Challenges and Growth Scenarios for Small Businesses in Manufacturing

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Abstract. The paper dwells upon the economic growth and development of manufacturing and small businesses. The Russian economy today requires a growth in manufacturing and a booster to the domestic market, which could be provided by small producers. However, manufacturing-oriented SMEs will not grow without considerable federal and regional support. The country’s economy today is exposed to numerous negative effects, which needs to be stopped. It is only developing the manufacturing that could boost the gross domestic product (GDP) and help solve numerous socioeconomic problems such as high prices and unemployment, budget deficits low and living standards. This paper proposes a few efforts to boost manufacturing, specifically SMEs. An enhanced program for public support of small and medium-sized manufacturers must be a priority for federal, territorial, and local governments in order to accumulate a significant economic effect in the development of manufacturing in the short term.

1. Introduction
In a total crisis, what the Russian economy needs to carry on is a booster to manufacturing and domestic markets.

Competitive Russian-made goods will help the country’s economy overcome many negative factors. It is only developing the manufacturing that could boost the gross domestic product (GDP) and help solve numerous socioeconomic problems such as high prices and unemployment, budget deficits low and living standards. Today, the most important challenges pertain to the development of manufacturing and specific industries that contribute to the production and sales of competitive goods and services in both domestic and international markets. [1, 4, 6]

International experience makes it clear that small and medium-sized businesses may considerably affect multiple sectors of the national economy; unlike major players, they quickly react to market changes, contribute significantly to creating jobs and to the budgets across the governmental structure; as a result, they are also a significant GDP contributor. However, all of this requires that small manufacturers gain considerable support from federal and local authorities.

Many industrialized countries prioritize the development of small-scale manufacturing; SMEs come to play a greater role in manufacturing, which is facilitated by additional efforts to support and incentivize them.
The Russian Federation also has a number of programs to support SMEs; however, today the country needs novel mechanisms. It has to prioritize specific industries and to implement extra controls over how the public subsidies are spent. Efficient support for small manufacturers is the most important issue today, as resolving it will be a decisive factor of the government’s success. [2,7]

2. Research relevance
SME development is an issue that has its fair share of attention from governments across different structural levels: federal, regional, and local; however, small businesses are yet to match the success of their counterparts in industrialized countries, which means Russia today needs extra measures to help its SMEs get their deserved spot in the cohort of companies that contribute to economic growth and development in their respective regions.

3. State of the art
Efficient development of small business is an issue that is made emphasis on in economic research; many economists have pointed to the great role and significance of small-scale manufacturers to the national economy, e.g. J. Schumpeter, M. Porter, P. Drucker. Russian researchers today mention the challenges and specifics of running a small business in specific regions, see Small Business: Support and Assessment of Its Development on a Regional Scale by A.P. Vershinin; A.I. Ziganshina’s Need for Public Financial Regulation of Small Businesses; M. Mavletdinova’s Government Support in Tyumen: Equipment Leasing and Development Funds; O.B. Buzdalina’s Development of Government Funding for Small Businesses in the Light of Economic Uncertainty; S.S. Morkovina, V.M. Bugakov, and I.S. Zinovyeva’s Regional Aspects of SME Development in Various Sectors of Economy; etc. [8,9,11]

Many researchers point to the fact that government mainly supports small businesses for one year after foundation; then the government support expires, and businesses have to carry on on their own while facing crises and inflation. Lack of funds for further development and lackluster equipment force many such businesses to close within three years. [5,10,17]

4. Statement of problem
This research seeks to develop guidelines and to enhance the support mechanisms for SMEs in manufacturing; the main focus of incentivizing production in a crises is made on subsidies to partially cover either the interest rates on the loans on equipment; or the costs of leasing. Subsidies are to be provided by endowment funds.

5. Express analysis of the SME development context
In the light of the today’s lack of financial resources, the government needs to implement various mechanisms to fund SMEs; special emphasis should be made on manufacturing, as it is the small-scale manufacturers that can boost the domestic market and tackle numerous socioeconomic issues in their respective regions.

Russia has multiple programs to support SMEs, none of them being efficient. One of the issues is that funds allocated to help small businesses grow are spent inefficiently; another problem is that the state does not keep the financed SME projects in check in terms of deadlines; the objectives set forth as part of such projects are often delayed, i.e. both the businesses and the priority industries lack rigorous planning. Besides, many economists say some of the support measures have been taken prematurely while others lag too much.

Support measures are present at all levels of government; however, they are still isolated and form no cohesive system, which results in an underdeveloped domestic market, making the effects of resource allocation negligible. [12, 14, 18]

To be successful, manufacturers need novel production methods, upgrades, and cutting-edge equipment; only that combination will produce the desired positive socioeconomic effects.
For many businesses, it is the lack of funding and the high interest rates that make a hindrance. One of the most effective measures is to use leasing; however, leasing is problematic in its own way, and not every business is ready to lease.

This type of support gives businesses access to a number of benefits and advantages, for instance:

– tax benefits;
– deposit-free acquisition of equipment.

However, leasing does have its cons, such as:

– a required down payment, sometimes so large businesses have to take loans for that alone.

These issues do affect the sectoral breakdown of small businesses, see Figure 1.

![Figure 1. Breakdown of small businesses by sectors [11, 15].](image)

Apparently, it is easier to run a small business in Russia in trade and real estate than it is in manufacturing or, say, farming.

Express analysis of entrepreneurship in Irkutsk Oblast shows that SMEs provide 25% of the working-age population with jobs; however, their financial performance dropped significantly in 2017, which lowered the current liquidity; this confirms lack of equity for successful development, see Figure 2.

![Figure 2. Dynamics of current liquidity of SMEs in 2013-2017 [3].](image)

Express analysis shows that unlike major businesses, SME owners tend to have a more pessimistic outlook.

The key challenges facing SMEs are:

– lack of finance;
– equipment wear and tear, which lowers the demand for their products;
– most importantly, high cost of funding. [20, 21]
All these commonly known factors hinder the growth of these businesses and of economy as a whole.

Negative factors can be dealt with by successfully carrying out the national projects subject to annual analysis and complementing with extra steps based on factorial analysis.

Express analysis also shows that many SMEs facing crises and sanctions would like subsidies to partially cover their production costs, i.e. they need considerable support not only at the beginning.

Of special interest are leasing transactions; on the one hand, they contribute substantially to SME development; on the other hand, they can be overcomplicated and demanding, since

1. appreciation may accrue within the term of the contract;
2. down payment might be too high, up to 50%;
3. leasing contracts are sometimes made for a short term, which is highly undesirable for entrepreneurs in a crisis.

Thus, leasing grantees are often burdened too much by their loans, as they have to open a credit line to cover the down payment for leasing or to pay the extra costs emerging in the normal course of business. [15,16,19]

6. Conclusions and recommendations

Dealing with a crisis requires more efficient governmental support tools that will generate a considerable effect for the functioning of manufacturing structures in both domestic and international markets.

Thus, manufacturing needs additional and more effective supports, which include:

– subsidies to partially cover the down payments to give SMEs access to cheaper and longer financing for a better industrial climate in each region.

Besides, governmental support enhances the upgrade programs for manufacturers. It is proposed to offer that kind of support to small-scale manufacturers, as subsidizing the leasing upfront payments or loan installments will enable producers to develop at a faster pace while also tackling numerous social issues. Cooperation of regional governments and industrialists to compensate part of the costs of equipment will help modernize manufacturing for a better economic growth in the region and in the country. It’s also critical to study the views of industrialists and entrepreneurs on how to improve subsidizing of leasing-acquired equipment.

Such efforts must seek a well-specified final goal, which is to enable SMEs to develop fast and efficiently while using cutting-edge equipment and technology, with import substitution in mind. [22,23,24].

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