

SCTMG 2020**International Scientific Conference «Social and Cultural Transformations in the
Context of Modern Globalism»****SMALL AND MEDIUM BUSINESS IN THE REGION: REALITIES
AND PROSPECTS**

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Abstract

The article discusses the problems of small business in the regions of the Russian Federation and, in particular, in the Chechen Republic. The authors analyze the features of the functioning of small and medium enterprises in Russia. They determined that the successful functioning of SMEs in the regions of the Russian Federation is an indicator of the stability of the economy and the political situation in the country. The success factor of business for small and medium enterprises is its ability to make a profit. And meanwhile, the success of the SME business and the level of social responsibility of their leaders are interconnected. The article states that a small proportion of Russian SMEs provides research and development of innovations. The private sector invests little in innovation. The small and medium enterprises of most regions have dominant informal employment and widespread violations of labour legislation. Russian small and medium-sized enterprises cannot resist the monopoly in the economy and the dictates of fiscal authorities. The article presents data on the quantitative and qualitative correlation of small and medium-sized enterprises in recent years in the North Caucasus Federal District and the Chechen Republic, an analysis of their structure, in particular, organizational forms, the average number of employees and others. It lists the main difficulties that SMEs face today and outlines ways to solve their problems. During the study, the authors applied the following methods of scientific research: analysis, synthesis and induction.

2357-1330 © 2020 Published by European Publisher.

Keywords: Business, entrepreneurship, taxation, financing, lending.



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1. Introduction

The number of small and medium-sized businesses in the whole country is sharply declining. According to the Unified Register of Small and Medium Enterprises, from July 2018 to August 2019, the number of Small and Medium Enterprises decreased by 432 thousand, and their employees – by 510 thousand. The Ministry of Finance explains this fall by updating the Register of Small and Medium Enterprises and the successful struggle with one-day firms. Many expert economists point to a decrease in the profitability of small and medium-sized businesses due to reduced incomes and difficult business conditions in the country.

2. Problem Statement

Small and medium-sized businesses still have to make a huge amount of reporting for a variety of instances, depending on the type of activity. The number of references, approvals, requirements and norms required by various authorities is so great that, probably, no one knows their exact number. The delay in submitting the next batch of documents often results in a shutdown of the enterprise. The Code of the Russian Federation on administrative offences provided for the suspension of the activities of the audited company for up to 90 days as one of the measures of administrative punishment (Abdulgalimov, Arsakhanova, Filina, & Akhmedova, 2019). If in 2005 a similar measure was envisaged regarding 35 offences of a special part of the Code of Administrative Offences of the Russian Federation, then in 2018 the punishment was already applied to respect 115 administrative offences. Outwardly, statistics on the administrative suspension of activity seem to be on the decline. According to the Judicial Department of the Supreme Court of the Russian Federation, from 2014 to 2018, the number of court decisions on the application of such a measure halved from 27.315 to 13.538. However, a similar result is due to the work of the Ministry of Emergencies of Russia, which expands the prevention and control of violations, as well as the transfer of labour relations with migrants to a modern and convenient form of patents. But, for example, Rospotrebnadzor and Rostekhnadzor suspend the activities of audited enterprises even more often than before. In 2018, according to the Ministry of Economic Development, every fiftieth inspection of Rospotrebnadzor ended in suspension, 4011 suspensions resulted from 219 thousand inspections. In contrast: in 2013, almost 300 thousand inspections resulted in 4020 suspensions. According to the business community, it is necessary to reduce the maximum period of suspension of activity of enterprises in case of violation of the Code of Administrative Offences from 90 to 30 days. Indeed, the suspension of the enterprise is a few months of downtime leading to a breakdown in the payment of loans, failure to fulfil the state order, bankruptcy and loss of jobs.

3. Research Questions

What is the current state of small and medium-sized enterprises in the North Caucasus Federal District?

As of September 10, 2019, according to the Federal Tax Service (data from the Unified Register of Small and Medium Enterprises), the number of legal entities and individual entrepreneurs indicated in the Unified Register of small and medium enterprises for 2016–2019 in the North Caucasus Federal District

is: total – 195 892 including legal entities – 45 702, individual entrepreneurs – 150 190 people. The sum of the average number of employees is 349.378, legal entities – 269.317, individual entrepreneurs – 80.061 (Table 01). The newly created enterprises are 33 167 in total, including 4.298 legal entities and 28.869 individual entrepreneurs.

Table 01. The number of legal entities and individual entrepreneurs indicated in the Unified Register of Small and Medium-Sized Enterprises for 2016–2019 for the North Caucasus Federal District *

	Total				Including:							
	2016	2017	2018	2019	Legal entities				Individual entrepreneurs			
	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
Total	192.469	186.957	197.820	195.892	45416	47 029	46 894	45 702	147.053	139.928	150.926	150.190
The sum of the average number of employees	0	356.025	357.521	349.378	0	286.202	281.971	269.317	0	69 823	75 550	80 061
Newly created	31 519	28 119	34 216	33 167	5504	5 272	4 470	4 298	26 015	22 847	29 746	28 869
Participating in Partnership Programs	0	0	0	0	0	0	0	0	0	0	0	0
Micro enterprises	187.102	181.282	192.172	190.834	40903	42 125	42 088	41 448	146.199	139.157	150.084	149.386
The sum of the average number of employees	0	151,585	162.011	167.856	0	102.646	109.132	110.921	0	48 939	52 879	56 935
Newly created	31 519	28 119	34 216	33 167	5504	5272	4470	4298	26 015	22 847	29 746	28 869
Participating in Partnership Programs	0	0	0	0	0	0	0	0	0	0	0	0
Small-sized enterprises	4 995	5 233	5 211	4 662	4151	4 466	4 378	3 868	844	767	833	794
The sum of the average number of employees	0	150.481	144.293	134.318	0	129.841	122.482	112.256	0	20 640	21 811	22 062
Newly created	0	0	0	0	0	0	0	0	0	0	0	0
Participating in Partnership Programs	0	0	0	0	0	0	0	0	0	0	0	0
Medium-sized enterprises	372	442	437	396	362	438	428	386	10	4	9	10
The sum of the average number of employees	0	53 959	51 217	47 204	0	53 715	50 357	46 140	0	244	860	1 064
Newly created	0	0	0	0	0	0	0	0	0	0	0	0
Participating in Partnership Programs	0	0	0	0	0	0	0	0	0	0	0	0

* According to the Federal Tax Service of Russia

Over the same years, in the Chechen Republic, small and medium-sized businesses are presented as follows: total legal entities and individual entrepreneurs of small and medium-sized enterprises in the region are 13 160, including 3 066 entities and 10 094 individual entrepreneurs. The sum of the average number of employees is 13 331, legal entities – 11 512, individual entrepreneurs – 1 819. Newly created enterprises are 3.270 in total, including 555 legal entities and 2.715 individual entrepreneurs (Table 02).

Table 02. The number of legal entities and individual entrepreneurs indicated in the Unified Register of Small and Medium Enterprises for 2016–2019 for the Chechen Republic *

	Total				Including:							
	2016	2017	2018	2019	Legal entities				Individual entrepreneurs			
	2016	2017	2018	2019	2016	2017	2018	2019	2016	2017	2018	2019
Total	13 525	12 830	13 958	13 160	2 549	2 627	2 783	3 066	10 976	10 203	1 769	10 094
The sum of the average number of employees	0	10 670	12 375	13 331	0	9 414	10 606	11 512	0	1 256	3 133	1 819
Newly created	3 243	2 899	3 661	3 270	591	472	528	555	2 652	2 427	1 392	2 715
Participating in Partnership Programs	0	0	0	0	0	0	0	0	0	0	0	0
Microenterprises	13 353	12 634	13 762	12 969	2 391	2 445	2 606	2 893	10 962	10 189	11 156	10 076
The sum of the average number of employees	0	5 240	6 911	7 052	0	4 262	5 519	5 586	0	978	3 133	1 466
Newly created	3 243	2 899	3 661	3 270	591	472	528	555	2 652	2 427	0	2 715
Participating in Partnership Programs	0	0	0	0	0	0	0	0	0	0	19	0
Small-sized enterprises	155	184	181	177	141	170	162	159	14	14	377	18
The sum of the average number of employees	0	4 594	4 284	4 651	0	4 316	3 907	4 298	0	278	0	353
Newly created	0	0	0	0	0	0	0	0	0	0	0	0
Participating in Partnership Programs	0	0	0	0	0	0	0	0	0	0	0	0
Medium-sized enterprises	17	12	15	14	17	12	15	14	0	0	0	0
The sum of the average number of employees	0	836	1 180	1 628	0	836	1 180	1 628	0	0	0	1 769
Newly created	0	0	0	0	0	0	0	0	0	0	0	0
Participating in Partnership Programs	0	0	0	0	0	0	0	0	0	0	0	0

* According to the Federal Tax Service of Russia

There is no legal entity or individual entrepreneur that participates in partnership programs in the North Caucasus Federal District and the Chechen Republic.

According to the above figures, entrepreneurs have not lost either quantitatively or qualitatively despite the difficulties in the functioning of small and medium-sized businesses in recent years in the Chechen Republic and the North Caucasus Federal District as a whole. The conclusion is based on data of the Unified Register of Small and Medium-Sized Enterprises and comparison of this registry for the years 2016–2018 and the first 8 months of 2019. We want to note that it has become much more difficult to work compared to previous years, but small businesses do not give up because it is a matter of survival for many people in the region.

4. Purpose of the Study

Today, the business community has issues with state taxation policies, in particular, VAT, insurance premiums for employees, on-line cash desks and the special assessment of working conditions (SAWC).

It seemed that an increase in the VAT rate from 18 to 20 % would almost not have affected the same individual entrepreneurs on a preferential tax regime that did not pay VAT. However, the situation began to develop on the principle of dominoes: their suppliers raised the price of their products to 15 %. So, this category of entrepreneurs has fewer buyers and significantly less revenue and profit this year, even without raising prices (Tavbulatova & Bulueva, 2016b).

Payers of insurance premiums for employees are entrepreneurs using the simplified and patent taxation systems and entrepreneurs engaged in the pharmacy business and paying UTII. For these categories of taxpayers, contributions to the Pension Fund, the Federal Compulsory Medical Insurance Fund and the Social Insurance Fund increased from 20 to 30 %.

Article 22 “Support to small and medium-sized enterprises in the field of innovation and industrial production” of the Federal Law of July 24, 2007, N 209-FZ (as amended on August 2, 2019) “On the Development of Small and Medium-Sized Enterprises in the Russian Federation” states that the provided support to small and medium-sized enterprises in the field of innovation and industrial production by state authorities and local governments can be implemented in the form of:

1) the creation of organizations that form the infrastructure for supporting small and medium-sized enterprises, including technology parks, technology commercialization centres, technology-innovative and scientific-production zones and ensuring the activities of such organizations;

2) promotion of patenting inventions, utility models, industrial designs and selection achievements, as well as state registration of other results of intellectual activity created by small and medium-sized enterprises;

3) creation of conditions for attracting small and medium-sized enterprises to conclude subcontracts in the field of innovation and industrial production;

4) creation of joint-stock investment funds and closed-end mutual investment funds.

On the other hand, when we talk about financing and lending to small and medium-sized enterprises in the regions, we can say that the regional banking system is in difficult conditions due to well-known reasons and cannot effectively lend to small and medium-sized businesses in the current conditions of increased credit risks (Abdulgalimov et al., 2019). Analysis of the situation with lending and microfinancing to small and medium-sized businesses by region showed that limited access to financial resources imposes restrictions on the process of their dynamic and effective development (Tavbulatova & Bulueva, 2016a).

Another trend observed in lending to SMEs is as follows: it is beneficial for borrowers and bankers to issue loans to individuals rather than legal entities. The situation with banks is clear, they have a higher percentage here up to 17–18 % per year. Why do borrowers go to it, individuals who are heads of small and medium enterprises? The loan is issued not for the SME itself but the head as an individual. Their logic is simple and primitive: they have less to collect documents, less procedural and other troubles, while for a legal entity it is a long procedure and not always successful, it does not guarantee loans and

requires proving creditworthiness and viability as a business structure. It is easier for an individual. Although the risk is greater than in cases with legal entities (Alklychev, 2009).

5. Research Methods

The study used general scientific research methods, such as analysis and synthesis, description, comparison. An important part of the study was the structural-logical method, system analysis and spatial approach allowed to identify and analyze the number and structure of small businesses in the South of Russia, to establish specific features and characteristics of economic development both within and around the macro-region, to characterize the features of subjects' localization and the level of their economic development. We calculated macroeconomic indicators and proportions of the Russian economy, as well as indicators characterizing the financial condition of small businesses and entrepreneurship in the regions of the North Caucasus Federal District based on statistics from the Federal State Statistics Service of the Russian Federation and its territorial bodies in the subjects of the South of Russia (Kostrova & Shibarshina, 2018).

6. Findings

In this regard, we would like to make some proposals to improve the efficiency of lending to small and medium enterprises:

1. Banks need to find reserves to reduce lending rates, and regional authorities should help this not only by administrative but by economic measures.

2. The main obstacle to the development of investment and credit activities of banks is the structure of liabilities of commercial banks unsuitable for long-term investments. Most of the attracted resources are short-term (for up to six months). Own funds of most banks are usually small (Beloglazova & Krolivetskaya, 2016).

3. It is necessary to make more stringent requirements for the regional branches of Russian Agricultural Bank OJSC, the largest credit organization of agricultural SMEs, which, in our opinion, is not sufficiently responsible for identifying and further monitoring the targeted nature of the use of issued loans in the regions.

4. Today no one disputes the monopolistic position of Sberbank of Russia OJSC due to a specific reduction in commercial banks in the regions. Using state support, Sberbank of the Russian Federation, in addition to its dominant position in the private deposit market, is intensifying its activities with legal entities. This has advantages but the monopoly position of Sberbank leads to a rise in the cost of loans for small and medium enterprises of the republic.

We note that regional authorities provide possible support to SMEs in the Chechen Republic. Today, the SME Corporation provides many support measures in the supervised area. Work is also underway through SME Bank.

But this is not enough for the effective functioning of small and medium enterprises in the region. Small and medium-sized businesses should more effectively fit into the existing and planned investment infrastructure of the Chechen Republic (Abdulgalimov & Arsakhanova, 2019).

There are plans to create the following special economic zones: “Sernovodsk-Kavkazsky” of tourist-recreational type in the Sunzhensky district, village Sernovodsk; "Argun-Cherkessk-Stavropol" of industrial-production type, Chechen Republic, Karachay-Cherkess Republic and Stavropol Territory, in the industrial zone of Argun; "Caucasus" of port type near the airport of Grozny (North).

In this case, it is necessary to introduce benefits for insurance contributions to the wage fund (7.5 %), income taxes up to zero, acceleration of depreciation of own fixed assets, exemption from property tax, land and customs payments respecting goods, regarding small and medium-sized businesses either.

The completion of the construction of the Groznensky industrial park will form a finished industrial site in the Chechen Republic with clear rules for providing state support for potential residents. And this will also provide serious support to the small business of the republic.

Technoparks of the Chechen State University and the Grozny State Oil Technical University together with business incubators and investment sites will seriously support startup projects of young entrepreneurs at all stages of development, from developing an idea to its commercialization.

7. Conclusion

Separately, we make the proposals on UTII because this tax is very reclaimed and effective for the small business system:

1) The abolition of UTII from 2021 will be a heavy blow for small businesses and will lead to the departure of hundreds of thousands of business entities into the shadows or its closure (Bobkov, 2019). For this reason, we propose to extend the UTII until 2024 and begin a phased transition to a new system of simplified taxation regimes for small businesses, which provides for the principle of one simplified taxation regime for one category of business. In particular, it is necessary to modify the patent system of taxation providing for the possibility to read out part of the paid insurance premiums and transfer the determination of its parameters to municipalities. For organizations, authorities can introduce a simplified taxation system with the possibility of establishing benefits at the level of local authorities, with reduced rates.

2) The distribution of incoming taxes also requires changes in favour of municipalities. In our opinion, this will increase the motivation of local authorities to create attractive conditions for entrepreneurship.

3) It is necessary to modify the UTII system for the transition period setting revenue limits, making a wide differentiation of activities and eliminating the possibility for high-margin businesses to pay taxes close to zero, thereby increasing the tax efficiency for the state.

4) We also suggest revising the categories of activities that fall under the ban on the use of UTII in the sale of goods subject to labelling.

On the other hand, each region has its specific problems of small business, however, no one should have illusions that they can solve it independently without the use of joint efforts: power is in unity. And only this approach is the right way to reduce the administrative burden on business, expand property support, as well as create favourable conditions for the activities of self-employed citizens.

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