

## Small Businesses in a System of Measures Aimed at Recovering the Trajectory of Economic Growth

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**Abstract**—The article has substantiated an approach to small businesses as a factor that potentially promotes the recovery of economic growth. Consequences of ineffective government policy towards small business have been analyzed, as well as provisions of the “Strategy for the Development of Small and Medium-Sized Business in the Russian Federation until 2030.” Measures have been proposed that are aimed at stabilizing the operating conditions of small businesses and restoring the entrepreneurs’ confidence in the state.

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***The role of small businesses in economic growth.*** The restoration of economic growth requires adjusting the set of measures aimed at achieving previously identified objectives for national development. As is emphasized in [1], boosting economic growth requires “accomplishing two main stimulus tasks, first, consumer demand and, second, investment in the real sector” [1]. These guidelines for achieving growth potential are directly related to the development and implementation of measures aimed at stabilizing the conditions for the functioning of small businesses and restoring the entrepreneurs’ confidence in the government.

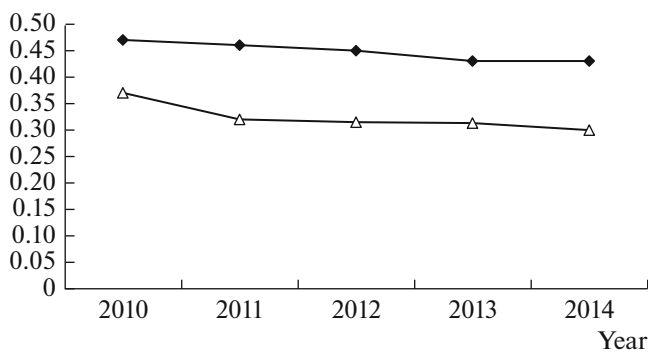
The small business plays a much less significant role in Russia than in advanced economies. According to various estimates, its contribution to GDP is 18–22%, rather than 50–60%, as in first-world countries. The share of employed individuals in this sector is not 50–60%, as was planned for the coming years following the example of the West, but rather about 23% if self-employed individuals are taken into account. However, this is a huge resource all the same, as it provides jobs and wages to 16 million people, thereby supporting consumer demand.

According to recent data, investment in the fixed assets of small enterprises amounted to 4.6% of its total volume, and a significant increase is hardly possible. At the same time, it would be very difficult to increase the turnover of the retail trade where the drop in indicators was especially noticeable in 2015–2016 without the help of small businesses. According to the data of the Federal State Statistics Service (Rosstat), at the end of 2014, the retail trade turnover of small enterprises amounted to 6253.6 billion rubles, or 23.6% of the total turnover of retail trade. The volume of proceeds generated by self-employed businessmen

from retail trade amounted to 7568.5 billion rubles or 24.3% in the structure of total retail trade turnover. In other words, small business accounts for half of the retail trade turnover. The people’s choice of strategy, i.e., to spend or to save, is also largely determined by the efforts of those five million people employed in the sphere of retail trade of small business.

As noted in the monitoring review of the RF Ministry of Economic Development, crisis had produced a highly adverse effect on the small business sector. The growth in interest rates and the liquidity crisis, i.e., these and other related factors impact the cost of production and the profitability of business, investment plans, and financial stability of small- and medium-sized organizations [2]. Although the Federal Tax Service (FTS) data show that, in 2015, the number of registered commercial organizations increased by 4%, while the number of registered self-employed entrepreneurs rose by 2.5%, these figures only confirm the growing population’s apprehensions.

A surge in the number of emerging small enterprises as a characteristic feature of economic recessions was noted as early as in the early western studies of small-scale production. Unemployment and the loss of hope for employment are the factors most frequently noted in the publications of those years, and reflect the reaction of the population and households to shrinking traditional possibilities for supporting their livelihood, which led to the deterioration of their economic situation. Unemployment increased the number of potential entrepreneurs [3]. Studies of these phenomena in the regional aspect were called the Birmingham model, in which the development of small business was seen as a direct result of regional and national industrial decline and corporate restructur-



**Fig. 1.** Process of the convergence of Russia's regions in terms of the level of development of small business and per capita household income in 2010–2014. Standard deviation of logarithms: —◆— number of small enterprises per 1000 residents in regions of Russia; —△— per capita household income in regions of Russia.

ing. The phenomenon was called the “stimulating effect of the recession” and was confirmed by empirical data from the United Kingdom [4].

It should be noted that, at the subfederal level, this dependence was not observed in all countries. For example, research using statistical models showed that, in the United States, changes in small firms had a significant impact on the economic shift in 1976–1984. However, in some labor markets, the recovery of economic growth was not accompanied by an increase in the number of new small enterprises [5]. However, reservations expressed by researchers most likely only confirmed the role of small businesses in the following chain of events: economic decline → unemployment → growth of small enterprises → recovery of economic growth.

Econometric analysis based on the statistical data of regions of Russia in different periods of time confirms the hypothesis that the level of small business development in the regions of Russia influences factors potentially promoting economic growth. Today in Russia, two-thirds of small businesses are engaged in trade and services. The rising incomes of the population increase the demand for the products of small enterprises. This increase in demand in turn stimulates the emergence of new enterprises, the creation of new jobs, and, consequently, a rise in incomes. At the same time, the demand for the production of small businesses by low-income people with low living standards necessarily declines. Enterprises collapse, and revenues fall.

The hypothesis about the existence of a significant connection between the development level of small enterprises and the population's standard of living was substantiated by constructing and evaluating the system of simultaneous equations, where endogenous variables were the development indicators of entrepreneurship and people's standards of living and the

socioeconomic characteristics of the federal subjects served as exogenous variables. In the calculations, we used data for two periods, i.e., 1995–1999 and 2000–2005. The first period included the stage of small business emergence and development, followed by the stage associated with the financial crisis of 1998, which resulted in the ruin of many small businesses and increased poverty and unemployment. The second period included the stage of national and regional economic recovery. Calculations confirmed that the development of small business in Russia's regions contributed to the improvement in incomes and living standards and stimulated the economic growth [6].

A later survey of the impact made by the level of small business development on the household incomes based on econometric analysis was conducted using data of 2006–2012. The calculations confirmed that in regions where the number of small business employees was greater over 2008–2011, per capita cash income in 2009–2012 also proved to be higher [7].

The relationship between the level of household income and the small business development over 2010–2014 calculated by the method described in [8] is presented in the figure. The similarity of trends characterizing the process of regional convergence in terms of small business development and per capita household income in the regions suggests a hypothesis about the mutual influence of these processes and the stimulating influence of small business development on economic growth, as well as suggests that a way to reduce interregional differentiation and promote the convergence of levels of regional development is to support small business and promote regional convergence with regard to this indicator.

**Impact of small business on consumption growth: reality.** Calculations confirm that the level of small business development significantly affects the factors that form consumer demand, which the Ministry of Economic Development recently called the main driver of economic growth. This is how the performance target was formulated in the Forecast of the Social and Economic Development of the Russian Federation for 2014 and the Planning Period 2015–2016. The September edition of this document stated “The consumer spending of households will remain the main driver of growth for 2014 and the 2015–2016 planning period and is expected to stay relatively stable. At the same time, due to the high share of consumption in aggregate demand, its performance will provide about two-thirds of economic growth” [9].

Thus, economic policy was supposed to be focused on the factors that ensure the growth in household income, as well as on developing specialization sectors that provide higher incomes to their employees, stimulating the growth of small enterprises should have held a prominent place in this forecast. In practice, however, the adopted decisions completely contra-

dicted this premise and had the opposite effect. Federal Law No. 243-FZ “On Amending Certain Legislative Acts of the Russian Federation on Statutory Pension Insurance” adopted in 2012 increased insurance premiums, which led to a reduction in the employment in small enterprises. The new law doubled the fixed amount of the insurance premium for compulsory pension insurance for self-employed entrepreneurs (SEE) to 32479.2 rubles (calculated based on the size of two statutory minimum monthly wages (SMMW)). According to our calculations, this implied 70.7-fold increase in the burden on self-employed entrepreneurs with regard to these particular payments in 2013 compared to 2002.

Even the officially assessed consequences that follow the adoption of this law presented in the Forecast of the Socioeconomic Development of the Russian Federation for 2015 and the 2016 and 2017 planning periods appeared rather severe. The document predicted a reduction in the total number of small- and medium-sized businesses (SMEs) in 2013 by 7.5% compared to 2012. According to the Federal Tax Service (FTS) of Russia, the number of self-employed entrepreneurs for 2013 decreased by 512000 people, or by 12.7%. In addition, in 2013, the number of incorporated small businesses decreased by 3.5% compared to 2012. The reduction in the number of SMEs was accompanied by a general decrease in the average number of employed on the payroll in the SME sector from 18.1 to 17.8 million people (by 1.9%). The indicator values decreased mainly at incorporated medium-sized enterprises (by 4.9%) and self-employed entrepreneurs (by 5.1%).

The adopted decisions were partially responsible for conditions leading to the reduction in household income, consumer demand, and ultimately contributed to the decline in economic growth.

Over the same period, the declining consumer demand slowed the growth rate in retail trade in the first half of 2013 to 3.7% compared to 7.7% in the first half of 2012, and the growth in the volume of paid services rendered to the population dropped from 4.2 to 2%, respectively.

Despite that, according to the Federal State Statistics Service, small businesses account for half of the retail turnover, in analyzing the reasons for the slowdown in the growth of retail trade, negative phenomena in the sphere of small business have not been considered. In the Forecast section, which is devoted to analyzing the economic situation in 2013, the slowdown in the dynamics of retail trade turnover is ascribed to a change in the level of wages in the budgetary sector and acceleration of consumer price growth.

Attempts at suspending the closure of small businesses through new amendments to the federal law, which changed the amount of deductions to insurance funds, failed to produce the expected results. Since

2014, self-employed entrepreneurs with an annual income below 300000 rubles have been returned to the principle of calculating insurance contributions effective in 2012 (based on one SMMW). Self-employed entrepreneurs with an annual income in excess of 300000 rubles, in addition to an insurance payment calculated based on one SMMW, are to pay 1% of the amount of income, which exceeds the threshold value of 300000. At the same time, the amount of statutory pension insurance premium was not to exceed the eightfold SMMW value for the relevant year.

Many experts warned that the measures could not improve the situation of small businesses that an income of 300000 rubles a year (or 25000 rubles per month) is received by a small group of entrepreneurs, and small businesses still faced the danger of closing or shifting to the shadow economy. “At the federal, regional, and local levels, the real economy is resisting inadequate economic policy” [1].

Meanwhile, the media reported on new initiatives by the authorities for increase the tax burden on self-employed entrepreneurs. The Ministry of Finance proposes to double the fixed contribution of SEE to the Pension Fund. It is planned to increase the burden on entrepreneurs after 2018. Until 2018, there is a moratorium on raising insurance payments. The Ministry of Labor also initiated raising insurance premiums by preparing a bill proposing that the same payment be made to the Pension Fund, regardless of the annual income of SEE, with an annual increase based on the multiplying ratio. It is proposed to equalize the premium for compulsory health insurance (CHI), which is now independent of the SEE’s income, to CHI premiums for nonworking citizens, which will also increase the burden on entrepreneurs.

The real estate tax, which is levied based on the cadastral value and was introduced in 2015, is also extended to small businesses, including those subject to special tax treatment. Previously, these enterprises were exempt from this tax. It can be expected that real estate owners will transfer increased costs to their tenants by increasing the rent, while those will either go broke or raise the prices of goods and services for the population.

The authorities are constantly changing the legislation. Instead of the promised tax preferences, the tax burden on small businesses has been increased by raising insurance premiums. The moratorium until 2018 only encourages entrepreneurs to curtail their activities before the specified time. The results are obvious: revenues that could have been reinvested are largely withdrawn, and tax evasion has become a widespread phenomenon. Legislative and executive authorities are unable to decide when tax revenues will be greater, i.e., if a small number of entrepreneurs is heavily taxed or if taxes are lowered. In the second case, entrepreneurs could have the opportunity to expand their business,

which would increase tax revenues, thereby offsetting the lack of increase in insurance premiums.

In the current economic situation, the negative impact on the development of small businesses is made by reducing real household income and the lack of financial opportunities. With a shortage of credits and sharply increased borrowing costs, real measures of state support for small businesses that reduce administrative obstacles and increase the preferences for SEE in obtaining government procurement orders are of special significance.

In the "Action Plan of the Government Aimed at Ensuring Stable Social and Economic Development of the Russian Federation in 2016" adopted on March 1, 2016, a separate section stipulates the support for small- and medium-sized businesses. The list consists of about twenty names, but no financing is provided in the plan.

**Urgent and strategic measures.** In pursuance of the decisions taken at a meeting of the State Council of the Russian Federation held in April 2015, the Government of the Russian Federation as of June 2, 2016 approved the "Strategy for the Development of Small- and Medium-Sized Business in the Russian Federation until 2030" (hereinafter referred to as the Strategy). The developer of the Strategy, the Ministry of Economic Development of Russia, plans to implement it in project mode and highlights key priorities, the implementation of which is proposed to be the focus of the main short-term efforts. The Strategy declares the formation of a "new system for supporting entrepreneurship based on convenient services for starting and running a business and the conditions for doing business understandable to entrepreneurs." The system integrator of measures of the state support is to be the Federal Corporation for the Development of Small and Medium Enterprises (SME Corporation), established in 2015 [10].

Speaking at a meeting of the State Council on Small and Medium-sized Business in April 2015, Russian President V. V. Putin noted: "I believe that in the next five years we have every opportunity to ensure a significant growth in the share of small- and medium-sized businesses in our economy. This is a key task for authorities at all levels. Therefore, the government and *the federal subjects of the Russian Federation, as I would like to emphasize particularly* (italics applied by the authors, V.B.), should set up special departments and, as has already been said, specific individuals must be appointed and made personally responsible for meeting this target [11]. How is this task reflected in the Strategy?"

The regional aspect in the set of measures for small business development is not clearly outlined in the Strategy. A major priority is assigned to the sectoral approach. The developers of the Strategy emphasize the uneven development of small- and medium-sized businesses in the territory of the Russian Federation:

"According to the statistical data, about ten federal subjects of the Russian Federation with the largest number of incorporated small and medium enterprises for about 46% of the total number of small- and medium-sized businesses and legal entities" [10, p. 4], but no measures have been proposed for reducing this disparity.

The absence of a spatial component in the country's strategic goals for development reduces the effectiveness of the government's administrative influence on the evolution and activity of small business. The stereotype of point macroeconomics in management has been established, according to which the economy is viewed as a homogeneous mono object; the most important factor, i.e., a small business, is excluded from considering the spatial distribution of economic resources. The task of creating conditions for developing a business is replaced by the task of achieving certain indicators at the country level, which does not exclude the possibility of worsening the actual conditions for the functioning of small businesses in situ.

Responsibility of the executive bodies of the RF federal subjects for the implementation of the activities envisaged by the Strategy Roadmap is only stipulated in the following six paragraphs out of the 45 presented in the plan, along with other co-executors:

- establishing a standard for developing competition in federal subjects;
- developing a mechanism that supports the export of SME products based on the use of the infrastructure of regional export support centers;
- setting up multifunctional centers specialized in the provision of public and municipal services to SME;
- financing measures aimed at supporting SMEs in single-industry municipalities;
- improving the system of indicators and methodology for assessing the activities of executive bodies of federal subjects and municipalities in the area of SME development;
- establishing a unified system of training and consulting for SMEs.

Regions are not responsible for expanding the participation of small- and medium-sized enterprises in the procurement of goods, works, and services by certain types of legal entities, although they act as buyers. Without the participation of federal subjects, it is planned to develop "recommendations for organizations that make up the infrastructure for supporting SME entities in compiling registers of reliable suppliers among SMEs. It is not planned to involve the regions in the development of a federal law regulating the establishment of transparent and uniform rules and general principles for the organization of nonstationary and mobile trade with a view to reduce administrative barriers for developing enterprises in the sphere of trade, to legalize shadow trade, etc.

One of the ways to reduce interregional differentiation and to converge the levels of regional development is to promote small business and the convergence of regions with regard to this indicator. State support for small business under this approach can

become a lever for pursuing coherent regional policy. The effectiveness of the measures developed in the Strategy could be much higher if they reflected both the sectoral and territorial character, as well as if the entire system took into account the existing differentiation of regions in the development of small business and provided the mechanisms under which support for small business could become an instrument of the governmental regional policy. These adjustments would be useful for both the Action Plan and the list of target indicators of the Strategy.

Currently regions have no incentives for promoting small business development. The center may stimulate them if the amount of subsidies and transfers to regions positively depend on their success in collecting taxes from small businesses. Then regional authorities would have incentives for the development of small business. Increase in tax revenues from small businesses, would increase transfers and subsidies from the higher level. Now, there is no such dependence and subsidized regions and municipalities would rather wait for help than seek tax revenues from small businesses, since tax increases can reduce this government assistance.

In our opinion, the volume of subsidies allocated by the federal center to the budgets of the regions, as well as the size of subsidies allocated to municipalities by regions should be made to depend on the level of increase in business activity in these territories and abstain from cutting these allocations with an increase in tax revenues from small businesses. In this case, the center should compensate the regions for lost revenue sources; otherwise, good intentions will widen regional budget deficits.

The Government's Action Plan for Stable Social and Economic Development of the Russian Federation in 2016 enables the allocation of 310 billion rubles from the federal budget to provide publicly funded loans to budgets of federal subjects in order to balance and ease the debt burden of their consolidated budgets. Terms for granting these loans have also been proposed in order to link measures of supporting small businesses in the regions.

Under the current economic conditions, federal subjects in which there are signs of rising unemployment, a sharp decline in household income, and performance in the specialization sectors, require government support measures to ensure the diversification of risks for small businesses. These measures must be based on reliable information about sources and feasible amounts of financing.

The Roadmap of the Strategy includes the item "amount of additional financing." However, only three action items specify amounts, and together they total 23 billion rubles; they are accompanied by the explanatory note "The indicated amount of additional financing is provided by the federal budget." Two more items state that "The amount and source of

funding will be determined based on the performance in the first half of 2016." In all other items, this box is marked N/A. The lack of information on the actual amount of funding is a weak point in the Strategy.

According to Federal Law No. 209-FZ, the basic principle of state policy in the field of SME development in the Russian Federation is the responsibility of federal bodies of state power, public authorities of federal subjects, and local governments to ensure favorable conditions for the development of small- and mid-size business. However, neither these responsibilities nor their levels have been codified. It would be advisable to include a section in the roadmap of the Strategy that establishes, rather than proclaims, a real measure of responsibility assigned to federal government, governments of federal subjects, and local self-governments for the deterioration of conditions for the development of small- and medium-sized businesses, as well as stipulates the necessary drafting of relevant amendments to a number of laws and bylaws.

The Strategy provides for the organization of a unified monitoring system for supporting SME entities at different levels of government, as well as organizations that make up the infrastructure for supporting SMEs, granting access to the result but not to the process of preparing decisions on awarding the financial support. We propose to strengthen public control over the use of funds allocated to support small businesses and to return the practice of supervisory boards and trustees at institutions for supporting small- and medium-sized businesses at the federal and regional levels formed from representatives of the business community.

It is advisable to clarify some of the target indicators for implementing the Strategy. Since the beginning of the 2000s, Rosstat has changed the procedure for calculating the number of small enterprises on the relevant date. Thus, in 1996, according to the official statistics, small enterprises included operating enterprises, as well as those that were newly created during the period and meet the established criteria. As a result of these changes, *the number of small enterprises* is the number of legal entities operating at the end of the reporting year, including those that temporarily suspended economic activities for a period not exceeding 2 years. At the same time, there is no definition of temporary suspension of economic activities in the Rosstat handbook.

Methodological innovations made it difficult to objectively assess the actions of public authorities at all levels in relation to small business entities. How can the businessmen's responsiveness be assessed if their number includes those who had suspended activities two years before?

These changes were made in addition to flaws that occurred in statistical reporting for small enterprises. Since 1995, small businesses have been taken into account through sample surveys. The total survey is conducted every five years. Quarterly data are only tracked for small enterprises with more than 15 employees, which meets the criteria established by Federal Law No. 209-FZ of July 24, 2007 "Supporting Small- and Medium-Sized Enterprises in the Russian Federation." This statistical record of small enterprises has been maintained since 2008.

Monitoring quarterly reporting across Russia does not apply to 86% of enterprises that employ more than 44% of workers in small businesses. Quarterly reporting by types of economic activity covers approximately 14% of small businesses. This sample appears to be unable to provide the necessary insight into small business. The inadequacy of information about small business is also reflected in the fact that Rosstat submits annual information only a year later, and the source of these data is again sample surveys rather than total.

These statistical discrepancies can lead to significant distortions in the measurement of real processes and affect the actual values of the target indicators for the implementation of the Strategy. One of such indicators is “the turnover of small- and medium-sized businesses at constant prices in relation to the indicator of 2014”. Obviously, nonperforming enterprises have no turnover. However, this indicator in 2018 will reflect the state of small business in 2016–2017 leading to significant underestimation of the impact made by new government support. The same applies to the indicator “the number of small- and medium-sized businesses (including self-employed entrepreneurs) per 1000 people.” At the same time, according to the Strategy, this indicator should be used as a basis for assessing changes in the territorial development of SME. There is a special section in the Roadmap and the target indicator of the number of federal subjects, in which positive dynamics are observed in the number of registered small- and medium-sized enterprises. As a result, regions that feature the massive closure of small businesses in 2016–2017, may be recognized as leaders in 2018.

The proposed Rosstat methodology for determining the number of small enterprises leads to an expert error and prevents an objective assessment of the impact on the processes taking place in this sector of the economy and to a violation of the comparability of real-time data. It appears feasible to return to the old method of only accounting for operating small enterprises. A new methodology and procedure for statistical reporting should be developed that records not only the number of operating enterprises, but, as is customary in developed countries, the number of liquidated enterprises. This should be the basis for assessing the success of the implemented Strategy measures.

Important mechanisms that ensure the collaboration of entrepreneurs aimed at improving the business environment presented in the Strategy are institutions for assessing the regulatory impact and the actual effect. In order to implement the basic principles of the Strategy, it was proposed to include provisions in the relevant procedures for the priority analysis of the economic and social consequences of the adoption of legal acts that regulate the activities of small enterprises. Undoubtedly, this is the most important direction for improving the quality of state regulation in the sphere of small- and medium-sized businesses, which must be consolidated when developing the package of

documents regulating strategic planning in the Russian Federation.

It would be useful in developing a new medium-term forecasting methodology for the national economy to assess the impact of the development level of the entrepreneurial initiative on the indicators of economic growth. Previously, on passing and adopting laws and regulations at the federal and regional levels, no such requirement had ever been imposed. The influence of small businesses on consumer demand and household income was not taken into account when developing short- and medium-term forecasts. This led to inconsistencies in assessing the development of small business in general across the country and in its regions. It seems that the main shortcoming of the current recommendations on the forecast of the state of small business in regions of Russia is the lack of a methodology that would allow these indicators to be taken into consideration in correlation with other characteristics of the region, the forecasts for which are more accurate and reliable. The elaborated set of these instruments would make it possible to link the guidelines for developing a small business with other relevant indicators in the documents of social and economic development of macro regions and federal subjects and, thus, take into account local specifics.

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In one of his last interviews, V. Leont'ev stressed that, “Only the spirit of entrepreneurship will set Russia back on her feet; there is no alternative” [12]. The stimulation and development of small business should be considered an effective measure that facilitates the restoration of economic growth and overcoming crisis phenomena in the country's economy. The adopted “Strategy for the Development of Small- and Medium-Sized Business in the Russian Federation until 2030” is the synthesis of all proposals and ideas on measures for developing small- and medium-sized enterprises. The document, which is open for further discussion and elaboration, which will contribute to consolidating Russia's success in raising its position in the Doing Business ranking, will serve as the basis for Strategy 2030 in the development of small- and medium-sized businesses.

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