



CROSS-SECTORAL COMMITTEES



SMALL & MEDIUM-SIZED ENTERPRISES COMMITTEE

**CHAIRMAN:**

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MARKET AND MACROECONOMIC OVERVIEW

Small and medium businesses have been high on the domestic policy agenda. Overall, the specific regulatory framework for SMEs in Russia is governed by Federal Law No. 209-FZ (July 24, 2007). This law has been updated on several occasions. At the outset of the recent economic crisis, in 2015 the Russian State Duma adopted a law on the forma-

tion of the Federal Corporation for Small and Medium-Sized Enterprises, created through the merger of the Credit Guarantee Agency and the Russian Bank for Small and Medium Enterprises Support. Until the creation of the corporation, all instruments that existed to help small businesses in Russia were fragmented. According to the government, establishment of a "single window" was meant to streamline these procedures.



The main objective of the corporation is to provide financial, infrastructural, property, legal, and methodological assistance and issue warranties and guarantees to SMEs. In addition, the corporation will bring about an increase in the share of SMEs in government procurements. For instance, SMEs are entitled to appeal to courts if their rights are violated in the course of public tenders. In another move, the Russian government created a single export support structure, the Russian Export Center (REC), resulting from the organizational merger of the Russian Agency for Export Credit Insurance and Investment (EXIAR) and Eximbank. While these and other measures, such as the efforts to improve the general business climate that resulted in Russia climbing from 112th in 2013 to 28th in 2020 in the World Bank's Doing Business ranking, have certainly helped to stabilize the SME sector during the crisis, some well-known hurdles and structural bottlenecks have not been eliminated yet.

The overall increase in the number of SMEs we witnessed some years ago has now turned into a decrease. The number rose from 2,241,650 (only legal entities, no individual entrepreneurs are counted) in 2015 to 2,768,614 in 2017, but has shown a significant and steady decline since then to 2,288,299 (2,084,599 micro, 186,120 small, and 17,580 medium-sized businesses). In 2021, the number of medium-sized businesses slightly increased, while the number of micro and small businesses further decreased. In the official statistics, no clear coronavirus effect is visible. Actually, the pace at which the number of SMEs decreased has slowed down. Another factor may be that a number of companies that would qualify as SMEs, but had not been in the official SME registry, were entered after the business support measures by the Russian government aimed at SMEs were announced. The number of people employed in SMEs increased slightly (even though the number of SMEs decreased) from 12.9 million to 12.92 million in 2020, followed by a massive shed of 800,000 jobs in 2021, and demonstrates in this direction. A precondition for business support measures for SMEs in certain sectors was that the number of employees should be kept at least constant. After the expiration of the business support measures, people were dismissed in great numbers in the summer of 2021.

The most widespread industries that SMEs are engaged in are construction/real estate and trade. On an aggregate level, the share of SMEs in both GDP and employment is still very low in an international comparison (below 22%). According to the national projects' goals, the share should increase to 32.5% by 2024. By 2030, the government would like to see the share at 40%.

The reasons behind the weak development of the Russian SME sector are well known:

- › the difficulty in obtaining loans at reasonable rates;
- › the often-discriminatory access to procurement contracts, particularly from companies with state participation;

- › administrative hurdles and poor efficacy of state-run programs, including subsidies for SMEs in the regions.

During the COVID-19 lockdown, the government's business support programs for SMEs mainly targeted certain sectors. That is, the overall SME sector has suffered massively without feeling much support from the state. It can be assumed that the share of SMEs is going to decrease in the short term rather than increase, contrary to the government's goals.

The SME Committee will dedicate its efforts to engaging Russian authorities in a dialogue to find solutions that will allow European SMEs as well as SMEs in general to better take advantage of the opportunities in the Russian market. Since the beginning of 2020, the main subjects were connected to issues and support measures for SMEs during the COVID-19 economic crisis.

COVID-19 RELATED COSTS

In November 2021, there were repeated so-called "non-working days" announced. This means that employees should have days off and — as stated by the President — employees should receive their full wages. For many companies, and even more for SMEs, it is nearly financially impossible to give people such additional time off, practically speaking. Just by closing their business for 10 days or so, an organization may be pushed out of business, as clients may be unwilling to accept non-service during the period, or the business needs continuity. The costs for these additional days off are a huge burden to SMEs. Also, wages, including the non-working days, would be paid at an earlier date due to the strict nature of labor legislation, which may have a significant impact on an organization's liquidity management.

Apart from non-working days, in several Russian provinces there was a mandate for certain sectors to have most of its employees vaccinated. In Moscow, for instance, in many services industries, 80% of the staff would have to be vaccinated. Those unwilling to get vaccinated would be sent on unpaid vacation or even be fired. These measures lead to additional pressure on SMEs. First, the local government delegated the responsibility to force people to get vaccinated to businesses. That is, many conflicts that arise with employees were also delegated. Therefore, motivation and productivity may be affected. Second, they lead to additional costs for benefits, for replacing those sent on unpaid leave or fired, and for absences due to vaccine side effects.

RECOMMENDATIONS

- › Compensation to SMEs for the real, additional cost burden from non-working days at a reasonable level, and comparable to the actual costs.
- › Compensation to SMEs for the additional burden of the enforced vaccination program, which has been well supported by most SMEs, who understand how important vaccination is to ending the pandemic.

ADMINISTRATIVE BARRIERS TO DOING BUSINESS

The SME sector stands to gain a lot from legislative changes, but for now, many of the announced changes are more declarative in nature and often complicated, and precise information on upcoming draft bills is scarce and not easily accessible. The amount of control measures and administrative paperwork makes it virtually impossible to comply with all requirements. In addition, some civil servants may be prejudiced, and this tends to adversely affect an already complex process. As a result, directors of SMEs are compelled to make a considerable personal investment in the process in order to overcome these bureaucratic issues. In 2021, many businesses have complained about a significant increase in pressure on them by certain authorities.

RECOMMENDATIONS

- › Reduce bureaucracy and corruption.
- › Simplify the registration process and other administrative requirements for SMEs.

- › Simplify methods for monitoring health and safety, fire protection, labor, and other regulations.
- › Prepare financial and tax reports only once a year.
- › Replace the legal address with the home address of the owner or CEO. On the other hand, it is necessary to support and further encourage the business integrity of SMEs and their adherence to the law.
- › Establish regular dialogue or jointly set up a dedicated platform.



**More information on the
Committee page**