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### Modern Tools for Sustainable Development of Territories. Special Topic: Project Management in the Regions of Russia

#### SMALL BUSINESS CONTRIBUTION TO THE DEVELOPMENT OF THE RUSSIA'S NORTH-WESTERN FEDERAL DISTRICT

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#### *Abstract*

Small business is an integral part of the economic system, without which the economy and society as a whole cannot exist and develop. The growth rate of this sector in Russia and its contribution to socio-economic development is much lower than in developed countries. The results of scientific research confirm the connection between the level of development of small business in a particular region and the growth rate of its economy, the welfare of the population. The regions significantly differ from each other in a number of parameters, which leads to certain differences in the degree and nature of the influence of small business on the socio-economic development of territories. However, at the regional level, such differences are not always taken into account. Based on the available statistics, the contribution of small enterprises to the social, economic and investment development of the constituent entities of the North-West Federal District of the Russian Federation has been evaluated. As a result, it was determined that a high contribution in all three indicators is observed in the Pskov and Kaliningrad regions, a low one – in the Komi Republic, Arkhangelsk, Leningrad, Murmansk and Novgorod regions. It is obvious that the high contribution of small business to the economy of the region determines its significant role in social development and investment. The typology of the regions can be used to adjust measures to support small business, taking into account the problems and characteristics of regional development in order to increase the effectiveness of managerial impact.

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**Keywords:** Region, small business, social and economic development, state support.



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## 1. Introduction

Despite the fact that the foundation of any developed state consists of large enterprises and powerful corporations, and the presence of large capital in the majority determines the level of technical, scientific and production potential, scientists emphasize that small business forms become the most fundamental foundations of countries with market economies as the most massive Mobile and adaptable to changing conditions.

Small business is an independent sphere of a market economy. In developed countries, it is the main driver of economic development. The real importance of small business can be judged by the fact that in Europe it provides 67% of jobs and 58% of value added in the economy (SPIEF-2017, 2017). Small business is the main initiator of innovative projects. Small enterprises, contributing to the employment and self-employment of the population, solving other social problems, are at the same time a significant source of replenishment of budgets of various levels due to the receipt of single taxes, personal income tax, deductions to extrabudgetary insurance funds from individuals and other taxes and fees (Bogoutdinov, 2016). Small enterprises are the generators of many business ideas, they must be considered as a driving force for innovation, employment growth.

A number of scientists' studies are devoted to the analysis of the relationship between the relative size of the small business sector and the standard of living of the population, the growth of the territory economy, the results of which suggest that this relationship is positive (Barinova, Zemtsov, & Tsareva, 2018; Knysh & Verlup, 2016). In addition, the development of small business contributes to increased competition in the economy.

At the same time, there is a need to provide support to small businesses by state authorities. In almost every country, the state uses various tools to support this sector of the economy. For a long time, the government in Russia has defined the development of small business as the strategic priority of its policy for the long term. On December 24, 2018, the national project "Small and Medium Entrepreneurship and the Support of Individual Entrepreneurship Initiative" was approved. However, despite the fairly broad state support, the development of Russian small business is significantly behind developed countries and is characterized by extremely low dynamics. In Russia, small and medium-sized enterprises create 1/5 of the gross domestic product, they occupy only 1/4 of the population, which is due, on the one hand, to the structure of the Russian economy, in which the largest share is the mining industry, which consists of large enterprises, and on the other hand – by the presence of administrative and economic barriers that significantly impede the development of this business sector (Forost, 2018). One of the obvious reasons for this situation is the unsystematic nature of the state policy pursued in relation to supporting small business and its insufficient effectiveness (Uruzbaeva, 2016).

## 2. Problem Statement

Different regions of the country differ significantly from each other in a number of parameters, which leads to certain differences in the degree and nature of the impact of small business on the socio-economic development of territories (Solodilova, Malikov, & Grishin, 2017). The identification of these differences, the assessment of the contribution of small business to various elements of socio-economic

development will allow the development of more targeted measures to support this sector of the economy by regional state authorities. The entities of the North-West Federal District of the Russian Federation (hereinafter referred to as the NWFD) are considered as an object of research.

### **3. Research Questions**

In the scientific literature, methodological approaches to the analysis of the impact of small business on the socio-economic indicators of the region are very limited. As part of this study, it is expected to find answers to the following questions:

- 3.1. What is the contribution of small business to the socio-economic development of the NWFD entities?
- 3.2. How the differentiation of regions by the level of influence of small business on the main components of the socio-economic development of territories can be taken into account when developing measures of state support?

### **4. Purpose of the Study**

The purpose of the study is to conduct a typology of the regions of the NWFD according to the degree of influence of small business on the basic elements of the socio-economic development of the territory using the selected methodology.

### **5. Research Methods**

To carry out a typologization of the subjects of the NWFD according to the level of contribution of small business to their socio-economic development, the methodology developed by Mazilov and Kremin was used (2018).

According to this methodology, the contribution of small business to the socio-economic development of the region is estimated using three indicators:

- the proportion of the number of employees in small enterprises in the total number of employees in the economy of the subject (contribution to social development);
- the proportion of the turnover of small enterprises in gross regional product (contribution to economic development);
- the proportion of investments in fixed assets of small enterprises in the total amount of investments of the entity (contribution to investment development).

The degree of influence can be either low or high.

Depending on the results obtained, the region can be classified as one of eight types that differ in the level of influence of small business on various components of the socio-economic development of the territory.

The choice of methodology is due to the availability of source data in state statistics.

## 6. Findings

The empirical base of the study is presented by the data of the Federal State Statistics Service (hereinafter referred to as Rosstat), characterizing the development of small business and the socio-economic development of the subjects of NWFD for 2011-2017 (Federal State Statistics Service, 2019).

The calculated values of the first indicator are presented in Table 01.

**Table 01.** The proportion of the number of employees in small enterprises in the total number of people employed in the economy of the subjects of NWFD, 2011-2017, %

Name of subject	2011	2012	2013	2014	2015	2016	2017
NWFD on average	12.19	11.79	11.92	11.83	11.71	9.50	10.43
Republic of Karelia	12.80	12.83	12.40	11.29	11.51	5.71	10.80
Komi Republic	11.11	9.02	7.80	7.68	7.32	6.64	7.37
Arkhangelsk Region	10.27	7.95	9.10	8.73	8.43	8.59	9.05
Vologda Region	12.46	12.45	13.21	12.83	12.75	12.47	11.73
Kaliningrad Region	12.14	12.72	13.01	14.78	14.35	13.50	13.38
Leningrad Region	8.57	8.58	8.64	8.47	8.49	7.79	8.05
Murmansk Region	8.75	8.34	8.56	7.73	7.49	6.38	7.74
Novgorod Region	12.54	12.00	12.16	12.19	11.69	10.13	8.46
Pskov Region	12.90	12.49	12.74	12.54	12.38	7.60	11.38
Saint-Petersburg	14.25	14.17	14.11	14.00	13.98	10.15	11.35

Obviously, there is a decrease in the proportion of the number of employees at small enterprises in the total number of employees during the period under review. It indicates a decrease in the social contribution of small business to the development of the subjects of the NWFD. The lowest indicators correspond to 2016. The leading regions are Kaliningrad, Vologda, and Pskov Regions and St. Petersburg; among outsiders – Komi Republic, Murmansk and Leningrad Regions.

It should be noted that the values obtained are significantly lower than the guidelines established by the national project on the development of small and medium-sized enterprises, which provide for the growth of this indicator to 32.5% by 2024. However, it should be noted that in the presented calculation only data on small enterprises are taken into account, based on available statistics, individual entrepreneurs and microenterprises were left out of attention.

Table 02 calculated the specific weight of the turnover of small enterprises in the gross regional product of the subjects of NWFD.

**Table 02.** The proportion of the turnover of small enterprises in the gross regional product of the subjects of NWFD, 2011-2017, %

Name of subject	2011	2012	2013	2014	2015	2016	2017
NWFD on average	41.0	38.1	37.3	37.2	31.6	32.7	40.7
Republic of Karelia	31.7	30.2	29.4	27.9	27.7	21.6	26.2
Komi Republic	18.9	15.3	14.0	13.4	12.0	11.5	11.9
Arkhangelsk Region	20.0	17.0	19.2	17.4	15.2	14.9	16.2
Vologda Region	27.3	26.7	33.5	30.2	26.6	28.4	29.6
Kaliningrad Region	36.0	37.5	40.2	53.7	44.3	43.0	47.6

Leningrad Region	21.6	20.5	21.0	20.0	17.1	17.9	18.9
Murmansk Region	24.2	25.1	25.3	22.8	19.0	18.6	22.7
Novgorod Region	29.1	31.3	31.9	29.6	28.3	30.4	18.9
Pskov Region	48.4	43.5	45.1	43.9	42.0	37.6	48.2
Saint-Petersburg	50.5	46.3	42.9	42.1	34.6	37.0	50.3

Rosstat for the first time published data on the contribution of small business to gross domestic product only in February 2018, and these data apply generally to the country. In this regard, and also according to the methodology used, the specific weight of the turnover of small enterprises in the gross regional product of the entities was calculated.

The downward trend of this indicator from 2011 to 2015-2016 is also obvious, although a number of regions in 2017 managed to reach the 2011 indicators. The dynamics of the aggregate result in the NWFD is generally similar – a decrease until 2015 and then growth. It should be noted that the absolute amount of the turnover of small enterprises in a number of regions increased annually, however, its growth rate was significantly lower than the growth rate of gross regional product.

The worst indicators for the entire period under review were for Komi Republic, and the highest in different years were shown in St. Petersburg, Pskov region and Kaliningrad region. It should be noted that during the entire period under review, these regions showed rather high values of the share of the turnover of small enterprises in the gross regional product. There was a rather deplorable situation at the end of the period under review in Arkhangelsk, Leningrad and Novgorod regions, and in Novgorod region in 2017 there was a sharp decrease in the contribution of small business to the economic development of the region.

Table 03 presents the results of calculating the share of investments in fixed assets of small enterprises in the total amount of investments of the subject of NWFD.

**Table 03.** The proportion of investments in fixed assets of small enterprises in the total amount of investments of subjects of NWFD, 2011-2017, %

Name of subject	2011	2012	2013	2014	2015	2016	2017
NWFD on average	1.26	1.45	1.25	1.20	1.01	1.00	1.89
Republic of Karelia	4.33	4.14	3.84	2.85	2.27	2.32	3.92
Komi Republic	0.72	0.72	0.57	0.45	0.40	0.27	1.77
Arkhangelsk Region	0.38	0.71	0.43	0.49	0.28	0.84	0.38
Vologda Region	0.74	0.58	1.10	1.13	1.10	1.21	1.20
Kaliningrad Region	2.05	2.68	5.19	4.38	4.26	4.45	5.02
Leningrad Region	0.40	0.45	0.83	0.87	1.05	0.87	1.14
Murmansk Region	0.65	0.57	0.42	1.70	0.21	0.34	1.51
Novgorod Region	5.95	5.76	2.11	1.85	1.66	0.89	1.22
Pskov Region	19.63	23.62	9.37	8.16	6.89	8.29	19.04
Saint-Petersburg	0.72	0.60	0.84	0.76	0.65	0.55	1.56

In terms of the share of investments throughout the entire period under review, Pskov region is confidently leading. It should be noted that when analyzing the absolute indicators – investments in fixed assets of small enterprises and investments in the subject as a whole in absolute terms, it can be seen that in Pskov region the amount of investments in the region as a whole is much less than in other subjects of

the North-Western Federal District, and the amount of investments of small enterprises in fixed assets in most cases is noticeably higher. Thus, the investment contribution of small enterprises to the economy of the Pskov region is higher than in other subjects of NWFED, however, the investment activity itself is relatively low.

Over the years, Arkhangelsk, Leningrad regions and the Komi Republic became outsiders. In general, in NWFED, the value of the indicator decreased until 2016 and grew in 2017 immediately by 0.89 percentage points. Relatively high indicators in Kaliningrad region and in the Republic of Karelia. In St. Petersburg, the dynamics of the share of investments in fixed assets of small enterprises in the total volume of investments is multidirectional, but with the exception of 2017, it does not exceed 1.0%.

At the next stage of the analysis, according to the specified methodology (Mazilov & Kremin, 2018), normalized coefficients were calculated by year for each subject and the North-Western Federal District as a whole for each indicator, and then the indices of the contribution of small business to the social, economic and investment development of each region were determined. If the index value turned out to be more than zero, the contribution was considered high, if less – low.

## 7. Conclusion

The results of the analysis of time series for 2011-2017 and the final typology of regions is presented in Table 04.

**Table 04.** Indicators of the contribution of small enterprises to the socio-economic development of the region

Name of subject	Social contribution		Economic contribution		Investment contribution		Region Type Ij
	Ij	Assessment	Ij	Assessment	Ij	Assessment	
Republic of Karelia	-5	Low	-39	Low	223	Высокий	IV
Komi Republic	-82	Low	-100	Low	-73	Low	VIII
Arkhangelsk Region	-65	Low	-86	Low	-82	Low	VIII
Vologda Region	30	High	-34	Low	-14	Low	VII
Kaliningrad Region	51	High	28	High	365	High	I
Leningrad Region	-78	Low	-75	Low	-39	Low	VIII
Murmansk Region	-90	Low	-62	Low	-55	Low	VIII
Novgorod Region	-2	Low	-34	Low	119	High	IV
Pskov Region	11	High	31	High	1150	High	I
Saint-Petersburg	47	High	27	High	-51	Low	V

The high contribution of small enterprises to the socio-economic development of the region in all three indicators is observed in Pskov and Kaliningrad regions (type I), and the low – in Komi Republic, Arkhangelsk, Leningrad and Murmansk regions (type VIII). Analyzing the results obtained, we can conclude that the high contribution of small business to the economy of the region determines its significant role in social development and investment. Only in St. Petersburg, with a high economic contribution, there is a low role of small business in the investment process of the city.

In such large regions as St. Petersburg, the role of small business in the socio-economic development of the regions is quite high, but at the same time, large industrial enterprises that implement

large-scale investment projects prevail there, and therefore the contribution of small business in this area a priori may not be high.

Obviously, the results of the analysis to some extent depend on the sample used and the period of analysis of statistical data, but in general, it seems that the main features of the influence of small business on the socio-economic development of the regions are reflected.

The typologization can be used to adjust measures to support small business in the regions, taking into account the problems and characteristics of regional development in order to increase the effectiveness of managerial impact.

In particular, in order to increase the contribution of small business to the social development of the territory, more attention should be paid to measures that contribute to the exit of small enterprises from the shadows. To increase their role in the regional economy, it is advisable to focus on facilitating the access of small enterprises to public procurement. An increase in investment contribution to the development of territories is possible through the support of regional authorities of investment projects implemented by small businesses, facilitating their access to investment financing and reducing the cost of financial resources (Nikitin, 2016).

The national project “Small and Medium-Sized Enterprises and the Support of Individual Entrepreneurship Initiatives” provides for measures aimed at developing all of these areas of state support, however, the analysis will allow the regional authorities to take into account the peculiarities of the development of their territories when they are implemented.

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