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Cabinet Reviews Detailed Plans on Supporting Small Entrepreneurs

By Anatoly Medetsky

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Economic Development Minister Alexei Ulyukayev. **Sergei Porter**

The Cabinet on Thursday discussed moves to back small and medium-sized businesses with greater access to loans and state contracts as a way to spur the flagging economy.

"We must make a serious breakthrough in the field of investment, the field of labor productivity, the field of diversification of our production. And entrepreneurial initiative here ... is extremely important," Economic Development Minister Alexei Ulyukayev said.

The discussion took place after Prime Minister Dmitry Medvedev pinned his hopes for economic acceleration on private business in a major speech last week.

There are about 5.5 million small and medium-sized businesses in the country, which account for 20 percent of gross domestic product and employ a quarter of the workforce, Ulyukayev said at a weekly Cabinet meeting. But that number is much smaller than it is in countries

of comparable economic development, he said.

Ulyukayev painted a gloomy picture of the segment. He said the number of these businesses and the people they employ is declining, as is their share in the credit portfolio of Russian banks. The businesses are not disappearing into thin air, Ulyukayev said, but are joining the shadows economy.

So far this year, about 500,000 self-employed individuals, or 12 percent of the total, deregistered their commercial activity, which, Ulyukayev said, does not necessarily mean that they went out of business.

Taxi drivers, kiosk owners and apartment landlords are among the most common jobs registered by individual entrepreneurs.

Ulyukayev conceded that the contraction of the ranks of registered individual entrepreneurs is a result of the increase of mandatory insurance payments that the government introduced at the start of this year. The government is reducing the size of that obligatory payment next year, he said.

Ulyukayev warned that it would take time to reverse the negative effect of the current higher insurance payment.

"It is easy to drive people into the shadow and very hard to pull them back out into the light of day," he said.

One key measure that could support small and medium-sized businesses is ensuring that they get greater access to state contracts. A law that takes effect in January stipulates that state agencies and companies have to award at least 15 percent of their contracts to these businesses, Ulyukayev said. He did not specify if that proportion applied to the number of contracts or total value of goods and services to be purchased.

State companies alone purchase 7 trillion rubles ($218 billion) worth of goods and services every year, which means small and medium-sized business will receive a guaranteed market of at least 1 trillion rubles, Ulyukayev said.

Large state companies could also fund the creation of small businesses that would then cater to the needs of these large companies, Ulyukayev said.

The government is also moving to set up a federal guarantee fund that would be able to issue guarantees to banks on the loans that they give to medium-sized businesses starting next year, Ulyukayev said. The measure would ease access to investment capital for these businesses, he said.

Another measure that the government is discussing is selling patents — which are essentially licenses — to those who want to be self-employed in a variety of activities, without making them first register as individual entrepreneurs, Ulyukayev said.

The patent system brought 7 billion rubles to federal coffers last year, he said.

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