State Financial Support During the Crisis and Its Impact on Business Development

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Abstract. The article discusses the main directions of financial support for business by the Government of the Russian Federation in the conditions of economic imbalances caused by the COVID-19 pandemic. The purpose of the article is the analysis of state financial support as a single model, formed taking into account national specifics. The objectives of the study include the analysis of forms and tools, the objectivity of such support, its feasibility and scope. The authors analyze as common elements that make up the financial support of the governments of many countries, and the specifics of its organization in the Russian Federation are highlighted. As a result of the study, the authors concluded that in Russia a national model of state financial support for business has been formed, it is aimed at providing business with funds for uninterrupted economic activity. In this model, the state does not undertake to fully finance the activities of commercial organizations. The government provides businesses with the opportunity to survive temporary difficulties, but at the same time maintains market competition. The article substantiates the proposals for providing state financial support to certain types and areas of business in the post-crisis period, its tools.

Keywords: Budget subsidies · COVID-19 crisis · Fiscal incentives state support · State guarantees · Tax benefits

1 Introduction

The modern world economy was in a crisis situation, which was provoked by the COVID-19 pandemic. To protect the population from viral infection, many governments were forced to introduce a number of administrative restrictions that caused a drop in national production, solvent demand, increased unemployment, a decrease in the share of services in national production and other negative consequences. Bankruptcy risks have become a reality for a significant part of the business, especially for small and medium-sized businesses. Some commercial organizations were forced to suspend their business activities. In order to prevent the economy from sliding into a crisis, the state has developed a set of measures to support business, including financial ones. Each country has its own specifics of financial support.

It depends on the level of economic development, its national characteristics, the external environment for the functioning of the business, the financial capabilities of
the government itself. The government is creating a certain model of financial support for commercial organizations. The model includes forms and tools. Their use allows the government to develop a strategy in the field of their support related to the determination of the purpose, scope, differentiation of organizations, and the timing of support. The Russian Government has developed such a model of financial support for entrepreneurship. The implementation of this model is aimed at maintaining a competitive business and systemically important commercial organizations, small and medium-sized enterprises, as well as the development of new areas of activity.

2 Methodology

The problems of identifying the main directions and instruments of state financial regulation of business are historically based on the traditional concepts of Keynesians and Neo-Keynesians, monetarists, and the theory of the public sector Stiglitz and Rosengard [17]. Each theory in its own way assessed the degree of influence of state financial instruments on the stabilization of the national economy through the financial support of commercial organizations. The material of the article is based on the fact that a certain convergence of these approaches has occurred. All concepts of state regulation of the economy differentiate differently financial instruments that are used by the state, but use approximately the same composition. In conditions of market imbalances caused by the COVID-19 pandemic, all known financial instruments are actively used (budget subsidies, interest rate subsidies on loans, tax rates and incentives, government procurement, etc.). Theoretical conclusions about the need for financial support for business are the basis of real financial decisions made by the government. In 2020, the actual mechanism for using financial instruments is enshrined in the anti-crisis government plans [6]. Such a plan was adopted in the Russian Federation, and served as the basis for the article. The article discusses the goals and objectives of emergency financial support for a business, its forms and tools, scope and conditions. This approach allows us to consider the activities of the government as a special model of financial regulation in force majeure. The effectiveness of the used financial instruments, their preference is assessed by independent experts, for example, Ernst and Young [7]. Their opinion is given in the article and serves as a certain confirmation of the conclusions made about the features of the Russian model of financial regulation of business in a pandemic. The obtained results of the analysis served as the basis for the proposals made in the article on the future development of this model. The article provides evidence and statistics that make conclusions reasoned and reasonable. This study is based on actual official data for the first half of 2020.

In the research process, analysis, synthesis methods, comparative analysis, generalization, etc. were used. The objects of financial support of the state are both commercial and non-profit organizations. The crisis of COVID-19 seriously affected non-profit organizations that lack financial resources in more stable conditions [9]. The object of research in this article is commercial organizations.
3 Results

Instability in the economy caused by the consequences of the spread of the new pandemic is accompanied by a decrease in business activity, disrupts relations between business entities, reduces solvent demand and generally changes the conditions for financial and economic activities of commercial organizations. Under these conditions, almost all commercial organizations experienced a shock in demand, and a violation of supply-chain communications led to a shock in supply. A significant part of the business was not able to reduce risks. Many organizations stopped operating, some of them were in bankruptcy, others had a sharp deterioration in their financial condition, and others left the market. The trends towards stagnation and a decrease in economic activity have begun. In these conditions, the state was forced to develop effective measures to financially support commercial organizations in order to neutralize the negative consequences of the crisis and create conditions for financial sustainable development in the future. State financial support was provided based on individual measures or plans taken by the government. For example, anti-crisis national plans were adopted in Germany, China, France and the Russian Federation. Governmental actions based on them were more focused and coordinated [13]. The plans identified the types of business that need support, its tools and sizes.

Typically, governments support the following businesses: 1) the most affected activities that provide mainly services to the population (tourism, cultural and recreational services, entertainment, catering, restaurant business, beauty salons; transport services, retail, etc.); 2) small and medium-sized enterprises (hereinafter referred to as the SMB, SME). They are the main suppliers of innovative developments, additionally provide employment, actively master new activities; 3) backbone organizations (air and railway transport, construction), whose activities were suspended due to falling demand from the population.

The objectives of providing state financial support to these activities:

- providing business with liquid funds,
- provision of financial stability of the company (borrowed funds to replenish working capital),
- dismissal of employees,
- support of strategically important types and directions of activity (digital economy, bioengineering, robotics, export activities).

The government selects the appropriate tools for each form of financial support. A direct form of support provides financial resources to companies, while an indirect form of support reduces their payments. Direct support involves the provision of subsidies. For example, in Russia, SMEs received free financial assistance at the rate of 12,130 rub. per employee. This money can be spent on any expenses of SMEs, including salaries. Similar employment support measures used in almost all European countries, while unemployment benefits are provided in the United States. Such payments stimulate employee empowerment rather than retention [13, 16]. The second tool is the reduction of taxes and compulsory insurance contributions (social insurance contributions) paid by companies. In Russia, companies may not pay compulsory
insurance premiums for 6 months. In Australia, companies may not have to pay mandatory premiums until the end of 2020. Such a benefit will provide companies with additional liquidity [13].

Public procurement, they provide the state demand for services and goods of SMEs, and thereby support the activities of SMEs. In Russia, the rule has reduced requirements for government contracts in which organizations can participate. Small businesses are required to provide security for applications of procurement participants if the amount of the contract is more than 5 million rubles. Previously, such a requirement was for contracts of 1 million rubles. State guarantees for bank loans make it possible to obtain loans to commercial organizations under more favorable conditions or for a longer period. This government support tool should be used with great care by the government. As Russian practice shows, it can lead to additional budget expenditures and an increase in state debt.

State guarantees as an instrument of state financial support should be provided to competitive, financially sustainable organizations that can act as drivers of economic growth [1]. The rules for their provision should provide temporary financial support to the business, and in the long term strategic activities [16]. Indirect business support includes: coordination of measures with monetary policy. Thus, a decrease in the key rate of the Central Bank of Russia has created great opportunities for lending by credit institutions. The foreign experience of providing cheap loans to commercial banks was similar [10]; the possibility of restructuring loans will reduce the level of loans to entrepreneurs; lending to companies from the affected sectors for the payment of salaries to employees will be carried out by banks with the support of the Central Bank at 0% per annum, but provided that the borrower maintains 90% of jobs; changing the deadlines for submitting tax returns, a moratorium on tax audits; the introduction of a delay in the lease of municipal, regional federal property.

In the Russian Federation, the government adopted a set of financial measures that created conditions for maintaining business, especially for SMEs. One of the areas of financial support from the Government of the Russian Federation is financial support to systemically important commercial organizations, which occupy a significant share in GDP. They occupy 45% of industry (45%) and 15% of trade. Big business created on the basis of these resources turned out to be the most financially vulnerable and in need of state assistance. Financial support for such organizations includes obtaining soft loans to maintain working capital and maintaining jobs. The loan rate is subsidized by the Central Bank rate; 50% of the loan is secured by state guarantees. Loans are provided to systemically forming organizations to support employment at 2% per annum. The practice of Germany, France, the UK also indicates the active use of government guarantee instruments to support systemically important large businesses [14].

Financial support measures are also being taken at the regional level. The regional experience of financial support for business is analyzed taking into account the specifics of the development of the subject of the Russian Federation, its industry structure. State financial support during the COVID-19 pandemic is provided simultaneously at the regional level, as a rule, to small and medium-sized businesses. The regional experience of financial support for business is analyzed taking into account the specifics of the development of the subject of the Russian Federation, its industry structure. Such financial support takes into account the specifics of the economy of the Federation.
It includes the creation of digital resources to inform SMEs about support measures, as well as financial support measures provided at the expense of regional budgets in the form of subsidies, microloans, tax cuts on special tax regimes, and exemption from rental payments. For example, the Tatarstan Republic Support Fund provides microloans to SMEs. The Moscow government provides subsidies to export-oriented organizations for engineering, and residents of the innovation cluster are granted a deferment in the payment of regional taxes. Obviously, due to the measures of state financial support in the Russian Federation, not only the current tasks of assistance are being solved, but also strategic groundwork is being created to ensure sustainable growth in the post-crisis period.

The crisis of COVID-19 forced companies to change their business strategy and tactics. Many commercial organizations quickly redesigned production for the production of popular and socially necessary products, for example, began to produce personal protective equipment, masks, and sanitizers. So, more than 10 large sewing enterprises of the Kirov region began to produce and supply masks from gauze, calico and knitwear. Even the large organization Coca-Cola HBC (Russia) redesigned part of its production for the production of face shields. Reducing the costs of re profiling companies helped financial measures of business support from the state. As a result, the state solved the problem of saturating the market with important goods in a pandemic, and companies received significant profits.

Costs of companies increased due to the improvement of new business processes, the transfer of employees to remote work, and the increase in corporate social responsibility (state support of employed persons (65 years and older, testing, purchase of personal protective equipment). The federal government has allowed such costs to be included in costs, which in the future will reduce the tax base for corporate income tax. The regional government can additionally compensate part of such expenses to companies from the budget. For example, in Moscow, these expenses are 50% funded from the budget of the subject of the Federation. Foreign experience is interesting. In some countries, governments allow companies to include in the cost of reducing the taxable base for income tax, the cost of acquiring computer hardware and software for the possibility of remote work of its employees.

In response to the benefits and financial resources received from the government, systemically important commercial organizations during the crisis scattered charitable activities in the accommodation area. They supported the medical staff: provided lunch delivery, provided hotels for accommodation. Commercial organizations purchased mechanical ventilation equipment, personal protective equipment, and medications. The state also provided the opportunity for commercial organizations to receive a tax deduction for corporate profit tax (not more than 1% of sales revenue) when carrying out charity activities to non-profit organizations included in the register of NPOs. This indicates that the financial conditions for doing business in the context of the COVID-19 crisis have changed. Business has become more socially oriented, increased its social responsibility. New directions of mutual cooperation between the state and business have appeared.

The impact of the crisis on SMEs and the government’s response to the crisis has been investigated by Welter, Wolter, Kranzusch [18]; Chen, Igan, Pierri, Presbitero [3] According to these studies, SMEs were more affected during the crisis, which is
understandable, since the service sector is the most affected. The most common measures of financial support for SME subsidies, including the payment of wages; provision of preferential or free loans. This is confirmed by studies and studies of foreign economists, for example, Drechsel and Kalemli-Ozcan, Liu [4, 10].

According to the EY study, in Russia, important measures of state support for SMEs are: a reduction in insurance premiums (31%), a reduction in rent payments (22%); non-application of sanctions for non-performance of the contract due to force majeure (20%) [7]. The mechanisms of state financial support aimed at supporting companies with the goal of retaining employees have also shown their effectiveness. So, according to the Ministry of Economic Development of Russia, in April 2020, the profit of organizations decreased by 33%, but the wage fund fell by only 16%, which indicates the preservation of jobs [11].

The study allows us to conclude that the forms and instruments of financial support in Russia correspond to the current economic situation, are justified and effective. But the goals of their application, the rules of granting and the beneficiaries will change in the context of the transition to sustainable growth. But governments will remain the center of economic recovery. In accordance with the goals of sustainable growth, state financial support will mainly be provided to companies that ensure the development of the economy in updated conditions. So, in the communiqué following the meeting of the Ministers of Finance and Central Banks of the G20 countries (April 2020), the government’s commitment was fixed: “to commit to supporting an environmentally sustainable and comprehensive recovery” [5, p. 6].

To ensure the dynamic development of the organization in the post-crisis period, taking into account the goals of sustainable economic growth (a goal defined by the UN), it is important to launch a new investment cycle taking into account updated strategies. In this case, the demand for state (budget) investments will increase. Anti-crisis plans of the governments of Germany, Korea, Russia, the USA, France and other states include budget investments as a tool for ensuring sustainable growth. In the post-crisis period, promising, for example, will be promising state financial support for activities using low-hydrocarbon raw materials, environmentally friendly production; development should receive a green economy [8]. In our opinion, here you can use tools in the form of tax deductions and lower insurance premiums. Fiscal measures will stimulate such activities.

The next area is financial support by the state for energy-efficient activities of commercial organizations. The state may introduce financial incentive measures: subsidies, tax breaks and public procurement. Some decisions can be made through the implementation of joint investment projects. As Agrawala, Dussaux and Monti noted, “measures include direct grants, tax incentives for investing in efficient operations and potential recycling schemes for inefficient household appliances. Good experience in applying such measures has been gained as a result of incentive measures after the 2008 financial crisis” [2, p. 30]. The development of public-private partnerships in the field of infrastructure, including the social sphere, the use of state guarantees for its financing can be considered as a promising direction of state support for business [16].

The next area of post-crisis business development is still digitalization. The use of digital technology is expanding the customer base of all commercial organizations. Also promising are virtual and augmented reality, changing technologies that can be
supported at the federal and regional levels, including as part of the national project “Digital Economy of the Russian Federation” [15]. Automation of business processes in the service sector affects the special conditions for their provision, taking into account the requirements of social distance. In our opinion, during the period of economic recovery and growth, the Government should support this area, using the provision of state guarantees, grants to companies and tax benefits.

The study allows us to formulate some proposals that increase the effectiveness of state financial support for business in a crisis and post-crisis development. The main proposals, in our opinion, are the following: extend the deadline for the provision of measures to restore the financial conditions of the business; summarize the best practices of regional state support for business and present it on a single information resource in order to use effective fiscal instruments by other subjects of the federation; more widely apply government guarantees for debt obligations subject to the rules that will create long-term incentives for development, including through public-private partnerships. In this case, there will be no need for payments on principal’s obligations at the expense of budget funds; establish target indicators reflecting the effectiveness of state financial support measures for each financial instrument - saved jobs, the share of SMEs in GDP, the proportion of SME workers; strengthen a differentiated approach to the volume of financial assistance and its instruments; introduce mandatory standards for deductions from profits in reserve funds, regardless of the legal form of commercial organizations; compliance with the principles of sustainable development of all companies and the inclusion of these indicators in the assessment of the organization.

4 Discussion

The crisis of COVID-19 provoked a discussion in the scientific and practical economic literature on the boundaries of state intervention in the economic life of organizations. But unlike previous periods, in modern conditions, both theorists and practitioners agree that the state is the “savior” of national business. It should be noted that on the part of the state, the financial support strategy has undergone certain changes. The Government of the Russian Federation has built a differentiated system of financial support. It is ready to support both commercial and non-profit organizations, individual entrepreneurs, but is not ready to fully finance their activities. Another important area of scientific research is the selection of financial instruments with which the state supports, for example, employment, sustainable development, etc. The discussions concerned the choice of priorities: either the fiscal or monetary policy of the Central Bank. Practice has proved that the most effective is a reasonable combination of fiscal and monetary policy instruments. It is possible that the current situation, which caused an unplanned increase in government spending, will find a response in the popular modern monetary theory (Modern Monetary Theory, MMT), which justifies the economy of public debt, equity financing of state budget expenditures for employment [12]. Formed sovereign and reserve funds in individual countries allow their governments to use another channel of financial support for commercial and non-commercial organizations in the current crisis. We do not yet know how the active use of these
resources will affect the economy, but it is clear that they are an addition to both equity and debt financing.

The discussion on the scope of support has come to a definite conclusion. The government has built a “pyramid” of organizations: backbone companies that provide the main employment in the region or municipality, SMEs, and organizations that have shown the ability to adapt to changing conditions, but experience temporary difficulties, non-profit organizations that are socially oriented. The government has repeatedly emphasized that the created financial support system is temporary and will be transformed later. The author's vision of the directions of this transformation is given in the article. The dilemma of financially supporting or not supporting the business by the government received an answer. Not all types of business and business activities need support, as a business must learn to work in conditions of various risks. Scientific discussions often discussed the choice of financing instruments and their preferences, conditions of use: payment, gratuitousness, urgency, target or non-target use, targeted or general nature. In the modern period, instruments have been identified that make up financial assistance to companies: budget subsidies, tax incentives, interest rate subsidies, and other payments benefits. In the previous decade, there was a lot of discussion about the appropriateness of public-private partnerships, which are gradually becoming the reality of any national economy. Russia had its own problems in organizing joint public-private projects. Perhaps financial cooperation between the state and business will be more effective in the post-crisis period. The state will take over the functions of a guarantor in the performance of debt obligations by business. The article proposes to supplement the participation of the state in PPP by providing state guarantees. An analysis of the situation of the modern period will allow researchers to take a fresh look at the role of the state. Studies concern the role of the state in the national transformation of state participation in economic processes; motivation, assessment of feasibility and effectiveness.

5 Conclusion

In a crisis, the goal of state financial support is to provide business with liquid assets and to preserve jobs. The tools are budget subsidies, soft loans, reduced exemption from tax and compulsory insurance premiums of rental payments, and obtaining state guarantees. As the analysis showed, Russian practice is consistent with the best European experience in supporting SMEs. In the current crisis, the governments of national states used similar forms and instruments of state financial support. As the economic activity of the business stabilizes, fiscal measures, in our opinion, should stimulate the achievement of a stable financial position of organizations, using soft loans and expanding participation in the implementation of government orders.

As the crisis is fully overcome, the government should direct fiscal measures for the ongoing dynamic development of the business, taking into account the gained experience. The actions of the business will be aimed at: reducing part of the costs, including renting, optimizing sales chains, developing digital services, including delivery to customers; mutually beneficial cooperation with authorities and management. In this case, subsidies and grants in priority areas for society can be instruments
of financial regulation. Stimulation of investments in social, infrastructure, low-carbon raw materials, green economy can be carried out on the terms of public-private partnership, the provision of state guarantees. The state will support the efforts of the business in the field of bioengineering, the field of virtual and augmented reality, and digital technologies. Thus, in the future, fiscal measures will become not so much help as an incentive for business development.

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