

1.4 PRIORITIES OF SME SUPPORT (<http://msb.karelia.ru/>)

1.4.1 Characteristics of SME in Republic of Karelia

Small-scale business is the most dynamic and vulnerable sector of economics. Because of several objective and subjective reasons small-scale business needs special attention and support from the state.

The main indicators of activity of Karelian SME demonstrate positive dynamics of this sector of economics (see table 1.2).

Table 1.2. The main indicators of SME development in Republic of Karelia.

| | 2002 | 2003 | 2004 | 2005 г. |
|--|--------|--------|---------|---------|
| Number of the small enterprises, units | 3601 | 4012 | 4348 | 4628 |
| Volume of production of SME, in mln. rubles | 7125.7 | 8224.9 | 10025.2 | 12220 |
| Number of employees in SME, thousands of people | 31.7 | 32 | 32.5 | 31,8 |
| Share of the SME in consumer goods production and services % | 10.0 | 7.0 | 7.0 | 8,0 |
| Percentage of employees of small enterprises from the total number of employed | 8.0 | 10.4 | 12.4 | 13 |
| Volume of investment into SME in mln. rubles. | 44.3 | 135.9 | 234.3 | 250.0 |

During the period from 2000 to 2004 the number of small enterprises in republic increased 1.7 times and the volume of their production and services almost doubled and their share reached 20% of the total volume of goods and services produced by Karelian enterprises.

By 01.01.2005 the number of employed in SME sector was 32.5 thousands people. In Republic of Karelia one out of ten employees of all enterprises of the region works in a small-scale enterprise. Nevertheless, the analysis of the share of SME in different sectors of economics shows that Karelia is still at the initial stage of the development of market economy, where SMEs are created predominantly in service sector, because this sector is the least capital intensive. That is why the trade sector and catering occupies the largest share (49%) of total amount of SMEs in the region.

Plant facilities comprise 17% of the total number of small-scale enterprises. Almost one half of them operate in timber industry, woodworking industry and pulp-and-paper industry. Another 19% belong to construction.

In 2005 the value of the SME production was about 12 billions rubles including 4 billion rubles share of industrial production. The dynamics of SME production since 2002 shows increasing significance of this sector in the economy of Karelia. However the share of SMEs in the total volume of production decreased, which demonstrates the need for the new more effective technologies and better professional skills of the personnel.

The currently achieved level of SME development in republic is not sufficient for the formation of highly efficient economy, rapid creation of new jobs, dynamic market of demand and supply, creation of the new sources of revenue for economically active part of population, and for the reduction of social commitments of the budget expenses of all levels. There are essential disproportions in the development of SME sector in municipalities of republic, which demonstrates insufficient attention of local governments to the issues of business-friendly environment.

Considering the available data there are several essential problems in activities of SME:

- the lack of data bases on SME regulation and lack of manuals and reference materials for the small-scale entrepreneurs;
- the absence of the efficient financial and credit mechanisms and material resources for SME development;
- underdeveloped system of the informational support for SMEs
- a start-up "from the zero point" using only personal savings of an entrepreneur is impossible. An essential part of citizens, who are capable to start up a new business, having necessary education and experience, suffer the lack of financing and some practical knowledge of the certain aspects of business. It is particularly relevant for the new graduates of colleges and universities;
- the problem of entrance to the new markets with the products of SME.

SMEs could operate much more effectively, if provided more support from legislative authorities and government of Karelia. The results of the survey of Karelian entrepreneurs, conducted in January 2005, demonstrated that according to opinion of 98% of the entrepreneurs surveyed more intense cooperation between the authorities and entrepreneurs is needed. About 87% of the respondents indicated that the state does not provide all conditions needed for the support of entrepreneurship, and 59% considered the conditions for SMEs in Karelia as poor.

1.4.2 The goals, tasks and principles of “The Sectoral Task Program of State SME Support in Republic of Karelia in 2006-2008”

SME development was announced as one of the crucial priorities for Republic of Karelia in both middle-term and long-term perspective (See “Concept of Social and Economic Development of the Republic of Karelia “The Revival of Karelia” to 2012”, “The Project of Socio-Economic Development Strategy for Republic of Karelia to 2020”, “Sectoral Task Program of State SME Support in Republic of Karelia in 2006-2008”).

The purpose of the “Program of State SME Support in Republic of Karelia in 2006-2008” is to create favorable economic, legal and organizational conditions for the sustainable development of the small-scale entrepreneurship, providing retention of the existing and creation of the new jobs, saturation supply of goods and services for the market and stable tax proceeds into both local and central budgets.

The main tasks of the Program

- creation of the favorable conditions for the sustainable operation of SME;
- overcome the administrative barriers hindering SME development;
- development and realization of the progressive financial technologies for SME support;
- development of SME supporting infrastructure and provision of the methodical, informational and consulting support for SME;
- involvement of SME in exhibiting and fair activities helping to promote their products.

The main principles of the state support for SME, providing the fulfillment of the stated goals:

- openness in both elaboration and realization of the state policy, supporting small-scale entrepreneurship;
- availability of the complete and open information on the specific measures and direction of the state support;
- open and complete information on the procedure of budgeting in Republic of Karelia;
- public reporting on usage of the funds, allocated for SME support.

System of the Program activities

Monitoring, analysis and improvement of the normative legal acts of the government of Republic of Karelia for the state SME support

Considering the existence of administrative barriers, hindering active dynamic development of the entrepreneurship and leading to distrust to the government structures from the part of entrepreneurs, it was decided to introduce permanent and systematical monitoring of the appearance of the unsound administrative barriers and the analysis of the related problems.

Development of the progressive financial technologies in the sphere of SME

The focus of the Program is to elaborate and to implement the mechanisms of compensation for the small-scale entrepreneurs of expenditures on interest payments on the loans, provided by banks or other credit organizations and also of the partial compensation of the payments for the lease of the facilities in business-incubators.

The government has limited abilities to invest in small business, so some new mechanisms and technologies of financing are needed, including credit cooperatives.

Increasing efficiency of SME state support infrastructure

Business incubators are considered as a more efficient model of the state support for the small business. The state organizations “SME support centre of Republic of Karelia” creates business incubators providing opportunities, firstly, to set grounds for the new generation of small

businesses, secondly, to support already operating entrepreneurs, thirdly, to resolve numerous social and economic problems of Republic of Karelia in general and of the specific municipalities.

The Center should provide consulting and educational services for SME and perform such functions as organizing exhibitions and fairs, presentations, contests, conferences and other activities.

Improvement of the informational and methodical support for SME

It is needed with the purpose to create an accessible network of the informational and consulting support for the entrepreneurs on such issues as legislation, taxes, mechanisms of the state support to create and maintain Internet portal of the ministry of the economic development of Republic of Karelia "Small-scale business of Republic of Karelia" with interactive interface. This Portal, providing informational and consulting services, will stimulate entrepreneurial activity, will simplify interaction of the small-business and governmental authorities and will disseminate information about the best practices.

Assistance for exhibiting and fair related activities

Participation in the exhibitions and fairs is one of important means, stimulating the development of markets for products and services of SME. Among other activities, the Program plans participation of Republic of Karelia in the "Small Business Days", and organizing of exhibitions "Small Business of Karelia - 2007, 2008".

Organizing of the congresses and conferences on the SME related topics

Coordinated activities of the government, trade unions and entrepreneurs are essential condition for the creation of the favorable climate for the development of entrepreneurship. The program plans annual all-republic, interregional and business international meetings and conferences, focused on the strengthening of the interaction of the entrepreneurs' communities with governmental authorities.

Financial provision of the Program

It is planned to allocate no less than 34.3 millions of rubles from the budget of Republic of Karelia in 2006-2008 for the implementation of the Program.

The expected final results. Evaluation of efficiency of the Program realization

The realization of the program helps to increase the importance of SME in resolving the issues of the socio-economic development of Republic and provides for the growth of the activity of the SME sector according to the target indicators:

- to increase the number of the small-scale entrepreneurs up to 4.9 thousand people in 2008;
- to increase the number of the full-time employees of the small-scale enterprises to 39 thousand people;
- to increase the share of SME production (goods and services) up to the 20% of the total volume of production in Republic;
- to transform the spheres of activities of the small-scale business so that to increase their production of goods and services;
- to provide ample supply of goods and services for regional and local markets from domestic producers.

1.4.3. Karelian regional agency for SME support: activities, aims and tasks.

13 of June 2006 in Petrozavodsk the seminar was held in the framework of neighborhood project DEX "Developing EXcellence-DEX. Excellence Centres' Network for Sustainable Development in the Baltic Sea Region". The experience of "Karelian regional agency for SME support" was discussed at the seminar, which actively provides SME development, cooperating with Russian and international donor organizations.

Karelian regional agency for SME support joined the "Federal program for SME support", starting the development of network of SME supporting agencies. The main shareholders of the Karelian agency are the Federal fund for SME support, Russian agency for SME support, Chamber of Commerce and Industry of Republic of Karelia etc.

The purpose of the Agency activity is to organize and develop in Karelia various services for the SMEs. Nowadays Karelian agency for SME support is one of the major elements in SME support infrastructure of Karelia.

The main directions of the activities of Karelian agency for SME support

- preparing and evaluating investment and innovative projects;
- consulting;
- conducting educational seminars, trainings and round-tables;
- organizing and conducting congresses and conferences on small business;
- conducting marketing research;
- running data base on SMEs in Republic of Karelia;
- providing various services for the SMEs.

The purposes:

The main purpose of the Agency's activity is to provide social support for the citizens and to develop the SME in Republic of Karelia according to the approved programs of the state support for the small-scale entrepreneurship.

The main tasks:

- Supporting entrepreneurship by provision of the consulting and educational services (consultations, seminars etc.).
- Creating and developing informational technologies, providing informational support for business.
- Creating and using production potential in various sectors.
- Introducing and using new technologies in production and construction.
- Creating and promoting to markets specific products, developing consumers' base for these products.
- Searching and realizing different projects for the development of manufacturing activities and searching investments (including grants).
- Business consulting, public relations, business planning, marketing research.
- Expanding the sphere and geographic scope of the influence, acquiring new business-partners, promoting to leading position at the market for consulting services in Karelia.

Projects, initiated by the agency:

- "Institutional development of infrastructure of social support for the citizens and small-scale entrepreneurs in Republic of Karelia"
- "Free of charge consulting for entrepreneurs"
- "Business school"
- E-Karelia (in the framework of Tacis programme)