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The development features of small entrepreneurship in rural settlements in the Republic of Karelia (on example of Pudozh region)

The authors analyze the state of small entrepreneurship sector in the Republic of Karelia and reveal features of its development in region rural settlements. The most urgent problems of small entrepreneurship development in rural settlements having low population density are designated and the possibilities of these problems decision are considered.

The Pudozh region, Republic of Karelia, small business operation, effectiveness increase trends.



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Small-scale entrepreneurship is an integral part of modern economy functioning. In the country having a high level of economic development the small-scale enterprises make a considerable contribution to the economy. In Finland 90% of business are small-scale and medium-scale enterprises. Their total annual turnover makes 52% out of total turnover of all companies; the contribution to GNP is 50%, 50% of working people are employed there, and

every year these enterprises make 60% of new working places [4]. In Russia, on the contrary, 3% of large-scale enterprises make 80% of GNP [1], and it indicates the lack of development of small-scale entrepreneurship, one of the effective segments of market economy.

Meanwhile nowadays the part of small business starts getting a new sounding in the economy of Russia especially under the conditions of crisis. For some areas it's the only chance to

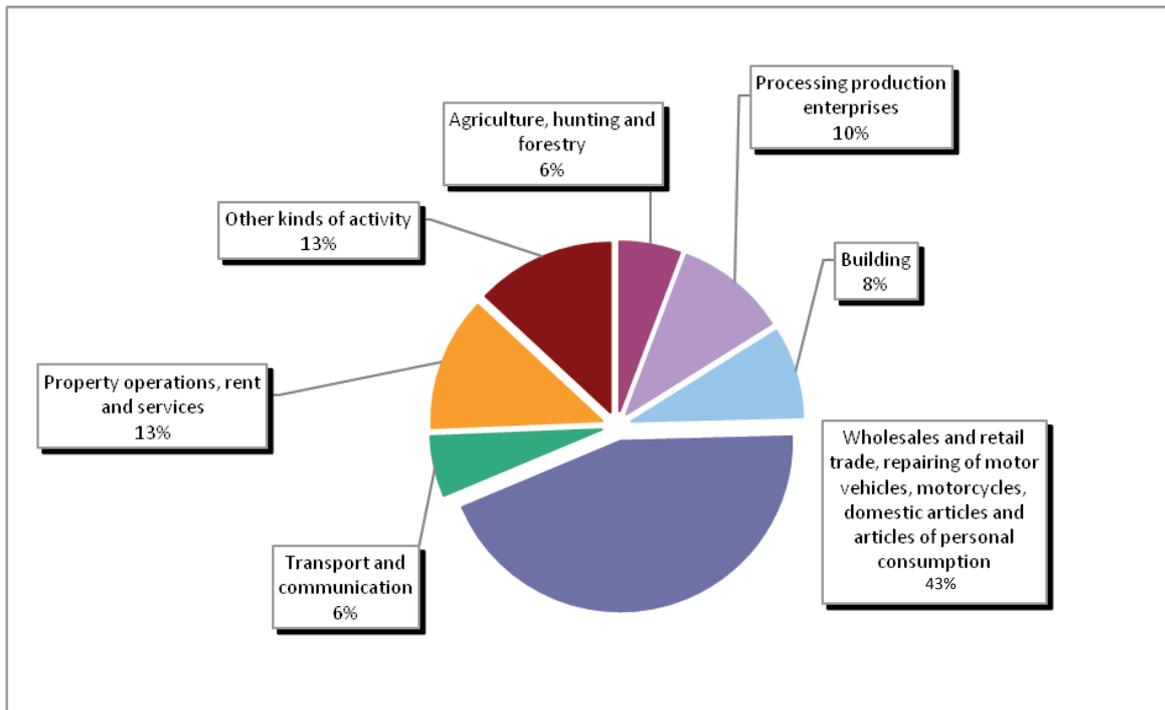
provide employment of the local population. So, 15% of all employed in the republic economy work at the small-scale enterprises. About 10% of local budgets are formed at the expense of tax payment from the enterprises and private persons, engaged in this sphere. At the same time for last ten years the share of small business isn't changing in the regional structure. In 2007 in Republic of Karelia such share made up about 20% of all enterprises and organizations entered in the statistical register of Rosstat. Trade is a dominating segment (43%; figure). On the whole, 95% of all trade companies of the region are included in small business. Their mobility allows providing the population with foodstuffs and manufactured goods almost completely, especially in the distant rural areas. Though the enterprises dealing with property operations and the service (13%) are in the next rate line, but they lag far behind the previous segment. Passenger and goods traffic, consumer's services, housing and communal services and pharmaceutical services are given only by small-scale enterprises. Manufacturing

productions made 10% of small business in Karelia, and among them the forestry, hunting and farming enterprises are represented least. Such a structure indicates that the production part of small business is narrow and the diversity of major economy spheres in the region is poor.

Republic of Karelia can be referred to the region having a middle level of "density" of small business – 597 small-scale enterprises per 100 thousand persons. There is an uneven territorial distribution – more than 80% of all small-scale enterprises are concentrated in the city of Petrozavodsk, about 26% of employed population of the city work there [6].

There are disparities in the small business development in the context of administrative and territorial units. They have some objective reasons: in the regions having a high level of the market relationship development, of the production, financial and information infrastructures and the stable economy growth the small-scale entrepreneurship is formed especially quickly.

The number of small-scale enterprises of Republic of Karelia depending on the kind of activity in 2007



Under modern economic conditions when running the territory development one always takes into account the activity of entrepreneurship's structure, and on the municipal level the activity of small entrepreneurship subjects becomes an essential aspect. By its nature the small entrepreneurship sector solves local problems. The sector contributes to the satiety of local market with goods and services and to the maintenance of competitive environment, and it maintains and consolidates the political and social stability in the society. These tasks are completed by making new working places and by extending the section of owners. The forming of favorable entrepreneurship climate helps to speed up the economic development of the territories.

Meanwhile the small entrepreneurship depends on the policy and concrete actions of state authorities of the RF subjects and local authorities. So the share of the sector in the economy of one or another territory is determined by how active and consequent the course of support to the small entrepreneurship is put into practice on the spot.

In 2005 in Russia the Federal Law "On general principles of local government organization in the RF" came into operation. It is to change the local authorities' structure radically. The Law initiated the local government reform, but the latter is being held in a complicated way. Two vital problems showed themselves: a lack of sources to form the settlements' budgets and shortage of skilled municipal personnel able to take effective administrative decisions relating to the development of economy on the territory.

In this connection the issue of regulating the relations between authority and entrepreneurs on the levels of all municipal authorities becomes the issue of the day. System approach for making the relations "authority – business" is necessary. But the most of the municipalities hasn't large-scale enterprises, and the creation of the latter from the very beginning is impossible because of shortage of investment resources. Under such conditions the small entrepreneurship's development serves as one of the principal conditions for conducting the effective local government reform and for getting the

economic growth in the regions. Supporting this sector of the economy the local authorities can solve the certain problems connected with the development of the territory economy: an improvement of life quality of population, improvement of the municipal economy infrastructure and etc. Giving some help to the small entrepreneurship the local authorities help the development of local economy.

One of the problem municipal districts in Republic of Karelia is Pudozh district situated in the south-eastern part. It borders on the Arkhangelsk and Vologda regions and washed by Lake Onega. It includes one town and seven rural settlements; there are 67 populated areas in the district in all. The total area of the district is 12.745 ths. sq. km. The degree of development of the district territory is comparatively low. Communication with the outer world is through the only highway leading to the district from the north. The highway is included into the international motorway "Blue road" (Finland – Karelia – Arkhangelsk). During the summer navigation the passenger ship line "Petrozavodsk – Pudozh" (port Shala) works, it connects the district with the main city of Republic. The distance between the district center and the city of Petrozavodsk is 360 km. The nearest railway station – Medvezhja Gora (the town of Medvezhjegorsk of Oktyabrskaya railway) is 197 km far from the town of Pudozh.

The population of the district accounts for 25.9 ths. people, including townspeople – 39% and rural population – 61%. 70% of the area are covered with forest, where mature and over-mature woods make up 30 – 50% and have a substantial recreational potential. The industry in the district is represented in general by timber industry and mining industry complexes, there is some potential for the tourism development.

The most stable employment in the rural settlements of the district is provided by the budget (or getting the budgetary subsidies) institutions, belonging to the various spheres: public health services, education, culture, social welfare, communications, forestry, housing and communal services, Emergency Department and Department of Internal Affairs. In some settlements they provide 30 – 40%

of employment. Schools make a great number of working places in every settlement. In spite of all this there are only 2 – 4 children per a worker of education, and it is caused by low birth-rate in the settlements and total aging of population. It's obvious that the maintenance of schools which have two pupils per a teacher is wasted very much. At the same time the concentration of educational establishments owing to closing the schools in the small settlements leads to the issues on getting children to school, if you take into account the condition of roads especially in winter. Besides it closing of schools in the villages will lead to the growth of social tension there and to the increase in employment which is already high. Retail trade is another source of working places in all settlements. It provides employment from 2 to 5% of the employable population in the district.

According to the settlements' passports which were made up on the base of their data the share of officially employed population is from 25 to 45% of the employable population of the territory [5]. This indicator was calculated in accordance with the number of working places officially registered in every certain settlement. One of the labour recesses engaged by the unoccupied rural population of Pudozh district is a "watch". According to the experts' opinions (the official data are not available) the number of people working by watch way is changing from several people to several tens in different settlements. Side by side with this The statistics of the unoccupied population is influenced by the share of people having left the territory of the district, but having kept their registration and so they are took into account in the statistics of settlements. In every populated area such migrants are 20 – 30 people. Taking into consideration the given factors the level of official employment in context of rural settlements can be within 40 – 60% of the employable population of the district. The information is very important for forming the measures on provision of employment for the rural population.

On the whole the issue of employment in the rural settlements of Pudozh district is of great importance. The destruction of the

traditional production structure wasn't accompanied by the creation of the institutional conditions for appearing new (i.e. market) forms of management able to provide the demand for available manpower. These processes touched the forestry sector very much. During many years it performed the principal function on providing the local population with working places in the district. The infrastructure of the accompanying productions isn't developed, and the infrastructure could fill up the gaps having been appeared in the result of destroying the timber branch. It is the recesses that could be taken by the small entrepreneurship sector.

Within the framework of the project "Research of the employment condition and determination of the prospects of rural settlements' development" in 2008 the survey among the businessman was held in Pudozh district [5]. the small entrepreneurship plays an important part in the social and economic development of Pudozh district. At present its share in the structure of economy accounts for 20%. There are raw materials, manpower, historical and cultural potential and free market niches for the small entrepreneurship's development. About 70 small enterprises work in the district. Only a half out of 363 registered entrepreneurs work.

The results of the research show that the major niches taken up by the small business are connected with timber cutting, wood working, farming, construction, guest tourism and transport services. These spheres make up the following shares in the total structure:

- timber felling – 13%;
- timber cutting – 20%;
- farming – 20%;
- tourism – 18%;
- fishing – 13%;
- building, repairing and stove works – 11%;
- passenger traffic – 5%;
- arts and crafts activity – 2%.

As a whole the entrepreneurship structure repeats the total structure of the economy in the district. The main link is forestry sector, where 42% of small business enterprises are concentrated, 13% out of them – timber felling, 20% – timber cutting, 9% – building the

frames and repairing the houses. Unfortunately, in the district there are no effective institutional conditions for occupying the free niches and so the share of informal entrepreneurship is high.

In spite of all this the sphere of timber felling has an official status, and 60% of processing and building are concentrated in the informal sector. In general the entrepreneurs working in forestry sector have higher education – they are the specialists of timber industry enterprises and timber mills. Some of them got negative entrepreneurship experience because they took the great risks when running their businesses. Forestry sector is the most criminal one: in 1990s the illegal timber felling was widely practiced there. Besides, fighting for the forest resources the entrepreneurs also run the great risks of losing not only their business but also all gained property. Many competent entrepreneurs were excluded from the market. Another obstacle to running a business officially is a lot of administrative barriers. So, besides the official registration of business the foresters must either buy forest by auction or conclude the lease with leaseholder. The first way isn't available for everyone because of high prices of wood – not everybody can afford to take part in the auctions. The most of the businessmen choose the second way, but it is usually accompanied by the risk of not getting the lease with leaseholder. The variants of sublease are possible as well.

One of the prospective directions concerning the development of the territory is tourism. The area is rich in unique natural landscapes, and it attracts the tourists who are ready to take an active rest (hunting, fishing) and who want to get to know the nature and culture of Karelia. As the state projects in this sphere are not being realized yet, tourism is getting an informal status. Tourism is represented mainly the guest tourism that demands a great deal of financial resources. 18% of the interrogated entrepreneurs are engaged in guest tourism. With a view of tourism the inhabitants often use their own houses without conveniences. But at the background of very unpretentious “village” offer one can find the examples of European standard – the guests houses with all

conveniences for fastidious clients. Among the rural entrepreneurs who were our respondents the only one had an official status. Guest tourism doesn't make many working places – as a rule, it is a family business of local influence. But there is practice of attracting the fellow-villagers to tourist services on the organization of food, hunting, fishing and just vivid “local” accompaniment.

Fishing (13%) is the next direction in which the small business showed itself actively. It is necessary to mention that it is a traditional sphere of occupation in Pudozh district. It is the sphere that is the most problem one nowadays. The issues are founded on the contradiction between the natural rights of local population and the rights established by the law when fishing. The inhabitants lived on fishing from time immemorial. It keeps within the concept of stable development. The use of natural resources should be directed to the interests of local population. First and foremost they have a priority when receiving the rights to use the local resources. So the following conclusion inevitable comes to mind: the prohibition from fishing for the local population is aimed not at keeping fish reserves but at infringing upon the inhabitants' rights. This contradiction was formed in the period of administrative and commanding system. The rules of fishing are imparted to the man grown up at the reservoir from childhood. The countryman never takes more than it is required for his family. He understands the laws of nature and never does harm to it. In Soviet period this contradiction wasn't so sharp, because people had a job and earned their living, and fishing was a hobby and a way to vary the food allowance.

With the beginning of market reforms the rules for the inhabitants have been tougher. The loss of livelihood (more than 50% of population in Pudozh district lost their job) makes people poach. Undoubtedly, the official permit for having 2 fishing nets per a family cannot help to solve the money problems, when there are no one alternative sources of profit. And the authority knows about it, but doesn't take any decisions. At the same time the inhabitants have to observe the cases of destructive relations to-

wards the reservoirs, poaching on an industrial scale, and such cases are not stopped and even they are encouraged. All these cases are not connected with the local population, but the visitors who buy the right of fishing either for a large sum of money or for a great authority and they use fishing as an entertainment. Nowadays the area of Lake Onega water has already been divided into the squares, and those who received the license for these squares consider themselves the owners of the resources. At that time there are few inhabitants but many businessmen from Petrozavodsk, Saint-Petersburg and Moscow among such owners. Such an illegitimate property leads to social conflict.

The most of local entrepreneurs hasn't priority rights to fishery. Besides it their activity is connected with numerous administrative barriers. The quota must be received every year. The entrepreneurs make applications by the end of the year and ground the feasible volume of fishery. The receiving of the quota is delayed till spring, and it means that fishing is prohibited for more than 3 months. The paradox is that the received quota allows the entrepreneurs to do fishery from the very beginning of the year, but only antedate. But if an entrepreneur is "caught" without the quota, the large fine sanctions threaten him. To lose 3 winter months means to work at a loss. During this season hired workers and an entrepreneur himself haven't possibility to make a profit. The entrepreneurs doing fishery always find themselves in such "scissors" ["discrepancy"] that doesn't increase the efficiency of his work anyway. Side by side with this the problems on the accounts to tax bodies – constant change of their forms, tax declarations, necessity to coordinate the documents, constant trips to Petrozavodsk and Pudozh.

At the same time fish is still the resource which is actively used by the small entrepreneurship sector. But in contrast to the forestry the entrepreneurs in the sphere of fishery have in general secondary technical education. Their production base is minimum – boat, motor and fishing nets. As a rule, boats are old. The unofficial form of entrepreneurship is usually represented here, and it has its explanation. The

entrepreneurs usually work for their families' needs. Some of them "knock" together the brigades of inhabitants and it allows them to solve the problems of season employment, but it also has an unofficial character. The profit from the fishery sale helps to increase the family finances and it doesn't increase turnovers.

On account of the liquidation of the large State farms in the territory of Pudozh district workers of agriculture went over to the small entrepreneurship sphere. This direction can be divided into two parts. The first one is represented by the official small enterprises that have been founded on the base of the collapsed State farms. At that time the entrepreneurs who realize themselves in this sphere are usually former specialists of State farms having a higher education. The production base was bought by them when liquidating the collective farms. By now it is being updated, new equipment and machinery are being bought, but it is happening very slowly. The land under use is taken on lease or is share. The main directions of activity are plant-growing (potato, hay), cattle-breeding (neat cattle and pig breeding). Bee-keeping is developed as well. The important thing is that two small enterprises have a form of co-operatives: one of them is the production one and another is the credit one. So their social significance for the settlements is very high. It is the form of economy that can solve the problems (under the government support) connected with not only providing for the inhabitants and selling the agriculture output but also giving them credit. The credit co-operative currently in action gives only consumer credits, and this way it solves the problem of survival as its head says. Within the framework of National project of development of AIC the co-operatives can help to attract some government financial resources in order to support both the subjects in the sphere of small entrepreneurship and peasants' [farmers'] farms, but nowadays it doesn't take place in Pudozh district.

The peasants' [farmers'] farms are represented another entrepreneurship part of agro sphere. Here in one's turn, one can mark officially registered peasants' (farmers') farms, officially registered private entrepreneurs,

subsidiary small-holdings, which are reaching the commodity level, but not having an official registration and subsidiary small-holdings (in Russian: LPH), which are working for their own consumption. The subsidiary small-holdings (consumer ones) make up the highest share – about 90%. The rest 10% are shared between the farmers, the private entrepreneurs and the subsidiary small-holdings (commodity ones). The feature of all these kinds of farms is the low commodity level of output produced. Even official peasants' (farmers') farms have no more than 5 heads of neat cattle and in general work for providing themselves. The subsidiary small-holdings work for survival. It's necessary to mention that the farmers have secondary technical education more often, and the owners of subsidiary small-holdings – technical secondary education or secondary education. As for the significance of the given kind of activity to the settlement, it's necessary to think of the fact that from the historical point of view the peasant's farm was a kernel of the rural life. The changes that had happened for the last century washed out the social pattern of the village. At the same time when reducing the government's part in the local communities the work on the land for the most of the rural people is the chance to earn their living. Under the market's weakness the relations of i.e. the informal mutually advantageous exchanges are being established in the agrarian sphere. It is the social mechanism that is indicative of available preconditions for forming more stable economic relations permitting to build a co-operative system.

For lack of normal transport communications the entrepreneurs has developed the niche of transport services. In every settlement there is at least one entrepreneur who is occupied with passenger traffic. Such settlements as Tambichozero, Tambitzy and Kuganavolok are practically cut off the outer world for lack of normal roads. For example, the distance from Kuganavolok (with population of 470 people) to the highway is about 50 km, but it takes 3 hours to get over the distance. The municipal transport often lets down because of breakages and lack of petrol. The local "private traders"

take upon themselves the transport functions, but the charge is raised 2 – 3 times. Transport services are in great demand on the part of local population, and so the [private] carriers make a good profit out of their trade. At the same time this sphere of services has in general informal character, and it reduces its economic value, although its social part remains the important one.

In spite of a wide spectrum of economic directions in the small business, it is necessary to establish that in the district there is no infrastructure to support the small business – there are no informational and consulting services and business support center. The institutions crediting the small business nearly don't work. The available republican programs are hardly used.

In terms of the small entrepreneurship sector itself, which has a local character, one can mark the following priority directions for the small business development in the district:

- timber processing, processing of farming produce, fish and wild plants;
- development of the services sphere, including the hotel and tourism business services;
- construction;
- housing and communal services;
- consumer goods production.

But one can mark some other directions for the feasible development of the small business especially the family business that is popular in the countryside: bee-keeping, making boats, collecting herbs, milk processing in a minimum volume, baking of bread, seasonal cattle-breeding, wooden house building, fishery, collecting and processing berries and mushrooms and also folklore, weaving and embroidery, various services (hairdresser's services, delivery of goods, repair of machinery and etc.), blacksmith's work and etc.

The rural entrepreneurs have business ideas to expand and diversify their business, and if they are involved in the support programs it will be able to receive an effect of increase of this economy sector. The stimulation of the small entrepreneurship development should be carried out in accordance with the following directions.

Creating the system of informational, legal and consulting support for the small entrepreneurship. It's necessary to create an infrastructure consisting of the center to render legal and informational services to the entrepreneurs. First of all when creating the system of support for the small entrepreneurship one should try to obtain its development on the municipal level, in order to bring the services nearer to the small entrepreneurship sector.

Micro financing the small entrepreneurship subjects. To provide the development of the micro financial institutions: credit co-operatives, credit unions and other non-banking credit institutions, which finance the small enterprises' development on a returnable basis. In order to contribute to creating the credit agencies which keep the common base containing the credit histories of the small entrepreneurship subjects. To provide the possibility of free using this base by banks, especially by credit co-operatives and other non-banking credit institutions. We should notice the importance of these things on the local level, when taking into consideration the local and regional character of small enterprises' activity.

Educational support for the small entrepreneurship subjects. Educating the entrepreneurs of the small business and raising the level of heads' and specialists' professional skill on the basis of special business-education programs taking into account the small entrepreneurship peculiarities. The result of these educational programs should be a training of universal specialists having the necessary knowledge in the sphere of finance, marketing, manpower management.

Marketing support for the small entrepreneurship. District and republic authorities must render the small enterprises their assistance in the sphere of exhibition and fair activity – i.e. organizing and holding the interregional and regional exhibitions and fairs, expanding the small enterprises' export, including by means of promoting their participation in the international exhibitions and fairs.

Supporting the competition standard. The small entrepreneurship's subjects are vulnerable to anti-competitive activities on the part

of large enterprises. The control over the local monopolies' activity must be tightened in this sphere.

Developing the co-operative system. In the settlements the small entrepreneurship sector can be developed by means of various forms of the co-operative societies – sale, supply, information, legal and credit co-operative society. The government of the district and settlements must render them their assistance.

The analysis of the entrepreneurship condition in Pudozh district permitted us to choose three models of entrepreneurship activity that were fixed in the research. In accordance with the first model the entrepreneurs have an official status, they are successful and in general they have higher education. They have some positive experience of activity and sufficient production resources. They create the formal working places for the inhabitants and are involved into the economy relations of the district and republic. The second model – sometimes the entrepreneurs haven't an official status, in general they have technical secondary education, sometimes higher education. They have necessary production base demanding the updating and create informal working places for the inhabitants. The third model – the entrepreneurs haven't an official status, they have higher education or technical secondary education. They haven't production base enough, their entrepreneurship experience is negative and it works in general for itself.

So, the analysis of the entrepreneurship practices allows us to reveal the major problems both of the small entrepreneurship sector that carries out its activity in the settlements and of the institutional conditions defining this activity. The results of the research showed that 50% of the small business is in the informal sphere that is explained by the following reasons. The first one – high transaction expenditures when keeping the formal rules, and in practice it means high administrative barriers and unstable laws which are often changed. The second reason is caused by the first one: when the entrepreneur is not sure in his future, his activity is built so as it is the last day of his business. For

the rural settlements the informal status of the small entrepreneurship has consequences with more than one meaning. On one hand, its informal relations with the inhabitants make the transactions (exchange operations) simpler and less expensive for the local population who has wider opportunities to “earn additionally”. On the other hand, the settlements don’t receive stable working places and economic effect in the form of paid taxes. The entrepreneurs are not attracted to the affairs of local comity as well. It means that the economic base for forming “community” is not being created, and it involves long-term negative social effects connected with destroying the social environment.

At the same time the results of the research showed that the entrepreneurs take part in forming social and economic framework of settlements and populated areas. More than half of them create the working places for their fellow-villagers even if informally; the others who work in general for themselves form the base for their family business.

Generally speaking of the small entrepreneurship sector in the rural settlements of Pudozh district, it is necessary to pay close attention to several important aspects. Firstly, when having some available potential the small entrepreneurship doesn’t take many market niches for lack of proper institutional conditions. Secondly, the occupied niches are used ineffectively, and it is proved by high degree of informality in the small entrepreneur-

ship. Thirdly, the entrepreneurship initiative faces a great number of administrative barriers. Fourthly, when performing an important social function of creating the working places, the small entrepreneurship sector has been involved in the social pattern of rural settlements perfectly. Fifthly, low economic efficiency reduces the significance of the small entrepreneurship for both the settlements and the district as a whole. At last sixthly, it’s necessary to render the small entrepreneurship sector the government support, as its development is nearly the only opportunity to keep vast rural territories and not to allow them to become depopulated under the present circumstances.

The scheme of territorial development in the republic worked out by the Institute of Economics of Karelian scientific centre of RAS and passed by the Government of Karelia Republic provides the development of some support territories having an intensive economic growth [3], i.e. there must be “poles of growth” which will represent some local territorial formations concentrating the highest standard of applied scientific achievements, information provision and services in accordance with the international standards [2]. Such a way of settling the problem is typical for sparsely populated borderland region which is our republic. The rest part of the republic must be “kept” by the small enterprises. The spread of such enterprises over the territory will encourage the development of support points.

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