

# Small and medium business in the Republic of Tatarstan: obstacles to development

## Pequeñas y medianas empresas en la República de Tatarstán: obstáculos para el desarrollo

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### Abstract

The paper examines the activities of the authorities of Tatarstan aiming at supporting and developing small and medium-sized businesses. The assessment of the contribution of small and medium-sized businesses to the gross rating point of Tatarstan is presented. The sociological study the above-mentioned topic was conducted in December 2018 and January 2019. Its analysis revealed the most significant barriers to the development of small and medium-sized businesses in the region.

**Keywords:** small and medium-sized businesses, regional entrepreneurship development programs, barriers to SME development, gross regional product, entrepreneurial potential.

### Resumen

En el artículo, se presenta la evaluación de la contribución de las pequeñas y medianas empresas a la formación del punto de calificación bruta de Tatarstán y se revela la tendencia de su preservación en los últimos cinco años. El análisis de los resultados de un estudio sociológico realizado por los autores en diciembre de 2018 y enero de 2019 entre emprendedores dedicados a actividades económicas en la República, permitió formar una lista de las barreras más importantes para el desarrollo de pequeñas y medianas empresas en la región, y proponer un conjunto de medidas que permitan mejorar la eficiencia de las actividades tanto de la economía de la región en su conjunto, como de las pequeñas y medianas empresas en particular.

**Palabras clave :** pequeñas y medianas empresas, programas regionales de desarrollo de emprendimiento, barreras para el desarrollo de las PYME, producto regional bruto, potencial emprendedor.

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## 1. Introduction

Over the past 20 years, the Russian small and medium business (hereinafter referred to as SMB) has become one of the fundamental pillars of the national socio-economic system. Millions of economic actors within this sector of the economy make a very significant contribution to strengthening the economic potential of the country, bringing its share in gross domestic product up to 20% in 2018 (Russian Federal State Statistics Service, 2019). At

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the same time, today, according to this indicator, Russia is significantly inferior to such countries as Norway or Finland, where small and medium-sized businesses generate about 60% of national gross domestic product (GDP), not to mention China, where in the past year the contribution of small and medium-sized businesses to GDP exceeded 70% level (IBRD, 2019).

The above objective statistical data indicate the presence of significant reserves and untapped potentials of Russian small and medium enterprises, the successful implementation of which can lead to a qualitative change in the structure of the national economy and give a positive impetus to the process of its development. Against this background, at first glance, the requirements of the President of the Russian Federation Putin to the government of the country to use the potential and opportunities of the Russian business community more effectively and to increase the contribution of small and medium-sized businesses (SMBs) in the GDP up to 40% look quite logical and reasonable (Putin, 2018). This would be a significant success of the Russian executive authorities at all levels, and above all regional and municipal authorities, on whose shoulders today lies the main burden of daily practical interaction with small and medium-sized businesses. However, in authors' opinion, the successful solution of the tasks formulated by the President of the Russian Federation Putin (increasing the efficiency of SMB economic activities and increasing its contribution to the country's GDP) will be possible only with fundamental changes in the entire Russian public and municipal administrative system and simultaneous changes in federal and regional legislations, which are largely contradictory and do not meet today's needs of the real sector of the economy and the needs of business entities. In fact, reference should be made to a fundamental reform of the entire existing economic system to which, in the opinion of the authors of this paper, not only the overwhelming majority of managers and officials of all levels are not ready but also the country's top leadership, without whose political will any changes and transformations in Russia are impossible at the present time. In turn, due to the lack of accumulated experience of dialogue between representatives of SMBs and the government and against the background of a lack of authority among the associations that consolidate them, businesspersons actually do not have the opportunity to communicate their position to government agencies. Moreover, this means that they cannot effectively influence the formation and conduct of national economic policy, which, in principle, rules out any chances for successful economic reform initiated "from below".

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## 2. Methodology

### 2.1. Range of SMBs

What are the main factors constraining the growth of activity of economic agents carrying out their business activities in the field of SMEs in Tatarstan? To answer this question and to obtain topical data "first-hand", the authors of this work, as in previous years (Shlychkov, 2017), conducted in December 2018 - January 2019 a sociological survey among 1,150 Tatarstan manufacturers and merchants working in small and medium business and actively participating in the activities of regional and municipal business associations.

The issues of attributing economic activity of entrepreneurs to the category of small or medium-sized businesses in Russia are regulated by federal legislation, the basis of which in this area is the Development of small and medium-sized businesses in the Russian Federation Act of July 24, 2007, No. 209-FZ (State Duma, 2007).

In order for an enterprise to receive the status of "small" or "medium" business and to have the right to the corresponding privileges and preferences established by the state when carrying out its financial and business activities, it:

- Does not have to exceed the income limit;
- Does not have to exceed the limit on the maximum number of employees;

- Has to fall within the limits of the share of participation of other companies in the share capital.

At the same time, the federal legislation determined that small businesses are companies and entrepreneurs whose business activities are carried out according to the three above-mentioned criteria, regardless of the taxation regime chosen by them and these can be either companies or individual entrepreneurs using the simplified tax system, unified tax on imputed income, unified social tax or a patent.

In the future, the Government of the Russian Federation, considering the dynamically changing general economic situation in the country, repeatedly corrected the “quantitative” indicators of the criteria determined by legislation by setting the following values for 2019 (Table 1).

**Table 1**  
“Quantitative” indicators of the criteria determined by legislation

Criterion / Category	Micro-enterprise	Small enterprise	Medium enterprise
Revenues, million rubles	up to 120	up to 800	up to 2000
Number of employees, people	up to 15	up to 100	from 101 up to 250
The share of participation of other persons in the capital	The share of participation of political entities (the Russian Federation, subdivisions of the Russian Federation, municipalities), public and religious organizations and foundations is not more than 25% in total. The share of participation of ordinary legal entities (including foreign ones) is not more than 49% in total. The share of participation of legal entities that are themselves small and medium-sized businesses is not limited.		

Source: State Duma (2007)

For Russian entrepreneurs, 2019 begins with a decline in business activity of economic agents and a deterioration in the general economic situation in the country caused by a reduction in investment, accelerated inflation, an increase in the tax burden on business, a steady trend in reducing real incomes of households over the past five years, and other negative factors (Russian Federal State Statistics Service, 2019). The pension system reform conducted in the past year, the increase in property taxes and the VAT rate, like many other steps taken by the Government of the Russian Federation, did not add optimism to the economically active part of Russian citizens. There were the attempts of the government to move the economy off the ground not at the expense of entrepreneurial initiative but rather via its oppression due to the growth of taxes and government redistribution of resources (Vyugin, 2019). Today the country’s leadership is taking some positive steps such as extending “supervisory vacations” for SMBs until the end of 2020 (State Duma, 2018). Such steps are unlikely to have a significant impact on improving the business climate in Russia because the application of the existing forms and mechanisms of state support for the business community is not a mature system but a set of individual elements unable to have an effective impact on the subject of regulation and create favorable socio-economic conditions for enhancing the economic activity of SMBs (Aleksashenko, 2018; Treshchevsky et al., 2018).

## **2.2. The role and place of SMBs in the economy of Tatarstan. The republican-level programs to support entrepreneurship and the formation of a regional entrepreneurial climate**

Since the collapse of the Soviet Union and the beginning of the process of building a new Russian statehood, the Republic of Tatarstan has always been one of the economically successful regions of the Russian Federation. In the 1990s, the political leadership of the republic took advantage of the unstable socio-economic situation in Russia and a certain weakness of the federal government. Tatarstan, against the background of the “parade of sovereignties,” was able to achieve significant economic benefits and tax preferences that kept its industrial potential afloat and had a relatively painless move to market principles of management. In addition, the

privatization of state-owned property in Tatarstan took place, with rare exceptions, in the interests of the regional elite that further allowed Tatar authorities to maintain control over the economy and, above all, the petrochemical enterprises (Tatneft, Orgsintez, Nizhnekamskneftekhim, etc.). It formed the foundation of the economic system of the region and guaranteed it not only stability but also high investment attractiveness. When analyzing the results of Tatarstan's economy in 2018, it is possible to state that, as in previous years, it is the Republic's petrochemical complex that still makes the main contribution to the GRP (53.27%) and provides the main tax revenues to budgets of all levels (416 billion rubles) (Panchenko, 2017).

However, the leadership of the Republic has always paid close attention to the development and support of small and medium-sized businesses, and considered it, in the face of limited external opportunities, as one of the points of economic growth in Tatarstan. In recent years, an efficiently working mechanism of the continuous interaction of SMBs with the executive and legislative authorities has been created in the region and systematic work has been carried out to create a favorable business and investment climate that stimulates the activity of economic entities engaged in this sector of the economy. Today, the Tatar parliamentarians have formed one of the most appropriate regional legislative bases in Russia that allows entrepreneurs to receive substantial and real support from the regional budget and to enjoy certain preferences granted by the Republic within the framework of the powers of the federal subdivision. It should be noted that the Government of Tatarstan usually joins the SMB development programs conducted by the federal center, allocates substantial funds from the republic-level budget to co-finance them and creates conditions for the implementation of certain pilot projects in the region. On January 1, 2019, in Tatarstan, as an experiment, a project was launched to legalize self-employed persons aimed at raising the level of business activity of small business and withdrawing a significant number of entrepreneurs from the shadows.

In accordance with the Decree of the President of the Republic of Tatarstan No. UP-871 of October 11, 2012 (Minnikhanov, 2012), within the republic, the functions of state regulation in the field of support and development of small and medium-sized businesses are assigned to the Ministry of Economy of the Republic of Tatarstan that currently carries out this activity as part of the current subprogram "The development of small and medium-sized businesses in the years 2018-2020". Regional authorities are carrying out significant work on consulting and training entrepreneurs, reducing administrative barriers in opening and organizing businesses, easing access to infrastructure facilities and financial support for SMBs. Since 2013, the Leasing Grant Program has been implemented quite successfully. Under this program, an entrepreneur can receive a subsidy of up to 3 million rubles for the purpose of financial security and reimbursement of expenses of small and medium-sized businesses for the payment of the first installment (advance) under the equipment leasing agreement (Ministry of Economics of the Republic of Tatarstan, 2013). Not less popular with small and medium-sized enterprises (SMEs) is the "Program of subsidizing the costs associated with paying interest on loans", to which in 2018 35 million rubles were allocated from the regional budget, as well as the "Factoring Program", which last year used 16 enterprises in the amount of 800 million rubles. Total in 2018 with a turnover of 1.8 trillion rubles about 10% of SME enterprises registered in Tatarstan received direct government support totaling 11 billion rubles, with plans to increase it in 2019 to 13 billion rubles (Anisimova & Pershin, 2019).

It should be noted that along with the Ministry of Economy of the Republic a significant positive role in creating a favorable business climate and supporting entrepreneurship in the region is played by the institution of the ombudsman under the President of the Republic of Tatarstan for the protection of the rights of entrepreneurs and the Council for Entrepreneurship under the President of the Republic of Tatarstan, which became an effective form communications and platforms for direct dialogue between business and government. It is the Commissioner for the Protection of the Rights of Entrepreneurs who coordinates the work and oversees the implementation of local business development programs adopted by all municipalities of the republic, involving,

for example, representatives of federal government bodies, including the Prosecutor's Office of the Russian Federation, the Federal Tax Service, the Ministry of Justice, etc.

No less important, in our opinion, a positive factor in the formation of a comfortable business environment in the republic is the active position of the President of the Republic of Tatarstan R.N. Minnikhanov in support of entrepreneurship. Leading over the course of a number of years one of the few self-sufficient Russian donor regions, the head of Tatarstan constantly "manually" monitors the state of the business climate and business activity of SMEs both in the republic as a whole and in its individual municipalities, having formed the tradition of weekly personally hearing reports several heads of district administrations for the implementation of local business development programs. At the same time, in RT, the list of criteria for evaluating the effectiveness of regional managers includes such indicators as the contribution of SMEs to the creation of the gross territorial product and the number of jobs created by them, which creates a direct interest of municipal employees in the effectiveness of the small business community in the territories they lead.

All of the above allowed Tatarstan to complete 2018 in the third place of the all-Russian rating of the investment climate, bring the number of small and medium-sized businesses to 159.2 thousand with 552 thousand people employed, to ensure an increase of 6% to 1.8 billion rubles turnover of SMEs and increase its share in GRP to 25.6% (Tatarstan Export Support Center, 2020) (Table 2).

**Table 2**

The main trends in the development of business in the Republic of Tatarstan

	2013	2014	2015	2016	2017	2018
Number of entities of SMEs, thousand units	142,8	137,8	159,3	165,3	167,5	159,2
Amount of man-power employed, thousand pers.	390,1	475,4	448,7	477,4	480,0	552,0
Financial turnover of SME, trillion rubles	1,25	1,24	1,46	1,69	1,7	1,8
Share in GRP, %	25,6	25,5	25,5	25,6	25,7	25,6

Source: Tatarstan Export Support Center

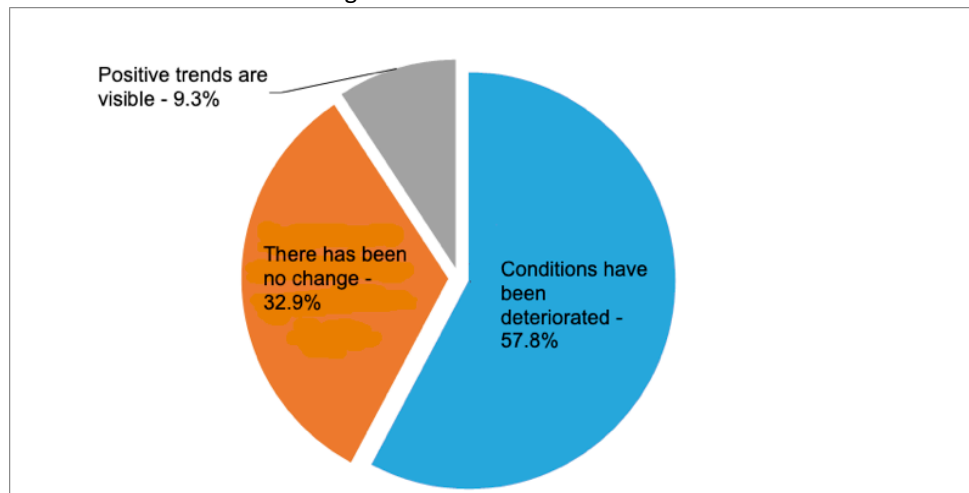
In general, the above statistics tell us not only about the positive results of the regional policy in support of SMEs but also about the presence in this process of a significant number of unused reserves and serious problems. First of all, a retrospective analysis of the contribution of the Republican SME to GRP over the past five years clearly demonstrates that even with an effective support mechanism and considerable state assistance to entrepreneurs, it has not yet managed to overcome the 26% level (Table 2), which means that the current system SME management in the region has exhausted its internal possibilities for development and needs a certain qualitative adjustment and rebalancing of balancing factors. Based on the fact that economic development occurs due to structural changes that upset the equilibrium and create rent, possible transformations should be aimed at eliminating disintegrating elements and the barriers to its development, and more effective and full use of competitive advantages and potential of the business community (Chevalier-Roignant et al., 2011). At the same time, with understanding that change management is a non-linear process, we must be prepared for the fact that it is always necessary to take two steps forward and one step back. It means possible changes will bring positive result only if they are based on a deep scientific analysis of existing practice and can adequately respond to requests from SMEs (De la Torre, 2011; Kurochkina et al., 2019).

### 3. Results

#### 3.1. Factors negatively affecting the development of SMEs in the region

Assessing the business conditions in the republic in 2018, the majority of respondents, and this is 57.8%, declared their significant deterioration and only 9.3% noted positive trends in supporting entrepreneurship, while 32.9% in principle did not feel any changes, which means all efforts and “signals” of the regional authorities to stimulate SMEs did not reach a significant part of the subjects and could not have any impact on their business activities (Figure 1).

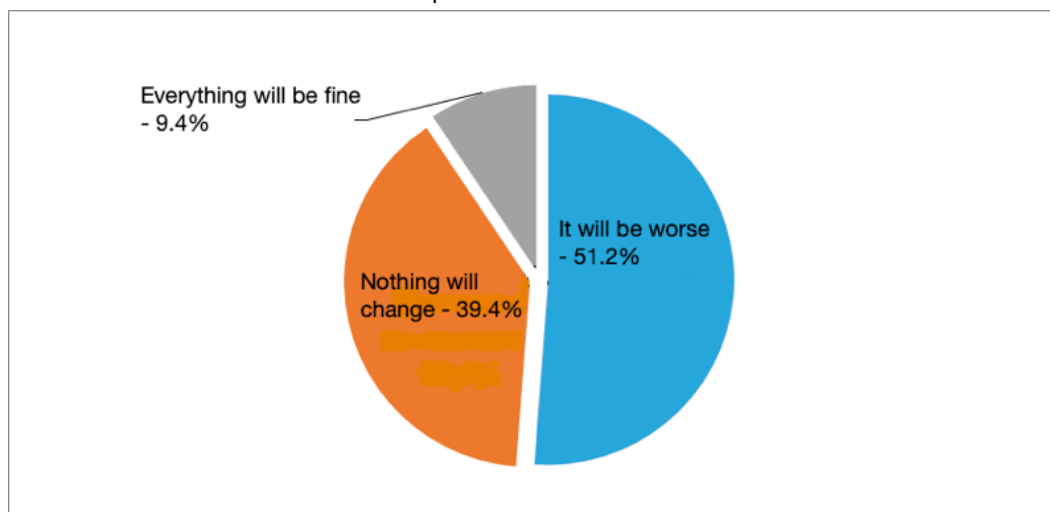
**Figure 1**  
How do you assess the conditions for doing business in Tatarstan in 2018?



Source: the authors' research.

At the same time, in our opinion, the survey participants were rather pessimistic about their own prospects in 2019, giving 51.2% of the votes for “it will be worse” and 39.4% for “nothing will change”, against 9.4% of remained optimistic respondents (Figure 2).

**Figure 2**  
How do you evaluate the prospect of forming an entrepreneurial climate in 2019?



After analyzing and processing a significant amount of information obtained during the survey, the authors compiled a list of 10 factors that, in the opinion of entrepreneurs, have the greatest negative impact on the development of entrepreneurship in the region.

1. Pressure from public authorities attempts to interfere in economic activities. The absence of state responsibility as such for the wrongful actions of officials.
2. A significant increase in non-tax loads.
3. Lack of a mechanism for real provision of equal access to regional and municipal government orders, development programs and incentives.
4. The lack of real access to credit resources, the absence of any competition in the banking sector in terms of working with SMEs.
5. The imperfection of civil legislation and the judicial system. Violations of the principles of “competitiveness” and “equality of arms” in legal proceedings.
6. The predominance of “manual methods and procedures” in the regional-municipal administration.
7. High level of corruption.
8. The reluctance of the law enforcement system to protect the interests of entrepreneurs and their property.
9. Low professional qualifications of municipal employees.
10. The increase in tariffs for energy carriers and transportation.

Most of the identified barriers are administrative in nature and overcoming them requires not so many financial costs and costs, as the presence of appropriate political will from the subjects of public administration for internal structural changes. In fact, only two out of ten factors (paragraphs 2 and 10), and even then, very tentatively, can be classified as “clean economy”, while the remaining eight are negative manifestations of the functioning of the entire existing socio-economic system, are complex and affect almost all spheres of life of the Russian society.

A retrospective analysis of the results clearly shows that the list of negative factors has practically remained unchanged since 2015, which means that the leadership of the region, despite considerable efforts, has not been able to create a favorable business climate for SMEs and provide the necessary conditions for its development. However, it is absolutely necessary to separate the problems and issues of SME support related to the competences of the federal center and the authority of the republic in this area as a subject of the federation. Since the formation of civil and criminal legislation, judicial, law enforcement, and tax systems are the exclusive competence of the federal authorities, the Republican leadership is quite limited in its ability to conduct independent and independent regional policies in the development of entrepreneurship (Ushakova, 2017; Hendley, 2017).

However, Tatarstan, being a rather “authoritative and unwieldy” Russian region, could well initiate at the federal level the processes of bringing civil and tax legislation in line with the demands of economic entities and today’s realities, as well as creating a regulatory framework that stimulates the Russian banking sector to interact more actively with the business community (Petrov & Nazrullaeva, 2018).

In our opinion, the region itself has not fully realized its potential capabilities and powers in the development and support of small and medium-sized businesses. From personal interviews with respondents, the authors of the present work carried out their desire, above all, to receive from society and the state moral and psychological support for their activities, as well as recognition of the merits and significant contribution of the business community to the formation of the new Russian economy. However, despite all the efforts of the leadership of the republic and personally the President Minnikhanov, unfortunately, in the region, SME is the feed base for lower-level officials and local authorities, who, with rare exceptions, categorically do not want to consider entrepreneurs as equal partners and business entities significant impact on the economy of the territory (Dininio

& Orttung, 2005). Municipal leaders actually do not notice that amid growing uncertainty, Russian society has generated a demand for changes in all spheres of social and economic life, including the development of small and medium-sized businesses, the gradual increase in the number of which is already a pronounced trend. It must be borne in mind that the global processes of digitalization and modernization of the economy will inevitably lead to the release of a significant part of the labor force, return to the economic turnover that will be possible only in the field of small and medium-sized businesses. So, in the near future, we will observe a tendency of increasing the degree of influence on the socio-economic processes taking place in the territories by the business community and its representative structures, which, in our opinion, will correlate with the increase in the contribution of SMEs to the formation of GRP and GTP.

In order to give dynamics to the processes of further development of entrepreneurship in the region, it is necessary to ensure real equality of rights and opportunities for SMEs with other participants in the whole complex of emerging socio-economic relations, including the state itself and its many bodies. An objective analysis of the situation shows that despite numerous declarations by regulatory and control authorities to reduce pressure on business and reduce inspections to 40,000 per year, at least 100,000 SME enterprises underwent unplanned inspections under the guise of “monitoring” or “inspection” in 2018. republics, diverting their resources and strength from production activities (Council of Europe, 2018). In fact, in the past year, every resonant emergency in Russia with tragic consequences and victims caused a new wave of unscheduled inspections in the field, which, in the opinion of the respondents, are only an imitation of the work of the authorities to restore order in a particular area and do not have a significant impact on the object of regulation. At the same time, the regulatory authorities themselves continue to plan their work on the basis of a “cane” system, without applying the provisions of the law in practice allowing them to limit their warning to the first-time violations and encourage employees who, to the detriment of prevention, impose penalties on entrepreneurs as much as possible. It clearly contradicts the course declared by the leadership of the country and the region to support and develop entrepreneurial initiatives of Russian citizens. In this regard, we would like to draw your attention to the fact that despite the presence of the revealed facts of abuse of power and infringement of the rights of entrepreneurs that led to their ruin and liquidation. None of the officials guilty of this incurred even financial liability, let alone criminal prosecution, which means that the article “on obstruction of business activity” existing in the Criminal Code of the Russian Federation is practically not applied by law enforcement agencies in Tatarstan.

Undoubtedly, the adoption of municipal administrative regulations, which clearly fix the responsibilities, powers, and competencies of local authorities across the entire spectrum of socio-economic problems, would protect entrepreneurs from subjectivity and arbitrariness in relations with numerous bureaucracies. Survey participants cited numerous examples of the annulment of a construction permit previously issued in the established order by the sole decision of the President of the Republic of Tatarstan or the mayor of the city Department of Architecture, results of public hearings, Department of Town Planning Permits, etc. The current administrative regulations do not even mention the need to coordinate the project or issue permits directly with the head of the region or the head of the municipality. At the same time, we see that today, contrary to the declared statements and reports of regional and municipal authorities, the process of obtaining a building permit actually takes from 3 to 5 years, and the registration of a leased land plot into ownership often stretches to 10 years. It creates additional and unreasonable risks for entrepreneurs and significantly limits the opportunities for the development of their business (Ross, 2002).

SMEs are also worried about the practice of revising previous decisions on allocating land plots or selling property objects, which is emerging in Tatarstan when the newly elected municipal administration under false pretenses and using formal violations committed by their predecessors, in court or within criminal proceedings seeks a return disputed object. At the same time, an entrepreneur who has fully fulfilled his obligations within the



framework of an earlier concluded contract, simply loses his property, without hope of any compensation for damage. The presence of this, in our opinion, a vicious practice not only undermines trust in the state, as a reliable partner and guarantor of citizens' rights but also forms latent protest sentiments and a steady reluctance of Russians to engage in any business in principle (Gorshkov, 2011).

Significant claims were made by entrepreneurs and to the current judicial system and the judicial practice that was formed after the liquidation of the Supreme Arbitration Court. First of all, respondents focused on the fact of a sharp increase in the number of claims won by SMEs in the region by the tax service, the number of which in 2016 was 55%, in 2017 - already 94%, and in 2018 - 92% (Federal Tax Service of Russia, 2019). In addition, survey participants note that judges of general jurisdiction, without having the necessary business experience, quite often pass decisions that do not consider the existing realities and lead entrepreneurs to significant costs, up to their complete ruin. So, in December 2018 solely considering the petition of one of the parties to secure a claim for 2.6 million rubles, the judge not only imposed a ban on the alienation of the livestock complex, estimated at 46 million rubles (which would be logical) but also seized the money in the bank in the amount equal to the number of claims. Considering the fact that the agricultural enterprise is relatively small and rarely consolidates so large amounts of money on its account, and the money is always in financial circulation, this court decision prevented the entrepreneur from paying electricity, gas, feed, etc. With the necessary reserve funds in the bank account, the entrepreneur and two members of his family were forced to take consumer loans at high-interest rates and incur losses that were significant for their business, but this allowed them to pay their business expenses in two months and thereby avoid massive mortality and business liquidation. Undoubtedly, when accepting the verdict on duplication of a pledge, the judge acted within his/her authority (redundant in our opinion) and did not formally violate the law. Proportions of the value of the claim and the size of the encumbered property at the level of not more than  $\frac{1}{2}$  or 200% of the disputed funds, and court decisions leading to the de facto prohibition of the current financial and economic activities should be simply excluded from judicial practice. The substantiation of claims by the SME to the judiciary in February 2019 was actually confirmed by the reporting board of the Arbitration Court of the Republic of Tatarstan in which 2018 was called "failed" due to the fact that the number of judicial acts canceled by the appeals instance increased by 53%. The total percentage of canceled cases increased to the level of 12.45% (Wiener & Dickson, 2019). Considering that the UFSSP on the Republic of Tatarstan last year was able to ensure the full implementation of court decisions only in respect of 20% of cases of executive proceedings, we can with a high degree of accuracy declare the low effectiveness of the existing judicial system (Federal Bailiff Service, 2018).

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#### 4. Conclusions

Only the combined efforts of the federal center, regional and municipal authorities with the unconditional support of the whole society will be able to ensure the formation of a favorable business climate and give dynamics to the process of development of the economic system in general, and small and medium business in particular.

In our opinion, real positive changes in the development of SMEs will be possible if the following changes are made:

A comprehensive reform of the public administration system was carried out, aimed at a significant reduction in the size of the state apparatus and a reduction in the level of excessive state intervention in economic processes.

The criteria for evaluating the performance of ministries, departments, regions, municipalities, individual officials and bureaucrats have been revised.

Bringing the legal system in line with the realities and demands of economic entities, elimination of contradictions and discrepancies in the current legislation.

Conducting a comprehensive amnesty for capital and economic entities. Introduction of a moratorium on the revision of previously adopted decisions on the privatization of property, the sale or alienation of state property, etc., as well as the release of all persons without any preliminary conditions from criminal liability for previously committed economic crimes.

Completion of the reform of the judicial system, aimed at increasing transparency in the work of the courts and creating an effective system of public control over their activities.

Establish real mutual responsibility for violations of rights and limiting opportunities for all business entities, including the state and its agencies. The introduction of the practice of receiving compensation from the budget of the appropriate level of actual costs and losses of entrepreneurs received as a result of unlawful actions of state bodies or individual officials and officials.

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