

## Small forestry business development peculiarities in Komi Republic

*The article considers problems of small business in the forestry sector of Komi Republic in the structural and social aspects. Problems bounding effectiveness increase of small forestry business are shown up.*

*Small forestry business, scales, structure, effectiveness structure.*



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The Republic of Komi is the most developed timber industry region of Russia. All branches of forest industry are represented here, from wood harvesting to deep chemical wood processing. Having the richest forest resources, the republic can make a significant contribution to the economy of the North-Western region and the whole country. But the capability of the growth of wood harvesting and processing is not used to its full extent. Meanwhile the internal and external markets are maintaining the demand for the products of timber industry, sawn timber of high quality and other timber goods.

One of the main conditions of the use of Komi's forest resources is the development of small timber business. The perspectives of its development must be oriented to new types of activity that would use advanced technologies and produce high conversion products.

### ***The dynamics of the development of small timber business***

In Komi's timber industry for the last 5 years the number of enterprises with the amount of logging over 100 thousand cubic meters a year has decreased (from 22 to 14 units). At the same time the share of enterprises with the amount of logging less than 100 thousand cubic meters (not less than 50 thousand) increased from 10%

to 22%. The number of small timber businesses with the amount of logging less than 50 thousand cu. m grew from 16% to 27%. *Table 1* shows increase in the number of small timber enterprises and its increasing role in the employment and earned income.

The emergence of small timber enterprises is connected with the mass bankruptcy of forest harvesting enterprises in 1995 – 1998, when on the basis of reformed or liquidated enterprises small enterprises were formed, new jobs for the released workers were created. At the same time in the internal market the solvent demand for wood products manufacturing increased.

Small business in the timber sector of economy helped the rural population to survive because in many populated areas the agricultural activity nearly ceased. Small timber business played a significant role in revenue inflows to the budget of forest regions.

*Table 2* characterizes the input of small business into the timber manufacturing. As it can be seen from the table, the production of merchantable wood and sawn timber is increased by small timber enterprises. The share of small enterprises in the total volume of production of these types of timber manufacturing has been growing and in 2007 the small

Table 1. The development of small forest business in the Republic of Komi

| Index   | 2003  | 2007  | 2007 compared with 2003,% |
|---|-------|-------|---------------------------|
| <b>The number of small enterprises:</b>           |       |       |                           |
| - forest harvesting                               | 167   | 238   | 142,5                     |
| - wood processing and wood products manufacturing | 91    | 128   | 140,7                     |
| <b>Average number of employees:</b>               |       |       |                           |
| - forest harvesting                               | 2 558 | 2 596 | 101,5                     |
| - wood processing and wood products manufacturing | 1 526 | 1 760 | 115,3                     |
| <b>Average income, rubles:</b>                    |       |       |                           |
| - forest harvesting                               | 3 392 | 6 363 | 187,6                     |
| - wood processing and wood products manufacturing | 3 304 | 6 970 | 2,1 times                 |

enterprises made up one quarter of the overall production of merchantable wood and sawn timber. Small business took the leading position in the production of window and door blocks. Small timber enterprises are monopolists in the production of wood charcoal.

#### **Distinctive features of small timber business**

Sawn timber has always been and still remains one of the main types of wood working products of small business. The distinctive features of national sawing:

- weak domestic market, proved by big volume of sawn timber export (about 80% of sawn timber, manufactured both in Russia and in the Republic of Komi);

- low profitability of sawing products because of insufficient and inefficient working of wood;

- the use of outdated (both morally and physically) saw mill equipment.

The data analysis of statistics registers of 2007 according to the All-Russian Classifier

of Types of Economic Activities (OKVED) showed that 77% of registered timber enterprises were engaged in sawmilling, planing of wood and the production of unshaped sawn timber.

Figure 1 presents the number of small wood processing enterprises in the municipalities of Komi Republic and their branch diversification, characterized by the number of types of timber activities.

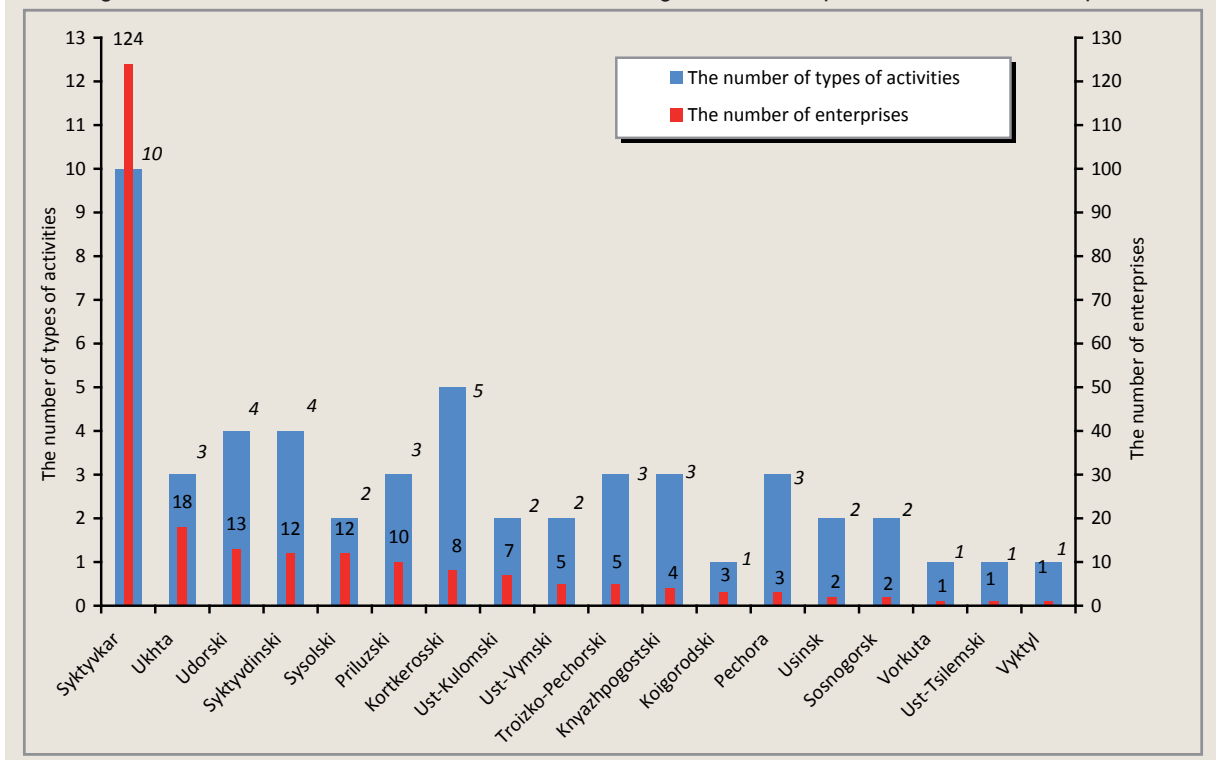
As a whole, there are ten types of wood processing productions in the republic and they are concentrated in Syktyvkar where 124 enterprises are registered. There is also Kortkeroski district with 5 types of timber manufacturing, such as wood working, sawmilling and planing of wood, the production of sawn timber and joinery and wickerwork. But in most municipal districts the level of diversification is low (2-4 types of activities).

But our analysis showed that the sawmilling products of small enterprises, in comparison

Table 2. The volume of production and the percentage of small business in the output of some types of timber manufacturing in the Republic of Komi

| Types of timber manufacturing                       | 2003  | 2004  | 2005  | 2006  | 2007  |
|---|-------|-------|-------|-------|-------|
| Export of timber, thousand solid cubic meters       | 1 064 | 1 768 | 1 778 | 1 428 | 1 518 |
| The share of small business,%                       | 17,6  | 28,0  | 29,6  | 25,1  | 24,6  |
| Merchantable wood, thousand solid cubic meters      | 993   | 1 623 | 1 609 | 1 311 | 1 382 |
| The share of small business,%                       | 19,7  | 30,3  | 31,4  | 26,2  | 25,0  |
| Sawn timber, thousand solid cubic meters            | 135   | 137   | 167   | 189   | 220   |
| The share of small business,%                       | 21,2  | 20,2  | 22,4  | 24,8  | 25,3  |
| Window and door blocks, thousand solid cubic meters | 20    | 27    | 19    | 12    | 9     |
| The share of small business,%                       | 84,8  | 92,4  | 83,8  | 81,1  | 85,3  |
| Wood charcoal, thousand solid cubic meters          | 63    | 17    | 49    | 104   | 92    |
| The share of small business,%                       | 100   | 100   | 100   | 100   | 100   |

Figure 1. The level of diversification of wood working in the municipal districts of Komi Republic



with those of middle-sized and big enterprises, have a low quality due to incorrect size and geometry of boards. Sawmilling products are not dried and are not treated with antiseptics, causing worsening quality during warm seasons. Besides, the volume of output of most small enterprises is rather small and unstable. As a result, the selling price for sawn timber is 1,5-2 times lower than the price of middle-sized and big enterprises.

#### *The territorial structure of business*

In most municipalities forest harvesting and the production of sawn timber prevail. Besides, window and door blocks are also produced, as well as pulpchips for pulp production and production of wood-pulp from raw waste lumber.

By total cost of timber goods the forest sector is practically concentrated in Syktvykar due to expensive pulp and paper production in this city. Ust Vymski district with its board production takes the second place.

As stated above, within the bounds of municipalities almost the total volume of shipped timber goods is provided by forest harvesting

and sawmilling. The volume varies within the limits of 800 thousand rubles in municipal district Knyazhpogostski and up to 224,3 million rubles in Syktvykar (*tabl. 3*).

According to the estimates of the volume of shipped timber products, the small timber business is also substantial in such districts as Kortkeroski, Priluzski, Troizko-Pechorski, Sysolski, Ust-Kulomski, where forest harvesting and sawmilling are developed.

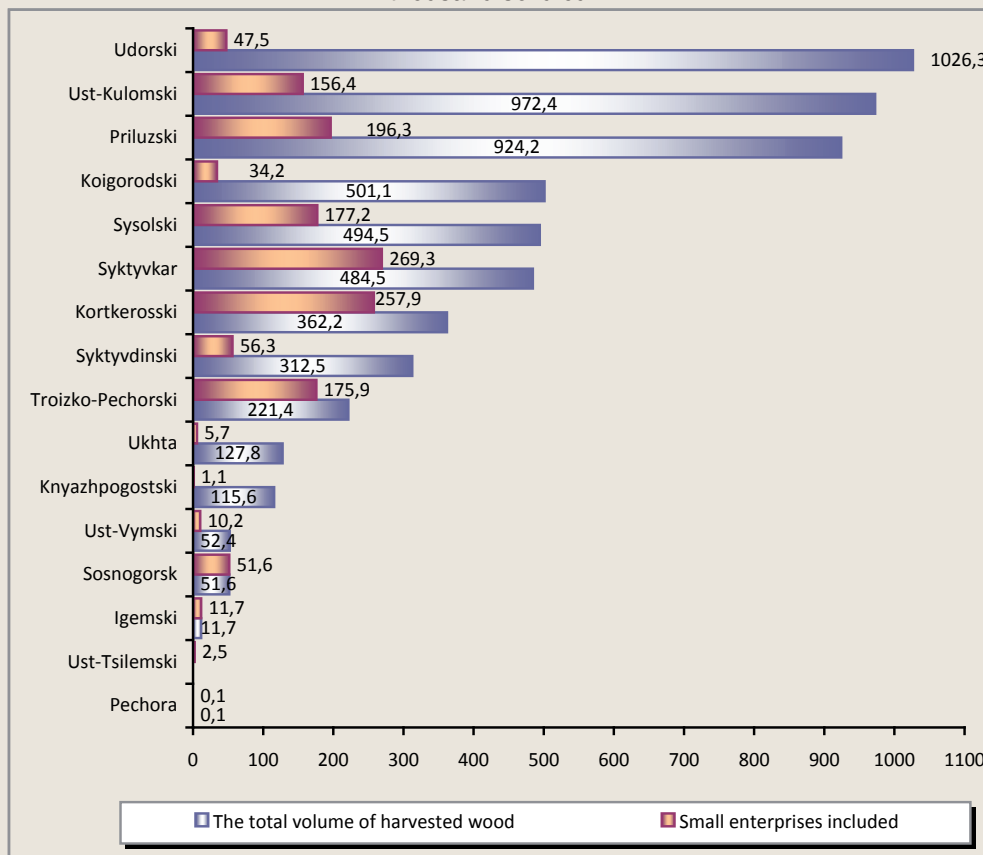
Udorski, Ust-Kulomski and Priluzski districts have the richest forest resources and more than half of the harvested timber in Komi accounts for these districts. The volume of wood harvested by small enterprises of Syktvykar and Kortkeroski, Sysolski, Troizko-Pechorski, Ust-Kulomski and Priluzski districts reaches 150 thousand cu.m and more (*fig. 2*).

The production of sawn timber is concentrated in Syktvykar and Udorski and Priluzski districts and the largest volume of sawmilling is represented in Syktvykar (534 ths.cu.m, or 62,4%). Small enterprises produce 28,2 thousand cubic meters (18,3%). The production of

Table 3. The volume of shipped timber products by municipalities in 2007, million rubles

| The name of municipality    | The total volume of timber production | The volume of small business included | The share of small business, % |
|-----------------------------|---------------------------------------|---------------------------------------|--------------------------------|
| <b>The Republic of Komi</b> | 31 861,3                              | 1 213,9                               | 3,8                            |
| Syktyvkar                   | 24 753,9                              | 224,3                                 | 0,9                            |
| Kortkeroski                 | 287,4                                 | 199,1                                 | 69,3                           |
| Priluzski                   | 616,7                                 | 151,8                                 | 24,6                           |
| Troizko-Pechorski           | 162,2                                 | 150,7                                 | 92,9                           |
| Sysolski                    | 394,7                                 | 136,2                                 | 34,5                           |
| Ust-Kulomski                | 602,7                                 | 119,3                                 | 19,8                           |
| Sosnogorsk                  | 44,2                                  | 44,1                                  | 99,8                           |
| Syktyvdinski                | 357,3                                 | 41,8                                  | 11,7                           |
| Udorski                     | 752,3                                 | 40,8                                  | 5,4                            |
| Koigogrodski                | 275,1                                 | 36,4                                  | 13,2                           |
| Ust-Vymski                  | 2 848,9                               | 35,8                                  | 1,3                            |
| Izhemski                    | 15,8                                  | 15,8                                  | 100,0                          |
| Ukhta                       | 133,2                                 | 7,8                                   | 5,9                            |
| Ust-Tsilemski               | 11,9                                  | 5,8                                   | 48,7                           |
| Usinsk                      | 3,0                                   | 2,2                                   | 73,3                           |
| Pechora                     | 1,4                                   | 1,2                                   | 85,7                           |
| Knyazhpogostski             | 599,5                                 | 0,8                                   | 0,1                            |
| Vyktyl                      | 1,0                                   | 0,0                                   | 0,0                            |

Figure 2. The volume of harvested wood by municipal districts of the Republic of Komi in 2007, thousand solid cu. m



sawn timber by small timber enterprises of Ust-Vymski, Troizko-Pechorski, Kortkeroski and Priluzski districts reaches 10 thousand cu.m and more. The enterprises of small timber sector of Kortkeroski, Izhemski, Ust-Tsilemski districts and Ukhta produce the total volume of sawn timber.

#### ***Problems of small timber business***

On the one hand, small business enterprises are in more favorable conditions in comparison with large-scale businesses. They do not bear responsibility for the development of the social sphere of the enterprise, for financial support for their employees and old age pensioners in accordance with the concluded labour collective agreements, because most small enterprises have no collective agreements. Small enterprises built fewer logging roads.

Less money is invested in the enterprise development, less is the social burden, thus the production cost of one cubic meter of timber for small enterprises is 10-20% lower than the production cost for large enterprises. But in spite of all advantages, small timber business has a lot of unsolved problems.

The activity of most small enterprises is hampered by shortage of financial resources for business development and difficulties in getting borrow funds (e.g. loans for modernization and expansion of production, for paying off debts, for replenishing floating assets and salary payments) and unfavorable loan conditions.

High interest rates and short-term loans are also disadvantageous for small business enterprises. SMEs have no sufficient guarantee assets. They also have to follow a complicated procedure of getting the loans because a huge amount of different documents is required.

Nowadays the urgent problem of many timber enterprises is impossibility of getting the loans. Since December, 2008 banks have been closing loans and lines of credits and even if they give loans, the annual interest rates reach 20 – 23%. Unprofitable timber harvesting enterprises have no chances to improve their financial state at the expense of loans.

Financial resource shortage causes backlog of technologies. Outdated equipment and shortage of production spaces have a negative impact on small business performance.

Tax burden prevents small timber enterprises of Komi Republic from working efficiently. Enterprises, using standard tax system, suffer more than enterprises, using single tax on imputed earnings and simplified tax system.

Small timber business faces the problem of overcoming the administrative barriers that are created by authorities and administration at all levels. This problem has not been resolved as yet. Small timber enterprises have to follow a great number of rules and procedures, specified by legislative and normative documents, as well as rules forced by officials. SMEs also face such problems as frequent tax audit and inspection of a great number of supervisory and governing bodies, difficulties with documents when setting up a new enterprise. Small business was proclaimed to be the basis for the development of medium size business and the President of Russia proposed to prohibit inspection of SMEs without the prior approval of court or a prosecutor. In our opinion, such measure will help to solve the problem [3].

Large consumers of timber raw materials hold a monopoly on price-forming and purchases and under such conditions the seasonality of orders negatively affects the economy of small timber harvesting enterprises.

Small timber businesses need more state support. For 2007 – 2008 only 2 small enterprises managed to receive the financial support of state for working out business plans, 11 enterprises received interest rates subsidies on loans and one SME managed to use leasing. In total only 4 million rubles were allocated for small timber business support from the republican budget.

In 2006 the Government of the Republic of Komi changed the approach to small business support. According to the target republican program “Development and support of small

business and consumers' cooperative society in Komi Republic (2006 – 2008)”, the amount of allocations from the republican budget will total 94,3 million rubles. Unfortunately, this money is allocated to support the whole small business of Komi. That’s why timber harvesting enterprises cannot expect a big state support.

New Forest Plan of Komi Republic presupposes distribution of the forest fund mainly to the leaseholders that presented priority investment projects in the sphere of forest development [4]. Hence, it will be difficult for small

wood processing enterprises to receive the forest fund. Besides, it can cause a wave of illegal logging, because in some regions, as stated above, the majority of the population earns a living by working in forest business. The creation of enterprises that serve the leased forests (enterprises engaged in sanitary cuttings, forest thinning, forest plantations, building logger-roads and forest roads, forest protection activity) will partially solve this problem. In short, it’s necessary to look for new ways of creation of favorable conditions for small timber business development in the Republic.

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