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## NON-FINANCIAL STIMULUS FOR BUSINESS IN BRICS MARKETS

### *Abstract:*

The growth of economies with emerging markets is nowadays very important. Among others, a special role belongs to the BRICS, which are characterized by continuous development. The main force for such fast development is SME. In the study the main methods of non-financial business incentives in the BRICS countries were analyzed, then it was checked if these methods are effective and, finally, the possibility of applying the experience of partner countries in the economic environment of Russia was explained.

### *Keywords:*

BRICS, non-financial support, small and medium enterprises, stimulus

The heads of BRICS states see the development of SME (small and medium enterprises) as one of the components of long-term economic growth. This is especially important for Russia, because the current export-raw material model of economic development has exhausted itself. The solution to this problem can be the borrowing of the experience of other BRICS countries, provided that the measures taken in them to SME are effective.

The study carries the following hypothesis:

1. The measures taken in the BRICS countries to stimulate SME are effective and significantly improve the economic activity of the countries.
2. Measures taken in Russia to stimulate SME are less effective than in other BRICS countries
3. The experience of partner countries can be used for the Russian economy

To fully study this theme 10 articles and textbooks of Russian and foreign researchers were analyzed. The conducted studies have shown that:

- ✓ The methods of non-financial incentives for SME in the BRICS countries in their variety of manifestations, they carry a common goal - to strengthen the developing business in the market and help it reach new heights.
- ✓ Despite some peculiarities of the provision of assistance and not all-encompassing successes, overall, they must show positive dynamics.
- ✓ In Russia, despite the many existing laws to support the SME sector, the support is mainly financial. In addition, many entrepreneurs are not completely satisfied with the measures taken by the state and consider them insufficient.

For the econometric analysis, the following variables were used:

Table 1 – Variables

Variable's name in Stata	Full name	Measurement units	Resource
<u>Goodsexports</u>	Goods exports	current US dollars	WDI Databank
<u>Nettradeingoods</u>	Net trade in goods	current US dollars	WDI Databank
<u>Exportofgoodsandservices</u>	Exports of goods and services	current US dollars	WDI Databank
<u>Importofgoodsandservices</u>	Imports of goods and services	current US dollars	WDI Databank
<u>Manufactureexports</u>	Manufactures exports	(% of merchandise exports)	WDI Databank
<u>Merchandiseexports</u>	Merchandise exports	current US dollars	WDI Databank
<u>Newbusinessesregistered</u>	New businesses registered	current US dollars	WDI Databank
<u>Servicesimport</u>	Service imports	current US dollars	WDI Databank
<u>Tradeinservices</u>	Trade in services	(% of GDP)	WDI Databank
<u>Trade</u>	Trade	(% of GDP)	WDI Databank
foundation	foundation	Dummy variable	Made by author

These variables were chosen because they should most accurately reflect the economic situation in the country associated with economic activity.

For analysis the following methods were used:

- Fixed effect regression

The model is commonly used for regions and countries models, as each of the sample objects has its own individual characteristics, and the purpose of the model is to obtain a forecast for a specific sample object.

- Difference in difference (DID)

This technique is used to mimic an experimental research design using observational study data, by studying the differential effect of a treatment on a 'treatment group' versus a 'control group' in a natural experiment.

Each of the DID tables presented in the work has a column "Important value". In the original Stata14 tables for this method there are 3 alternative hypotheses and, accordingly, 3 probabilities. Only those probabilities were placed in the "Important value" column, based on which a decision was made on the presence or absence of the center's influence on the change in indicators.

Firstly, let us see how well they collectively represent reality, to be sure that we have chosen the correct variables and in sufficient quantity:

Table 2 – Model results

Source	SS	df	MS	Number of obs =	247
F(8, 238)		=	119.15		
Model	236649.241		8.295811551	Prob > F =	0.0000
Residual	59089.5855		238.248275569	R-squared =	0.8002
Adj R-squared=	0.7935				
Total	295738.826		246.120219035	Root MSE =	15.757
Goodsexports1		Coef.	Std. Err.	t	P>t
Nettradeingoods1		-.0631857	.0388487	-1.63	0.105
Merchandiseexport1		.4905824	.0566481	8.66	0.000
Serviceimport1		-.1067342	.0348499	-3.06	0.002
Tradeinservices1		.5963304	.0557723	10.69	0.000
Manufacturesexports		-.1935758	.0534632	-3.62	0.000
Exportsofgood1		.2086184	.0417993	4.99	0.000
Trade1		.0735361	.0205823	3.57	0.000
Newbusinesses1		-.1900702	.1502591	-1.26	0.207
_cons		-12.35011	5.925172	-2.08	0.038

We see that our regression explains about 80% of the variation, which is a good value and implies that our model reflects reality accurately. In addition, virtually all variables are significant at the 5% significance level. The main conclusion we got here is that the variables we have chosen for the study reflect reality rather well, and therefore their subsequent analysis is reasonable.

Let us start with a private analysis and the country in which a similar center was established earlier than others - Brazil (SEBRAE, 1972). In the Table 3 below, you can see a summary of the results of checking variables for DID.

Most of the variables increased their values after SEBRAE started: net trade in goods, exports of goods and services, Manufacture and Merchandise exports, and Trade. The growth of these indicators means an increase in business activity of enterprises and an increase in the number of manufactured goods and services provided.

However, some indicators still declined: trade in services and export of goods. The decline in trade in services can be attributed to the decline in imports of services to Brazil. As for the import of services, its decline can be explained: with the help of SEBRAE support, there was an increase in firms providing various services within the country, thus the need to import them from abroad fell.

Thus, we can say that, in general, the introduction of a center for non-financial support for SME had a positive effect on the business activity of Brazil. The main methods SME support in Brazil implemented through SEBRAE are:

1. Consultation.
2. Grants and funding (Pappe, PROGEX)
3. Educational programs.
4. Technical information.
5. Promotion and market access.

Table 3 – DID for Brazil

Variable	Important Prob	Meaning
Goodsexports	Ha: diff > 0 Pr(T > t) = 0.0743	Decreased
Nettradeingoods	Ha: diff < 0 Pr(T < t) = 0.0023	Increased
Exportofgoodsandservices	Ha: diff < 0 Pr(T < t) = 0.0006	Increased
Manufactureexports	Ha: diff < 0 Pr(T < t) = 0.0040	Increased
Merchandiseexports	Ha: diff < 0 Pr(T < t) = 0.0005	Increased
Servicesimport	Ha: diff > 0 Pr(T > t) = 0.0016	Decreased
Servicesexport	NONE	-
Tradeinservices	Ha: diff > 0 Pr(T > t) = 0.0019	Decreased
Trade	Ha: diff < 0 Pr(T < t) = 0.0089	Increased

Next chronologically goes the founding of Manufacturing Support Centers and the National Network of Science and Technology Mediation Agencies in China (1995, 2003) (see Table 4).

Table 4 – DID for China

Variable	Important Prob	Meaning
Goodsexports	Ha: diff < 0 Pr(T < t) = 0.0172	Increased
Nettradeingoods	Ha: diff < 0 Pr(T < t) = 0.0067	Increased
Importofgoodsandservices	Ha: diff < 0 Pr(T < t) = 0.0609	Increased
Manufactureexports	NONE <sup>1</sup>	-
Merchandiseexports	Ha: diff < 0 Pr(T < t) = 0.0596	Increased
Servicesimport	Ha: diff < 0 Pr(T < t) = 0.0675	Increased
Tradeinservices	Ha: diff > 0 Pr(T > t) = 0.0921	Decreased

With the introduction of Centers and Agencies, there has been an increase in the export of goods, net trade, Merchandise exports, imports of goods and services, as well as imports of services. With the help of the introduced Centers and Agencies, there was an increase in business activity in the country, which increased the number of goods produced. The increase in the last two indicators can be explained by the fact that the work of organizations for non-financial support of enterprises in China is aimed mainly at manufacturing enterprises, increasing their technological effectiveness and competitiveness, and not at firms providing services.

Overall, we see that the introduction of Production Support Centers and Agencies has had a positive impact on the Chinese economy. SME Manufacturing Support Centers offer businesses the following benefits:

- reducing entrepreneurial risks in the early stages of companies' development
- providing access to the results of developments in state research centers
- provision of free state consulting, technological and informational support
- conduct product testing to improve its quality
- provide space for the creation of new enterprises

Next (Table 5) is India (Ministry of Micro, Small and Medium Enterprises, 2007).

Table 5 – DID for India

Variable	Important Prob	Meaning
Goodsexports	Ha: diff < 0 Pr(T < t) = 0.0002	Increased
Nettradeingoods	Ha: diff > 0 Pr(T > t) = 0.0001	Decreased
Exportofgoodsandservices	Ha: diff < 0 Pr(T < t) = 0.0001	Increased
Manufactureexports	Ha: diff > 0 Pr(T > t) = 0.0002	Decreased
Merchandiseexports	Ha: diff < 0 Pr(T < t) = 0.0002	Increased
Servicesimport	Ha: diff < 0 Pr(T < t) = 0.0009	Increased
Tradeinservices	Ha: diff < 0 Pr(T < t) = 0.0277	Increased
Newbusinessesregistered1	Ha: diff < 0 Pr(T < t) = 0.0005	Increased

We can conclude that after the creation of the Ministry of Entrepreneurship in the country, the export of goods, the export of goods and services, Merchandise exports, Trade in services and New businesses registered increased. This means the successful work of the Ministry for non-financial incentives for SME, the growth of business activity and an increase in the production of goods and services.

The Ministry has brought tangible results. Its functions include:

1. conducting marketing research
2. conducting negotiations with foreign partners
3. assistance in the preparation of export documentation
4. organization of exhibitions

Next, let us turn to another BRICS member - South Africa (Department of Trade and Industry, National Fund for the Support of Indigenous Populations, 2010) (Table 6).

Table 6 – DID for South Africa

Variable	Important Prob	Meaning
Goodsexports	Ha: diff < 0 Pr(T < t) = 0.0029	Increased
Nettradeingoods	NONE <sup>1</sup>	-
Exportofgoodsandservices	Ha: diff < 0 Pr(T < t) = 0.0017	Increased
Manufactureexports	Ha: diff > 0 Pr(T > t) = 0.0071	Decreased
Merchandiseexports	Ha: diff < 0 Pr(T < t) = 0.0005	Increased
Newbusinessregistered	Ha: diff > 0 Pr(T > t) = 0.0005	Decreased
Servicesimport	Ha: diff < 0 Pr(T < t) = 0.0051	Increased
Tradeinservices	Ha: diff > 0 Pr(T > t) = 0.0060	Decreased

Values of only 4 out of 8 variables increased after the introduction of non-financial business support centers in South Africa. Exports of goods, exports of goods and services, Merchandise exports and Services import increased as expected. Their growth can be attributed to the policies of the Department and the Corporation. Other variables decreased, because the bulk of SME (75%) do not use government support, although the government is making significant efforts to stimulate this sector.

Currently, the Department of Trade and Industry provides support to SME in the following areas:

- business development among the indigenous population
- promoting the creation of cooperatives
- development of high-tech small businesses
- promoting technology transfers
- support for industrial innovation

Another important subject of government regulation and business support in South Africa is the National Fund for the Support of Indigenous Populations. Non-financial support includes:

- drawing up business plans
- investor training
- assistance with public offering of shares
- popularization of the culture of saving and investing

The last BRICS member we will consider is the Russian Federation. Business support is carried out through the publication of relevant legislative acts, such as:

- Resolution of the Government of the Russian Federation "On priority measures for the development of small businesses in the Russian Federation" dated 11.05.1993.
- Federal Law "On State Support of Small Business in the Russian Federation" dated 12.05.1995.
- Federal Law "On the Development of Small and Medium-Sized Businesses in the Russian Federation" dated 24.07.2007.

We can assess their impact on economic development using the Table 7:

Table 7 – DID for Russia

Variable	Important Prob	Meaning
Goodsexports	Ha: diff < 0 Pr(T < t) = 0.0118	Increased
Nettradeingoods	Ha: diff < 0 Pr(T < t) = 0.0573	Increased
Exportofgoodsandservices	Ha: diff < 0 Pr(T < t) = 0.0160	Increased
Manufactureexports	Ha: diff > 0 Pr(T > t) = 0.0570	Decreased
Merchandiseexports	Ha: diff < 0 Pr(T < t) = 0.0020	Increased
Servicesimport	Ha: diff < 0 Pr(T < t) = 0.0068	Increased
Tradeinservices	NONE	-

It can be noted that after the adoption of the relevant laws, such indicators as Goods exports, Net trade in goods, Export of goods and services, Merchandise exports and Services import increased. The growth of the first four indicators can be called positive dynamics. Thus, our hypothesis that methods of developing SME in Russia are not effective is rejected.

Even though the overall dynamics in the country is positive, the support is mainly financial. In addition, many entrepreneurs are not completely satisfied with the measures taken by the state and consider them insufficient.

As mentioned earlier, many entrepreneurs in Russia are dissatisfied with the support provided to them and its types. The reasons for this can be distinguished by several features of the policy in this area:

1. The absence of a central government body to support SME.
2. Administrative barriers in Russia hinder small business to a large extent.
3. The significant level of corruption is a serious obstacle to the development of SME.

According to the law, government orders for SME should be 10-20%, which very often does not correspond to reality.

Based on the results of the analysis, the most effective measures to stimulate and support SME adopted in the practice of the BRICS countries include:

- Creation of a single center of state support for enterprises, which would provide both non-financial assistances to developing enterprises
- Simplification of the regulatory system, elimination of the above-mentioned administrative barriers
- Providing guaranteed access to government orders
- Encouraging the creation of business incubators and technical centers.
- Supply of enterprises with technical innovations
- Public schools for advanced training of employees

The conducted studies have shown that the methods of non-financial incentives SME in the BRICS countries are quite effective and significantly improved business activity. The experience of

BRICS countries is invaluable for the development of the national SME regulation system. However, the use of any experience requires a qualitative analysis and adaptation to the Russian economic and institutional environment.

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