

2.4 THE PRIORITIES IN SUPPORT OF THE SMALL-SCALE ENTREPRENEURSHIP

2.4.1 Characteristics of SME in Leningrad Oblast

In the beginning of the year 2006 there are were 11700 small private enterprises, 6100 private farms registered as legal entities and over 25000 individual entrepreneurs not registered as legal entities in Leningrad Oblast. Small private enterprises had 138,7 thousand employees in total.

As expected, trade and service sector appeared to be the most attractive for the entrepreneurs: their share is 33.6%. 16% of small businesses belongs to processing industry, construction accounts for over 12%, the same 12% constitute operations in real estate, transportation and communications.

In 2005 the small-scale enterprises total annual turnover was 63 billions rubles, or 16% of the total turnover of all enterprises of Leningrad Oblast. The amount of investments of the small enterprises into fixed capital was 1 billion rubles in 2005. More than 50% of investments belonged to the processing industry.

The structure of the relative weights of the different sectors of business in the total turnover of the small-scale enterprises of Leningrad Oblast shows greater shares of the enterprises belonging to wholesale and retale trade, automobile and vehicle repair, consumer goods manufacturing, processing industry and construction (Fig. 2.11).

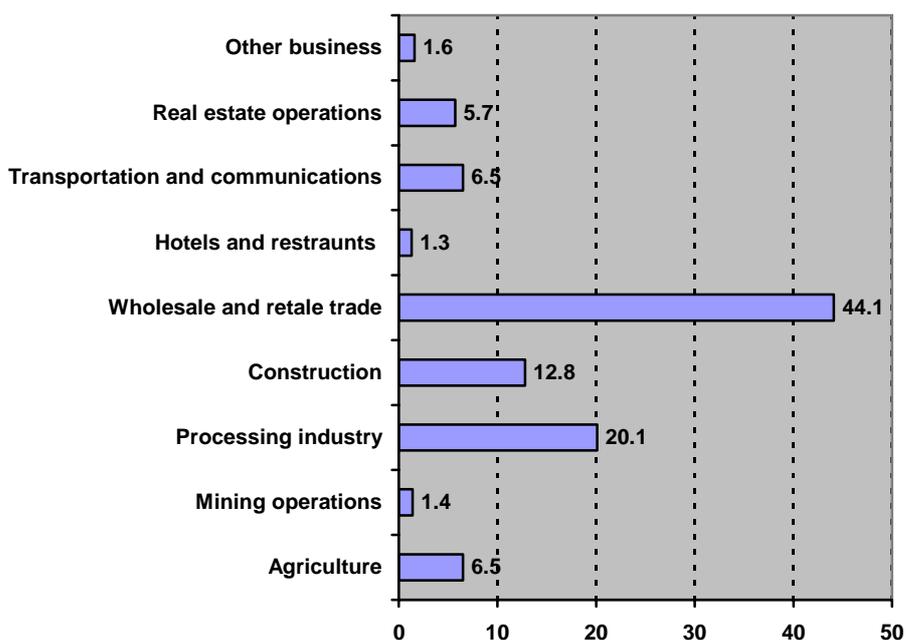


Fig. 2.11 Sectoral structure of the SME (a share in a total turnover), %

The network of the small-business supporting organizations created in Leningrad Oblast helps to boost investment activity of the SME. These organizations provide consulting and informational services for the small enterprises and help them to find potential partners and investors.

2.4.2 State support of SME in Leningrad Oblast

The regional task program "The Development and State Support for SME in Leningrad Oblast in 2006 – 2008" was enacted by the regional legislation act No. 6-03 on February 21 in 2006.

The program sets following priority goals:

- To expand an access to financial and real assets for the SMEs.
- To provide consulting, organizational, procedural and informational support.
- To help the small-scale entrepreneurs to develop their competitiveness and marketing skills
- To help the small-scale entrepreneurs to eliminate bureaucratic obstacles and barriers, hindering the development of the small-scale business.
- To develop legislation and standards needed for the Program

Section 1 "Providing expanded access to the financial and material assets for SME" includes following:

- Access to the tax credits for the small-scale entrepreneurs, operating in the priority economical sectors for Leningrad Oblast and (or) in the economically depressed local communities;
- The start-up endowments for the socially disadvantaged groups of population and young people to start up small business, which are provided on competitive conditions;
- Partial reimbursement for the small-scale entrepreneurs for the spending on the interest payments on credits from Russian lenders and leasing payments in amount of the revenues of the leasing provider granted on competitive conditions;
- Partial reimbursement for the SME for the spending related to interest payments on the credits provided by municipal funds for agricultural development granted on competitive conditions;
- Partial reimbursement for the SME for their spending on the interest payments for the credits (if related obligations were properly fulfilled) from Russian credit organizations, or for the loans, obtained from the municipal funds for agricultural development, granted to consumers' cooperatives with participation of the small-scale entrepreneurs, credit cooperatives and agricultural credit organizations, which are used to provide loans for their participants with the purpose to support their entrepreneurial activities.
- Organizing and conducting the competition for the municipalities with the purpose to get subsidies for the creation of the new and development of the existing business incubators;
- Provision of the credits for the small businesses and consumers' cooperatives with small businesses membership, credit cooperatives, agricultural credit cooperatives, operating in the rural regions;
- Provision of the tax credits for the small businesses by municipal organizations, supporting small-scale entrepreneurs, who got subventions assigned by the regional task program "The Development and State Support for SME in Leningrad Oblast in 2003 – 2005"

The Program determined priority sectors of small business, which get support from the Program:

- Housing and communal services
- Consumer services
- Tourism
- Social welfare
- Public health
- Physical training

It is planned to allocate 15 million rubles in credits from the local government budget for SME in 3-years period. Leningrad Oblast Center for entrepreneurship support will distribute this money among municipal organizations on the competitive conditions, in turn municipal organization will grant these funds to entrepreneurs on the concessionary terms (interest rate should not exceed Russian Central Bank refinancing rate). It is estimated that about 600 enterprises and entrepreneurs will use this opportunity during 3-years period.

Provision of the seed money for the start-ups is designated for socially disadvantaged groups (such as military veterans, people with disabilities, families having many children, single parent families) and youth. These endowments are free grants, which are not repaid. The applicants are required to participate in the educational program in the basic entrepreneurial skills, to provide their business plans and a letter of support from the local governments. It is estimated that about 300 prospective entrepreneurs will get start-up grants in amount of 50-100 thousand rubles in 3-years period.

Provision of the partial reimbursement for the SME for the expenditures on the interest payments on loans and leasing contracts.

If a SME gets a loan from a bank or leases some equipment, the Center for entrepreneurship support will partially reimburse their interest payments and a share of the lease payments which is equal to the revenue of the lease provider. The amount of the reimbursement could be up to 2/3 of the amount spent for these purposes by the entrepreneur.

Partial reimbursement for the SME for the spending on the interest payments for the credit cooperatives, which have obtained loans form a bank or a loan from the Fund for agricultural development

There are two more kinds of organizations supporting SME besides municipal organizations in Leningrad Oblast: the credit cooperatives of entrepreneurs and Funds for agricultural development. In some cases credit cooperatives themselves apply to banks for loans. Funds for agricultural development provide loans both to entrepreneurs and to the credit cooperatives of entrepreneurs.

Bank guarantees and reimbursement of the cost of guarantees for credit and lease agreements.

In 2003 Leningrad Oblast government created The Agency for credit provision (in the form of joint-stock company). The purpose of the Agency is to provide guarantees to enterprises, which need a loan or a lease, but cannot provide 100% asset backing for a mortgage, required by banks and lease companies. The Agency is a commercial organization and it requires some fee for guarantees (4 percent of the amount of a loan). In year 2006 entrepreneurs, who use The Agency services, could apply for the reimbursement of this payment (up to 90%). This reimbursement is paid by the Center for support of entrepreneurship and is financed from the funds provided by federal budget.

Subsidies for the municipal budgets provided for creation of business incubators

There are five SME incubators in **Leningrad Oblast**. It is definitely too few for such a territory as **Leningrad Oblast**. That is why the Program allocates funds (12 million rubles) for the development of the existing and creation of the new business incubators. It is planned to have 9 new business incubators in 2009 (the final year of the program) if local governments will provide some share of financing from their budgets.

Partial reimbursement of the costs of entering the international markets

The Leningrad Oblast Program provides partial reimbursement of the costs of entering the international markets. Reimbursements apply to costs, related to a) interest

payments, b) obtainment of international certificates, c) participation in international exhibitions and fairs.

Section 2. Provision of the consulting, organizational, methodical and informational support includes following set of activities:

- Partial reimbursement is provided for the municipal infrastructural organizations of the costs, related to the free of charge informational, consulting and educational services for socially disadvantaged groups, youth and new entrepreneurs with entrepreneurial experiences less than two years and also for the entrepreneurs, operating in the high priority sectors for Leningrad Oblast according to the guidelines adopted by Leningrad Oblast government;
- Organizing and conducting of the educational programs for the employees of the organizations belonging to the municipal infrastructure, supporting small-scale entrepreneurship, with the purpose to increase their expertise in the actual issues, related to the support of small-scale entrepreneurs;
- Organizing and conducting of the contest for the municipal organizations for the subsidies for the development of the existing and creation of the new municipal infrastructural organizations supporting small-scale entrepreneurship (including business incubators in 2006);
- Organizing and conducting of the contest for the municipal infrastructural organizations, supporting small-scale entrepreneurship "The best organizations supporting small-scale business";
- Monitoring of the activity of the municipal infrastructural organizations, supporting small-scale entrepreneurship;
- Conducting seminars for the small-scale entrepreneurs on the issues of entrepreneurial activity;
- Organizing of the trainings for the managers and specialist of the small enterprises on the issues of the protection of labor in the sector of the small-scale entrepreneurship;
- Organizing and conducting of the contest for the municipal organizations for the subsidies for the organizing of the various activities, which purpose is to develop small-scale entrepreneurship at the territories of the municipalities in Leningrad Oblast (regional seminars, conferences, round tables, thematic exhibitions, fairs, festivals etc.);
- Preparation of the printed informational, reference, methodical and presentational materials on the different issues, related to the development of the small-scale entrepreneurship on the territory of Leningrad Oblast;
- Organizing and conducting of the open contest for the mass-media of Leningrad Oblast for the best coverage of the important issues, related to the development of the small-scale entrepreneurship;
- Production and broadcasting of the TV programs, dealing with the issues of the development of the small-scale entrepreneurship in Leningrad Oblast;
- Organizing and conducting the contest "The best in small-scale business";
- Monitoring of the activities of the small-scale entrepreneurs, who obtained grants from the Program.

Section 3. Support for the development of the competitiveness and for the promotion of the small business production to the consumer goods markets includes following activities:

- Partial reimbursement for the small-businesses of the costs, related to receiving of quality certificates satisfying international standards, which is granted on competitive conditions;
- Organizing and conducting the seminars for the small-scale entrepreneurs on the issues dealing with preparation for the export activities;
- Partial reimbursement for the small-businesses of the costs, related to participation in international, all-Russian, inter-regional and regional contests, competitions, festivals, exhibitions and other events, which purpose is to develop professional expertise of the participants of the consumer goods market according the standards, approved by the government of Leningrad Oblast.

- Organizing and conducting the contest for the small-scale entrepreneurs in Leningrad Oblast "The best public transportation organization";
- Partial reimbursement for the small-businesses of the costs, related to participation in international, inter-regional and regional conferences, fairs and exhibitions for the small scale entrepreneurs, and specially for female entrepreneurs according the standards, approved by the government of Leningrad Oblast.

Section 4. Assistance in elimination of the administrative barriers and obstacles, hindering the development of the small-scale entrepreneurship includes following set of activities:

- monitoring of the obstacles and problems, hindering the development of the small-scale entrepreneurship;
- assisting the activities of the commission "For elimination of the administrative barriers and obstacles, hindering the development of the small-scale entrepreneurship in Leningrad Oblast";
- assisting the activities of the "Expert and consulting council of the Leningrad Oblast entrepreneurs";
- organizing and conducting of the informational and educational seminars dealing with the issues related to the creation and development of entrepreneurs' alliances (non-commercial organizations);
- organizing and conducting of the contest for the noncommercial small-scale entrepreneurs' organizations "The best non-commercial organization of the small-scale entrepreneurs".

Section 5. Legal foundations of the Program

This section provides the list of legal documents and regulations needed for the realization of the activities of the Program, regulating:

1. The procedure of the contest for the municipal organizations, supporting small-scale entrepreneurship, for the subventions, which purpose is to provide lax credits for the small-scale entrepreneurs, operating in high priority sectors for Leningrad Oblast at the territories of economically depressed municipalities;
2. The procedure of the contest for the socially disadvantaged groups and youth for the start-up grants for entrepreneurial projects;
3. The procedure for the provision of the partial reimbursement for the small-scale entrepreneurs of the costs, related to interest payments for credits, obtained from Russian credit organizations and lease payments in the amount of the revenues of the lease providing organization;
4. The procedure for the provision of the partial reimbursement for the small-scale entrepreneurs of the costs, related to interest payments for loans, received from the municipal funds for agricultural development;
5. The procedure for the provision of the partial reimbursement for the small-scale entrepreneurs for their spending on the interest payment for the credits (if related obligations were properly fulfilled) from Russian credit organizations, or for loans, obtained from municipal funds for agricultural development, granted to consumers' cooperatives with participation of the small-scale entrepreneurs, to credit cooperatives, agricultural credit organizations, which are used to provide loans for their participants with the purpose to support their entrepreneurial activities.
6. The procedure of the contest for the municipal organizations for subsidies destined for the creation of the new and development of the existing business incubators;
7. The procedure for the provision of the partial reimbursement for the municipal infrastructural organizations of the costs, related to the free of charge informational, consulting and educational services for socially disadvantaged groups, youth and new entrepreneurs with entrepreneurial experiences less than two years and also for the entrepreneurs, operating in high priority sectors for Leningrad Oblast according to the guidelines enacted by Leningrad Oblast government;
8. The procedure for organizing and conducting of the contest for the municipal organizations for the subsidies for the development of the existing and creation of the

new municipal infrastructural organizations supporting small-scale entrepreneurship (including business incubators in 2006);

9. The procedures for organizing and conducting of the contest for the municipal organizations for the subsidies for the organization of the various activities, aiming to the development of small-scale entrepreneurship at the territories of the municipalities in Leningrad Oblast;
10. The procedure for the provision of the partial reimbursement of the costs, related to obtaining of quality certificates corresponding to international standards;
11. The procedure for the provision of the partial reimbursement of the costs for the small-scale entrepreneurs, related to participation in international, Russian, inter-regional and regional contests, competitions, festivals, exhibitions and other events, which purpose is to develop professional expertise of the participants of the consumer goods market;
12. The procedure for the provision of the partial reimbursement for the small-businesses of the costs, related to participation in international, inter-regional and regional conferences, fairs and exhibitions for the small scale entrepreneurs, and specially for female entrepreneurs;
13. The procedure for the organizing and conducting of the contest for the municipal infrastructural organizations, supporting small-scale entrepreneurship "The best organization supporting small-scale business";
14. The procedure for the organizing and conducting the contest "The best in small-scale business";
15. The procedure for the organizing and conducting the contest for the small-scale entrepreneurs "The best public transportation organization";
16. The procedures for the organizing and conducting of the contest for the noncommercial small-scale entrepreneurs' organizations "The best non-commercial organization of the small-scale entrepreneurs".

Generalizing aforementioned: with the help of The Program new entrepreneurs, creating their own business could get a set of services, including:

1. free consultations
2. free education and training
3. free start-up endowment up to 100 thousand rubles

Lax credit for the development of business is provided on the following conditions:

1. There is an opportunity to obtain a lax credit up to 200 thousand rubles from municipal organizations, supporting small-scale entrepreneurship;
2. There is an opportunity to get partial reimbursement (up to 2/3 of the total amount) of interest paid on the loans, obtained from banks or municipal funds for agricultural development;
3. There is an opportunity to get partial reimbursement (up to 2/3 of the total amount) of lease payments in the amount of the revenues of the lease providing organization;

The entrepreneurs, who plan to participate in exhibitions, fairs and conferences, can get partial reimbursement of their expenses (up to 90%), related to the participation in local, interregional and international exhibitions, conferences and seminars, and informational, organizational and methodical assistance is also provided for them.

The entrepreneurs and managers of the small enterprises have an opportunity to participate in the short-term educational program in the basic entrepreneurial skills, foreign-economic activity and to attend informational seminars on some other important issues.

The budget for the major aspects of the regional task program "The Development and State Support for the Small- Entrepreneurship in Leningrad Oblast in 2006 – 2008" is presented in table 2.4.

Table 2.4 The regional task program financing (millions of rubles).

Financial support lax credits, seed money, reimbursement of interest payment on credits and leases	37.5
Informational, consulting and methodical support information provision, consulting, training for business consultants, contests organizing	19.8
Marketing and promotion of small-scale entrepreneurs' products and services reimbursements of the costs, related to participation in exhibitions, fairs, conferences and obtaining of international certificates	8.7
Developing municipal organization which support small-scale entrepreneurship financial support and technical assistance	17.2