3
- budget	21,8	22,0	19,6	17,4	20,1
- loans	29,2	30,5	35,2	35,8	32,2

* Source: Small business in Russia. 2007: collected articles/ Rosstat. M., 2007. p. 65-66.

The data in table 3 shows that in the year 2005 owned/rented assets ratio was worse then

thus increasing the creation of GDP and mass of profit;

◆ small business can effectively function only if there are certain conditions and factors providing formation of the definite business environment;

◆ the main conditions providing the development of small business are institutional, production and economic, technological, social and demographic and globalization conditions;

◆ we consider the factors defining institutional conditions of small business functioning to be the most important. These are the weakness of the RF legislation, administrative barriers, corruption, lack of practice of the partnership between business and the government, the absence of the venture crediting system, weak production infrastructure;

◆ production and economic conditions of small business functioning are characterized by lack of own material base, lack or wear of equipment, high level of competition with domestic and foreign enterprises.

¹ The last one should be considered as integrated totality of different (objective and subjective) factors which make it possible for the entrepreneur to achieve the goals successfully: to implement projects and make contracts receiving enough profit. The effectiveness of business environment is defined by the terms of economic freedom and the development of organizational and entrepreneurial innovations. These elements of business environment are reflected to a great extent in the Constitution and the Civil Code of the RF. *A.S. Neshitoy*. Conceptual and methodical basics of complex estimation of entrepreneurship effectiveness // *Financial Management* №4. 2002.

² There are different interpretations of these categories. We will accept the following definitions:

1. Conditions are considered as the relations of the subject with the surrounding phenomena. Unlike the reason which creates this or that phenomenon or process, conditions make the environment where these phenomena and processes exist, develop and interact. 2. Factors are understood as motive forces of economic and production processes influencing the result of production and economic activities. Re: *Philosophic Dictionary* /editor I.T. Frolov 5th ed., M., 1986. p. 497; *B.A. Raizberg, L.Sh. Lozovskiy, E.B. Starodubtseva*. Contemporary Economic Dictionary, 2d ed., 1998, p. 363.

³ For example, it takes up to 1.5 months in Moscow to organize the visit of sanitary inspection representative who will endorse setting up production facilities. And the entrepreneur has to prepare all the necessary documents himself. Costs of overcoming administrative barriers are sometimes higher than the costs of business activities of a company. Re: *M.A. Sidorov*. Problems of small business in Russia // Small business- economic base of local government development: Thesis of the 6th Russian Conference of small businesses representatives: <http://www.nisse.ru/analitics>. The problem of corruption is closely connected with the problem of falsified and counterfeit goods. For example, according to the information of the Russian Health Inspection, 10-12 % of all medicines sold in Russia are falsified and according to the information of independent experts this figure is much higher – 50%. Other figures: there are 2.5 thousand wholesale pharmaceutical companies. In comparison: in England there are 4 pharmaceutical companies-distributors and in France -3 companies-distributors. <http://www.tpprf.ru>.

⁴ Re: *L.E. Slutskiy*. The development of small business in modern Russian economy: Thesis abstract of doctor of economic sciences, M., 2001. p. 46.

⁵ *O. Shestoporov*. 6% - bribes "tax" // *Arguments of the Week* 2008. № 14 (100). p. 3.

⁶ <http://www.nisse.ru/ainterview>.