

## Opportunities for the development of small business in the northern municipalities of the Karelian Republic

*The article indicates socio-economic problems of the northern territories of the Karelian Republic. Now in the north of the area one can observe population reduction, closure of the industrial enterprises and high unemployment. On the basis of program-target method to manage territorial development the author proposes some ways of overcoming the situation. The sector of small business is considered as an important factor of territorial development, which gives us the opportunity to increase self-employment, to preserve and to improve the social and economic system of the region. The article has been prepared on the basis of researches conducted by the order of the Republic's government and according to the data of municipal districts.*

*Small business, regional economy, territorial development*



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Today there is asymmetry in the socio-economic development of the Russia's regions. The Republic of Karelia is the northern resource-oriented border region, and about a third of its territory is situated in the northern agro-climatic zone and within the Polar circle. The northern territories of Karelia are situated above 64°30' north latitude and include the territories of six municipalities of the republic: Kostomukshskiy urban district, Louhi, Kalvala, Kem municipal districts, the northern part of the White Sea district and very little part of the Segezha municipal district. The total area of the northern territories of the republic is 60.7 thousand sq km, which have 111 settlements, including 3 towns, 4 urban-type communities and 104 rural communities.

Here 96.3 thousand people live (14% of the population of the Republic of Karelia), among them 53.8 thousand people are economically

active population. According to the Integrated State Register there are 2034 enterprises and organizations and 2515 individual entrepreneurs, operating 29 enterprises with foreign investments in the North Karelia.

The crisis processes painfully affected the socio-economic situation in the northern areas of the republic. After researching the problems of the north of the republic one can mark out the main problems:

1. constant decrease in population;
2. reduction in the number of enterprises, including those that work successfully;
3. high unemployment.

The northern areas of the republic deprived of infrastructure and their life activity is limited by transport, infrastructure, social and other factors. In general, the economic development of northern areas of the republic is connected with the energy, mining, forestry and

woodworking industries. Provided the deep processing of all local resources, the northern territories of the Republic can be developed on the basis of the cluster approach to production. From the viewpoint of the cluster approach to the development of the territory of Karelia there appeared opportunities to form the production clusters with the participation of small businesses.

The cluster means a geographically concentrated group of interconnected companies and organizations operating in a certain area, and thus they are characterized by common activities and complement each other [1].

Clustering is the most important and most promising tool for the complex integration of small and medium-sized businesses. In many cases it determines the effectiveness of measures of inter-firm, inter-sectoral, inter-regional and international integration [2].

As a result of interaction of the organizations participating in the cluster, due to emerging regional connection we have a synergistic effect. The cluster operates as a self-organizing system. Interacting with each other the enterprises of the region seek to achieve a common goal, which is expressed in the development of the region as a cluster in whole. Moreover, all business entities are on an equal footing when carrying out their activities – they are operating in the same area, being subordinate to the same laws.

The participation in the cluster and getting some comprehensive support allow the subjects of small and medium-sized businesses to increase the competitiveness more substantially than if they would develop on their own. Many elements of support for cluster projects have been successfully tested towards some individual small and medium-sized businesses, and in some cases - towards the interests of groups of complementary sector of small entrepreneurship. At the same time the measures for the clustering of small and medium-sized businesses should be comprehensive and involve coordinated actions on a wide range of areas. Such approach offers great potential for

development of small and individual entrepreneurship. But it is necessary to focus on small innovation enterprises as the most flexible and cost-effective mechanisms for the formation of clusters [3]. In this connection the question arises about the prospects of development of population self-employment, especially in rural areas, where socio-economic problems are more acute on the background of infrastructure degradation of the territory.

The situation in the northern districts of the republic, the long-term interests of the republic's population, the nature of the problems of these areas require active influence of the government of the Republic of Karelia on the processes occurring in the north of the territory. It is important to stop the decline in real income of the population, the decline in production in the key industries and in the city-forming enterprises of the northern districts of the republic, and in the future to ensure the dynamic development of municipalities.

There are 3105 small and medium-sized businesses, including 454 microenterprises, 122 small enterprises, 14 medium-sized enterprises in the northern municipalities (*tab. 1*). 2515 registered individual entrepreneurs work in these areas. The amount of tax revenue from the activities of small businesses is about 117.6 million rubles per year. But business is not developed evenly. The leader is Kostomukshskiy urban district where 1555 small businesses are registered. However, the small entrepreneurship is developed less in Kalevala national district, where only 235 small businesses operate.

In the branch structure of small and medium-size business of the northern territories such activities as trading-purchasing (31%), logging and timber selling (16%), passenger and cargo transportation (16%), agriculture (5%), tourism (3%) prevail.

In all northern territories of the republic the municipal programs of small business development for the period till 2014 are developed and realized.

Within the bounds of implementation of the Federal Law «On the features of alienation of

Table 1. The indicators of development of small entrepreneurship in the North of Karelia over the 1st half year of 2010

	Territory	Number of small businesses	Microenterprises	Small enterprises	Medium-size enterprises	Individual entrepreneurs	Budgetary income, mln. rubles
1	Kostomukshskiy urban district	1555	233	54	4	1264	34,1
2	Louhi municipal district	387	72	21	2	292	3,9
3	Kalevala national district	235	55	9	1	170	4,5
4	Kem municipal district	401	45	15	3	338	11,1
5	The White Sea municipal district	527	49	23	4	451	5,3
	Total	3105	454	122	14	2515	58,8

real estate being the state ownership of the Russian Federation subjects or the municipal property and being rented by the subjects of small and medium businesses, and on the modification of separate legislative acts of the Russian Federation» № 159-FL from 22.07.2008 all areas exercise the preemptive right of the repayment of nonresidential premises rented by the subjects of small and medium businesses. The lists of the municipal property intended for rendering the property support to the subjects of small and medium businesses are approved.

The administrations of the municipalities try as much as possible to create favorable conditions for small and medium entrepreneurship, to create the infrastructure for supporting the small and medium entrepreneurship and carry consulting activity.

In 2009 all northern municipalities organized training courses for the subjects of small and medium-sized businesses. The entrepreneurs who have successfully passed the exam obtained a certificate of professional development of the Petrozavodsk State University. Taking into account this positive experience of cooperation with the PSU on training the entrepreneurs, it is necessary to continue to improve the mechanism for the participation of small and medium-sized enterprises in the activities carried out by scientific organizations and higher educational establishments of the republic.

In addition, we can extend the information services of the population through the estab-

lishment of information and consultation points - stationary or mobile ones. The organization of this office will make it possible to consult the local population on the issues related to the organization of business, the solution of disputes with the administrations of municipal districts and settlements, and by-turn these measures will have a positive impact on enhancing the entrepreneurship initiative of the residents of the North and can help to identify and to implement alternative sources of local incomes, such as side-forestry, tourism, etc.

Under the influence of real organizational and economic factors the development of entrepreneurial activity is gradually starting to shift from the small and medium enterprises to the micro-business and individual entrepreneurship. The number of microenterprises is 3.7 times more than the small businesses, and the number of registered individual entrepreneurs is 5.5 times more than the number of microenterprises. This phenomenon is explained by the increasing development of self-employment of the population with using the most effective and simplest forms of entrepreneurship on the registration, organization and implementation of activities.

The small business sector in the north of the republic is characterized by narrow specialization of activity. For each of the entrepreneurs in a specific context it is formed on the basis of historical background, local opportunities and resources, their level of skills, education and

geographic location. The specific features of the northern territories of Karelia leave traces on it too (the special way of life, the risks of agriculture, the unique natural resources, the information about the age-old occupations, crafts, unique identity of the territory, etc.). All these things have an effect on the development of various forms of self-employment in the outlying settlements of the northern territories.

Difficult climatic conditions require special approaches to the selection and zoning of the plants and animals. These areas have a possibility to develop small businesses in this sphere. It may be connected with the revival of mussel farms on the coast and algae harvesting in the White Sea, breeding of valuable fish species, the revival of fisheries on the external and internal reservoirs, long-term lease of forests, rivers and lakes by the local community. These trends become stronger. For example, in the Republic of Karelia the trout-breeding is developing rather dynamically, and this activity is mainly represented by the small enterprises. In Karelia the scientific developments on the technology of growing trout were worked out still in the 1970s by the scientists of the Northern Research Institute of Fisheries, and the commodity production started 20 years late. The trout-breeding has the highest profitability in the food sector – up to 30-50% [5]. And today, Karelia is the Russian leader in this kind of activity because about 70% of all trout in Russia are produced here.

Today the agriculture of the northern areas is represented primarily by the small forms of economy. Their main direction of development has been determined by the increased financial stability of small-scale entities in rural areas, the increased availability of credit resources for the private plots, farms and agricultural consumer cooperatives.

Within the framework of municipal programs on support and development of small entrepreneurship in the districts and the area for 2006 – 2010 the following activities were done:

- monitoring of law relating to business activities;

- the activity of the councils for support and development of small and medium-sized businesses under the Heads of the administration;

- there was created an information bank of unused space municipal property and it was located on the websites of the district administrations;

- the fairs with the participation of small businesses were held;

- rent discounts on socially significant forms of activity were granted;

- there was approved a list of municipal property intended for the transfer into the ownership and (or) using of small businesses and organizations that form the infrastructure to support the small and medium enterprises, as well as there was determined the order for granting the property included in the list to the small business.

- the local authorities negotiated contracts with small enterprises and individual entrepreneurs registered and carrying out their activities on their territories to do the municipal orders (in accordance with the Federal Law № 94-FL);

- the territorial planning documents included the provisions on allocation of land to build the houses for small businesses, according to the List of orders following the meeting of the State Council Presidium of the RF from 27.03.2008 and from 08.04.2008.

However, those set of measures which has been put into practice, including the decisions within the framework of crisis management measures of the Government of the Republic of Karelia, has not created any incentives for the development of small innovative business yet.

Although all municipalities of the North are investing to support the small and medium-sized businesses, but these measures are not enough to change the situation for the better. We observe just selective funding of one sector of the economy. The programs of supporting the small and medium-sized businesses implemented in the districts are uncoordinated and cannot replace the common comprehen-

sive program of business development in the northern territories. In this connection it is necessary to have inter-district programs on the development of the small and medium-sized businesses in the North of the republic. It must be coordinated and implemented in a complex way, linking the actions and work of all local authorities, ministries and departments of the republic. Without this approach we cannot change the negative trends that have emerged in the northern territories of the republic.

In our opinion, the effective modernization of the Russian economy will be possible, if the small and medium businesses become one of the supporting structures of modernization. The potential of small and medium enterprises poorly used in modernizing of the economy of the northern territories of the republic. In this connection the trend in reduction of administrative barriers hindering the development of small business and in prevent of new barriers should be a priority in the administrative activity [6].

To reduce the administrative burden in each municipality the authority and the business community together should work out a municipal program for the development of small and medium-sized businesses in the area over the next 5, 10 and 20 years. The program should provide a system of measures of administrative support to this sector of economy. In the program the unconditional primacy should belong to the measures aimed at the accelerating development of industrial and innovation-oriented entrepreneurship.

The dynamically developed micro-enterprises need for short-term and small in total lending (100 – 400 thousand rubles). Most banks do not provide this category of borrowers with such loans. It is necessary to pay special attention to the development of the institution of microfinance. In this regard we have already had some experience on creating the credit cooperatives in the Kalevala district.

Almost all cities, towns and villages in the northern districts and in the area are single-industry settlements. Their life activity depends

on one enterprise or its affiliate. The economic problems of single-industry settlements are long-standing problems. However, due to the crisis this problem has increased in the northern areas. “From the standpoint of economic reasonability there is no and cannot be a unique set of measures to support each single-industry settlement, but there is one necessary and indispensable measure – the support for the small and medium businesses in these settlements” [7].

The government of the Republic of Karelia tries to create a comfortable environment for business, to promote the development of competition and to eliminate some unnecessary administrative barriers. In addition to these measures in accordance with the new “Concept of socio-economic development for 2011 – 2015” the government of the Republic of Karelia will conduct a policy of creating the most favorable conditions for small and medium-sized businesses through the activities of the republican program “Development of Small and Medium Enterprises in the Republic of Karelia for the period up to 2014.

In order to provide the rapid growth of small and medium-sized businesses the following problems will be solved [8]:

1) forming a favorable external environment for the development of entrepreneurship by the ways of:

- improving the mechanisms of economic and legal regulation of business activity that aims at providing a favourable environment for the development of small and medium businesses, taking into account the views of entrepreneurs;

- providing the activity of integrated system of information and consulting services for small and medium enterprises and the development of infrastructure to support the small and medium enterprises;

- assistance to the small and medium-sized businesses and organizations forming the infrastructure to support the small and medium enterprises in retraining and further training of personnel;

2) Strengthening the market position of small and medium-sized enterprises of the Republic of Karelia, including those engaged in foreign trade, in innovation sphere and craft activities by the ways of:

- reducing the costs for small and medium enterprises, arising from the attraction of financial resources and promotion of the credit system;
- providing the property support to the subjects of small and medium-sized entrepreneurship and exercising the preemptive right of tenants to purchase the leased property by the subjects of small and medium businesses in accordance with the laws of the Russian Federation and the Republic of Karelia;
- development of entrepreneurship in the craft activity;
- assistance in promoting the products, goods and services produced by small and medium enterprises to the Russian and international markets;
- creating the conditions for innovative projects.

The tasks for the development of small and medium-sized enterprises will be implemented in the following areas:

- activity of the Guarantee Fund of the Republic of Karelia (the Fund of guarantees) on the obligations of small and medium enterprises;
- providing the grants to small and medium-sized businesses to start their own businesses, including the creation of innovative companies;
- subsidizing the interest on the investment loans for small and medium enterprises;
- provision of grants to the operating innovative companies to compensate the costs of developing some new products, services and methods for their production (transfer), new production processes, purchase of machinery and equipment connected with technological innovation, purchase of new technologies (including rights to patents, licenses to use inventions, industrial designs, utility models) etc.;

- operation of the Business Incubator of the Republic of Karelia;

- measures to ensure the access of small and medium-sized businesses to the state and municipal property resources, including providing the pre-emptive right of repayment of the leased premises;

- carrying out some information and consulting activities, as well as activities for retraining and advanced training of the persons employed in small and medium businesses;

- ensuring the maximum transparency of the implemented measures of state support for small and medium-sized businesses by placing such information on the Internet portal "Small and medium enterprises of the Republic of Karelia".

The measures will be implemented in some new areas: the provision of financial support to the municipal development programs for small and medium-sized enterprises, expansion of support for the export-oriented small and medium-sized enterprises, as it is these companies that produce competitive products.

In addition, the government of the Republic of Karelia will prepare an annual application to participate in the contest held by the Ministry of Economic Development of the RF, to provide subsidies to the budgets of the Russian Federation to finance the activities carried out within the framework of state support for small business.

The concerned proposals and measures to improve the efficiency of the small business sector will make it possible to reduce unemployment and to get involved 60-70% of the population of the northern territories in the work in the field of small and medium-sized businesses [2].

A necessary condition for the orderly movement of the North of the republic on the path of development is that the local authorities and the population living in these areas realize the necessity to develop the small business. The development of certain areas of the Karelia Republic is connected with the activities of

large industrial enterprises and the available tourism potential. But the majority of municipalities of the North of the republic have no large enterprises, and their establishment is

currently impossible due to lack of investment resources. Under these conditions only the small business sector can promote the development of the northern territories.

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