

PROBLEMS OF SMALL-SCALE BUSINESS IN RUSSIA

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Small-scale business has been in existence for a quite long time. Many countries with developed economics felt efficiency of small-scale enterprises in economics long ago. Also they learned how to solve problems connected with companies, dealing on a small scale.

Nowadays, development of small-scale business is key driver of industrial efficiency, market saturation and the raising of living standards. But today small-scale business holds a weak position.

What exactly prevents small-scale business from progress?

Business problems can be divided into following groups:

- Organization problems associated with legal implementation and registration, opening of an account.
- Material support: lack of industrial premises and equipment, poor staff qualification, poor legal safety.
- Financial (investment) problems and problems connected with capitalization of savings: difficulties with capital legalization for establishment registration, problems with initial capital formation, establishing the contact with suppliers.
- Non-secured credit.
- Commercial facility problems.

The most pressing problem is access to business real property. There is a deep lack of industrial premises. That particular factor keeps down development of innovative ventures and industrial business. Both first-time entrepreneurs, who wish to start their own business, and successful businessmen, who need some storage facilities for branching out, are short of industrial premises.

Russian small-scale business contribution to GDP remains low – in 2009 it was around 22, 5 %, in contrast to the developed countries, such as EU countries, USA, Japan, where small-scale business contribution amounts to 50-70 %. In spite of the fact that some small business development programs were launched, Russia is still not highly competitive with majority of developed countries in qualitative and quantitative indicators of small enterprise development.

There are several basic reasons for this: difficulties with obtaining a bank credit and high interest rate, high rent, complex and long process of establishing registration, lack of sales pattern development and overtax burden.

One of the most important problems for small business development is crediting. Banks only lend out money on bail or with the contract of guarantee, so it is far from easy for entrepreneurs. There are no special banks to serve small business customers. Private enterprises are hard-pressed: difficulties with obtaining a bank credit, especially long-term credit, eliminate the possibility of business competition. Crediting problem was brought to a head under conditions of economic crisis. Affluence of many entrepreneurs was disrupted by economic crisis, lots of borrowers confronted with financial difficulties (e.g. restructurisations, lots of companies were closed or converted, lots of dismissals, every diseconomy must be fixed and claimed). All of these things adversely affected their credit reputation. Volume of SMB's loans decreased.

That is why very few small-scale businesses have a credit reputation. There are some problems of small-scale business lending, from bank's point of view:

1. Ambiguity of small-scale business activity

2. Majority of small-scale entrepreneurs lack of economical and juridical competence
3. Lack of floating assets
4. Lack of Government support for small business
5. High risks of not repayment of a credit

There are some problems of small-scale business lending, from entrepreneur's point of view:

1. High cost of credit
2. Strict eligibility conditions
3. Long terms for scrutiny of loan applications
4. Lack of Government support for small business
5. Impossibility of obtaining credit for starting your own business from scratch

Small business is a part of developed economy in the country. It has to play a broad spectrum of roles, which facilitates economic progress. Small-scale business is a guide to effective innovations in the mass production. Due to small equipment stock and not large turnout, small-scale enterprises spend negligible amount of finance and time to change engineering process, in contrast to large-sized businesses, thereby the most effective innovations can show up. If final result is negative, small-scale business will have slight negative profit, in contrast to large-sized businesses.

Nowadays, development of small-scale business system is crucial question, which is included in State Programme of Demonopolization of the National Economy. Small-scale businesses create favorable conditions for economic recovery: development of competitive environment; market saturation, increasing of employment opportunities, expanding of consumer sector, local raw materials resource consumption. Small-scale businesses are instable business structures, which are subject to market fluctuation, that's why they need Government support.

The Government of the Russian Federation adopted special Resolution No. 446 of 11 May 1993 "Top-priority measures for development of small-scale business in the Russian Federation", which underlines that Government support for small business is the most important orientation of economic reform.

It is necessary to reach a compromise between reasons of state, consumer interests and entrepreneur interests for normal small business activity. Therefore regulated and effective body of law for small business should be brought to stimulate the development of small-scale business and create favorable conditions for people, who is ready to start and their own business and get on it.

Intimate knowledge of foreign experience would be very useful to for developing countries, particularly for Russia. Analysis and research of foreign small and medium-sized business experience helps to state structures and city governments to launch different business support programs.

Development of small-scale business promotes gradual establishment of wide segment of small owners (middle class), who provides their own well-being, these people are guarantee of political stability and democratic development of the society. Small business sector is able to increase of employment opportunities, therefore it can provide decline in unemployment and decreased social strain in the country.