

# DEVELOPMENT STRATEGY

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## Economy of the region: from crisis to sustainable development

*The article analyzes the impact of financial crisis on the economy of the Vologda region, justifies the direction of anti-crisis actions. The necessity of maximum use of small and medium businesses capabilities for way out of the crisis and, streamline of the regional economy structure are emphasized.*

*The Vologda region, countering the crisis, the regional economy diversification.*



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### *The regional economy during the crisis.*

Nobody thought that the credit crisis which began at the second half of the year 2007 could bring down both the stock and the raw markets, having pushed off economics into recession. But it occurred.

Russia is among the countries suffering damage owing to the global financial and economic crisis. Having kept significant economic potential to the beginning of the year 2008, the country got a good chance for the development and the modernization. The external economic situation was favorable; the oil price was growing, and it led to the growth of the gross national product, of the surplus funds and of the citizens' incomes. But the crisis turned positive tendencies into negative ones:

- according to the results of the first quarter 2009 in comparison with the first quarter 2008, the proceeds in many economic sectors fell; for example, in the oil-and-gas sector the fall

made 56%, in the mining-and-metallurgical it made 50%;

- the export proceeds for the same period reduced to 42.9%;

- the number of the unemployed grew on 34% and it reached the rate of 10.2% of the economically active population's number.

Only in the second quarter 2009 some signs of the end of the national economy's recession and the transition to the revival phase appeared. Such changes in the situation were caused by the economic stabilization, and the scale anti-recessionary measures which are carried out in this country.

In the Vologda region, by virtue of different reasons mentioned further, the destructive influence of the financial and economic crisis was considerable. But due to the timely reaction of the federal and the regional authorities the scale of economic and social losses in the certain degree was limited.

Figure 1. Production indexes in ferrous metallurgy of the Vologda region, %

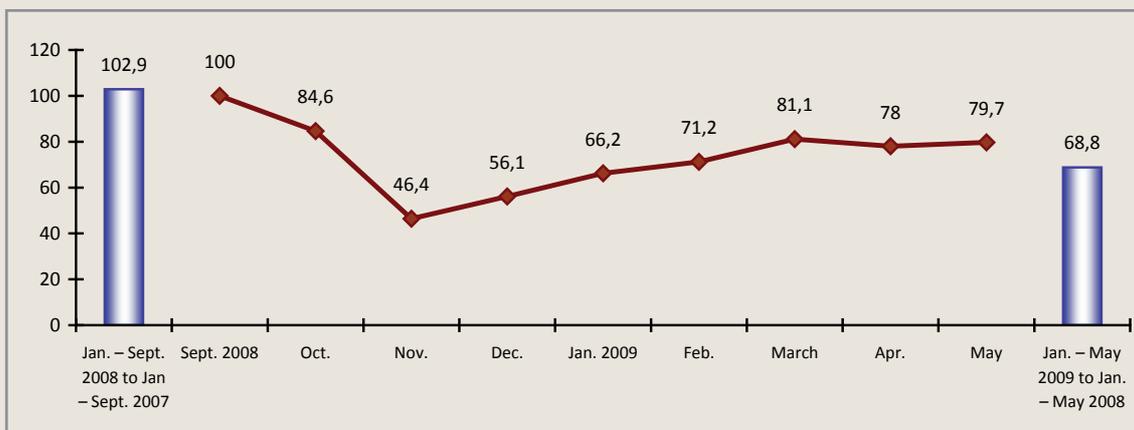
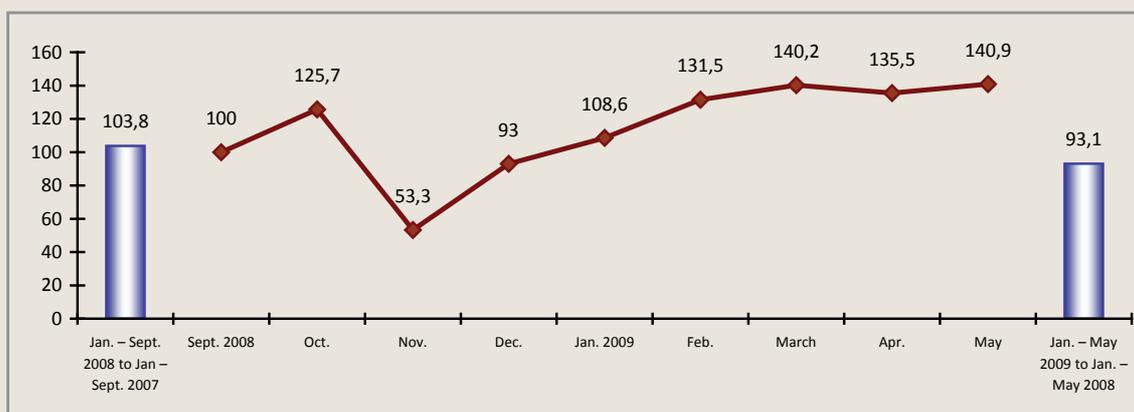


Figure 2. Production indexes in chemical industry of the Vologda region, %



As a whole for the fourth quarter 2008 in comparison with September 2008 the volumes of production in the region decreased on 32%. In 2009 the recession rates' slowing down is observed. In the first quarter 2009 the index of the industrial production made 72.4% in comparison with the same period of 2008; on the results of the five months it made 74.1%<sup>1</sup>. And if in November 2008, which was the hardest month of recession, the industrial production fell to 42% in comparison with the pre-crisis level (September, 2008), by June 2009 20% of this recession were restored.

The greatest impact of the global financial crisis has fallen to the regional metallurgical production (*fig. 1*).

<sup>1</sup> This article went to the publishing house in June 2009.

In October and November 2008 the recession made 53.6%. In 2009 the demand for rolled metal is marked, the Cherepovetz metallurgists' production is used for building infrastructure objects for the Olympic Games – 2014 in Sochi. In spite of the fact that the dynamics in the metallurgical production is unstable, the production level in May 2009 to September 2008 made 80%, and in comparison with December 2008 the production volumes increased for 42%.

The situation in the regional chemical production is less dramatic (*fig. 2*).

Its capacities are completely used; the rests of the integrated products in storage facilities do not exceed the norm. For the five months of the current year the production volumes within the branch have decreased on 7%; but in May

the mineral fertilizers' producers practically reached the level of the year 2008. In comparison with the pre-crisis level (September 2008) there is a 41% growth in the chemical production.

But the situation at the regional mechanical engineering enterprises is ambiguous. As well as in the other branches, the crisis' greatest impact occurred in November 2008: in comparison with October the recession made 24.7%. In 2009 the situation was gradually restored. In this sector of economy there is a group of enterprises, which industrial and financial activity meets "the norm"; i.e. they have a sufficient portfolio of orders.

Steady work is a characteristic feature of such enterprises as the Public Corporation "Vologda Optics and Mechanics Plant" (carrying out the government work), the Public Corporation "SKDM" ("Highway Vehicle Plant") carrying out the government work for the Sochi Olympic Games. Society with Limited Liability "SSM" ("Heavy Engineering") in 2009 introduced more than 150 new names of production. Among them is hardware for underground tunnels, machines for firm soil blocks' formation. The articles of production are meant for metallurgical, power, petrochemical, mining, transport and agricultural branches. The "Vologda Machine-Building Plant" started to place in operation "Olympus" buses; to the end of the year it is planned to

release 250 buses that will allow to create some hundreds new workplaces at the enterprise. The Public Corporation "TransAlfaElectro" carries out the deliveries of trolley buses to 50 cities of Russia.

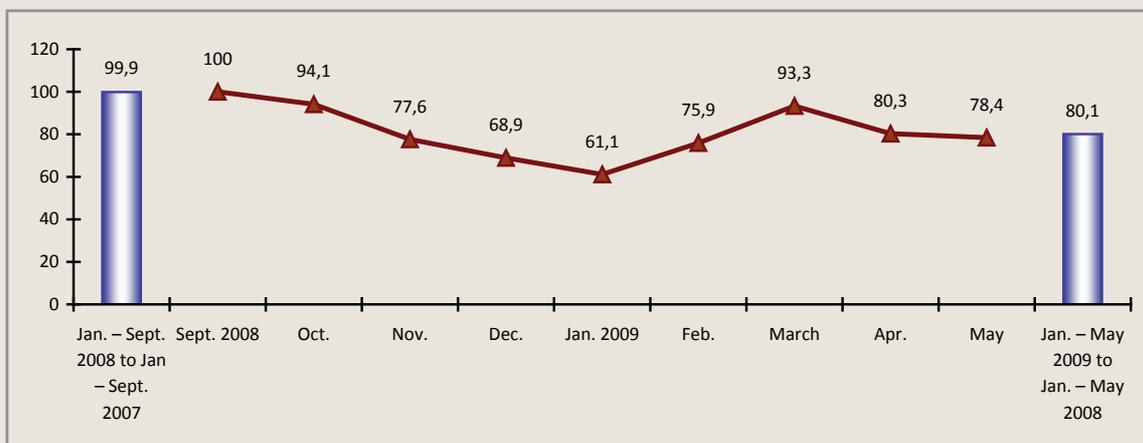
However at a number of enterprises the mechanical engineering capacities operate 50%, the personnel has the incomplete working week; there are arrears of wages. Still the production decrease in the mechanical engineering makes 40% by September 2008, and 33% by January-March 2008.

The capacities of the timber industry enterprises also don't operate completely, the sales volume is 20 – 50% lower than the production volume. The main cause is the low demand from the solvent part of consumers. During the fourth quarter of 2008 the production in the sphere of wood processing reduced and reached 31% to the pre-crisis level (*fig. 3*).

Despite of the unstable monthly dynamics, the growth in woodworking has made 14% since the beginning of the year 2009. The falling in the fourth quarter of 2008 was reduced; the production volumes made 22% in comparison with the pre-crisis period.

As well as in the other subjects of the Russian Federation, in the Vologda region the investment activity has decreased. If in 2008 the investments' volume in the region made 72 billion rubles now investors have postponed the realization of the large-scale investment

Figure 3. Production indexes in timber industry in the Vologda region, %



programs till the best times. The approximate estimation of the investment takings makes 53 billion rubles in 2009.

In the beginning of 2009 it was possible to keep the positive dynamics in habitation entry due to the base created before (*fig. 4*).

On the results for the period from January to May 2009 the habitation entry made about 146 thousand sq. m. or 115.7% in comparison with the corresponding period of the previous year. But the financial crisis' consequences also affected housing construction. 28 apartment houses from 145 underwent the delay in construction. The problems in the sphere of mortgage lending have resulted in a sharp reduction of consumers' demand at the habitation market. The interest rate has increased from 11% to 15.7% annually. Nevertheless the mortgage lending system has been kept in the region; for the period from January to May 2009 about 600 mortgage credits were given, but it is 2.8 times less, than at the similar period of the previous year.

The production volume made in agriculture reduced for 4.9% and made 5,9 billion rubles for the period from January to May 2009 in comparison with the similar period of 2008. It means that the decrease in the farm production is not so significant as in the industry. However in the current year the reduction of the livestock population proceeds; only due to the growth of the animals' reproduction efficiency the milk production at the farm enterprises reduced

for 0.4% in comparison with the period from January to May 2008 and the eggs' production increased for 2.5%.

The production fall, the increase in the number of unemployed have resulted in the population incomes' reduction, and consequently, in the reduction of the population solvent demand. For the period from January to May 2009 in comparison with the period from January to May 2008 the turnover of the retail trade decreased for 17.5%. In the turnover structure of the retail trade the sale of foodstuffs made 56%; it's 2.3% more in comparison with the previous year.

For the purpose of the food support of the population and with a view of agricultural commodity producers' stimulation fairs and exit trade are organized in the region. Since December 2008 40 agricultural fairs in 14 municipal areas and city districts were held; the general commodity circulation made more than 104 million rubles. Goods' purchase at the retail markets and fairs has increased in comparison with the period from January to May 2008 for 9.8%, however their share in the retail trade's turnover only makes 9%.

With a view of tracking the situation at the consumers' market the list of socially significant goods and the goods included into a standard basket of goods is generated. The monitoring of the presence of socially significant goods and the prices for the mentioned goods is carried out weekly.

Figure 4. Dynamics of habitation entry in the Vologda region, thousand of sq. m



***The urgent task is the economy's diversity.***

What is the principal cause of a rather painful perception the fatal crisis' influence by the Russian economy as a whole and by the regional economy in particular? In our opinion (and so the majority of experts believe), the matter is that the operating export-raw model has resulted in the low efficiency of the real sector of economy. Despite of the gross national product's growth in 2000 – 2007 the branches which were not connected with the export of raw materials actually were in the condition close to stagnation. The main effect was received in the raw sector and in the construction of the non-production premises. So, on the results of 2008 the profitability of the minerals' extraction made 42.4%, of the metallurgical production it made 39.2%, of coke and mineral oil production it made 21.1%. In the machines' and equipment's production the profitability made 8.3%, in the vehicles production it made 6.1%, in the textile and sewing production it only made 3.5%<sup>2</sup>.

For the countries using the raw model, the so-called "Dutch illness" is characteristic: the monetary streams of the country make an inflationary pressure upon its economy. For the inflation restraint these countries' governments have to carry out the fiscal and budgetary measures which extremely negatively influence the investment climate.

In this connection leaving the export-raw model, adjustment of the accelerated diversity's processes in the domestic economy operates as one of the priority-driven tasks at the current stage of development and demands the acceptance of adequate decisions. However it is important to realize that it is impossible to change the economy's structure for a short period of time. For example, in the Vologda region the share of metallurgy and wood com-

plex in a total volume of export is too great; now it makes about 50%. So the dependence on the foreign trade activities will still remain considerable for a long time. But it is useless to keep the raw monopolization; the diversity process is inevitable during the formation of the new management of economic development.

Nowadays diversity processes intensification, diversified holdings' and financial and industrial groups' creation, corporate sector's development of the country's economy prove the basic tendencies characteristic for the world economy. In Russia the corporate sector's formation is based of the so-called "traditional" companies, which are characterized by a high capital intensity of assets (which mainly have material character), and also by a high degree of the vertical integration and of the direct control over suppliers and consumers on the added cost's chains. The state initiatives concerning the industrial sector of the economy have inter-branch character and they are directed on the decision of the general problems for the companies of different groups or branches in view of their competitiveness' increase<sup>3</sup>.

The mono-structured economy of the Vologda region is a real disadvantage. The regional population's social and economic position doesn't have to depend on the situation at the world commodity markets (of metals, mineral fertilizers, wood production, etc.). The economy's structure must develop. And for the diversity's acceleration we must raise competitiveness of all the basic economy's sectors.

What does the model of the diversity's realization represent? On the one hand, it is directed to the industrial productions' and services sphere's development operating for the consumer demand's satisfaction. These are the so-called assets of the industrial economy. On the other hand, in the conditions of the global competition the major components of a company's success become knowledge,

<sup>2</sup> The annual economic report made by the Russian Public Organization "Russia's Business" / The Annual Business-Forum of the real sector enterprises (July, 1, 2009). – P. 4-24.

<sup>3</sup> Kondratyev V. State and Corporations in the Global Competitiveness' Strategy // Strategy and Competitiveness. – 2007. – №2 (14). – P. 48-54.

innovations and management technologies. Orientation on the industrial productions' development only cannot provide competitiveness in economy in a long-term prospect. And it means that in view of preconditions diversity should be directed on providing competitiveness for the transition to the postindustrial economy where the high level of the added cost can be reached due to the improvement of the human resources' quality and due to the intellectual potential's use. It is necessary to note, that exactly the "intellectual" sectors create the conditions for the traditional manufactures efficiency's increase.

Diversity in the regional economy is a qualitatively new category represented by a complex of multipurpose mechanisms, providing the real multiplicative effect from their realization. The mentioned mechanisms are focused on a more full use of economic working balances and organizational resources of territories, local competitive advantages, providing stable improvement of the population's living standards.

The strategy of the regional economy's diversity should provide a variety of optimal ways for its competitiveness' increase. In these conditions the basic mean of carrying out the policy of the diversity's introduction into the regional economy becomes a qualitatively new administrative mechanism providing the accelerated economic development. Such mechanisms' functioning is considered to lead to the creation of conditions for the total regional product growth and the population's living standard's increase.

#### *New regional development mechanisms' start.*

The regional economy's diversity covers the wide range of problems; many of them are necessarily to be solved during getting out of the crisis condition.

The executive and representative authorities should give paramount value to the small-scale and middle-scale business' development. It's the small-scale business that quickly enough adapts for the varying market conditions and, in turn, is the active participant of the innovative initiatives and projects. Such activity can be explained both by the high capital turnover, and by the use of various possible support forms of the mentioned participants of economic and social relations.

Nowadays more than 170 thousand people (27% of the total amount) are employed in the regional small-scale business. The number of the workers employed in the small-scale business in 2008 increased for 10 thousand people (6%). The small-scale business' share in the total regional turnover of the large-scale, middle-scale and small-scale enterprises made 14.4%. The dynamics of the production volume has been made in this regional sector recently, is submitted in *figure 5*.

The assets invested by small-scale enterprises into a fixed capital, have 4 times increased for 5 years (*fig. 6*).

For 2008 3 723.4 million rubles of investment into a fixed capital were used by small-scale enterprises; that makes 160% to the level of 2007.

Figure 5. Production volumes made by small-scale enterprises of the Vologda region, one million rubles

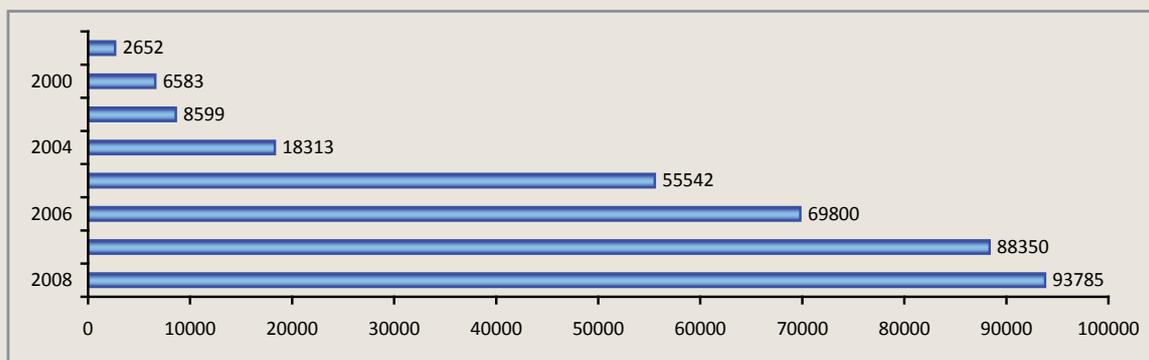
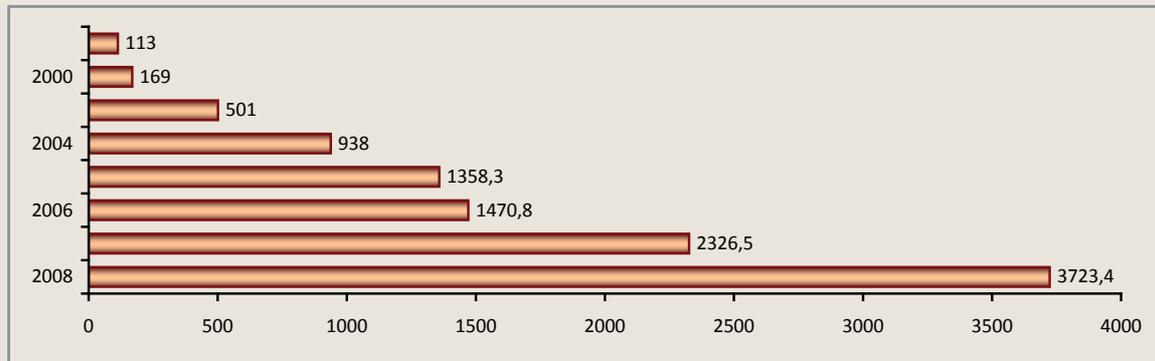


Figure 6. Investment volumes into a fixed capital made by small-scale enterprises of the Vologda region, one million rubles



The analysis of economic parameters of the regional small-scale business functioning shows a high degree of readiness of the mentioned sector for steady development and profitability increase. The earnings' volume from the taxes made 1 377 rubles (in 2007 it made 1 082 rubles) per head.

In the region the Law "About the small-scale and middle-scale business' development" is realized; the long-term purpose program (2012) connected with the program of assistance to the regional population's employment is approved and realized.

286.8 million rubles are planned for the long-term purpose program's realization on the small-scale and middle-scale business' development in the Vologda region for the period 2009 – 2012, including almost 66 million rubles for 2009.

Besides at the Federal level it was decided to give 74.9 million rubles to the region for the realization of the regional program within the framework of the assignments' limit provided by the Ministry of Economic Development of the Russian Federation. The following forms of financial support of the mentioned program's realization are planned:

- ⇒ subsidies for founding own business (grant support);
- ⇒ subsidies for compensation of a part of expenses on interests' payment on credits received in the credit organizations (2/3 rates of refinancing);

⇒ guarantees on providing obligations based on credit contracts (guarantee fund);

⇒ development of the micro financing system;

⇒ subsidizing the expenses for training on founding own business.

Nowadays 200 applications from the small-scale business' subjects are taken into account, 64 of them are approved and they will receive gratuitous grants for the sum of 18.9 million rubles. More than 190 applications are being under consideration. In 2009 these business subjects will create 315 workplaces, and the number of workers will make about 488 persons; in 2010 181 additional workplaces will be created. The average cost of the creation of 1 workplace makes 60 thousand rubles; it is approximately equal to the maximal annual unemployment benefit.

The total amount of projects' financing makes 82.6 million rubles, 54.3 million rubles (66%) of them are own means, 18.9 million rubles (23%) are the grant means, and 9.4 million rubles (11%) are extra means.

At the industrial enterprises the grant means mainly go for the equipment financing (85%) and for raw materials (15%). At the services' enterprises the grant means are spent for the equipment purchase (56%), rent of space (22%), office equipment (12%).

In 2009 the planned volume of the goods' (works', services') realization at the enterprises received the state support will make

164 581 thousand rubles. The volume of taxes and other payments to the budget and to the off-budget funds will make 25 047 89 thousand rubles in 2009, and 41 057 thousand rubles in 2010.

At the same time, besides the financial mechanisms stipulated by the regional program, in the Vologda region the Russian Bank of Development opened the credit line for the credit organizations; in 2008 it made 215 million rubles.

In 2009 the Russian Bank of Development gave the purpose credit to the Public Corporation "PromEnergoBank" for the small-scale business' financing (105 million rubles).

Granting the credit line of the Russian Bank of Development for the Public Corporation "SeverGasBank" under the state regional guarantee is being coordinated (the preliminary sum is 225 million rubles). The limit for region makes 365 million rubles.

The development of the credit unions and cooperative societies proceeds.

Nowadays the realization of the citizens' free money resources' involving into the small-scale business' development is carried out through 20 rural credit cooperative societies in 18 municipal areas. The number of members-shareholders makes more than 8 thousand people.

The Regional Law from September 25, 2008 "About the establishment of limiting values of the rented spaces and terms of the installment of payment for rented property at the realization by the small-scale and middle-scale business' subjects the right to purchase rented immovables being the property of the Vologda region and the property of municipal formations of the Vologda region" establishes the limiting areas of the spaces rented by the small-scale and middle-scale business' subjects as 1500 sq. m and a deadline of the installment plan of payment as 7 years from the date of the contract's conclusion.

According to the Law from February 27, 2009 "About the establishment of the tax rate under the tax raised in connection with appli-

cation of the simplified system of the taxation, for 2009" the tax rate of the simplified system of the taxation in some kinds of economic activities (light industry, food-processing industry, municipal services, national art crafts, internal tourism) is reduced to a minimum – from 15 to 5%.

The Decision of the Regional Government January 28, 2009 "About the rent for using the property being the property of the Vologda region, for 2009" stipulates the preservation in 2009 the rent size for using buildings and premises being the regional property at the level of the year 2008, and also 30% reduction of the rent size for the small-scale and middle-scale business' subjects.

In the Decision of the Department of the pecuniary relations the list of the regional property intended for possession transfer and (or) using by the small-scale and middle-scale business' subjects and by the organizations, forming supporting infrastructure for the subjects of enterprise activity is made up; the list includes the objects of premises with the area of 2 611 4 sq. m.

Another project has been realized with the support of the Ministry of Economic Development of Russia; namely the creation of the regional business- incubator in Vologda. The budgetary expenses for the project have made 131 6 million rubles for three years. The regional budget has undertaken the expenses connected with its functioning. The general area of premises in the business-incubator makes 3 045 sq. m, the quantity of offices makes 60 units. The workplaces are equipped with computers and other office equipment (150 places). There are 2 educational halls, a computer class, and 2 rooms for negotiations.

For three years 86 small-scale business' subjects handed in their applications for the participation in the competitive selection for accommodation in the building of "Business-incubator" and for rendering services under favorable conditions. More than 50 firms have passed the selection. 33 firms have been placed at "Business-incubator", 356 new workplaces have been created by this time.

The main aim of a business-incubator is rendering a complex of necessary services for businessmen's and small-scale enterprises' support whose activity is directed to the development of the new competitive goods and services, innovational technologies, etc. The idea of the small-scale business subjects' support by means of the business-incubation's programs consists in creating favorable conditions for the accelerated development of the companies, that can be achieved by the small-scale enterprises' protection from the influence of the entourage's injurious effect and, at the same time, by the complex influence on the needs arising at the enterprises at the early stages of their development.

The filial network of the business-incubator in the municipal formations is being created and it involves 6 additional offices in Gryzovets, Sokolsky, Belozersky, Vozhegodsky, Totemsky and Vytegorsky areas. This year 2 more offices in Velikoustyugsky and Kirillov areas are planned to be formed.

The municipal business-incubator also functions in Cherepovets at the non-commercial partnership "The City Development Agency".

The regional authorities believe that all these facts are evidence of the variety of opportunities for the steady regional economic development in the long-term prospect.

The major resource of the regional steady development is considered the consolidation of the efforts of authorities, business and society in realization of the mega project "Structuring and development of the steady agglomeration "Vologda – Cherepovets". Within this project's framework in 2006 the regional Government made a decision on the creation of the inter-municipal investment project "Industrial Park "Sheksna".

The basic idea of "Sheksna's" creation is the formation of the conditions suitable for the development of the small-scale and middle-scale business, the new business-climate, and the increase of the market space.

According to the Regional Government's Decree from 22.04.2009 № 664 "About the State Regional Investment Program for 2009 and the scheduled period 2010 – 2011" the inter-municipal investment project "Industrial Park "Sheksna" is included into the State Regional Investment Program.

Considerable privileges are given to the enterprises-residents of the industrial park "Sheksna". Among them are the following ones:

- ▶ privileges on the property tax from the date of the balance's account of the organization stipulated by the investment project for the period of 5 years;

- ▶ the decrease of the profit tax rate to 13,5% within 5 years from the date of the final commissioning the objects stipulated by the investment project;

- ▶ bonification under the transport tax of the basic means stipulated by the investment project for 5 years since the first of January of the year following after the year of commissioning the objects stipulated by the project.

The park platform is interesting and favorable for an investor first of all as the transport multi-logistic corridor, allowing to develop trade and to provide contacts' mobility with the partners in the country and the world. All kinds of transport communications such as railways and highways of federal value, the Volga-Baltic waterway and an air corridor Europe – Asia pass through its territory.

The industrial platform is located one kilometer from a corridor of high pressure gas-mains of Gryazovets – Vyborg, 300 m from a motorway "С-114" of federal value "Vologda – New Ladoga".

From the beginning of the project's realization in the industrial park the transition of the reserve and the agricultural grounds to the industry's grounds (400 hectares) has been carried out.

Significant design works on the first stage of the industrial park's development are carried out.

The following objects have already been constructed:

- the administrative-household building with a parking place for 95 automobiles;
- the diversion of the road “Nifantovo – Pacha” from the federal line Ç-114 “Vologda – New Ladoga”;
- the motorway to the industrial park (the southern entrance is 1,5 km);
- the eastern and western inter-territorial highways (the 1st turn);
- the line 10 kW from PS 110/10 kW “Nifantovo” and the compact transformer substation;
- the water pipe for drinkable and technical purposes;
- the diversion of the gas-main from the gas-distributing station Nifantovo to the Close Corporation “SeverStal Pipe-Type Plant” (Sheksna).

The number of the personnel at the industrial park’s newly-founded enterprises will make 5 thousand people.

Park creation and the accommodation in it the enterprises on the precision metal completion will allow:

- to keep the personnel potential of the enterprises, having redistributed the workers liberated from the metallurgical complex to the small-scale and middle-scale processing enterprises in the industrial park;
- to extend the chain of the added cost;
- to raise the quality and the competitiveness of the basic regional product;
- to stimulate the effective processing branches’ development in iron and steel industry and production of ready-made metal products.

Thus the new institutional basis of the steady economic development of the Vologda region is being created; it is characterized by the maximal concentration of resources in those sectors which development gives the greatest multiplicative effect for the economy as a whole.

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