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TRENDS AND OUTLOOKS**

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The review “Russian economy in 2017. Trends and outlooks” has been published by the Gaidar Institute since 1991. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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4.4. Small and medium-sized enterprises in 2016–2017¹

Over the period 2016–2017, a number of specialized normative legal acts were introduced with the aim of developing the small and medium-sized business sector (SMB), including the SMB Development Strategy until 2030;² the SMB Corporation was set up;³ and the creation of a basic support infrastructure was completed in many regions. The Single Register of SMB Subjects was introduced in order to follow the monthly movement of their basic indices.

In 2017, 77.9 percent of all organizations and individual entrepreneurs (IEs) belonged to the category of SMB subjects, while at year-end 2016, the share of SMB subjects in the national average employment rate (calculated on the basis of their average staffing number index) amounted to 37.9 percent, and in the total turnover of enterprises and organizations – to 37.1 percent. The input of SMBs, IEs including, in GDP over the period from 2011 through 2016 jumped by 0.5 percentage points, and now amounts to approximately 20 percent.⁴

Small and medium-sized businesses represent a very significant sector in the Russian economy; nevertheless, in spite of the current positive trends that point towards an expanding entrepreneurial activity and an increasing role, overall, of the SMB sector in the national economy, it still remains relatively underdeveloped in Russia, by comparison with other countries.

4.4.1. The movement of the main development indicators in the SMB sector

The main indicators applied in the analysis of the current status and development trends in Russia's SMB sector are the number of SMB subjects, employment, and turnover relative to company size, by-industry and across Russia's regions. Additional parameters make it possible to more precisely analyze the specific features of small and medium-sized companies in Russia.

When working on a general assessment of the SMB sector, it should be noted that for Russian small and medium-sized companies, it is typical to use new technologies on a low scale; Russia's Innovation Index⁵ is 5.4 percent, which is 4 times below the corresponding indexes in the BRICS countries, and 7 times lower than in the USA. Besides, the majority of entrepreneurs in Russia lack business development plans, the percentage of unregistered entrepreneurs is high

¹ This section is written by Vera Barinova, the Gaidar Institute, IAES-RANEPА; Stepan Zemtsov, the Gaidar Institute, IAES-RANEPА; Yulia Tsareva, IAES-RANEPА.

² Strategy of Small and Medium-sized Business Development in the Russian Federation for the Period until 2030, 2016. See <http://economy.gov.ru/minec/main>

³ In 2015, in accordance with the Executive Order of the President of the Russian Federation 'On Measures Designed to Further Develop Small and Medium-sized Businesses' and Federal Law 'On the Introduction of Alterations in Some Legislative Acts of the Russian Federation Concerning Issues of Small and Medium-sized Business Development in the Russian Federation'.

⁴ Report on the results achieved in improving conditions for entrepreneurship and development of small and medium-sized businesses, and in increasing support for individual entrepreneurial initiatives, 2017.

⁵ Product Newness Index / Competition Intensity of Budding and Well-established Entrepreneurs. Source: *Verkhovskaya et al.*, 2016/2017 National Report *Global Entrepreneurship Monitor* (GEM), St. Petersburg: St. Petersburg University Graduate School of Management, p. 46. URL: http://gsom.spbu.ru/files/docs/gem_russia_2016-2017.pdf

and cannot be estimated accurately, and the share of involuntary entrepreneurs is likewise huge, amounting to 31 percent¹.

Besides, Russia is characterized by strong structural and regional disproportions across its SMB sector.

The movement of indices describing the creation and liquidation of SMB subjects

The data entered in the Single Register of Registered Companies (including IEs) are available beginning from 1 August 2016. As of autumn 2017, the total number of SMB subjects operating in Russia was 5.86 million (*Fig. 31* and *Table 16*), and of these, approximately 3.1 million were IEs (≈ 53 percent). In Russia, 95.1 percent of all SMB subjects are micro companies (almost 5.5 million), with only one or two employees on average. The number of small companies in Russia is 265,900 (4.5 percent), and that of medium-sized ones is 19,900 (0.3 percent).

Table 16

The Structure of the SMB Sector, by Company Size and Organizational Form, As of 10 November 2017

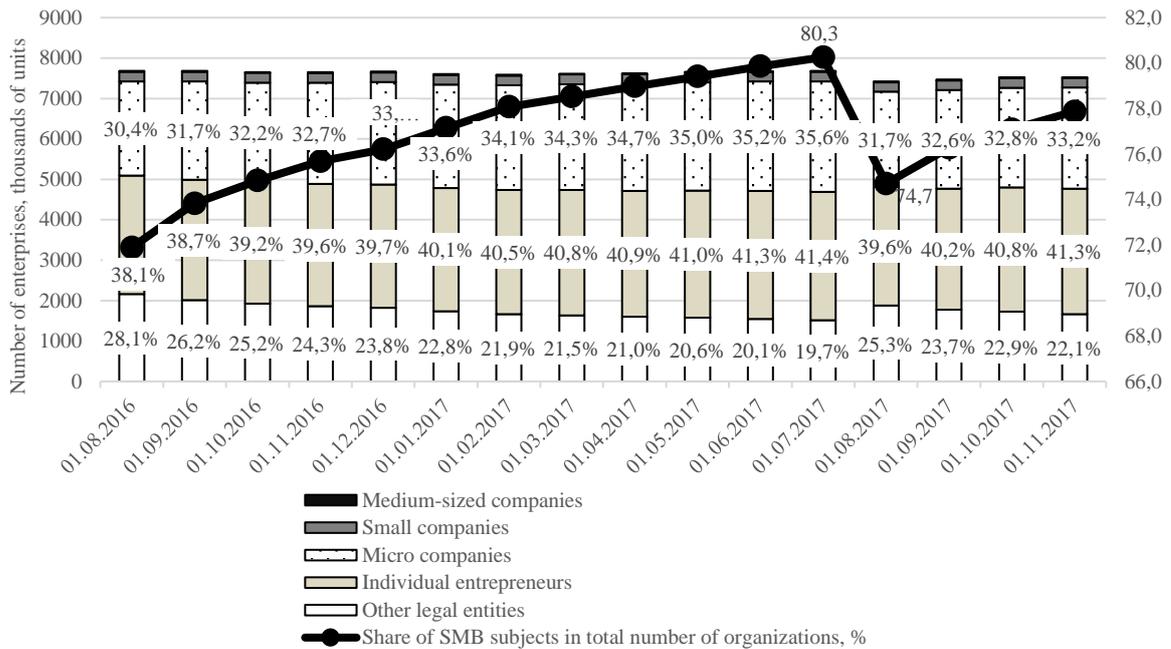
Index	Total	Micro companies	Small companies	Medium-sized companies
Legal entities				
Number of companies, units	2,756,724	2,498,152	238,893	19,679
Share in total number of SMB subjects, percent	47.024	42.613	4.075	0.336
Share in total number of legal entities, percent	100	90.620	8.666	0.714
Individual entrepreneurs				
Number of companies, units	3,105,636	3,079,056	26,446	134
Share in total number of SMB subjects, percent	52.976	52.522	0.451	0.002
Share in total number of IEs, percent	100	99.144	0.852	0.004
All SMB subjects				
Number of companies, units	5,862,360	5,577,208	265,339	19,813
Share in total number of SMB subjects, percent	100	95.136	4.526	0.338

Source: Single Register of Small and Medium-sized Business Subjects.

Over the period from August 2016 through July 2017 the number of SMB subjects was displaying a positive movement trend (*Fig. 31*). During that time, their number jumped by 11.6 percent, from 5.52 million to 6.16 million, or approximately by 641,000 units. Meanwhile, the total number of registered legal entities and IEs over the same period remained practically unchanged (decline by 0.02 percent). However, in August 2017, the number of SMB subjects shrank from 6.165 million to 5.543, or by more than 622,000, which nearly offset its previous growth. By November 2017, the number of SMB subjects increased relative to November 2016 by only 74,000, or by less than 1.3 percent. Of course, this movement pattern seems to be questionable. The Single Register of Small and Medium-sized Business Subjects is being augmented by new entities (which do exist, but have not been entered in records), while those companies that effectively do not function and fail to submit their reports are struck off the register only once a year. Therefore data from the Single Register pertaining to current changes in the number of SMB subjects, as well as their employment data, should be treated with caution.

¹ Ibid.

The relative share of SMB subjects in the total number of registered legal entities and IEs in Russia, according to data released by the RF Federal Tax Service,¹ as of early November 2017 was 77.9 percent (*Fig. 31*).² This index hit its record high in July 2017, when 80.3 percent of all enterprises and organization were SMB subjects, followed by its already mentioned decline in August 2017. No reduction in the number of other organizations was observed, which indirectly confirms the assumption that the plunge of the number of SMB subjects was caused by certain alterations inside the Single Register, and did not reflect the actually existing situation with regard to registration of economic subjects in the national economy as a whole.



Note. The category of other legal entities includes those entities that are entered in the Single State Register of Legal Entities (with the exception of those legal entities that have terminated their operations), but not entered in the Single Register of Small and Medium-sized Business Subjects.

Fig. 31. The Movement Pattern and Structure of the SMB Sector and Other Legal Entities, by Number of Subjects, from August 1, 2016 through November 10, 2017, Units, %

Source: Single Register of Small and Medium-sized Business Subjects. URL: <https://rmsp.nalog.ru/>; Statistical Information on State Registration, RF Federal Tax Service. URL: https://www.nalog.ru/rn77/related_activities/statistics_and_analytics/regstats/

With due regard for the alterations introduced in the classification criteria applied to SMB subjects, on the basis of sample studies conducted by the federal State Statistics Service

¹Statistical Information on State Registration, RF Federal Tax Service. See https://www.nalog.ru/rn77/related_activities/statistics_and_analytics/regstats/

²It is noteworthy that the number of IEs differs significantly depending on the data source. Rosstat calculates the number of IEs by imputation, extrapolating its collected sample data.

The Single Register of Small and Medium-sized Business Subjects contains records of those IEs who have simultaneously submitted their complete reporting form set – the statement concerning their staff number and the filled-in reporting forms established for their taxation regime.

The RF Federal Tax Service, in the framework of the Single Register of Individual Entrepreneurs, collects data on the IEs who owe irrecoverable debts, and on those of them who effectively do not operate and do not submit their reports.

(Rosstat), we can follow, with some reservations, the multi-year movement pattern of structural changes inside the SMB sector based on the number of companies, from 2008 through 2016 (the years 2010 and 2015 are excluded because Rosstat was then collecting non-selective data for SMBs). The total number of SMB subjects increased by 30 percent, from 4.1 million in 2008 to 5.3 million in 2016, while a sharp surge by 17 percent occurred over the period 2014–2016.

From 2008 through 2016, there was stable growth of both the number and relative share of micro companies in the total number of SMB subjects (from 26 percent in 2008 to 49 percent in 2016), alongside a shrinkage of the relative share of IEs, from 67 to 48 percent. At the same time, the aggregate share of micro companies and IEs in the total number of SMB subjects was staying above 90 percent, and in 2016 it amounted to 96.7 percent, as shown in Fig. 32. The number of micro companies increased from 1.87 million in 2014 to 2.6 million in 2016.

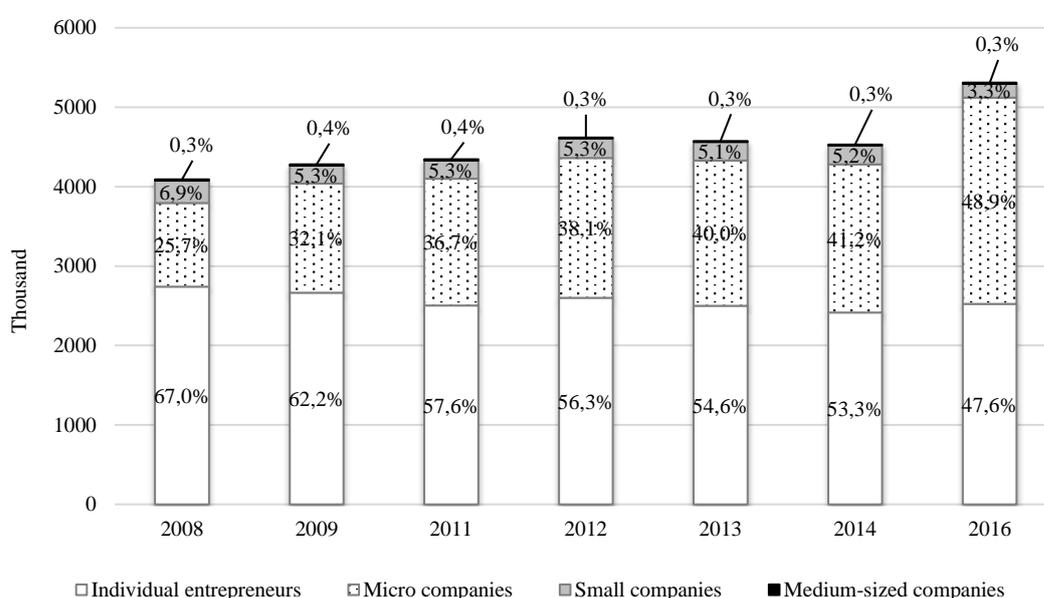


Fig. 32. The Movement Pattern and Structure of the SMB Sector in 2008–2016, by Number and Relative Share of Enterprises of Different Sizes

Sources: Small and Medium-sized Enterprises in Russia. Statistics Collections. Rosstat. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359; for 2016, see Institutional Changes in the Economy and the Number of Big and Medium-sized Enterprises and Organizations. Rosstat. http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359

In the by-sector structure of SMBs, the biggest share is taken up by trading enterprises; according to Rosstat latest available data (year-end 2016), these amounted to 2.3 million, or 42.7 percent of the total number of small and medium-sized companies. Other types of economic activity most commonly practiced by small and medium-sized businesses are real estate transactions (18.3 percent of the total number of enterprises), transport and communications (9.9 percent), building construction (8.1 percent), and manufacturing industries (7.1 percent).

It should be noted that in the SMB sector, the prevailing type of economic activity varies depending on company size. Thus, among small (including micro) companies, 37 percent

operate in trade, 22 percent – in real estate business, 12 percent – in building construction, and 9 percent – in manufacturing industries. Among medium-sized ones, there are more companies involved in manufacturing (26 percent) and agriculture (14.5 percent). These activities require more skills and higher competence, and so a company, in order to maintain its competitive capacity on the market, must be bigger in size. Trading was engaged in by approximately 25 percent of medium-sized companies, and about 11 percent were involved in building construction.

The distribution of IEs by type of economic activity also notable differs from that of small and medium-sized companies. Thus, nearly half of all IEs (48.8 percent) are engaged in trading; 14.7 percent – in real estate transactions; and 12.2 percent – in transport and communications, that is, in a sector where capital turnover ratio is high, and low capital/labor ratio. Another noteworthy fact is the high number of IEs providing amenities and household services: 161,500, or 6.4 of the total number of IEs. The bigger the company, the higher its capacity for carrying out technologically complex (manufacturing industry), expensive (extractive industry), and risky (agriculture) activities.

The distribution of small and medium-sized companies across subjects of the Russian Federation corresponds to the population distribution structure. The highest number of small and medium-sized companies, according to the Single Register of Small and Medium-sized Business Subjects, can be found in the Central (30.6 percent of the total number of SMBs), Volga (18 percent), Southern (12 percent), Siberian (11.7 percent), and Northwestern (11.5 percent) Federal Districts.

The leaders among Russia's regions, by their total number of legal entities and IEs entered in the Single Register of Small and Medium-sized Business Subjects, are as follows: the city of Moscow (768,618 SMB subjects, or 13.1 percent of Russia's total); the city of St. Petersburg (347,355, or 5.93 percent); Moscow Oblast (308,378, or 5.26 percent), these three regions accounting for nearly a quarter of all the small and medium-sized companies operating in Russia. The other regions with high numbers of small and medium-sized companies are Krasnodar Krai (276,966); Sverdlovsk Oblast (199,103); Rostov Oblast (173,380); the Republic of Tatarstan (152,658); Novosibirsk Oblast (143,366); Chelyabinsk Oblast (142,267); and Nizhny Novgorod Oblast (130,187). These are predominantly the regions housing biggest agglomerations with highly developed services sectors, where the bulk of their SMB subjects are operating.

In terms of their relative share of SMB subjects in the total number of registered organization, the leaders are the regions with a well-developed agricultural sector, where the registered subjects are IEs, including individual farmer households. The relative share of IEs in the structure of SMBs is also above 75 percent in the least developed regions, where many individual farmer households are registered, while the existing institutional conditions impose constraints on their growth into some bigger entities.

The relative share of legal entities above 50 percent is higher in the regions housing biggest agglomerations: in the city of Moscow; the city of St. Petersburg; Novosibirsk Oblast; Samara Oblast; Sverdlovsk Oblast; Nizhny Novgorod Oblast; Tomsk Oblast; and the Republic of Tatarstan. These regions display a greater density of the services sector and industry and a higher purchasing power of their population; thanks to their more favorable economic and geographic situation (as, for example, Yaroslavl Oblast or Tyumen Oblast), they have access to major foreign or domestic markets. The institutional conditions in those regions promote business growth. The highest relative share of medium-sized companies (above 0.4 percent) is

registered in the cities of Moscow and St. Petersburg, and in Moscow and Leningrad Oblasts – that is, in the best-developed and most technologically advanced regions of Russia.

Employment in the SMB sector

The companies operating in the SMB sector provide jobs to more than 19.1 million people (see *Table 17* and *Fig. 33* below), which amounts to approximately 25 percent of the total number of persons employed in this country. According to data in the Single Register of Small and Medium-sized Business Subjects as of November 10, 2017, nearly 10 million are employed by micro companies, 7 million - by small ones, and 2 million – by medium-sized ones. The structure of the SMB sector, by the number of persons employed, has remained relatively stable, although over last year the relative share of micro companies increased.

Table 17

The Structure of the SMB Sector, by Number of Persons Employed and by Organizational Legal Form

Data as of November 10, 2017, persons	Micro	Small	Medium-sized	Total
Legal entities	5,452,380	6,290,701	1,904,746	13,647,827
Employed by IEs ¹	1,557,769	744,531	10,860	2,313,160
IEs ²	3,079,056	26,446	134	3,105,636
Total	10,089,205	7,061,678	1,915,740	19,066,623
As percentage of total number of persons employed by SMB subjects				
Legal entities	28.6	32.99	9.99	71.58
Employed by IEs	8.17	3.9	0.06	12.13
IEs	16.15	0.14	0	16.29
Total	52.92	37.04	10.05	100
Data as of December 10, 2016, persons	Micro	Small	Medium-sized	Total
Legal entities	4986416	6565522	1936627	13488565
Employed by IEs	1533320	861540	39013	2433873
IEs	3017192	28682	378	3046252
Total	9536928	7455744	1976018	18968690
As percentage of total number of persons employed by SMB subjects				
Legal entities	26.29	34.61	10.21	71.11
Employed by IEs	8.08	4.54	0.21	12.83
IEs	15.91	0.15	0	16.06
Total	50.28	39.31	10.42	100

Source: Single Register of Small and Medium-sized Business Subjects. See <https://ofd.nalog.ru/index.html>

Monthly employment data in the Register are available from December 10, 2016 onwards. During all the periods for which data are available, the general distribution of the employment index between micro, macro and medium-sized companies, as well as the total number of persons employed, remained approximately the same (although August 2017 saw a plunge in the number of persons employed (which, as noted earlier, we explain by measurement errors). The total number of persons employed in the SMB sector as of November 10, 2017 relative to December 10, 2016, according to data in the Register, increased by 97,900.

It should be noted that Rosstat annual sample studies have revealed an employment decline in the SMB sector, as confirmed by both the reported average staffing number indices and its relative share (see *Fig. 34* below).

¹ The index ‘Employed by IEs’ does not include the number of individual entrepreneurs-employers, it reflects only their hired staff.

² In fact, this is the number of IEs that we apply in order to reflect, in our employment statistics, the number of those entrepreneurs who set up their IE entities.

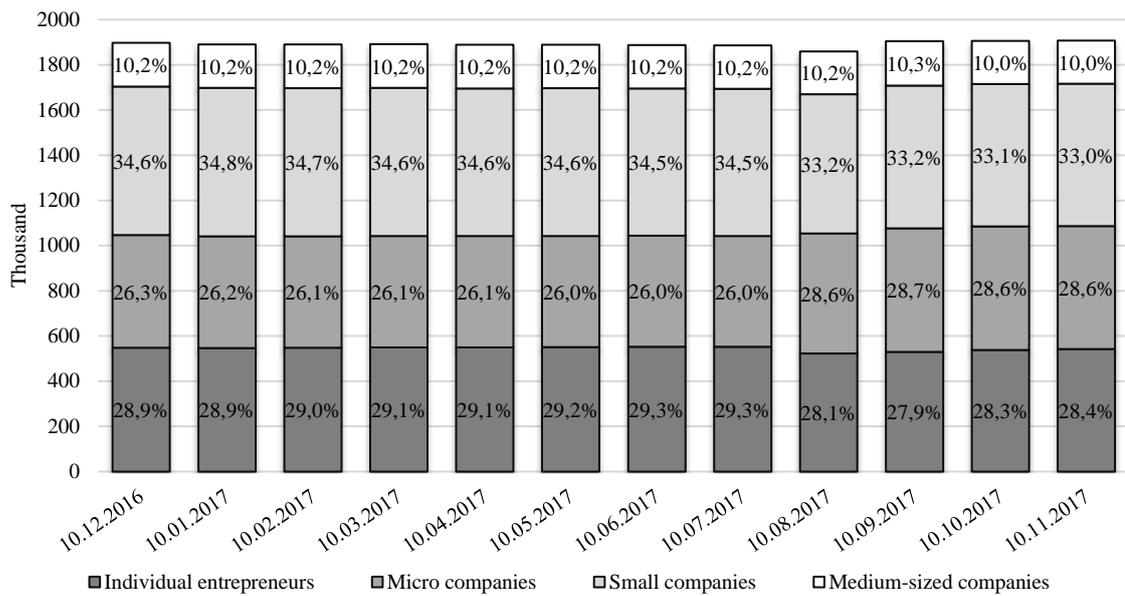


Fig. 33. The Employment Movement Pattern and the Structure of the SMB Sector, by Company Size and Organizational Legal Form

Source: Single Register of Small and Medium-sized Business Subjects. URL: <https://ofd.nalog.ru/index.html>

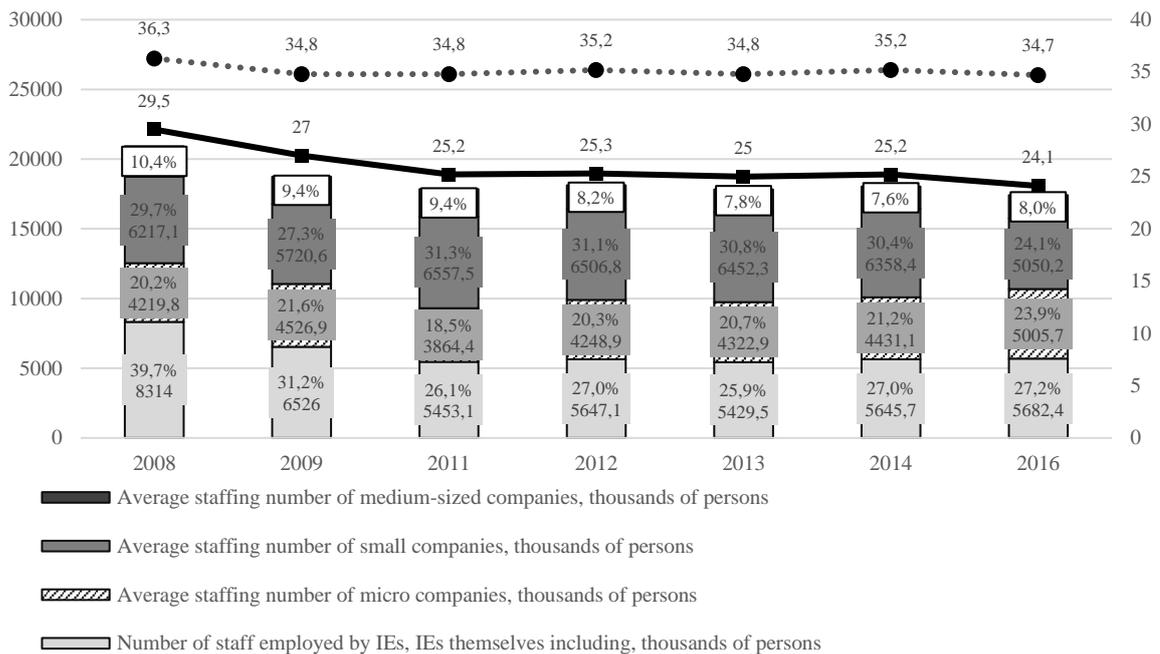


Fig. 34. The Average Staffing Number Movement Pattern in the SMB sector

Source: Small and Medium-sized Enterprises in Russia. Statistics Collections. Rosstat. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359; Institutional Changes in the Economy and the Number of Big and Medium-sized Enterprises and Organizations. Rosstat. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359

The topmost regions in terms of the number of persons employed by SMB subjects: the city of Moscow (12.5 percent of the average staffing number data reported by Russian SMB subjects; 47.4 percent the average staffing number data reported by organizations and IEs in the region), the city of St. Petersburg (6.3 percent and 54.3 percent respectively), Moscow Oblast (5.2 percent and 42.1 percent), Krasnodar Krai (4 percent and 43.8 percent), and Sverdlovsk Oblast (3.3 percent and 38.5 percent).

The relative share of those employed by individual entrepreneurs in the overall structure of SMB subjects is above 50 percent in the underdeveloped regions (the Republic of Tyva, Chechen Republic, the Republic of Kalmykia, and the Republic of Crimea), and it is lowest (below 20 percent) in the highly developed regions – Samara Oblast, the city of St. Petersburg, and the city of Moscow.

The turnover and labor productivity of SMB subjects

The turnover of small and medium-sized companies (less IEs) in 2016 was RUB 46.4 trillion, and the total proceeds of IEs was RUB 12.4 trillion, which adds up to produce the total index for the SMB sector amounting to RUB 58.8 trillion. The total turnover of all organizations¹ over 12 months of 2016 was RUB 146 trillion. Thus, the SMB sector (less IEs) accounts for approximately 31.8 percent of the total business turnover. The turnover in the SMB sector increased by 15.5 percent (adjusted for inflation) over the period 2014-2016.²

The input of trading companies in the total turnover of SMB subjects in 2016 amounted to 59.3 percent see *Fig. 35*).

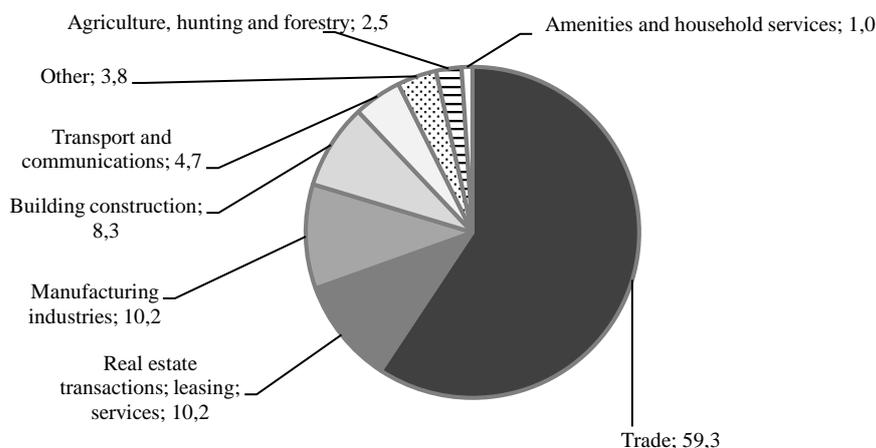


Fig. 35. The Relative Shares of Different Types of Economic Activity in the Turnover of SMB Subjects (Including IEs) in 2016, Percent

Source: Institutional Changes in the Economy and the Number of Big and Medium-sized Enterprises and Organizations. Rosstat. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/reform/#

¹ Institutional Changes in the Economy and the Number of Big and Medium-sized Enterprises and Organizations. Rosstat. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/reform/#

² Small and Medium-sized Enterprises in Russia. 2017 Statistics Collection. Rosstat. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359

The decisive share in the aggregate proceeds of all IEs belongs to trading companies – 75.8 percent of the total index. Second come real estate transactions, leasing, and services (8.4 percent), followed by transport and communications (4 percent).¹

At the same time, the relative share of medium-sized companies in the total turnover does not exceed 13 percent, although elsewhere around the globe it is significantly higher. The highest share of medium-sized companies operate in manufacturing industries and agriculture.

According to the data based on 2017 OKVED (All-Russia Classifier of Economic Activities) Codes (OKVED2), trade and services account for more than 54 percent of the total output of SMB subjects, manufacturing industries – for about 28.5 percent.

More than 50 percent of the turnover of companies operating in the SMB sector occurs in the following 10 regions: the city of Moscow (RUB 11.2 trillion; 19.5 percent of Russia's total index); the city of St. Petersburg (RUB 4 trillion; 6.9 percent); Moscow Oblast (RUB 2.3 trillion; 4 percent); Sverdlovsk Oblast (RUB 2 trillion; 3.5 percent); Krasnodar Krai (RUB 2 trillion; 3.4 percent); Rostov Oblast (RUB 1.7 trillion; 3 percent); the Republic of Tatarstan (RUB 1.7 trillion; 2.9 percent); Chelyabinsk Oblast (RUB 1.3 trillion; 2.2 percent); the Republic of Bashkortostan (RUB 1.2 trillion; 2.1 percent); and Nizhny Novgorod Oblast (RUB 1.2 trillion; 2.1 percent).

Over the period from 2008 through 2016, labor productivity, understood as the ratio of turnover to staffing number, increased across the entire SMB sector by 18 percent (adjusted for inflation),² and the highest indices were typically reported by medium-sized companies (RUB 4.5 million per person), which is significantly above both the labor productivity index typically reported by IEs (RUB 1.5 million per person) and the corresponding average index for the SMB sector (RUB 2.95 million per person).³

Table 18

The Main Characteristics of the SMB Sector in 2016–2017

Rosstat data for 2016					
	Individual entrepreneurs	Micro companies	Small companies	Medium-sized companies	Total, SMB subjects
1	2	3	4	5	6
Number of companies, units	2,523,575	2,597,646	172,916	13,315	5,307,452
Employment, thousands of persons	8,206.0	5005.7	5,050.2	1,676.6	19,938.44
Average staffing number per company	3.3	1.9	29.2	125.9	3.8
Turnover, billion RUB	12,369.2	20,138.8	18,738.2	7,586.2	58,832.33
Productivity, million RUB per person	1.5	4.0	3.7	4.5	3.0
Index's relative share depending on company size, percent					
By number of companies	47.55	48.94	3.26	0.25	100.00
By staffing number	41.16	25.11	25.33	8.41	100.00
By turnover index	21.02	34.23	31.85	12.89	100.00
Share of SMB sector in GDP					19.9
Data from Single Register of SMB Subjects as of 10.November.2017					
Number of companies	3,105,636	2,498,152	238,893	19,679	5,862,360
Employment index, based on average staffing number, thousands of persons	5,418.8	5,452.4	6,290.7	1,904.7	19,066.6

Cont'd

¹ Proceeds of IEs, by Type of Economic Activity, in 2016. Institutional Changes in the Economy. *Rosstat*. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/reform/#

² Own calculations based on data released by Rosstat.

³ Own calculations based on data released by Rosstat. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/enterprise/reform/#

1	2	3	4	5	6
Average staffing number per company	1.7	2.2	26.3	96.8	3.3
Number of SMB subjects (including IE) per thousand residents					39.9
Number of SMBs created over reporting period per 1,000 SMBs operating as of its end date					102.0
Output of goods and services, billion RUB	761	1,665	909	262	3,597
Productivity, million RUB per person	0.1	0.3	0.1	0.1	0.2
Index's relative share depending on company size, percent					
By number of companies	52.98	42.61	4.08	0.34	100.00
By average staffing number	28.42	28.60	32.99	9.99	100.00
By output of goods and services	21.16	46.29	25.27	7.28	100.00

Source: Single Register of Small and Medium-sized Business Subjects. See <https://ofd.nalog.ru/index.html>; Institutional Changes in the Economy and the Number of Big and Medium-sized Enterprises and Organizations. Rosstat. See http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1139841601359

4.4.2. Improvement of the measures designed to support small and medium-sized businesses in Russia

The systemic policy oriented to SMBs must ensure that the latter are constantly supported during all phases of their evolution, and helped to survive and grow from a micro company to a small one, and then from a small one to a medium-sized one. A very general outline of the system of measures introduced in Russia is shown in Fig. 36.

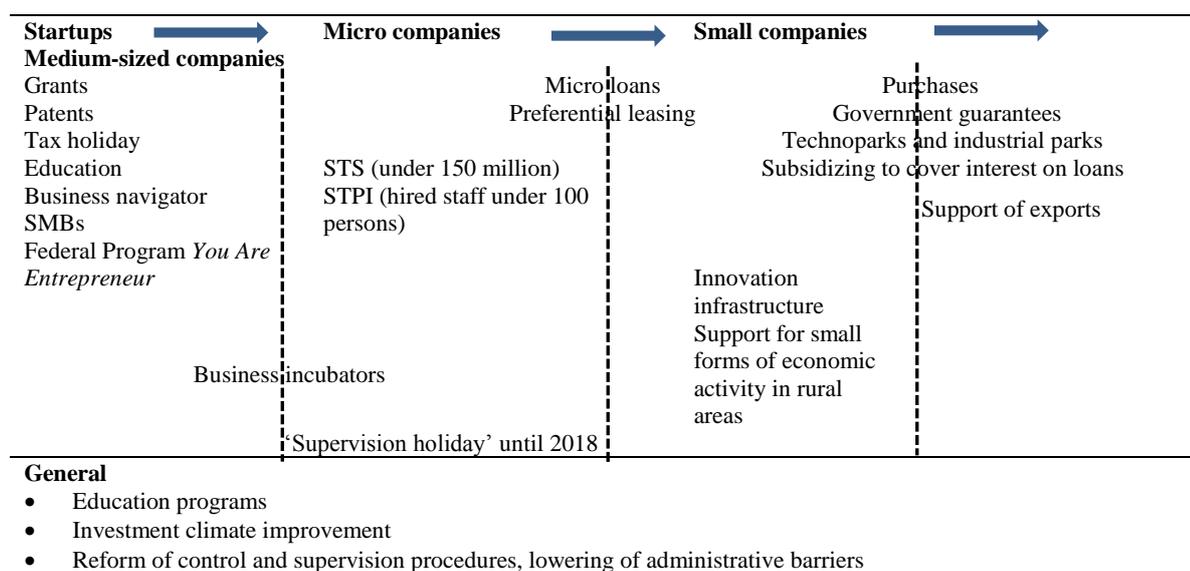


Fig. 36. System of Support for Small and Medium-sized Companies in Russia, 2017

Source: own calculations.

In 2016, JSC Federal Corporation for Small and Medium-sized Business Development (SMB Corporation), SMB Bank, and regional guarantee institutions issued more than 10,000 guarantees to SMB subjects, thus enabling the latter to attract a total of more than RUB 172 billion. Over the first 8 months of 2017, the amount of attracted funds rose to RUB 129 billion.

In 2016, the volume of government purchases from SMB subjects amounted to RUB 1.511 trillion. The target index for 2017 is RUB 1.6 trillion (or RUB 2 trillion, with due regard for the extended list of customers); in this connection, over the first 8 months of 2017, the volume of government purchases from SMB subjects amounted to 1.192 trillion. The number of items on the corresponding purchase lists was increased to 150,000.

SMB Corporation, in the course of its operation, created a MSP Business Navigator portal,¹ freely available to entrepreneurs and enabling them to make a choice of a business activity type and map a tentative business plan, to learn about the existing loan and guarantee options, the support measures available for small and medium-sized companies, to find appropriate premises for renting, to learn about the forthcoming government purchase tenders, to post advertisements concerning their businesses, and gain access to information and analytical materials. The content offered by the MSP Business Navigator had been found relevant for 171 cities all over Russia with 100,000+ population, and more than 220,000 companies have already registered themselves as that portal's users. From 2016, two educational programs were launched by SMB Corporation *Entrepreneurial Basics* (on how to create a business) and *Entrepreneurial School* (on business development).

In Russia's regions, a target model designed to Support small and Medium-sized Businesses has been launched². According to data released by the RF Ministry of Economic Development in July 2017, the average implementation rate across all the 46 indices of the target model was 60 percent³.

The RF Ministry of Economic Development Russia in cooperation with Doing Business Russia have been elaborating Russia's first nationwide platform designed to provide knowledge and service to businesses.

In 2016, 541 multi-function centers for businesses were set up in many RF subjects.⁴ The Priority Project *Small Businesses and Support for Individual Entrepreneurial Initiatives*⁵ is underway, its key goal being to create about 1.2 million jobs with individual entrepreneurs and small businesses, and to provide support to 336,000 business subjects belonging to that category. The other channels of support are JSC SMB Bank, the Foundation for the Support of Small Businesses in the Science and Technology Sector, and the RF Ministry of Agriculture.

From 2005, Russia has been implementing a government program of support for small and medium-sized enterprises, launched by the RF Ministry of Economic Development⁶, which relies on direct support mechanisms (for example, *nonrefundable* cash *subsidies* to startup entrepreneurs in amounts up to RUB 500,000; subsidies covering lease payments designed to fund production modernization; subsidies to entrepreneurs who are welfare recipients, or to young entrepreneurs, etc.), and also on some indirect support measures that imply the creation of special infrastructure components oriented to small and medium-sized companies and

¹ MSP Business Navigator website. See <https://smbn.ru/msp/main.htm>

² RF Government Order No 147-r of January 31, 2017 'On the Target Models Designed to Simplify the Procedures of Doing Business and Increase the Investment Attractiveness of Subjects of the Russian Federation'. See <http://government.ru/docs/all/105437/>

³ RF Ministry of Economic Development. Regions Increase their Support for MSB. See <http://economy.gov.ru/minec/about/structure/depmb/2017110802>

⁴ See <http://economy.gov.ru/minec/about/structure/depmb/2016191205>

⁵ Project Certificate Small Businesses and Support of Individual Entrepreneurial Initiative. See <http://smb.gov.ru/mediacenter/businessnews/?action=show&id=17791>

⁶ Decree of the Government of the Russian Federation No 1605 of January 30, 2014 'On the Issuance and Distribution of Subsidies from the Federal Budget to the Budgets of Subjects of the Russian Federation Earmarked for the Government Support of Small and Medium-sized Enterprises, Including Peasant (Farmer) Households'.

providing them with consulting, financial, in-kind, innovation-related, and expert support. The volume of funding allocated to the program and the number of companies receiving such support has been on the decline: in 2017, the allocation amounted to RUB 7.5 billion RUB, and the planned target for 2018 is RUB 5 billion.

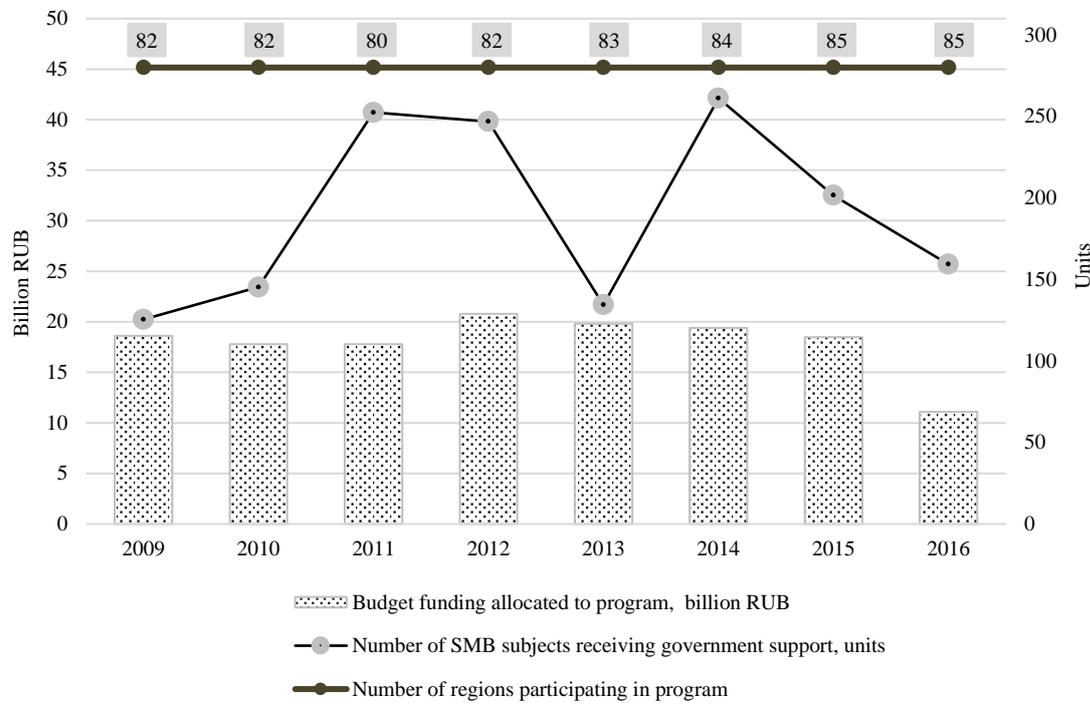


Fig. 37. Parameters of the Federal Program of SMB Support in Russia, 2009–2016

Source: RF Ministry of Economic Development.

From 2017, the program has been implemented as a ‘service model’ – that is, by way of rendering services to small and medium-sized companies through specialized infrastructure complexes created for the support of enterprises. As seen by the year-end results of 2016, a total of 330 infrastructure entities oriented to the support of businesses operated in RF subjects. Fig. 38 demonstrates the SMB support infrastructure distribution across Russia’s regions in 2017.

In 2016, according to data released by the RF Ministry of Economic Development,¹ government support was received by more than 167,000 companies in the SMB sector; a total of 39,509 new jobs were created; and 303,800 existing jobs were maintained. The creation of regional export centers was followed by growth in the number of companies – from 10,600 in 2014 to 30,100 in 2017 – that is, 2.8 times.²

¹ Report on the results achieved in improving conditions for entrepreneurship and development of small and medium-sized businesses, and in increasing support for individual entrepreneurial initiatives, RF Ministry of Economic Development, 2017.

² Ibid.

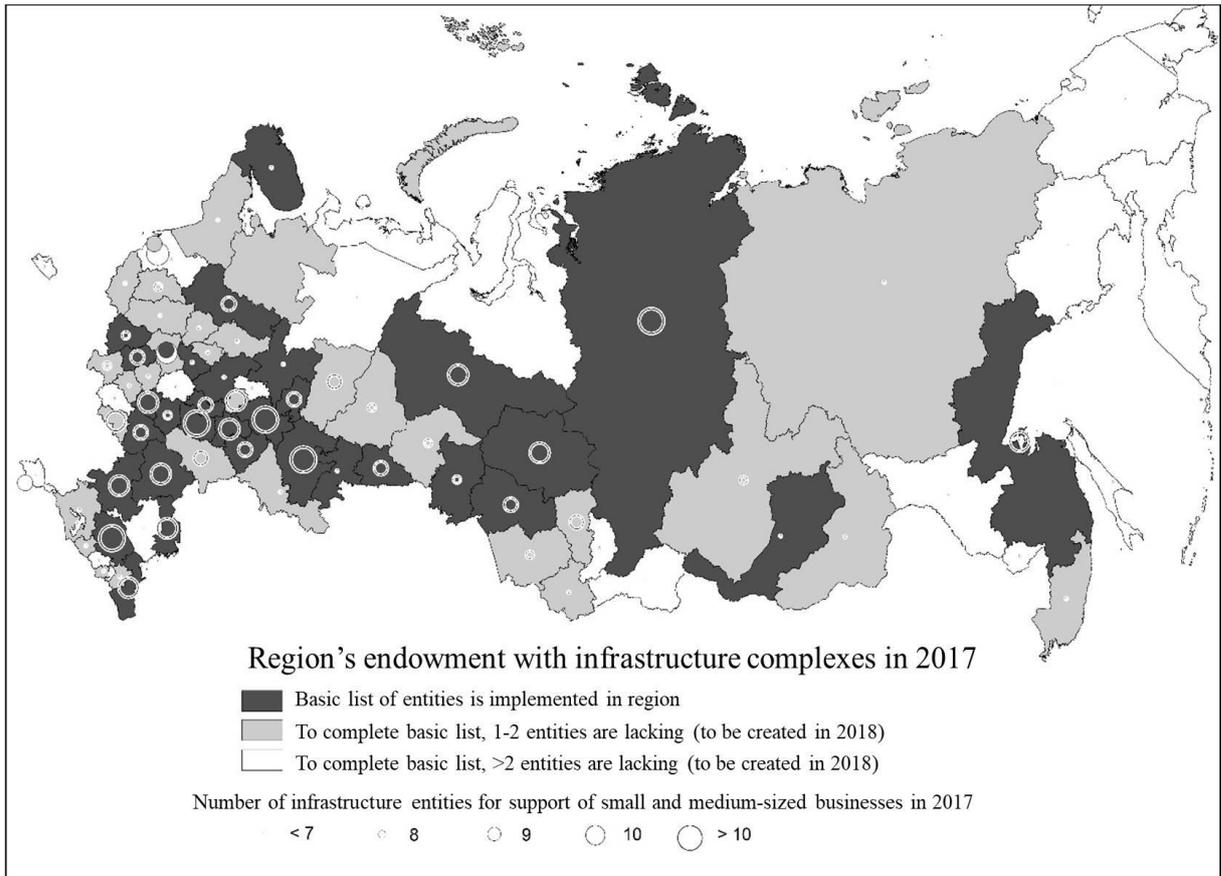


Fig. 38. The distribution of the SMB support infrastructure across Russia's regions in 2017

Source: Own calculations based on data released by the RF Ministry of Economic Development.

The volume of loans received by SMB subject, including IEs, over the first 9 months of 2017 increased by 12.7 percent relative to the same period of 2016. The introduction of the mechanisms that envisaged the issuance of guarantees and sureties to SMB subjects made it possible, in 2016, to double the amount of loans received by them, relative to 2015.¹ It also became possible to lower the average weighted interest rate on the ruble-denominated loans issued for a period under 1 year to small and medium-sized companies: in July 2017, it amounted to 13.3 percent, which is above the market average (10.44 percent), but below the corresponding average weighted interest rate for March 2015 (19.12 percent). This had to do, among other things, with the implementation of Program 674 that envisaged subsidizing the interest rate on bank loans (by agreements with Sberbank, VTB Bank, Russian Agricultural Bank), thus bringing down the interest rates for medium-sized companies to 9.6 percent per annum, and for small companies to 10.6 percent.

In addition to the government program and other forms of support, an important component of the policy designed to boost the activity of SMB is the creation of favorable conditions for doing business, including the reduction of the administrative load on businesses. Over recent years, the Russian Federation has significantly improved its ranking with the World Bank, having moved in its Doing Business ranking from 124th place in 2010 to 62th in 2015, and to

¹ JSC Federal Corporation for Small and Medium-sized Business Development, 2017.

40th in 2017. The number of days required to complete the registration for a new company was reduced from 29 in 2008 to 9.8 in 2016, or nearly 3 times; the number of procedures that need to be completed in order to register a company, was reduced from 8 to 4, or by half.¹ Meanwhile, the investment climate in Russia's regions has been improving: in 2016-2017, the average index of the National investment climate ranking² rose by 5.3 points. The ranking index reflected the increased relative share of government purchases from small and medium-sized business, and the shorter period and fewer procedures needed for the registration of a title to an immovable property entity and for the issuance of a building construction permit.

From 1 January 2016 through 31 December 2018, a moratorium has been established on the planned audits, by supervisory bodies, of small companies operating in sectors other than household services, healthcare, education, heating, and electric energy supply.³ The government priority program *Control and Supervision Reform* has been launched, which aims, among other things, to reducing the burden on businesses. So far, it has resulted in a fewer number of planned checks and audits in the framework of a pilot departmental program (a decrease by 22 percent).

According to data released by the RF Ministry of Economic Development Russia, over the period from 2015 through 2016, the number of off-schedule checks and audits was reduced by 15 percent.⁴ However, business surveys (RANEPА)⁵ revealed that about 50 percent of respondents believed that the intensity of government control-and-supervision activity had remained unchanged over the last 5 years; 55.6 percent of respondents admitted that control and supervision was creating administrative barriers for their business activity.

From July 4, 2016, the issuance of a warning as a preventive measure applied to SMBs began to be used more broadly: by Federal Law No 316-FZ of July 3, 2016, an administrative fine imposed for an offence committed for the first time was replaced by a warning, on condition that there had been no damage to valuables protected by the law. As a result, over H1 2017, the number of cases where SMB subjects were brought to administrative responsibility was reduced by 17 percent, while the number of warnings issued over the same period increased to by 52.8 percent. Meanwhile, the number of imposed administrative fines dropped by 23.3 percent.⁶

Besides, some tax incentives for small and medium-sized companies were introduced.

(1) The criteria for applying a simplified taxation system became more lax:

¹ Bazanova E., Papchenkova M. In the New Doing Business Ranking, Russia Simultaneously Rose and Dropped to 40th Place // *Vedomosti*, 2016.

² National investment climate ranking of subjects of the Russian Federation, 2017.

³ Report on the results achieved in improving conditions for entrepreneurship and development of small and medium-sized businesses, and increasing support for individual entrepreneurial initiatives, 2017.

⁴ *Ibid.*

⁵ Assessment of the effects of government control (or supervision) of the activity of economic subjects. Preliminary results of a comprehensive assessment of the efficiency and effectiveness of the most commonly applied forms of government supervision, 2017. See <http://www.ranepa.ru/images/News/2017-09/12-09-2017-ipei-seminar-pres2.pdf>, <http://ipei.ranepa.ru/konferencii-ctgu/920-anons-seminara-otsenka-rezultativnosti-i-effektivnosti-kontrolno-nadzornoj-deyatelnosti-na-primere-naibolee-massovykh-vidov-gosudarstvennogo-kontrolya-nadzora>

⁶ Report on the results achieved in improving conditions for entrepreneurship and development of small and medium-sized businesses, and increasing support for individual entrepreneurial initiatives, 2017.

- from January 1, 2017, the income cap that entitles a taxpayer to continue operating under a simplified taxation system has been raised from RUB 60 million¹ to RUB 150 million² (a deflator will not be applied to the income cap until January 1, 2020³);
- from January 1, 2017, the cap on corporate income received over a year's first 9 months that entitles a company to switch over to a simplified taxation system has been raised from RUB 45 million⁴ to RUB 112.5 million⁵ (a deflator will not be applied to the income cap until January 1, 2020⁶);
- from January 1, 2017, the cap on fixed asset value entitling a company to switch over to STS (simplified taxation system) has been raised from RUB 100 to RUB 150 million.⁷

(2) the possibility to apply the regime of single tax on presumptive income (STPI) has been extended to January 1, 2021.⁸

At the same time, it is expected that in 2018, STPI⁹ will be raised by 3.9 percent relative to the inflation forecast, and this will have a negative effect primarily on the micro companies operating in the trading and services sector.

(3) The tax holiday, introduced for the period from January 1, 2015 through January 1, 2021 continue; for the first time, a registered IE operating under a STS or PTS (patent-based taxation system) has been made exempt from tax over the first two years of his or her operation.¹⁰

¹ This value was to be calculated annually with a deflator. Thus, in 2016, the income cap that allowed a taxpayer to continue the use of a simplified taxation system amounted to RUB 79.74 million.

² By Federal Law No 401-FZ of 30 November 2016 'On the Introduction of Alterations to Parts One and Two of the Tax Code of the Russian Federation and Some Legislative Acts of the Russian Federation', the Tax Code of the Russian Federation (Part Two) (as approved by Federal Law No 117-FZ of August 5, 2000, Article 346.13. The Procedure of and Conditions for the Start and Termination of the Use of Simplified Taxation System', Item 4) was amended.

³ Federal Law No 243-FZ of July 3, 2016 (as amended on November 14, 2017) 'On the Introduction of Alterations to Parts One and Two of the Tax Code of the Russian Federation in Connection with the Delegation, to Tax Agencies, of the Powers to Administer the Insurance Contributions to Compulsory Pension, Social, and Medical Insurance.'

⁴ This value was to be calculated annually with a deflator. Thus, in 2016, the income cap for a year's first 9 months that allowed a taxpayer to continue the use of a simplified taxation system amounted to RUB 51.615 million.

⁵ By Federal Law No 401-FZ of November 30, 2016 'On the Introduction of Alterations to Parts One and Two of the Tax Code of the Russian Federation and Some Legislative Acts of the Russian Federation', the Tax Code of the Russian Federation (Part Two) (as approved by Federal Law No 117-FZ of August 5, 2000) was amended (Article 346.12 'Taxpayers', Item 2).

⁶ Federal Law No 243-FZ of July 3, 2016 (as amended on November 14, 2017) 'On the Introduction of Alterations to Parts One and Two of the Tax Code of the Russian Federation in Connection with the Delegation, to Tax Agencies, of the Powers to Administer the Insurance Contributions to Compulsory Pension, Social, and Medical Insurance.'

⁷ By Federal Law No 243-FZ of July 3, 2016 (as amended on November 14, 2017) 'On the Introduction of Alterations to Parts One and Two of the Tax Code of the Russian Federation in Connection with the Delegation, to Tax Agencies, of the Powers to Administer the Insurance Contributions to Compulsory Pension, Social, and Medical Insurance', the Tax Code of the Russian Federation (Part Two), as approved by Federal Law No 117-FZ of August 5, 2000, was amended (Article 346.12 'Taxpayers', Item 16).

⁸ Federal Law No 178-FZ of June 2, 2016 'On the Introduction of Alterations to Article 346.32 of Part Two of the Tax Code of the Russian Federation and Article 5 of the Federal Law 'On the Introduction of Alterations to Parts One and Two of the Tax Code of the Russian Federation and Article 26 of the Federal Law 'On Banks and Banking Activity', Article 2.

⁹ RBC, 2017. URL: <https://www.rbc.ru/economics/12/10/2017/59df6db49a7947d4d4c745d1>

¹⁰ By Federal Law No 477-FZ of December 29, 2014 'On the Introduction of Alterations to Part Two of the Tax Code of the Russian Federation', a tax holiday is not to be introduced throughout the entire territory of the Russian Federation; instead, RF subjects are granted the right to introduce a tax holiday on their own within their respective

(4) Self-employed citizens that operate without hired staff and render private tutoring services, house cleaning and other household services, care for children and persons with disabilities, who have notified a tax agency of their services rendered to individuals, are to be exempt from PIT in 2017 and 2018.¹

territories. Nevertheless, many regions introduced, within their respective territories, zero taxation of startup entrepreneurs. The list of such regions, as of March 1, 2017, is posted to the RF Ministry of Finances' official website. See https://www.minfin.ru/ru/document/?id_4=117728

¹ Item 70 of Article 217 of the Tax Code of the Russian Federation, as amended by Federal Law No 401-FZ of November 30, 2016.