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## Small business state support during global problems and challenges in the modern economy

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This article outlines the critical causes of the crisis in small and medium-sized enterprises (SMEs) during the coronavirus (COVID-19) pandemic. The report's authors analyzed and noted the main problems, investigated the business risks for SMEs provoked by quarantine measures, and proposed possible ways to prevent them. The unprecedented measures of state support for the small and medium-sized businesses most affected by the coronavirus were considered. The emphasis is made that for the preservation of the enterprise and its further development, a radical restructuring of the forms and methods of work is necessary: the transition to online, robotization of processes, remote work, reduction of wages and staff. Due to the crisis and normal cyclical development of economy, the prospects for the recovery of small and medium-sized businesses are noted.

**Keywords:** economy, small and medium-sized enterprises, business, coronavirus, government support.

### INTRODUCTION

In a crisis, support for small and medium-sized businesses should play a substantial stabilizing role to reduce social tension. The feasibility of the scientific problem is evident. The coronavirus pandemic has completely changed the world in a matter of months. The spread of infection influenced the lifestyle of the whole society, changed the worldview and psychology of people, their professional sphere, and significantly influenced the economy.

Almost all countries of the world have taken immediate action against epidemics that have led to a severe economic crisis caused by falling oil prices and the ruble's devaluation. Small and medium-sized enterprises (SMEs) find themselves in a challenging situation, the role of which in the development of the country's economy can hardly be overestimated. Recent research confirms the natural dependence of economic growth on SMEs' relative size and the well-being of the population.

According to the Institute for Growth Economics, the share of small and medium-sized enterprises in GDP in most industrialized countries is 50-60% [9]. Russia now lags far behind in quantitative terms - 21.9% [4], as well as in terms of employment in this sector. However, small and medium-sized enterprises' role in developing the economy is becoming more and more critical. Thanks to them, jobs are created, innovative technological solutions are introduced, and competition is growing. In turn, competition ensures the quality and growth of goods, affects labor productivity, and stimulates innovation.

A survey conducted by EY in April showed that 51% of small and medium enterprises in the current situation of restrictions would be able to stay afloat for no more than three months. Besides, experts note that a company's survival depends not only on the rate of return, source of investment, location, staff but also on its size. About 20% of SMEs' representatives already see

their situation's despair, while many large companies feel more confident [15]. Monitoring the opinions of entrepreneurs working with small and medium-sized enterprises showed that more than 75% of them expect a recession in the economic situation and an aggravation of the crisis caused by quarantine [11].

After the analysis, the Government approved several sectors of the economy that were hardest hit by introducing quarantine measures to prevent the spread of the coronavirus. [1] However, after businessmen asked the Government to acknowledge that their activities are affected by COVID-19, the list has already been updated several times, adding new economic activities. The list of companies affected by the infection may continue to grow.

According to experts, the scale of industries affected by quarantine measures varies. Thus, representatives of SMEs among the sectors most affected by the pandemic named the restaurant industry (82.9%), the fashion and beauty industry (61.6%), and the manufacturing industry (48.5%) [8].

This category also includes the entertainment, catering, and non-food trade sectors.

Due to the spread of COVID-19, the tourism industry was first hit by the crisis. State borders are closed, people are isolated, traffic is prohibited even within a few blocks. First of all, because of the restrictive measures, Asia's countries suffered. A significant part of GDP is made up of revenues from the tourism business (Thailand, Macau, the Philippines, the Maldives, etc.). Italy and Spain suffer significant losses from the loss of tourism revenues. The World Travel and Tourism Council predicts the loss of up to 50 million jobs in this sector.

The coronavirus crisis has become the most decisive blow in recent decades [5]. Travel agencies bear the costs of paying rent and taxes, paying staff salaries, and refunds for tours sold.

Simultaneously, against the background of the general economic crisis, 6% of entrepreneurs noted an increase in profits during the period of restrictions. Those whose businesses involved manufacturing and selling personal protective equipment, food delivery, essential goods, and online services significantly increased their fortunes. The IT industry players (81.5% of respondents think so), the telecommunications industry (54.2%), and medicine (37.1%) are the easiest to experience the crisis [8].

How long self-isolation will last is hard to say. However, experts believe that extending the

quarantine for another six months threatens to reduce GDP by up to 20%. Even with the best outlook for an imminent exit from quarantine, industries affected by the coronavirus will not recover from the economic turmoil anytime soon.

Among the main problems caused by the pandemic, representatives of small and medium-sized businesses name losses, reduced consumer demand, staff layoffs, tax evasion, rising purchase prices, falling wages, and a shortage of working capital. Experts believe that the state of panic among the population affects the economy in the current situation. Fear changes the consciousness and behavior of people, changes values and orientations. As a result, fear of illness affects supply and demand in the economy [10].

Among other problems caused by quarantine measures, President Vladimir Putin, in his speech at the virtual emergency summit of the G20, named long-term unemployment (Tsatkhanova et al. 2018)

According to experts from the research holding Romir and Gallup International, due to the economic crisis caused by the coronavirus spread, 12% of the Russian population has already lost their jobs [12]. A study by the Boston Consulting Group (BCG) also provides disappointing data that predicts an increase in unemployment by up to 15% [3]. About 9 million people in Russia in 2020 may be unemployed only due to the termination of small and medium-sized enterprises [6].

Against the backdrop of the crisis caused by a new infection, Russia is developing numerous regulatory laws of national and regional importance to help citizens and sectors of the economy most affected by the coronavirus pandemic regularly updated.

To combat the spread of infection and its consequences, the Government created a fund of 300 billion rubles [17]. Priority measures to support SMEs affected by Russia's pandemic included tax incentives, tax deferrals, free subsidies, license renewals, a bankruptcy moratorium, due diligence, interest-free payroll loans, and lease deferrals. [7] Most business support measures are valid for six months.

However, not all so simple. To receive certain benefits, conditions, and criteria for obtaining them have been developed. For example, an interest-free loan will be issued for the company that has been in business for 12 months. And has not been filed for bankruptcy. From April 1, 2020, the company's number must be at least 90% [2] of

the previous month. As a result, those who hastened to fire the enterprise employees were unable to use this privilege.

The gratuitous payment of the minimum wage to employees from the state budget was very positively received. This assistance proved to be extremely necessary and timely. First of all, this made it possible to avoid layoffs, retain staff, and relieve employment centers. Such a measure for the Russian economy is unprecedented since it had no analogs in the past.

However, not all measures proposed by the Government to deal with the crisis have met with a positive response. In particular, the salary did not arouse enthusiasm since entrepreneurs do not see any sense in it since it will not be returned in the future. The mandatory tax on wages does not inspire optimism. The controversy was also caused by a 15% decrease in insurance premiums for small and medium-sized businesses, which applies only to the part of income that exceeds the minimum wage. Today it is 12 130 rubles [7].

According to representatives of small and medium-sized companies, the proposed measures are available only to some companies. You don't solve the problem yourself. You delay the deadline. This is the case with rent. Most business owners rent premises from individuals who are in no hurry to reduce rents or grant deferred payments. Besides, landlords have a schedule and commitments to repay the loan.

## **MATERIALS AND METHODS**

The article's authors used analysis, scientific research, and identified the main problems and business risks for small and medium-sized businesses provoked by quarantine measures. It was a bitter experience of analyzing a sufficient amount of data using the survey method, which monitors entrepreneurs' opinions. This analysis showed that entrepreneurs are trying to save the business in search of a way out of the crisis: they restructure the company, put it up for sale online, automate processes, restrict production, and send employees on vacation. The authors took the statistical method as the basis for concluding. The research methods carried out contain both theoretical and empirical parts.

## **RESULTS AND DISCUSSION**

The period of implementation of Strategy-2020 was difficult not only for the region's economy but also for the country's economy as a whole. Russia is facing a severe economic crisis,

formed by the fall in world oil prices and significantly intensified by external financial sanctions.

In 2015, the price of Urals crude oil fell 1.9 times compared to the average level of 2014 (in 2014 - \$ 97.7 per barrel, in 2015 - \$ 51.3 per barrel), and in January In 2016, it dropped to \$ 28.8 per barrel. During the same period, financial and economic sanctions were introduced against Russia, which limited the access of Russian companies and banks to international capital markets and the import of new technologies.

This was not provided for in Strategy 2020; the document was amended only in 2017. Besides, from 2008 to 2017, the share of expenditures of the republic's consolidated budget on social and cultural events increased from 56.4 to 70.4%, which influenced making long-term capital investments in the republic socio-economic development of the region. Of the 15 investment projects envisaged by the 2020 Strategy, only two were implemented (Table 1.).

All this influenced the fact that from 2008 to 2017, the Republic of Kalmykia managed to fulfill not all forecast values the fundamental macroeconomic indicators provided by Strategy-2020.

Despite this, throughout the implementation of Strategy 2020, the republic managed to increase the GRP by 2.7 times (Russia - 2.0 times, Southern Federal District - 2.4 times, North Caucasus Federal District - 2.5 times) indicators in the Russian Federation.

Due to the implementation of measures aimed at creating competitive agricultural production and the implementation of targeted programs in the field of agriculture from 2008 to 2017, the growth in agricultural production in farms of all categories was one of the highest in the country (the Republic of Kalmykia - 2.8 times, RF - 2.1 times, Southern Federal District - 2.2 times, North Caucasus Federal District - 2.5 times).

Today, after the introduction of quarantine, economic activity has almost completely stopped. Millions of small and medium enterprises are on the verge of bankruptcy. Every tenth company in Russia faces the risk of closure. Currently, hardly anyone will be able to unequivocally answer how many of them will survive the recession and start their own business after the crisis.

In search of a way out of the crisis, entrepreneurs are trying to save the business: they restructure the company, put it up for sale online, automate processes, restrict production, and send employees on vacation.

Table 1: Indicators to achieve the goals of Republic of Kalmykia socio-economic development

| Indicator name   | Basic development scenario, year |         |         |         |         |         |
|--|----------------------------------|---------|---------|---------|---------|---------|
|  | 2008                             | 2016    | 2017    | 2018    | 2019    | 2020    |
| Gross regional product, billion rubles                                 | 20.8                             | 53.0    | 56.8    | 59.6    | 62.6    | 66.2    |
| Average annual resident population, people                             | 290966                           | 278268  | 277293  | 276495  | 276446  | 277131  |
| Number of unemployed, thousand people                                  | 24.1                             | 15.35   | 15.34   | 15.25   | 15.11   | 14.97   |
| Average per capita monetary income of the population per month, rubles | 5530.8                           | 14758.3 | 15968.5 | 17517.4 | 18936.3 | 20470.2 |
| Average monthly nominal accrued wages, rubles                          | 9083                             | 21133.2 | 22280.0 | 23806.3 | 25078.5 | 26412.8 |
| Fixed capital investments, total, billion rubles                       | 7.9                              | 13.5    | 13.6    | 14.2    | 14.4    | 14.6    |

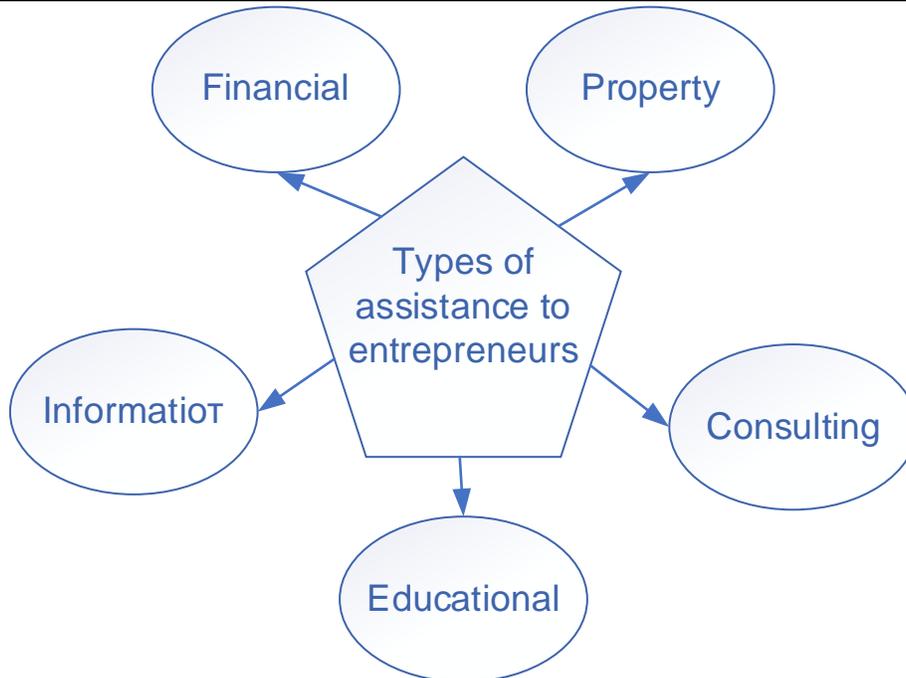
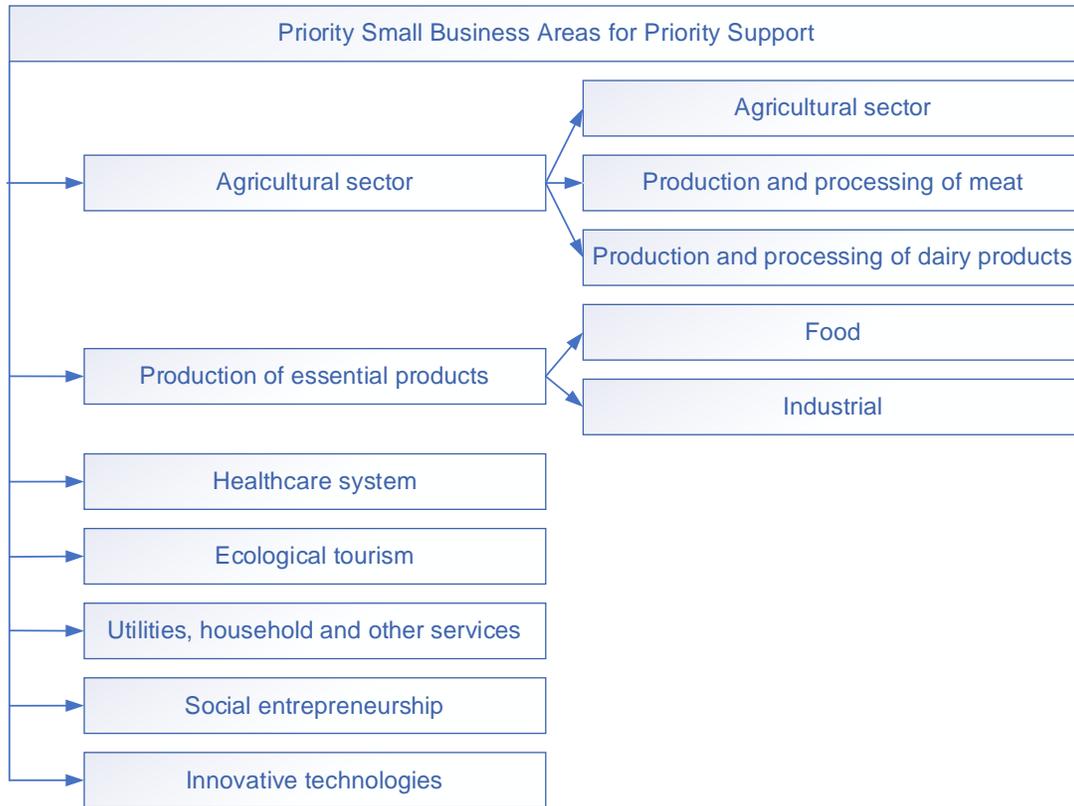


Figure 1: Types of assistance to entrepreneurs



**Figure 2: Support for priority areas of small business in Kalmykia**

However, it is quite challenging to reorganize and re-profile companies' activities in the shortest possible time, and not every manager can do this.

Small and medium-sized enterprises operate in almost all sectors of the market economy, being its most important integral part, but at the same time especially vulnerable.

The state annually allocates considerable sums to help entrepreneurs. To support small business in 2020, several state programs are working, the purpose of which is to assist business entities. Many of them have been in operation for several years, but not all businessmen know how to use them. We will tell you what kind of state support and how exactly you can get it.

The small business support system in the Russian Federation The state provides entrepreneurs with various types of assistance:

Financial - small business support programs imply the allocation of subsidies, ranging from 60 thousand to 25 million rubles.

Property - entrepreneurs get the opportunity to use state property (rent of premises, land plots) free of charge or on preferential terms.

By creating federal and regional information

systems, official sites provide business entities with up-to-date information.

Consulting - support for small businesses in 2020 implies assistance in the form of professional advice.

Educational - development of training programs for specialists, advanced training of employees.

Priority areas for government support in 2020

Many entrepreneurs applied for financial assistance under the 2020 Small Business Support Program. But money is unevenly distributed among applicants. The Russian Government identifies priority business areas that receive support in the first place. First of all, this is the agricultural sector - the production and processing of meat, dairy products, vegetables. Among other areas, which state support is provided, in the first place, one can single out: production of essential products, both food and industrial; health care system; ecological tourism; utilities, household services, and others (Figure 2).

In some regions, the priorities are different - depending on which area of production or services there is considered vulnerable. Business owners in these areas can be guaranteed to count

on assistance within the regional program framework to support small and medium-sized businesses in 2020.

The current small business support programs for 2020 focus on companies and organizations with a certain number of employees and annual turnover. The category of SMEs (small and medium-sized businesses) includes enterprises with a staff of no more than 250 people and with a maximum turnover of up to 2 billion rubles. In year. Additional requirements: The term of the firm's activity is no more than two years. Obligatory registration of the subject in the tax office. No debts in taxes and social contributions to the Pension Fund, MHIF, social insurance. LLC or individual entrepreneurs are included in the register of SMEs on the FTS website. To receive financial assistance for starting or developing your own business, you must provide a detailed business plan. It is essential to spend the funds received as intended. There are several subsidies for purchasing equipment, raw materials, compensation for rental costs, etc. All types of expenses require strict reporting to the relevant organizations.

It is more critical for any commercial enterprise to receive "real" money for its development than consultation. State support for small business in 2020 provides for the allocation of 15 billion rubles to entrepreneurs.

There are several options for obtaining funding.

### **1. Subsidy for start-up entrepreneurs**

Funding from the Ministry of Economic and Development provides for allocating a gratuitous subsidy for the owners of companies operating on the market for less than two years. The maximum size is 500,000 rubles. The money is issued on a competitive basis - its terms and conditions are announced in advance. The funds received must be used for the specified purposes. Inappropriate spending is a reason to return money to the state. The priority in the distribution of subsidies is given to agricultural enterprises, organizations engaged in folk arts and crafts, and consumer goods production. Increased chances of receiving a grant are for entrepreneurs developing social or export-oriented projects and holders of social benefits: people with disabilities; mothers (fathers) raising children alone; if the family's income is below the subsistence level. Don't miss the opportunity to save on bookkeeping and HR with a dedicated service for small businesses. Each tariff includes an accountant, a personnel officer,

a lawyer, and the ability to check contractors.

### **2. Subsidy from the Employment Center**

The State Employment Service provides subsidies to unemployed Russians planning to start their own business. Within the framework of gratuitous financing of small businesses, the state in 2020 allocates 60,000 rubles to open an individual entrepreneur. The amount is modest, but the conditions for obtaining are soft: there is no competitive selection, there are no strict requirements for drawing up a business plan. A necessary need: you can apply for financial assistance only until you register as an individual entrepreneur. Read more here: [How to get an employment center subsidy for starting a business](#)

### **3. Concessional lending**

Measures to support small businesses in 2020 provide for financial support for lending needs. An entrepreneur has three options: To issue a bank loan and then receive a subsidy in the interest rate. To give a microloan for a short period in the amount of 10-100 thousand rubles. At 5-10% per annum. A prerequisite is a financial security (equipment, mat.Assets, real estate). Apply for a concessional loan by applying for a guarantee from the guarantee fund. Honorable conditions are provided to enterprises in the agro-industrial complex: the loan rate will be no more than 5%. The Ministry of Agriculture will compensate for the rest.

On January 15, 2020, as part of his annual message to the Federation Council, Vladimir Putin proposed five additional support measures: stable tax conditions for six or more years and significant projects - for 20 years; regulation of the work of supervisory authorities; a flexible regime of legal law, which will allow the introduction of innovative developments, projects, and technologies; increasing the level of investment in priority areas; improving the program of concessional lending, developed by the Central Bank, together with other banks, as the critical support for small businesses.

In making anti-crisis decisions, there is a contradiction that partially negates the positive effect of successful actions. The latter aims to solve the critical tasks caused by the spread of coronavirus infection and quarantine measures: removing the financial burden, solving urgent economic and social problems, promising stable employment after the restrictions are lifted, ensuring activities, and restarting both. The main sectors of the economy are small and medium-

sized industries. Entrepreneurship is the main thing in these measures is not the allocation of money, but their qualified distribution and delivery to the recipient.

According to experts, it is also necessary to increase the scale and intensity of the assistance provided to develop a strategy for overcoming SMEs' crisis. Despite the ambiguous forecasts of Russian and foreign experts regarding the state and future development of the economy in the context of the anti-epidemic measures that have lasted for an indefinite period, experts are actively looking for ways to support SMEs further promote their active recovery after the crisis.

## CONCLUSION

It is difficult to say what humanity will face soon. Experts note that the consequences of coronavirus (COVID-19) infection will introduce significant uncertainty and risk to the economy. If the spread of the coronavirus continues, the population will be isolated, small and medium-sized enterprises, not having time to turn around, will be forced to cease their activities, which will lead to an increase in unemployment, a decrease in demand, consumers and income, as well as a decrease in real GDP.

It will take several more years for small and medium enterprises to recover. It should be noted that each crisis ends sooner or later. Besides, a problem is not only a catastrophe for the state's economy but also a blessing. It is a condition and prospect for renewal and growth: an increase in labor productivity, an increase in production efficiency, the emergence of new technologies, new products, a change in the tax policy of the state. Therefore, many experts believe that the coronavirus attack, as one of the priority tasks in implementing national projects in Russia, will become a driver for developing the digital economy.

During the forced self-isolation, it became clear that it is essential to transfer some files online. Almost all Russian companies, including those in trade and services, use information technology in their work. In the current situation, Internet commerce will help prevent colossal economic losses and unemployment.

To survive, small and medium-sized businesses will have to rebuild and master information technology in trade, develop a new successful marketing strategy, and transfer business to contactless mode. This will allow entrepreneurs to reduce travel, sign contracts over the Internet dramatically, and communicate

with employees and customers via cloud platforms (Zoom, Microsoft Teams, Google Hangouts, Trello, and Skype). In turn, digital literacy is becoming a mandatory requirement for modern workers, as one of the conditions for competitiveness.

To overcome the crisis, measures to support SMEs by state and regional authorities should be more material and large-scale, strategically grounded, and carefully planned. Simultaneously, representatives of small and medium-sized businesses should be aware that the Russian Government cannot close all problem areas financially. Therefore it is imperative that representatives of small and medium-sized businesses, using support measures, the Government will take responsibility to get out of business from the crisis. They control new creative forms of cooperation with banks, online lending institutions to obtain additional loans to overcome the problem and further business development.

## CONFLICT OF INTEREST

The authors declared that present study was performed in absence of any conflict of interest.

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## AUTHOR CONTRIBUTIONS

T. Tsatkhanova designed and performed the experiments and also wrote the manuscript. E. Erdnieva, E. Samaeva and B. Evieva performed data collection and analysis. S. Namysov designed experiments and reviewed the manuscript. All authors read and approved the final version.

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