

State Policy for Sustainable Development of Entrepreneurship in Russia: Minimizing Risks and Removing Barriers

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ABSTRACT

The economic crisis caused by numerous restrictions amid the emerging coronavirus infection COVID-19 has forced governments around the world to take unprecedented measures to support the economy, entrepreneurship and business in general. Currently, the main economic actors are small and medium-sized enterprises, which make up almost ninety percent of all companies in the world and the role of these entities in the world is recognized at the highest level by the resolution of the UN General Assembly in 2017, which proclaimed June 27 as the Day of micro, small and medium-sized enterprises, which is dedicated to raising public awareness of the contribution of small and medium-sized enterprises to the global economy and ensuring sustainable development, as well as raising awareness of the need to increase investment in small and medium-sized businesses in developing countries.

Key words: state policy, management, entrepreneurship, economic security, sectors of the economy

1. INTRODUCTION

Development of entrepreneurship shall be considered as a process of creation in the state of specific internal and external conditions, under the influence of which favorable opportunities for further development are provided. In other words, it is required to focus on the functioning of entrepreneurial structures in a specific environment, which has a general impact. In the territory of the Russian Federation, the process of formation and development of entrepreneurial activity is characterized by presence of distinctive features. Among the most significant of these features is the fact that, in comparison with other countries, entrepreneurship is recognized as an underdeveloped phenomenon, due to absence of entrepreneurial activity in the state for a long period of time.

2. MATERIALS AND METHODS

According to the data obtained from the Global Entrepreneurship Monitoring, it was found that entrepreneurial activity in Russia is weaker in

comparison with other countries with economies in transition (Fig. 1). The data provided in Figure 1 indicate that Russia is characterized by a lower value of the components of the Global Entrepreneurship Index compared to other CEE countries (Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia). Presence of such results is due to the limited impact of institutional factors on the potential of the local business environment. Wherein, the key role in formation of the business landscape in the territory of the Russian Federation belongs to the institutional environment, within which the former norms of the system and values coexist with the systems and values that were established during the Soviet era [4].

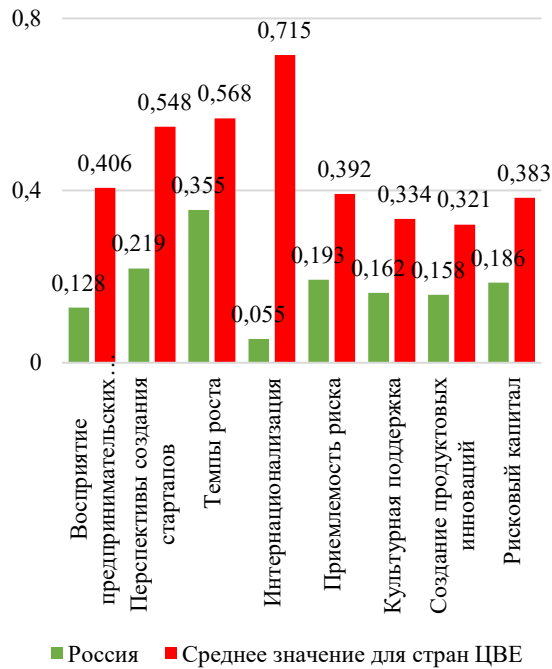


Figure 1 Values of the components of the Global Entrepreneurship Index in Russia and in the CEE countries in 2019, points [7], where: Russia – Россия, Average for CEE countries - В среднем по странам ЦВЕ, Perceptions of entrepreneurial opportunities - Восприятие предпринимательских возможностей, Prospects for creating startups - Перспективы создания стартапов, Rates of growth - Темпы роста, Internationalization – Интернационализация, Risk acceptability - Приемлемость риска, Cultural support - Культурная поддержка, Creation of product innovations - Создание продуктовых инноваций, Risk capital - Рисковый капитал.

The process of creating an economic entity is carried out in accordance with the demand for a new enterprise from the market, while it is necessary to consider the presence of demand for services and goods. The next integral component is the offer, which is the number of potential entrepreneurs and resources used to remove barriers to entry. Wherein, the most significant barriers are: a high level of market monopolization, lack of fair competition, a significant level of administrative pressure, a corruption component, and etc. Some types of restrictions that affect the functioning of the business sphere are characterized by the direct influence of state policy and the failed actions of state authorities.

In order to assess the ease of doing business, the World Bank compiles a special Doing Business rating. Let's imagine the change in Russia's position in this rating (Fig. 2).

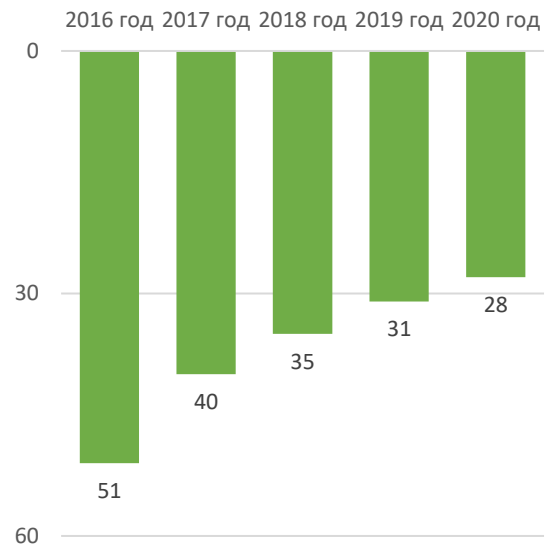


Figure 2 Changes in Russia's position in the Doing Business rating in 2016–2020. [6].

Russia's position in the ease of doing business ranking is characterized by annual improvement. So, in 2016, our country took the 51st place, in 2020 — the 28th place. This change certainly indicates an increase in the ease of doing business. It shall be noted that when compiling the rating, specific indicators were used, including:

- business registration speed;
- speed of obtaining the construction permit;
- connection to electrical networks;
- property registration process; the procedure for obtaining the loan;
- protection of investors' rights;
- business taxes;
- the level of international trade;
- enforcement of contracts;
- business liquidation procedure.

Despite the fact that when calculating the rating, indicators were used that have a direct impact on development of the business sector, factors such as the actual state of infrastructure, inflation, crime and other significant indicators are not taken into account.

The point of view of the Association of European Businesses using which the attractiveness of the Russian market for foreign entrepreneurs was established is noteworthy. For foreign entrepreneurs, the Russian market is attractive due to its large volume and high market potential. Also, significant conditions are lower wages and lower cost of raw materials. Despite this situation, entrepreneurs in Europe have

identified specific reasons for the formation of barriers to doing business (Fig. 3).

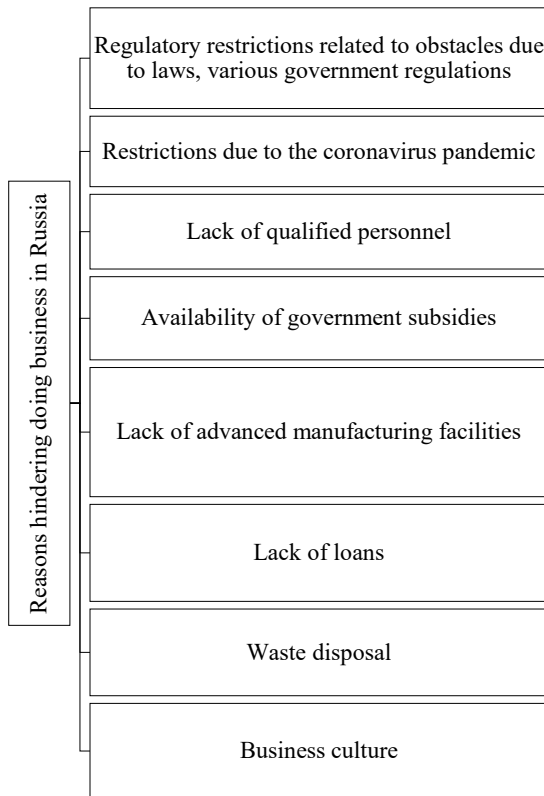


Figure 3 Reasons hindering doing business in Russia [7].

3. RESULTS AND DISCUSSION

The reasons identified by European entrepreneurs that hinder doing business in Russia are quite significant. Accordingly, in the case of minimizing or eliminating the presented obstacles, development and improvement of entrepreneurial activity will be ensured.

In addition to the study of European entrepreneurs on doing business in Russia, it is necessary to consider the results of the National Report Global Entrepreneurship Monitoring. Russia 2020/2021 held by the Higher School of Management and Sberbank of Russia PJSC [2]. The results of the study indicate that at the end of 2020, there is a decrease in the index of entrepreneurial activity in Russia in comparison with 2019. Let's imagine the entrepreneurial activity of various population in % of the working-age population (Fig. 4).



Figure 4 Levels of entrepreneurial activity in Russia in 2014–2020, % of the working-age population, where: The activity of established entrepreneurs – активность устоявшихся предпринимателей, Early entrepreneurship activity – Активность ранних предпринимателей, General entrepreneurial activity – общая предпринимательская активность.

The data presented in Figure 13 indicate that in the territory of the Russian Federation in 2019 there is the highest level of entrepreneurial activity of both early-stage entrepreneurs and established entrepreneurs — 9.3 % and 5.1 %, respectively. In 2020, there was a decrease in overall entrepreneurial activity from 14.4 % in 2019 to 13.1 %. Wherein, the entrepreneurial activity of early-stage entrepreneurs also decreased —to 8.5 %, and established entrepreneurs — to 4.7%. The decline in entrepreneurial activity during the Covid-19 pandemic is due to the closure of companies by entrepreneurs and the transition to hired work.

In the regional context, the creation of free economic zones and programs for simulating investments in fixed assets comes to the fore in order to support economic entities whose activities increase tax revenues (incomes) to the regional budget [9].

Not only the Covid-19 pandemic, but also other reasons became one of the main reasons for the business closure (Fig. 5).

In accordance with the data presented in Figure 14, it is noted that in 2020 there was a change in the reasons for the going out of business of entrepreneurs in Russia. The most significant reason for going out of business is a pandemic — 28.9 % and business unprofitability — 25.9 %. Also, an essential position is occupied by such a reason as the possibility of other employment. In 2019, the main reason for going out of

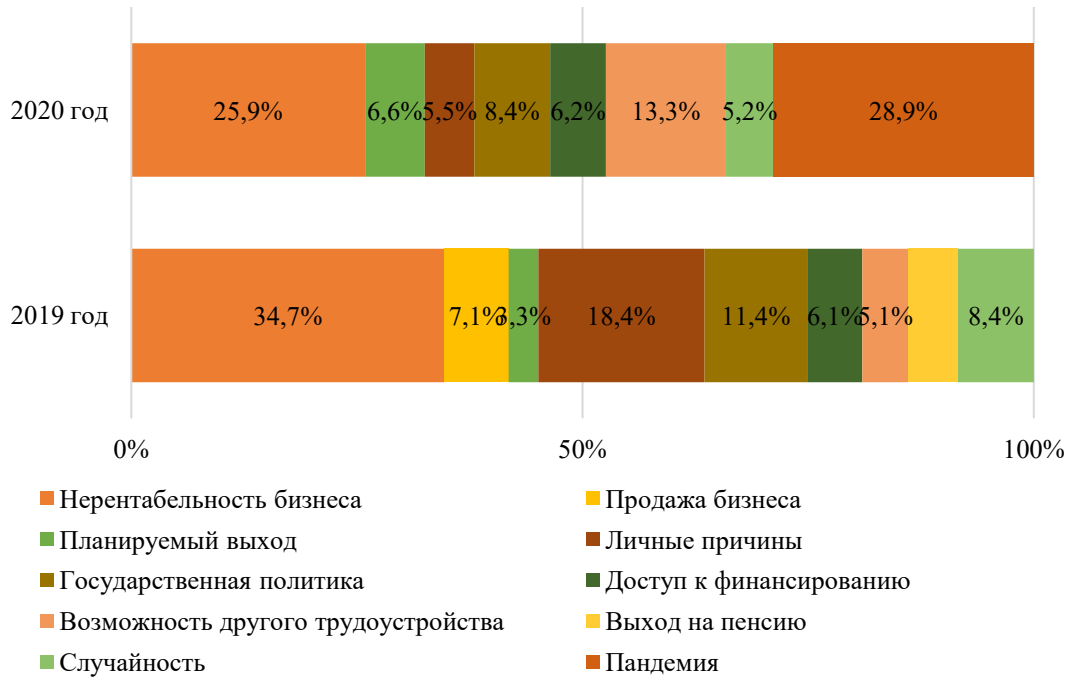


Figure 5 Reasons for going out of business in Russia in 2019–2020, % [2], where: Убыточный бизнес-Unprofitable business, Продажа бизнеса-Business sale, Планируемый выход-Planned exit, Личные причины-Personal reasons, Публичная политика-Public policy, Доступ к финансам-Access to finance, Другие возможности трудоустройства-Other employment opportunities, Выход на пенсию-Retirement, Несчастный случай-Accident.

the business was the unprofitability of the business — 34.7 %; personal reasons — 18.4 % and state policy — 11.4 %. The data obtained indicate that under the influence of the pandemic, there was an increase in the rate of going out of entrepreneurs of the business.

As part of the study of the facts affecting the development of entrepreneurship in Russia at the present stage, we will consider the main conclusions obtained as a result of the study of the state of small and medium-sized businesses Tinkoff Business. The main findings are [3]:

- April of 2021 in Russia is characterized by a positive growth depending on the number of companies;
- the greatest growth in production indicators is observed in the field of passenger transportation, as well as finance and insurance;
- the main risks of doing business are: an increase in the tax burden, increased attention to the main business operations and the establishment of restrictions under the influence of the Covid-19 pandemic;
- increasing the level of security in implementation of entrepreneurial activities in the opinion of the majority of entrepreneurs;

- reducing the number of problems with tax legislation.

Presence of the presented trends in development of entrepreneurial activity in Russia in April of 2021 testifies to development of this area. Despite this situation, the results of the survey of business entities indicate the presence of some problems with application of legislation (Fig. 6).

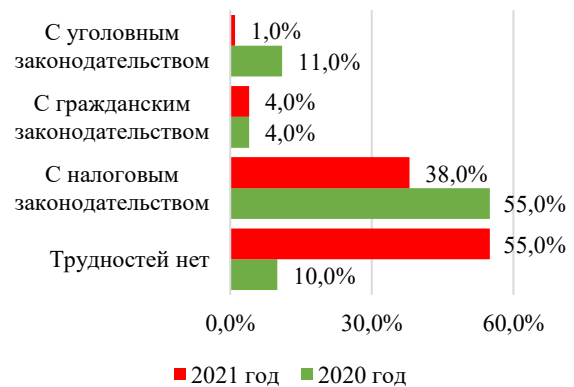


Figure 6 Which legislation provides the greatest difficulties for doing business in Russia in 2020-2021, % [3], where: With criminal law - С уголовным правом, With civil law - С гражданским правом, With tax legislation - С налоговым законодательством, No difficulties- Нет трудностей.

Most entrepreneurs adhere to the point of view that when implementing entrepreneurial activities in the territory of the Russian Federation, the greatest problems are formed in connection with the application of tax legislation. Wherein, this level is characterized by the decrease from 55 % in 2020 to 38 % in 2021. Wherein, business entities have the opinion that the key threat is the possibility of arbitrary interpretation of legislative rules by regulatory authorities and gaps in legislation [1].

In addition, we will present the change in risks in implementation of entrepreneurial activity (Fig. 7).



Figure 7 Change in the risks of doing business in 2020–2021, % [3], where: Coronavirus restrictions - Ограничения по коронавирусу, Impact of the tax burden- Влияние налоговой нагрузки, Overregulation and government oversight - Чрезмерное регулирование и государственный надзор, Impact of sanctions and the economic situation in the country - Влияние санкций и экономическая ситуация в стране, Hacker attacks and digital fraud - Хакерские атаки и цифровое мошенничество.

In 2020, in the territory of Russia during the pandemic, the main types of risks for implementation of entrepreneurial activities are: restrictions on coronavirus — 53 %; impact of the tax burden — 51 %; overregulation and attention from the state — 43 %; impact of sanctions and the economic situation in the country — 40 %. Presence of the presented risks is a barrier to increasing the level of entrepreneurial activity and business development in Russia. Accordingly, in the business sphere in the Russian Federation, it is necessary to implement measures aimed at minimizing the impact of the consequences

of the Covid-19 pandemic and further improving the conditions and factors for development of entrepreneurial activity. The priority measure in this case is elimination of the difficulties of doing business in Russia, the minimization of existing risks.

4. CONCLUSIONS

In our opinion, as part of the improvement and development of entrepreneurial activity in Russia in the context of the Covid-19 pandemic, it is necessary to implement certain measures and actions (Fig. 8).

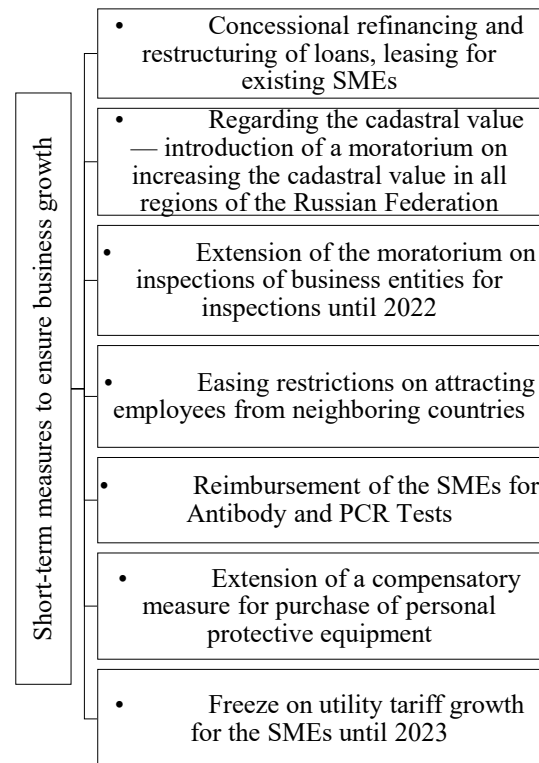


Figure 8 Short-term measures to ensure the growth of business entities during the Covid-19 pandemic [5]

The growth and development of the business sector in the Russian Federation will be ensured not only through the adoption of post-visual measures. Particular attention in development of the small and medium-sized business sector shall be paid to improving the interaction between business and government agencies. This situation is due to the fact that in Russia there is a low level of trust of business structures in relation to public administration. In addition, presence of a low level of trust in public administration is one of the reasons for the outflow of investment funds and emigration of entrepreneurs abroad. In our opinion, the development process of the small and medium-sized business sector can be ensured through implementation of certain actions:

- recognition by the state of the fact that the process of development of small and medium-sized businesses is not a fiscal function, but is of great social

importance, since it provides the necessary level of employment and provision of the population with goods and services;

- implementation of actions to stimulate an increase in the level of productivity of the SMEs;
- making adjustments to the principles of administrative regulation, the approach of officials with use of penalties when implementing actions to informing, training and, accordingly, absence of violations in the controlled territories;
- increasing the level of interest of local governments in development of the SMEs, as well as awareness of the need for taxes from the SMEs to be transferred to local budgets;
- adjusting the complex of consideration of appeals to state bodies, including by eliminating bureaucratic procedures and accelerating the consideration of requests from business structures, and etc.

Therefore, at the present stage, various factors influence the development of entrepreneurial activity in the territory of the Russian Federation. In 2020-2021, among the factors influencing the functioning of business entities, the limitations associated with the Covid-19 pandemic are also highlighted. Despite this situation in the country, it is necessary to implement measures and actions aimed at development of the business sector as a whole. Wherein, it is required to focus on adoption of short-term actions related to elimination of the pandemic consequences. It is also necessary to implement long-term measures, thanks to which the subsequent development of the business sector will be ensured.

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