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Small Entrepreneurship and Entrepreneurial Activity of Population in Russia in the Context of the Economic Transformation

Alexander Chepurenko *

Abstract: »*Kleinunternehmen und Gründungsaktivitäten in Russland im Zuge des Transformationsprozesses*«. The paper deals with the main stages of private (small) entrepreneurship (SME) development and changing approaches to the SME policy in Russia under the systemic transition. The author argues that the entrepreneurship and SME policy in Russia remains rather reactive than pro-active. A special attention is paid to the crisis (2008-2009) impact both on the entrepreneurial activity of population based on Global Entrepreneurship Monitors (GEM) data as well as on the State inconsistent policy to promote SME under slowdown.

In Russia, the strategic objective of government policies must be to support productive entrepreneurship and limit the options for rent-oriented or even parasitic growth of the two other types. But this task involves fundamental changes in the system of ownership rights and the entire structure of social relations, for the domination of unproductive and 'destructive' entrepreneurship is inseparable from the system of 'power-ownership' dominating in Russia.

Keywords: Russia, small entrepreneurship, early entrepreneurial activity, SME and entrepreneurship policy, crisis' impact.

1. Introduction

Reviewing the development of the Russian private sector under the systemic transition in foreign academic literature, there are usually the 'big business' and so called oligarkhs which attract most attention. Meanwhile, after 20 years of systemic transition a variety of bottom-up entrepreneurial forms and practices emerged in Russia as in other transitional societies, represented by different groups of firms – by size, resources used and business strategies.

First, all of them are earning incomes from very different sources – according to the definition of William Baumol (1990), there are different groups of entrepreneurial types: *productive*, *unproductive* and even *destructive* entrepreneurship existing in Russia. Productive entrepreneurship is driven by the 'innovation rent', unproductive entrepreneurship benefits from several forms of

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‘political rent’ (= redistributing *incomes*: monopolies of different kind etc.), and destructive entrepreneurship is earning shadow and criminal incomes (= redistributing *property*: criminal business, ‘black’ raiders etc.). These types are ‘dissiminated’ in a very different proportion between big, medium sized, small and micro firms.

Russian big business (150 to 200 biggest companies and banks) is mostly well embedded in political hierarchies, affiliated with State agencies and benefiting to a big extent purely from political rent. In spite of a great difference between their position in the 1990s, when the ‘state capture’ dominated, and now, when ‘business capture’ by representatives of State elites is a more common way of linkage between State and big business, big Russian holdings and companies are still more redistributing than generating new added value. Close affiliation with the State enables some of them to use a strategy of privatizing profits when externalizing costs.

Among medium sized enterprises (ca. 13.000) there are different typical models of economic development and growth present; however, in this segment of Russian entrepreneurship one might find a significant share of so-called ‘gazelles’, with an annual turnover between 10-350 Mio. USD, showing more than 20% annual growth for longer than 4-5 years (Yudanov, 2008). These firms seem to have more in common with the Schumpeterian ‘innovative entrepreneurship’. Finally, there are small and micro entrepreneurship (ca. 1 300 000 firms and more than 2 500 000 individuals) – although they usually tend to opportunistic behavior, it is a segment of entrepreneurship on the grass-roots level. Between these groups (and among them) one might find clearly different types of entrepreneurial behavior – as relates to their efficiency, rate of eternal financing and, hence, mode of growth (organic or M&A). So, in sum, there exists a great variety of entrepreneurial types in Russia now.

The special subject of the present article will be small business and the so-called early entrepreneurship, being the manifestation of the early entrepreneurial activity (EEA) of population and the most important source of growth among the small businesses. This term used by the ‘Global Entrepreneurship Monitor’ covers any groups of potential and nascent entrepreneurs as well as baby business owners. The EEA, expressed in the TEA-index (Reynolds et al., 2005), is a clear and efficient measurement tool of several important features of entrepreneurship and its environment – the actual *ability to start-up*, resulting from the state of the *human capital* of nation and the state of *framework conditions for entrepreneurship*. In other words, it indicates *how* entrepreneurial and *why* a nation is, being subject of special observation and monitoring.

This article gives an overview of main trends and developments of entrepreneurial activity and small businesses in Russia since the beginning of the systemic transformation process that started about two decades ago.

2. Some milestones of SME development in the 1990s

As the main aspects of entrepreneurship and SME development in Russia in the 1990s have been discussed in a number of papers in international journals and monographs (e.g., Centre for Co-operation with the Economies in Transition, 1998; Murrell, 2005; Welter, and Smallbone, 2003), we will outline only the main stages that Russia has passed through in this relatively short period of time, undergoing a great number of changes such as prevalent forms, practices and types of entrepreneurship:

- 1) Emergence: appearance of alternative economic agents (late 1980s)
 - formation of co-operatives and other forerunners of “opportunity based entrepreneurship”,
 - primitive accumulation: creeping privatisation of the state owned sector,
 - transformation of socialist “economy of shortage” into a mixed economy (state owned sector with fixed prices and market sector with free prices).
- 2) Legalisation of the private sector in an environment of structural crisis and economic recession (1992-1995)
 - legalisation of private entrepreneurship,
 - booming of universal exchanges as a reaction to destruction of business ties,
 - formation of unproductive and ‘destructive’ entrepreneurship in the course, and as a result, of privatisation (domination in privatised enterprises of systems of corporate governance with high entry barriers for external investors and controlled by opportunistically-minded management, asset stripping as the principal source of unearned income) (Black, Kraakman, and Tarasova, 2000; Gaddy and Ickes, 1998; Moers, 2000),
 - barter trade and establishment of a ‘payment-refusal’ based economy as the reaction of adaptation to new conditions by privatised firms (Yakovlev, 2001),
 - huge market niches with low entry barriers – an incentive for ‘opportunity entrepreneurship’, first of all, for micro and small business,
 - growing unemployment in traditional sectors and the widespread of the ‘street entrepreneurship’ (Earle and Sakova, 2000),
 - limited options for external financing from legal sources, consolidation of economic power and political clout of major private financial institutions,
 - weak legal environment of entrepreneurship (both legislation and enforcement),
 - extortion racket and corruption (Shleifer and Vishny, 1993).
- 3) Dysfunctional development of entrepreneurship in a stagnating economic environment (1996-1998)
 - slightly diminishing of the barter as a result of rising monetisation of the economy, stronger turnover of money, parallel currencies (rouble and dollar) in the private sector support different types of transactions,

- less intensive stripping of assets from privatised businesses, establishment of specific models of corporate control in most post-privatised ‘private’ firms being purely institutional traps (Frye, 2004; Iwasaki, 2003),
- growing competition in retailing, forcing small business out of the more profitable niches in the consumer market by retail chains,
- large-scale tax evasion by entrepreneurs (Yakovlev, 2001),
- representatives of widespread types of necessity entrepreneurs (individual ‘shuttle traders’) becomes employees of bigger retail chains,
- completion of the establishment of integrated business groups and ‘oligarchy’ on this platform (Guriev and Rachinsky, 2005; Hoffman, 2002; Johnson, 1997; Perotti and Gelfer, 2003),
- loans-for-shares auctions and capture of public institutions (*semi-bankirshchina*, or the Seven Bankers’ Cabal) (Hellman, Jones and Kaufman, 2000).

3. SME development in the 2000s

A more detailed explanation of the specific of the next, fourth, period in the evolution of small entrepreneurship in Russia (1999-2008) is needed, because it has not yet been explored sufficiently in foreign literature. And – what is more important – (because) without such an observation, a shift in the State policy from ‘classical’ SME support scheme towards a more entrepreneurship oriented approach would not be clear.

In 1998, the crisis opened new opportunities for the development of ‘productive entrepreneurship’, i.e., entrepreneurship based on the recognition and use of opportunities rather than on ways to secure rent income after the departure of bigger players from the market. This is particularly true for those small and medium-sized enterprises whose business relied on local resources and was covering demand by the middle class, gradually recovering and growing in numbers. Many of the current Russian *gazelles* formed and they started growing fast, which represent the second or third tier of Russian business – mostly in food processing, clothes and footwear manufacture, business services, IT, consulting, etc.: according to estimates, in the mid 2000s, the percentage of gazelles was not under 12-15% of the number of acting ventures – compared to 4-8% in developed countries (see: Yudanov, 2008).

After the departure of Boris Yeltsin and the refusal by the new president, Vladimir Putin, to endorse the unofficial commitment between the State and big business interests, there was a surge of “demand for the rule of law”, including an independent judiciary system and efficient enforcement (Hendley, 1999; Pistor, 1999; Slinko, Yakovlev and Zhuravskaya, 2005). The appearance of such demand was due, on the one hand, to the passing of the “wild 1990s”: fundamental changes took place in business practices and ethics, rendering them more civilized. On the other hand, the demand was driven by the post-

privatisation institutional trap in corporate governance (combining an extremely low efficiency with high resistance against external influence) (Woodruff, 2003), which could only be overcome by using the practices of asset raiding. Corporate raiding in the early 2000s became the main threat for the management of post-privatised firms, enabled with the far from perfect law on bankruptcy (1998), which raiders actively used, so that inadequate owner-managers found themselves motivated to have ownership rights codified and placed under the State's protection as soon as possible.

In the early 2000s new processes and trends forming in the evolution of entrepreneurship in Russia occurred. First, the increasing wages (+10-20% p.a.) pushed a fast growth of consumer demand, with organised retailing, services and public catering booming as a result, and in a new format, too – there was a multiplication of trade chains, which became the core customers of national manufacturers of basic goods. SME in bigger cities in retail trade, catering and services used this trend to become stronger.

All in all, the dynamics of small business growth in Russia since the early 2000s was on the whole positive. E.g., the number of incorporated small businesses increased in 1999-2008 from 900 to 1340 thousands, and the number of the employed from 6.2 to 11.4 mln. (Nabiullina, 2009).¹

Small business demonstrates growth rates above average economic figures. For example, the annual increase in the number of those employed in the sector is 8 times higher, and the investment activity is 3 times higher, than the national economic average. At that, one out of three companies in the country is a small firm, and one out of four employed is active in small business. In construction, 97% of the companies are small businesses; small businesses produce nearly 70% of chilled fish; in the agricultural sector, they account for about 60% of the gross output (Nabiullina, 2008). According to official SME statistics for the period before the crisis, an upward trend in the small business development was clearly articulated (see Table 1). Alternative data such as the early entrepreneurship index (TEA), as measured by Global Entrepreneurship Monitor (GEM) shows a little bit different tendency on the level of early entrepreneurship.

In 2008, the share of adult population, which expected to start a new business in the next 3 years, was 5,27% (the lowest percentage among GEM countries). The level of Early-Stage Entrepreneurial Activity in 2008 was 3,49 %. The TEA Index has relatively increased by 30,7% in comparison with 2007. Nevertheless Russia's TEA still remained one of the lowest among GEM-countries. This position was composed of Russia's 6th position by share of new

¹ Note that in Russia up to the present moment statistics has been gathered on a regular base for *incorporated small* firms only; the number of sole traders, according to the first official census in 2007, ranged at 2.5 mln.

business owners (1,99%) and of the lowest level of nascent Entrepreneur's Activity in GEM (1,73%).

GEM adult population survey 2008 has shown that the level of Entrepreneurial Activity for nascent entrepreneurs had relatively increased by 30% for year. The level of Entrepreneurial Activity for new businesses owners has increased more significantly (+48% of relative growth), in spite of the decrease of the economically active population in total decreased in Russia in 2008 comparing to 2007. The level of established business owners in Russia has decreased almost one third in 2008: from 1,68% to 1,11% – and has become the lowest among GEM-countries. The share of entrepreneurs who discontinued a business was equal to 0,76% in 2008. Thus the turnover ratio (Nascent Entrepreneurs: Discontinued) was equal to 2,46 – there are 246 nascent entrepreneurs per 100 of people discontinued their business in 2008 (there have been 272 in 2006 and 134 in 2007, respectively).

The ratio of female entrepreneurship was near 48% – a bit higher than in the EU countries. The level of Early-Stage Entrepreneurial Activity for women was 2,6% (including 1% for new business owners) in 2008. This one for men is 1,8 times as much (and 2 times for new firms). The share of opportunity based entrepreneurship has slightly decreased: in 2008 it was equal to 30% (among them at the stage of nascent entrepreneurship – near 24%, one of the lowest levels among GEM countries). The percentage of men and women perceiving their own knowledge, skill and experience for starting a new business as good made almost 18 % in average and has relatively decreased by more than 15% comparing to the previous year level (Monitoring i analiz..., p.6-7).

The results of the 2008 wave of the GEM APS were rather twofold, showing both positive and negative dynamics of entrepreneurial activity in Russia. On the one hand, the level of the TEA has increased. On the other hand, both TEA and EBO (established business owners rate) were still the lowest in GEM.

Table 1: Share of SME in main economic indicators (in per cent)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------|------|------|------|------|------|
| Average number of full time employees (without freelancers and external contractors) | 14,3 | 15,0 | 15,9 | 16,7 | 17,8 | 18,9 |
| Average number of freelancers | 34,4 | 36,6 | 38,7 | 39,6 | 40,5 | 39,5 |
| Average number of external contractors | 21,4 | 22,6 | 22,0 | 22,8 | 19,8 | 22,4 |
| GDP share ¹⁾ | ... | 9,8 | 12,5 | 12,0 | 11,6 | ... |
| Turnover | ... | ... | ... | 26,0 | 26,3 | 26,6 |
| Investment | 2,9 | 2,4 | 3,5 | 3,3 | 3,6 | 3,9 |

¹⁾ Share of small firms' added value at GDP in market prices.

Source: Maloe predprinimatelstvo v Rossii – 2008 (Small entrepreneurship in Russia in 2008). Moscow, Rosstat, 2009, Table 1.1.

It is obvious that, given the faster growth of wages in the non-market sector and the ever higher economic and administrative barriers (especially corruption of several inspections monitoring small firms), private enterprise was no longer an attractive alternative for would-be beginners. This fact can only be interpreted as evidence of the business development in Russia being unfavourable for start-ups.

As for problems that are a significant factor in the development of small businesses already in place, these can be judged using the results of an OPORA-commissioned project implemented by VTsIOM in 2005 (the survey covered 80 of the RF's 89 constituent territories, see: Otchot...). The report suggests that the financial situation of business, the level of costs of interfacing with authorities, the support for small businesses provided by the authorities were rated as acceptable by small business owners in the mid 2000s in most of Russia's territories, which is not the case for the other 5 key factors – the conditions and prospects for small business growth in the territory, the level of risks inherent in the interaction with inspecting authorities and the crime scene, the presence or absence of restrictions on market entry, the accessibility of commercial space, and legal (written law and efficiency of the enforcement) protection.

4. Crisis and its impact on the perceived opportunities to start a new venture in Russia

In summer of 2008 the period of a continuous economic prospect ended, since the mid of the autumn of 2008 the current economic crisis has broken out. The crisis came unexpected – despite several analytical papers published already in early 2007 showing that the macroeconomic situation (growing imports, big debts of private Russian companies, serving not the organic growth but rather the M&A activities of them, too expensive Ruble etc.) is changing to worse. Even the growing inflation in 2007-08 was not so much understood as a sign of an 'overheated' economy but simply as a result of unfavorable conjuncture of world food markets.

The global financial crisis seriously affected the Russian economy. Beginning from November 2008 to February 2009, a recession in Russia took place. In 2008, the GDP of Russia reduced by 8-11 %, according to different statistical issues. The reduction of the GDP in the 1st quarter of 2009 was ca. 7 %. The decrease of prices for oil and other raw materials (from the second part of 2008 oil prices declined up to 70 %, on metals – up to 45 %) seriously affected Russian economy. Prices reduction urged the diminishing of Russian export by 35 % from June to December 2008.

Another crisis effect was the refusal to refinance the outer debts of Russian banks and corporations. Over the past 3 years the overall outer debt of Russian banks and corporations raised from 175 to nearly 500 bln. USD.

As a result, not only the demand on their goods and services, but also the access to external financial resources for small business became much more difficult.

The statistics of small entrepreneurship for 2008 showed, however, no ‘deterioration’ of macro-data – according to it (Nabiullina, 2009), number of SME on January, 1, 2009 was 1,367,000 (+ 20 % comparing with January, 1, 2008), average number of employees grew up to 11,419,000 pers. (+ 12 % comparing with January, 1, 2008), the share of SME at the GDP became 21 % (+ 4 % comparing with January, 1, 2008). Taking into account the slowdown of the second half of 2008, these results mark a very dynamic development of the sector in the first half of 2008, before the crisis.

In spite of the crisis, the entrepreneurial activity of population grew, too, – as the comparison of the 2008 and 2009 GEM APS shows, the most indicators improved (Table 2).

Table 2: Early entrepreneurial activity dynamic under the crisis

| № | Index | 2008 | 2009 |
|---|---|-------|-------|
| 1 | TEA (share of early entrepreneurs among the adult population) | 2,3% | 3,7% |
| 2 | Potential entrepreneurs (aiming to start-up) | 2,7% | 3,2% |
| 3 | EBO (share of established business owners among the adult population) | 0,8% | 1,6% |
| 4 | Share of opportunity based entrepreneurs among early entrepreneurs | 39% | 43% |
| 5 | Share of early entrepreneurial activity with high growth expectation (HEA) | 15,8% | 15,5% |
| 6 | Share of early entrepreneurial activity on new markets | 21,1% | 16,9% |
| 7 | Turnover coefficient of early entrepreneurship (start-ups : discontinued in last 12 months) | 1,35 | 2,33 |

Source: Rannee predprinimatelstvo v Rossii v usloviyakh globalnogo krisisa.

Table 3: Compared to one year ago, starting your business now is..., (% of 18-64 aged population)

| | Nascent entrepreneur | Baby business owner-manager | established entrepreneur |
|-------------------------|----------------------|-----------------------------|--------------------------|
| More difficult | 30,9 | 37,9 | 58,6 |
| Somewhat more difficult | 29,0 | 27,1 | 19,8 |
| About the same | 23,1 | 32,0 | 17,2 |
| Somewhat less difficult | 7,1 | - | - |
| Less difficult | 3,0 | 3,0 | - |
| Don't Know | 3,7 | - | 4,4 |
| Refused | 3,2 | - | - |
| Total | 100,0 | 100,0 | 100,0 |

Source: Rannee predprinimatelstvo v Rossii v usloviyakh globalnogo krisisa.

In 2009, the Moscow GEM team included into the questionnaire some additional questions to prove the impact of crisis on entrepreneurial activity. The survey results (Table 3) confirm that by the spring of 2009 there was a considerable deterioration in conditions for starting a business. Most representatives of all entrepreneurial groups – from nascent entrepreneurs to owners of established businesses – think that it became more difficult or even much more difficult to launch a new business as compared with 2008. The older a business the more critical are entrepreneurs’ assessments. For instance, if a business is over 3.5 years old, 78% respondents indicate a deterioration in conditions for starting a business. Among the owners of new businesses (from 3 months to 3.5 years), a deterioration was pointed out by 65%, while among nascent entrepreneurs (with businesses of under 3 months) a deterioration was noted by 60% of the respondents. The evaluation made by the owners of new businesses appear to be the most reliable, as their personal experience of entrepreneurial start-up was gained during 2006-2008, which period is similar for entrepreneurial environment parameters.

Opportunity for organising a new business is one more entrepreneurial environment factor that reflects mostly the market environment and the presence or absence of vacant market niches and their capacity. Most entrepreneurs share the opinion that the crisis has limited opportunities for starting a new business (Table 4). The older the businesses the more pessimistic are their owners: at least 80% of the negative evaluations for established entrepreneurs, at most 76% for new ones, and 47% for nascent entrepreneurs.

Table 4: What impact has the global economic slowdown had on the business opportunities for this start-up (% of 18-64 aged population)

| | <i>Nascent entrepreneur</i> | <i>Baby business owner-manager</i> | <i>established entrepreneur</i> |
|---------------------------------------|-----------------------------|------------------------------------|---------------------------------|
| More business opportunities | 6,3 | 3,9 | - |
| Somewhat more business opportunities | 6,8 | - | - |
| No impact | 33,2 | 16,3 | 18,9 |
| Somewhat fewer business opportunities | 16,9 | 39,7 | 35,4 |
| Fewer business opportunities | 29,8 | 36,1 | 45,7 |
| Don't Know | 7,1 | 4,0 | - |
| Total | 100,0 | 100,0 | 100,0 |

Source: Rannee predprinimatelstvo v Rossii v usloviyakh globalnogo crisisa.

The crisis has changed, overwhelmingly for the worse, not only the opportunities for starting new businesses, but also the prospects for existing businesses (Table 5). The expectations for business growth have weakened, including insignificantly so in respondents comprising about 1/3 of the group of nascent entrepreneurs, 2/3 of new ones, and 3/4 of established entrepreneurs.

With environmental deterioration, business age oftentimes plays a role of a development limiter, probably due to the fact that over time businesses lost mobility, which is required for adapting a business to external changes.

Table 5: Compared to one year ago, your expectations for growth are now... (% of 18-64 aged population)

| | <i>Nascent entrepreneur</i> | <i>Baby business owner-manager</i> | <i>established entrepreneur</i> |
|-----------------|-----------------------------|------------------------------------|---------------------------------|
| Lower | 9,4 | 32,8 | 38,1 |
| Somewhat lower | 20,0 | 25,4 | 37,7 |
| About the same | 40,8 | 34,1 | 20,1 |
| Somewhat higher | 3,5 | 3,7 | - |
| Higher | 6,2 | - | - |
| Does not apply | 12,7 | - | 4,0 |
| Don't Know | 7,5 | 4,0 | - |
| Total | 100,0 | 100,0 | 100,0 |

Source: Rannee predprinimatelstvo v Rossii v usloviyakh globalnogo krisisa.

Table 6: Which of the following sentences best describes the impact of the global crisis on your willingness to start-up? (% of 18-64 aged population)

| | <i>Nascent entrepreneur</i> | <i>Baby business owner-manager</i> | <i>Established entrepreneur</i> | <i>Non-entrepreneur</i> |
|---|-----------------------------|------------------------------------|---------------------------------|-------------------------|
| have to think about starting a business | 19,6 | 11,7 | 3,8 | 1,9 |
| I'd like to start business more strength | 23,2 | 8,9 | 11,9 | 1,6 |
| Refused to start business | - | - | - | 2,4 |
| The crisis didn't influence to start business | 10,8 | 3,5 | 6,9 | 4,5 |
| Neither before nor now, I do not intend to start businesses | - | - | - | 74,6 |
| intend to continue businesses irrespective of the crisis | 26,0 | 55,7 | 48,4 | 2,4 |
| intend to close / suspend a business | 3,1 | 8,8 | 14,4 | 0,9 |
| Don't know | 17,3 | 5,2 | 14,6 | 3,3 |
| Refused | - | 6,3 | - | 8,3 |
| Total | 100,0 | 100,0 | 100,0 | 100,0 |

Source: Rannee predprinimatelstvo v Rossii v usloviyakh globalnogo krisisa.

As it is clearly shown (Arenius and Minniti, 2005), entrepreneurial environment is far from being the only factor for determining whether or not one

should conduct one's own business but much dependent from perceived individual's knowledge, experience, and participation in relevant network communities. Is crisis an additional significant characteristic of the entrepreneurial environment, influencing the entrepreneurial potential of adult population? This is confirmed by the answers given by the participants of the 2009 survey (Table 6).

About half of the owners of new and established businesses mentioned that they intend to continue with their businesses irrespective of the crisis. Amid the crisis, about 20% of new entrepreneurs had intentions to start a business ('first business' or a version of strategy for diversifying an existing business), while 9% intended to close/suspend a business (obviously not the only one). Established business owners noted that the crisis equally (in about 15%) impelled to both start-up a new venture and close the existing ones.

On the whole, most (about 50%) of those who by the spring of 2009 had businesses of satisfactory standing intended to continue with it regardless of the recessionary environment. Intentions to start a new business, if such intentions arose (in every 4th owners of a new business and ensure every 5th owner of an established business) were largely provoked by the crisis. An involuntary 'crisis-caused' closure/suspension of a business – one of several businesses owned by an entrepreneur – occurred with every 7th-11th owner of established and new businesses respectively. In other words, the crisis has served as an accelerator mostly for creating new entrepreneurial entities rather than closing/suspending existing ones.

Nascent entrepreneurs for the most part (43%) received an impetus toward opening businesses exactly due to the crisis. Those whose intentions to launch businesses did not depend on the crisis accounted for only 11%, while those who closed/suspended their businesses due to the crisis accounted for as low as 3% of this group. The crisis became the main reason why entrepreneurs who had very short-term experience took up business activities.

All in all, however, the perceived situation seemed to be more dramatic than the macro-data both of the SME statistics as well as of the real entrepreneurial activity dynamic shown by the same GEM APS results. Supported by a clear, transparent and sustainable State policy, the entrepreneurship development could be significantly enhanced. However, the policy of the Russian State under these circumstances remained to be rather inconsistent.

5. SME Support and Entrepreneurship Promotion under the Crisis

A clear distinction between entrepreneurship policy and SME policy (Storey, 2003) has never been made by responsible state authorities in Russia, even among experts it is still a lack of understanding of two different approaches, which could be summarized as follows: 'While SME policy has a focus on the

existing stock of SMEs, entrepreneurship policy is more encompassing in that it includes potential entrepreneurs as well as the existing stock of SMEs. This suggests that entrepreneurship policy is more focused on the process of change, regardless of the organizational unit, whereas SME policy is focused exclusively on the enterprise level. Entrepreneurship policy also has a greater sensitivity to framework or environmental conditions that shape the decision-making process of entrepreneurs... However, it is important to emphasize that SME policy still remains at the core of entrepreneurship policy.' (Audretsch, 2002, p.47-48).

In sum, the government policies towards SME and entrepreneurship in Russia have passed through a number of periods:

- in the early 1990s the government followed the concept of the macroeconomic policy to establish main institutions inevitable for a market-driven economy as more important than SME focused policies – in this context, the policy of financial stabilisation and privatisation aimed at supporting pre-conditions for any kind of private entrepreneurship in general rather than targeting some specific groups of entrepreneurs and firms (like start-ups and high growing SMEs),
- from the mid 1990s preference was given to the concept of supporting small firms by measures of a 'traditional' SME policy (which are efficient under conditions of a balanced macro-, mezzo- and microeconomic policy in established market economies with transparent system of efficient state regulating authorities), but in absence of any well functioning and recognised institutions especially at the bottom level and being steadily underfinanced, it has not had any impact on the state of things in the small business sector itself,
- during the crisis of 1998, this system of state support for small business began by and large to collapse, and circles close to the government become ever more convinced not only of its inefficiency, 'radicals' complained even about the total irrelevance of the small business support concept; finally the pendulum swings back to the idea of rather entrepreneurship than SME policy,
- by the mid 2000s, there re-emerges the realisation of the need to implement, along with improving general conditions for business development, a better targeted entrepreneurship policy, to provide specific assistance to some key groups of SMEs,
- with the crisis in progress, starting in late 2008 a large-scale support for start-up groups is again all but abandoned in favour of fast-response measures.

One should include in the category of recurring the mistakes in the development and implementation of government policies towards SME and entrepreneurship, first of all, limited involvement of civil society stakeholders in the process of policy development and implementation; absence of comprehensive

analysis of policy background, progress and results; failure to grasp not only the common features, but also the differences between policies to support small businesses (i.e., firms) and those to boost the entrepreneurial potential of the society (i.e., of persons), the latter being obviously underrated; finally, absence of policy coordination at the federal and territorial levels.

As soon as the spring of 2008, however, without any public discussion of achievements and failures of the preceding programme, new priorities were formulated by the Ministry for Economic Development (MED) in the area of SME policy for the period up to 2020, with an interim stage identified, 2009-2011 (see Table 7).

Table 7: Main characteristic of the federal financial programme for the support of SME

| <i>Action</i> | <i>Targets for 2009-2011</i> | <i>Federal budget allocations, bln roubles</i> | <i>Targets for 2020</i> |
|---|------------------------------|--|---------------------------|
| Territorial and municipal business incubators | 120 beneficiaries | 4.8 | 500 beneficiaries |
| Territorial venture funds | 30 funds | 10.0 | 30 funds |
| Territorial direct investment funds | 30 funds | 4.8 | 85 funds |
| Startup grants | 100,000 grants | 10.8 | 250,000 grants (annually) |
| Territorial surety funds | 85 funds | 5.0 | 85 funds |
| Support under municipal programmes for small business promotion | 50 programmes | 1.8 | 300 programmes |
| Industrial estates, science parks | 40 beneficiaries | 6.3 | 100 beneficiaries |
| Reimbursement for the expense of integration into power grids in target areas | Up to 100 kW | 3.25* | - |
| Support for export-oriented companies | 1,500 companies | 3.25 | 5,500 companies |
| Total federal budget allocations | | 50.0 | |
| Of which: | | | |
| - 2009-2011 federal budget allocations | | 13.5 | |
| - additional funding | | 36.5 | |
| * action in effect until 2011 | | | |

Source: Nabiullina (2008).

But the economic crisis since early autumn 2008 put on hold the implementation of long-term plans. In late December 2008, support of SME was put on the “List of Priority Measures of the Government of the Russian Federation” as part of its action against the effects of the global financial crisis. In April 2009

a comprehensive and complex State anti-crisis program of the Government has been adopted, where a list of measures addressed to support the SME and entrepreneurial policy has been included. The measures adopted by the Government are as follows:

- the lending programme of the State's main agent in the area of financial support for SMEs, Vneshekonombank, will be increased to RUR 60 bln.,
- RUR10.5 bln. will be provided from the federal treasury to fund the formation of small business start-ups (this involves measures such as lending, interest rate subsidies, provision of government guarantees, development of infrastructure such as science parks and business incubators, allocation of grants and implementation of training programmes),
- a law to provide for preferential treatment of small businesses when State and municipal procurement – the minimum quote of SME's goods and services in public purchases is 20 %. This measure provides SMEs with extra 20 bln. EUR public purchases,
- a resolution has been passed to lower the charge for power grid connection of low-consumption facilities (5.5 minimum wage amount for facilities up to 15 kW),
- the federal government introduced special real estate funds for SMEs. These funds provide SME's with discount and long-term rental rates,
- territories and municipalities are obliged to involve SMEs in the fulfilment of government and municipal orders, remove administration barriers to entrepreneurial activities, including restrictions on access to local markets,
- measures have been implemented to reduce the tax burden on SME. Russian regional governments are in their own right to reduce the so-called single tax on imputed income from 15 % to 5 %,
- deregulation measures are included to minimize the administrative burdens especially for start-ups in order to diminish the entry financing. So, starting from July 2009 the registration of a small business has become simplified. An entrepreneur only has to inform the government that he or she is starting a new business without getting all sorts of permissions. Administrative inspections of SME's activity in Russia are restricted at once in 3 years. Extraordinary inspections of SMEs are to be permitted by a State prosecutor.

The main principles of the anti-crisis policy of Russian government are the following:

- cost sharing with regional administrations: funds from the federal budget are provided for regional governments – in a proportion of 1 to 4. This means that for 1 EUR from the regional budget 4 EUR from the federal budget are subsidised. Moreover, up to 60 % of the funding can be accessed by regional administrations in advance.
- priority co-funding is provided to regions that mostly influenced the effects of the global financial crisis (whilst it is an arbitrary decision to decide, who is affected more strongly by the crisis).

- funding is made available and supervised by the special development institution of the Russian State, the “Vnesheconombank”.

How efficient are the measures proposed? As for facilitating access to credit facilities, the problem is not so much amounts as credit terms and guarantees, on which federal budget allocations have little direct effect, if any.

It will naturally benefit SMEs if their power grid connection charge is lowered and they are granted the right of first refusal to buy the State and municipal assets which they have been renting for years and which have already been significantly improved.

Measures to reduce tax burden – by way of lowering the profit tax – can be important for the few sustainable growing companies, which are still in the black despite the crisis in progress. However, the share of such successful SME diminished very significantly, whilst the main goal of an anti-crisis protection should be to support those SMEs who are suffering from finance shortage.

As for the right granted to territories to lower at their discretion the rate of single tax on imputed income from 15 to 5 % of gross income, this measure can be regarded in the context of the territories’ rising budget deficit as passing the buck to them rather than a real step in bringing relief to small businesses.

Having been portrayed by and large as priorities, the measures can hardly make a significant impact because they have too little focus on target groups which should be promoted especially under the terms of crisis – start-ups and innovative SMEs. For instance, the accumulation of up to 12 unemployment allowance amounts makes less than 2000 EUR, which is not enough to finance any serious activities of nascent entrepreneurs. The formation of new business-parks and business-incubators will hardly be very supportive for innovative start-ups because it is not embedded in any serious program of long term finance support of them, and the State development institutions like Russian Venture Company, Rosnano Corporation etc. are not inclined to promote

6. Conclusions

In Russia, SME became a significant factor of economic life and social practice – even in spite of several obstacles of rather systemic character and inconsistent State policy. However, the entrepreneurial spirit among adults was not so much strong in the 2000s – first, because well educated and motivated people have had enough chances as employees (white collars” etc in economy, bureaucrats in the State sector) without taking risks of establishing a new venture, second, because of several informal constraints (high entry barriers of both economic and administrative character etc.).

Basing on the description of SME sector development and its features, as well as of the small business and entrepreneurship policy in Russia in late 1990s – the first decade of 2000s, we can argue that shortcuts of the State policy towards SME and entrepreneurship were unavoidable. First, lack of ade-

quate institutions (among them, experience in developing and realizing adequate policy), second, strategic failure in setting-up of priorities lead to confusing results. Rather an entrepreneurship policy was in need under systemic transition: promoting environment for new ventures, it could help to establish a broader stratum of 'productive small entrepreneurship' in Russia. Instead, the government tried to establish SME policy in a form similar to that in developed market economies in late 1950-1970.

As a result, other – rent seeking oriented – forms of entrepreneurship ('unproductive' or even 'destructive', using William Baumol's terms – Baumol, 1990) became dominant. Under such circumstances, the 'old fashioned' SME policy was obsolete – it could merely promote conservation of the established structure (micro business with little added value creation, predominantly in retail trade etc.), but not shape conditions for high growth new ventures.

A new agenda in early – mid 2000s was combining traditional SME and some important entrepreneurship policy measures, but realized in the old bureaucratic manner (no transparency, no feed back from the SME sector, no monitoring according to clearly defined criteria) it didn't lead to a break through. And in 2008, after the finish of the last SME promotion program, the crisis occurred which should enforce rather reactive than pro-active approach in policy designing and implementing.

In Russia, the strategic objective of government policies must be to support productive entrepreneurship and limit the options for rent-oriented or even parasitic growth of the two other types. But this task: (a) must be recognized, (b) involves sweeping, fundamental changes in the system of ownership rights and the entire structure of social relations, for the domination of unproductive and 'destructive' entrepreneurship is inseparable from the system of 'power-ownership' (Nureev, R., Runov A., 2003), – a specific socio-economic model very similar to that of the Marxian 'Asiatic mode of production' (Lubasz, H., 1990), which disguises itself as the system of private ownership and resists eradication.

While mostly entrenched in the segment of the so-called super large and large business, unproductive and 'destructive' entrepreneurship is actually rooted in the close personal ties with the ruling political elite. An alternative is 'productive entrepreneurship', which is mostly based on the segment of SME. It is forced to put up with the government's veiled attempts to gain control and is not free from opportunistic behaviour patterns, but the sources of its income are still based on a different area – in the area of realignment of market resources for the production of new benefits.

Therefore, traditional SME policies providing support for any kind of private enterprise (tax exemptions, state procurement and subcontracting promotion etc.) in such an environment do not undermine the positions of unproductive and 'destructive' entrepreneurship. On the other hand, entrepreneurship

policy, focused on providing advice and help for start-ups of ‘productive entrepreneurship’ can foster the consolidation of the latter.

Thus, SME policies in Russia have never been consistent, penetrating or comprehensive in their nature – that would contradict to the interests of principal beneficiaries of abortive reforms in Russia. Hence, to outline and conduct a balanced entrepreneurship policy, a sufficiently strong coalition to support *such* policies is needed.

The groundwork for such a coalition to be put together can be laid within the framework of the following alignment: ‘productive entrepreneurship’ – new professionals (since the value of knowledge will inevitably depreciate if dominated by unproductive and destructive entrepreneurship) – new regional leaders (because they have no potential allies or sources, other than the SME, for fueling the social and economic development of the territories under their jurisdiction), with tacit consent of the nation’s leadership (because the ambitious goals set by it for the innovation-oriented economy under development cannot be achieved as long as Russia is dominated by the currently prevalent types of entrepreneurship).

The crisis in 2008 once more changed the entrepreneurial framework conditions. Most entrepreneurs shared the opinion that the crisis has limited opportunities for starting a new business.

Nevertheless, about 50% of those who by the spring of 2009 had businesses for more than 3 months intended to continue with it regardless of the recessionary environment, while the intentions to start a new business, if such intentions arose, were largely provoked by the crisis. The crisis has served as an accelerator mostly for creating new entrepreneurial entities rather than closing/suspending existing ones.

The crisis which began in late 2008 will have a long-term impact on entrepreneurship development. The insufficiency and lack of contingency of the federal government SME and entrepreneurship policy may enforce those interest groups which are favouring a public supported policy to promote productive entrepreneurship (Yakovlev, 2006), to organize a serious public pressure on the federal and regional bureaucracy in order of developing a sound agenda of such policy.

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