

Development Strategy of Small and Medium-Sized Enterprises in the Modern Economic Realities of the Russian Federation and Latin American Countries

Tatyana Shpilkina¹; Victoria Borisovna Frolova²; Aleksandr Kovalev³; Larisa Artamonova⁴

¹Moscow Automobile and Road State Technical University (MADI), Moscow, Russia.

²Financial University under the Government of the Russian Federation, Moscow, Russia.

³Financial University under the Government of the Russian Federation (Financial University) (Omsk branch), Omsk, Russia.

⁴Russian University of Cooperation, Mytishchi, Moscow oblast, Russia.

Abstract

In the course of the present research, the authors have studied the development of small and medium-sized enterprises (SMEs) in the context of the pandemic and the current economic realities in Russia, and Latin America and the Caribbean.

The article presents modern measures to support SMEs in Russia, which will enable to implement SMEs activities at the support of the state through the availability of financial resources, reducing the tax burden, increasing the income of citizens, and improving the quality of life not only in cities such as Moscow and St. Petersburg but also in the regions of the country.

Key-words: Small and Medium-sized Enterprises (SMEs), Modules and Measures to Support SMEs, SME Development Strategies, Competitiveness in the Modern Economy, Russian Federation, Latin America.

1. Introduction

The current period of economic development is quite intriguing and unusual, since for the first time the world economy has faced a pandemic affecting most countries of the world. Previous epidemics were mostly local in nature and affected the economic development of particular countries. The global reach of the epidemic is quite large and has affected the economy of the entire world. At that, not only business leaders but also SMEs have been affected by the pandemic.

The most distressful period for the Russian entrepreneurs can be called March and April 2020, when managers of small and medium-sized companies had to make quick decisions to survive and save

their business. Unfortunately, not everyone succeeded, especially those who established a business in late 2019 or early 2020. Not having time to increase their assets, they had to liquidate their companies.

Just like 25 years ago, so now, the issue is not just about starting a business but also about its strategic development. Most entrepreneurs rarely think about this, many expect to establish a company, get some experience, without thinking about the future development of business. Such an approach is not rational. Therefore, there are quite few companies that were created in the early '90s and are still operating today (Frolova et al., 2019).

When launching a large enterprise, as a rule, investments come not only from private investors but also most often from the state. In other words, in the first years, the state actively helps such an enterprise to develop not only through cash injections but also through access to the necessary resources, modern technologies, information, and qualified personnel. This is exactly what is needed in the first years of business development (Dotsenko & Ezdina, 2018).

However, the situation is different for small and medium-sized businesses. The first law that was supposed to provide support for small businesses by the state was the Federal law "On state support for small businesses in the Russian Federation" of 14.06.1995, No. 88-FZ. This law turned out to be practically nonworking since there was no support that entrepreneurs were counting on. This law lost its legal efficacy due to the adoption of a new *Federal law dated July 24, 2007, No. 209-FZ "On the development of small and medium-sized businesses in the Russian Federation"*, which entered into force on January 1, 2008 (as amended on 08.06.2020, No. 166-FZ, and on 08.06.2020, No. 169-FZ). This law was developed with the direct participation of the Chamber of Commerce and Industry of the Russian Federation. The adoption of the new Law was a significant event for all SMEs. The new law involved a new classification of enterprises. This classification introduced the concept of microenterprises, which was not provided in the previous law. Microenterprises were classified as companies with no more than 15 employees. Companies were also divided by revenue. A new SME classification was necessary because since the late '90s and early 21st century it became clear that the world experience of this division allowed small businesses not only to survive but also to develop.

2. Materials and methods

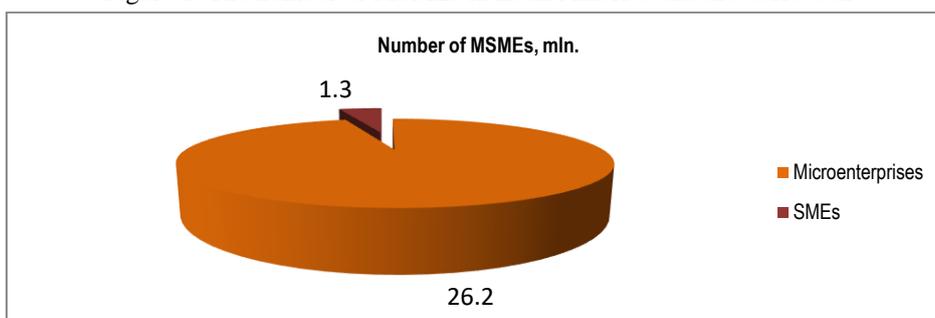
To assess the development of SMEs in Russia and the world, a comparative assessment on the example of Russia, and Latin America and the Caribbean was carried out. Below are the statistics on the number of micro-, small, and medium-sized enterprises in these countries.

1. Micro-, small and medium-sized enterprises in Latin America and the Caribbean

Micro-, small and medium-sized enterprises (MSMEs) account for the vast majority of businesses and jobs in Latin America and the Caribbean Basin. They are among the strongest drivers of economic development and innovation. Despite their potential, MSMEs in the region tend to remain small and significantly less productive than large firms. Small businesses constantly complain about the lack of access to finance as one of the main obstacles to growth, which prevents them from making the investments necessary to increase their productivity and improve competitiveness, as well as enter new markets and expand their staff (Mezhdunarodnaya organizaciya truda, n.d).

"There are about 27.5 million MSMEs in Latin America and the Caribbean, of which about 26.2 million are microenterprises (Figure 1). The total financing gap for MSMEs is estimated at USD 1.2 trillion" (Mezhdunarodnaya organizaciya truda, n.d).

Figure 1. The number of MSMEs in Latin America and the Caribbean



According to the Organization for Economic Co-operation and Development (OECD), MSMEs represent 99% of businesses in Latin America and the Caribbean, offering jobs to 67% of the employed. At that, they account for only a third of GDP, i.e. half the average for OECD countries. The MSMEs are characterized by a high level of informality, a high rate of adverse fortunes (especially in the first years of operation), and a low level of internationalization. They tend to be less productive than businesses of similar size in other developing and developed countries.

The MSMEs receive only 12% of total loans, which makes up less than half the share received by MSMEs in OECD countries (25%). Only 17% of SMEs in the region use bank loans to finance short-term floating capital, compared to 29% of large companies. Information asymmetry is one of the factors that prevent MSMEs in the region from receiving adequate funding. Since MSMEs are on average riskier than larger firms, financial institutions tend to view them all as risky and offer fewer loans than if they had complete information about each of them (Mezhdunarodnaya organizaciya truda, n.d).

2. Situation for the SMEs development in Russia

Experts note that over the past two years many SMEs that survived the crisis of 1998, 2008, and 2014 began to close actively at the end of 2019 and during the pandemic. One of the reasons was the strict control over the company's cash flow by revenue services, which was not always justified. For this reason, the number of SMEs began to decline. Thus, for example, while the proportion of microenterprises in the structure of SMEs was about 96% as of 10.04.2020, the proportion of SMEs decreased both in physical terms and in the structure. According to the data presented below, the proportion of SMEs was 4.65% as of 10.04.2018, for the same period in 2019 this figure decreased to 4.34%, while it dropped to 4.0% as of 10.04.2020 (The Federal Tax Service, n.d). It should be noted that exactly the number of SMEs is mostly reduced in the overall structure. The increase in the number of microenterprises can be attributed to state support for this particular group of enterprises during the pandemic, while small businesses found it more difficult to survive this harsh period (Figures 2 and 3).

Figure 2. The dynamics of micro- (left) and small (right) enterprises in the Russian Federation for the period from 2018 to 2020

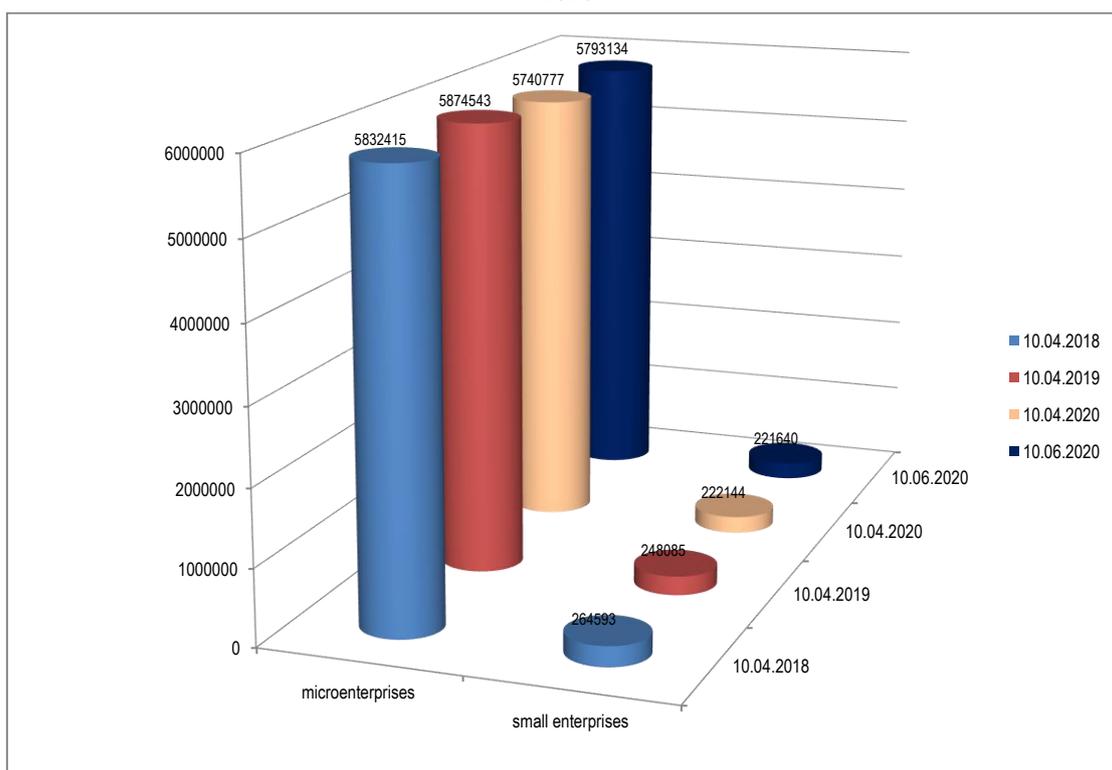
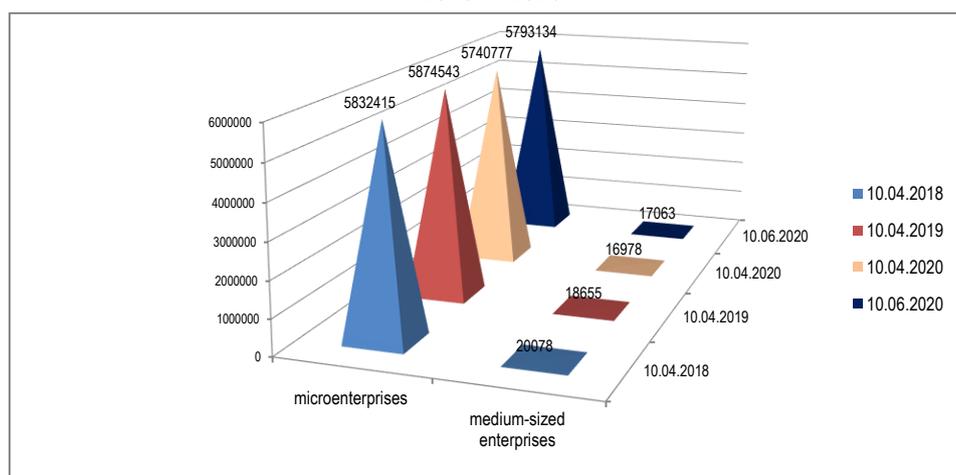


Figure 3. The dynamics of micro- (left) and medium-sized (right) enterprises in the Russian Federation for the period from 2018 to 2020



Presented data on the number of SMEs and MSMEs in Latin America and the Caribbean show that it is microenterprises that are mainly developing, while SMEs are operating in the market no more than 2-3 years, and then close. Certainly, this situation is not encouraging, and it follows therefrom that SMEs need state support and a development strategy.

Programs and proposals for the development of SMEs in the analyzed countries are considered below.

1. Suggestions and recommendations for SMEs development in Latin America and the Caribbean

One of the directions to develop SMEs is associated with the "improving cooperation within the enterprise that is part of the methodology proposed by the International Labor Organization's SCORE program, which supports the development of SMEs. Currently, SCORE is being implemented in nine countries in Africa, Asia, and Latin America, including projects involving 545 enterprises with more than 155,000 trained employees" (Mezhdunarodnaya organizaciya truda, n.d). This program helps to change the management style, supports the improvement of employment terms, as well as the relationship between managers and employees. One of the main goals of the program is to promote a management model that can have a positive effect on the economic viability of small businesses and the job environment for employees.

2. Suggestions and recommendations for SMEs development in the Russian Federation

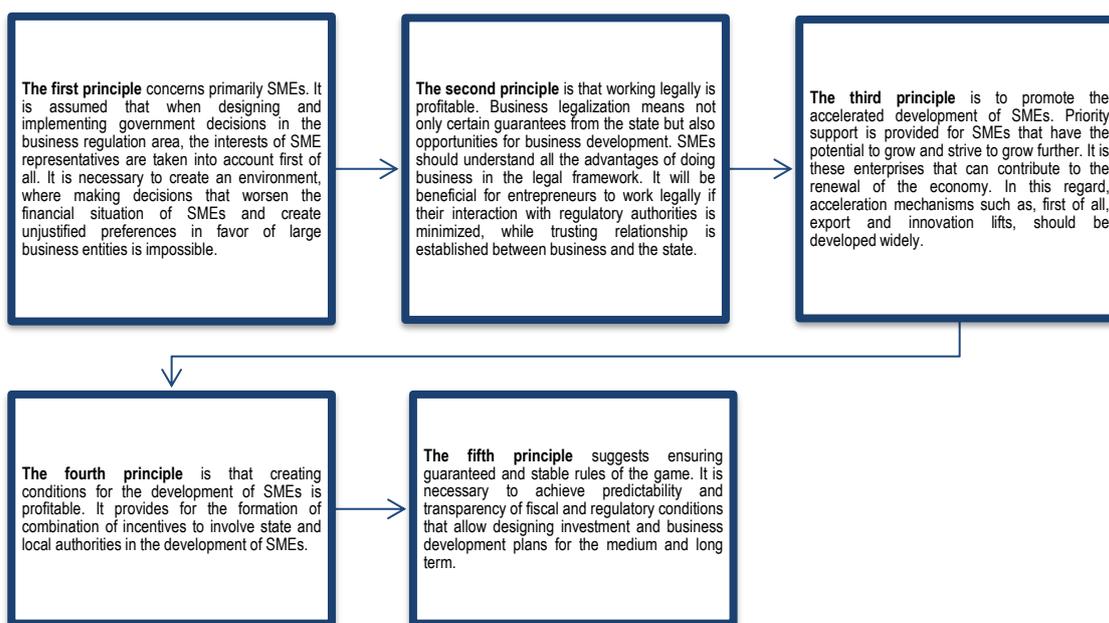
Back in 2016, the Russian Federation Government approved one of the important documents for this category of entities, namely, "The development strategy for SMEs in Russia until 2030"

(hereinafter referred to as the *SME Development Strategy*)" (Government of the Russian Federation, 2016).

The *SME Development Strategy* is a cross-sectoral strategic planning document in the SMEs development area, as well as the basis for the development and implementation of state programs of the Russian Federation, and the state programs of the Russian Federation entities, containing measures aimed at the development of 35 entrepreneurial entities. The fundamental goal of this strategy is to develop the SME sector as one of the factors, on the one hand, for innovative development and improvement of the sectoral structure of the economy, and on the other hand, for social development, and ensuring a consistently high level of employment (Kartashova, 2019).

At that, the implementation of the *SME Development Strategy* is based on the following five principles (Government of the Russian Federation, 2016) (Figure 4).

Figure 4. Development strategy principles of the SMEs in the Russian Federation



According to the *SME Development Strategy*, the basic indicators of SMEs' achievements in 2030 are:

- increasing the turnover of SMEs in two and a half times in constant prices compared to 2014 (in real terms);
- increasing twice the labor productivity in the SME sector in constant prices compared to 2014 (in real terms);
- increasing the share of the manufacturing industry in the turnover of SMEs (excluding individual entrepreneurs) to 20%;

- increasing the share of the population engaged in the SME sector to 35% of the total number of the employed population (Kartashova, 2019).

To implement the presented strategy, SMEs need to understand how to operate in the rapidly changing conditions of economic development. According to S.A. Kucheryavenko et al. (2017, p. 25),

[...] in the context of economic turbulence of the external environment, SMEs are becoming an increasingly effective form of entrepreneurship. Entrepreneurship is characterized by high dependence on the external environment. In the course of its performance, the business is influenced by several factors that hinder its development. These factors can be divided into three groups: general (of a general economic nature), territorial, and specific factors (mainly of an organizational nature).

According to Kucheryavenko et al. (2017, p. 13-14), the main problems affecting the economic stability of SMEs at the present stage include the following (Table 1).

Table 1. Problems affecting the economic stability of SMEs at the present stage

Problem category	Varieties of problems
1. Organizational problems	- legal arrangements and registration; - opening of a bank account.
2. Logistics problems	- lack of production facilities and equipment; - low qualification of personnel; - low legal protection of activities.
3. Financial (investment) problems, and problems of capitalization of individual liquidity savings	- difficulties in legalizing capital for registering an enterprise; - the problem of forming start-up capital; - establishing relationships with suppliers; - the inability to secure credit.

To understand the SMEs' development prospects, the authors consider the main problems of strategic management in the regions. According to Yu.N. Lapygin et al. (2017, p. 25-27), there are four groups of problems, namely:

- methodological problems;
- specific problems of strategic management;
- problems of strategy development;
- strategic problems of the region.

The first group of problems concerns the lack of algorithms in terms of recommendations and standards for strategic management, as well as the complexity of the very strategy, and the abundance of schools of strategies, among which there is no true one.

The second group concerns problems of insufficient qualifications of stakeholders due to the lack of basic competencies and the inability to make strategic decisions. Nonsystematic information (fragmented, unstructured), social disintegration (nationality, religion, income, access to decision-

making), normative-value disintegration (legal illiteracy), and synthetic values (changes under the influence of marketing, the unpredictability of changes) disorganize management.

The third group of problems concerns strategy development, which is manifested in the complexity of goal setting both in terms of the functional orientation of government bodies, principles, and guidelines, as well as in terms of alignment with the strategic goals of operational targets of existing programs and projects.

The fourth group includes trial and error methods that regional strategy developers have to resort to due to the lack of a strictly structured strategy of the country and reliable world practices (Lapygin et al., 2017, p. 25-27).

The ways of possible development, problems, and prospects after the pandemic are considered below using an example of a particular small business company.

Today, landscape design is in the same situation as SMEs in any other sector. Private landscaping companies form a narrow segment of the market, where, as in other service industries, they have to fight for survival, compete with state corporations, municipal monopolies, as well as to adapt to economic crises and circumstances brought about by force majeure that has developed during the coronavirus epidemic. The history of Paer+ company as one of the oldest private landscaping companies in the Russian Federation is both unique and universal in this respect. It shows how living conditions in the country, people's attitudes to their living space, their well-being, and culture have changed over the past 20 years (Kork, 2020, p. 24-25).

Landscape design culture in the Russian Federation emerged in the early 2000s. This was done by people like the founder of the Paer+ D. Baltser-Bondarenko. At the turn of the century, the population in Russia was imbued with a European approach to suburban real estate, where household plots were considered not only as a place for planting vegetables and fruits, but also as a place for life and recreation. The founder of Paer+ gained his first experience in Germany, right after graduating from university, leaving for this country to work in the profession that he acquired at the Moscow Forest Engineering Institute in Russia. During three years of work in Germany, he had designed more than 100 projects – mainly related to landscaping roofs. It was very good experience that allowed him to work on the landscape in different sized plots, and with nonstandard offers from customers. The Western experience has a long history and there is much to learn. In 1998, despite the crisis in Russia, Baltser-Bondarenko returned from Germany to Russia. In the same year, he launched his own company and started working in this field. At that time, there was practically no market for planting material in Russia. After 20 years, the private landscaping market in Russia has made a great evolutionary path (Kork, 2020, p. 24-25).

The period from 1998 to 2000 was the harshest since the seeds and everything necessary for work was purchased by the company at pre-crisis prices, and the company, having launched, was almost in a state of bankruptcy (Miliushenko et al., 2019). Friends and relatives who invested in this business helped. And the founder of Paer+ managed to survive in these harsh conditions, offering landscape services that ranged from expensive projects to low-profit ones to different categories of clients. According to Baltser-Bondarenko, the time from 2002 to 2007 was the best in terms of doing business. This was the period when the country experienced an out-of-town construction boom. A small surge was observed after the crisis of 2008, in 2011-2012, after which the market began to decline with varying degrees of fall intensity (Kork, 2020, p. 26-27). According to Baltser-Bondarenko, the company developed very dynamically before the 2008 crisis, however after the crisis, the business running conditions changed radically. The requirements for landscaping, as well as the production of works, monetary and financial relations, have changed, and the very landscape design has become different.

The problem existing currently is the tender-based approach. For this reason, it has become difficult to win the proposed projects. The decline in the country's economy can be tracked by the margin index. In the early 2000s, 100% margin was considered not so high, while in the crisis of 2008, 50% profit was considered as quite good. After 2008, 30% margin became very good. In 2020, the post-pandemic situation has made the 15% margin very attractive to work for. Over these years, customer requirements have increased, while the project estimate has decreased (Kork, 2020, p. 26-27).

At the moment, the private landscaping business is a narrow segment of the common market, where the rules are set not by the state, but by the municipal authorities, which are engaged in the landscaping business. Large companies with dozens of workers and their own equipment are mainly engaged in the landscape business. Without the help and support of the state, it is quite difficult for private business to become involved in the landscape improvement programs. Private companies are often offered orders from the management companies of apartment buildings to improve outdoor spaces, playgrounds, and courtyards, to engage in landscaping courtyards of banks and office buildings. Such work is often associated not so much with landscape design, but with the correct execution of documents, compliance with administrative procedures, SNIps and GOST standards. The requirements are quite strict, while work is not creative.

While assessing the situation in terms of income, the picture is as follows. The main share of the private landscape design business is the business with an income of up to RUB 500 million a year and below, associated with private, suburban, and small municipal orders. This business accounts for

about 2,500 companies in Moscow, and up to 300 companies in St. Petersburg. The situation is much worse in the regions. There may be about 100 such companies in cities with millions of people, while in regional centers – just 3-4 companies in total. Certainly, this number is very small. Usually, the number of such companies depends on the solvency of the population and the number of wealthy people (Kork, 2020, p. 28-29).

3. Results and discussion

The National Economic Recovery Plan devised by the Government of the Russian Federation focuses not only on industries and large enterprises but also on SMEs.

For these SMEs to develop actively, they need any assistance and support from the state, which may consist, for example, in their preferential financing to reduce the tax burden, especially in the first 2-3 years of activity, since this is the harshest period for entrepreneurs (Shpilkina, 2019, p. 227).

The situation is similar in Latin America and the Caribbean. Besides, "the development of small business leads to an increase in regional budget revenues since it creates additional jobs, which leads to an increase in personal income tax revenues to the budget..." (Dolina, 2016, p. 57).

The following can be distinguished as new measures to support SMEs (Dolzhenkov, 2020):

- refusing to index fixed contributions of individual entrepreneurs in 2021;
- establishing preferential transition regime for those who have lost the right to the simplified system of taxation;
- reducing the moratorium timeframe on the right to run business for bankrupt individual entrepreneurs.

In total, RUB 1.3 trillion will be allocated for programs aimed at assisting SMEs in 2020.

It is hard enough to predict how 2020 will end. The Paer+ company executive looks at the current situation with philosophical calmness, like many other entrepreneurs, since no one knows how things will develop. However, knowing Kondratiev's economic cycle theory, one can assume that any crisis is followed by a depression, and then a revival and recovery of the economy (Frolova et al., 2019). Therefore, it is necessary to strive to make the most of the available opportunities during the period of economic recovery and growth, while in times of crisis and depression, to engage in alternative activities, to continue learning more, and get new knowledge that will certainly be useful in future.

4. Conclusion

Thus, it can be concluded that for developing SMEs in the analyzed countries, the following should be done.

1. *In Latin America and the Caribbean*, it is necessary to use best practices and the SCORE methodology, which for these countries represents comprehensive business training and technical assistance based on the following five modules:

- 1) collaboration in the workplace;
- 2) quality management;
- 3) clean production;
- 4) human resource management;
- 5) protection of labor.

All the proposed measures should promote a culture of dialogue among employees. This will lead to cost savings and an understanding between employers and employees, which in general will result in increased competitiveness, as well as social and labor well-being (Mezhdunarodnaya organizaciya truda, n.d).

2. *In the Russian Federation, it is necessary:*

- to establish conditions for SMEs development, including those through the implementation of the national project "Small and Medium-Sized Businesses and Support for Individual Entrepreneurs" (for six months of 2020, federal budget expenditures in the frameworks of this project amounted to 47.3%, while the remaining funds are expected to be spent in the second half of this year, which is what the business expects);

- to provide conditions under which SMEs will be able to access financial resources when implementing projects that are important both for small towns and cities and for the country in general;

- to increase income for Russians by increasing wages and reducing the tax burden;

- to improve the quality of life in the country's regions (Frolova et al., 2020).

If the above measures are implemented, then one can expect the development of SMEs and the economy in both Latin America and the Caribbean, and in Russia. The proposed measures will allow SMEs to develop in the regions of the Russian Federation as well. A targeted approach of state support to all SMEs is needed. Hence it appears that the development of SMEs is a strategic task for the economic development of the analyzed countries.

References

Dolina, O.N. (2016). Small business finance and its role in the development of the Russian financial system. In: *Proceedings of the International science-to-practice conference "New paradigms of social development: Economic, social, philosophical, political, legal, and general scientific trends and*

patterns”, 28 December 2015, Novosibirsk-Tikhoretsk-Saratov (pp. 57-59), Russia. Engel's: Akademiya Upravleniya.

Dolzhenkov, A. (2020). Protocol of recovery from the crisis. *Expert*, 24(1165), 32-35.

Dotsenko, E. & Ezdina, N. (2018). Sustainable subsoil use as a factor of innovative development of mining region. In: *E3S Web of Conferences: Proceedings of the 3rd International Innovative Mining Symposium, IIMS 2018, 3-5 October 2018, Kemerovo, Russia*, Vol. 41 (04048). EDP Sciences.

The Federal Tax Service. Unified register of the small and medium-sized enterprises. <https://ofd.nalog.ru/>

Frolova, V., Dolina, O. & Shpilkina, T. (2019). Investment risk management at mining enterprises. In: *E3S Web of Conferences: Proceedings of the 14th International Innovative Mining Symposium, IIMS 2019, 14-16 October 2019, Kemerovo, Russia*, Vol. 105 (01054). EDP Sciences.

Frolova, V., Dolina, O. & Shpilkina, T. (2020). The role of financing in the development of human capital of mining industry: Modern trends under uncertainty. In: *E3S Web of Conferences: Proceedings of the 5th International Innovative Mining Symposium, IIMS 2020, 19-21 October 2020, Kemerovo, Russia*, Vol. 174 (04025). EDP Sciences.

Government of the Russian Federation. (2016). *Decree of the Government of the Russian Federation On approval of the Strategy for the Development of Small and Medium-Sized Enterprises in the Russian Federation until 2030" of 02.06.2016 No. 1083-R*. Sobranie Zakonodatel'stva Rossiiskoi Federatsii [SZ RF] [Collection of Legislation of the RF] 13.06.2016, No. 24, Item 3549.

Kartashova, E.I. (2019). Development strategy of small and medium-sized entrepreneurship in the Russian Federation. In: T.V. Piryazeva, V.V. Serov (Eds.), *Proceedings of the 13th International Conference, 9th International competition of scientific and scientific-methodical works, and 5th Competition of scientific school community "Modern information technologies in education, science, and industry"* (pp. 33-36). Moscow: Sputnik + Publishing House.

Kork, B. (2020). The art to change landscapes. *Expert*, 31-34(1172), 24-29.

Kucheryavenko, S.A., Vaganova, O.V. & Konnova, A.V. (2017). *Features of modeling risk management of small and medium-sized businesses in the context of increased turbulence of the external environment*. Monograph. Belgorod: Belgorod State University, 60 p.

Lapygin, Yu.N., Lapygin, D.Yu., Balakhina, A.A. & Tulinova, D.V. (2017). *Strategic planning in the region*. Monograph. Vladimir: Vladimir Branch of the Russian Presidential Academy of National Economy and Public Administration (RANEPA), 265 p.

An international labor organization. (n.d). <https://www.ilo.org/global/lang--en/index.htm> -

Miliushenko, O., Kovalev, A. & Zhidkova, M. (2019). The impact of global crisis on the innovative processes in sustainable development of Russia as a resource-mining country. In: *E3S Web of Conferences: Proceedings of the 14th International Innovative Mining Symposium, IIMS 2019, 14-16 October 2019, Kemerovo, Russia*, Vol. 105 (04046). EDP Sciences.

Shpilkina, T.A. (2019). Evaluation of bankruptcy and new opportunities for the development of small and medium-sized enterprises in Russia. *Entrepreneur's Guide*, 41, 227-235.