

MECHANISMS TO PROMOTE SELF-EMPLOYMENT OF UNEMPLOYED CITIZENS: THE RUSSIAN AND EUROPEAN EXPERIENCE

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Abstract

The article presents a comparative analysis of the Russian and European experience in promoting self-employment of unemployed citizens, which is recognized in the world community and is one of the directions of social policy. The authors use the system approach in order to study self-employment of citizens; the main object of the research is mechanisms of promoting self-employment. They have analysed the factors affecting to varying degrees the application of these mechanisms to promote self-employment. They have revealed the problems for the solution of which some improvement of management and financing is offered. The authors argue that the factors specific to Russia, such as historical, sociocultural and geographic ones, influence the application of specific mechanisms for promoting self-employment. However, the authors note that Russia uses the legislative and financial support mechanisms similar to European countries.

The authors base on the study of international experience and suggest improving the financial mechanism in the following way: changing taxation, simplifying the registration form, intensifying financial support in the form of loans, supporting self-employed citizens in innovative sectors that contribute to the economic growth of regions and international cooperation.

Keywords: Mechanisms, self-employment, unemployed, international experience

JEL Code: J21, J24

Introduction

The choice of the topic of the research, the results of which are presented in the article, is determined by the following factors: recognition by the world community of the self-employment of citizens as one of the most important directions of the social and economic policies of states (Jansen, 2017; Caraher, Reuter, 2017), connection of the social and

economic policies with the general social and economic course of states and interstate unions (Boutsiouki, 2014; Ko, Cho, 2017). In addition, the importance of the research topic is conditioned by such factor as social stability in the society. The importance of the research topic is defined by the need to understand conditions for creating new jobs, meeting the needs of citizens in specific services and goods (Večerník, 2011; Lisi, 2017). The results of the research contribute to better understanding of the power and society, which mechanisms are best for promoting self-employment of unemployed citizens, what negative factors need to be eliminated. Comparison of mechanisms for promoting self-employment of unemployed citizens that are applied in European countries and Russia allows revealing the best experience and the main problems, as well as suggesting ways to solve them.

1 Methodology

The main scientific approach which is used by the authors of the article to study the promotion of self-employment of unemployed citizens in European countries and Russia is the systematic approach. The promotion of self-employment of unemployed citizens is seen as a subsystem of the social and economic policies (Jansen, 2017). While investigating the promotion of self-employment, the authors of the article reveal not only the amount of economic support for future individual entrepreneurs, but also their attitude to the economic policy and tax climate in general. In the study they use some findings of the scientists who recognize the interaction between labor markets and social protection of the population, and they consider the degree of employment of citizens as one of the most important indicators of effectiveness and potency of the economic and social policies (Caraher, Reuter, 2017). At the same time, the state of households is considered as an element of the structure of both economic and social policies (Vecernik, 2011). In the course of research, the activities of the main subjects of assistance in self-employment of citizens (the state authorities and employment centers) are studied. Effectiveness of the policy is estimated by the level of support of self-employment, and by the quality of services provided by state entrepreneurship centers (Musostov, Bisayeva, 2016).

It is estimated that to achieve the result they need state programmes, the goal of which is promoting self-employment, supporting and developing small business, planned financial and technical support mechanisms (Midianka, 2011). The study analyses services of various types (educational, information, consulting ones) aimed at supporting self-employment of citizens. The authors of the article analyse the dynamics of the established indicators and

conclude that the positive dynamics confirms the high level of the effectiveness in providing services. Besides, the authors carried out a sociological study in the Khanty-Mansiisk Autonomous Okrug in the Oktyabrsky District in 2016-2017. It is a developed industrial region, where gas and oil are extracted, but only a part of the population is engaged in this kind of activity. Therefore, the support of self-employment is relevant both for citizens of this region and of other industrial Russian regions.

Authors apply a sample survey (using a questionnaire) among unemployed citizens receiving public services of supporting self-employment. A survey of 600 respondents registered as unemployed in the employment center of the Oktyabrsky District of KhMAO is planned. The place of the survey was chosen because it is an industrial area where oil and gas are extracted. However, a limited number of citizens are employed in this type of activity. That is why the development of self-employment is very important for the district. The respondents are selected according to the following criteria: age; gender, level of vocational education. According to the results of the survey, the influence of the main mechanisms on the promotion of self-employment of unemployed citizens is estimated. To estimate the quality of services, they use such indicator, as the degree of formed professional competencies in the process of training with the unemployed. They propose a hypothesis that a high degree of competency formation allows unemployed people with higher education to engage in a high-tech, knowledge-intensive, innovative business in the long term. They also estimate the degree of demand for various knowledge (legal, accounting, marketing one) for citizens who plan self-employment. It is assumed that acquiring marketing knowledge will allow future self-employed citizens to assess objectively the demand and scope of the future business, as well as the degree of competition in a specific market sector. It reveals what skills an unemployed need to open their individual business. The presence of entrepreneurial abilities in the future individual entrepreneurs is studied: the ability to set goals and to organize their achievement independently. It also should be estimated how far unemployed people realize their social responsibility towards partners, consumers and the state for conducting future business. The existence of experience and social ties with future entrepreneurs is displayed. They advance a hypothesis that for successful self - employment it is necessary to apply a socio - psychological mechanism is. The mechanism is manifests as the degree of activity of citizens themselves, increasing their responsibility for their own well-being, reducing of their dependence on state assistance in various spheres of life; it is especially with the Russians (Volovskaya, Plyusnina, Rusina, 2016). To evaluate the impact of the social and

psychological mechanism the following indicators are used: respondents' self-assessment of their stress-resistance level, their awareness of the obstacles to opening their business. Values that are important for an unemployed citizen (family, free time) are revealed. It is assumed that if these values are very significant for the unemployed, they are not ready to engage in individual entrepreneurship. In order to assess objectively such a mechanism as financial support, the questionnaire also includes the question of whether the public funds are sufficient for financial assistance to the unemployed. In addition, the credibility of future entrepreneurs in the economic policy of the government and the tax climate is revealed. They advance a hypothesis that if respondents have a high level of distrust in economic and tax policy, they will not plan self-employment. Respondents are invited to evaluate the technical support in the region and the municipalities. The survey also estimates the impact of internal and external factors (historical, sociocultural and geographic ones) on self-employment (Dudar, 2014). The authors of the study refer corruption and criminal exaction to the historical and sociocultural factors which negatively influence the development of self-employment. Therefore, the impact of these negative factors on the behavior of citizens who plan self-employment is estimated in the survey.

2 Results and discussion

The authors draw the following conclusion based on the results of the theoretical and empirical study of the self-employment of unemployed citizens in the countries of Central Europe and Russia. The self-employment is a subsystem of the social and economic policies. In Central Europe, the growth of self-employment of the population is determined by the development of small private enterprises integrated into the infrastructure of industry and services. Self-employment contributes to economic growth, to creation of new jobs and consequently to stability of the social policies. Such a mechanism as the legislation determines development and conditions for implementing state programmes to promote self-employment. For example, according to the German legislation, representatives of such professions as programmers, journalists, electronics specialists, auto mechanics, teachers, translators, analysts and doctors can be self-employed. Thanks to the adopted laws, citizens get permission for self-employment without any difficulty. For example, in Germany a citizen needs to apply to the local authority for permission to be self-employed and to prove his or her professional suitability. Financial support is a real mechanism for the development of self-employment of the citizens. German citizens who have lost permanent job can receive gratuitous state subsidies for subsequent self-employment. In addition to the social allowance,

which is 65% of the last earnings of a citizen, the state pays monthly assistance of three hundred euros during half a year, which affects the increase in the number of self-employed citizens. In addition, to receive financial support or public services in Germany, a starting entrepreneur submits his business plan to a commercial bank at his place of residence that evaluates it and, if so, sends a request to the Credit Bank for a loan. The amount of financial resources that a citizen can possess is influenced by taxation conditions. The self-employed people in Germany do not pay any specific taxes. They are subject to the same income tax as people working in different enterprises. The basis for taxation is a declaration, which is checked for reliability of filling. The French state also actively uses financial support as a mechanism to support self-employment. Unemployed people who have decided to create their own business are exempted from taxes for three years and from compulsory payments to the national insurance funds for a year. In Canada the Self-Employment Benefit Program (SEB) also implies financial and technical support for the unemployed who are receiving social benefits and intending to engage in self-employment (Midiánka, 2011). In the United States financial support for citizens planning self-employment is provided in the form of material assistance (a loan), and special loans from the Small Business Administration for the enterprises located in regions with high unemployment (*Small business in the United States of America*, 2011, 12.09). In many countries the mechanism of promoting self-employment of unemployed citizens consists of a variety of services: training, information, consulting services. In the United States assistance to unemployed citizens planning to start their own business is provided by the Small Business Administration (SMB) in the form of seminars and consultations, and it compensates for part of the costs for participating in training seminars. The similar forms are used to promote self-employment for unemployed citizens in the UK. The experience of China is interesting, where self-employed citizens have the opportunity to receive necessary information on specialized websites and electronic libraries, to participate in webinars and videoconferences, which are organized by leading Chinese and world experts. In China there are 1000 state business support centers that provide services to support self-employment of citizens (Musostov, Bisayeva, 2016). In Canada state programmes to promote self-employment have been developed and are being implemented: Strategis, SEB, CFDC's, WEC and others. Strategis is the website of the Canadian Government providing full information on the state of the labor market, as well as samples of business plans (Midiánka, 2011).

According to the results of the study, a conclusion is drawn on how mechanisms of supporting self-employment of citizens are applied in Russia. However, there is less number of types of entrepreneurial activity which self-employed citizens are engaged in. For example, in the Khanty-Mansiisk Autonomous Okrug, one of the most northerly regions of Russia, self-employed citizens are engaged in livestock farming, they develop rural tourism and motorway service, and build small hotels. In the south of Russia in the Crimea, self-employed citizens provide tourist services and resort services. In Russia much attention is paid to social and psychological counseling in order to help citizens become active, realize their responsibility for their well-being. The results of the research allow us to state that the paternalistic dependence of the Russians on the state is gradually decreasing. If in 1995 82.5% of citizens believed that the state should support all members of society in all spheres of life, then in 2013 only 51.4% of the citizens surveyed shared this opinion (Volovskaya, Plyusnina, Rusina, 2016). According to the results of the study the activities of such subjects as the state and employment centers are estimated. It is positively estimated that the state regards self-employment as one of the types of employment and establishes this concept by law.

The results of the empirical study conducted in the Khanty-Mansiisk Okrug have been obtained. Among the respondents young people constitute 27.6%, the middle-aged 42.2%; the older age 30.2%; men 49.2%; women 50.8%. As to the educational level the sample of respondents is as follows: 37% have incomplete secondary education; 47.4% have general secondary education; 12.3% have elementary vocational education; 25% have secondary vocational education; 9.3% have higher education. According to the results of the research, it is revealed that the quality of educational services is quite high. According to the respondents, knowledge of law, accounting and marketing received during training will be useful for starting their own business. However, in order to engage in high-tech, knowledge-intensive business these competencies are not enough for 45.6% of respondents. The knowledge gained on marketing allows respondents to assess critically the opportunities for future activities. 22.3% of respondents point out a high level of competition in the market sector where they plan to work. 11.6% understand that the type of activity that they plan to take up has inadequate demand. 42.8% of respondents realize that they do not have enough entrepreneurial abilities to start their own business. Only 13.5% of respondents have such entrepreneurial abilities as the skill to set goals and achieve them without external control. Almost one fifth of the respondents (24.2%) have no experience and connections for the successful running of their own business. Only 25.1% of the respondents understand the

social responsibility for conducting the future business to partners, consumers and the state. 74% of the unemployed who are planning self-employment have a high level of stress resistance. 70% of the respondents note internal problems that may be an obstacle to the opening of their business: fears and anxiety, diffidence, problems in dealing with others and close people, depression, low self-esteem, isolation. However, most respondents do not consider the negative impact of these social and psychological characteristics on their future self-employment. Although world practice shows the opposite. According to the results of the survey, it is revealed that almost 80% of the respondents note the lack of financial resources for support allocated by the state. Unfortunately, 40.5% of the respondents express distrust of the government's economic policy, 39.1% assess negatively the tax climate in the country. 53.0% of the respondents do not highly appreciate the technical support of self-employment in the region and the municipality. In addition, 48.4% of the respondents indicate factors that negatively affect the development of self-employment: corruption and extortion. According to the results of the survey, the reasons negatively affecting the self-employment of the unemployed are ranked by the degree of decreasing (see Table 1).

Tab.: 1. The reasons negatively affecting the self-employment of the unemployed

№	Reasons ranked by importance	%
1	Insufficient financial means offered by the state	78,1
2	Insufficiently developed innovation and information system, infrastructure of the region and the municipal entity	53,0
3	There is a risk of facing corruption or extortion	48,4
4	The competences obtained during training do not allow to engage in high-tech, knowledge-intensive innovative business	45,6
5	There is not enough entrepreneurial ability to open one's own business	42,8
6	Mistrust of the government's economic policy	40,5
7	Unfavorable tax climate	39,1
8	Awareness of responsibility for doing business to the partners, consumers and state	25,1
9	Lack of experience and contacts to run successfully my own business	24,2
10	High competition in the market sector, where my own business is planned	22,3
11	Insufficiently realized profit (benefit), there is a risk of bankruptcy	21,9
12	I do not want to and I cannot manage people	15,8
13	I cannot work independently and effectively to set goals and achieve them (without external control)	13,5
14	Insufficient demand for the type of activity offered	11,6

15	The prospect of high occupation with the business to the detriment of time that is necessary for the family, recreation, sport and healthy lifestyle. This can lead to the loss of the family and health	11,6
16	I do not know how to organize and arrange my own business	6,5
17	The risk of criminal extortion	4,7
18	Other reasons	3,7

Source: was compiled by the authors based on the results of the study, which was conducted in 2016-2017

During the research a group of potential entrepreneurs, respondents who expressed their intention to open their business, were identified, their characteristics were formulated. The generalized social and demographic profile of potential self-employed citizens is as follows: they are predominantly young men and women between the ages of 25 and 34. They have higher or incomplete higher education, there are people who held positions of middle managers and specialists among them; the income per family member is from 15 to 25 thousand rubles per month.

Thus, one can conclude that the systematic approach to promoting self-employment of citizens is applied both in the countries of Central Europe and Russia. At the same time, following the results of the comparative analysis of Russian practice and the countries of Central Europe, the following problems have been revealed. This is an imperfection of the Russian legislation regulating self-employment. Currently the self-employed citizens include those who do not have the status of an individual entrepreneur and a hired worker, but are engaged in a certain type of activity. It is assumed that the list of services could be expanded and fixed in the laws of the subjects of the Russian Federation. In the State Duma of the Russian Federation, a draft law is being considered due to which citizens will be exempt from taxes for two years, the opportunity to recognize their business as illegal and unlawful will be ruled out.

However, there is a condition that they officially register their activities and start working on the basis of a patent or as an individual entrepreneur. Such a problem as the lack of institutional practice has been identified: the directions of self-employment are being specified in Russia every year so far. This is destabilising the development of self-employment and it is limiting the ability of Russian citizens. In addition, there are no self-employment activities where a high qualification level of citizens is needed, in contrast to Germany. A low level of financial support is fairly mentioned. In recent years, Russian employment centers have reduced funding programmes to promote self-employment of the

unemployed. As an example, the volume of expenditures for the activities to promote self-employment of unemployed citizens in the Sverdlovsk region (a large region of Russia) decreased by more than 5 times in 2017 as compared to 2014. This has a negative effect on the dynamics of indicators: in the first half of 2017 the share of citizens who started their own business in the total number of unemployed citizens was only 0.38%. The consequence of the underdeveloped self-employment is that the labor activity of citizens is spreading in the informal sector of the economy, and they conceal their income from taxation.

Conclusion

Currently, to improve the effectiveness of state support for self-employment of the unemployed in Russia, it is advisable to take into account the international experience. This is the improvement of financial support: the combination of the patent system of taxation, developed for people already registered as individual entrepreneurs, with simplified registration for self-employed citizens who do not hire wage workers. To obtain the status of "a self-employed individual entrepreneur" a simple registration procedure should be provided: it is a single payment with taxes and insurance premiums. It is also necessary to increase the directions of self-employment, to intensify financial support in the form of loans, to support the self-employed citizens, first of all, in innovative sectors.

The development of these mechanisms will facilitate the overall employment of the population, the economic growth of regions and the citizens' trust to the state.

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