

## Small business and the government: interaction

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**Abstract.** The development of small business is a crucial component of the state's social-economic policy. What is now becoming particularly topical is the process of interaction between business and the government, which is expected to shift to a new level. This article fine-tunes the concept of interaction, which is construed as regulation, partnership, mutual rapport and support, and coordination of the actions of representatives of the government and business. The authors propose a scheme for interaction between small business entities and the government. Through the example of Perm Krai, the article examines the scheme's components, trends in that interaction, and their impact on the state of small entrepreneurship. The authors point up the need for systemic work aimed at developing a favorable business climate for small business.

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### Introduction

Small business is crucial to social-economic processes taking place in society and the development of entrepreneurship as a whole.

There are numerous studies, conducted both in Russia and overseas, dedicated to issues in the development of entrepreneurship [1, 2, 3, 4]. A considerable portion of research has been dedicated to government support of small entrepreneurship (L.I. Abalkin, T.I. Zaslavskaya, A.O. Blinov, M.G. Lapust, etc.), which, no doubt, impacts the state and vector of small business's development. Active government support of small business is "associated with the country's need to keep abreast with global market trends" [1]. The state of this sector of the economy and trends in its development depend on the policy followed by the government, which, in our view, is not currently limited to regulation.

However, there is a lack of research into other forms of interaction with the government and their impact on this sector of the economy.

In this work, the authors will attempt to take a broader look at issues in the interaction between small business and the government. But first we shall define the way we are going to interpret the concept of interaction within the scope of this investigation.

There are different approaches to defining the term "interaction".

"The Dictionary of Modern Economics" defines it as "participation in common work, activity; partnership; joint execution of transactions and deals" [5].

Some experts construe interaction as business relations between business establishments and subnational authorities, within the frame of which social and economic ties are formed, which

pursue the goal of optimizing the use of resources [2].

The vectors for the above concepts have the same direction, and we shall take them as a basis for looking into the interaction between small business and the government, which we shall construe as regulation, partnership, mutual rapport and support, and coordination of the actions of representatives of the government and business.

The tightest-knit interaction is effected at the regional and municipal level, although it, no doubt, is government policy that sets up the fundamentals of this interaction.

We shall next examine this process through the example of Perm Krai, but let us first analyze the trends in the development of this entity of the Russian economy in the region.

The indicators that characterize the state of small entrepreneurship in the region are based on official publications by Permstat [6].

**Table 1.A characterization of small enterprises in Perm Krai (Perm region)**

Indicators	2009	2010	2011	2012	Growth rate, %	For reference only, 9 mo., 2013
Number of small enterprises (exclusive of micro-enterprises), units	4411	20718	4246	4187	98.6	4381
Turnover of small enterprises (exclusive of micro-enterprises), millions of rub.	138710	321673	209128	208140	99.5	161207
Number of employed (exclusive of micro-enterprises), people	127934	209648	130898	121497	92.8	128066

Considering the nature of the statistical observation methodology, we can only compare the data for 2011 and 2012, which characterize small enterprises exclusive of micro-enterprises, while the data for 2010 are inclusive of micro-enterprises since it was an across-the-board statistical observation of

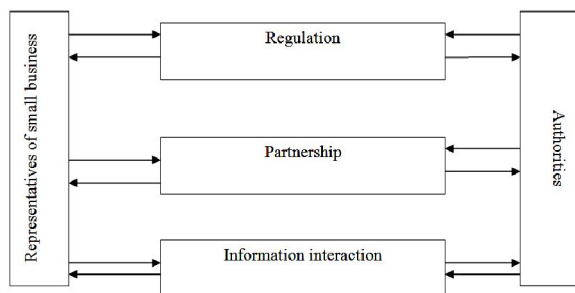
small business entities – yet micro-enterprises were not set apart from the rest.

Thus, the available data indicate a decrease in the number of small enterprises in the region in 2012, which, in our view, is, inter alia, associated with increases in the size of mandatory pension insurance premiums. If we make a comparison with 2009, which is acceptable since that year's figures, too, characterize small enterprises exclusive of micro-enterprises, we can see that in 2012 there was a decrease in the number of enterprises in operation and the number of those employed in them, while turnover growth is, above all, associated with inflation processes; however, there was a 29.4% increase in turnover in 2012, with consumer prices going up 115.99% [7] over 2010-2012.

Based on data provided by the National Institute for Systemic Research into Issues in Entrepreneurship, the revealed trends are characteristic of Russia as a whole [8].

Changes taking place in mentioned segment of the regional economy are also impacted by the system of interaction between business and the government.

Based on our established definition of the interaction between business and the government, we shall illustrate it in the form of a diagram in Figure 1.



**Figure 1. A diagram for the interaction between small business entities and the government**

Let us examine the components of the proposed scheme of interaction.

The global history of economic thought has produced various schemes and models that imply a particular degree of government intervention in the economy. But in any case, the government can administer both direct and indirect regulation of the economy – and, consequently, of small entrepreneurship. Regulation is done the same way overseas, in the largest economically developed countries [9, 10, 11].

Regulating the development of small business through direct action includes, inter alia, the budget

component, government programs, and government entrepreneurship.

In accordance with the existing law “On the Development of Small and Medium Entrepreneurship in the Russian Federation” (#209-FZ; dated 24.06.2007), small entrepreneurship entities can obtain financial support.

In Perm Krai, the financial support of small business is affected through JSC “Permsky Tsentrazvitiya Predprinimatelstva” (“Perm Center for the Development of Entrepreneurship”), which is engaged in putting into practice the government program for the development of micro-financing. Starting from early 2012, it has been implementing its own micro-loan program based on the principles of maturity, serviceability, and repayment. Micro-loans have a maximum size of 1 million rubles, with a loan term of no longer than 12 months and an annual interest rate of 8.25% (the refinancing rate as of 31.12.2012). In 2012, the company had an active loan portfolio of 73 micro-loans to the total tune of 33.09 million rub. The average size of a micro-loan is 453.3 thousand rub., with 56% of micro-loans accounted for by municipalities and just 44% by the city of Perm [12].

JSC “Permsky Garantiyniy Fond” (“Perm Guarantee Fund”) provides with a guarantee small and medium business entities and organizations within the infrastructure of support for them, which plan on getting a loan in the bank but have insufficient security. JSC “PGF”’s guarantee is provided for the development of a business.

Over the period of 2011-2013, 353 loans were issued on the guarantee of the Guarantee Fund, their ruble amount being 287 million rub. in 2011 and 1539 million rub. in 2013. Thanks to support from JSC “PGF”, entrepreneurs in Perm Krai were able to attract over 2.5 billion rub. in credit resources into their business [13].

Another instrument is subsidizing costs incurred. Perm Krai provides subsidies related to organizing a business, reimbursing part of the costs of training personnel and connecting to the electrical grid, as well as subsidies for exporter-entrepreneurs to use for patenting and registration of created non-material assets.

Based on the analysis of “The Register of Small and Medium Entities Receiving Support from the Ministry of Industry, Entrepreneurship, and Trade of Perm Krai” provided on the Krai’s small business portal, 287 entities in 2010 and 506 entities in 2011 obtained financial support, the total size of the support amounting to 37658.08 thousand and 57708.66 thousand rub. respectively. Their number rose to 76.3% and the total volume of the support grew to 53.2% [14]. According to Perm Krai’s Ministry of Industry and Trade, funds in 2013 were

granted in Perm across three major areas: grants for reimbursing part of the costs associated with (1) the commencement of activity, (2) payment of the first contribution (advance payment) related to equipment lease and lease payment agreements, and (3) payment related to the transfer of rights to the franchise.

The total volume of funding amounted to as much as 9.3 million rub. [15].

Financial support for small business has been provided in Perm Krai for many years; since 1996 it has been provided based on special-purpose programs. As of January 2014, the Subprogram for the Development of Small and Medium Entrepreneurship in the Region is a component part of Perm Krai's government program "Economic Development and the Innovation Economy" [16].

In our view, an important component of government regulation of the economy is such an indirect method as tax regulation.

The Tax Code of the RF provides for the possibility of applying special tax regimens in respect of small business entities – more specifically, a simplified taxation system, the uniform tax on imputed income for particular types of activity, and the patent taxation system.

The application of these taxation regimens presupposes payment of a uniform tax (a patent) in lieu of the corporate profits tax (the personal income tax for entrepreneurs), the corporate property tax (the personal property tax on property used for entrepreneurial purposes), and the VAT.

Since the use of the above special taxation regimens is of a voluntary nature, it enables small business entities to choose one that is the most suitable for them, one that helps minimize the tax burden.

The aspiration towards a reduced tax burden is associated with the requirements of market competition which results in a desire to reduce one's expenditure and save one's earned profits to be able to further expand one's commercial activity and resolve one's strategic development objectives [17]. Thus, Russia's existing tax system is oriented, inter alia, towards resolving the government's objective of supporting and stimulating entrepreneurial activity.

The next component of the interaction between small business and the government is partnership. In this regard, we first of all would like to examine public-private partnership (PPP).

We shall view PPP as an institutional and organizational alliance between the government and the entrepreneurial community, which is created with a view to implementing projects across a broad range of activity areas of public significance.

It is PPP that is capable of becoming a form of partnership between the government and small

business in terms of providing financial support for the latter.

The world's practice has amassed lots of various models, forms, types, and specific variants of actualizing partnership relations between the government and business, including small business. Below are some of them.

1. Contracts entered into by the government (a local government authority) and the business entity – contracts for engaging in publicly needful and useful types of activity. The most common in PPP practice are contracts for state needs, which are provided on official sites.

Prior to January 1, 2014, the procurement system for state and municipal needs was regulated by the Federal Law "On Placing Orders for the Procurement of Goods, Works, and Services for State and Municipal Needs" (#94-FZ; dated 21.07.2005). On January 1, 2014, the government brought into force the Federal Law "On the Contract System in the Area of Procurement of Goods, Works, and Services to Provide for State and Municipal Needs" (#44-FZ; dated 05.04.2013), which prescribed that customers must make purchases from small entrepreneurship entities and socially-oriented non-commercial organizations to the tune of no less than 15% of the total annual volume of purchases.

On the one hand, this is a form of direct regulation, while on the other, based on our accepted interaction scheme and the definition of PPP, it is a form of partnership between small business and the government.

However, it should be noted that, based on that by existing legislation the 15% state and municipal procurement quota revolves, in the aggregate, around small business entities and socially-oriented non-commercial organizations, the innovations impaired the state of said business segment.

2. Different forms of lease. The distinctive characteristic of these specific lease relations between authority establishments of various levels and small business lies in that under the terms of the agreement there takes place a transfer of state or municipal property to a private partner for temporary use for a certain amount of money to be paid as specified in the agreement.

For instance, by Decision #315 of the Perm City Council dated 25.12.2007, space lease concessions are provided to drugstore organizations that stock and dispense medication on preferential prescriptions, the size of the digression factor being 0.3%.

Some specialists define subsidizing business as a form of PPP, but we have examined it as a

component of direct regulation of the development of small business.

In this regard, it should be noted that the use of any forms of public-private partnership leads to the growth and development of small entrepreneurship.

Information interaction is becoming an important component of the interaction between business and the government.

Many issues in the development of small business are due to its being insufficiently informed, a lack of access to prompt consultations by specialists, and a lack of relevant business services. The resolution of the above issues should be facilitated by "The Electronic Government" instituted in RF regions. As far as the accessibility of virtual technology for Perm Krai's entrepreneurial community, virtually any transaction or action can be performed on the Internet.

The website of the Ministry of Industry, Entrepreneurship, and Trade of Perm Krai will take you to an electronic trading facility, located at [www.torgperm.ru](http://www.torgperm.ru), which is designed for interactive communication – conducting trading sessions as well as online business communication [18].

There is a specialized information portal for small and medium business put in place, "The Portal for Small Business in Perm Krai" ([www.g2b.perm.ru](http://www.g2b.perm.ru)), which has made more accessible information on opportunities for developing one's business and measures for government support of business. The portal is a sought-after resource among entrepreneurs – it is visited by over 200000 people annually.

However, it should be noted that some of the information is not updated promptly, as, for instance, is the case with statutes and regulations. As of 10.01.2014, the site [www.g2b.perm.ru](http://www.g2b.perm.ru) carries no information on the repeat of the Decree of the Government of Perm Krai "On Ratifying the Long-Run Special Purpose Program "The Development of Small and Medium Entrepreneurship in Perm Krai for 2012-2014" (# 282-p; dated May 4, 2012).

Thus, despite the considerable role of electronic interaction in improving the quality of interaction between small business and the government, it still needs further development and a transition to a new level.

A topical form of information exchange is, no doubt, the participation of representatives of small entrepreneurship in task forces engaged in working out statutes and regulations relating to their activity. For instance, representatives of small business engaged in the area of trade participate in a task force for the creation of a scheme for positioning non-stationary retail facilities in the city of Perm.

In our view, live issues in the interaction between business and the government are brought up and discussed in staging such jointly prepared activities as forums and conferences dedicated to issues faced by small entrepreneurship. Such activities are staged at the federal, regional, and municipal level. The "Days of Perm Business" forum has already been organized for several years in Perm Krai.

Summing up our examination of specific components of the interaction between small entrepreneurship and the government, we would like to note that there are new forms of it emerging (e.g., the creation of the institute of commissioners for the protection of the rights of entrepreneurs). However, they require systemic analysis, the primary objective whereof should be streamlining and boosting efficiency. In this regard, the foreign experience should definitely be taken into consideration [19, 20, 21, 22, 23, 24].

The interaction between the two sides will become topnotch, when they are ready to listen to each other and be considerate of each other's interests and needs, which is the basis for the development of small business as one of the priority areas within the state social-economic policy of the Russian Federation.

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