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Small business development as a factor of increasing financial autonomy of municipal entities

The article examines the main results of the reform of local government. It shows that along with the positive results achieved during the transformation, a number of problems remain unresolved. The most significant among them is lack of financial autonomy of municipalities. Solutions to this problem are proposed. One of the promising directions of formation and expansion of own economic base of the municipality is the development of small businesses.

Municipalities, local budget, financial independence, the development of small and medium business.



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The country has completed the legal stage of the reform of local government institution in accordance with Federal law № 131-FZ “On general principles of local self-government in the Russian Federation”. A uniform two-tier system of local government is introduced, i.e. local governments are formed not only at the level of cities and districts, but also in the settlements. This is a very important step towards the formation of civil society: as a primary element of democracy, local government protects the interests of those citizens who are determined by their living together in a particular area and the inevitable interaction. Local government creates favorable conditions for the activation of the human factor, contributing to involvement in the turnover of unused resources, providing

a potential opportunity to the regions of local life to solve problems at their own expense and on their own responsibility.

However, in the process of implementation of the Federal Law № 131 all the tasks were performed given local government. As it was shown, Institute of Local Government was unable to fully realize its potential. The main reason was the lack of its own economic base and financial independence¹. Local governments can not fully meet the needs of socially relevant municipalities and residents and participate in the economic and social development of territories. Ultimately, studies show [1, 2], this situation entails no change in the

¹ We believe financial independence as provision of municipalities with own funds and possibility to use available resources.

Table 1. Responses to the question: "How do you assess the outcome of the reform of local government in relation to your municipal entity?" (in % of respondents)

Optional responses	Years								
	2006			2007			2008		
	Urban settlements	Rural settlements	Municipal districts	Urban settlements	Rural settlements	Municipal districts	Urban settlements	Rural settlements	Municipal districts
Positive	77.8	63.5	57.1	75	72.2	93.3	83.3	64.9	61.9
The situation has not changed	-	21.2	42.9	25	21.6	-	16.7	24	23.8
Negative	22.2	15.3	-	-	6.2	6.7	-	11.1	14.3

life of the population, progress in land development, preservation of the backwardness of the economy and high levels of poverty.

In this context, search and development of measures, which help create and expand the economic base of municipalities, serve as important practical and research tasks. One of the most promising ways of increasing financial independence of local self-governance and sustainable socio-economic development of municipalities is the development of small and medium businesses. The effective functioning of this sector of the economy allows us to solve economic and social problems of municipalities as well:

- filling of the local budget and the expansion of its revenue;
- meeting of the vital needs of the local population in jobs, services and goods;
- diversifying the local economy;
- employment support;
- improving the quality and standard of living of inhabitants;
- the most efficient use of available resources and involving of significant potential reserves – production areas which are not used in, natural and labor resources, etc.;
- ensuring social orientation of a market economy;
- increasing investment inflows into the economy, etc.

In the Vologda oblast in accordance with the law "On peculiarities of local self-government in the Vologda oblast in the period of Transition" the local government reform is imple-

mented in full from January 1, 2006. During this time a lot of preparatory work has been done: new laws are formed, the municipalities are defined, the heads and deputies are elected, the local Administrations are staffed [3, 4]. However, along with undeniable success in reforming local government, the adoption of FL №131 led to a large number of problems, evidenced by both current practice and the need to transfer to a more remote period adoption of some articles.

According to the heads of municipalities², the results of the reform are difficult to be assessed as unambiguous. However, the proportion of those who welcomed the changes – the majority. Among the heads of urban settlements – 83%, rural – 65%, municipal districts – 62% (*tab. 1*). In our opinion, it can be explained first of all by the independence in disposal of resources to address local issues [5].

However, in comparison with 2007 according to the Heads there are fewer possibilities for governance of the development of the municipal entity. This view is held by a quarter of Heads of district administrations (*tab. 2*).

In many ways, this situation is caused by the failure to resolve several problems (*tab. 3*). Among them are those with which local governments have faced in recent years (lack of availability of financial resources, weak public interest, lack of effective cooperation with district authorities) and those that are caused by economic and financial crisis.

² Questioning of Heads of municipalities is held annually.

Table 2. The distribution of respondents' answers to the question: "In your opinion, in 2008 compared with 2007, had the local government more capacity to manage social and economic development of municipal entity?" (in % of respondents)

Optional responses	Years								
	2006			2007			2008		
	Urban settlements	Rural settlements	Municipal districts	Urban settlements	Rural settlements	Municipal districts	Urban settlements	Rural settlements	Municipal districts
Yes, there are more opportunities for management of development	58.3	45.2	25	41.7	52.5	43.8	38.9	26.7	47.6
Nothing fundamentally has changed	25	41.3	62.5	41.7	30.7	37.5	44.4	49.3	28.6
No, there are fewer opportunities for management of development	16.7	8.7	12.5	8.3	7.8	6.3	11.1	12.9	23.8
Find difficulty in replying	-	4.8	-	8.3	8.9	12.5	5.6	11.1	-

Table 3. Distribution of respondents' answers to the question: "Please, assess the degree of significance of factors that interfere, in your opinion, good governance of municipal development" (in % of respondents) *

Factor	Years								
	2006			2007			2008		
	Urban settlements	Rural settlements	Municipal districts	Urban settlements	Rural settlements	Municipal districts	Urban settlements	Rural settlements	Municipal districts
Imperfection of the legislation (131, budget, tax codes and other regulatory documents)	N/d	N/d	N/d	23.1	41.8	50	43.8	43.3	85
Lack of own sources of revenue	83.3	77.2	87.5	76.9	80.2	86.7	100	83.1	76.2
Lack of asset facilities	66.7	46.9	37.5	58.3	35.6	20.1	70.6	32	26.3
Understaffing of local governments with qualified personnel	8.3	19.5	25	38.5	30	31.3	17.2	22.7	15.8
The limited authority	36.4	24.5	25	46.2	21.6	13.3	25	17.5	26.3
The presence of authority which is not directly related to the institution of local self-government	N/d	N/d	N/d	N/d	N/d	N/d	38.9	31.2	5.3
The weakness of motivation among municipal employees of local governments	18.2	23.6	37.5	50	35.2	20	35.7	15	25
Bureaucratic delays of public services (barriers of approvals, clarifications, a large volume of reporting, etc.)	45.5	44.8	25	30.8	44.3	37.6	82.4	73.8	61.9
Lack of effective cooperation with public authorities	N/d	N/d	N/d	41.7	25.8	31.4	43.8	29	42.1
The passivity of the local population	41.7	45	37.5	30.8	49.5	18.8	58.8	55.1	40
Lack of methodology for assessing the efficiency of local government	N/d	N/d	N/d	27.3	26.7	53.4	31.3	13.8	75
Lack of effective forms of private-municipal partnerships	N/d	N/d	N/d	9.1	N/d	12.2	33.3	14.2	15
Lack of full-scale system of municipal statistics (including information on taxpayers)	N/d	N/d	N/d	N/d	N/d	N/d	77.8	47.5	45

* - the table does not represent answers "in a certain degree significant" and "not significant".
No data (answer choices on the questions in previous years were not available).

The most acute is the problem of inadequate financial resources, primarily of its own resources (100% Heads of rural administrations,

more than 83% of urban and 76% of municipal districts believe). In connection with the establishment of settler-level local self-government

it is necessary to separate the economic base between settlements and districts. This led to a significant reduction in the absolute size of their own revenues at district level, and, most importantly, to reduction of the proportion of own revenues in the budget of the municipal district.

This situation is shown in data on the structure and dynamics of budget revenues of one of the largest rural area – the Vologda district (*tab. 4*).

Thus, in 2008 from its own revenues was generated only a quarter of the district budget, the rest was **gratuitous** transfer, the total volume in absolute figures in 2005 – 2008 increased more than 2.5 times. Among the most significant own income is tax revenue (85%), defining role in this belongs to the four taxes: personal income (59%), organizations profit (16.3%), property (13%) and gross income (11%). The share of non-tax revenues in the budget of the Vologda district in 2008 amounted to 3.9%.

As the data of budgets execution show that in 2008 none of the districts were not able to form from their own expense even half its budget. Only in two districts – Sheksna and

Kaduy – the share of own funds in the municipal budget exceeded 45%. In eight districts it ranged from 30 to 40% in seven – from 20 to 30%, in nine – less than 20%, and in one – less than 10% (*fig. 1*).

However, with the establishment of settler-level local self-government the functions of district level decreased [6]. Its main concern now is to decide the issues between settlements, that is affecting the interests of residents in the district, but beyond the limits of the settlements. The burden of life support lay on the rural and urban settlements. However, the economic opportunities of the major part of municipalities have been very weak.

The most important tax sources for the budgets of rural settlements are deductions from taxes on personal income, personal property and land tax. While their level is clearly insufficient to ensure the financial sustainability of rural settlements.

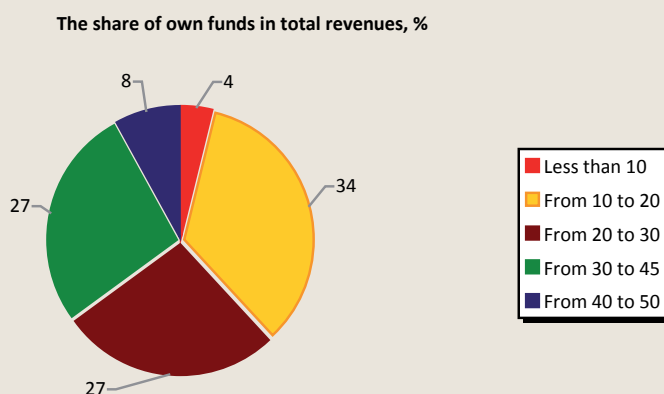
Thus, in 2008 in 20 from 23 rural settlements of the Vologda municipal district gratuitous transfers exceed 50%. Only three settlements – Pryluky, Leskovo and Spasskoye – could generate more than 70% of the budget from its own funds (*tab. 5*).

Table 4. Structure and dynamics of budget revenues of the Vologda district

Indicators	2005		2008	
	Thous. rub.	% to revenues in all	Thous. rub.	% to revenues in all
Tax on organizations profit	39325.0	8.0	30589.0	3.5
Tax on personal income	142998.0	28.9	110461.0	12.5
Taxes on gross income	5380.0	1.1	21218.0	2.4
Property taxes	20668.0	4.2	24910.0	2.8
Other taxes	4340	0.8	-	-
Total tax revenues	212711.0	43.0	187178.0	21.1
Revenues from the use of property in the state and municipal ownership	3674.0	0.7	5541.0	0.6
Payments for the use of natural resources	1000.0	0.2	1552.0	0.2
Revenues from the sale of tangible and intangible assets	2550.0	0.5	24926.0	2.8
Fines, penalties, restitution	2531.0	0.5	2000.0	0.2
Other non-tax revenues of municipal budgets	1186.0	0.2	150.0	0.0
Total non-tax revenues	10941.0	2.2	34169.0	3.9
Total budget revenue of the district	223652.0	45.2	221347.0	25.0
Gratuitous revenues	258737.0	52.3	664179.0	75.0
Total revenues	494559.4	100.0	885526.0	100.0

Source: Federal state statistics service [Electronic resource]. – Access mode: <http://www.gks.ru>

Figure 1. Distribution of municipal districts of the Vologda Oblast depending on the proportion of own funds in total revenues in 2008



Source: Federal state statistics service [Electronic resource]. – Access mode: <http://www.gks.ru>

Table 5. Structure of revenues of rural settlements budgets of the Vologda oblast in 2008

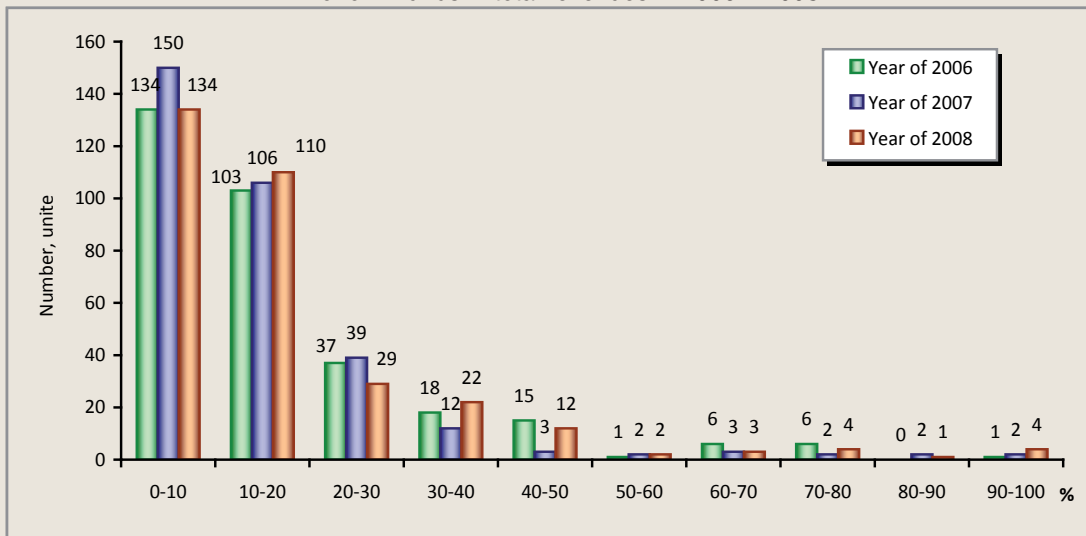
Rural settlements	Total revenues		Tax revenues		Non-tax revenues		Gratuitous and irreversible revenues	
	Thous. rub.	%	Thous. rub.	% to revenues in all	Thous. rub.	% to revenues in all	Thous. rub.	% to revenues in all
Votchinskoye	3316.9	100.0	168.7	5.1	7.9	0.2	3140.3	94.7
Borisovskoye	3308.2	100.0	266.6	8.1	12.6	0.4	3029.1	91.6
Nefedovskoye	2884.7	100.0	236.4	8.2	24.8	0.9	2623.5	90.9
Vysokovskoye	3542.7	100.0	366.2	10.3	11.4	0.3	3165.1	89.3
Nesvoyskoye	3114.3	100.0	397.8	12.8	35.7	1.1	2680.9	86.1
Bereznikovskoye	4078.0	100.0	533.8	13.1	38.1	0.9	3506.2	86.0
Kipelovskoye	4818.2	100.0	846.6	17.6	47.2	1.0	3924.4	81.5
Novlenskoye	5574.8	100.0	982.2	17.6	202.6	3.6	4403.3	79.0
Veprevskoye	4093.7	100.0	744.8	18.2	138.7	3.4	3210.1	78.4
Goncharovskoye	4035.3	100.0	725.6	18.0	294.1	7.3	3015.7	74.7
Fedotovskoye	15071.4	100.0	3950.1	26.2	0.0	0.0	11121.2	73.8
Staroselskoye	4149.2	100.0	1104.8	26.6	132.7	3.2	2911.7	70.2
Sosnovskoye	10812.6	100.0	2816.6	26.0	577.0	5.3	7419.0	68.6
Markovskoye	5644.3	100.0	1772.6	31.4	50.3	0.9	3821.4	67.7
Pudegskoye	3976.6	100.0	473.4	11.9	817.4	20.6	2685.8	67.5
Kubenskoye	7881.6	100.0	2349.2	29.8	294.1	3.7	5238.4	66.5
Oktyabrskoye	6482.6	100.0	2023.9	31.2	174.3	2.7	4284.3	66.1
Semenkovskoye	13487.2	100.0	5017.0	37.2	903.7	6.7	7566.5	56.1
Podlesnoye 1	16355.2	100.0	6911.4	42.3	622.5	3.8	8849.2	54.1
Raboche-Krestyanskoye	7229.9	100.0	3459.3	47.8	151.0	2.1	3619.6	50.1
Prylutskoye	4935.8	100.0	3257.9	66.0	222.9	4.5	1471.1	29.8
Leskovskoye	17035.3	100.0	2842.8	16.7	9139.5	53.7	5053.0	29.7
Spasskoye	8960.9	100.0	5351.6	59.7	1756.4	19.6	1870.5	20.9

Source: Data are provided by the administration of the Vologda oblast.

This is true for other regions: in the majority of rural settlements proportion of own funds in total revenue does not exceed 20% (fig. 2).

In the structure of budget revenues of urban settlements (compared to rural) proportion of tax and non-tax sources is higher, but here

Figure 2. The distribution of rural settlements of the Vologda oblast depending on the proportion of own funds in total revenues in 2006 – 2008



Source: Federal state statistics service [Electronic resource]. – Access mode: <http://www.gks.ru>

irreversible revenues are dominated too. In 2008 the number of municipalities (Krasavino, Zhelyabovo, Chebsara and Khokhlovo), they accounted for more than 80%.

Consequently, the functioning of local government at present is largely achieved through financial assistance from higher budgets. For these purposes, the regional budget of the Vologda region formed following regional funds:

- financial support to municipal districts (urban districts) and financial support to settlements for levelling local budgets;
- for balance of local budgets to provide additional support to local budgets and ensuring their balance;
- co-financing of social expenditures for the equity financing of socially significant costs;
- compensation for the financial provision of certain state powers allocated to municipalities.

Table 6. Distribution of answers of Heads of municipal districts given to the question: “Please, assess the provision of your municipal entity with own and total revenues” (in % of respondents)

Municipal entities	Total revenue provision				Own revenue provision			
	extremely low (0-30%)	low (40-60%)	middle (70-90%)	high (more than 90%)	extremely low (0-30%)	low (40-60%)	middle (70-90%)	high (more than 90%)
<i>Year of 2006</i>								
Urban settlements	40	40	-	20	63.7	27.3	9	-
Rural settlements	40.1	23.4	31.7	4.8	87.2	7.8	4	1
Municipal districts	40	40	-	20	85.8	14.2	-	-
<i>Year of 2007</i>								
Urban settlements	-	33.4	66.6	0	40	20	40	-
Rural settlements	25.4	22.5	38.1	14.2	87.3	6.3	3.8	2.6
Municipal districts	7.7	38.5	38.5	15.4	50	42.8	-	7.1
<i>Year of 2008</i>								
Urban settlements	23.1	46.2	30.7	-	43.7	25	25	6.3
Rural settlements	50	28.7	18.3	3	77.9	14.6	7.5	-
Municipal districts	23.5	47.1	29.4	-	52.9	41.2	5.9	-

The total amount of transfers from the regional budget to district and settlement budgets has increased from 9878.23 million rubles (41.5% of total expenditures) in 2006 to 17223.16 million rubles (43.6%) in 2008. However, despite this positive development, the problem of local government finances remains unsolved.

According to the survey, 80% of Heads of rural settlements consider provision of municipal entities as low and extremely low. About 70% of Heads of urban settlements take the same view (*tab. 6*).

In addition, significant funds of interbudget transfers are allocated for target use. Lack of "free funds" is resulting in limited capacity of local governments in addressing the challenges of socio-economic development of the municipality. In accordance with Federal law № 131 in 2008 the transition period of the reform of local government ended, and its full

implementation began. It was expected that by 2009 the municipalities will have formed its own economic base, which will ensure financial independence of local budgets. But, as it is shown in the analysis, the situation of municipalities with its own revenues is rather difficult. And in connection with the crisis in the economy, the expenditures of higher-level budgets have reduced (in 2009 the budget of the Vologda region was "cut" by 9.1 billion rubles), including the support of municipalities. The issue of the possibility of performing functions carried on local government is remained open. In this respect, it is actual to find and develop measures which will form and expand the economic base of municipalities, "the transfer of the center of gravity to domestic sources calling for funds in" [7].

The Heads of local administrations believe that the most promising measures that contrib-

Table 7. The distribution of respondents' answers to the question: "In your opinion, what measures should the local authorities of the municipal entity take to expand its economic base?" (in % of respondents)

Optional responses	Years								
	2006			2007			2008		
	Urban settlements	Rural settlements	Municipal districts	Urban settlements	Rural settlements	Municipal districts	Urban settlements	Rural settlements	Municipal districts
Raise the efficiency of use of budgetary resources	N/d	4.7	N/d	30.8	9.9	31.3	22.2	14.2	47.6
The identification and inclusion in the turnover of unused resources	33.3	18.7	62.5	30.8	21.5	56.3	38.9	30.6	47.6
Encourage public participation in the economic life of the municipal entity	25	36.4	25	23.1	32.6	25	50	37	28.6
Create conditions for business development	N/d	N/d	N/d	46.2	40.3	62.5	44.4	46.1	66.7
Participate in regional and federal programs	N/d	N/d	N/d	N/d	N/d	N/d	50	47.9	81
Develop municipal connections	N/d	N/d	N/d	N/d	N/d	N/d	11.1	11	19
Intensify work on cadastral valuation of land and inventory of the municipal assets, define the ways of their effective use.	N/d	N/d	N/d	38.5	16.6	25	50	39.3	47.6
To carry out work on the legalization of "shadow wages"	N/d	N/d	N/d	46.2	49.2	62.5	44.4	43.4	61.9
To attract private investment in the economy	16.7	36.4	25	15.4	33.7	43.8	44.4	31.5	85.7

ute to the achievement of this goal are: participation in regional and federal programs (48% of Heads of rural settlements, 50% – urban and 81% – municipal areas), stimulation of public participation in the economic life of the municipal entity (37, 50 and 29% respectively), the intensification of work on land evaluation, land inventory of municipal property and the identification of areas for their effective use (39, 50 and 48%), creation of conditions for business development (46, 44 and 67%; *tab. 7*).

It is evident that high expectations in the municipalities are connected with the development of private business. The most promising according to the administrative Heads are: economically active population, primarily based on the labor of family members (this is indicated by 43% of Heads of rural settlements and municipal districts) and the development of small and medium-sized enterprises, which main activity is the forest industry, tourism, building, etc. (48% of Heads of administration of rural settlements, 72% – urban and 95% – areas).

The forms of self-employment include work in individual farmsteads (especially in rural areas), farming, home-based work, small retail trade, services for processing gardens, harvesting. “All these forms “are useful because they can serve as a “primitive accumulation of capital” and create the material basis transition for their owners to the productive activities” [8]. As for the development of small business, according to the Chief of the Department of Economics, L.G. Iogman, in some districts it brings a quarter of all tax revenues [9].

However, many unsolved problems inhibit the development of small enterprises and individual entrepreneurs. The existing problems are: excessive administrative pressure of monitoring bodies, the high tax burden and rents, poor access to government contracts, the difficulty to connect small businesses to power transmission lines and other infrastructure, difficulties in obtaining bank loans and the need to purchase the leased premises on a shortage of funds.

The main condition for overcoming the difficulties, as emphasized in [10], is a joint coordinated action between the authorities of Russia, the subjects of the federation, as well as local authorities.

Government of the Vologda region has developed and adopted a series of laws aimed at the organizational and economic support to this sector of the economy [11 – 13]. Most significant among them are the following.

- Law “On the development of small and medium enterprises in the Vologda oblast” (from 05.12.2008). In order to stimulate development of small and medium enterprises law defined such forms of state support as financial, property, information, consulting, support in training, retraining and upgrading skills of workers. The measures to promote innovation and production activities of small businesses are included.

- Target Program “Development of small and medium enterprises in the Vologda oblast in 2009 – 2012” (from 27.01.2009). For its implementation more than 65 million rubles were allocated from the budget in 2009. In addition to the regional funding, were received federal appropriations of \$74.9 million.

- The Law of the oblast “On the application by individual entrepreneurs of simplified system of taxation based on the patent within the territory of the Vologda oblast” (adopted 27.11.2009, entered into force 01.01.2010). With the adoption of the law, individual entrepreneurs – small businesses have the right to work on the simplified tax system – based on the patent. The purpose of the law is to simplify the procedure for record-keeping by individual entrepreneurs, to create favorable conditions for their work. Now the entrepreneur can make a choice between a patent, a single tax on imputed income and a simplified tax system and apply the most favorable tax treatment.

In the crisis, the patent system will stimulate the legalization of proceeds from activities traditionally located in the “shadow”, such as the transport of passengers, renting, housing, household services, carried out at home.

However, some problems still remain unsolved. To eliminate them, we should develop mechanisms for increasing the interest of regional administrations in the development of small businesses.

First, it is necessary to improve the existing budgeting and tax legislation. One of their main shortcomings is the lack of direct interest of local authorities in the development of small business in its municipal entity. The first step in this direction is the adoption of the law "On the application by individual entrepreneurs of simplified system of taxation on the basis of a patent on the territory of the Vologda oblast". It is assumed that this law will force municipal governments to work with areas of active individual entrepreneurs, as well as 90% of the collected taxes will remain in the local budgets (this practice should be extended to the settlements). Secondly, we should develop and implement a methodology to assess the work of the municipal administrations to develop

small businesses, aimed at monitoring the effectiveness of ongoing activities of regional and municipal development programs to small businesses.

An equally important task of the local administrations in the lack of its own economic base is to increase the efficiency of cooperation with the government, primarily with the departments and local authorities to create conditions for the development of small businesses. While such interaction, in the opinion of the Heads, can hardly be called effective (*tab. 8*).

The problem of the formation of municipal property requires a fast solution. During the reform of local self-government the government of the Vologda oblast has already taken 38 laws on the division of property of 24 districts. In particular, in 2008 the settlements have been given equipment to perform powers on culture and sport, in 2009 work was conducted on the delimitation of the municipal housing stock, housing and communal services facilities [14].

Table 8. The effectiveness of the interaction of local government and executive authorities in the oblast (estimated by the Heads of municipalities, in % of respondents)

Bodies of executive power	Efficiency of interaction			
	adequate	acceptable	inadequate	extremely low
Department of Finance	18.8	50.6	26.1	4.5
Department of municipal development	16.9	47.9	28.9	6.2
Department of land relations	9.4	44.3	36.2	10.2
Department of Property Relations	9.7	44.3	35.4	10.5
Department of Agriculture	7.7	39.2	36.5	16.7
Department of Forestry	7	35.7	37	20.4

Table 9. Distribution of the Heads' answers on the question: "Please, assess your municipal property provision" (in% of respondents)

Municipalities	Property provision			
	extremely low (0-30%)	low (40-60%)	middle (70-90%)	high (более 90%)
<i>Year of 2006</i>				
Urban settlements	100	-	-	-
Rural settlements	56.6	15	25	3.4
Municipal districts	40	-	60	-
<i>Year of 2007</i>				
Urban settlements	70	20	10	0
Rural settlements	40.1	23.2	32.6	4.1
Municipal districts	14.2	42.8	35.7	7.1
<i>Year of 2008</i>				
Urban settlements	68.8	25	6.2	-
Rural settlements	38.9	31.5	29.1	0.5
Municipal districts	11.8	23.5	64.7	-

However, the Heads of local administrations in the settlements, especially rural, are dissatisfied with facilities with a high moral and physical wear. Currently, most Heads (almost 70% of Heads of rural settlements, 94% – urban and 35% – municipal) evaluate the provision of their municipal property as very low and low (*tab. 9*).

However, increased availability of municipal property will create an attractive environment for small business development, for example, local governments will be able to rent space on favorable terms, to provide land for agriculture or construction, etc.

Also, regional authorities, according to the Heads of local governments, should adopt more effective measures to promote agriculture, forestry, tourism industry, to develop clear rules of volumes, timing and frequency of checks by supervising bodies of small businesses, provide more significant tax benefits, deferral of lease payments.

Municipal authorities have a special role in the development of small businesses. Their activity depends directly on the ground implementation of decisions taken by higher regional authorities. Available resources in the municipality are needed in order to identify areas and mechanisms for their best use for the development of small forms of economic activity and on the basis of information received to develop a comprehensive program for the development of small businesses.

Among its main objectives can be identified (*tab. 10*).

First, the removal of bureaucratic obstacles and barriers from the part of municipal employees (this is indicated 50% by Heads of urban settlements, 28% – rural and 52% – municipal areas). Currently, according to managers of small firms, the most pressing issues are: delays in the timing of consideration of applications from business representatives (on participation in tenders, municipal orders, lease or sale of municipal property, etc.) and transfer of municipal property to inefficient users. Therefore it is necessary to strengthen the responsibility of officials for violation of their duties.

Secondly, the organization of dialogue and interaction with business representatives, during which will be revealed factors that had a negative impact on their activities, and developed recommendations to remedy the situation [15]. At present, the effectiveness of the interaction of governments with local entrepreneurs is very low (*fig. 3*). Particularly difficult situation is in rural areas.

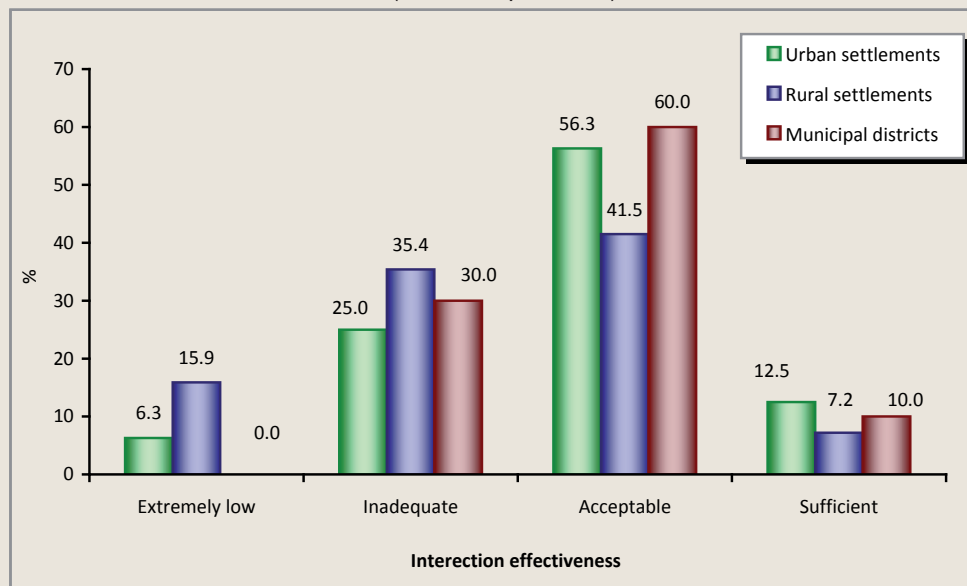
Thirdly, the improvement of information and advisory services for small business, that is the creation on the municipal level of information management system for small and medium businesses, containing information about:

- regulatory framework of small forms of management;

Table 10. Distribution of answers of the heads of municipalities to the question: "What should the local authorities do for the development of interaction between local authorities of your municipal entity and private business?" (in % of Heads who answered)

Optional responses	Municipal entities		
	urban settlements	rural settlements	municipal regions
Create conditions for the legalization of private business	22.2	27.4	52.4
Eliminate bureaucratic obstacles on the part of municipal servants	50	28.3	52.4
Organize dialogue and interaction with representatives of business	50	21	47.6
Improve municipal infrastructure	33.3	26.5	47.6
Provide advice help in establishing inter-farm relations (e.g., the formation of the resource-production chains, cooperatives, etc.)	16.7	11.4	38.1
Coordinate the interests of subsoil, forest, water and land use	27.8	27.4	38.1
Involve workforce in business, to carry out their training	27.8	22.8	33.3
Provide legal support (acquaintance with the normative base, etc.)	5.6	19.6	28.6
Create a database of reliable information about the municipality	22.2	3.7	14.3
Assist in the technological upgrading of enterprises, creating new products	5.6	11	9.5

Figure 3. Distribution of answers of the Heads of municipalities to the question: "Assess the effective interaction of bodies of local self-government of your municipal entity with local businesses in 2008" (in% of respondents)



- associations of small forms of management;
- existing infrastructure support for small businesses;
- bodies of exercising control and supervisory functions;
- existing organizations for training, marketing and other types of services for small forms of management;
- programs and projects of sector development of the economy of the region and municipal entity;
- contests and the conditions of competition;
- organizing and conducting business, for example, choice of tax regimes, sale channels.

Fourth, the organization of clear control over the use of subsoil resources in the field, forest, water and land use to prevent abuse. Particular attention should be paid to land traffic, as well as the participation of the unauthorized transfer of agricultural land in the land of other categories. This prevents the development of personal subsidiary plots and farms.

Fifth, the provision of certain services produced by public institutions, such as the

strengthening and development of training system for small forms of management.

Sixth, the financial support of small forms of farming, granting, tax credits, project financing, assistance in obtaining resources (e.g., mortgages, loans, etc.), assistance in obtaining provincial, federal and other investments.

Seventh, assistance in finding markets and establishing production and technological linkages, cooperation and integration of small farms, which will improve efficiency, promote cooperation between large and small businesses.

Small business development is possible only through joint and concerted action by regional and municipal authorities, in which businessmen should be able to deal with the material, credit and financial, staffing and other issues in his district. This will facilitate the development of small businesses in the municipalities, on the stability of which depends increased the local budget, expanding of the economic base of the municipality – that is of all that will allow local authorities to achieve the strategic goal of the municipality – to maximize the welfare of their citizens.

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