Prospects for the development of small business in Arctic regions

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Abstract. The research aims at evaluating the level of entrepreneurship development in the Russian Artic and investment activity that directly affects the entrepreneurship development area in the region. The research was conducted in three directions, and namely: analysis of the investment activity in Arctic regions; analysis of main growth drivers for the entrepreneurship and tourism area as a promising trend in the small business development; and study of the degree of small business involvement in the investment activity of Arctic regions and state support to small business, including the influence of the transport and logistics development of the Arctic zone on the promotion of the tourism and hospitality industry. An integrated approach to the execution of this research in evaluating the level of small business development and tourism industry in the regions depending on their affiliation to the Arctic zone of the Russian Federation determines its relevance and scientific novelty. During the research, it has been found that the level of investment activity in the territories of the RF Arctic zone is significantly differentiated and primarily depends on the degree of participation of large public corporations and backbone enterprises in the investment activity while the rates and level of small business development and level of state support fail to keep pace with the national average values and disagree with the announced targets in the entrepreneurship development in the country. In this connection, it is feasible to make amendments to the laws and regulations of the Russian Federation aimed directly at the support of entrepreneurship in Arctic regions of our country.

1. Introduction

The promotion, rates and level of the entrepreneurship development is substantively influenced by the regional peculiarity of the target territories. The level of commercial exploitation and complicated climatic factors of the Arctic zone of the Russian Federation favoured the foundation of numerous backbone enterprises and large-scale consortiums in the region. This has resulted in some gap in the development of small business as compared to the other regions of our country. Presently, the political strategy of state authorities aims at an accelerated development of small business as one of the key priorities in the economic growth and production diversification to increase investment activities and provide social and domestic services to the public. A favourable investment climate and availability of social and engineering infrastructure are the key factors for the healthy development of entrepreneurship. It is especially urgent for Arctic regions, including a significant number of single-industry municipalities. However, it is even more important for small- and medium-sized Arctic towns with a multidirectional structure of economics and having no backbone enterprises since exactly such towns...
suffer from a significantly lower level of investment activities as compared to monotowns and large
administrative centres [3].

For a complete picture of the situation and due to the fact that some territories of the Russian
Federation are referred to the Arctic zone wholly and some partly by legal act, the research has involved
a comparative analysis depending on the affiliation of regions to the RF Arctic zone. The wholly Arctic
regions in Russia include the Murmansk region and the Nenets, Yamalo-Nenets and Chukotka
Autonomous Districts. The partly Arctic regions cover the Arkhangelsk region, Krasnoyarsk Territory
and the Republics of Karelia, Komi and Sakha (Yakutia).

2. Entrepreneurship development factors
The investment climate and level of investment activity in the region are one of the key drivers for the
promotion and development of entrepreneurship. The implementation of large-scale investment projects
in creating the transport, engineering and social infrastructures results in activated business activities.

The volume and distribution of investment flows for the most important industries in the RFAZ
regions are indicative of significant disproportions between various regions in Russia. The level of
investments per capita (except for the Republic of Karelia and Arkhangelsk region) in Arctic regions
significantly exceeds the national average values. Furthermore, traditionally, in two oil-and-gas
producing regions – the Nenets and Yamalo-Nenets Autonomous Districts, the level of investments per
capita by ten folds exceeds both the national average values and value of the other Arctic regions in
general.

A special attention shall be paid to the volumes of investments to the social sector as one of the key
areas for the development of small business. So, the level of investments per capita to the social sector
(education, healthcare, culture, and sport) in four Arctic regions such as Murmansk and Arkhangelsk
regions and Republic of Komi and Karelia is minimum 1.5 times below the national average values.

The oil-and-gas producing regions are able to independently invest significant amounts to the
development of certain industries and municipalities due to private investments of corporations and
backbone enterprises, but, for example, in the Murmansk and Arkhangelsk regions and in the Republic
of Karelia, the state participation in almost all expensive large-scale investment projects is required since
the level of investment flows there differs markedly from that of the other Arctic regions and is
comparable with the national average level (and lower in some regions) [3].

The investment participation of the state is mostly perceptible only in those regions, where joint
corporate or international projects are implemented. Furthermore, a considerable part of such
investments is used for the development of the mining industry while the social sector and infrastructure
necessary for the development of small business are underfunded (Nenets, Yamalo-Nenets and
Chukotka Autonomous Districts).

In addition, the growth rates and volumes of housing construction are the lowest ones almost in all
RFAZ regions on a country scale and the level of investments to this area is extremely low. The scope
of financing is comparable with national average values only in the Nenets Autonomous District,
Krasnoyarsk Territory and Republic of Sakha (Yakutia), which is mainly related to the running priority
state program for the resettlement of dilapidated housing fund, where the largest share of dilapidated
dwellings in our country is observed [1].

Investments to infrastructural and transport projects also come into effect primarily in oil-and-gas
and Far East regions while the level of investments is by far lower in the western Arctic territories
(Murmansk and Arkhangelsk regions and Republics of Karelia and Komi).

The diagram with a breakdown by the affiliation of regions to the RFAZ shows a capital investment
pattern (Fig. 1). If the level of investments to the housing construction in partly RFAZ regions is
comparable with the national average values, then the volume of investments is several-hundred fold
higher to non-residential buildings and structures, and modernization and outfitting of land resources
and by ten folds higher to the fixed assets of equipment and vehicles in partly RFAZ regions.
The resultant infrastructure and transport availability in foreign countries is the main way of increasing investment flows that allows widely using Arctic territories, for example, in tourism to favor the attraction of a considerable number of tourists and development of the small business area related to the rendering of paratouristic services [2]. For example, in Norway, the tourist flow to the Svalbard archipelago is ca. 60,000 people per year while that to the Russian Arctic National Park, including territories of the Franz Josef Land archipelago, is only 1,225 people.

A benchmark that describes the development of tourism in the region is represented, to our opinion, by the tourism and hospitality profitability dynamics that involves growth rates in the scope of services in collective accommodation facilities and fee-based touristic services rendered to the public.

From the standpoint of the growth rate for the scope of services in collective accommodation facilities (Fig. 2), the Arctic regions are far behind in development compared to the national average values. In general, since 2012, there have been no significant changes in this indicator in the RFAZ regions while at the national average level there has been a steady growth, which may be indicative of a low efficiency of work aimed at the development of tourism in the Russian Arctic.
At the same time, in accordance with the growth rates for the scope of fee-based touristic services rendered to the public (Fig. 3), a steady growth is observed both at the national average level and in the wholly RFAZ regions. Please note that wholly RFAZ regions exceed the national average level regarding this indicator. Among the wholly RFAZ regions, the highest growth rates are observed in the Yamalo-Nenets Autonomous District, which is due to the implementation of large-scale infrastructural investment projects [9].

As well, within the framework of State Assignment of the Federal Research Center Kola Science Center of the Russian Academy of Sciences (FRC KSC RAS) No. 0226-2019-0027, we have executed a sociological poll of the Murmansk region population with 1,290 respondents from 13 settlements and an expert poll with 15 representatives from the tourist-recreational cluster of the Murmansk region. On the basis of the data collected, it may be inferred that the region has a high tourist potential, but the low level of tourism infrastructure, lack of interest from potential investors and the low qualification level of those working in the tourism sector are the main issues that hamper the development of tourism in the region. In addition, the low level of touristic infrastructure is one of the main reasons for the lack of motivation with the local people to purchase regional touristic products [13].

The major challenge of the tourism development in the Russian Arctic is the transport and logistics underdevelopment of the Arctic zone. Therefore, only 1,807 out of 3,951 settlements have paved roads in the Arkhangelsk region, 39 out of 145 in the Murmansk region, 5 out of 35 in the Nenets Autonomous District, and even less in the Chukotka Autonomous District [10]. Another issue in the development of tourism in the Russian Arctic is the low level of services and lack of necessary tourism infrastructure. Therefore, for the development of small business, and in the tourism sector, in particular, it is necessary to create social, transport and engineering infrastructures with the mandatory participation of large business and the state [14].

3. Level of small business development in the Russian Arctic

In the foreign practice of small business development in the Arctic regions, due to the developed transport infrastructure and preferential business conditions provided by the state such as, for example, in Alaska and Norwegian municipalities Tromsø and Kirkenes, the cost-rising factors of extreme climatic conditions do not significantly affect their functioning [7]. In the Russian Arctic, severe weather conditions limit the opportunities for small business development, including due to poor transport accessibility, high energy costs, remoteness from administrative centres, significant costs for the
compensation and benefits prescribed for employed people in the Far North (compensation for travel on vacation every two years, district coefficients and allowances). If for budgetary institutions and large-scale enterprises operating in the Arctic, the issues of compensating the northern allowances are not so acute, it is a matter of mere survival for small businesses. Therefore, according to A.N. Pilyasov [8], the main emphasis in compensating the costs of northern wages augmented by allowances has to be presently shifted to the activities of small and medium-sized businesses in the Arctic, especially in the transport and energy sectors; and the development of transport accessibility of the Arctic territories should be a priority for federal and regional authorities.

At the governmental level and at international forums, an increased attention is paid to stimulating the development of small business by creating favourable conditions for business through federal and regional programs aimed at supporting entrepreneurship, ‘tax holidays’, exemption from inspections, etc. In addition, due to the effect of counter-sanctions on food products, the government has been subsidizing small agricultural enterprises and farms during the recent years. These measures have led to a certain growth of small enterprises, especially in the agricultural sector, in certain regions of the country (Table 1).

**Table 1. Number of small and medium enterprises, ths.**

| Region                        | 2002  | 2012  | 2014  | 2016  | 2018  |
|-------------------------------|-------|-------|-------|-------|-------|
| Russian Federation:           | 882.3 | 2016.8| 2117.4| 2783.9| 2755.4|
| Wholly Arctic regions         |       |       |       |       |       |
| Nenets Autonomous District    | 0.1   | 0.4   | 0.5   | 0.4   | 0.4   |
| Murmansk region               | 2.6   | 6.1   | 5.9   | 11.8  | 10.8  |
| Yamalo-Nenets Autonomous      | 2.1   | 6.8   | 7.1   | 6.2   | 5.3   |
| District                      |       |       |       |       |       |
| Chukotka Autonomous District  | 0.1   | 0.5   | 0.3   | 0.3   | 0.4   |
| Partly Arctic regions         |       |       |       |       |       |
| Republic of Karelia           | 3.6   | 9.3   | 9.3   | 12.7  | 12.7  |
| Republic of Komi              | 2.8   | 12.2  | 13.0  | 10.9  | 10.7  |
| Arkhangelsk region            | 4.8   | 14.2  | 14.2  | 14.2  | 13.6  |
| Krasnoyarsk territory         | 8.8   | 51.2  | 53.7  | 53.6  | 51.0  |
| Republic of Sakha (Yakutia)   | 2.4   | 12.4  | 14.0  | 11.1  | 11.7  |

Source: Small business in Russia 2003 p 109; Small and medium-sized entrepreneurship in Russia 2013 p 124.; Unified Register of Small and Medium-Sized Businesses Federal Tax Service Available from: https://rmsp.nalog.ru/statistics.html [Accessed 20 March 2020]

However, the diagram shows (Fig. 4) that in the Arctic regions, the number of small enterprises and the growth rates of small businesses are significantly behind the national average indicators, especially
in the wholly RFAZ regions, but remain extremely low in some regions (Chukotka and Nenets Autonomous Districts).

![Figure 4. Number of small and medium-sized businesses in Arctic regions, ths.](image)

If we consider the level of small business development in the context of availability of small enterprises per thousand inhabitants, it is obvious that the wholly RFAZ regions are behind the national average value. At the same time, the partly RFAZ regions demonstrate the availability of small enterprises at the national average level, which is associated with more favourable conditions for doing business.

The average indicators of the availability of small enterprises depending on their affiliation with the Russian Arctic (Fig. 5) show a slight decrease in the level of availability of small and medium enterprises in the Arctic regions, although this indicator is growing throughout the country. Moreover, in the wholly RFAZ regions, this indicator is 45% lower than the national average value and 32% lower than in the partly RFAZ regions.

![Figure 5. Dynamics of availability of small businesses to the public depending on the affiliation to an Arctic zone](image)

4. **Support to small business and participation in the investment activities**

Despite a slight increase in the number of small enterprises in most constituent entities of the Russian Federation, the scope of financial support from the state has been declining in recent years. Due to the lack of statistics from public sources for 2017-2018, it is difficult to say whether this is resulted from the crisis processes occurred in the country in 2014-2016. Thus, the scope of subsidies to support small
business has decreased by 40% at a national average level, being more than 2 times lower in some regions.

Over the indicated period, the scope of subsidies allocated to the Arctic regions is significantly lower than the national average level. That is, even in the pre-crisis period, the northern rising cost factors were not compensated for by anything, and perhaps this explains the reduced rates of small business development in these regions (Fig. 6). With an increase in the number of small enterprises and a simultaneous reduction in governmental assistance, the support of small and medium enterprises accounts for an ever smaller amount of financial resources, which contradicts the announced state priorities for the development of small and medium enterprises in the country, and even more in the conditions of the Far North.

The diagram shows that the subsidies allocated to small businesses in the wholly RFAZ regions are by far lower while actual costs of creating and operating small enterprises are much higher as compared to the southern regions of the country. However, when determining the scope of financial assistance per one enterprise, the governmental expenditure in the Arctic regions somewhat exceeds the national average value (Table 2). The largest amount of subsidies falls on the Far Eastern regions (Chukotka Autonomous District and Republic of Sakha (Yakutia)) due to the active state program 'The Far Eastern Hectare', the implementation of which involves a set of measures aimed at supporting land development, creation and development of new forms of agriculture, assistance in the housing construction, and development of small business.

| Table 2. State support to small and medium entrepreneurship per one enterprise, ths. RUB |
|---------------------------------|-----|-----|-----|-----|-----|
|                                | 2012 | 2013 | 2014 | 2015 | 2016 |
| Russian Federation:            | 10.3 | 9.6  | 9.1  | 8.3  | 4.0  |
| Wholly RFAZ regions            |      |      |      |      |      |
| Nenets Autonomous District     | 0.0  | 8.8  | 11.6 | 10.6 | 7.1  |
| Murmansk region                | 12.7 | 14.4 | 15.9 | 8.2  | 4.9  |
| Yamalo-Nenets Autonomous District | 15.6 | 11.0 | 11.4 | 14.9 | 4.7  |
| Chukotka Autonomous District   | 30.1 | 20.3 | 49.4 | 129.9| 10.2 |
| Partly Arctic regions          |      |      |      |      |      |
| Republic of Karelia            | 18.0 | 8.9  | 2.1  | 5.9  | 3.3  |
| Republic of Komi               | 4.5  | 8.9  | 5.4  | 7.8  | 5.3  |
| Arkhangelsk region             | 16.5 | 9.9  | 10.4 | 9.5  | 5.2  |
Krasnoyarsk territory 11.9 8.3 6.5 9.0 3.5
Republic of Sakha (Yakutia) 25.2 14.0 15.8 14.4 10.4

*Calculated by the author. Source: Small business in Russia 2003 124.; Small and medium-sized entrepreneurship in Russia 2013 78.; Socioeconomic indexes 2018 p 1162.

However, by 2016, the subsidizing of small and medium enterprises both in the national average values and in Arctic regions had diminished and amounted ca. to RUB 5 ths. per one enterprise (Fig. 7).

![Figure 7. Dynamics of subsidizing of small- and medium-sized entrepreneurship per one enterprise, ths. RUB](image)

Meanwhile, small enterprises are essential in the investment component of municipalities. In regions with a developed business system (for example, in the Republic of Tatarstan, Nizhny Novgorod), the volume of investments from small enterprises is 15 to 18 billion roubles per year while the national average value in 2016 was at a level of 9.4 billion roubles. In the Arctic regions, especially in wholly RFAZ ones, small business is an insignificant component in the investment activity (Table 3): firstly, small business in the Arctic is poorly developed; secondly, in the majority of municipalities of the Russian Arctic, main investors are represented by large mining companies; and thirdly, the need of compensating the increased costs of activities is reduced by the amount of free financial resources.

**Table 3.** Investments to the fixed assets of small enterprises in the RFAZ regions (in actually existed prices), bln. RUB

|                    | 2002   | 2012   | 2016   |
|--------------------|--------|--------|--------|
| Russian Federation:| 497.3  | 521.5  | 801.6  |
| **Wholly Arctic regions** |        |        |        |
| Nenets Autonomous District | 0.0    | 0.0    | 0.1    |
| Murmansk region      | 0.2    | 0.7    | 0.6    |
| Yamalo-Nenets Autonomous District | 0.1    | 0.9    | 0.3    |
| Chukotka Autonomous District | 0.0    | 0.0    | 0.0    |
| **Partly Arctic regions** |        |        |        |
| Republic of Karelia  | 0.1    | 0.6    | 1.5    |
| Republic of Komi    | 0.1    | 1.1    | 2.8    |
| Arkhangelsk region  | 0.3    | 0.3    | 1.7    |
| Krasnoyarsk territory | 0.0 | 5.0 | 15.9 |
| Republic of Sakha (Yakutia) | 0.0 | 0.5 | 1.9 |

*Source: Small and medium-sized entrepreneurship in Russia 2003 109.; Small and medium-sized entrepreneurship in Russia 2013 124.; Small and medium-sized entrepreneurship in Russia 2017 78 p.
Summarizing the research, we can draw conclusions about a close relationship between the level of investment activity and the investment climate generated in the region and degree of the entrepreneurship development. In addition, the relationship between the created transport and social infrastructure and the level of development and growth rates of small businesses in the regions is denoted. Meanwhile, there is a feedback: the more intensively small business is developed in the region, the higher the share of its investment participation in the regional economics.

The primary challenges of the tourism and hospitality development as one of the main components in the formation of small business in the Russian Arctic are the transport and logistics underdevelopment of the Arctic zone and lack of interest in the industry development of potential investors. It is worth noting that the highest growth rates of profitability from the tourism business are observed in regions, where large-scale infrastructural investment projects are implemented.

To stimulate the development of entrepreneurial structures and investment activities in the Arctic regions, it is reasonable to make a number of amendments and additions to laws and regulations intended to regulate economic activities.

In the regulatory documents of the Russian Federation, for example, in the Arctic Development Strategy, the task of developing small and medium enterprises is not indicated as such; however this is one of the most important strategic trends for the future development of the Russian Federation and the growth factor of the investments and investment activity in the Arctic zone of the Russian Federation. Small business is important for economic and investment activities in the Arctic municipalities, which economics is not related to the mining and processing of natural resources and where no large industrial backbone enterprises exist. For such municipalities, small business plays an important role in the investment activity after state investments.

In this regard, the Arctic Development Strategy regarding the integrated socioeconomic development of the Arctic zone of the Russian Federation proposes to recognize 'the development of small and medium enterprises in the territory of the Russian Arctic' as a separate course. As well, it is suggested to develop an individual state program aimed at the development of small and medium enterprises in the Arctic region or supplement the State program 'Economic Development and Innovative Economy' running in the Arctic zone of the Russian Federation with the provisions, within which framework these are to be elaborated to compensate costs to small and medium-sized businesses in the regions of the Russian Arctic for the expenses related to the assurance of HR benefits statutory prescribed to be paid to employees in the regions of the Far North.

5. Conclusion

The research demonstrates that small business is essential for the socioeconomic and investment activities of municipalities abroad and in the southern regions of our country; and the state entrepreneurship supporting policy establishes a positive track record. In the constituent entities of the Russian Federation, which are part of the Arctic zone, the level of small business development fails to keep pace with the national average value; and the level of participation of small businesses in the investment activity is respectively much lower than the national average value. One of the reasons for this lag is the increased cost of compensating for additional benefits to workers in the Far North, which leads to a reduction in the volume of free financial resources, and the level of support to small business in the Arctic regions is below the national average values. That is, the northern cost-rise factors are not compensated.

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