

Small business development in CIS countries

Zhanna Mingaleva¹, Myrzabike Zhumabayeva², Gulzhan Karimbayeva³, Talgat Zhumabekovich Demessinov⁴,
Kassiya Aleksandrovna Kirdassinova⁴, Ruslan Kurmangazhievich Konuspayev⁴

¹Perm National Research Polytechnic University, Komsomolsky Av., 29, Perm, 614000, Russia

²International Academy of Business, Rozybakiyev Av., 227, Almaty, 050060, Kazakhstan

³Kazakh Humanitarian Law University, Korgalgyn Rd., 8, Astana, 010000, Kazakhstan

⁴Eurasian National University, Mirzoyan str., 2, Astana, 010000, Kazakhstan

Abstract. Small and medium enterprises all over the world are the object of special attention from the government. The CIS countries are not an exception as well. The program of small and medium-sized businesses support has been taken there since the beginning of reforms. During the early reform stages, the small and medium entrepreneurship provides a transition to a market economy, fostering a competitive environment, meeting the demands of the population in the most important products and services, production development in the fields of catering and consumer services. Currently, small and medium enterprises largely provide employment and self-employment of the population in all CIS countries, form part of the budget incomes of different levels. During the study process there have been analysed the state of the institutional support of small business in selected CIS countries, the level legislation development, and the specific measures of the state support of small business. Differences in the forms and directions of state regulation and support of the small business sector also determine various contributions of small businesses to the economic development of their countries. The article provides a comparative analysis of the development of small business in the CIS countries. On the basis of analysis of the small business development tendencies in CIS countries, there were determined the main problems in its functioning and formulated the direction on its promotion.

[Mingaleva Z., Zhumabayeva M., Karimbayeva G., Demessinov T.Z., Kirdassinova K.A., Konuspayev R.K. **Small business development in CIS countries.** *Life Sci J* 2014;11(9s):271-276] (ISSN:1097-8135). <http://www.lifesciencesite.com>. 55

Keywords: small and medium enterprises, employment, government support, financing

1. Introduction

Small business is a basic component of a market economy, which is the most advanced form of production and economic relations, in which the entrepreneur working in an environment of full economic independence and property liability, becomes a real owner.

Currently, small and medium business is a pretty powerful social stratum of society, real and serious economic force, and its support and development is an essential part of the state policy. Through the development of small business, the state solves a number of economic, political and social problems. It is generally accepted that small businesses are more responsive to demand, more competitive, require a minimum investments, and use the labour resources in a more rational way.

The main consumers of products and services for small and medium-sized businesses are the local population, as well as residents of nearby towns and cities. Besides, their products and services are used by private firms and entrepreneurs, government agencies and organizations, trade and intermediary organizations.

Important role of the small business is that it provides a significant amount of jobs, saturates the

market with new goods and services, satisfies the needs of many large enterprises, and also produces special products and services. In view of this, the development of individual, small and medium businesses was announced as one of the national economy priorities in all states-members of the CIS countries, and since the year 2010, there has started its work the Advisory Board for the support and development of small business in the CIS countries, which combines the efforts in many areas and issues.

2. Theory and methodology

Theory. The issues of small business role and importance in the development of various countries and regions have been actively discussed for many decades. Under contemporary conditions, the mostly discussed issues are those that concern mainstreaming of the innovation activities in small business [1], specific features of small businesses functioning as start-ups [2-3], taxation of small businesses in different countries and their implications for the development of changes in the legislative framework, the impact on small business of the first global financial crisis [4], the issues of the social role of small enterprises [5-6], the freedom of small businesses access to the financial sources,

including loans, and the role of small entrepreneurship sector in generating of population employment [7], the role of small and medium enterprises in the development of separate countries [8-9], etc. Special literature reviews are devoted to the coverage of most of these issues [10].

All these issues are common to the CIS countries as well.

Methodology. The study is based on a comparative analysis of tendencies in the development of small businesses in Russia, Kazakhstan, Uzbekistan, and Belarus. The analysis data is retrieved from the official statistics and analytical agencies' materials.

At the same time, there were taken into account the national peculiarities of legal definition of small businesses contained in the regulations of different countries. Also, there are included differences in the terminology adopted in the EU [11]. The conduction of the comparative analysis and evaluation of the development dynamics and achieved results was made in view of such differences.

3. Current state of small business in the CIS countries

3.1. Small business development in Russia

According to the Russian Federal State Statistics Service data, in the year 2013 there were registered 4 030 309 small businesses in Russia. 3 888 614 of them were registered as individual entrepreneurs and 141 695 – as farming enterprises. The sector's share in the gross domestic product of Russia in 2013 amounted to about 20%. In the SME sector, excluding the external part-timers, there are employed 16.8 million people, representing almost 25% of the economically active population of Russia [12].

The sectorial structure of small businesses in an enlarged form looks like the following: 34% of small businesses is accounted for by the trade sphere; 16% works in the industry; 7.3% belongs to the agricultural farms, and 6.8% of all small businesses operates in the sphere of transportation and communication. Whereas, there is noted a steady tendency on decreasing the number of small business entities and those engaged in the trade sphere. Thus, in 2008 within the trade sector there were employed 45% of all working people if compared to 30% available currently.

This tendency was formed under the influence of the federal program on entrepreneurship support, in which since the year 2010 the accents in financial support were transferred to those small

businesses that implement new technologies, purchase new equipment and introduce innovative solutions [13]. The system of small businesses support within the field of innovations in Russia also includes the programs on co-financing of small business costs related to innovations, leasing assistance programs, system of loan guarantees, activities concerning the industrial parks creation, and centres of cluster development and prototyping. The total amount of state financial support provided for small businesses is growing: the implementation of various support measures experienced almost 33 billion roubles of budgetary appropriations and 20 billion roubles of state guarantees allocated from the federal budget in the year 2013.

Regarding the small sector structure, the number of small and micro enterprises is growing and the number of their employees is increasing. There is also noted a negative dynamics among the individual entrepreneurs and medium-sized enterprises (their number is reduced and the number of their employees is decreased).

3.2. Small business development in the Republic of Kazakhstan

According to the Kazakhstan Agency data on statistics as of April 01, 2013, the number of registered small and medium business entities amounted to 1 457 823 units, of which 246 880 units are the legal entities of small and medium-sized entrepreneurship, 1 021 365 are the individual entrepreneurs, and 189 578 are the peasants (farming) businesses. The good production of this sector is estimated at about 8 trillion Kazakhstan tenges [14].

Dated on January 1, 2013, the share of small and medium business in Kazakhstan's GDP comprised 13.8 percent, the number of employees engaged in small and medium-sized businesses was 2.5 million people, the number of active entities exceeded 760 000 units. A significant portion of employees engaged in small business entities works in wholesale and retail trade, repair of automobiles and motorcycles (33.9%), agriculture (20.5%), and construction (7.2%).

There is observed an increase in products output (in comparable prices) by SME entities almost in all areas. For example, in 2012 this indicator amounted to 4561.2 trillion Kazakhstan tenges, inter alia the small business legal entities manufactured products for 998.6 billion Kazakhstan tenges (21.9%), the medium business legal entities manufactured products for 2896.1 milliard Kazakhstan tenges (63.5%), individual entrepreneurs manufactured products for 536.3 milliard Kazakhstan tenges (11.7%), and peasants (farming) businesses

manufactured products for 130.1 milliard Kazakhstan tenges (2.9%).

3.3. Small business development in the Republic of Uzbekistan

In the year 2013, the small business entities of Uzbekistan produced 55.8% of total GDP. However, these companies operate mainly in the sectors producing goods and services with low added value.

In the year 2013, the small businesses provided employment to 9519.6 thousand people or 76.0% of total employment in the economy, inter alia the individual sector employs 7218.1 thousand people, small enterprises and micro companies employ 2301.5 thousand people. The number of employed people in the private sector of small entrepreneurship amounted to 8775.6 thousand people, or 92.2% of total employment in the sector. This sector provided the industrial goods output for 15 181.8 milliard som (24.8% of total industrial production) [15].

The amount of investments spent by the small businesses comprised 9219.9 milliard som (33.5% of the total utilized by the republic investments). The construction works performed by the sector amounted to 10 848.2 milliard som (approximately 71.9% of the total volume of construction works). The small business ensured the growth of the cargo turnover of the road transport by 7.1% (82.1% of the total cargo turnover) and passenger transport by 7.1% (88.1% of total passenger turnover). They also formed 46.3% of total retail turnover of the republic, which amounted to 21 987.8 milliard som (growth by 16.5%), paid services – 46.7% and 8544.5 milliard som respectively (5.8 %). The small businesses entities of Uzbekistan exported products (goods and services) for \$ 2 709.2 million (18.0% of total exports), imported for \$ 5 599.5 million (40.6% of total imports).

Statistics shows a steady growth of all indicators if compared to the previous years.

3.4. Small business development in the Republic of Belarus

The small and medium business in Belarus is a promisingly developing sector of the economy, gradually increasing its contribution to the overall economic growth.

Small businesses make a significant contribution to the basic economic indexes of the economy growth. Thus, in 2011 the proportion of small business subjects - legal entities in the total republic's GDP volume was 22.9%, the volume of goods (works, services) amounted to 23.6%, revenue from sales of goods, products, works, and services

comprised 39.5%, investments to the fixed assets equalled to 36.0%, foreign trade turnover amounted to 38.2%, the volume of industrial production comprised 17.5%, retail trade turnover equalled to 37.6% [16].

In the year 2011, in Belarus there were registered 91 277 enterprises in the small and medium business (76996 micro companies, 11677 small businesses, and 2604 medium-sized organizations), and 219 285 individual entrepreneurs, where there were employed 1 460 thousand people (it is almost a third part of all those employed in the national economy). The leaders on employment in this sector are small entities – 447.6 thousand people. Next come micro companies (347.1 thousand people). The rest are employed at the medium sector enterprises, which is 428.8 thousand people.

The main part of those employed in small business of Belarus is concentrated in manufacturing industry (24.1%) and trade, repair of motor vehicles, household goods and personal items (23.5%), in construction (14.6%) and agriculture, hunting and forestry (12.6%).

4. Institutional support for small business in Russia and the CIS countries

4.1. Institutional support for small business in Russia

The priority direction of small and medium-sized enterprises support in Russia from the side of the Russian Ministry of Economic Development is to promote the development of enterprises in the manufacturing sector, the introduction of innovative projects by the small business entities, support for the entrepreneurs engaged in the field of production modernization, implementing energy efficiency projects and carrying out their activities in regions with difficult socio-economic situation. The financial support for these particular areas comprises more than 80% of the support portfolio for small businesses, having increased for the last two years by more than 10% (as of January 01, 2012, the figure was 69%). Of these, the financial support for energy efficiency projects, innovations and modernization is 63%.

The support programs for small businesses in Russia are also realized by the RF Ministry of Labour and Social Security and the RF Ministry of Agriculture, but in terms of support volume these programs are significantly inferior to the programs of the RF Ministry of Economic Development and Trade.

Russian Vnesheconombank implements a program of financial support for small business on the principles of collectability, availability, and targeted use with the implementation of a two-tier

mechanism. The program is implemented in all regions of Russia and bears a massive character. On January 1, 2013, within the framework of this Program, to the small business entities there were allocated 82.9 milliard roubles, and the number of supported small businesses equalled to 21.9 thousands. The number of Vnesheconombank partners on the Financial support program for small business entities included 162 infrastructure organizations and 226 banks. The average rate on the loans portfolio issued by the partner banks to the subjects of small business comprises 12.6%.

4.2. Institutional support for small businesses in Kazakhstan

Creating an enabling environment for entrepreneurship is one of the priorities of the state policy, determined in the certain major policy documents of the state: Strategic Development Plan of Kazakhstan till the year 2020, State Program on Forced Industrial-Innovative Development of Kazakhstan for the years 2010-2014. Previously (since the year 2007), the Governments of the Republic of Kazakhstan performed financial support for the subjects of small and medium enterprises in the implementation of the Stabilization Program – I, II, III trenching and Program "Damu-Regions". In July 2009, there were introduced significant changes to the law "On Private Entrepreneurship" where there was more clearly documented a common for almost all public bodies procedure for conducting audits of small businesses. In order to improve the business climate in the country there were carried out reforms in such areas, as the order of creation (opening) and liquidation of enterprises, taxation system, and investors protection. As a result of the performed actions, in 2012 within the frames of the "Doing Business 2012" rating, Kazakhstan possessed the 47th place in the world (in 2011 it occupied the 58th place), ahead of all CIS countries (including Russia (120th place)), and many actively developing countries (Turkey (71th place), China (91th place), etc.) [17].

4.3. Institutional support for small businesses in Uzbekistan

A strong incentive to the growth of small businesses in Uzbekistan was given by the implementation of the State program "Year of small business and private entrepreneurship" dated from February 07, 2011 [18]. The program is based on the objective of creating in all regions of the country the most favourable business environment. There are activities that contribute to the development of small and medium enterprises in the country, including the liberalization of the sector of small business and

entrepreneurial freedom, the abolition of bureaucratic barriers and obstacles to the development of small and medium-sized businesses, reducing the administrative functions of government and various regulatory standards, expansion of access of small businesses to credit and financial resources and raw materials, the development and strengthening cooperative ties with enterprises, suppliers and customers, access to government contracts, preferential lending to small businesses and direct investments aimed at developing small business.

An important part of institutional support for small businesses in Uzbekistan is the "Technology Innovation Development of MEA", launched in 1997. The annual program budget is of about \$ 30 million. The program aims to promote the development of high-tech companies with research potential, but inferior in terms of financial and infrastructural capacity of large enterprises. The project is planned to increase the number of attracted investments in the National Small Business.

4.4. Institutional support for small business in Belarus

The main normative documents in support of small business in the Republic of Belarus are: the Law of the Republic of Belarus "On the support of small and medium-sized businesses" dated from July 01, 2010; the Presidential Decree № 255 "On Some Measures of State Support of Small Business" dated from May 21, 2009, the Resolution of the Council of Ministers of the Republic of Belarus "On state program on supporting small and medium enterprises in the Republic of Belarus for the years 2013-2015" № 1242 dated from December 29, 2012.

The state financial support is available to small businesses in accordance with the Presidential Decree No. 255 dated from May 21, 2009, which defines the mechanism of public financial support provision for small businesses and stakeholders to support infrastructure in this sector. The main subjects of financial assistance to small businesses in Belarus are the Belarusian Fund for entrepreneur financial support, public authorities, and banks of the Republic of Belarus. The basic support tools are the providing funds for the fee return or charge (loans); provision of property on lease (finance lease). Executive Committees provide funds to return a paid or unpaid basis (loans); given subsidies for reimbursement of interest on bank loans; subsidies for reimbursement for leasing payments under lease (finance lease), etc. Banks of Belarus provide concessional loans, including micro-credits.

5. Problems of small entrepreneurship development in CIS countries

Assessment of the main tendencies and results of development of small business in the analysed countries has shown that, despite some progress in the development of this sector in the CIS countries, the overall pace of development of the small business sector is still considerably more modest than in the developed countries. Thus, the sector of small and medium-sized businesses in the EU is 99.8% of enterprises in the region and provides jobs for 67.4% of the economically employed population of Europe. In the U.S., small firms account for 54% of all employees, 45% of total assets, 35% of net income; in Japan, the economic units employing up to 300 people (it is 99.5 % of all enterprises) experience 78% of employment, 51.8% of sales, 56.6% of value added in manufacturing industries. The share of small businesses in the U.S. GDP is 52%, in the EU - 67%, in Japan - 55%.

Achievement of these indicators in the CIS countries and Russia is hampered by a number of reasons. The study indicates the similarity of problems in the development of small business in the CIS countries. Let us allocate the core ones.

1. Taxation problems. In particular, in Russia this is the increase of the rates of insurance contributions to the pension system up to the level of large enterprises. Also, the tax on imputed tax annually increases by 15-20%, utility tariffs are also growing every year. In Kazakhstan, the share of payments to the budget in the form of taxes reaches up to 40-50% of their total income. For most entrepreneurs, especially for beginners, it is ruinous. At the same time the introduction of new tax legislation in Kazakhstan makes it to the certain extent possible to reduce the tax burden on small businesses, however, the measures taken by it are insufficient.

2. The problem of raising debt capital. Despite the fact that the market of credit resources in all analysed countries is developing quite rapidly, entrepreneurs of all countries indicate poor access to credit. It is characteristic that banks consider lending to small businesses as a high-risk operation, where there is observed a very high probability of loan default. This is added by the establishment of high interest rates (risks) and short repayment terms. However, it should be noted that this problem is actual for all the entrepreneurs of the world, including European countries, the USA, Japan, etc.

3. The weak interaction of small businesses with government authorities. This problem is mainly associated with the imperfection of regulatory documents and multiple audits of small businesses initiated by state agencies, as well as complex modes

of creation and liquidation of small and individual businesses. For example, in Russia, in order to close a small business, it takes time and money: without paying premiums to the Pension Fund of the Russian Federation and Statutory health insurance fund in full amount, the tax office will not remove the entrepreneur from the account. This is added by a fee of Federal Tax Service and closing bank accounts.

4. Insufficiently developed in the small business sector infrastructure by providing information and consulting services for businesses of this type also, according to entrepreneurs, prevents the development of small business in all analysed countries. In this case, financial assistance should be provided to small businesses in need of specific business services or training, leaving their right to self-selection of the provider of those services.

5. Weak orientation of small enterprises on innovation, new technologies, new equipment. The main problem here is the weak development of the system of intellectual property protection and limited access to the patents system for small enterprises, etc. [19].

6. An important and unresolved problem is the task of self-organization of business community.

Taken together, these and many other reasons, preventing the normal development of small businesses, lead to increased risk of leaving small businesses in the "shadow".

6. Conclusions

1. A special role at the present stage is played by the small and medium businesses, which ensure the stability of society.

2. In all states there have been taking measures to support small and medium businesses that need to improve.

3. Problems of small business development in the CIS countries are complex, require consideration of all major factors, analysis of sectorial and regional development features in each country.

4. In order to improve the performance of small businesses, it is necessary to systematize and simplify the procedure for the liquidation of small businesses that will identify and reduce the number of inactive enterprises.

5. In order to support small businesses it is necessary to introduce special tax regimes, where there is a choice of simplified taxation system types, including a special tax regime on the basis of a patent, a special tax regime on the basis of a simplified declaration, etc.

6. The relationships between business and government, improving the technology of their interaction are of particular importance.

7. An important development direction is the intensification of innovation-related activities performed by small businesses.

Corresponding Author:

Dr.Mingaleva Zhanna
Perm National Research Polytechnic University
Komsomolsky Av., 29, Perm, 614000, Russia

References

1. Mingaleva, Zh. and Mirskikh, I., 2013. Small Innovative Enterprise. The Problems of Protection of Commercial Confidential Information and Know-How. Middle East Journal of Scientific Research13, SPLISSUE: 97-101.
2. Allen, S.D., Layson, St.K. and Link, A.N., 2012. Public gains from entrepreneurial research. Inferences about the economic value of public support of the Small Business Innovation Research program. Research evaluation. Vol. 21, Issue 2: 105-112.
3. Cho, M., 2014. The effect of capital gains taxation on small business transfers and start-ups. Economic Modelling. Vol. 36: 447-454.
4. Berger, N.A. and Udell, F.G., 1998. The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle. Journal of Banking and Finance. 22 (6-8): 613-673.
5. Hardill, I., 2013. Enterprise, Deprivation and Social Exclusion: The Role of Small Business in Addressing Social and Economic Inequalities. Regional Studies. Vol. 47, Issue 6, Special Issue, SI: 993-994.
6. Kelly, M., 2013. Enterprise, Deprivation and Social Exclusion: The Role of Small Business in Addressing Social and Economic Inequalities. International small business journal. Vol. 31: 103-105.
7. Olsen, K., Legg, St. and Hasle, P., 2012. How to use programme theory to evaluate the effectiveness of schemes designed to improve the work environment in small businesses. Work – a journal of prevention assessment & rehabilitation. Vol. 41: 5999-6006.
8. Anglada, M.L., 2000. Small and medium-sized enterprises perceptions of the environment. A study from Spain. In Small and medium-sized enterprises and the environment, ed. R.Hillary. Greenleaf, Sheffield, UK: 61-74.
9. Australian Bureau of Statistics, 2010. Characteristics and performance of small and mediumsized businesses in Australia. Canberra, Australia.
10. Craig, B.R., Jackson, W.E. and Thomson, J.B., 2009. The Economic Impact of the Small Business Administration's Intervention in the Small Firm Credit Market. A Review of the Research Literature. Journal of small business management. Vol. 47, Issue 2: 221-231.
11. EU, 2009. The new SME definition. User guide and model declaration, Enterprise and industry publications, European Union. Date views 14 June 2009.
12. Rosstat. Date views 25.05.2014 www.gks.ru
13. Mingaleva, Zh., Gayfutdinova, O. and Podgornova, E., 2009. Forming of Institutional Mechanism of Region's Innovative Development. World Academy of Science, Engineering and Technology. 58: 1041-1051.
14. Sagintayev, B. In Kazakhstan, the subjects of the small and medium enterprises produce goods for 8 trillion tenges. Date views 25.05.2014 www.inform.kz/rus/article/2549445.
15. The State Committee on Statistics of Uzbekistan. Date views 25.05.2014 www.stat.uz/index.php.
16. The National Statistical Committee of the Republic of Belarus. Date views 25.05.2014 www.belstat.gov.by.
17. The World Bank Report. Date views 25.05.2014 <http://russian.doingbusiness.org>.
18. Uzbekistan has launched a new state program aimed at supporting and developing small and medium businesses. Date views 25.05.2014 www.bizguru.ru/node/883.
19. Mingaleva, Zh. and Mirskikh, I., 2009. The Problems of Legal Regulation of Intellectual Property Rights in innovation activities in Russia (Institutional approach). World Academy of Science, Engineering and Technology. 29: 464-476.

5/29/2014