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CENTRAL ECONOMIC AND MATHEMATICAL INSTITUTE
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## facts, trends, forecast

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# FROM THE CHIEF EDITOR

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Director of VSCC CEMI RAS

**Dear readers,**

In the face of ongoing Russian economic crisis the country's economic recession in the first quarter of 2009 amounted to 9,5% in January – April – 9,8%. Almost did not work the set of anti-crisis measures to increase lending to real sector of economy (the decline in the manufacturing industry in Russia in the first quarter has reached 17%, in the Vologda region – 24,7%). The unemployment growth has continued (in Russia in relation to the first quarter of 2008, its level was 114,7%, in the Vologda region – 133,2%). Outstanding arrears of wages have increased (in Russia it was 8754,6 million rubles to 2900,1m in 2008, in the Vologda region – 67 million rubles to 2,8 m).

Results of the April survey[1] of residents of the Vologda region in comparison with the survey carried out in February 2009, showed a further decrease in the percentage of respondents approving activities *(fig. 1, 2, 3)*:

- of the President of the Russian Federation – to 58,5%, February – 63,7%;
- of the Chairman of the Government of the Russian Federation – to 61,2, February – 68%;
- of the Governor of the Vologda region – up to 34,1%, February – 46%.

According to the poll, in April compared to February, Consumer Mood Index has slightly improved (+2,5 points). However, compared to August 2008, the index fell by 36,7 points.

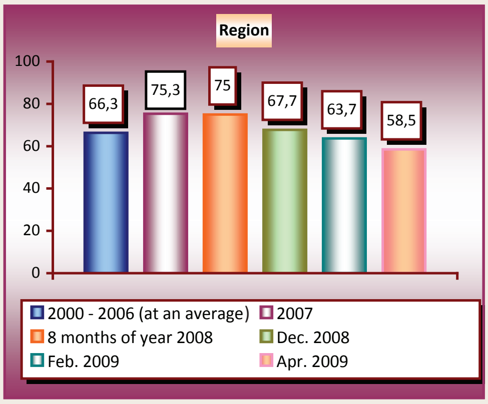
In the dynamics of social mood there have been some positive changes. In April the number of people experiencing stress, anger, fear, melancholy, brought down by six points and was 35,7% (in August 2008 – 21,7%).

Changes in the dynamics of patient showed some reduction in the proportion of those who believes that "tolerate our plight is already not possible", from 18,1% in February to 16,7% in April (August 2008 – 10,2%).

All these data indicate that the population in April compared with February has adapted to the crisis relative to their real life, but not satisfied with the efficiency of the country's leadership, the region to bring the economy out of crisis, which resulted in reducing the proportion of population approving the work of authorities to the lowest level since 2000.

The latest expert assessment of the situation in the world and the Russian economy (including those made in St.-Petersburg International Economic Forum 2 – 4 June 2009) show more variation of estimates, and there is no common view that the worst period is already behind us.

Figure 1. **How do you assess the current activities of the Russian President Dmitry Medvedev?** *
(the answer is "completely and largely approve")




* In 2000 – 2007 there is the assessment of the RF President V. Putin activities, from October 2008 – the same of D. Medvedev.

Figure 2. **How do you assess the current activities of the Chairman of the Government of the Russian Federation Vladimir Putin?** (the answer is "completely and largely approve")

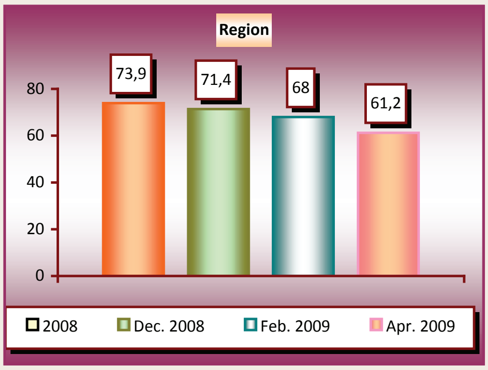
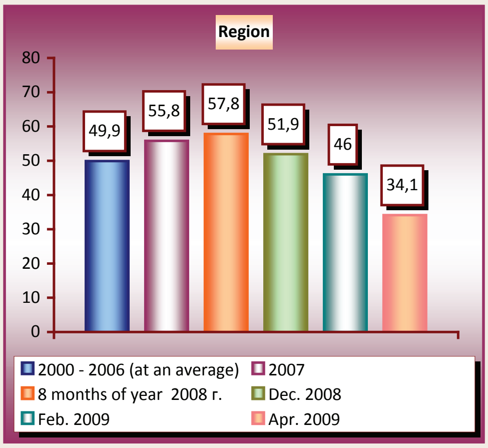



Figure 3. **How do you assess the current activities of the Governor of the Vologda region?**
(the answer is "completely and largely approve")

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[1] Vologda Scientific and Coordination Center CEMI RAS conducts public opinion polls in changes of the living standards of the Vologda region population twice a month.

Polls are held in the cities of Vologda, Cherepovets and in eight districts of the region. The amount of the total sample is 1500 people.

Representativeness of the sample is ensured by the compliance of proportions between the urban and rural population; proportions between residents of different types of settlements (villages, small and medium-sized cities), sex and age structure of adult population of the region.

The method of questioning is questioning at the place of residence of respondents. Sampling error does not exceed 3%.

The results of polls can be found on the site http://www.vscc.ac.ru/

The same idea is expressed in the analytical summary of the Institute of Economic Forecasting of the Russian Academy of Sciences, published in 23.06.2009:

*"Rosstat (Russian Federal Service of State Statistics) published preliminary data on the dynamics and structure of Russian GDP in the first quarter, as well as data on the dynamics of industrial production for April – May indicate that the crisis was much deeper than might be expected, and than we expected three months ago. At the same time the effectiveness of anti-crisis measures to support the economy especially in sectors such as construction and automobile industry is possible to recognize extremely low".*

There was the collapse of General Motors (GM) on the American market, one of the largest employers in the world, which produced more than half of American cars. Now this "American Icon" is a bankrupt. The stock exchange threw General Motors out of its indices from June 8.

In Russia there were protest actions of the people of Pikalevo against the indifference of business, regional and federal authorities to the plight of people living in monotowns. The Prime-minister of the Russian Federation Vladimir Putin had to sort out the situation, that he outwardly impressively did.

Of course, the examples are not equivalent, but these tragedies both American and Russian are united, in our view, in the origins.

Melor Sturua quite accurately identified the root causes of the incident[2]:

*"The bankruptcy of GM is not only the part of the bankruptcy of the USA. It is also the evidence of the bankruptcy of the whole system of the unbridled, uncontrolled free enterprise, the market... that to fight with global financial and economic crisis is impossible without curbing its fault – the free market and its priests. Only the State can protect its citizens from moneychangers who seized the temple and turned it into the trough and the barn".*

Unfortunately, in Russia "moneychangers" also has ruled. But the President and the Chairman of the Government have not still taken effective measures to exile "moneychangers" from the "Russian temple".

In an interview to the newspaper "Vedomosti" from 4 June, 2009 Minister of the Russian Federation for Economic Development and Trade E.S. Nabiullina gives in detail and specifically her view on the dire state of economic sphere in Russia in the

[2] Sturua M. The demise of GM – it is a bankruptcy of the United States and free market // Izvestia. – 2009. – № 97. – June 4.

Table 1. **The number of personnel engaged in research and development, per 100 thousand people**, per.

| № | Federal District | Indicator | |
|---|---|---|---|
| | | Year of 2000 | Year of 2007 |
| 1. | Central | 1 194 | 1 118 |
| **2.** | **North-Western** | **823** | **769** |
| 3. | Volga | 476 | 420 |
| 4. | Urals | 407 | 389 |
| 5. | Sibirian | 307 | 289 |
| 6. | Far Eastern | 208 | 218 |
| 7. | Southern | 164 | 161 |
| Russia | | 607 | 569 |

| Country | Indicator | |
|---|---|---|
| | Year 2000 | Year 2006 |
| Finland | 1 012 | 1 099 |
| Sweden | 810* | 865 |
| Japan | 707 | 732 |
| Germany | 590 | 594 |
| Netherlands | 553 | 581 |
| United Kingdom | 508 | 552 |
| Spain | 299 | 429 |

* Data for year 2003.
Source: Regions of Russia. Socio-Economic Indicators of 2008: stat. digest / Rosstat. – M., 2008. – P. 56-57, 796-797, Russia and the countries of the world. 2008: stat. digest / Rosstat. – M., 2008. – P. 30, 305.

Table 2. **Internal research and development costs**, in % of GDP

| № | Federal District | Indicator | |
|---|---|---|---|
| | | Year of 2000 | Year of 2007 |
| 1. | Central | 2,08 | 2,00 |
| **2.** | **North-Western** | **1,86** | **1,72** |
| 3. | Volga | 1,30 | 1,17 |
| 4. | Sibirian | 0,70 | 0,79 |
| 5. | Southern | 0,62 | 0,59 |
| 6. | Far Eastern | 0,53 | 0,57 |
| 7. | Urals | 0,58 | 0,50 |
| Russia | | 1,05 | 1,12 |

| Country | Indicator* | |
|---|---|---|
| | Year 2000 | Year 2006 |
| Sweden | 3,86** | 3,73 |
| Finland | 3,34 | 3,45 |
| Japan | 3,04 | 3,39 |
| USA | 2,74 | 2,62 |
| Germany | 2,45 | 2,53 |
| France | 2,15 | 2,11 |
| United Kingdom | 1,85 | 1,78 |

* Internal research and development costs, in % of GDP.
** Data for year 2003.
Source: Regions of Russia. Socio-Economic Indicators 2008: stat. digest / Rosstat. – M., 2008. – P. 350-352, 798-799, Russia and the countries of the world. 2008: stat.digest / Rosstat. – M., 2008. – P. 307.

first half of 2009. How does the Minister see the way out of the situation? «For us it is very important to focus on those areas that will reach out our economy. And this is not simply the development of specific sectors and industries, but an innovative behavior, innovative consumption, the demand for innovation, human capital development, improving productivity, efficiency. And it is not just a declaration».

But the facts show that since 2000 numerous appeals from the State (with one center of power) on the need for major investments in the country's future – R&D, science, education – in reality were simply a declaration *(see tables 1 and 2 )*.

Frozen for seven years the level of domestic spending on research and development, which has been and remains 2-2,5 times as lower than in developed countries, spoke about the lost years to transfer the country's economy from export-oriented to innovative path of development.

Now, when in the country two centers of power are more observed, it is more difficult in the face of ongoing crisis to refocus the strategy of national economy of the rough export structure to the best one – the organic union of science and innovative production and vertical integration of the corporate sector of the economy.

Dear readers, I tell you about changes that have taken place in the journal since the release of its fifth issue.

**Victor Ivanter**, RAS academician, Director of the Institute of Economic Forecasting of the Russian Academy of Sciences became a member of the editorial board.

Now we have an English version of the fifth issue on our site. The creation of the English version was made possible through the combined efforts of the organizers of the issue – the economic institutions of the Russian Academy of Sciences of North-West Russia. Editorial Board expresses special thanks to RAS corresponding member **V.N. Lazhentsev**, Doctor of Economics, Professor **F.D. Larichkin**, Doctor of Technics, professor **A.I. Shishkin** and Doctor of Economics, Professor **V.E. Toskunina**.

The preparation of English version of the journal took two and a half months. In future we plan to reduce the term of translating journal into English. Open access in the Internet to both versions of publications (English and Russian) will allow to get acquainted with the materials of a wide range of readers. We hope that this will increase the level of citation of our authors.

According to the decision of the Editorial Board by 1 September of this year, we shall apply for placing our journal in the prestigious international journal database Scopus. Now we are working hard in this direction.

As we planned, a large portion of publications in the sixth issue of the journal is devoted to the problems of small business development. In the familiar to readers "Opinions, assessments, comments" section we offer interesting material, which was kindly provided by Doctor of Economic Sciences, Professor **V.G. Naymushin**.

The seventh issue will be devoted to food security and agro-industrial complex.

The eighth final issue of the year is planned to be dedicated to problems and prospects of the development of mechanical engineering in North-West Russia.

According to the established practice journal does not publish articles only on the given subject matters. In this difficult time much of the country depends on what will shape the socio-economic situation in the regions. Dear readers and colleagues, we look forward to hearing from you new interesting materials about the dynamics of regional life, its problems and prospects.

# CONTENT

## SOCIAL DEVELOPMENT



## CONTINUING THE PREVIOUS ISSUE THEME



## OPINIONS, JUDGEMENTS, COMMENTS



## MONITORING

UDC 338.124.4(470)



# Anti-crisis influence reverences of the state

*The article describes the author's view on the measures taken by the federal government to overcome economic crisis, the direction of forming the country's stable financial system is concerned.*

*State economic policy, crisis management and its tools.*

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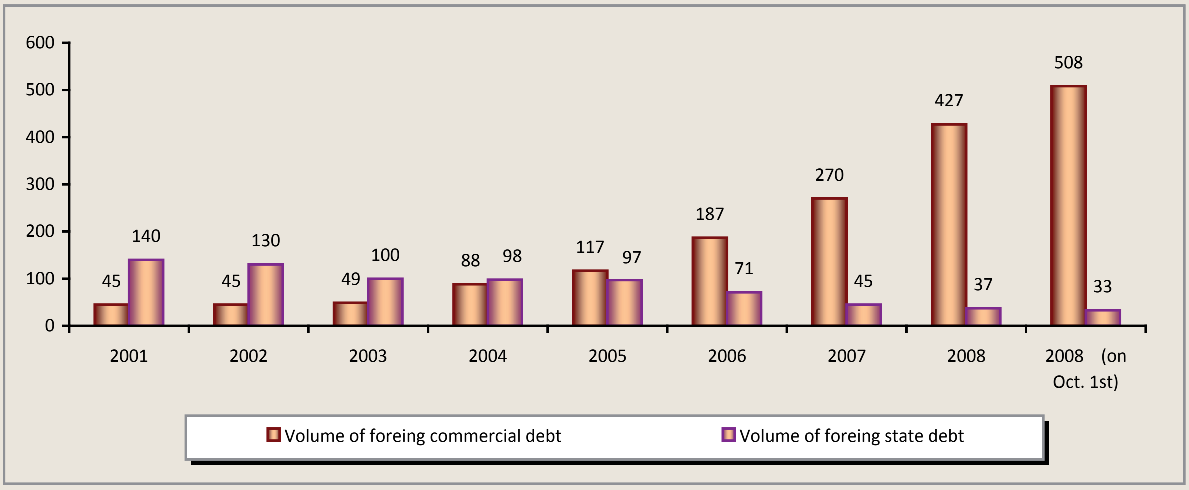
The openness of the Russian Federation economy in the context of globalization naturally reflected in the rapid coverage of the country by the world's financial crisis, which was introduced by U.S. credit institutions in mid-2008. The Russian government, confident in the «fermented» economic growth due to energy exports, has been caught napping. Not having the experience of crisis management, it reacted by more than six months late anti-crisis program presenting. Before that spontaneously use of monetary measures of government impacts on the credit market happened that could not provide impenetrable protection against unfolding economic reaction.

Subjects of the Russian market are sensitive to how the recession turns into an economic downturn, with its rise in inflation, cost of credit, depreciation of the ruble against the dollar, rising stock market, capital outflows from the country, increasing unemployment rate.

In the given circumstances, for market subjects it is certainly interesting to know what criteria are evaluated by the State crisis management decisions. To what extent they are crises, to whom they will be ultimately benefit? Can the economic institutions of Russia mitigate the effects of deteriorating economic conditions in a situation when the two major sources of growth in the Russian economy are exhausted, namely: a sharp fall in prices of domestic exports of basic products, cheap financial resources disappeared in the world market, of which businesses so fond in recent years *(fig. 1)*. And how couldn't they be fond of, if the refinancing rate in Russia was 11 – 12%, and in the United States it was reduced from 5,25 to 1% per annum, in Japan – up to 0,3%! And it is not surprising that the foreign borrowing of Russian commercial banks reached 65 – 70% of the total borrowings.

But debts must be paid, and a natural question arises: how can Russian companies do it independently, relying on the returns from past investment in the investment projects of money?

Figure 1. The volume of Russia's foreign debt (at the beginning of the year, $ billion) *




* Compiled according to the Central Bank of Russian Federation.

It is now clear that a direct borrowing on world financial markets have turned to debt problems for Russian companies. As a result, foreign corporate debt, including debt of banks and non-residents reached $ 500 billion[1]. And loans abroad have become virtually non-existent, as in the modern crisis, foreign banks are reducing the external operations and consolidate the liquidity of its head office[2]. For Russia, this contraction of leverage led to a drop in the stock market.

So, it is no accident that Russian businessmen and bankers together rushed for help to the state. And the State responded immediately purchasing “bad” debts are protected speculators from financial ruin. Already in August 2008 the deployment of so-called “balances the federal budget” on deposits began in commercial banks which has reached 800 billion rubles over two months. There also were deployed means of state corporations: “Housing and communal services” (180 billion rub.), “Rosnano” (130 billion rub.), as well as the national wealth Fund (175 billion rub.). Total as at March 16, 2009 the crisis state help to credit organizations amounted to more than 2,5 trillion rubles, while for the manufacturing sector it is planned 1,2 trillion rubles, and 23 companies out of 289 managed to obtain documents.

Naturally, a question arises: under what conditions are the taxpayers’ means placed and, apparently, will continue to be placed in commercial banks? What are the obligations taken by commercial banks on the targeted use of funds received, i.e., specific directions and the length of the loan of the real economy? How is margin of commercial banks for transactions with this type of loan limited? And what is the insurance that direct government support for banking liquidity and the subsequent amount of lending by commercial banks will not be factors in promotion of new inflation, will not be transformed by them into the currency and moved abroad? Unfortunately, no barriers were established, no restrictions are indicated.

Banks, which the State has provided liquidity prefer to translate it into foreign currency for hedging against currency risk or to reduce

[1] Of these, the debt of commercial banks has exceeded $ 200 billion

[2] In addition, there began to operate mechanism of margin calls, requiring replenishment of mortgages in their depreciation, which indicates a real threat to the borrowers to lose their assets.

its debt to foreign creditors. Only in the third quarter 2008 net capital outflow from Russia by private sector amounted to 17,4 billion dollars, of which 13,4 billion, or 77%, taken out by commercial banks.

A great concern of experts is of the order of public funds provision to business entities for the repayment of foreign debt. Without the introduction of the necessary security conditions and restrictions on management decisions regarding the allocation of the Bank of Russia 50 billion dollars in order to «provide credit organizations for settlement and servicing of loans and loans received from foreign organizations», and a new allotment for the same goal of 450 billion rub. from the national wealth will only lead to a new exodus from the country's capital.

From the perspective of the social interests government support for financial sector, in principle, should benefit all citizens of the country, if the effect would be to prevent the depreciation of deposits, preservation of jobs, etc. But, if look at it more attentively, it is easy to find that the Government refers to a way out of crisis through infusions of “new wine” (resources from the taxpayers) in the “old bottles’ (financial corporations standing on the brink of bankruptcy).

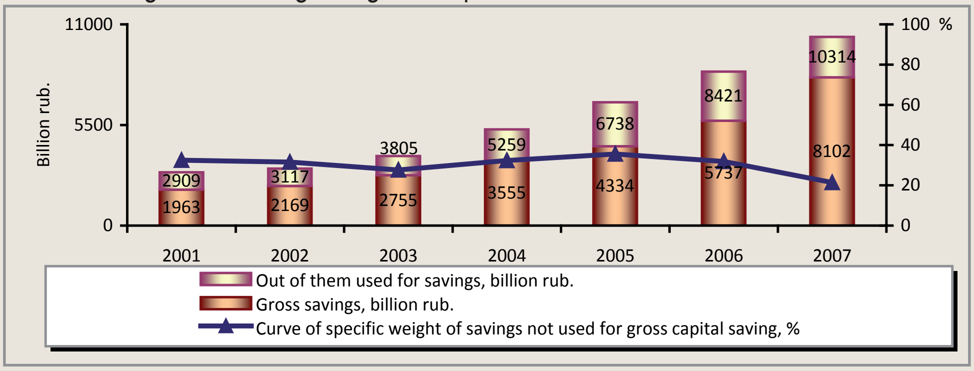
It turns out that financial institutions and economic agents, whose speculative activities immediately became crisis’ “launching hook”, not only don’t give up their savings, but do not reduce their superhigh income. It seems that this crisis is not an obstacle to them. Fees, which the top managers of major Russian banks receive are not reduced. Thus, according to the banks’ quarterly reporting, Gazprombank has paid its 14 top managers more than 70 million rubles remuneration, the Bank of Moscow – 67 million, Sberbank’s “top” of 23 people received 933 million rubles. And none of them returned multimillion bonuses obtained by means of state, in contrast to the well-known top-managers of the American insurance company AIG Financial Products (of course, at the request of USA prosecutors).

It is pertinent to recall the rule that liability for poor financial transactions must be assumed by those who commit them, not society. Hence it would be logical for the State concerned with how to prevent the collapse of the banking sector, and taking steps to its rescue and welfare, to speak only on the system generating banks and the recapitalize implementation in exchange for shares. Rescuing the debtor and giving the banks capital by increasing the guarantee on citizens’ deposits, the State assumes the risk for their decisions and these risks should be based on the material base of those for whom it has taken risks. Meanwhile, the fact that the Russian government spent half the gold reserves of the state to preserve the banking system does not facilitate access to credit producers and the public. On the contrary, there is compression of the credit market, while maintaining an artificial shortage and inaccessibility of money.

In the country it is not used to accumulate up to one third of national savings. In 2005 – 2007 this amount was an annual 2,3 – 2,6 trillion rubles *(fig. 2)*, about 10,5% of GDP were distracted from the economic turnover. Excess of total financial resources over resources that were actually used for gross capital formation is a net Russia’s lending to other economies. And even in 2008 the RF Ministry of Finance has increased from 32,7 billion to 116,4 billion dollars the amount of funds placed in U.S. Treasury debt securities, which put Russia eighth in the list of the U.S. economy’s creditors.

The present deplorable trend of foreign borrowing and capital flight suggests lowering the threshold of economic security and leading to the need to strengthen national owner-

Figure 2. Saving and gross capital formation in Russia in 2001 – 2007




The volume of bank deposits of legal and natural persons, involving credit institutions in Russia, at the end of the year

| Indicators | 2000 | 2005 | 2006 | 2007 | 2008 * |
|---|---|---|---|---|---|
| **In the Russian Federation** | | | | | |
| 1. Bank deposits of legal and natural persons and individual entrepreneurs in ***rubles and foreign currency***, total, bln. rub. of which: | 644,3 | 3 464,3 | 4 866,0 | 8 383,5 | 9 693,5 |
| a) legal entities | 199,5 | 741,5 | 1 062,5 | 3 231,8 | 3 929,7 |
| b) natural persons | 444,9 | 2 722,7 | 3 752,2 | 5 151,6 | 5 763,8 |
| including deployed in Sberbank | 347,1 | 1 500,1 | 2 028,6 | 2 656,2 | |
| 2. Bank deposits of legal and natural persons and individual entrepreneurs in ***foreign currency***, total, bln. rub. of which: | 331,2 | 948,6 | 1 454,9 | 2 071,9 | 1 510,9 |
| a) legal entities | 171,6 | 298,2 | 302,3 | 1 407,2 | 726,8 |
| b) individuals | 159,6 | 650,4 | 1 152,6 | 664,7 | 784,1 |
| including deployed in Sberbank | 81,1 | 274,8 | 257,6 | 264,6 | |
| **In the Vologda region** | | | | | |
| 1. Bank deposits of legal and natural persons and individual entrepreneurs in ***rubles and foreign currency***, total, bln. rub. of which: | 6,7 | 28,5 | 39,9 | 50,4 | 59,4 |
| a) legal entities | 2,8 | 9,1 | 12,5 | 16,5 | 21,5 |
| b) individuals | 3,9 | 19,4 | 26,9 | 34,0 | 37,9 |
| including placed in Sberbank | 2,6 | 10,6 | 14,9 | 19,3 | |
| 2. Bank deposits of legal and natural persons and individual entrepreneurs in foreign currency, total, bln. rub. of which: | 2,1 | 3,8 | 4,1 | 8,5 | 3,3 |
| a) legal entities | 1,3 | 2,0 | 2,5 | 6,8 | 2,7 |
| b) individuals | 0,8 | 1,8 | 1,6 | 1,7 | 0,6 |
| including deployed in Sberbank | 0,4 | 1,1 | 1,1 | 1,0 | |

* 9 months.
Sources: Russian Statistical Yearbook. 2007: Rosstat. – M., 2008. – 819 p.; Bulletin of Banking Statistics (regional application). – Moscow: Central Bank of Russia, 2008. – № 1.

ship of stock market[3] and forming of strong domestic liquidity sources. The basic element could make deposits from legal entities and natural persons *(see table)*. It is important to ensure that entering into the financial system resources reach the national producers in the real sector of the economy, serve a source of innovative investment projects, rather than remain in the wallet of Russian and foreign financial speculators.

[3] In the part of strengthening the national component of the stock market it should be noted that in the stock market of Russia no more than two per cent of its citizens play and it is unlikely to be saved from the budget when other opportunities for businesses are available. It is not the stock market, but the availability of credit resources in Russia is a source of growth of real sector.

Most analysts are united in agreement that the measures being taken by the federal authorities aimed at addressing short-term stabilization of financial market problems are weak. Ample fiscal injections in speculative banking sector have not turned it to solve the problem of efficiency and economy in order to upgrade the structural transition to qualitatively new production systems.

The marked challenge of technological change dictates the need for enhanced style of government regulation of Russia's economy on the basis of an immediate public-enterprise economy with a predominance of the nationalized economy (to which, inter alia, the U.S. government resorts in the financial sector). And if the economic entities of the Russian Federation intend to survive, and the country does not want to stay raw appendage of industrialized Western nations, first it should stop the movement of the budget trillions of rubles, and billions of dollars into the pockets of financial speculators, and not very clean at their hands oligarchs, and, next, to implement fiscal subsidies to the productive sector in the soft-landing basis as soon as possible.

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# Estimation of economic crisis influence on the basic branches and prospective projects in the Murmansk region

*The global financial crisis influenced national economic systems to a variable extent. The same trends can be observed at the regional level in the Russian Federation. In this article there has been made an attempt of the analysis of the basic system-forming branches in the real sector of the Murmansk area economy in the phase of the increase of the crisis phenomena, the ways of their overcoming are also considered.*

*Global crisis, economic instability, national and regional systems, analysis, branch regulation, enterprises, regional administration, business and authority.*

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Originally the object of this article was defined narrowly enough; the purpose was to view the crisis phenomena in the economic system of a separate region. However while analyzing the facts it became clear, that this could be practically impossible without taking into account the national tendencies which were caused by the mega economic processes. That's why a brief introduction with the initial preconditions is objectively necessary; and it should contain not only the separate figures, but the general information of crises' theory and practice.

Economic crises are sure to be the integral part of any social and economic formation. We shouldn't be afraid of loss. It is inevitable. At the crisis period the main economic target for a country, a company, or a person should be the increase of their efficiency. The problem is that the efficiency is not so much connected with the economy of the resources used in the completed cycle, but with the choice of the new goal. It is the goal that is more often forgotten at the crisis time, and the panic perception of the crisis is connected with this point.

This clear conclusion can be very painful from the conceptual point of view when we face to it in practice. The time instability is not so terrible; for the last decades the term "creative destruction" has been understood better; as it determines the inevitable positive influence, for instance the renewal of the reproduction systems.

The crisis' influence on separate groups and layers of the population, on a family, as the basic cell of a society, and on each person is dangerous. It is possible to assert, that for the last 80 years the set of the measures smoothing crisis' consequences in the society both at the national and at the international levels has been performed. The more successfully the real sector of the economy stabilizes, the faster this smoothing occurs.

The up-to-date global financial crisis is a part of the crises chain which was de-scribed in the economic literature. Only in 1990th there were some economic crises, which captured the whole groups of countries. In 1992 and 1993 some countries of the European Union (Great Britain, Italy, Sweden, and Norway) suffered from the current crises. In 1994 and 1995 the strong crisis which began in Mexico, spread to the other countries of the Latin America. In 1997 and 1998 the global financial crisis began in the countries of the Southeast Asia (Korea, Malaysia, Thailand, Indonesia, Philippines), and then it spread to the East Europe (Russia and some countries of the former USSR).

It is possible to recall a well-known Japanese recession at the end of the previ-ous century which in scales of a separate country was almost completely identical to the up-to-date global crisis.

In 1980th the cost course of the Japanese corporations' shares increased to 20 – 30% a year. At the last, exponential stage of growth in 1986 – 1989 the national actives' cost grew three times. Japan outstripped the USA and won the first place in the world in the absolute sizes of capitalization, having drawn off to itself the two fifth of the world capitalization [1]. At the end of December, 1989 no one of the Japanese and international investors could assume, that the stock Klondike would turn into a real hell and would involve the second largest economy in the world into a long one and a half ten years painful period of the hardest recession. At the very beginning of January, 1990 Japanese shares "fell down". Ten months later this process was followed by the rise in prices for the land and the premises. During the first year of the market falling the share capital lost 38% of its cost, ruining investors and putting hundreds of the financial institutions, having given credits provisioned by the stock assets, on the verge of bankruptcy. In spring of 2003 "Nikkei" index fell to the level of the begin-ning of the 80th and was approximately five times below the maximal marks achieved in the apogee of "Heicei boom" in December, 1989. After that Nikkei actives' index never rose above 60% of the precritical maximum, and nowadays, 19 years later, it has failed to the one fifth of its brilliant mark. During the considered period more than half of purchases of the Japanese shares were done by foreign investors, without their support the local share market "would fail" more strongly [1].

The present-day financial crisis differs from the mentioned one in its depth and scope; for the first time after the Great depression it captured the whole world. The problems in the market of the mortgage lending in the USA became the "trigger", which started the crisis mechanism. The bases of the crisis are fundamental reasons, including macroeconomic, microeconomic and institutional ones. The leading macro-economic reason was liquidity surplus in the USA economy, which was determined by many factors, among them are the following ones [2]:

- the general decrease of trust to the countries with the developing market after the crisis 1997 – 1998;
- investment into the American securities by the countries accumulating monetary reserves (China) and oil funds (the countries of the Persian gulf);
- the policy of the low interest rates which was carried out in 2001 – 2003, so as to prevent the cyclic recession of the USA economy.

Under the influence of superfluous liquidity the process of the "bubbles" market formation (various deformed, overestimated kinds of actives) became more active. During the separate periods such "bubbles" were formed in the markets of fixed property, shares and raw goods;

and all that became the important component of the crisis mechanism. According to the data of the international researches covering long time periods, credit expansion is one of the typical conditions of financial crises. Thus, the risks of the crisis development as the result of easing monetary and credit policies, having taken place in 2007 – 2008, are the general rule, not the exception.

Against this background microeconomic factors such as the development of the new financial tools (first of all the structured derivative bonds) promoted the crisis approach. It was considered, that their distributing among investors allowed to lower risks, and to provide correct estimation. Actually the use of derivative tools resulted in masking the risks connected to the poor quality of the substandard mortgage lending, and to their opaque distribution among the broad audience of investors. Finally, among the institutional reasons we should note the insufficient level of the risks estimation by regulators and rating agencies.

It is possible to note an interesting detail: at the Japanese corporations, which survived their own crisis ten years ago, the decrease of capitalization less appeared, in comparison to the leading companies in the USA and Europe. It is expected, that the economy recession in this case will be "softer".

It is typical, that the real sector of the leading countries both now and in the long term can avoid strong and sometimes catastrophic consequences, which are characteristic for the financial sphere. The analysis of the economic situation in 2008 allows predicting the global growth delay in the current year. In the November forecast of IMF the global growth delay is estimated at the level of 2,2%, and in the World bank forecast it is estimated at the level of 0,9%. Further it is possible to expect the reduction of these indices. The most advanced economies will face to serious recession this year.

Some analysts predict global recession as the result of the year 2009; such recession was not observed even at the periods of the greatest economic crises in the leading countries' economies in previous years. The most significant economic delay was observed in 1975 when the global growth made only 0,93% in comparison to the previous year; and in 1980 when its mark went down to zero (0,3%). But even in this case the re-cession was just the shares of interest.

However it is obvious, that the same real sector in different countries will have distinguished dynamics. According to analysts, to a greater extent the setback in production can mainly influence the economic systems of the raw orientation. Anyway, according to the changes brought into the Budget, the governmental bodies of the Russian Federation prepare for such variant.

On the eve of the crisis the Russian economy showed very good macroeconomic parameters: the significant proficiency of the budget, the fast growth of gold, currency reserves, and means in budgetary funds. At the same time some easing in the monetary, credit and budgetary policy has been admitted lately. In 2007 the charges of the federal budget increased for 24,9%, their growth exceeded the growth of the gross national product more than three times. The steadily low interest rates, negative in their real expression, were generated in the economy, and that resulted in rough growth of crediting. The natural result of all that was the "overheating" of economy. On the one hand, it promoted strengthening of the inflationary pressure, and on the other hand it promoted fast escalating of the external loans. For three years (2005 – 2007) the foreign debt of the private sector increased twice. By the beginning of 2005 it had made 108 billion USA dollars, and by the end of 2007 it made 417,2 billion dollars. The increase of the oil prices and of other goods of the Russian export masked the fast growth of the state expenditure and import. All the mentioned processes made the Russian economy vulnerable to the global crisis influence [2].

It is expected, that in 2009 and during 2010 and 2011 the external conditions of the Russian economy development will worsen in comparison with the previous three-year period. The delay of the demand growth which has begun this year in the group of the countries – leading importers of the Russian goods, the decrease of the growth rates of the consumer prices in the group of the countries – leading suppliers of the goods to Russia, and also the low prices for the raw goods will influence the Russian economy in the direction of economic growth restriction and inflation restraint.

The instability of financial systems, the aggravation of social problems and the delay of economic growth compel the governments of many countries to take various measures on stabilization of this situation and stimulation of their economies, including the measures of a fiscal policy. As the historical experience of carrying out the stimulating economic policy during crises shows, in most cases the basic role was played by means of the monetary and credit policy measures by virtue of their great efficiency. Nevertheless the discretionary fiscal policy can be used, with some restrictions, especially in the countries with the developing economy.

Let's note that the automatic stabilizers of a fiscal policy are considered to be rather effective and adequately working both in the conditions of recession and in case of economic "overheating". In Russia they are enough sensitive to the changes of the economic conditions, and also beyond the boundaries of the country; for instance, during the world delay of economic growth the tax for the oil sector considerably decreases, as the price for energy carriers reduces.

The analysis of the international experience and of the national tendencies of the economic instability under the crisis conditions allowed the Government of the Russian Federation to develop the Program of anti-recessionary measures for 2009, which is focused on seven basic priorities. Taking into account the basic aim set by the authors at the beginning of this article, we shall only note the main principles and measures of this direction support. It is necessary that the industrial and technological potential of the future growth should be kept and strengthened. Money will not be invested in preservation of inefficient manufactures [3].

At the same time the enterprises which have lately raised their efficiency, have invested in the new production creation and the development, and have raised their labor productivity, have the right to get the state assistance in the decision of the problems caused by the crisis. The main enhancement task is the change of the developed model of economic growth. The country will have to proceed from the raw dynamics to the innovational development. The major innovational processes, including the energy effectiveness increase, will be supported.

It is clear, that both in national and in regional economic systems the crisis phenomena proceed with a various degree of intensity. The Murmansk area is a typical raw region, and in this aspect the global recession influence on the basic regional enterprises at the end of 2008 was very serious. However at the beginning of the current year in some part of them the stabilization signs could be observed. The antirecessionary measures of the Murmansk area Government were taken for two basic directions, developing from the basic strategic purpose, such as the increase of regional economic system efficiency. The first of them is stabilization, which has already been mentioned, and the second one is the strengthening of the innovational processes, and the support of the perspective strategic projects.

The Ministry of industry and transport made the detailed analysis of the tendencies in the basic regional branches and complexes. It showed that the largest enterprise Open Joint-Stock Company "Kola mining and metallurgical company" (joins the holding "Norilsk nickel") has kept the pre-crisis positions in producing nickel along with some reduction of the copper commodity. Mass reductions of the workers' number at the enterprise are not planned; the actions on optimization are car-ried out. The similar situation takes place at the enterprise Open Joint-Stock Company "Apatite" with the personnel number of about 12 thousand people (Holding "FosAgro"). The enterprise capacity is 8,2 million tons of the apatite concentrate; nowadays the production volume corresponds to the pre-crisis level. Open Joint-Stock Company "Olenegorsky GOK" (Holding "Severstal") also stabilized the release of the iron-ore concentrate; however the building rubble production was practically reduced in 2 times.

In the depressive group of enterprises it is possible to mark the branch of Open Joint-Stock Company "SUAL" "KAZ-SUAL" (Holding "RUSAL"). In connection with the crisis sharply, almost in 2 times, the world price for aluminium has fallen; now it makes about 1350 USA dollars for a ton. At the same time the production cost price makes 1700 dollars; that has compelled the enterprise to lower the production in one and a half times, to preserve a part of electrolytic cells and to reduce about 30% of the personnel.

At the Society with Limited Liability "Lovozyorsky GOK" (Holding "Mineral-group") the economic problems are not connected with the crisis and are caused by limitations of selling of the basic product (loparite concentrate, tantalum, and niobium). Nowhere in the world this type of the raw material is used, in this connection the price for its production depends on the stability of the only consumer Open Joint-Stock Company "Solikamsk Magnesium Factory". The problems of Open Joint-Stock Company "Kovdor Mica", which was in deep crisis for five years, became traditional. The procedure of bankruptcy towards this enterprise has been initiated. Number of the enterprise personnel now makes less than 400 people.

The problems of the ship-repair branch are connected with the obsolete equipment, with the loss of qualified personnel, with the irrational use of the fixed capital (huge empty spaces are heated), and with the low competitiveness in the sphere of repair services.

The realization of the government contractual work of the Russian Defence Ministry is restrained from year to year in connection with the late opening of financ-ing and the necessity of carrying out competitions and auctions.

The creation of the Associated Ship-Building Corporation is carried out slowly; basically the organizational actions, which do not influence the industrial and economic activities, are realized.

At the same time the tendency to the improvement of the situation in ship re-pairing can be noted; it is connected with some increase in orders. The index of production in January and February, 2009 has made 100,2% in comparison with January and February, 2008.

The global financial crisis has affected transits by rail freightage. In 2008 it was transported 25 336,8 thousand tons cargoes; it is 8,8% less, than in 2007 (27 786 thousand tons).

In November, 2008 there was the reduction of the volume of freight traffic more than in 2 times *(fig. 1)*.

Now within the frameworks of the Federal Principal Projects "Modernization of the transport system of Russia (2002 – 2010)", "Development of the transport system of Russia (2010 – 2015)" the complex of actions on the throughput increase of the Murmansk railway transport unit is being realized. In 2008 the October Network of Railway Lines (ONRL) assimilated 55 billion rubles of investments. However, because of the crisis, in 2009 the ONRL plans to reduce the investment program to 57% (to 35 billion rubles).

In January and February 2009 the turnover of goods lowered for 35% in com-parison with the parameters of January and February 2008. Basically the transportation volume of building cargoes, iron-ore concentrate, and mineral fertiliz-ers went down. According to the data for March, 24, the turnover of goods by ONRL was reduced to 24% in comparison with the parameters for the same date of the last year *(fig. 2)*.

Nowadays the structural reorganization of the Murmansk branch, as well as of the Open Joint-Stock Company "RNRL", has been started.

The crisis didn't considerably influence the goods turnover at ports. The parameters of the port of Murmansk and the ports of Kandalaksha

Figure 1. Loading of cargoes by the Murmansk branch of the October Network of Railway Lines in 2007 and 2008

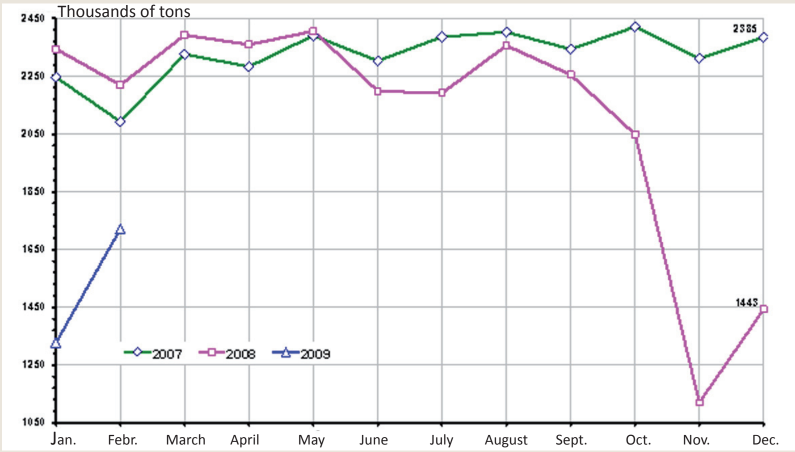



Figure 2. Turnover of goods at the Murmansk branch of the October Network of Railway Lines in 2007 and 2008 (in thousands tons)

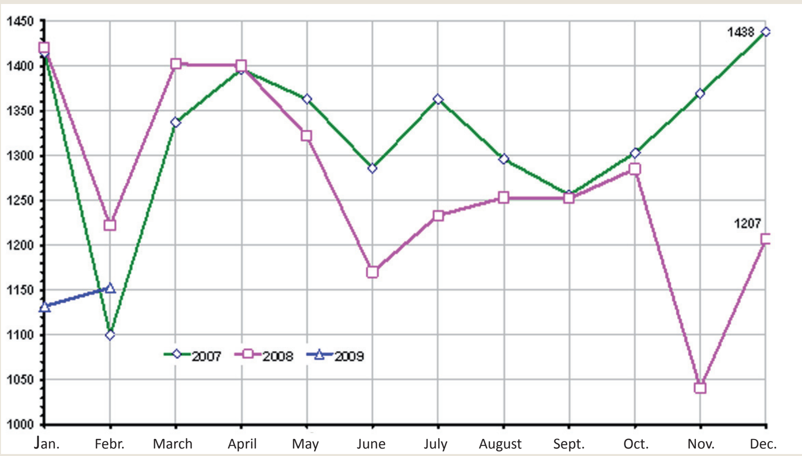
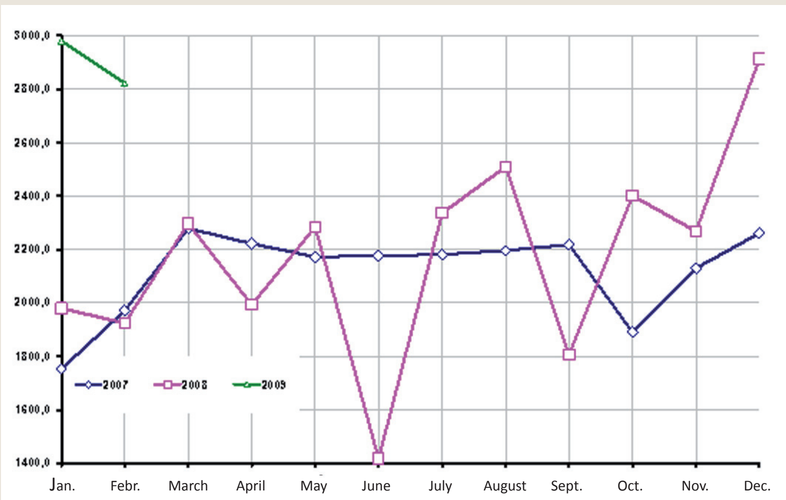



Figure 3. Goods turnover of the port of Murmansk (in thousands tons)



bay (the specialized port of Vitino and the trading port of Kandalaksha) made 30,3 million tons in 2008, it's 3,3% more, than in 2007 (29,3 million tons).

At the beginning of 2009 the goods turnover at the port of Murmansk consid-erably exceeded the parameters of the same period of the previous year. It is connected with the oil products volumes' increase by the enterprise "Belokamenka", which increased the transshipment volumes in 4 times in January and in 2 times in February, 2009, in comparison with the same period of 2008. The transshipment volumes of coal remained at the former level *(fig. 3)*.

The cargo transportation volume by motor transport has decreased for 30%.

The crisis didn't influence the passengers' conveyance by sea and by motor transport; however the amount of the conveyance of passengers by air transport has decreased for 20%, it was influenced by the cost increase for air tickets and by the decrease of the flights' quantity.

But mostly the crisis phenomena showed up in the electric power industry. In 2008 the demand for the electric power in the region made 12,946 billion kilowatt-hours. The power consumption forecast, which became the basis for the "Program of the development of the electric power industry system in Murmansk area in 2008 – 2010" (further – the Program), cannot be carried out because of slowing down the economic growth rates. Quite the contrary, from the fourth quarter of 2008 the de-crease of the power consumption volumes, caused by the crisis phenomena, is observed; and the achievement of the predicted earlier level in 2009 is not obviously possible. Carrying over the beginning terms of realization of many power-intensive projects on the industrial capacities development caused the absence of the necessary applications for the technological connection to the electric networks. Therefore the planned actions have not been realized. In view of the necessity of their performance in 2009 the subsequent realization of the projects on new electro network facilities construction and reconstruction is possible in later terms.

Nowadays a number of problems have emerged while realizing the Program and the actions concerning the territorial network organization (the branch of the Open Joint-Stock Company "Northwest MRSK" "KolEnergo").

The basic financing sources of the Program are the credit proceeds provided with a payment for the technological connection, the profit in the tariff for the electric energy transfer and depreciation charges. The tariff decisions for the branch of the Open Joint-Stock Company "Northwest MRSK" are the profit in the tariff for electric energy transfer at the rate of 194 million rubles and the depreciation charges at the rate of 204 million rubles. Taking into account the fact, that in Murmansk area the de-crease of the power consumption level, caused by the reduction of the industrial enterprises production volumes, is observed, it can be noted that, under the forecast based on the actual consumption for January and February 2009, the delivery decrease in 2009, in comparison with the balance of the federal tariffs service, can make 12,5%. As a result, in 2009 the branch of the Open Joint-Stock Company "Northwest MRSK" "KolEnergo" predicts the loss at the rate of 295,2 million rubles, and the opportunity of net profit use for financing the Program is completely expelled.

According to the decision of the tariff regulation committee of Murmansk area from 20.03.2009 № 10/2, in 2009 for the branch of the Open Joint-Stock Company "Northwest MRSK" the financial assets are stipulated at the rate of 1 063 million rubles; their source should be the payment for the technological connection to the company electric networks. The guaranteeing for the application should be the advance payment at the rate from 5 to 30% of the contract sum of the technological connection; but in most cases consumers, for various reasons, do not do that. Therefore, under the existing economic conditions, the growth of the quantity of new large electric energy consumers can turn out improbable and the means stipulated by the tariff decisions will not be accumulated.

It is also necessary to take into account a real financial position of the company which by the present moment has practically exhausted the potential of the costs de-crease and the attraction of credits characterized by short terms of repayment and high interest rates. The situation is also aggravated with a sharp growth of consumers' non-payments. For instance, the Open Joint-Stock Company's "KolEnergoSbyt" debts to the branch of the Open Joint-Stock Company "Northwest MRSK" "KolEnergo" made about 440 million rubles for March 19, 2009.

The Open Joint-Stock Company "FSK NPG" (power circuit 330 kV) doesn't show any activity in the realization of the major civil-engineering design of a new substation 330 kV "Murmashinskaya", and the project "Reconstruction HVL-330 kV Monchegorsk – Olenegorsk". According to the available information, the company on the national power grid control plans significant reduction of the investment programs. The Open Joint-Stock Company "TGK-1" also reconsiders the investment planning towards the capital investments' reductions or the significant carryings over of the projects' realization terms, including the civil-engineering design of "Murmansk Thermal Power Station-2".

As to the receivable accounts growth in the electro power sphere, there was a critical situation with the debt of the Open Joint-Stock Company "KolEnergoSbyt" on the payments to the wholesale market of the electric power for March 10, 2009, which exceeded 1,7 billion rubles that can cause the enterprise's bankruptcy. The principal cause of this debts' formation is a sharp receivable accounts growth for the electric power consumed in the retail market. So, for March 1, 2009 it reached 2 billion rubles.

It is necessary to note, that the mentioned company carries out the electric power purchase at the wholesale market of the electric energy/capacity with the subsequent sale in the region (the retail market) to the other guaranteeing suppliers, to the energy distributing organizations and to the consumers.

As to the strategic investment and the innovational projects, the economic crisis influenced them differently. For instance, the project of the Closed Joint-Stock Company "Northwest Phosphoric Company" (holding "Akron") is being realized. The new apatite-nepheline ores' deposit "Olenij Ruchej" is being exploited; there 6 million tons ores a year will be processed by means of high technologies. The infrastructure objects' construction and the industrial projects are carried out; more than 3 billion rubles of investments should be used this year.

The development works at the platinoid deposit "Tundra Fedorova" of the Closed Joint-Stock Company "Fedorov Resources" (its founder is the Canadian firm "Barrik Gold Corporation") are intensively carried out. The planned labor productivity, which will twice exceed the working domestic analogues, shows the innovational level at the enterprise.

The main strategic object in the Russian Arctic region for the nearest 10 years is the Shtokmanovskoye gas condensate deposit with the natural gas extraction of 90 billion $m^3$ a year. The project has both the economic and geopolitical value determining the country's position in the shelf development in the long term. The domestic companies of this sector remain behind the conducting operating states working in the Arctic regions (Norway, Canada, and the USA). The deposit development will allow not only to use the new technologies, but also to obtain the competitive positions, tak-ing into account the specific conditions of the project realization.

It is obvious, that the crisis will seriously amend to the terms of the project re-alization in the connection with the sharp capitalization decrease, and consequently, with the credit opportunities of the basic participants (Gazprom, Statoil-Gidro, Total). However the works on the infrastructure formation continue and the investments of the current year can reach 2 billion rubles. The company's administration made the statements that the price-cutting for the metals and the design organizations' services, caused by the crisis, leads to the decrease of the capital expenses and raises the object's appeal.

As to the investment project "Development of the Murmansk transport unit", its realization can be delayed a little; but it won't lose its appeal considering the presence of the objective competitive advantages, such as:

1. The geopolitical position caused by the open exit to the Atlantic and the World Ocean, limited for the ports of the Baltic and the Black seas by the systems of the "closed" passages.

2. The opportunity to accept at the Kola bay moorings large-capacity water craft, including tankers with the deadweight over 100 thousand tons, and supertankers without carrying capacity restriction.

3. The favorable navigable conditions allowing all-the-year-round transporting cargoes to the Atlantic without icebreaking support.

4. A rather developed railway system, allowing to deliver cargoes to the ports in the volume of 35 million tons a year; and after the modernization and the transition to the full two-acceptable circuit of 50 million tons a year. It is important to note, that the Murmansk area is a raw region with a large-scale export of concentrates and a return empty run of a rolling stock.

5. High industrial and personnel potential of the area that causes the investment rating among the first third of the Russian Federation subjects.

As a whole the anti-recessionary policy of the Murmansk area Government in the real sector is based on carrying out active conciliation procedures with the leading enterprises and the support of the small-scale business. The main purpose is work-places' and industrial potential's reservation. And the main principle is readiness for compromises. Not because the compliance allows getting access to the additional re-sources; but because such readiness makes the environment less intense, and in this way enables to make the way more easy for stabilization and new trends. In our opinion, readiness for compromises and for consolidation of elites and societies distinguishes those countries, regions and companies which will manage to pass the crisis successfully, from those ones which will fail.

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# REGIONAL ECONOMY

## The issue theme: Small entrepreneurship development

UDC 334.012.63/.64(470.12)



# Strategic management as a factor of small and medium-sized entrepreneurship functioning enhancing

*The article is devoted to actual problems of small and medium-sized entrepreneurship's development. Characteristics of the main directions of small and medium-sized businesses at the federal and regional levels development is given, the strategic management of small and medium-sized businesses features are identified.*

*Strategic management, small and medium entrepreneurship, efficiency.*

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Academic research in the field of small and medium-sized businesses have begun to develop recognizing the importance of this sector as a major source of job creation and economic growth, which was especially pronounced in the 90s years of the twentieth century. Progress in the theoretical development of the strategic management concept in small and medium enterprises is largely attributable to a significant contribution of this sector in the maintenance of the economy and the welfare of the population in most countries of the world.

While a substantial amount of research related to strategic management, and strategies analysis was done for large corporations, strategic management concerning small and medium business almost has not been developed until recently. Traditional strategic management researchers have faced the need to define this concept in terms of the formation of plans, as the main objective was to develop an optimal strategy for large organization parameters.

Meanwhile, economically developed countries' statistics shows that each year tens of thousands of small and medium-sized enterprises go to "self swimming". However, almost as many enterprises curtail their business with an enviable constancy, and the only a few are able to stay on the market for more than a few years [1].

There are quite simple ideas and concepts that can greatly increase the chances of success of any enterprise. The concept of small and medium enterprise has come to Russia from Western countries, where it has begun to emerge as the main pillar of the economy. Presumably, massive lay-offs in large corporations could be one reason for this phenomenon, when their redundant workers were subsequently employed in small and medium enterprises [3].

In the Russian Federation Small and Medium Business began developing relatively recently. If in the middle of 1980s there were about 40 thousand enterprises and they were all public, by 1994 the number of registered companies has reached 900 thousand, 90% of which were private. In 1991 – 1992 with the advent of the Russian Federation laws "On property in the Russian Federation" and "On enterprises and entrepreneurial activity" procedure for registration simplified.

If the process of formation and development of small and medium-sized businesses in foreign countries was held for decades, in Russia the million-strong class of businessmen-owners who have the desire and ability to work has been formed just for a few years *(table 1)*.

The data of table 1 shows that in 2007 compared with 2000 the number of small businesses has increased by 255 thousand; average number of people employed in them has increased by 2 million people. An important factor in enhancing the role of small enterprises in the economy is the sharp increase in fixed assets investment, indicating an increase of material and technical base of small businesses as an essential condition for their further development. Thus, investment in fixed assets of small businesses in 2007 compared to 2000 increased 5 times and amounted to 22,7 mln. rubles per one small enterprise.

In the past few years, small and medium businesses the Vologda region is developing quite stable. Comparison of the Vologda region to other NWFD regions (excluding St.-Petersburg) by the number of small and medium-sized enterprises shows that it takes a middle position in the overall ranking table – 5th place out of 9. The size of small businesses in the region is larger than in the NWFD regions. One such enterprise in the Vologda region employs, on average, 15 people, in St.-Petersburg – 6 people. Major indicators of small and medium-sized businesses is shown in *table 2.*

Table 1. Basic indicators of small enterprises activities in Russia

| Indicators | Year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 to 2002 |
| The number of small businesses (at the end of the year), thousands | 882,3 | 893,0 | 953,1 | 979,3 | 1 032,8 | 1 137,4 | 28,9% |
| The average number of employees (excluding external workers), thousands of people | 7 220,3 | 7 458,9 | 7 815,1 | 8 045,2 | 8 582,8 | 9 239,2 | 28% |
| Average number of external workers, thousands of people | 502,9 | 546,9 | 608,6 | 630,4 | 656,5 | 640,2 | 27% |
| Average number of employees who performed work on contracts of civil law, thousands of people | 252,9 | 249,0 | 243,5 | 258,1 | 229,3 | 277,9 | 9% |
| Investment in fixed capital, bln. rubles | 51,0 | 67,3 | 99,2 | 120,5 | 171,3 | 259,1 | 5 times |
| Small businesses turnover, bln. rubles | – | – | – | 9 612,6 | 12 099,2 | 15 468,9 | 100% |
| The number of small enterprises per 10 thousand people | 61 | 62 | 66 | 69 | 73 | 80 | 31% |
| Source: Small business in Russia 2008: a statistical digest / Rosstat. | | | | | | | |

Table 2. Major indicators of small and medium-sized businesses in the Vologda region

| Indicator | 2005 | 2006 | 2007 | 2008 | 2008 to 2005, % |
|---|---|---|---|---|---|
| Number of employees in small and medium-sized businesses, thousands of people | 145,0 | 156,0 | 160,0 | 169,2 | 16 |
| The turnover of small and medium-sized businesses, bln rubles | 55,5 | 69,8 | 79,6 | 72 | 29 |
| Source: Business and power: regional business magazine. – 2009. – № 2 (17). | | | | | |

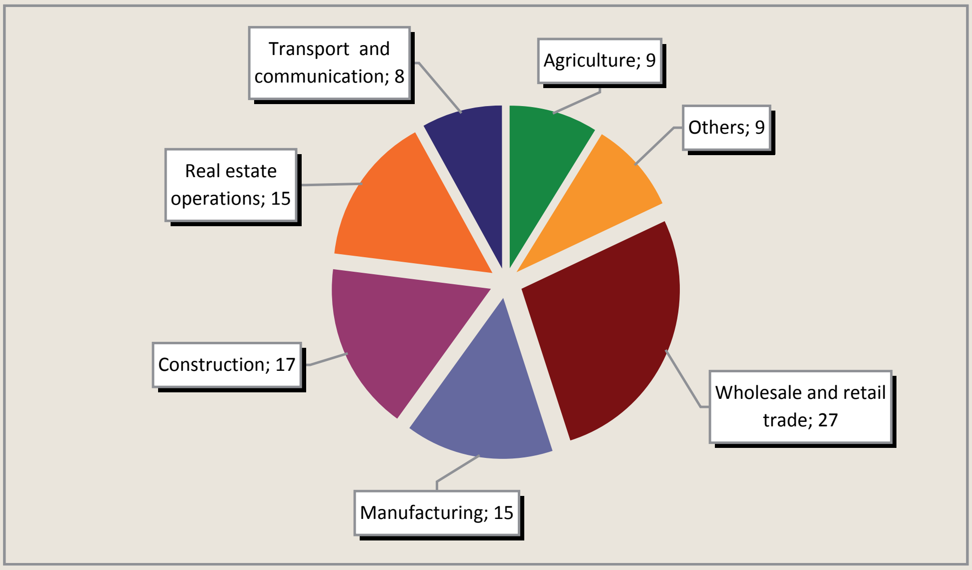
Being inferior to other NWFD subjects by the number of small and medium-sized businesses the Vologda region holds a leading position in terms of number of employees at one company.

Sectoral distribution of main activities in the Vologda region has a slight difference from the distribution in the Russian Federation. Small and medium-sized businesses in the region mainly focus on wholesale and retail trade (the region – 27%, Russia – 32,1%), real estate, rental and service delivery (the region – 15%, Russia – 13,7%; *fig. 1*).

Another feature of the small and medium-sized businesses in the Vologda region is the dominance of individual entrepreneurs (58% in the structure of employment) over small and medium-sized enterprises (42%). The average number of individual entrepreneurs in the region is 32,7 people per 1 thousand inhabitants. This is higher than in Russia (24,1) and St.-Petersburg (14,3), which is connected with the taxation peculiarities and registration simplification. Individual entrepreneurs specialize in wholesale and retail trade (45%). Their share in transport and communication is 16,5%, in the provision of public utilities, social and personal services – 10%. Employment of individual entrepreneurs in manufacturing and agriculture is fixed at 7,2 and 6% respectively. Individual entrepreneurs, in contrast to the small and medium-sized enterprises have already mastered the provision of public utilities, social and personal services.

The issue of strategic development of these enterprises, as claimed by some researchers, is that the formal procedures of strategic management are inappropriate in the context

Figure 1. The structure of small and medium-sized businesses by type of activity in the Vologda region in 2008, %




Source: Business and power: regional business magazine. – 2009. – № 2 (17).

of small and medium-sized enterprises. They have neither the management nor the financial resources that could be used for strategic management techniques (Cragg and King, 1988; Shrader, 1989; Watts and Ormsby, 1990). A number of studies have concluded very little relationship of strategic planning and operations of small and medium-sized enterprises (Unni, 1981; Robinson; 1984; Orpen, 1985). These studies indicate the dual relationship of planning and operation of small and medium-sized enterprises. It is anticipated that planning value is reduced by such factors as uncertain activities, management competence and companies' development stage.

Small and medium enterprises is a relatively new area of research within the framework of strategic management (Chell, 2001). According to Hanlon and Scott (1995), the model of rational planning is the most promising in the development of small businesses strategies. Planning is often viewed as the company's key to the success, since it reduces uncertainty, warrants alternatives consideration and helps managers to interact with investors. Thompson argues that entrepreneurs should have the ability to think and act strategically. Strategic management is seen as a necessity, it is recognized that the development and implementation of business strategies in small and medium-sized firms are different from similar processes in large companies.

In our opinion, the publications devoted to small businesses interpret strategic management without reflection of its essence. The concept of strategic management is applicable to small and medium-sized businesses. However, it is necessary to take into account a number of specific characteristics of this sector of the economy, which should leave their mark on the development strategy of such organizations.

So, what is the difference between the process of strategic management in small and medium enterprises and a similar process in large companies? The process of strategy forming in large companies comprises four main stages: 1) strategic analysis, 2) identification of strategic alternatives, 3) strategies developing and 4) strategy implementation [3, 5].

*At the stage of strategic analysis* both external and internal factors to development of the company or hindering it are taken into account. A comprehensive analysis of the company is made: its strengths and weaknesses, potential and internal reserves, the financial situation. The analysis allows presenting the company's present situation, and drawing the line, following which it will be able to use its capabilities. This phase is needed to determine the company's readiness to strategic action.

*"Strategic alternatives" stage* includes the definition of the mission and the goals, finding ways and means to achieve them. This stage is crucial, because by defining the goals of development, the company is focusing its resources on the implementation of those operations, which correspond to a given direction. Alternative strategies and primary economic rationale for the effectiveness of each of the proposed alternatives are also made here.

*The strategy development* is the development of the most appropriate choice, formulating strategies and developing business projects, plans and programs for its implementation. *Stage of the strategy implementation* is carried out using previously developed plans, linked to each other and corresponding to the strategy content in all major functional areas of business enterprise.

After completion of the strategy implementation a monitoring mechanism to assess the impact of implemented strategies in the enterprise is established. This mechanism should include a definition of criteria for results evaluating, comparing actual performance with targeted, analysis of variances between actual and targeted rates, adjustments to the strategy if necessary [2].

Logical framework of strategy development for small and medium-sized businesses and

Figure 2. The scheme of strategic management for small and medium business


its implementation is as follows *(fig. 2)*. Small and medium-sized businesses do not fit into the strategic management process including the study of the surrounding business environment, building, strategy implementing and its results evaluating. These companies must have a new mission, goals and new strategies and policies which reflect the correlation of external opportunities and threats to internal strengths and weaknesses. Differences in procedures for the development strategy for small and medium-sized businesses from a similar procedure for the large business is that the process of strategy development for small and medium businesses requires a definition of the principal possibility of business constructing in the initial stage. While for large companies strategic management is one of the components of the controlling mechanism and there are no questions concerning the possibility of the organization's functioning as a whole. In other words, the strategic management in small and medium enterprises should react to more quickly to changes in the external environment, i.e. to be more detailed. Therefore a modified version of strategic management model is proposed, which is more in line with the "new entrepreneurial business".

The "new entrepreneurial businesses" is understood as a new level of development of business relationships that are taking place in Russia today. These relationships are different from those that were in the country in mid-1990's.

The model of strategic management for small and medium-sized businesses in every industry has specific characteristics. However, the proposed universal model, with certain adjustments fits for all small and medium-sized businesses.

In the stage phase the basic idea of business is developed. In the second and third stages organization's internal and external environment is studied, both the possibility and threats from the external environment are identified. The fourth stage is devoted to an analysis of strategic factors to the application of SWOT-analysis. At the fifth stage, it is decided whether or not to proceed. If it seems that the main idea of the business can be carried out effectively, it should be continued to operate. Otherwise, it is necessary to abandon further development of ideas, until there is no change in strategic factors. In case the feasibility of the main ideas of the business is assessed as achievable, a mission, objectives, strategies and policies are developed at the sixth stage. At the seventh stage the implementation of business plan using the plans and actions is taking place. Finally, at the eighth stage the actual performance is compared to the planned. Dependent to the extent that the actual results differ from the planned one should revise the mission, its objectives and strategies.

A distinctive feature of the proposed model of the strategic management system in small and medium enterprises is the clarity and specificity of action, which increases their efficiency.

Thus, the system of strategic management is a key element of successful operation, not only large corporations but also small and medium-sized enterprises. The presence of a strategic approach helps small and medium enterprises to build competence in a continually changing external environment, which will undoubtedly have a positive effect on activity.

The proposed model of strategic management in small and medium-sized enterprises is more adapted to the realities of this sector of the economy and serves as a universal, simplified model, by means of which one can start to build a system of strategic management.

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# Prospects of small innovative enterprises in academic and higher education institute's science sectors of St.-Petersburg

*On the basis of the analysis of group of the small innovative enterprises of the academic and high school science of St.-Petersburg problems and ways of their overcoming are revealed. Offers on activization of their development are given.*

*The small innovative enterprises, the academic and high school sectors of a science of St.-Petersburg, problem, prospect, methods of activization of development.*

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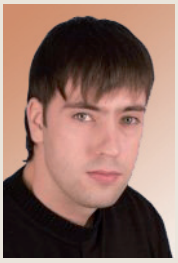

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The importance of innovative business in the academic and high school sectors of science means market realization of the results of fundamental and applied research work that is bringing scientific results to reality, to their consumers.

Firstly, to some extent it means a certain decision of the ever existing problem of the connection between science and production. Secondly, it means implementing various scientific achievements into the technological level of production.

Commercial activity aimed at profit earning is a motive of innovative business. Reasons of state (rise of technological level of production on the basis of the up-to-date scientific achievements), scientific community (practical realization of the results of the scientific work and rise of its social importance), innovative business owners (getting an excess profit at the expense of intellectual rent put into the price of innovative produce, service) are included in innovative business development, rise of its effectiveness.

One of the forms of innovative business is small innovative enterprises (SIE) in the academic and high school sectors of science. Within 10 year's time such enterprises showed their strong points being the link between science and production and their problems and difficulties. Economic literature gives certain examples of successful activity of some small innovative enterprises as well as the problems which complicate their development. However, there is no generalization and systematization of the main ways to overcome negative influence of the problems.

Activation of scientific-innovative activities aimed at the rise of scientific-educational potential in the technological boost of core sectors is the main course of economic development of Saint-Petersburg. That is why the most urgent point is to reveal still unsettled problems of creating small innovative enterprises, developing their activity and successful functioning, and demand for the new product from the domestic enterprises. It is also actual to reveal potential preconditions and to introduce suggestions on their activity in Saint-Petersburg – a megalopolis with high concentration of scientific-technical and educational potential.

### *1. Analysis of small innovative business in the academic and high school sectors of science of Saint-Petersburg.*

Small innovative business is based on a small-scale organization of production and is characterized by limited resources for economical activity. Qualitative criteria of small innovative business are: comparatively small resource markets and outlets which prevent influence on sectoral market, usually regional type both of production and sales of products, key role of the owner in the enterprise functioning, personalized relationships between its manager and clients, enterprise comprehension, personality kind of relationships in the enterprise.

Although small innovative enterprises do not influence greatly innovative boost of the economy sector (with the exception of some projects) they find their niche in the process of integration of science and production and their main goal is to bring fundamental and applied research work to their practical implementation under the condition of achieving reasonable profitability of the process.

*Table 1* contains the description of a group of small innovative enterprises set up on the basis of the Institute of Physics and Technology named after A.F. Ioffe RAS.

According to the data of the table the following points are characteristic for the SIE under consideration:

- comparatively small output – from 0,9 to 7,8 million roubles and a small number of the employed – from 8-9 to 27 people;

Table 1. General description of a group of small innovative enterprises set up on the basis of the Institute of Physics and Technology named after A. F. Ioffe RAS

| Ioffe-Led | AIBI | Elfolyum | “Beliy Svet” |
|---|---|---|---|
| ***Business entity*** | | | |
| Limited company | Limited company | Limited company | Limited company |
| ***Year of registration*** | | | |
| 2005 | 2004 | 2004 | 2004 |
| ***Output per year, million roubles*** | | | |
| 0,9 | 7,8 | 3,3 | 3,9 |
| ***Number of the employed*** | | | |
| 8 | 27 | 9 | 9 |
| ***Place of product delivery*** | | | |
| Russia | Russia, abroad, institutes | Russia, institutes | Russia, institutes, factory “Svetotechnika” |
| ***Name of product*** | | | |
| Photodiodes, light-emitting diodes, lenses etc. | Wholesale electronic devices | Laser nanoheterostructure | Light radiators of different types |
| ***Shareholders of SIE*** | | | |
| Developers, the Institute | Developers | Developers, the Institute | Developers, the Institute |
| ***Financing source while creating and organising the production*** | | | |
| Own funds, federal budget funds | Own funds, federal and regional budget funds | Own funds, federal and regional budget funds | Own funds, federal and regional budget funds |
| ***Occupied area*** | | | |
| No lease | Lease | No lease | Lease |

- the production is based on the research work of the scientific associates of the Institute who are the directors of the small innovative enterprises;
- the output presents the type of devices or their components corresponding to the type of scientific work of the Institute;
- the consumers of the output are mainly Russian research institutes;
- an overall support is given to the small innovative enterprises as the scientific associates of the Institute take part in their activity and the Institute itself being their shareholder selectively puts its space at the SIE's disposal. Besides, the Support Center for Innovations is set up at the Institute. It functions in the sphere of business and tax accounting, relationships between material suppliers and product consumers.

The fact that the financing source while creating small innovative enterprises at the Institute consists of the scientific associates' own funds is the characteristic feature of the organisation stage. It is considered that in this case there will be more responsibility and interest towards the activity of SIE's.

The advantage of a small innovative enterprise set up on the basis of a research institute is that there is a constant scientific improvement concerning the profile and update of the product.

*Table 2* contains the description of a group of small innovative enterprises set up on the basis of Saint-Petersburg Electronic Technical University (LETU).

The following characteristic features of small innovative enterprises set up on the basis of LETU are presented in the table:

- comparatively small output – from 1,8 to 2,0 million roubles and a small number of the employed – from 6 to 8 people;
- the production is based on the research work of the staff of the University who are the workers and shareholders of a small innovative enterprise;
- the output: scientific services, equipment components and devices;
- the consumers of the product are research organizations, small enterprises, medical establishments;
- the university provides its equipment as a kind of support.

Table 2. General description of a group of small innovative enterprises set up on the basis of Saint-Petersburg Electronic Technical University

| Metromed | NPP ITIS | Dipole structures |
|---|---|---|
| ***Business entity*** | | |
| Limited company | Close corporation | Limited company |
| ***Year of registration*** | | |
| 2006 | 1992 | 2004 |
| ***Output per year, million roubles*** | | |
| 1,8 | 2,0 | 2,0 |
| ***Number of the employed*** | | |
| 8 | 6 | 8 |
| ***Place of product delivery*** | | |
| Russia, research organisations | Russia, small enterprises | Russia, medical establishments |
| ***Name of product*** | | |
| Scientific research | Electronic components | Glucometer |
| ***Shareholders of SIE*** | | |
| Scientific associates | Private individuals (developers) | Developers |
| ***Occupied area*** | | |
| Lease (30 square meters) | Lease (60 square meters) | Lease (15 square meters) |
| ***Financing source while creating and organising the production*** | | |
| Own funds, funds of extension work to small enterprises | Own funds, profits of enterprise | Program "Start", own funds |

The peculiarity of the small innovative enterprises set up on the basis of Saint-Petersburg Polytechnic University is their focus, first, on the enterprises aimed at production, delivery and after-sales service of their products and, second, on up-to-date knowledge transmission to practical workers. For example, "Engineering Metrological center "Micro" ltd. in addition to its main activity to develop and deliver measuring devices holds seminars for designers, technologists, metrologists in order to inform them about up-to-date achievements in the field of linear – angular measures. The associates of close corporation "Engineering Expert Enterprise "Ratte" take part in technical diagnosing and expert examination of lifting gears. The enterprise has created the software for such kind of work, it organizes training of specialists for expert organizations in Russia.

*Table 3* shows the findings of the survey held among the heads of the small innovative enterprises of the Institute of Physics and Technology named after A.F. Ioffe RAS about the existing problems and suggestions concerning creation of favourable conditions for SIE to function.

As we have shown the absence of problems concerning organisation of small innovative enterprises and expansion of their activity is accounted for by the statement approved at the Institute about financing the creation stage of a small innovative enterprise at the expence of the organizers' own funds and the Institute's substantial support of their activity. Only SIE "Beliy Svet" has some problems of production expansion as its product can be used at factories.

The suggestions concerning the development of small innovative enterprises activity come to the following:

1) necessity of financial support (subsidies, preferential taxation) to purchase high-technology expensive equipment and

2) rise of the technological level of production enterprises, their adoption of progressive technological processes that need development and implementation of new state standards on manufacured goods. This practically means creation of the demand for scientific novelties in respect of which there is a certain delay of technological level of production enterprises.

*Table 4* shows the findings provided by the heads of the group of small innovative enterprises of Saint-Petersburg Electronic Technical University.

On analyzing the table we can come to the following conclusions:

– while organizing a small innovative enterprise there is only the problem to receive all necessary documents (due to long expectation etc.);

– among the problems of a small innovative enterprise expansion one can distinguish excrescence of rents and lack of own funds;

Table 3. Problems and suggestions to overcome stated by the heads of the group of the small innovative enterprises set up on the basis of the Institute of Physics and Technology named after A.F. Ioffe RAS

| Ioffe-Led | AIBI | Elfolyum | "Beliy Svet" |
|---|---|---|---|
| ***Organizational problems*** | | | |
| No | No | No | No |
| ***Problems of expansion of SIE activity*** | | | |
| No | No | No | Search of consumers, production financing |
| ***Suggestions to solve problems while organizing SIE*** | | | |
| No | No | No | Government financing of sowing campaigns |
| ***Suggestions to solve problems of expansion of SIE activity*** | | | |
| No | Support while purchasing equipment (subsidies etc.) | Support while purchasing equipment (subsidies etc.) | State-financing backing |
| ***Suggestions to rise demand for novelties by domestic enterprises*** | | | |
| No | Enterprises' usage of progressive production processes | Enterprises' usage of progressive technological processes | Adoption of new standards on the state level |

Table 4. Problems and suggestions to overcome stated by the heads of the group of the small innovative enterprises set up on the basis of the Institute of Saint-Petersburg Electronic Technical University

| Metromed | NPP ITIS | Dipole structures |
|---|---|---|
| ***Organizational problems*** | | |
| Long expectation before SIE registration | No | No |
| ***Problems of expansion of SIE activity*** | | |
| Excrescence of rents | No | Lack of own funds |
| ***Suggestions to solve problems while organizing SIE*** | | |
| Simplification of the procedure of getting necessary documents while creating SIE | No | Creation of a fund for financing the initial stages of SIE among high educational establishments |
| ***Suggestions to create beneficial conditions for SIE to function*** | | |
| Simplification of the system of licensing and certification | Tax cuts | Rent cuts |
| ***Suggestions to rise demand for novelties by domestic enterprises*** | | |
| No | No | Incentives of updating basic assets by enterprises |

– suggestions to create beneficial conditions for SIE to be established and functioning are added up to simplification of the system of enterprise registration, licensing, certification of the product, tax and rent cuts;

- suggestion to rise demand for novelties by domestic enterprises is to stimulate updating of basic assets by enterprises.

***2. Problems that restrain the development of scientific-innovative activity in the city.***

The problems in question can be added up to the following generalized main groups.

*Lack of effectiveness of the system of financial-economic support to innovative activity.* The employees of small innovative enterprises emphasize imperfection of the legislative basis that is particularly reflected in excessive taxes that are levied from them. The total sum of the paied taxes can reach 60% of their benefit. Economists do not support the same tax collection from small innovative enterprises and business entities of a different kind. A very risky character of innovative business along with social wants to create and develop such kind of business as a source of technological progress and with it economic and social boost cannot but raise the question of tax approach to this sphere of business. Besides high taxes restrict the potential of a small innovative enterpris's development that contradicts public interest.

*Poor facilities and equipment of the laboratories in high educational establishments and academic institutes.* Obsolescence of laboratory equipment and instruments negetavely influences future specialists' qualifying level which is necessary for working in technologically modern companies and from the point of view of economy and technology it restricts development of small innovative enterprises in high educational establishments. To a considerable extent this problem is characteristic for laboratories and small innovative enterprises in academic institutes. The consequences of equipment obsolescence are long terms of prototype production and lowering of competitiveness of a new product in the market.

Updating of scientific equipment by means of purchasing it abroad is accompanied with serious difficulties. According to the RF legislation academic institutes can buy facilities and equipment using their own profits only which they do not have at all. Means to buy equipment coming from corporate customers are also considered to be profits and customers must take into account the fact that they have to pay taxes. For example, the "Norilsk Nickel" hydrogen program stipulated considerable investment to buy facilities for academic Institutes (the Institute of Physics and Technology named after A.F. Ioffe RAS in Saint-Petersburg) and the amount of the tax which was to be paid by "Nornickel" was considarable. All legal attempts to optimize taxation failed and the company had to pay huge sums of money to the budget. Although with a delay the company carried out its obligations to buy and deliver facilities [2, p. 98].

The situation has been changing. According to "The Basis of the RF Policy in the Sphere of Science and Technology Development till 2010 and Further Perspectives" means from the federal budget are assigned to create the equipment potential of science.

*Difficulties while organising production by small innovative enterprises.* The practice of a small innovative enterprise activity shows that during its life cycle beginning from the "seed" stage when it is formed (legally incorporated) up to the stage when the company reaches some economically valuable result and its investor withdrawals from it the most difficult stage to maintain the company is the so-called "death valley" or its start-up (launch of a product) [2, p. 23]. At the "seed" stage it is quite enough to have a project or a business idea and to use the program "START" of the Small Innovative Enterprises Scientific Technical Development Assistance Fund in order to carry market research, work out a detailed business plan and other kinds of activities. At the start-up stage the created small innovative enterprise can have considerable difficulties while moving to the commerce stage. The reasons are search of investments, lack of business skills, marketing problems, sometimes not paramount tendency of the directors to move to the market stage. Difficulties of this stage are usually connected with insufficient level of proficiency while managing small innovative enterprises and with business skills of their directors.

*Poor perception of the breakthrough novelties by domestic enterprises.* Technological delay of production enterprises from the world level restricts demand for innovative produce including small innovative enterprises. Low profitability of production enterprises (8–10% versus current expense) and relatively small (in comparison with foreign corporations) scale of production prevent them from moving to a new technological stage and becoming perceptive to scientific novelties of our country.

Let us take the level of expenses on R and D work of Samsung Electronics Corporation as an example. In 2000 clear profit of the corporation made up 4,8 billion dollars, its sales – 27,23 billion dollars, R and D work investments – 1,54 billion dollars. In 2005 its sales increased to 67 billion dollars [3, p. 87, 88].

In case when domestic enterprises lack their own resources they first of all tend to replace their out-of-dated assets with new foreign ones, to purchase separate finished technological solutions which are not always based on the latest scientific progress. Sometimes we can also observe predominance of current interests over the long-term ones.

Large-scale measures taken by municipal authorities in order to develop innovative infrastructure are necessary to expand innovative activity. However they are aimed at increase of novelties supply but there is a need to create demand for them. Only in this case the market of novelties will be able to function and one can expect enterprises to embark on the innovative course of development.

### *3. Potential preconditions for activation of scientific-innovative activity of small innovative enterprises in Saint-Petersburg.*

Small innovative enterprises in the academic and high school sectors of science of the city are part of innovative business which has a certain influence on these SIE.

According to some aggregate figures concerning scientific-technical, technological and innovative potential of Saint-Petersburg there is a real opportunity of production growth at small innovative enterprises. 10% of scientific potential of the country that is 252 scientific organisations are concentrated in the city. They are 49 organizations of RAS and other state academies, 191 trade scientific organizations, 12 state scientific centers, almost 100 higher educational establishments. The cadre of the scientific potential of Saint-Petersburg makes up more than 172 thousand of scientists including more than 5 thousand Doctors of Science and more than 18 thousand Candidates of Science [1, p. 166]. 300 thousand people in the city are connected with scientific organizations.

Great efforts are made in order to develop innovative infrastructure which creates potential preconditions for small innovative enterprises growth in Saint-Petersburg. There are 12 innovative-technological centers in the city including 7 centers set up on the basis of higher educational establishments:

➤ at the State Politechnical University:

1) the innovative-technological center of the TVN Fund;

2) the city coordinating center on innovative activity development;

➤ at the State Universities of Information Technologies, Mechanics and Optics; Electronic Technical University (LETU), of Technology and Design, Aerospace Instrument Making and The State Academy of Timber Processing Complex;

➤ at such academic institutes as the the Institute of Physics and Technology named after A. F. Ioffe, the Institute of Electrophysics problems, the Institute of Silicate Chemistry – 3 centers.

Innovative-technological centers support small innovative enterprises in different ways. They are to fulfill the following functions:

- creation and database maintenance concerning innovative proposals and scientific-technical designs;
- selection and promotion of commercially prospective innovative proposals to different spheres of economy;
- search for sources of financing in order to launch them at the enterprises;
- providing business accounting, tax planning, some other general work for small innovative enterprises (arrangement of quality and certification system, export control, taking out patents for objects of intellectual property, services: telephone, fax, Internet and so on).

The system of general use centers with unique equipment is being created in the city. The general use centers of unique equipment at the Institute of Mines named after G.V. Plekhanov and the Institute of Physics and Technology named after A.F. Ioffe are operating now.

Very important trends to support small innovative enterprises are up-coming large-scale projects which are to form:

1. Special economic area to launch new equipment. Within Novo-Orlovskaya area they are planning to locate some small innovative enterprises of the Institute of Physics and Technology named after A.F. Ioffe RAS and to give them preferential terms concerning taxation and abolishing of customs duties.

2. Industrial park under the University named after M.A. Bonch-Bruyevich. Within its boundaries (about 60000 square kilometers) they are planning to build an office center, a support center, a research centre, a business incubator, a business center (about 40000 square kilometers) to locate on its area high-tech companies.

3. Science-town "Peterhof" on the basis of Saint-Petersburg State University. The main parts of the science-town are going to be an information technologies park, a center of low-tonnage production of medical substances on the basis of biotechnologies and genetic engineering, a nanotechnologies center.

4. Business incubator "Kristall" (37, Sedov St.) where no less than 70% of located small businesses are to operate in scientific-technical and innovative spheres. At the initial stage of the functioning of such small businesses (1-2 years) they are going to be provided with non-residential premises on favourable terms. Consulting services concerning different spheres of a small innovative enterprise activity are going to be free of charge. The following is going to be provided as well: database access, Internet, modern office equipment and other services.

5. Closed unit investment fund of venture investments – the Fund of Developing Venture Investments to small innovative enterprises of scientific-technical sphere of Saint-Petersburg.

6. The assisting fund of crediting small business which is going to give bank guarantees

on credit instruments up to 15 m. roubles with 1,75% interest per annum of the sum of the guarantee.

The development of innovative system of Saint-Petersburg will be influenced by the concept of the city's cluster politics 2008 – 2011, activities plan to implement it and the project "Pilot Innovative Cluster" which are being worked out now at the Committee for Economic Development.

On the whole the conditions for creation small innovative enterprises and their functioning on the basis of higher educational establishments and academic institutions are improving in the city, the city innovative infrastructure is developing. Thus, there are some problems which delay innovative activity.

***4. Methods of activization of small innovative business in the academic and high school sectors of science and suggestions on its development.***

The analysis of support practice aimed at innovative activity and small innovative business brings us to the conclusion about the priority of innovative business development regulation at the regional level where sufficient legislative, organizational and resource opportunities are concentrated and motivation to activate innovative scope of activity is strong.

Methodological basis for creation the state system of innovative business regulation at the regional level is the usage of all the opportunities of the economy sector in question while solving urgent problems of social-economic development including the sphere of scientific-technical ad innovative activity.

By the results of the analysis of a number of small innovative enterprises activity in the academic and high school sectors of science and after generalizing the problems preventing their development the following methods to activate small innovative business in the academic and high school sectors of science and suggestions to develop it can be recommended.

In the sphere of financial support of small innovative enterprises at their development stage one can take into account Moscow experience on using a range of instruments such as:

▷ support of start-up small enterprises at the expense of subventions on a competitive basis on conditions that financial-economic assessment gives positive assurance (a small enterprise is considered to be a start-up if it was registered less than a year ago);

▷ support of venture projects (scientific designs) by means of subventions and subsidies (including grants distributed on a competitive basis); shared co-sponsorship of off-budget resources is planned for venture projects;

▷ compensation of interest rate due to the subsidy at the rate of difference between the interest amount which is to be payed according to the fixed bank rate and the interest amount which is stated in the project of a small innovative enterprise.

In case of shortage of means which can be channeled to formation of a small innovative enterprise it is reasonable to study the question about creation of an internal fund of financing the "seed" stage at the university or academic institute level.

In order to improve the possibilities of venture financing it is necessary to extend the sphere of activity of the Fund of Developing Venture Investments to small enterprises of scientific-technical sphere of Saint-Petersburg.

*At the stage of production launch a small innovative enterprise can obtain a budget credit (Moscow experience) on a competitive basis after financial-economic assessment.* The means are provided on terms of interest rate from 0,25 to 0,75% of the existing refinancing rate of the RF CB for a period of 3 months to 5 years. The support of the projects on a repayable basis is provided in case if there is a business plan and sufficient (100% of credit and interest on credit) marketable provision in concordance with the RF Budget Code. Bank guarantees, marketable capital as well as equipment, premises, wholesale inventories and so on can be used as a pledge.

It is worth mentioning that it is very difficult for small innovative enterprises to get a banking credit as a marketing 100% pledge of credit recurrency is required. The system of project financing at the expense of a budget credit on terms of including the created produce into the city order is being worked out nowadays. While getting a preferential credit incorporeal rights (licences) can be used as a pledge object.

Transition to the system of preferential crediting of small business on a repayable basis has taken shape recently, meanwhile the main source of credits will become private banking capital. The role of preferential crediting will be in sharing risks with private banks and guaranteeing compensation of part of a bank rate by the use of non-commercial fund of assistance to small business. One of the advantages of the new system will be the fact that a bank itself will make a decision about allocating a credit that will reduce the risk of negative profits in the city budget. Nevertheless the final renunciation of subsidies, subventions and budget credits is not planned and the enterprises at the "seed" stage will be their main recipients [2, p. 152-153].

*Incubation of small innovative enterprises in industrial parks is an effective instrument of survival support at the organisational and developing stages.* Incubation is a universal mechanism with low costs which supports small innovative companies, reduces risks of innovative and business character, creates maximum favourable conditions for start-up firms to succeed.

The "seed" and venture investments into small innovative enterprises located in industrial parks are the investments of "hyper efficiency" as due to infrastructure support their chances to overcome the "death valley" are growing in comparison with the companies which exist outside favourable infrastructure.

An industrial park is an area where innovative infrastructure (a set of economic instruments which help to gradually turn a "green" idea into a commercial produce) and production of innovative companies are concentrated. The main clients of an industrial park are small innovative enterprises which locate on its territory and use its services.

On the whole industrial parks' activity is effective. According to different data about 70–80% of small innovative enterprises gone through industrial parks manage to survive in the market while about 75% of them perish outside industrial parks at the "death valley" stage within 1-1,5 years.

Ideally, an industrial park must provide the following conditions for start-up firms in order to achieve maximum results:

- connections with industrial companies and other possible customers of the companies-residents;
- a lot of premises available to provide small innovative enterprises on preferential terms;
- providing companies-residents with consulting, legal, bookkeeping, auditing services on preferential terms;
- access to modern communications facilities;
- a team of innovative managers;
- the system of financing of innovative companies [2, p. 160-161].

The industrial park's functions can be realized to a great extent at the level of an academic institute and a university.

The experience shows that in order to assist steady functioning of small innovative enterprises *it is important to develop integration connections between small innovative enterprises and large-scale companies at the stage of production and sales of products.* It means that from the very beginning a SIE must be aimed at collaboration with manufacturing enterprises and should participate in updating of their activities. This should be a real contribution of small innovative enterprises to technological boost of domestic manufacturing enterprises and innovative development of economy on the whole.

It is very important to cooperate with a large-scale manufacturing enterprise at the stages when a developer has a business idea or when a prototype of a produce is being created. Such agreements are possible in case if scientific development correlate with the interests of a large-scale enterprise. The collaboration forms can be different and should correspond to the interests of both parts. This condition can be considered as one of the criteria in the system of state-private partnership while registering the residents of a technical-innovative area or when a regional venture fund comes into the share of an authorized capital of a small innovative enterprise. Some large-scale enterprises follow the path of creating small innovative enterprises on the assumption of their own interests. For example, "LOMO" Public Company set up a number of small innovative enterprises: "LOMO-Spectr", "LOMO-Fototeca", "LOMO-Laser", "LOMO-Meteo". Being a strategic investor "LOMO" Public Company is interested in attracting new ideas while small innovative enterprises are interested in co-financing of their products and mutually beneficial use of the results.

Partnership of scientific organizations and manufacturing corporations is paid great attention by the state in the USA, Finland and other countries with high tech industry. The statement on the USA politics in the sphere of R and D work says: "Partnership for carrying out R and D work is the key to solve transition objectives which the county is facing now and our industry will depend more and more on universities in doing successful research work" [4, p. 96-97].

There are a lot of cases when because of lack of means domestic enterprises purchase up-to-date scientific designs more or less ready for practical use from foreign firms. Such a situation proves that it is necessary to create the system of collaboration between small innovative and large-scale enterprises, to providing large-scale enterprises collaborating with small innovative ones with certain benefits.

***5. Creation of demand for small innovative enterprises produce as an area of their activity expansion at the stages of production and sales of products.***

Participation of large-scale and medium-sized enterprises is the key condition in innovative activity boost. It is such enterprises that are the main implementators and bearers of innovations into national economy, they characterize the whole technological level of production. According to CEO of the Small Innovative Enterprises Scientific Technical Development Assistance Fund "the main innovative activity develops inside large-scale industry with all my love, respect and duty to small business" [5, p. 44].

Experience shows that indirect financial support of innovative activity of large-scale enterprises (tax credit, tax remissions etc.) does not give a large-scale result though there are few examples. That is why the authors of economic literature [6, p. 10] and official documents [7] raise the question about imposition of state direct well-grounded financing of innovative measures at manufacturing enterprises along with strict control of targeted expenditure. In [7] they say about direct financing of R and D work on developing new or elaborate produce, new or elaborate technological process in the region – at the rate of no less than 1% from the general means which are stipulated by the budget expenditure pattern of the RF subject.

It would be quite possible to provide direct financial support not only to large-scale enterprises but small innovative ones as well and in the first place they should take into consideration priority (for Saint-Petersburg) complex long-term projects of the Federal Targeted Program "National Technological Base 2007 – 2001". They are:

- transition to industrial production and materials management on the basis of electronic documents circulation and RFID (integrated logistics);
- designing prospective domestic transport technical equipment using international cooperation;
- developing new generation of naval technical equipment able to function in extreme natural conditions;
- designing prospective electronic technical systems of different purpose on the basis of domestic electronic component base.

According to the List of the RF Crucial Technologies, validated by the Decree of the RF President V. V. Putin № Pr-842 of May 21, 2006 the following technologies are stated as prospective ones for developing on the basis of Saint-Petersburg innovative system:

• basic and crucial military, specialized and industrial technologies;

• bio-information technologies;

• nanotechnologies and nanomaterials;

• bio-engineering technologies;

• hydrogen energy technologies;

• mechanotronics and microsystem technologies;

• technologies of monitoring and prognostication of atmosphere and hydrosphere condition;

• new and renewable energy technologies;

• information processing, storage, transmission and security technologies;

• technologies of recycling and disposal of anthropogenic waste;

• software technologies;

• distributed computing and systems technologies;

• technologies of developing intelligence navigation and control systems;

• technologies of developing new generations of space-, air-, and naval crafts;

• technologies of developing electronic component base;

• technologies of developing energy-efficient systems of heat and energy transportation, distribution and consumption;

• technologies of developing power efficient engines and drivers for transport network;

• technologies of environmentally-friendly resource-saving production, produce processing and foodstuff production [8, p. 73].

There is a need of crucial measures to develop large-scale and medium-sized enterprises which form the demand for novelties and characterize technological structure of production in the country.

In the west innovation means current updating of production technology while Russian enterprises have a problem of modern sweeping changes of technology because of backlog in 1990s. Small innovative enterprises in the academic and high school sectors of science will play an important role in solving the problem.

***6. Program approach realization in developing small innovative enterprises in Saint-Petersburg.***

"The Complex Program of Measures for Innovative Policy Realization 2008–2001" (the Program) was validated by the Decree of Saint-Petersburg Government № 42 of January 23, 2008.

The program contains a number of measures financed by the city budget which are aimed at innovation activity support and small innovative enterprises in the academic and high school sectors of science could participate in implementing them receiving additional means for their own development. Thus, on a competitive basis the Program stipulates support to business-ideas, scientific-technical developments and projects of students, postgraduate students and young managers, provides subsidies for compensation of expenditure on incorporeal rights protection in connection with production of goods and services, for lease of immovable property, for unique equipment usage.

The Program provides expenditure for industrial parks promotion on the basis of higher educational establishments, innovative technical centers and incubators at higher educational establishments, the system of technologies transition from higher educational establishments to the industry of Saint-Petersburg.

The measures aimed at export promotion of innovative produce are the following:

• issuance of subsidies on a competitive basis for partial recovery of expenses connected with production of innovative produce for export;

• issuance of subsidies to producers of goods and services on a competitive basis for recovery of expenses connected with their participation in exhibitions, fairs, forums, seminars;

• issuance of subsidies for partial recovery of expenses connected with international standards certification.

The Program stipulates the measures aimed at development of the following structures:

⇨ a research factory in the technical-innovation area that can include part of small innovative enterprises on the territory of Novo-Orlovsky Park which were set up on the basis of the Institute of Physics and Technology named after A.F. Ioffe RAS;

⇨ the science-town "Peterhof" where small innovative enterprises set up on the basis of Saint-Petersburg State University and other establishments can function;

⇨ a city industrial park of information technologies;

⇨ city business incubators which provide innovative organisations with no less than 70% of their territory.

Taking into consideration a great number of opportunities for innovative activity development it is reasonable to examine and analyse the proposal on the development of the program of small innovative business development in Saint-Petersburg including not only small innovative enterprises in the academic and high school sectors of science but in other sectors and organisations as well. Such a program would make it possible to systematically focus small innovative business on the priorities of innovative activity and prospectives of industry development in Saint-Petersburg taking into account its following the innovative path.

The great importance of realisation of the proposals on innovative busaness development in the academic and high school sectors of science of Saint-Petersburg is in stirring up activities in the sphere of implementation of finished applied designes into production and realisation of novelties which are aimed at the state objective solution of the technological level improvement of Saint-Petersburg core business.

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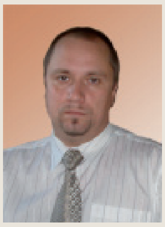
# Small business as the basis of municipal economy: problems and support forms (by way of Petrosavodsk example)

*The article considers the role and function of small businesses in the development of the municipality on the example of the city of Petrozavodsk. Results of entrepreneurs' questioning are given, the main problems of small businesses and forms of its support at the municipal level are considered.*

*Small businesses, municipal economy, small businesses state support, municipal economic policy.*



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In the socio-economic development of the municipality a special role is played by small businesses. It is this form of business which allows meeting the rapidly changing demand for various goods and services more effectively. Small businesses are complementary activities of large and medium-sized enterprises oriented to the most extensive and capacious markets. Small business creates jobs, develops and implements new technology, most tailored to local conditions. In the current economic conditions related to the crises, special attention is paid to small business and enterprise support occupies an important place in the set of anti-crisis measures of the Russian Government. This is primarily connected to the fact that small business is able to compensate for the reduction of jobs in large enterprises, to meet domestic demand, curbing inflation, as well as provide revenue to the budgets of all levels.

Of particular importance is the development of small businesses, primarily at the municipal level, because of its functions, among which the most important are the following:

• *Focus on local markets*, meeting various and changing demand for goods and services (often these are rather specific goods and services that can not be made by large enterprises).

• *Promote competition in local markets*, resulting in their more efficient operation and generation of competitive advantages of the municipal economy in general.

• *Diversifying the local economy and encourage the development of foreign economic relations*. The activity of small businesses allows expanding market specialization of municipal economy, small business partnerships allow local economy integrating into the external value chain.

• *Changing the mode of the territory's development*. The development of small business allows for more efficient use of the territory, more evenly distribute the work and human resources of the territory, optimize the deployment of productive forces.

• *Provision of employment*. This factor becomes of particular importance for municipalities, development of which depends on a single or a number of enterprises.

• *A significant contribution of small businesses in the formation of a profitable part of the municipal budget*. In some countries with market economies (USA, UK, Germany, France, Netherlands, Finland and others) the contribution of small enterprises in the formation of both national and local budgets is determined (up to 35 – 40% of all tax revenues). In Russia this figure is lower by more than 2 times – about 15%.

• *Building the necessary infrastructure for the production of large enterprises*. It is extremely difficult to overestimate the value of small businesses for large enterprises find. Any large company signed a large number of contracts, outsourcing, retail and wholesale sales, distribution to small businesses, through which big business is embedded in a system of partnerships and international inter-corporative network.

• *Ensuring the implementation of new technologies and techniques*. In developed countries, small businesses produce more than 60% of all services, half of all industrial output and nearly half of all innovative ideas and innovations. In addition, small businesses, seeking to adapt to changes in demand in the consumer market, are more receptive to innovation.

• *Formation of incomes, provision of labor mobility, poverty reduction and the formation of the middle class*. At the local level, small businesses are the main source of income generation of most of the economically active population; the proportion of the middle class is also directly dependent on the level of small business development, and consequently, the level of social tension in society.

The special role of small businesses in the socio-economic development of the municipality determines the importance of the study and taking into account current trends in this sector of the economy in the design and implementation of strategic planning documents. The main research objective is the analysis of existing problems and making recommendations on improving the forms and tools for small business support by public authorities and local self-government [2]. From this perspective, this article presents some results of studies in the field of small business conducted by the Institute of Economics KSC RAS, on the example of the Petrozavodsk urban district.

More than half of all small businesses and individual entrepreneurs of Karelia are located in Petrozavodsk. Generally recognized index of development of small businesses in the region, or municipality is the density of small businesses (the number of small businesses per 1000 inhabitants). Number of small businesses in the city of Petrozavodsk per 1000 people is to 1,9 times higher than the average for the Republic of Karelia and the Russian Federation (for details: in the Russian Federation per 1000 residents there are 7 small businesses, in the city of Petrozavodsk – 13). The number of employed in small businesses in the city is presented in *table 1*. The sector employs about 25% of the total employed in the municipal economy for today.

Table 1. The number of employed in small businesses in Petrozavodsk, pers.

| Indicator | 2006 | 2007 | 2008 | Forecast 2009 | Forecast 2010 |
|---|---|---|---|---|---|
| Number of individual entrepreneurs | 8 200 | 8 500 | 8 950 | 9 050 | 9 300 |
| Number of workers hired by individual entrepreneurs | 6 200 | 6 350 | 6 400 | 6 500 | 6 600 |
| Number of employees in small enterprises in the city | 22 800 | 23 400 | 24 400 | 25 400 | 26 400 |
| Total in small businesses | 37 200 | 38 250 | 39 750 | 40 950 | 42 300 |

According to available data the largest share of small enterprises in their total number, as in the whole of the Republic of Karelia, and in Petrozavodsk, accounts for such kind of economic activities as "wholesale and retail trade, repair of motor vehicles, household goods and personal utilities", and is 48,5% *(fig. 1)*.

The greatest concern for small organizations is the sphere of trade, in which nearly half the total number of small businesses operates. This is due to the fact that the average profitability of business in trade is significantly higher than in industry and other sectors. In addition, the trade is characterized by short period of capital turnover, thus reducing business risks, and that is a critical factor when choosing the type of economic activity for many small businesses.

Currently, small business is a major source of revenue in the local budget (about 30%), with the projected increase in the proportion of tax and non-tax revenues of small businesses in the city budget of up to 40% by 2014 *(fig. 2)*.

However, these positive trends are accompanied by a number of negative phenomena. Despite the fact that the role of small businesses in the economic development of the municipality in recent years is increasing, yet small businesses much more frequently use "gray" and "shadow" patterns of economic activities and use various tax avoidance schemes. This is corroborated by official information on the performance of small businesses. For example, the profitability of products of this sector of the economy is about 2%, while return on assets is less than 4%. In terms of attracting investment, this figure is extremely low, and first of all it is explained by its under-side with entrepreneurs. It is estimated by Rosstat, that 70% of small businesses real rates significantly differ from the official reporting indicators. According to experts, the share of "shadow" companies in small business is higher than in the general economy, although in recent years there has been a reduction of "shadow" and "gray"

Figure 1. Distribution of small businesses in Petrozavodsk according to the activities, in %

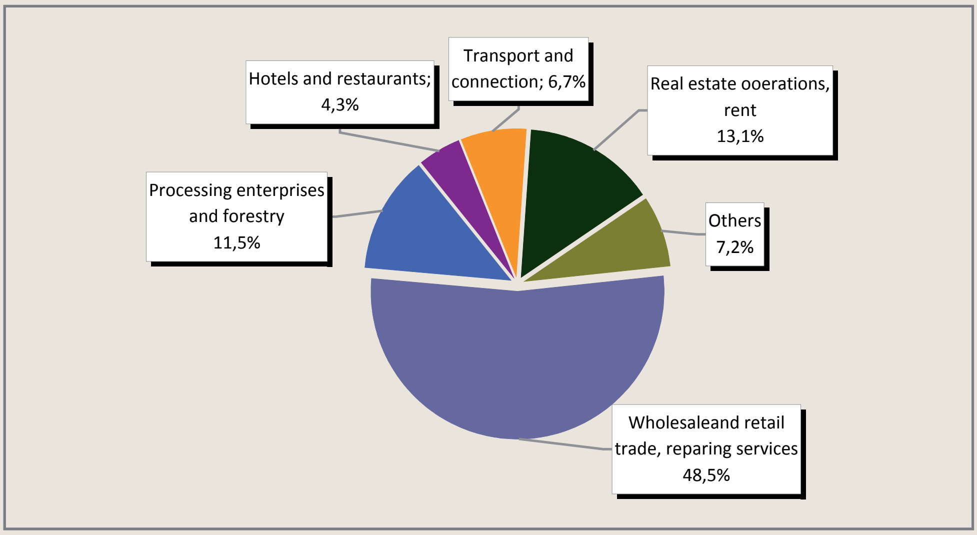
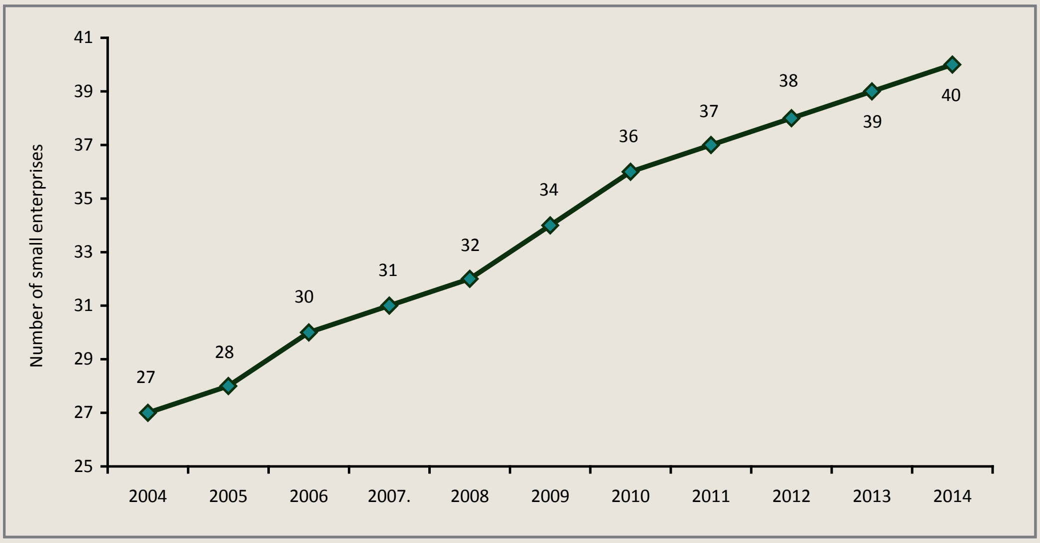


Figure 2. The share of tax and non-tax revenue from small businesses in the local budget, % (fact and forecast)

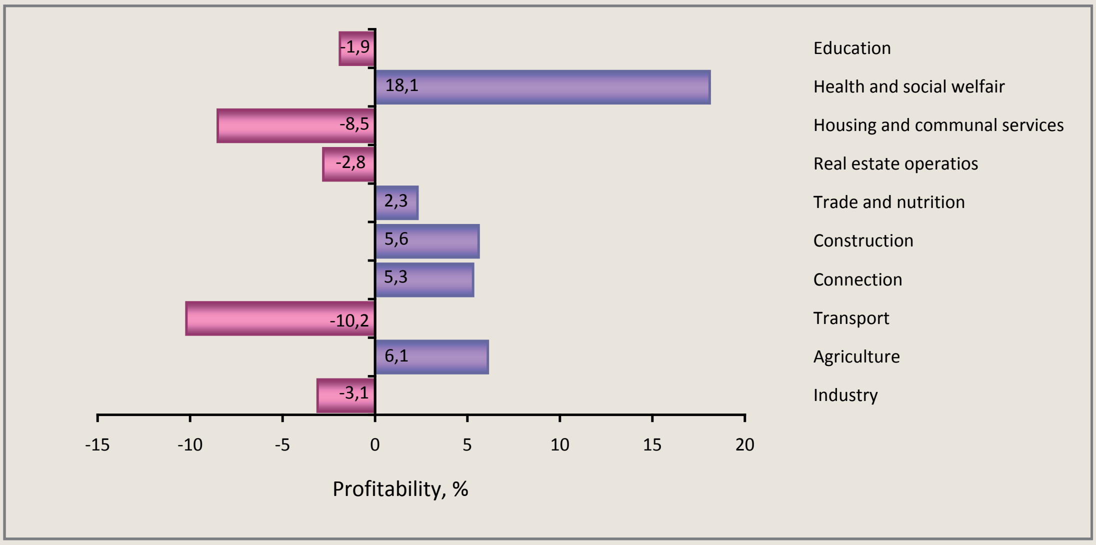



economy sectors [5]. Of particular interest is the cost-benefit analysis (according to official statistics) in the context of the major industries in which small firms operate *(fig. 3)* [4].

According to official data, the profitability of production (works, services) of small enterprises in agriculture, is almost 3 times higher than in trade. The profitability of small businesses in the area of health, physical education and social security was the highest (18,1%), while in the field of transportation and real estate transactions profitability has negative values (-10,2% and -2,8% respectively).

These circumstances determine the need for sources of information adequate to existing realities in the analysis of small business development and evaluation of its potential. The following results of small business study

Figure 3. Profitability of products (works, services) of small businesses in several sectors of the economy of Karelia (according to the data of Kareliyastat)



are based on the survey of entrepreneurs in Petrozavodsk, which was held in November – December 2007. In the process of questioning 80 small and medium-sized enterprises in Petrozavodsk were interviewed, working in different industries and economic activities. Most of the companies – 64 out of 80 surveyed – are working in industry, services and construction. Companies operating in the market in different times participated in the survey: 5 – 8 years – 22% of the companies surveyed; from 10 to 15 years – 21,3%; from 1 to 3 years old – 17,6%, these are quite young companies; from 3 to 5 years – 16%.

A special place in the study was given to an analysis of the problems faced by entrepreneurs. First, this analysis allows correct understanding the "gaps" in the development of small businesses and making decisions in its support. There is a need for analysis and designing interventions to improve the local economic policies in general.

Questionnaires included the identification of factors limiting the growth of business, analysis of administrative barriers (first of all – evaluation of business activities of control authorities), study of businessmen's expectations about the prospects for the development of their own business [3]. According to the poll, the majority of businesses were planning to further expand their business in the near future *(fig. 4)*. In doing so, the ways and means of business expansion differ from "young" and "old" companies *(fig. 5)*. In particular, prior-

Figure 4. The answer to the question: "Are you planning to expand your business in the coming year?", in %

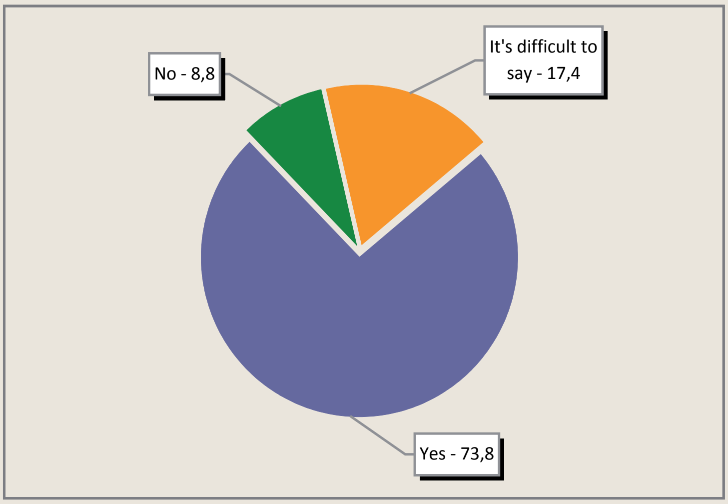
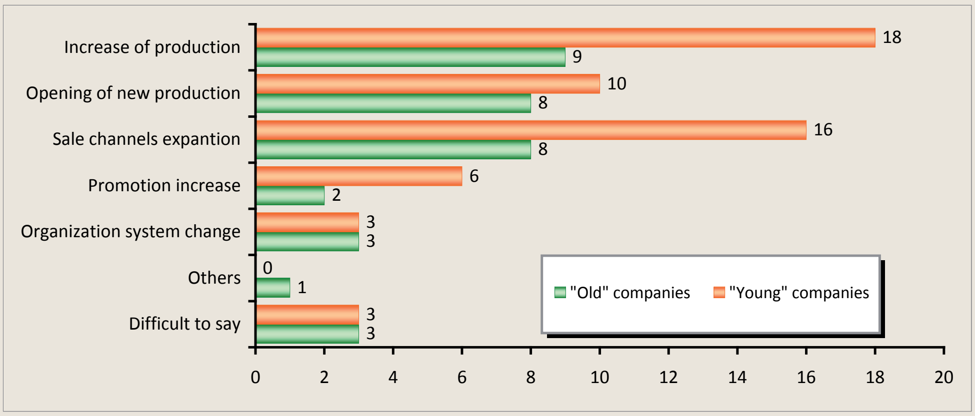



Figure 5. The answer to the question: "How do you expect to expand your businesses?", in %



ity areas of business expansion for "young" companies are increasing production, expanding sales channels and the organization of the production of new products. "Old" companies are more conservative and less likely to support production of new products, as established in the "niche" of mature markets and have fear of stability reducing in the established production development and organization. However, "old" companies are more actively in favor of changing the organizational structure of the company, which indicates a shift to quality growth.

In summary, the characteristics and problems of small businesses, depending on the period of their operation are presented in *table 2*. The results of questionnaires show that "young" companies are more mobile, more flexible and quickly adapt to changes of environmental factors; "old" companies tend to occupy a stable market niche and have lower mobility and volatility.

With respect to the distribution of responses to the question about plans to expand the geography of their business, entrepreneurs focused on expanding in Karelia *(fig. 6)*. In doing so, they see as limiting factors lack of funds (49% of respondents), shortage of personnel (lower and middle managers – 41%, senior level – 28%), getting all sorts of approvals and permits for doing business (29%), interaction with the subjects of natural and local monopolies, etc. *(fig. 7)*.

Based on these questionnaires, small businesses have some difficulties in relationship with the following regulatory agencies: fire control (20% of respondents), the tax inspectorate (14,6%), Russian technical control (12,5%), sanitary-epidemiological service (12,5%). Thus 25% of respondents stated that they have no problems in relations with the supervisory services *(fig. 8)*.

Summarizing the views of small businesses representatives in Petrozavodsk on problems

Table 2. The main characteristics and problems of small businesses, depending on the period of their operation

| "Young" companies | "Old" companies |
|---|---|
| • • Acute shortages of all categories combined with high turnover and competition in the labor market from big companies, as well as «old» and stable companies<br>• Lack of financial and productive resources for company development<br>• Intense competition and limited competitive ability<br>• As part of business expansion, not only parts of Karelia, but also external markets are interesting | • Lack of staff (mainly senior)<br>• High demand in financial and productive resources<br>• The problem of interaction with the authorities in obtaining permits, with regulatory agencies, etc.<br>• Lower interest in expansion in foreign markets (inertia)<br>• High importance of issues and factors affecting the stability of business (including changes in legislation) |
| **Conclusion**. More mobile companies are characterized by more rapid adaptation to changing conditions; they have more experience of interacting with foreign partners. | **Conclusion**. More stable companies with stable market niche are characterized by less mobility and greater need for funding at the expense of larger scale production. |

Figure 6. The answer to the question: "Do you plan to expand the geography of your business?", in %

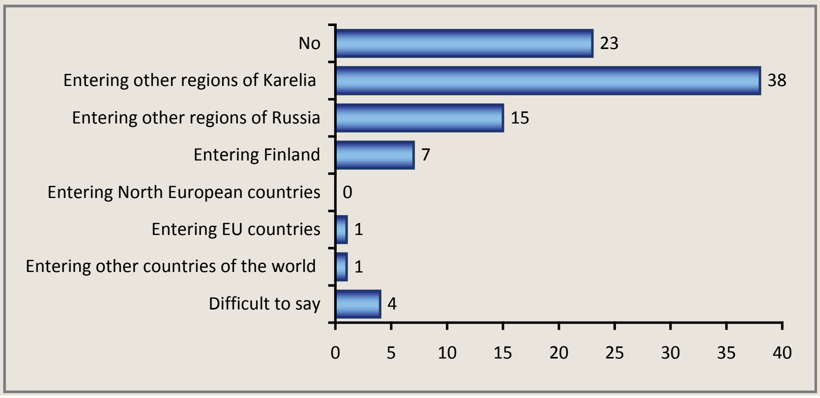


Figure 7. The answer to the question: "What problems in your business do you encounter most often?", in%

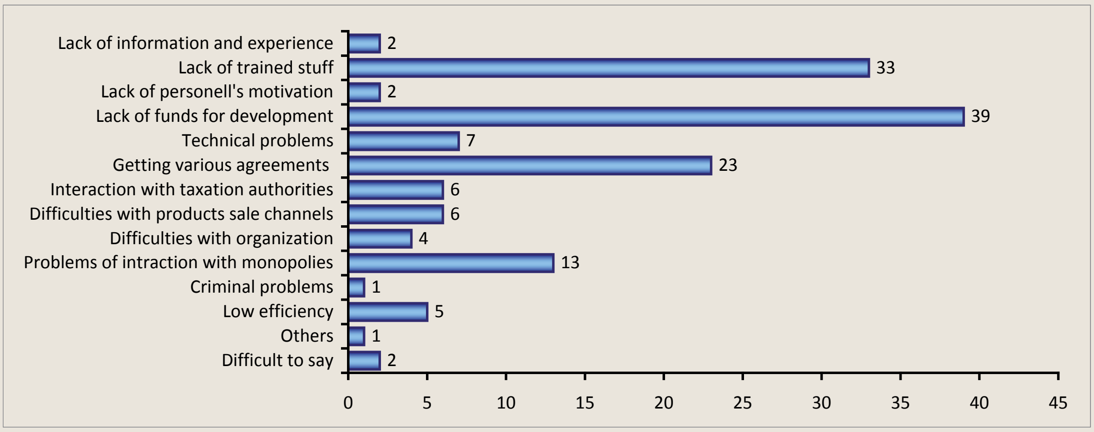
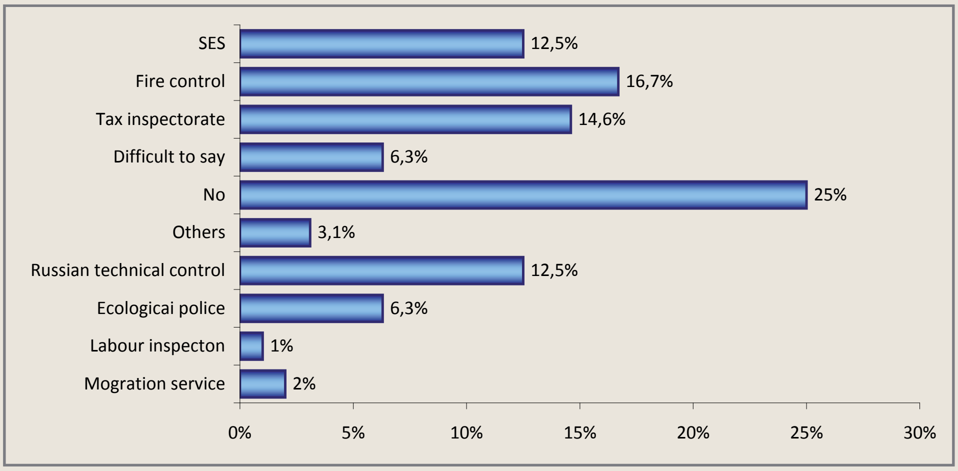



Figure 8. The answer to the question: "What controlling services bring you the most difficulties?"




and prospects of development, administrative, economic and other barriers the following conclusions can be made:

1. The state of small business in Petrozavodsk is quite stable and is characterized by a high entrepreneurial activity.

2. The companies operating in the market during different time have different strategies of behavior. "Young" companies tend to overlook the growing markets with strong marketing, "old" companies are established in "niche" mature markets and are therefore characterized only by supporting marketing.

3. Most small businesses in Petrozavodsk see possibilities for expanding their business by increasing production, expanding distribution channels and production of new products.

4. Plans to expand the geography of small businesses business were connected mainly with areas of the republic, which proves that small businesses are targeted primarily at the regional market.

5. Small business representatives do not connect Difficulties and problems concerning market expansion with the internal capabilities of business but the economic and administrative barriers, the growth rates of natural monopolies, the instability of legislation.

In the face of world financial and economic crisis, which the negative effects have become increasingly felt by representatives of Russian businesses in the autumn of 2008, the problem of small business support has become even more urgent. It is clear that currently a significant number of entrepreneurs in the new environment had to revise their plans to expand business and to refrain from increasing the production or release of new products. On the one hand, the crisis will help to improve the efficiency of enterprises, optimize costs, finding new options. On the other hand, a significant portion of these businesses has serious problems and needs the support of both the public and municipal authorities.

Despite the fact that the crisis has not seriously affected at small businesses, in contrast to the large export-oriented companies, some of its implications in the near future may adversely affect the competitiveness of small enterprises. This directly relates to those small businesses which work with large companies or guided by them in their activities. With regard to small businesses, working with the end user, this is due to the decline in sales resulting from a decline in purchasing power of population, and with a sharp increase in costs. For example, the devaluation of the ruble led to higher prices of imported products and components manufacturing, which will undoubtedly affect the profitability of manufacturing enterprises, which are the consumers of such products. Moreover, without total solution of the problem of cross-subsidization and the deteriorating financial condition of large enterprises electricity tariffs for small and medium-sized businesses have increased.

In this regard, the task of small business supporting is becoming a priority in the implementation of local economic policy. Under the new circumstances, this task will require and implement previously planned activities and the development of new anti-crisis measures, taking into account the changed conditions. At the present time in Petrozavodsk a long-term municipal program “Development and municipal support for small and medium-sized businesses in the territory of Petrozavodsk city district for 2009 – 2014“ is developed. The total projected amount of the Program funding is 22,5 million rubles; its implementation involves activities such as [1]:

1. Financial support for small and medium entrepreneurship (including the subsidized interest rate on investment loans).

2. Property support (transfer of possession or use of municipal property).

3. Information and consultancy support (an Internet-representation “Small and Medium Business in Petrozavodsk“, information and reference materials issue, business consulting).

4. Training, retraining and skills development.

5. Support for innovation and industrial production (subcontracting conclusion, development of business incubators industry, etc.).

6. Support for entrepreneurs engaged in foreign economic activities.

With the implementation of policies to support small and medium-sized businesses in the territory of the municipality the new challenges that entrepreneurs face now must be taken into account. Solving these problems will require, above all, building a constructive dialogue between business and power. The effectiveness of this policy will be mainly determined by the speed of decisions, as well as efficiency of tools for coordinating the interests.

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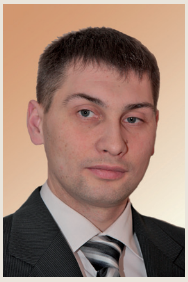
# Goals and assistance to small entrepreneurship development mechanisms on the municipal level

*The article gives an analysis of small business development level in the city of Vologda as well as its functioning conditions. The main problems in this sphere are marked out. The main directions of small business support on municipal authorities' side are offered.*

*Small entrepreneurship, small business, support.*



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The level of the small business development considerably determines the economic and social situation in municipal formations, as any enterprise activity stabilizes economic conditions, reduces social concerns, raises tax incomes to the budget. Small business plays an important role in the spheres of trade, services, small-scale industry; it provides employment of the considerable part of the population [4].

Since January, 1, 2008 the Federal Law of the Russian Federation from 24.07.2007 № 209-FL "About the development of small-scale and medium-scale business in the Russian Federation" [13] has come into force. For the first time this document introduces the concept of "the medium-scale enterprises"; also in it the new criteria for the enterprises of small-scale and medium-scale business are listed[1]. The development and realization of concrete measures in the mentioned sphere is the responsibility of the regional and municipal authorities. According to Article № 11 of the FL № 209-FL, the powers of the local government on the issue of small-scale and medium-scale business activity involve:

— formation and realization of the municipal programs of small-scale and medium-scale business development;

[1] According to the law, small enterprises should have up to 100 persons; medium-scale ones should have from 100 to 250 persons. The profits from the realization of goods (services) without taking into account the TAC or the balance cost of actives for the previous calendar year should not exceed the following rates: at the micro enterprises 60 million rubles; at the small enterprises 400 million rubles; at the medium-scale enterprises 1 billion rubles.

— analysis of the financial, economic and social parameters of small-scale and medium-scale business functioning, and of the efficiency of the measures taken for its development;

— formation of the infrastructure for the support of small-scale and medium-scale business;

— assistance to the noncommercial organizations reflecting the interests of the subjects of small-scale and medium-scale business;

— formation of the coordination and advisory bodies in the field of small-scale and medium-scale business development [11].

Nowadays the necessity of the support of small business development is realized by administrations of each municipal formation in the Russian Federation, including Vologda. The key problem which should be solved for the small business growth is the determining of directions in sphere of supporting it. In the purpose of revealing the best variants of support it is necessary to start with the analysis of the small business development level and the conditions of its functioning. The basis of such analysis includes the statistical data and the results of the survey among businessmen[2] .

As the statistical data show, in 2007 in Vologda 1658 enterprises of small business were functioning, that made more than one third of their total number in the Vologda area. During the last year the number of small enterprises in the city practically did not change: 1600 in 2006 and 1585 in 2005. In 2007 the ratio was 100 thousand inhabitants of Vologda to 565 small enterprises.

At the period from 2005 to 2007 the number of individual businessmen in the city was annually increasing (8,5 thousand people in 2005, 9,3 thousand people in 2006, 10,4 thousand people in 2007). The ratio was 100 thousand inhabitants to 3,5 thousand individual businessmen (in the Vologda area to 3,3 thousand; in the Russian Federation 2,4 thousand).

So, in 2005 – 2007 the increase of the number of small enterprises and individual businessmen in the city was not observed. Such situation can be explained by means of the following causes: those people, who wanted to become engaged in business, had already been engaged in it, and the existing conditions do not stimulate the population to be occupied by business. In 2005 – 2008 on the basis of the carried out surveys of the small enterprises' heads it was revealed, that businessmen did not consider suitable the following things [6]:

а) the low availability of the ground areas and premises;

б) the insufficient attention of the local governmental institutions to the problems of small business;

в) the shortage of the qualified manpower;

г) the lack of the opportunities of influencing businessmen's associations on the approving the administrative decisions concerning their activity *(tabl. 1)*.

The businessmen of Vologda don't estimate the acting procedures of administrative regulation highly *(tabl. 2)*. The special anxiety is caused by the bureaucratic delays and the ambiguity of interpretation of different instructions and resolutions.

Only a small part of businessmen (9%) is informed about the city administration activity on the issues of support of small business (29 more % are informed partly). More than a half of businessmen (55%) do not see any help from the direction of the local authorities in supporting and developing their activity.

However there is a potential of increase in the amount of subjects in the sphere of small business. According to the results of the survey which has been carried out by VSCC of the Russian Academy of Science in 2008, 16% of the inhabitants of Vologda, who are not businessmen yet, consider it possible for them to be engaged in business. Among the conditions

[2] Here are the results of the survey which has been carried out by VSCC CEMI of the Russian Academy of Science in 2005 – 2008 among the subjects of small business in Vologda are represented. In 2008 100 subjects of small business of city (in 2005 100 subjects, in 2006 111 subjects, in 2007 97 subjects) were questioned.

Table 1. Estimation of the conditions of small business development by businessmen, according to the 5-point scale*

| The factor | Year | | | |
|---|---|---|---|---|
| | 2005 | 2006 | 2007 | **2008** |
| Availability of communication services | 3,3 | 3,1 | 2,9 | **3,3** |
| Availability of transport services | 3,2 | 2,9 | 2,8 | **3,1** |
| Availability of the consulting services on the marketing questions | 2,6 | 2,9 | 2,8 | **3,1** |
| Availability of the consulting services on the economic activities' questions | 2,7 | 2,8 | 2,7 | **3,1** |
| Availability of the municipal services | 3,0 | 2,9 | 2,9 | **3,0** |
| Availability of the consulting services on the management questions | 2,7 | 2,9 | 2,7 | **3,0** |
| Availability of the material resources | 2,7 | 2,9 | 2,8 | **2,9** |
| Availability of the fuel resources | 2,8 | 2,8 | 2,8 | **2,9** |
| Availability of the power resources | 2,8 | 2,9 | 2,7 | **2,9** |
| Opportunities of the formation | | | | |
| of the necessary technical base | 2,8 | 2,8 | 2,6 | **2,9** |
| Safety of the activity conditions | 2,4 | 2,8 | 2,6 | **2,9** |
| Perfection of the system of the informational | | | | |
| supply of businessmen's activity | 2,7 | 2,7 | 2,7 | **2,8** |
| Availability of the modern technologies "Know-how" | 2,8 | 2,8 | 2,8 | **2,7** |
| Attention to business from the direction of the regional authorities | 2,5 | 2,7 | 2,5 | **2,6** |
| Availability of premises | 2,9 | 2,8 | 2,7 | **2,5** |
| Opportunities of influencing public associations of businessmen on approving administrative decisions on their activity | 2,5 | 2,5 | 2,5 | **2,5** |
| Presence of the qualified manpower | 2,7 | 2,8 | 2,7 | **2,4** |
| Attention to business from the direction | | | | |
| of the local governmental institutions | 2,4 | 2,7 | 2,6 | **2,4** |
| Availability of the ground areas | 2,7 | 2,6 | 2,6 | **2,2** |

* The scale designations: 5 and 4 mean quite or nearly satisfactory; 3 means more likely satisfactory, than not; 2 and 1 mean unsatisfactory and extremely unsatisfactory.

Table 2. The most disturbing problems for businessmen in the procedures of the administrative regulation of small business, %

| Category | Year | | | |
|---|---|---|---|---|
| | 2005 | 2006 | 2007 | **2008** |
| Bureaucratic delays | 41,0 | 31,5 | 41,2 | **59,0** |
| Ambiguity of the interpretation of instructions and resolutions | 21,0 | 26,1 | 20,6 | **46,0** |
| Excessive volume of bureaucratic work | 31,0 | 23,4 | 25,8 | **43,0** |
| Problems in the protection of the legitimate interests | 21,0 | 21,6 | 10,3 | **36,0** |
| Redundancy of supervising bodies | 17,0 | 18,9 | 9,3 | **34,0** |
| Unpredictability of the results of checks | 8,0 | 18,0 | 8,2 | **26,0** |
| Plentiful checks | 13,0 | 15,3 | 5,2 | **25,0** |
| Backlog of the normative documents from the real practice | 23,0 | 29,7 | 16,5 | **24,0** |
| Incompetent checking | 14,0 | 21,6 | 4,1 | **20,0** |
| Material costs, unreasonable penalties | 15,0 | 13,5 | 10,3 | **18,0** |
| Infringements of the legislation | 17,0 | 16,2 | 9,3 | **14,0** |
| Excess by the officials of their powers | 9,0 | 7,2 | 4,1 | **13,0** |
| Attempts of extortion | 8,0 | 8,1 | 5,2 | **7,0** |

under which people could become engaged in business, are the presence of the financial support (25%); the simplification of the tax system (11%).

The analysis of conditions and tendencies of the small business development in Vologda allows noting two basic problems which should necessarily be solved: a) improvement of the current conditions for functioning small business subjects; b) involving in business those people who haven't been engaged in this sphere yet.

It is obvious, that the active policy directed on the small business development, is necessary. The special role here belongs to the municipal authorities.

Nowadays the municipal programs of the small business development are carried out in many cities of the Russian Federation such as Moscow, Saint-Petersburg, Rostov-upon-Don, Tula, Krasnodar, Vladivostok etc. Both the domestic and the foreign types of experience of small business support at the municipal level run that:

– the primary goals of municipality's actions in the field of the support of small business development are improvement of the current conditions for its functioning and stimulation of the population to become engaged in this kind of activity;

– the important point of enterprise activity stimulation of the population is a widely advanced infrastructure in the sphere of support of the small business [2, 3];

– the basic elements of the support of the small business development are the structures created due to the budgetary funds under the initiative of the local authorities (departments, councils, business-incubators, techno parks and so forth), and on the basis of the commercial (specialized consulting and news agencies), and public (associations of businessmen) organizations [1, 5, 6].

Taking into account all the mentioned things, we offer the following basic directions of support of the small business development at the municipal level in Vologda:

- perfection of the strategic and the tactical aspects of management of the small business development;
- elaboration of the analysis system for defining the level of the small business development and the efficiency of the measures taken for its support;
- reduction of the administrative barriers;
- perfection of the mechanisms of provisioning the small enterprises with necessary resources;
- development of the infrastructure elements for the support of the small business;
- increase of the enterprise activity prestige.

For each direction the aim on the support of the small business development is determined, its achievement is provided by the municipal authorities while solving specific problems. Let's characterize in details the above-stated directions.

*Direction 1. Perfection of the strategic and the tactical aspects of management of the small business development.*

The purpose is to provide systematic small business development in Vologda. Its realization is impossible without taking into account the strategy of the whole city development, and without the presence of the elaborated general plan.

Within the frameworks of this direction it is necessary to solve the following problems:

– development of the reference points, strategies and programs of the small business development in Vologda;

– development of the actions on the improvement of the conditions of the small business functioning;

– creation of the mechanisms for making the municipal authorities more interested in the small business development;

– increase of the efficiency of interaction between the municipal authorities and the subjects of small business.

Among the concrete mechanisms of the given direction we shall allocate the following ones.

➤ Creation of the **long-term strategy of the small business development in Vologda**. In this document it is necessary to determine the prospects of development and the basic directions of the support of business from the direction of the municipality. The strategy of the small business development should be logically connected to the strategy of the development of Vologda.

The experience of the concrete intermediate term programs on the support of the small business development has been obtained by the administration of Vologda since 2004. Now the Program of the development of the small–scale and medium-scale business subjects in the municipal formation “the city of Vologda” for 2009 – 2011 [11] comes into force. However, it is necessary to elaborate the strategic aspects of the support of the small business development.

➤ Creation **of the coordination council on the small business development in Vologda at** the municipal level. It is offered to include the representatives from the municipal authorities and from the subjects of small business into the initial structure of this council. It is possible further expansion of the council structure depending on the spectrum of the problems being solved by it. In our opinion, among the primary goals, should be mentioned the following ones:

- consideration of the matters connected to the mechanisms, forms, ways and directions of the local authorities’ activity on the support of small business;
- consideration of the proposals on modification and additions to the program of the small business development in Vologda;
- organization of interaction between the municipal authorities and the associations of businessmen;
- attraction of the business communities’ representatives of Vologda to the elaborations of measures on organizational, financial, material support to the subjects of small business;
- participation in the formation and the development of programs and mechanisms of support of small business in Vologda;
- public examination of the legal acts developed by the legislature of Vologda, concerning the interests of small business, and their further perfection.

The positive fact is that according to the Program of the development of the subjects of small-scale and medium-scale business in the municipal formation “the city of Vologda” for 2009 – 2011, in 2009 The Coordination council on the small-scale and medium-scale business development [9] has been created. The functions of this council are:

1. Development of the recommendations for the local government institutions on the matters of support of business in Vologda.
2. Interaction with the businessmen associations formed both on branch, and territorial factors.
3. Participation in the elaboration and the realization of the federal, regional and city programs on small-scale and medium-scale business development.
4. Attraction of businessmen, authority representatives, other persons for getting consultations, analysis and preparation of programs and projects of statutory acts.
5. Participation in the work of the local government institutions in Vologda on the matters of support the subjects of small-scale and medium-scale business and the organizations forming the infrastructure for the support of small-scale and medium-scale business.
6. Generalization of the businessmen opinion on the vital matters of their activity and passing the consolidated position of the business community on these matters to the local government institutions of Vologda.

*Direction 2. Elaboration of the analysis system for defining the level of the small business development and the efficiency of the measures taken for its support.*

The purpose is creating the opportunity for monitoring of the small business development in Vologda.

According to the given direction it is necessary to create the system of monitoring of **the small business development in Vologda and the analysis of the efficiency of the measures taken for its support**. For this purpose the following problems should be solved:

– perfection of the statistical account system of the small business enterprises and the parameters of their activity;

– elaboration of the financial, economic and social parameters and criteria for the estimation of the small business development level;

– elaboration of the parameters and the criteria for the estimation of the of realized programs and measures efficiency of the state support of the small business development;

– formation of the feedback mechanism with small business.

Solving the mentioned problems will promote the creation of the system of monitoring.

The organization of the mentioned system can be based on two basic elements, such as:

- the Territorial Department of the Federal Service of the State Statistics in Vologda region (gathering and generalization of the statistics on the small business subjects' activity);
- VSCC of the Russian Academy of Science (carrying out of the interrogations of businessmen in Vologda and the analysis of the efficiency of the measures taken for its support)[3].

*Direction 3. Reduction of the administrative barriers.*

The purpose is to improve the conditions for the small business functioning in Vologda. Within the frameworks of the mentioned direction the following problems should be solved:

– development of the procedures and the algorithms of interaction between the small business and the administrative and supervising structures;

– development of the procedures of selling and buying ground areas and premises;

– perfection of the normative-legal base simplifying the procedures of registration, licensing of the enterprises, getting sanctions, reporting and taxation for businessmen;

– creation the conditions for elimination of corruption in the sphere of small business.

Solving the considered problems can be done by the Coordination Council on the small business development in Vologda.

*Direction 4. Perfection of the mechanisms of provisioning the small enterprises with necessary resources.*

The purpose is to improve the provisioning of the small business subjects in Vologda with necessary resources. The following problems should be solved:

– creation of the database of the investment projects developed by small enterprises, for their promotion and financing;

– perfection of the mechanisms of getting the financial support, preferential crediting and leasing by the small business subjects;

– development of the mechanisms of giving credit guarantees by the municipal authorities to the small business subjects[4];

– provisioning of the availability of innovational technologies, the equipment and the materials for the small-scale enterprises;

– development of the mechanisms of granting[5];

[3] The role of VSCC of the Russian Academy of Science is that the mentioned center has an extensive database and experience of carrying out the researches concerning the business area. So, since 1997, VSCC has carries out annual questionnaires of the small business subjects in Vologda region, in Vologda and in Cherepovets.

[4] Now on the basis of SE HE "Business-incubator" the mechanism of getting grants for the compensation of a part of expenses under credits by the small-scale and medium-scale business subjects operates. The maximal sum of grants to one borrower makes of 400 thousand rubles in the current year. However the mentioned measures are not enough for the financial support of the city small business development.

[5] Now for businessmen there is an opportunity of getting the grant for their own business development in the sum up to 300 thousand rubles.

– perfection of the mechanisms of buying ground areas and premises by the small business subjects.

We offer the circuit of the investment promotion and innovational projects which realization will help to solve the mentioned problem[6].

*Direction 5. Development of the infrastructure elements for the support of the small business.*

The purpose is to stimulate the development of small business, and to increase amount of the small enterprises in Vologda.

For the achievement of this purpose the following problems should be solved:

– perfection of the mechanisms of granting the ground areas in rent and the property to the small business subjects;

– improvement of the mechanisms of granting the information, transport and consulting services to the small business subjects;

– development of the system of subcontracting for the small business enterprises, the system of their participation in the government work;

– development of public associations and businessmen communities.

**The city popular system of the informational and consulting services to the small business subjects and to the businessmen-beginners (by means of the Internet portal of the small business development in Vologda)** will help to solve the mentioned problems.

The portal will solve such problems as:

- informational provisioning of the enterprise activity (statutory acts, opportunities and conditions of getting privileges and financial support);
- informing the small business subjects about the state and municipal orders for production and services[7];
- operative consultation of businessmen on the key matters of their activity, including their addressing to the site of the Internet portal;
- informing the small business subjects about the accessible ground areas, premises;
- training on the basic directions of carrying out the enterprise activity;
- informing about the taken steps on the support of small business, announcements of the forthcoming events concerning the interests of the businessmen;
- expansion of relationships between businessmen, bodies of the municipal authority and other organizations;
- organization of inter-regional, international cooperation.

*Direction 6. Increase of the enterprise activity prestige.*

The purpose is to attract the population to be engaged in business.

For the achievement of this purpose the following problems should be solved[8]:

– creation of the positive image of businessman among the population of the city;

– increasing the interest of the population to business;

– organization of classes for those who would like to be engaged in business.

The considerable part of the measures on the support of small business mentioned earlier is already carried out in Vologda. However the creation or the perfection of the certain elements is required, among them are:

[6] The Russian network of the technologies' transfer is the tool of the innovational infrastructure allowing to distribute the technological information and to carry out the search of partners for the realization of the innovational projects effectively. It is possible to get acquainted with the activity of the network on the site www.rttn.ru. The project Gate2Rubin is a project of participation of the Russian organizations in a business-innovational infrastructure in the European network of the support of business. The more detailed information can be found on the site www.gate2rubin.ru.

[7] According to Item 15 of the Federal law №94-FL "About the accommodation of orders for the deliveries of goods, rendering services for the state and municipal needs" the state customers are obliged to place the orders to the small business subjects in size not less than 10 and no more than 20% of the general annual standard item of goods, works, services [10].

[8] The solving of the mentioned problems will be fulfilled by means of the mentioned above Internet portal concerning the small business development in Vologda.

1. Elaboration of the long-term strategy of the small business development.

2. Perfection of the mechanism of the small business monitoring.

3. Elaboration and commissioning of the Internet portal on the small business development.

The stimulation of the municipal authorities' activity on the support of the small business development in the offered directions will allow to solve, first, the problems designated above, second, to improve the conditions of the business functioning; thirdly, to stimulate the small business development and the occurrence of its new subjects in Vologda. If people have a wish to be involved in business, the number of businessmen in the city will increase, by our calculations, approximately in 30 thousand.

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# Small forestry business development peculiarities in Komi Republic

*The article considers problems of small business in the forestry sector of Komi Republic in the structural and social aspects. Problems bounding effectiveness increase of small forestry business are shown up.*

*Small forestry business, scales, structure, effectiveness structure.*

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The Republic of Komi is the most developed timber industry region of Russia. All branches of forest industry are represented here, from wood harvesting to deep chemical wood processing. Having the richest forest resources, the republic can make a significant contribution to the economy of the North-Western region and the whole country. But the capability of the growth of wood harvesting and processing is not used to its full extent. Meanwhile the internal and external markets are maintaining the demand for the products of timber industry, sawn timber of high quality and other timber goods.

One of the main conditions of the use of Komi's forest resources is the development of small timber business. The perspectives of its development must be oriented to new types of activity that would use advanced technologies and produce high conversion products.

***The dynamics of the development of small timber business***

In Komi's timber industry for the last 5 years the number of enterprises with the amount of logging over 100 thousand cubic meters a year has decreased (from 22 to 14 units). At the same time the share of enterprises with the amount of logging less then 100 thousand cubic meters (not less then 50 thousand) increased from 10% to 22%. The number of small timber businesses with the amount of logging less then 50 ths cu. m grew from 16% to 27%. *Table 1* shows increase in the number of small timber enterprises and its increasing role in the employment and earned income.

The emergence of small timber enterprises is connected with the mass bankruptcy of forest harvesting enterprises in 1995 – 1998, when on the basis of reformed or liquidated enterprises small enterprises were formed, new jobs for the released workers were created. At the same time in the internal market the solvent demand for wood products manufacturing increased.

Small business in the timber sector of economy helped the rural population to survive because in many populated areas the agricultural activity nearly ceased. Small timber business played a significant role in revenue inflows to the budget of forest regions.

*Table 2* characterizes the input of small business into the timber manufacturing. As it can be seen from the table, the production of merchantable wood and sawn timber is increased by small timber enterprises. The share of small enterprises in the total volume of production of these types of timber manufacturing has been growing and in 2007 the small

Table 1. The development of small forest business in the Republic of Komi

| Index | 2003 | 2007 | 2007 compared with 2003,% |
|---|---|---|---|
| ***The number of small enterprises:*** | | | |
| - forest harvesting | 167 | 238 | 142,5 |
| - wood processing and wood products manufacturing | 91 | 128 | 140,7 |
| ***Average number of employees:*** | | | |
| - forest harvesting | 2 558 | 2 596 | 101,5 |
| - wood processing and wood products manufacturing | 1 526 | 1 760 | 115,3 |
| ***Average income, rubles:*** | | | |
| - forest harvesting | 3 392 | 6 363 | 187,6 |
| - wood processing and wood products manufacturing | 3 304 | 6 970 | 2,1 times |

enterprises made up one quarter of the overall production of merchantable wood and sawn timber. Small business took the leading position in the production of window and door blocks. Small timber enterprises are monopolists in the production of wood charcoal.

***Distinctive features of small timber business***

Sawn timber has always been and still remains one of the main types of wood working products of small business. The distinctive features of national sawing:

- weak domestic market, proved by big volume of sawn timber export (about 80% of sawn timber, manufactured both in Russia and in the Republic of Komi);
- low profitability of sawing products because of insufficient and inefficient working of wood;
- the use of outdated (both morally and physically) saw mill equipment.

The data analysis of statistics registers of 2007 according to the All-Russian Classifier of Types of Economic Activities (OKVED) showed that 77% of registered timber enterprises were engaged in sawmilling, planing of wood and the production of unshaped sawn timber.

*Figure 1* presents the number of small wood processing enterprises in the municipalities of Komi Republic and their branch diversification, characterized by the number of types of timber activities.

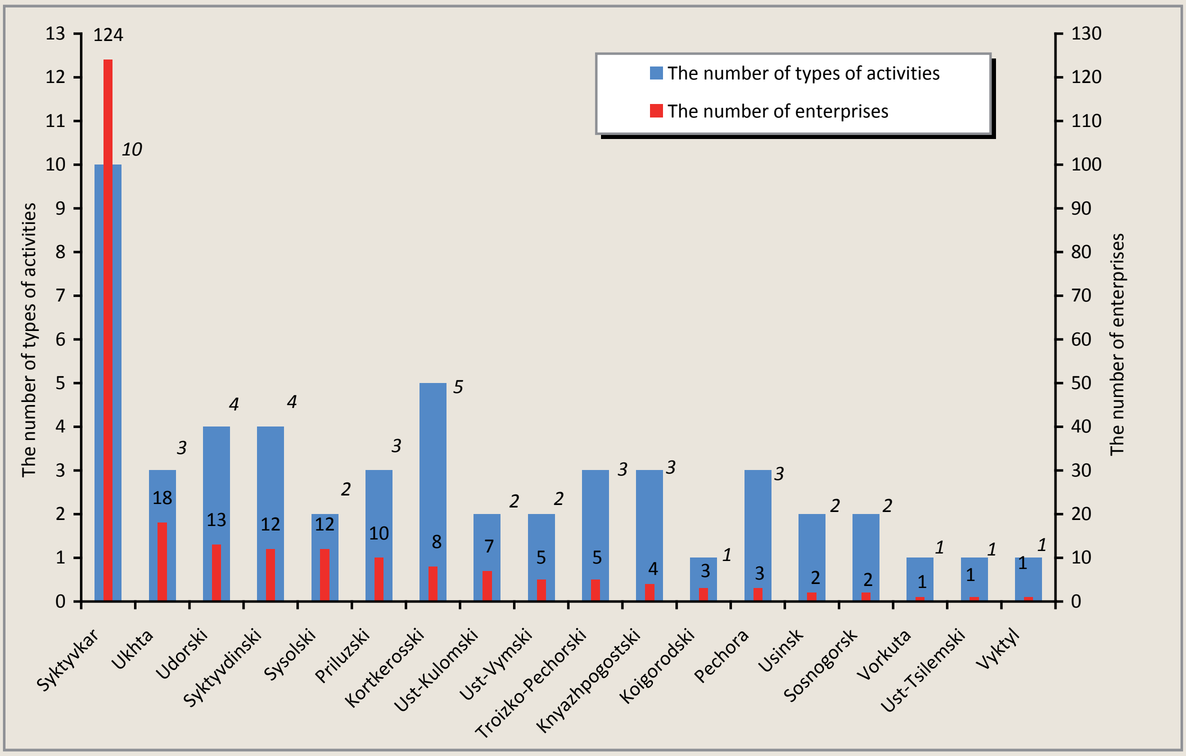
As a whole, there are ten types of wood processing productions in the republic and they are concentrated in Syktyvkar where 124 enterprises are registered. There is also Kortkerosski district with 5 types of timber manufacturing, such as wood working, sawmilling and planing of wood, the production of sawn timber and joinery and wickerwork. But in most municipal districts the level of diversification is low (2-4 types of activities).

But our analysis showed that the sawmilling products of small enterprises, in comparison

Table 2. The volume of production and the percentage of small business in the output of some types of timber manufacturing in the Republic of Komi

| Types of timber manufacturing | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Export of timber, thousand solid cubic meters | 1 064 | 1 768 | 1 778 | 1 428 | 1 518 |
| The share of small business,% | 17,6 | 28,0 | 29,6 | 25,1 | 24,6 |
| Merchantable wood, thousand solid cubic meters | 993 | 1 623 | 1 609 | 1 311 | 1 382 |
| The share of small business,% | 19,7 | 30,3 | 31,4 | 26,2 | 25,0 |
| Sawn timber, thousand solid cubic meters | 135 | 137 | 167 | 189 | 220 |
| The share of small business,% | 21,2 | 20,2 | 22,4 | 24,8 | 25,3 |
| Window and door blocks, thousand solid cubic meters | 20 | 27 | 19 | 12 | 9 |
| The share of small business,% | 84,8 | 92,4 | 83,8 | 81,1 | 85,3 |
| Wood charcoal, thousand solid cubic meters | 63 | 17 | 49 | 104 | 92 |
| The share of small business,% | 100 | 100 | 100 | 100 | 100 |

Figure 1. The level of diversification of wood working in the municipal districts of Komi Republic




with those of middle-sized and big enterprises, have a low quality due to incorrect size and geometry of boards. Sawmilling products are not dried and are not treated with antiseptics, causing worsening quality during warm seasons. Besides, the volume of output of most small enterprises is rather small and unstable. As a result, the selling price for sawn timber is 1,5-2 times lower then the price of middle-sized and big enterprises.

***The territorial structure of business***

In most municipalities forest harvesting and the production of sawn timber prevail. Besides, window and door blocks are also produced, as well as pulpchips for pulp production and production of wood-pulp from raw waste lumber.

By total cost of timber goods the forest sector is practically concentrated in Syktyvkar due to expensive pulp and paper production in this city. Ust Vymski district with its board production takes the second place.

As stated above, within the bounds of municipalities almost the total volume of shipped timber goods is provided by forest harvesting and sawmilling. The volume varies within the limits of 800 thousand rubles in municipal district Knyazhpogostski and up to 224,3 million rubles in Syktyvkar *(tabl. 3)*.

According to the estimates of the volume of shipped timber products, the small timber business is also substantial in such districts as Kortkerosski, Priluzski, Troizko-Pechorski, Sysolski, Ust-Kulomski, where forest harvesting and sawmilling are developed.

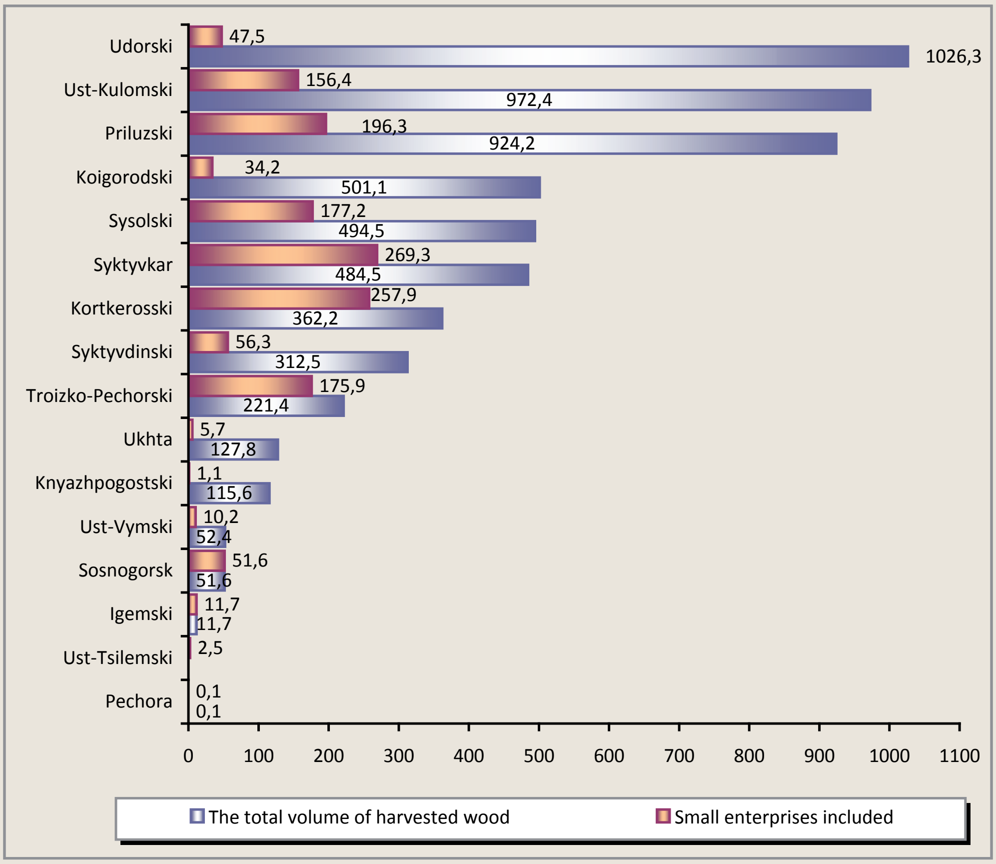
Udorski, Ust-Kulomski and Priluzski districts have the richest forest resources and more than half of the harvested timber in Komi accounts for these districts. The volume of wood harvested by small enterprises of Syktyvkar and Kortkerosski, Sysolski, Troizko-Pechorski, Ust-Kulomski and Priluzski districts reaches 150 thousand cu.m and more *(fig. 2)*.

The production of sawn timber is concentrated in Syktyvkar and Udorski and Priluzski districts and the largest volume of sawmilling is represented in Syktyvkar (534 ths.cu.m, or 62,4%). Small enterprises produce 28,2 thousand cubic meters (18,3%). The production of

Table 3. The volume of shipped timber products by municipalities in 2007, million rubles

| The name of municipality | The total volume of timber production | The volume of small business included | The share of small business,% |
|---|---|---|---|
| **The Republic of Komi** | 31 861,3 | 1 213,9 | 3,8 |
| Syktyvkar | 24 753,9 | 224,3 | 0,9 |
| Kortkerosski | 287,4 | 199,1 | 69,3 |
| Priluzski | 616,7 | 151,8 | 24,6 |
| Troizko-Pechorski | 162,2 | 150,7 | 92,9 |
| Sysolski | 394,7 | 136,2 | 34,5 |
| Ust-Kulomski | 602,7 | 119,3 | 19,8 |
| Sosnogorsk | 44,2 | 44,1 | 99,8 |
| Syktyvdinski | 357,3 | 41,8 | 11,7 |
| Udorski | 752,3 | 40,8 | 5,4 |
| Koigogrodski | 275,1 | 36,4 | 13,2 |
| Ust-Vymski | 2 848,9 | 35,8 | 1,3 |
| Izhemski | 15,8 | 15,8 | 100,0 |
| Ukhta | 133,2 | 7,8 | 5,9 |
| Ust-Tsilemski | 11,9 | 5,8 | 48,7 |
| Usinsk | 3,0 | 2,2 | 73,3 |
| Pechora | 1,4 | 1,2 | 85,7 |
| Knyazhpogostski | 599,5 | 0,8 | 0,1 |
| Vyktyl | 1,0 | 0,0 | 0,0 |

Figure 2. The volume of harvested wood by municipal districts of the Republic of Komi in 2007, thousand solid cu. m



sawn timber by small timber enterprises of Ust-Vymski, Troizko-Pechorski, Kortkerosski and Priluzski districts reaches 10 thousand cu.m and more. The enterprises of small timber sector of Kortkerosski, Izhemski, Ust-Tsilemski districts and Ukhta produce the total volume of sawn timber.

***Problems of small timber business***

On the one hand, small business enterprises are in more favorable conditions in comparison with large-scale businesses. They do not bear responsibility for the development of the social sphere of the enterprise, for financial support for their employees and old age pensioners in accordance with the concluded labour collective agreements, because most small enterprises have no collective agreements. Small enterprises built fewer logging roads.

Less money is invested in the enterprise development, less is the social burden, thus the production cost of one cubic meter of timber for small enterprises is 10-20% lower than the production cost for large enterprises. But in spite of all advantages, small timber business has a lot of unsolved problems.

The activity of most small enterprises is hampered by shortage of financial resources for business development and difficulties in getting borrow funds (e.g. loans for modernization and expansion of production, for paying off debts, for replenishing floating assets and salary payments) and unfavorable loan conditions.

High interest rates and short-term loans are also disadvantageous for small business enterprises. SMEs have no sufficient guarantee assets. They also have to follow a complicated procedure of getting the loans because a huge amount of different documents is required.

Nowadays the urgent problem of many timber enterprises is impossibility of getting the loans. Since December, 2008 banks have been closing loans and lines of credits and even if they give loans, the annual interest rates reach 20 – 23%. Unprofitable timber harvesting enterprises have no chances to improve their financial state at the expense of loans.

Financial resource shortage causes backlog of technologies. Outdated equipment and shortage of production spaces have a negative impact on small business performance.

Tax burden prevents small timber enterprises of Komi Republic from working efficiently. Enterprises, using standard tax system, suffer more then enterprises, using single tax on imputed earnings and simplified tax system.

Small timber business faces the problem of overcoming the administrative barriers that are created by authorities and administration at all levels. This problem has not been resolved as yet. Small timber enterprises have to follow a great number of rules and procedures, specified by legislative and normative documents, as well as rules forced by officials. SMEs also face such problems as frequent tax audit and inspection of a great number of supervisory and governing bodies, difficulties with documents when setting up a new enterprise. Small business was proclaimed to be the basis for the development of medium size business and the President of Russia proposed to prohibit inspection of SMEs without the prior approval of court or a prosecutor. In our opinion, such measure will help to solve the problem [3].

Large consumers of timber raw materials hold a monopoly on price-forming and purchases and under such conditions the seasonality of orders negatively affects the economy of small timber harvesting enterprises.

Small timber businesses need more state support. For 2007 – 2008 only 2 small enterprises managed to receive the financial support of state for working out business plans, 11 enterprises received interest rates subsidies on loans and one SME managed to use leasing. In total only 4 million rubles were allocated for small timber business support from the republican budget.

In 2006 the Government of the Republic of Komi changed the approach to small business support. According to the target republican program "Development and support of small business and consumers' cooperative society in Komi Republic (2006 – 2008)", the amount of allocations from the republican budget will total 94,3 million rubles. Unfortunately, this money is allocated to support the whole small business of Komi. That's why timber harvesting enterprises cannot expect a big state support.

New Forest Plan of Komi Republic presupposes distribution of the forest fund mainly to the leaseholders that presented priority investment projects in the sphere of forest development [4]. Hence, it will be difficult for small wood processing enterprises to receive the forest fund. Besides, it can cause a wave of illegal logging, because in some regions, as stated above, the majority of the population earns a living by working in forest business. The creation of enterprises that serve the leased forests (enterprises engaged in sanitary cuttings, forest thinning, forest plantations, building logger-roads and forest roads, forest protection activity) will partially solve this problem. In short, it's necessary to look for new ways of creation of favorable conditions for small timber business development in the Republic.

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# Small entrepreneurship development prospect in the Murmansk region under state regulation measures activization circumstances

*The article examines the issues of state support of small and mid-sized businesses in the region. The conclusion is made that it is necessary to search for new mechanisms of stimulation of small business activity.*

*Small and mid-sized enterprises, tax regulation, regional programs aimed at small business support.*

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Since the time of transition to market economy the authorities at all levels have been taking a keen interest in small business as integral part of modern economic system. Development of entrepreneurship is encouraged at the state level and in different areas, such as creation of institutional environment, implementation of special programs of different levels, and the primary attention is given to small business bank lending.

In Murmansk region the support of initiatives in the sphere of small and mid-sized business is one of the main priorities and local administration should take more active existing measures and find new measures for small and medium-sized enterprises (SMEs) support.

The first law of Murmansk region "On the foundation of state support of small entrepreneurship" was adopted in 1996 and it regulated the relations between the authorities and small enterprises. The main regulations of the Federal Law №88-FZ "On State Support of Small Businesses in the Russian Federation" served as a basis for the regional law and on the whole it had a declaratory character, as well as the Federal Law itself.

During this period new methods of taxation were put into practice. On the basis of the Federal Law "On the Simplified System of Taxation" a special tax treatment was developed and established for SMEs in Murmansk region. There were considerable differences between the regional version of a simplified tax system and the federal one. The regional version set up tougher terms of taxation and excluded the possibility of the choice of tax basis and differentiated tax rate by taxpayers. As a result, such defective law-making initiatives of the regional law gave rise to the problems with tax payment by low-profit SMEs and consequently caused a sharp decrease in the number of SMEs, basically in the sphere of materials. Only seven years later the amendments that lessened the tax burden for small enterprises were adopted.

The first experience with the implementation of the simplified taxation system in Murmansk region was negative and it was the reason for a four-year delay in introducing the unified tax on imputed income for certain business activities (2001). In order to secure positive results the draft law was repeatedly discussed with the participation of entrepreneurs, experts and scientists. When new tax treatment was introduced, fiscal interests of the state were taken into account and at the same time favorable tax terms were created for business activities.

Besides, three regional programs aimed to support small businesses were introduced, the first one being adopted in 1997 and the implementation of the last program was finished in 2008.

The first program was implemented during the financial crisis. Small business, in particular its main sector, managed to keep its positions during the financial crisis. By 1999 the number of SMEs in industry had decreased by just 5%, in trade – by 28% [1]. Positive tendencies in the development of small business were caused not by the implementation of the regional program (because it was not financed), but more likely by orientation of SMEs' activity toward serving regional enterprises of large scale, working for the external market.

The results of the implementation of the 2nd regional program of small business support (2000 – 2004) can be acknowledged to be more significant. The informative, consulting and educational elements laid the foundation for the small business support at the regional level. The State Fund of small business development and local authorities created the micro loan program in the cities of Apatity, Monchegorsk, Poljarnyje Zori. State authorities undertook measures to support economically viable small business enterprises and to protect them against negative impact of non-market factors.

Over a four-year period the number of SMEs has increased by 3,9%. The number of employed persons has also grown, accounting for 7,2% of the total number of employed in Murmansk region. Small business development caused the total growth of economic and financial indicators. Great results were shown by small business enterprises engaged in IT maintenance, science and manufacture and technical goods wholesale trade. Some prominent results were achieved by SMEs engaged in industry, transport, housing and communal utilities and trade. The share of SMEs production made up 16% of the total regional industrial production and construction.

There were no significant changes in the structure of small business activities. The share of SMEs engaged in trade and public catering accounted for 46.8%, SMEs engaged in industry – 16%, in construction – 13%. The greatest share of employed persons in SMEs (49%) was observed among industrial enterprises and enterprises engaged in construction. Because of uneven territorial distribution of SMEs the amount of their tax payments differed by municipal entities and made up from 2% to 17% of local budget revenues [2].

The implementation of the program revealed a number of unsolved tasks and problems and they indicated the main directions of the next regional program of small business support for the years of 2005 – 2008. For the next 4 years the efforts of different entrepreneur associations, executive authorities and local government authorities were aimed at supporting the development of internal market of services, including housing and communal utilities, at providing target state support of small manufacturers in food and agricultural industries, fishing and forestry. Intensification of inter-economic cooperation and integration of regional SMEs into the market relations of the North-West Federal District and cross-border cooperation within the framework of Barents Euro-Arctic region were also the goals of the above-noted program [3].

Over the program implementation period (2005 – 2008) new instruments and tools were introduced in the region for small business development. In 2007 on the basis of the Federal Fund for SME support a guarantee fund was set up to secure loans taken out by entrepreneurs which had no sufficient loan security. The system of micro-crediting began to develop rapidly and new forms for small business finance and new mechanisms were introduced for the start-up entrepreneurs. Over the last 2 years according to the normative acts of the Government of Murmansk region more then 100 entrepreneurs have received subsidies totaling 9 million rubles [3].

In May, 2007 the Department of Economic Development of Murmansk region adopted the administrative code "The Financial Support of Small Business Enterprises and Associations of Entrepreneurs". The Department is elaborating the administrative regulations to provide information and consultation support of SMEs and regulations of leasing procedures of municipal property.

It has become a tradition to hold "The entrepreneur of the year" contest and days of entrepreneurship in Murmansk region, and these events helped to stimulate the entrepreneurs' interest in quality improvement of their goods, to increase the level of public awareness about the entrepreneurship opportunities and to create favorable public opinion of entrepreneurs and small business.

Over the program implementation period there have been positive changes in the level of small business development. The number of SMEs has increased by 5,6%. The SME share of employment market has exceeded 9,2%. The turnover in SMEs has grown significantly (by rub. 20,8 billion) and amounted to rub. 70,1 billion at the beginning of 2008.[1] The biggest growth was achieved by SMEs operating in agricultural sector, in forestry, publishing and printing activities sector and manufacture of finished metal goods. 50% of the total regional cargo is carried by small business enterprises of the region. Small business enterprises also account for 50% of all construction works in the region.

Nowadays the conditions of employment have changed and become more civilized. The regulations of labour legislation are not violated, compulsory medical insurance and old-age insurance are available for the employees, working in SMEs. The level of wages has increased by 28%.

During the implementation of the regional program a survey was carried out among the employees of SMEs, operating in production, construction, transport and information and telecommunication services focusing on entrepreneurs' opinion. The survey was conducted in response to the request of the Department of economic development of Murmansk region and aimed at analyzing the entrepreneurship climate and small business problems [4].

The entrepreneurs cited the following main problems: high lease rates, high rate of tax burden, increase in prices on energy carriers, raw materials, tariffs; shortage of skilled and qualified staff, competition growth. For micro and small businesses the most vital problems are: shortage of financial resources for further development and investment projects, shortage of liquid assets, difficulties with obtaining necessary licensees, certificates and permissive documents; a great number of different administrative and authoritative inspections .

66% of all respondents admitted that they felt a need for additional finance to expand their business. In Murmansk region several programs for financial support of SMEs are available, but 62% of the entrepreneurs were not aware of existing financial support possibilities.

45% of respondents don't make use of the services of existing infrastructure net and they are not aware of its possibilities. As a rule, information and legal support in SMEs is provided by recruiting private persons (20,2%) and national companies (15,5%). Because of the low level of awareness about possible types of support it's difficult for the entrepreneurs to solve such problems.

Meanwhile, some activity has been observed in the banking sphere dealing with loans granted to small business enterprises. In 2007 more than half of the respondents (58%) received loans to expand their business. It should be noted that the majority of SMEs that receive loans is engaged in trade. 35% of SMEs that did not take loans consider reasonability of getting a loan in the future and 20% of small enterprises think that interest rates are too high for them.

[1] According to the data of the Department of Economic Development of Murmansk region.

There are still some difficulties in finding qualified specialists, up to 82% of respondents feel a need for qualified staff.

The results of the survey showed that the majority of respondents (66%) estimate the conditions for entrepreneurial activity as favorable, but 34% are not satisfied with the existing conditions and find the situation more likely as unfavorable and very unfavorable.

The results of the survey confirmed the need for such forms of entrepreneurial support as direct financing, favorable lease rates(for micro and small businesses), creation of loan guarantee schemes and investment funds, government contract opportunities for SMEs, a wide range of information and education support services for the enterprises of all categories. All these forms were reflected in the long-term target program "Small and Mid-sized Business Development in Murmamsk Region for the Period of 2009 – 2011".

The program was developed in accordance with the Federal Law №209-FL "On Small Business Government Support in the Russian Federation" dated July 24, 2007 and the Regional Law №977-01-LMO "On a Assistance to the Development and Government Support for Small and Mid-sized Entrepreneurship in Murmansk region" dated May 27, 2008.

One of the most important principles of the new federal law became the principle of separation of duties between local and state government, implemented in order to provide favorable conditions for entrepreneurship development and establishment of new criteria (the number of employed persons and sales revenue, residual value of assets). The new criteria help to distinguish micro, small and medium-sizes enterprises as entities of small entrepreneurship to provide the basis for the development of active support measures, oriented at these entities.

The existing conditions of Russian economy were taken into account when the new federal law was developed; nevertheless most of its regulations refer the recipients of support to the federal, regional and municipal development programs for small and mid-sized enterprises, in particular, to the long-term target program of Murmansk region for the period 2008 – 2011.

It is declared that the program aims to increase the number of SMEs, to enhance their competitiveness and to increase the contribution of SME sector to the social and economic development in Murmansk region (including gross regional product) and to the revenue budget at all levels and to provide employment and social guarantees to entrepreneurs and employees.

In order to achieve the stated aims the following tasks of the law should be accomplished:

1. To remove administrative barriers which impede small business development in Murmansk region.

2. To create favorable conditions that will stimulate self-employment and entrepreneurship among different strata of the population.

3. To create favorable conditions that will stimulate the local government and non-profit organizations, promoting the interests of entrepreneurs, to implement measures aimed at entrepreneurship development in municipalities.

4. To develop regional entrepreneurship infrastructure, including commercial firms and non-profit organizations, specializing in providing services to different entrepreneurial entities.

5. To provide access to financial resources by means of different financial tools (to grant micro-loans and subsidies, to provide loan guarantees and financial resources from unit investment funds [4].

The main principle of implementation of the above-stated tasks is implementation of support measures aimed at particular target groups. Different measures are developed according to the category of entrepreneurial entity, stage of business development or type of entrepreneurship.

The program consists of two major parts: "Improvement of Public Administration for the Development of Small and Mid-sized Enterprises" and "The Implementation of Drafts and Programs Aimed at Supporting SMEs".

The first part of the program proposes a wide variety of measures to provide entrepreneurial entities with access to the financial resources.

The Economic Development Department approved the regulations on micro loan system where loan terms and conditions are defined according to the stages of business development: start-up entrepreneurs can open a line of credit based on the refinancing rate of the Central Bank of the Russian Federation, acting small business enterprises and entrepreneurs can receive reduced-rate loans (the refinancing rate of the Central Bank plus 4%) and there is also a line of credit for the replenishing of current assets (the refinancing rate of the Central Bank plus 8%) .

The expenses of entrepreneurial entities are subsidized according to the decree of the Government of Murmansk region №253-PP/9 dated May 25, 2007. As different categories of entrepreneurial entities were singled out, it is supposed that the list of expenses, which can be subsidized, will be enlarged. According to the existing terms entrepreneurs are not limited in receiving subsidies under one agreement, the subsidy cannot exceed 50% of the documented costs. The total maximum amount of subsidy available is rub. 600 000.

Within the framework of the program consideration should be given to the advisability of establishment of unit investment fund or venture investment fund to provide entrepreneurial entities with access to the investment resources. The issue of replenishment of the guarantee fund is also very important. The Science Research Institute of the Russian Academy of Science is supposed to carry out research works on scientific validation of new financial tools of support.

To satisfy the needs of SMEs in qualified staff state contracts for the delivery of education services for business will be formed.

The second part of the program is aimed to encourage local government, representatives of organizations of entrepreneurial support infrastructure, non-profit organizations, initiators of different programs and drafts in the SME sector to take more active measures for the creation of favorable environment for SMEs development in municipal entities.

Within the framework of municipal programs subsidies will be granted on a competitive basis at the expense of regional budget. The municipal programs on the development of entrepreneurial entities are adopted in 10 municipalities with the aim of implementing support measures for entrepreneurship.

The program stipulates state support of projects concerning the development of SME sector, including the projects of non-profit organizations, international, inter-regional and inter-municipal programs and projects of public-private partnership.

The priorities for public-private partnership in the sphere of development of SME sector are declared as follows: assistance for creation and development of regional clusters (fishing, transport&logistics, construction and others); assistance with cooperation between SMEs and large businesses; development of subcontracting and outsourcing; assistance with implementation of innovations and information and communication technologies; implementation of public-private partnership projects in municipalities with low social and economic development.

Within the framework of the activities the development of international project in Murmansk region is planned. The aim of the project is to create the system of public experts to provide consulting services to SMEs.

To summarize, by adopting any new program a variety of tools (including financial, property, legal, consulting, education and information tools) aimed to support SMEs development has been growing and improving. Meanwhile, the growth of entrepreneurial activity both in Murmansk region and in Russia falls short of economy growth rate. Therefore, there is an urgent need for additional stimuli, which help to achieve significant social and economic results of SMEs development, for example, tools of tax regulation.

Correlation between the Limiting Amount of Sales Revenue and Category of SME

| Category of SME | Limiting amount of sales revenue (according to the Federal Law №. 209-FL and the Resolution of the Russian Federation Government №556), rub. | Maximum sales revenue under simplified tax system, rub. |
|---|---|---|
| Micro enterprise | 60 000 000 | 15 000 000 – 20 000 000 |
| Small enterprise | 400 000 000 | |
| Medium-sized enterprise | 1000 000 000 | |

The easiest way to increase tax efficiency for entrepreneurial support is harmonization of norms of the Federal Law №209-FL dated July 24, 2007 with norms of the Tax Code, namely with the simplified tax system *(see the table)*.

The new criterion, in particular sales revenue, will help to distinguish between micro, small and medium-sized enterprises and it must be adopted as a basic characteristic by transition to the simplified tax system. Otherwise, following the resolution of the Russian Federation Government №556 dated July 22, 2008 "On the limiting amount of sales revenue for each category of small and medium-sized businesses", none of the enterprises will be able to use the simplified taxation system, because the least amount of sales revenue for micro enterprises (rub. 60 000 000) exceeds the limiting amount of sales revenue adopted by the Tax Code for the use of the simplified tax system (rub. 20 000 000).

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# Entrepreneurial ability assessment of the population

*The article describes able-bodied citizens' qualitative adjectives which from the point of entrepreneurs and the whole population view are necessary to conduct business successful. Potential entrepreneurial ability index is offered on which basis entrepreneurial ability assessment of the Vologda region population is given. Groups with potentially high entrepreneurial ability are marked out in the article.*

*Entrepreneurial ability, entrepreneurship, labour potential, qualitative adjectives of the population.*

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Russia transition to innovative social oriented economy peculiarity consists in the necessity of simultaneous problems solving both raising and outgoing development. This assumes a new economy of knowledge and high tech formation. Innovative type of economic development requires maximal facility creation to take entrepreneurial initiative. The efficient professional entrepreneur, a knowledge bearer, is one of the main consumers of innovations. He forms a modern innovative business which in the last analysis defines competitive ability of social and economics systems. That is why assistance to a small and medium-sized business development is raising to the level of one of the main priority of public social and economic policy [1, 2].

The minister of economic development of the Russian Federation E.S. Nabiullina has noticed that in Russia "the number of small companies considerably lags behind economically developed countries performance. The matter is just not only mathematical comparison of companies' number. In the economies of all countries – economic leaders – small and medium-sized business produces not less than a half of their GDP" [12].

The problem of insufficient high entrepreneurial initiative is enhanced by the large territorial differences in small and medium-sized business development. With the mean value of 793 small businesses per 100 thousand people (data as of January 1st, 2008) such regions as St.-Petersburg (2 756 small businesses per 100 thousand people), Moscow city (2 060), Kaliningrad region (1 831) stand out from one hand. From the other hand relative number of businesses in outsider regions tens times less: in Ust-Ordynsk Buryat autonomous area there are 75 small businesses, in Republic of Dagestan – 141 per 100 thousand population[3].

Vologda region also belongs to the regions with insufficient low entrepreneurial initiative of the population. As of January 1st, 2008 data it is in the subject of the federation with the most low number of small businesses at per 100 thousand population top twenty. On this indicator the region takes the 70th place in Russia and last but one place in North-West Federal District outgoing only the Murmansk region [3]. There are 4 787 small-scale enterprises and 39 822 sole proprietors[1] registered in the region which are

[1] Sole proprietor is a citizen (individual person), who conducts business without being a legal person, after the state registration according to Article 23 of the RF civil code, implemented from 1.01.1995 [9, p. 105].

Table 1. The highlights of small business development in Vologda region in 1998 – 2007, at the end of year

| Indicators | Year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Before reregistration* | | | | | | | 2005 | 2006 | 2007 |
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | | | |
| Small-scale enterprises, thousand units. | 4,1 | 4,9 | 6,0 | 6,3 | 6,0 | 6,3 | 6,1 | 4,8 | 4,9 | 4,8 |
| Numbers employed in small-scale enterprises, thousand people | 60,2 | 61,4 | 64,6 | 66,4 | 58,6 | 62,6 | 63,3 | 62,0 | 63,5 | 65,0 |
| Sole proprietors number, thousand people | 59,9 | 61,9 | 67,7 | 67,7 | 73,7 | 75,1 | 81,5 | 32,8 | 35,9 | 39,8 |

* Before the Federal law "About the state reregistration of legal persons and sole proprietors" entering into force.
Sources: Statistic year-book of Vologda region. 2006. – Vologda, 2007; Vologda region small business in 2006: statistic bulletin. – Vologda, 2007. – P. 10, 30; Vologda region small business in 2007: statistic bulletin. – Vologda, 2008. – P. 7, 86.

Table 2. Distribution of Vologda region's population and sole proprietors answers to the question: "What do you think is necessary to start successful business?" (2008 , in % from respondents' number)

| Possible answers | Whole population | Sole proprietors |
|---|---|---|
| Outset | 63,6 | 65,0 |
| Special entrepreneurial character | 30,5 | 50,7 |
| Presence of precise own business development plan in prospect | 18,9 | 22,7 |
| Presence of specialists and qualified workers team | 14,5 | 26,7 |
| Presence of special knowledge in enterprise management, marketing, financial planning, personnel management | 14,4 | 22,3 |
| Personal contacts in bodies of power or departmental structures | 13,8 | 22,0 |
| Personal contacts and active sole proprietors' support | 11,5 | 19,3 |
| Possibility to rent or lease necessary equipment | 10,2 | 13,7 |
| Letter contract with future suppliers and customers about joint actions | 8,1 | 11,0 |
| Access to workrooms and offices | 6,2 | 15,7 |
| To find difficulty in replying | 21,9 | – |

Source: Public opinion monitoring in the Vologda region, August, 2008, VCSS CEMI RAS.

factored into statistic list of the business entities. Average number of small-scale enterprises' workers is 65 021 *(tabl. 1)*.

According to the territorial form of federal state statistic service in the Vologda region at the beginning of 2008 sole proprietors' unit weight in economically active population number was 6%. According to another estimation based on public opinion monitoring results[2] which is carried by VSCC CEMI RAS, in 2008 sole proprietors' part having their own business and business corporations' heads in general number of the population 16 years old and over was 4%. Along with this fact 22% of the population see fit to do business (in 2001 this number was the same).

However a number of conditions is needed to start successful business and in the first place is an outset as 64% region's residents and 65% sole proprietors think. Pools show that just outset lack prevents to start business. Nevertheless the outset presence is not at all enough to start successful business. The second place in importance for respondents which has left the other answers long away is "special entrepreneurial character" and at that this personality trait sole proprietors estimate higher (51%) than the population in whole (31%; *tabl. 2* ).

[2] Public opinion monitoring is carried by VSCC CEMI RAS 6 times a year from 1998. Object of research is Vologda region's population 16 years old and over. Polls are carried in the cities of Vologda and Cherepovetz and in 8 region's areas (Babaevsky,Velikoustyugsky, Vozhegodsky, Grayzovetzky, Kirillovsky, Nikolsky, Tarnogsky and Sheksninsky). Amount of sampling is 1500.

Actually business success is determined to a large with sole proprietor's personality trait. American economists K.P. Makkonnell and S.L. Brue think entrepreneurial ability (or spirit of enterprise) is a special kind of human talent which is the most important economic resource of the country equally with the land, capital and labour.

Sole proprietor functions complicate. He takes the initiative of land, capital and labour resources combination into integrated production process of goods or services. He solves a difficult problem of making important decisions in the process of doing business. He seeks to put in practice commercial new products, new production technologies or even new forms of business organization. Sole proprietor consciously risks not only his time, labour and goodwill but also his finance [7, p. 37-38]. All this requires special personality traits which are called entrepreneurial ability.

Having summarized the above one can give the following definition.

Entrepreneurial ability is a set of person's qualities, skills, abilities which allow him to find and use the best resources combination for production and selling of goods, to make rational, consistent decisions, to create and use knowhow, to take acceptable reasonable hazards [13].

There is no monosemantic interpretation of population's entrepreneurial ability structure in economic literature. This article interprets entrepreneurial ability as able-bodied citizens' qualitative characteristics which are needed for successful business.

We used the conception of population's qualitative characteristics (PQC) to classify personality traits. The conception was introduced in the works of the population social and economics problems institute of RAS scientists (N.M. Rimashevskaya, E.B. Breeva, D.I. Zyuzin, M.R. Pheonova and others) [5].

Methodology of PQC assessment is based on the following three main fundamental components:

1) physical, mental and social health;

2) people's professional and educational skills which form their life ware;

3) cultural and moral values, citizens' spirituality, their sociocultural activity.

Each of these components by using specific indicators can be detailed and integrated, depending on the purposes of population quality measuring. Thus, a particular set of indicators is used in determining of the workforce abilities [10, p. 35].

In particular, Vologda Scientific and Coordinating Centre CEMI RAS in the framework of region's labor potential quality monitoring[3] measures the population's physical and mental health, cognitive capacity, creativity, sociability, cultural and moral level, achievement need [6, 11].

Monitoring data allow assessing Vologda region's labor potential qualitative characteristics, including in the light of entrepreneurial ability.

According to the methodology of the population social and economics problems institute RAS (ISEPP RAS) [4] Laykert's scale[4] is used to measure the quality of the workforce. The questionnaire consists of statement blocks which are primarily assessed on the five point rating scales (in terms of the respondent's goodness of fit with the offered statements). There is a question block for each quality. As a result of the monitoring labour potential components

[3] Object of research is Vologda region's able-bodied population. Polls are carried annually in August – September since 1996 in the cities of Vologda and Cherepovetz and in 8 region's areas (Babaevsky, Velikoustyugsky, Vozhegodsky, Grayzovetzky, Kirillovsky, Nikolsky, Tarnogsky and Sheksninsky). Amount of sampling is 1500.

[4] Laykert's scales are a variety of questionnaires of attitudes. They were named after the author, Robert Laykert, who suggested them in 1932. Laykert's scales consist of a set of statements containing five-or seven point evaluation rating scale, which determine subject's goodness of fit to these statements.

get numerical evaluation in the indices from zero to one, which are calculated as the ratio of the actual points' number on the scale to the maximum possible.

According to a survey in 2008, 3% of the respondents refer to entrepreneurs which have their own business. Among them: 68% are men, 32% are women; 20% under the age of 30 years old, 46% from 30 to 40 years old, 34% over 40 years; 29% of respondents have higher or incomplete higher education, 47% – secondary, 24% – primary vocational and general secondary education. Thus a typical entrepreneur is a man at the age of 30 to 40 which has specialized secondary education.

In Vologda region's entrepreneurs opinion, activity they do, requires in the first place good communication, ability to get along with people, be sociable *(tabl. 3)*. Secondly, he must have good physical and mental health and be stress stable. Then descending importance degree for the entrepreneurs there are the cognitive capacity (versatile knowledge, great erudition, high qualification), moral qualities (honesty, truthfulness, sense of duty, honesty, bound, etc.) achievement need (the desire to climb a career ladder, initiative, etc.), creativity (resourcefulness, ability to create knowhow, to solve previously unknown problems, etc.).To be a highly cultured (educated, polite, etc.) man is the least important quality according to respondents' opinion to do business.

According to monitoring data, the highest indicators of population's labor potential quality (in general) are morale level, communication and mental health. They correspond to the highest index value during the whole period of measurements from 1997 to 2008. Creative potential index takes on the lowest value. Meanwhile physical and mental health, cultural level, achievement need tend to growth. Trend to decrease is specific for the cognitive and creative capacities, moral standards of the population *(tabl. 4)*.

Significantly, six of the eight indices of entrepreneurs' labor potential quality are higher than the average in the region. They are index of communication, physical and mental health, moral and cultural level, achievement needs. The exception is the cognitive and creative potential *(figure)*.

Table 3. Answers' distribution to the question: «What qualities does business you do at present require?» (2008, in % from entrepreneurs' number)

| Very important (4 points) | Enough important (3 points) | More or less important (2 points) | Not important (1 point) | Average of distribution | Dispersion | Rating* |
|---|---|---|---|---|---|---|
| ***Communication, ability to get along with people*** | | | | | | |
| 68,3 | 22,0 | 7,3 | 2,4 | 3,56 | 0,743 | 1 |
| ***Good physical health and feeling*** | | | | | | |
| 53,7 | 36,6 | 9,8 | 0,0 | 3,44 | 0,673 | 2 |
| ***High stress stability*** | | | | | | |
| 61,0 | 22,0 | 17,1 | 0,0 | 3,44 | 0,776 | 3 |
| ***Presence of versatile knowledge, great erudition, high qualification*** | | | | | | |
| 53,7 | 34,1 | 7,3 | 4,9 | 3,37 | 0,829 | 4 |
| ***Presence of high moral qualities (honesty, truthfulness, sense of duty, honesty, bound, etc.)*** | | | | | | |
| 56,1 | 31,7 | 4,9 | 7,3 | 3,37 | 0,888 | 5 |
| ***Stable desire for the career ladder climbing, professional development, initiative and spirit of enterprise*** | | | | | | |
| 46,3 | 39,0 | 12,2 | 2,4 | 3,29 | 0,782 | 6 |
| ***Presence of creativity (resourcefulness, ability to create knowhow, to solve previously unknown problems, etc.)*** | | | | | | |
| 41,5 | 39,0 | 14,6 | 4,9 | 3,17 | 0,863 | 7 |
| ***High culture (have a decent upbringing, be polite, reserved, to look always well)*** | | | | | | |
| 43,9 | 36,6 | 12,2 | 7,3 | 3,17 | 0,919 | 8 |

* Average of distribution being equal qualities with smaller dispersion (characterizes unanimity ) got a lower rating.
Source: Vologda region's labor potential quality monitoring, VSCC CEMI RAS.

Table 4. Labour potential qualitative characteristics in the Vologda region

| Quality* | Index value in 1997 | Index value in 2008 | Rank | Trend line |
|---|---|---|---|---|
| 1. Communication | 0,733 | 0,747 | 3 | – parallel to time axis |
| 2. Physical health | 0,682 | 0,729 | 4 | / increasing |
| 3.Mental health | 0,699 | 0,756 | 2 | / increasing |
| 4. Cognitive potential | 0,630 | 0,621 | 7 | \ decreasing |
| 5. Moral level | 0,775 | 0,769 | **1** | \ decreasing |
| 6. Achievement need | 0,612 | 0,660 | 6 | / increasing |
| 7. Creative potential | 0,593 | 0,571 | **8** | \ decreasing |
| 8. Cultural level | 0,609 | 0,684 | 5 | / increasing |

*Ranked according to importance level to do business (see tabl. 3).
Source: Vologda region's labor potential quality monitoring, VSCC CEMI RAS.

The fact that the index of entrepreneurs' cognitive capacity is lower the average in the region (0,606 versus 0,621 in 2008) shows a weak intellectual component of modern business. However, from our point of view, under the conditions of transition to innovative development cognitive capacity with the lapse of time will be the main link in the entrepreneurial ability structure. The index of the entrepreneurs' creative potential is lower than the index of cognitive capacity and the region's average values (0,562 versus 0,571 in 2008). At that creativity, along with the cognitive capacity plays a crucial role in the innovative development.

On the basis of analysis the groups of population with potentially high business abilities were marked out. For this purpose integral index of potential entrepreneurial skills was made. We defined it as indices' weighted average of the able-bodied population qualitative characteristics, with weights which are proportional to the importance degree of each quality. The importance degree was defined by the survey of Vologda region's entrepreneurs.

The following socio-demographic groups: Cherepovets's residents, women, persons under 35 specialists with higher or incomplete higher professional education have higher values of potential entrepreneurial skills indices *(tabl. 5)*.

Indices of entrepreneurs' labor potential quality in the Vologda region

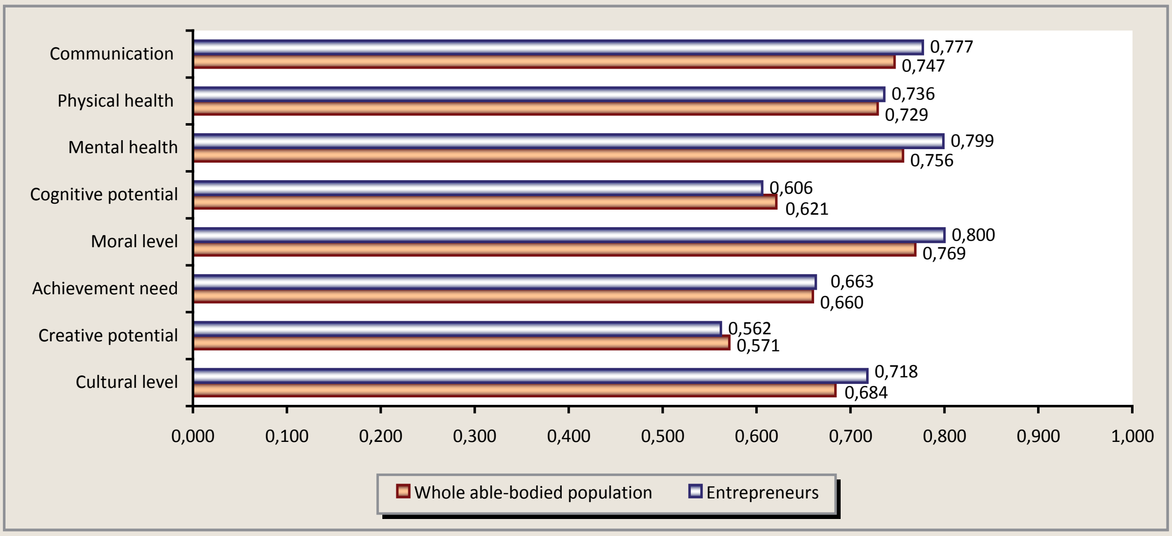

Table 5. Potential entrepreneurial skills index of different socio-demographic groups of the Vologda region's population in 2008

| Criteria | Group | Index value |
|---|---|---|
| Area | Region | 0,692 |
| | Vologda | 0,702 |
| | Cherepovets | 0,716 |
| | Districts | 0,676 |
| Sex | Men | 0,690 |
| | Women | 0,694 |
| Age | Under 35 | 0,700 |
| | Over 35 | 0,684 |
| Education | Under secondary and secondary | 0,665 |
| | Professional secondary | 0,694 |
| | Higher and incomplete higher | 0,718 |

Source: Vologda region's labor potential quality monitoring, VSCC CEMI RAS.

The research accepted that a person has high potential entrepreneurial abilities, if the index exceeds 0,8 points. As a result a group of population was made out which is potentially prepared to entrepreneurship according to qualitative characteristics (the backbone of this group is young women having higher education). It is 7% of the region's inhabitants, but only 3% of them realized themselves as entrepreneurs. To our mind this group engaging in business could not only significantly increase the entrepreneurial activity level, but also give the opportunity of small business qualitative growth.

Of course, the entrepreneurial ability of the population is not limited by considered qualities, but, undoubtedly, largely depends on them. Such personality traits as the initiative, the ability to make correct decisions, and consciously take risks are not directly included in the analysis, despite their relevance for entrepreneurial activity, since they are difficult to measure. Nevertheless, the qualitative characteristics of the population study in the light of entrepreneurial ability leads to the conclusion that there are real opportunities for better labor capacity using, including business. It should be noted that the most promising in point of the entrepreneurial ability are young women having higher education and living in large cities of the region.

The research show that the critical points are cognitive and creative components, especially it concerns entrepreneurs' potential. It is difficult to compete with the transition to the innovative economy, the innovative business. Consequently, adequate measures are required for the entrepreneurs' intellectual potential development, including their active involvement in training and development of innovative business promotion system.

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# SOCIAL DEVELOPMENT

UDC 332.83(470.12)



## Home construction activity in the region: problems and their solving ways

*In this article on the basis of the questionnaire data of the population and the building organizations' heads the basic problems interfering the house-building development in the region are presented, the key directions of the house-building volumes' increase are revealed, and the mechanisms for their realization are offered.*

*Housing problem, house-building, problems of the development, habitation scope's growth.*

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For each person dwelling is one of the fundamental vital needs. Providing with domicile is not only a parameter of the nation's material welfare, but it also demonstrates the efficiency of the social policy held by a state. That is why in the Concept of the long-term social and economic development of Russia for the period till 2020 provisioning the population with available and high-quality habitation is considered to be the key factor of the human potential development.

For the decision of the housing problem in Vologda region the priority national project "Available and comfortable habitation for every citizen of Russia" and a number of long-term principal programs are realized. However it is difficult to evaluate the situation in the given sphere as favorable. For January, 1st, 2008 33,4 thousand families were registered as having need for habitation (14,5 thousand of them had need for habitation more than 10 years); the regional authorities also have obligations on habitation provisioning of 2,3 thousand citizens (orphans, veterans, invalids and other categories). The results of the population's survey in the Vologda region, carried out by the VSCC in 2008, showed that 55% of families were not satisfied with their living conditions.

There are two basic problems in the housing sphere. The first problem is the worsening condition of the available domicile, 6% of which by the beginning of 2008 became shabby and wrecking; and the second one is the low rates of house-building.

The quantity of shabby and wrecking domicile (with the level of deterioration more than 70%) in the regional housing is one of the greatest among the similar parameters in North-West Federal District *(fig. 1)*. In the Vologda region the amount of shabby and wrecking housing increased three times for the period 2000 – 2007, having made at the end of 2007 1,8 million sq.m; it four times exceeded the volume of habitation annual input.

The recession of house-building, having taken place at the first stage of the market reforms in Russia, is being overcome extremely slowly. In 2007 the constructing enterprises in Vologda region built only 69% of habitation in comparison with the level of 1990 *(fig. 2)*.

The principal cause of abrupt recession of house-building volumes during the reforms was the reduction of capital investment into house-building combined with the general decrease of investment into fixed capital. At the same time the mechanisms providing off-budget inpayments were not generated. As a result from 1990 till 2007 the share of capital investment into house-building in the total amount of the regional investments decreased more than in four times *(fig. 3)*.

As for the building activity characterized by the volume of habitation implementation per head in 2007, it made 0,39 sq.m for a person in comparison with 0,52 sq.m in 1990 *(tabl. 1)*. According to this parameter the Vologda region steadily ranks forth among

Figure 1. The amount of shabby and wrecking habitation in the North-West Federal District housing, %

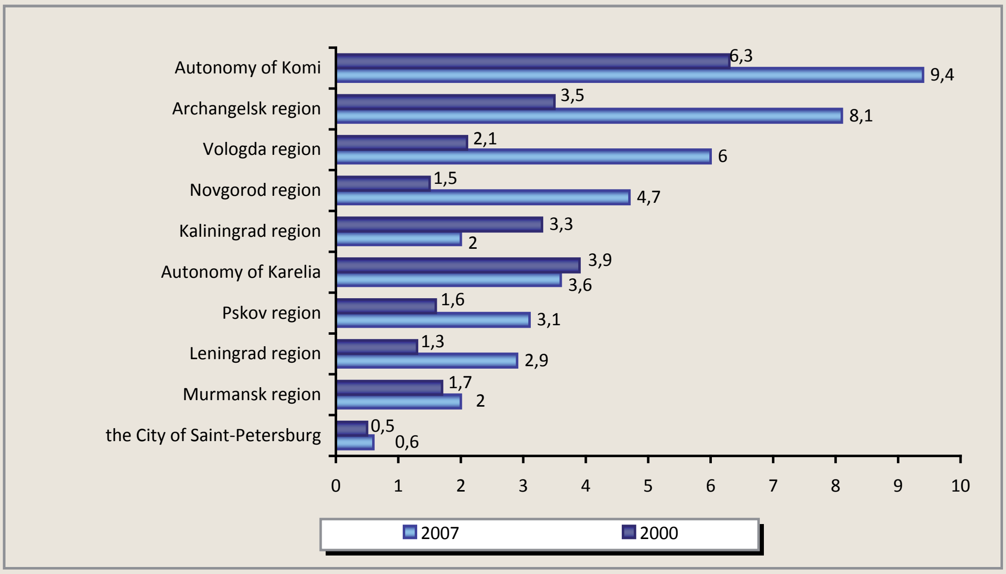


Figure 2. Habitation implementation in Vologda region

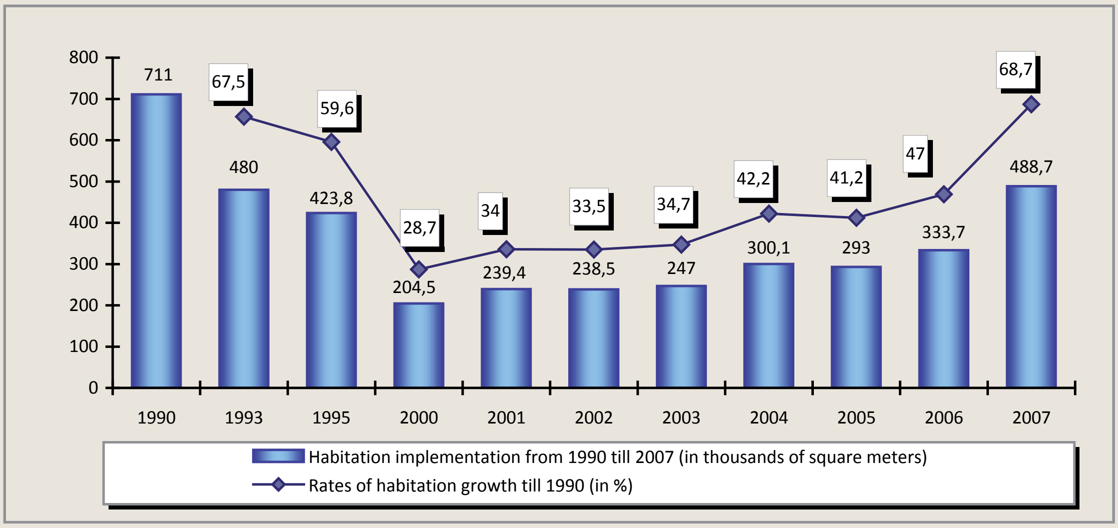



Figure 3. Investments into house-building in Vologda region, to the total amount of investment into fixed capital, in %

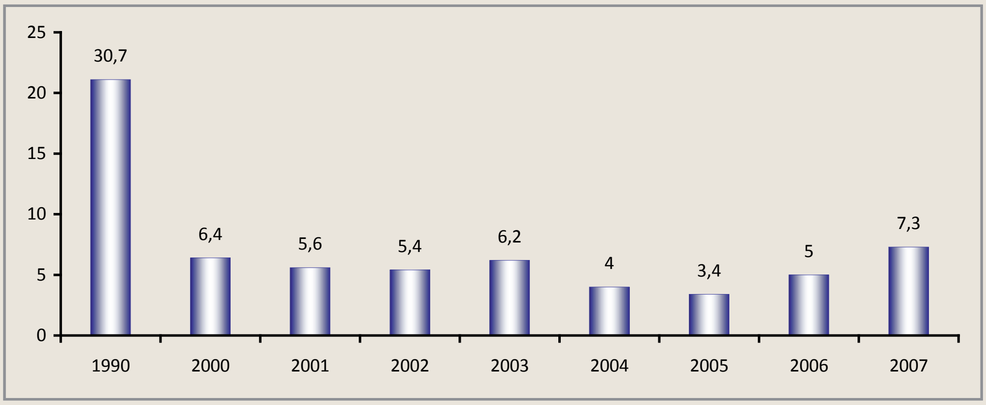



Table 1. Habitation implementation per head in the territories of North-West Federal District, sq. m of the total area

| Region / Year | 1990 | 2000 | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | To 1990, % | To 2006, % |
| Kaliningrad region | 0,40 | 0,18 | 0,24 | 0,26 | 0,28 | 0,54 | 0,80 | 200,0 | 148,1 |
| Saint-Petersburg | 0,21 | 0,23 | 0,38 | 0,44 | 0,50 | 0,52 | 0,58 | 276,2 | 111,5 |
| Leningrad region | 0,48 | 0,23 | 0,27 | 0,31 | 0,32 | 0,41 | 0,52 | 108,3 | 126,8 |
| **Vologda region** | **0,52** | **0,16** | **0,20** | **0,24** | **0,24** | **0,27** | **0,39** | **75,0** | **144,4** |
| Novgorod region | 0,43 | 0,12 | 0,16 | 0,22 | 0,21 | 0,25 | 0,31 | 72,1 | 124,0 |
| Autonomy Komi | 0,54 | 0,25 | 0,16 | 0,14 | 0,16 | 0,18 | 0,20 | 37,0 | 111,1 |
| Autonomy Karelia | 0,45 | 0,09 | 0,12 | 0,13 | 0,13 | 0,16 | 0,20 | 44,4 | 125,0 |
| Pskov region | 0,40 | 0,10 | 0,15 | 0,18 | 0,14 | 0,18 | 0,19 | 47,5 | 105,5 |
| Archangelsk region | 0,42 | 0,06 | 0,07 | 0,08 | 0,09 | 0,15 | 0,18 | 42,9 | 120,0 |
| Murmansk region | 0,49 | 0,03 | 0,01 | 0,01 | 0,01 | 0,02 | 0,016 | 3,3 | 80,0 |
| NWFD | 0,38 | 0,17 | 0,23 | 0,27 | 0,29 | 0,34 | 0,42 | 110,5 | 123,5 |
| Russia | 0,42 | 0,21 | 0,25 | 0,28 | 0,30 | 0,36 | 0,42 | 100,0 | 116,7 |

the parts of North-West Federal District, and it proves that in this area the more favorable conditions for construction exist, in comparison with the other regions.

However so as to meet the European standards, according to which the building activity has to make 1 sq. m per head, the domicile provisioning, including the replacement of shabby and wrecking habitation, should annually grow for 1,2 – 1,3 sq. m of habitation for a person. Therefore, it is necessary to build about 1,5 million sq. m of habitation in the region annually. In 2000 – 2007 the existing opportunities of the regional constructing complex provided the gain of habitation for 0,5 sq. m per head, but that was not enough for the available housing reproduction. Though in 2007 the achieved volumes of housing construction (489 thousand sq. m) were the most significant thing for the recent 15 years, in recalculation to the social norms they allowed to improve the living conditions of only 2,2% households.

What are the reasons of such situation in the sector of house-building, what factors negatively influence its development?

The analysis of the real situation based on the interrogation results of the heads of the constructing enterprises, allowed to reveal the principal causes, interfering the house-building development.

*The first cause is* the low demand of the solvent population at the existing ratio among the level of incomes and the prices for habitation (60% of the interrogated chiefs).

According to the public survey, in 2008 only 7,5% families were capable to improve their living conditions due to their own means; 17% families could get habitation after having received the hypothec credit at the rate of deficient means; and other families appeared insolvent at the market of habitation without the state support. So, only 25% households, which have need for improvement of their living conditions, can potentially get habitation due to own and credit means.

The results of calculation of the habitation availability factor which was carried out on the basis of the interrogation concerning the monthly average per head income and the actual average prices at the habitation market, prove the impossibility of purchase by the population even the used habitation of poor quality. The period of money resources accumulation for the purchase of typical apartments makes from 7 to 10 years in the two largest cities of the region and to 12 years in municipal areas *(tabl. 2)*.

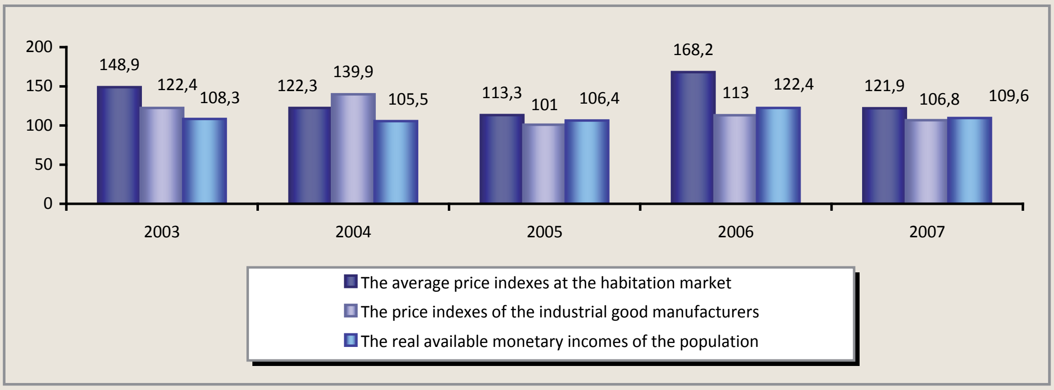
The real prices at the regional habitation market exceeded in 4 times the average inflationary parameters in the other branches of economy for the recent two years and in 3 times the rates of growth of real available monetary incomes of the population. At the same time the market price for new habitation more than twice exceeds the average actual cost of 1 sq. m of construction *(fig. 4)*.

*The second cause* is the presence of the administrative barriers causing difficulties in getting all necessary sanctions for the construction realization and demanding significant financial charges of builders (50% of chiefs). It is connected with the absence of the elaborated and integral legislative structure in the sphere of construction; all the accepted laws don't only contain self-contradictions, but they also contradict each other that make them hard for their carrying-out. While the Town-Planning Code of the Russian Federation is directed

Table 2. Availability factor of the habitation of various classes for the population of Vologda region in the territory (according to the results of the population interrogation)

| Territory | Monthly average per head income, in rubles | Availability factor of habitation of various classes, in years | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Typical | | Improved Planning | | Elite | | Poor quality |
| | | new | used | new | used | new | used | used |
| Vologda | 6 728 | 10,6 | 8,9 | 11, 6 | 9,5 | 16,6 | 12,4 | 8,0 |
| Cherepovets | 10 552 | 6,7 | 5,7 | 7,4 | 6,0 | 10,6 | 8,0 | 5,0 |
| Areas | 5 794 | 12,3 | 10,4 | 13,5 | 11,0 | 19,3 | 14,4 | 9,3 |

Figure 4. The dynamics of the average price indexes at the habitation market, the price indexes of the indus-trial goods manufacturers and the real available monetary incomes of the population in Vologda region from 2003 to 2007




to the decrease of administrative procedures and the reduction of the departments fulfilling them, actually the constructors have to cooperate with 50 or 60 structures. The expenses for getting the ground area occupy about 18% among the expenses for an apartment house construction, and in some cases they can reach 30%. The non-complex character of land tenure management led to the fact that the market of the ground areas set aside for construction is extensively monopolized. The market participants' interests are concentrated on the rent appropriation without taking into account the efficiency of ground resources use and without the parties' positions coordination. For elimination of such practice, according to the Town-Planning Code of the Russian Federation, since October, 1, 2005, the constructors' access to the ground areas is realized at the open auctions only, but nowadays this norm is still far from carrying out. In the conditions of the constant habitation price growth the ground areas are resold under higher prices, creating agiotage at the habitation market and, as a result, the prices rise. Besides, so as to prepare the ground areas for their exhibiting at the auctions, it is necessary for municipalities to have the town-planning documentation, which preparation, as the practice shows, is complicated by the absence of financial re-sources for these purposes at the local budgets.

*The third cause* is the deficiency of the generated and provided with infrastructure ground areas for house-building (47% chiefs). The amount of the reserve ground areas for house-building in the region makes 7 213 hectares, only 10% of them are provided with the municipal infrastructure. The mentioned problem is connected with the absence of financing mechanisms for the territories' equipment engineering projects. In the advanced countries engineering communications' construction is carried out due to the public funds; in Russia it's carried out due to the constructors; as the local budgets, being granted, have no sufficient mortgaging provisioning for credit resources' attraction for engineering preparation of the ground areas for building. Thus, the expenses for the creation or reconstruction of infrastructure objects, making from 30 to 50% of the habitation cost, are included into the price of the housing project.

*The fourth reason* is the low level of the credit resources' availability (40% respondents), caused by the high interest rate of credits, by the imperfection of the mortgaging legislation and by the unwillingness of the credit organizations to cooperate with the constructing enterprises under the conditions of the high level of risks. In the situation, when demand exceeds offer at the habitation market, 40% apartment houses at the initial stage of construction and 80%

apartment houses at the final stage are financed due to the means of the population. According to the results of the survey, in 2007 only 55% building organizations used bank crediting, and only half of them received credits at the rate of 15% of their need.

The fifth cause is the rise in prices for building materials, which make up to 50% among the expenses of the constructing enterprises (12% chiefs). For instance, in 2007 the price for the basic materials, details and constructions increased for 30%, and the price for cement increased almost twice *(tabl. 3)*.

Among the primary factors of the prices' increase for building materials the chiefs of the constructing organizations named the following ones:

• The prices' increase for the energy carriers, fuel and transportations (according to the statistical data, in 2007 the gasoline price increased for 12%, the electric power price increased for 6%, the thermal energy price increased for 7%, the gas price increased for 17%, the freight traffic price increased for 5%).

• The high level of monopolization in the industry of building materials (for example, the largest monopolist in the mentioned branch is the company "Euro cement" supervising 45% of all country's capacities on manufacturing cement; at the end of 2007 the release price for cement made 5 296 rubles for a ton; it's almost three times exceeded the expenses for its manufacturing).

• The deficiency of building materials, caused by the increase in demand for build-ing production in connection with the realization of the national habitation project.

*The sixth cause* is the resource limitation of the building complex (18% respondents). More than a half of the interrogated chiefs estimate the enterprises' security degree with the industrial and financial resources as a satisfactory one. At the same time 38% of the insufficiencies, mentioned by the respondents, are connected with the investment decrease into the building branch *(fig. 5)*.

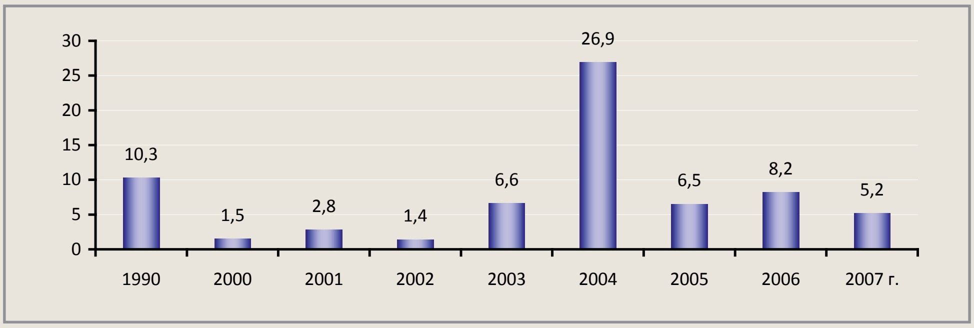
The fundamentally new moment of the investment activity in 2005 – 2007 became the increase of the involved sources into the investment structure, such as bank credits and shareholders' means. And though for the recent years, in connection with the realization of the national project and the principal housing programs, the tendency to increase the share of budgetary resources among the investment sources into construction has been planned, it does not reach the rate of 8% that cannot be compared with the problems *(tabl. 4)* existing in this branch. For instance, in the USA the level of the state support of the housing construction per head surpasses more than one thousand times the level in Russia[1].

Table 3. Price indexes for the basic kinds of materials purchased by the constructing organizations in the Vologda region (in %, December of the current and the previous years)

| Parameters | 2000 | 2003 | 2004 | 2005 | 2006 | 2007. |
|---|---|---|---|---|---|---|
| Summary price index for building materials | 129,8 | 116,3 | 125,1 | 116,2 | 109,2 | 129,7 |
| Including:<br>Cement | 135,1 | 126,8 | 110,0 | 158,0 | 127,3 | 193,6 |
| Commodity solution | 121,2 | 134,3 | 114,9 | 125,9 | 121,0 | 143,0 |
| Blocks of heavy concrete | 101,9 | 115,2 | 133,4 | 106,7 | 108,8 | 158,8 |
| Commodity concrete | 142,6 | 125,3 | 120,9 | 117,7 | 115,0 | 136,9 |
| Crushed stone | 149,3 | 99,5 | 113,0 | 103,0 | 109,3 | 122,9 |
| Silicate brick | 140,3 | 105,7 | 122,6 | 119,3 | 117,3 | 120,1 |
| Lumber | 117,2 | 102,0 | 112,9 | 104,5 | 122,5 | 125,7 |
| Ferro-concrete constructions | 125,9 | 129,6 | 123,4 | 118,2 | 126,1 | 138,8 |
| Asphalt-concrete mix | 181,0 | 112,3 | 115,2 | 108,3 | 110,0 | 122,7 |

[1] National projects and Budgetary policy // Sergey Glazjev's Official Server [Electronic resource]. – Access mode: www.glazev.ru

Figure 5. Investments into fixed capital by the building organizations in the Vologda region, to the total amount of investments, in %




The unsatisfactory condition of the material base in the building complex leads to the investment scales' decrease. At the regional constructing enterprises the reduction of machines' fleet continues. In 2006 and 2007 the number machines' fleet was reduced in 1,1 times; the share of machines with the expired service term increased up to 45% – 100% *(tabl. 5)*.

Because of the lack of financial resources for renovation and strengthening the industrial base of the regional constructing sector the general degree of its capital assets' deterioration reached 35% at the end of 2007. Owing to the absence of the opportunity for the timely capital assets elements' replacement, the terms of inefficient machines and equipment' use are prolonged. The deterioration degree of the liquidated machines and vehicles makes 98%; it means that they are liquidated only in the condition of the full impossibility of their further operation.

As 67% of respondents noted, in 2007 it was possible to estimate the financial position of the constructing enterprises as satisfactory. At the same time the situation with the reciprocal

Table 4. Structure of means attraction into the building branch in the Vologda region, %

| Sources | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 to 2000 |
|---|---|---|---|---|---|---|---|---|---|
| Own means | 98,4 | 57,0 | 95,0 | 95,1 | 95,1 | 55,5 | 40,5 | 42,1 | –56,3 |
| Bank credits | 0 | 5,3 | 4,2 | 3,2 | 3,2 | 31,4 | 10,3 | 31,6 | +31,6 |
| Budgetary funds | 1,0 | 21,3 | 0,3 | 0,3 | 0,3 | 2,4 | 5,5 | 7,6 | +6,6 |
| Of them the means of the regional consolidated budget | 1,0 | 19,1 | 0,3 | 0,3 | 0,3 | 2,4 | 1,2 | 2,5 | +1,5 |
| Means of individual share | 0,6 | 16,4 | 0,5 | 1,4 | 1,4 | 10,7 | 33,2 | 18,6 | +18,0 |

Table 5. Condition of the basic building machines' fleet at the constructing organizations in the Vologda region in 2006 and 2007

| The designations of machines | 2006 | | 2007 | | |
|---|---|---|---|---|---|
| | Presence, units | Amount of machines with the expired service term, % | Presence, units | 2007 to 2006, % | Amount of machines with the expired service term, % |
| In total | 1 398 | 46 | 1 235 | 88,3 | 50 |
| ***Including:*** Dredges | 274 | 43,4 | 243 | 88,7 | 46,5 |
| Crawler cranes | 46 | 76,1 | 46 | 100 | 80,4 |
| Wheel-mounted cranes | 8 | 37,5 | 9 | 112,5 | 55,6 |
| Tower cranes | 54 | 44,4 | 52 | 96,3 | 50,0 |
| Pipe-laying cranes | 2 | 50,0 | 1 | 50,0 | 100,0 |
| Bulldozers | 303 | 65,3 | 267 | 88,1 | 57,3 |
| Motor graders | 101 | 58,4 | 98 | 97,0 | 45,9 |
| Tractors | 306 | 58,5 | 206 | 67,3 | 55,8 |

payments remains difficult in the constructing branch; it reduces its enterprises competitiveness at the contract tenders, and it also aggravates the tense situation with crediting. On the one hand, for escalating the work amount the constructing organizations require long-term credits; on the other hand, from 2000 to 2007 the accounts payable and the accounts receivable grew from 3,4 to 5 times. The ratio between the accounts payable and the accounts receivable steadily keeps above "one", that proves the insufficiency of the sources of own turnaround means *(tabl. 6)*.

The level of the labor potential is the major factor of the effective activity of the constructing enterprises. Meanwhile, the situation in this sphere is rather uneasy. The disorder in the system of the personnel preparation, existing at the Soviet time, caused the deficiency of the highly skilled workers; 76% chiefs of the constructing organizations confirmed that fact. 40% of them declared about the shortage of experts, and every third announced about the deficiency of the medium unit heads.

Thus, the contemporary condition of the industrial and financial resources at the majority of the constructing enterprises cannot be characterized as corresponding to the problems of the building complex. Hence, on the foreground there are the questions connected not only with the available industrial potential preservation, but with the creation of its escalating opportunities.

The increase of house-building volumes directly depends on the level of supplying with the building materials. However, as the analysis of the current condition in the regional building materials industry showed, in this branch there is the whole complex of problems which in the future can keep back escalating the needs of house-building. First of all, there are problems connected with the technical lag of the constructing industry. One of the main causes of such position is the lack of investments. In 2000 – 2005 the capital investments into the enterprises on manufacturing building materials increased more than twice, but in 2006, with the beginning of the national project realization and with the growth of house–building volumes, the situation changed: for the last two years the volume of investments from all the sources of financing has reduced in 3 times to the level of the year 2005 *(tabl. 7)*. It can be explained by the capital intensity of the constructing industry characterized by the expensive projects and by the high cost of the industrial equipment, that doesn't make this branch attractive for the investors.

The basic investment sources into the fixed capital of the house-building enterprises are their own means, that make 85,2%, the share of bank credits makes about 15%. The state actually doesn't participate in the regulation in the house-building branch; the absence of the budgetary support of this branch from 2002 to 2007 proves that.

Table 6. Reciprocal payments' condition at the construction enterprises in the Vologda region in 2003 – 2007

| Parameters | 2000 | 2003 | 2004 | 2005 | 2006 | 2007 | 2007 to 2000 |
|---|---|---|---|---|---|---|---|
| The accounts payable, in million rubles | 1 463 | 1 599 | 4 078 | 3 738 | 4 561 | 7 518 | 5,1 rub. |
| The accounts receivable, in million rubles | 1 155 | 1 315 | 1 929 | 2 561 | 2 964 | 3 918 | 3,4 rub. |
| Excess of the accounts payable above the accounts receivable | 1,3 | 1,2 | 2,1 | 1,5 | 1,5 | 1,9 | 1,5 rub. |

Table 7. Investments into the industry of the building materials in the Vologda region

| Investments | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Sum total, million rub. | 321,0 | 391,6 | 451,6 | 551,1 | 779,1 | 1 375,0 | 948,7 | 459,9 |
| %, to the previous year | In 2 times | 122,0 | 115,3 | 122,0 | 141,4 | 176,5 | 69,0 | 48,5 |
| %, to the total amount of investments | 3,7 | 3,8 | 3,7 | 3,5 | 2,0 | 2,5 | 1,7 | 0,7 |

The investment volumes' reduction into the industry of the building materials resulted in the change of qualitative and quantitative characteristics of its fixed capital. As a result, the majority of enterprises are incapable to provide the simple reproduction of the fixed capital, which deterioration at the end of 2007 reached the rate of 40%, and the degree of renovation made only 3,1% to 31,4 % in 2006. In the conditions of the distinctly revealed tendency of the demand growth for the house-building industry production such low norm of renovations of the fixed capital leads to the danger of building materials deficiency occurrence, as the respondents noticed. The insufficient rates of modernization in building materials manufacturing are connected with the reforms' lag in the sphere of technical regulation, especially with the slow development of the technical rules and standards promoting the development of modern highly effective materials' manufacturing. The Government of the Vologda Region planned doubling of house-building volumes by 2012, but it will demand the double increase of the house-building industrial base by the leading-in new working capacities and the modernizations of the existing ones by means of the considerable state support.

Within the interrogation frameworks it was offered to the constructing enterprises' heads to estimate (according to the tenpoint scale) the work productivity of the various governmental levels in solving the building complex' problems. The average estimations of the state bodies' actions given by the respondents (the Government of the Russian Federation – 5,3 points, the Governments of the Vologda Region – 5,1 points, the municipal administration – 4,25 points) testify to the absence of the complex approach in management of the development and functioning of the building branch and specify the necessity of attracting attention to the decision of building business problems.

So, the available complex of problems in the house-building branch testifies to this sector's insufficient opportunities coordination with the problems of annual volume of habitation leading-in increase to 650 thousand sq. m by 2012 in comparison with 489 sq. m in 2007[2]. These problems are of a global character. The main condition of their decision is the development, the adopting and the realization of the long-term strategy of the house-building development by the Government of the Russian Federation; the strategy will become the base document according to which the mechanisms of the building market development will be improved and the normative-legal base on its regulation will be formed.

While discussing the ways of the house-building volumes' increase in the region, the constructing enterprises' heads gave the most significant role to the elimination of corruption and bureaucratism in the management system on granting the ground areas, getting the sanctions for construction, and providing the procedures of coordination between building and land tenure *(tabl. 8*).

Taking into account the offers of the building enterprises' heads on the house-building volumes' increase, we consider it possible to formulate the basic directions of its development and to give a number of recommendations for their realization which would be useful for carrying out at the regional level.

**The first basic direction** is formation of the regional town-planning policy as the bases for the building complex development. The realization of this direction includes the town-planning documentation development and the territorial planning documents in all munici-palities, in view of the new town-planning policy; the development of the dwelling environment' standards and prohibition of the building, worsening it; the support and study-ing of the new types of settlements which have already appeared in Russia, for instance, ecological dwellings. The territorial development corporations can become the optimum circuit for the new territories' development. Such companies (both state and municipal) develop the strategy, elaborate the territorial

[2] About the actions on the realization of the Vologda Region Governor's plan for 2007 – 2012: the Decision of the Government of the Vologda region from 30.10.2007 № 1452 // Informational searching system "ConsultantPlus".

Table 8. Directions of house-building volumes' increase (in % to the number of the respondents)

| Directions | % |
|---|---|
| 1. The elimination of corruption and bureaucratism in the management system on granting ground areas, getting sanctions for construction, providing the clear procedures of the coordination between building and land tenure | 76,5 |
| 2. The increase of the level of the state support on house-building, co-financing of the ground areas/' arrangements with the municipal infrastructure | 60,0 |
| 3. The decrease of the expenses for rent and purchase of the ground areas for construction, and the payments to the natural monopolies' services on connection to the engineering networks | 60,0 |
| 4. Elaborating the general plans of the territorial development, elaborating the order of the ground areas' usage | 41,0 |
| 5. The development of the local base of building materials | 41,0 |
| 6. The perfection of the town-planning legislation | 23,0 |
| 7. The creation of the system of state expert bodies controlling the design documentation | 23,0 |
| 8. The struggle against the habitation abroachment, the introduction of the differentiated taxation for the second and subsequent habitation, the withdrawal of the value-added tax for profits on apartment resale and on the rights for them | 23,0 |
| 9. The modernization of the building manufacturing | 23,0 |
| 10.The formation of the open competitions of builders | 18,0 |
| 11. The development of competition at the building services' market | 18,0 |
| 12. Giving the state guarantees to constructors for the credits received for financing the construction of the municipal infrastructure objects, and subsidizing such credits' interests | 18,0 |
| 13. The amplification of the antimonopoly control over the building industry | 12,0 |
| 14. The state regulation of the measures on the restoration of old capacities and the leading-in of the new ones | 6,0 |

master-plan of the future settlement, bring the services. Such circuit successfully works in Europe, China and in the Middle East.

**The second basic direction** is elimination of the administrative barriers while getting the areas for house-building; it will allow three times reducing of the habitation price. For the decision of this problem it is necessary to introduce the compulsory procedure of the ground auctions; to hold the audit of the city grounds already set aside for building; to hold the audit of the agricultural grounds with the purpose of their returning to the state of the unused grounds; to make the intensive work on the federal grounds use through the Federal Fund of Assistance to the house-building development.

**The third basic direction** is elimination of the ground areas' deficiency as another condition of the habitation prices' reduction. In these purposes the following mechanisms can be used: introduction of the ground mortgage on the land usage for the socially significant projects (it is practiced in Sverdlovsk and Tyumen areas); application of the expenses exception circuit for the infrastructure off the habitation cost price, the mentioned circuit will allow to lower the habitation cost price to 20 – 30% (it is practiced in Bashkiriya); development of the program of the individual house-building crediting; establishment of the differentiated payment for the ground (it is used in the Perm territory).

**The fourth basic direction** is the accelerated development of mass house-building for providing with habitation different groups of population. One of the effective variants of the mentioned direction's realization is *the complex building up of territories*. It is considered expedient to build one- and two-room apartments in the mass order, without attaching importance to the elite and individual habitation. In the areas of complex building it is not necessary to erect the houses of the deluxe accommodation; and it will essentially reduce the habitation price. The second basic mechanism of the accelerated house-building is the few-storeyed house-building in two perspective directions, as the few-storeyed high density building and the construction of one-apartment houses. Taking into account, that the few-storeyed houses' cost is higher than the multi-storeyed houses' cost, for the few-storeyed houses' development it is necessary to solve the problems of granting and registration of the ground areas at the level of the Government of the Vologda Region. Besides it is necessary to have the differentiated approach to the few-storeyed construction depending on the peculiarities of the environment: to erect the economic-class houses in the rural settlements; and to build elite cottage settlements in the suburbs. The steps for the support of the few-storeyed constructions can be the direct investments into the construction of the social, municipal and road infrastructure, and the infrastructure redemption from the builder, allowing to attract investors and to make the contracts on fixing of the sale price for a square meter of habitation. The third mechanism of the habitation quantity growth can become the development and the realization of *the complex program of reconstruction of the buildings erected in 50s–60s of the XX century*. The reconstructed available housing can be used for the decision of the social problems, including free-of-charge habitation.

**The fifth basic direction** is the diversity of the house-building financing systems, first of all the substantial growth of the budgetary support of the building complex for carrying out the legislatively fixed functions on the improvement of the living conditions of separate categories of citizens (the habitation construction for social using), and the development of the housing-and-municipal infrastructure of the ground areas set aside for house-building. Also a very important task is the expansion of the credit mechanisms' role, the creation of the conditions for the increase of reliability and appeal of the building business crediting, the transition to the system of the long-term house-building financing by means of the federal budget purposeful indemnifications of the interest rate to the commercial banks and the subsidizing of the builders' first payments on credits. The perspective sources of the house-building financing can be the institutional investors' means, such as private pension funds, insurance companies, funds of the collective private investors (such practice has successfully been tested in the Khanty-Mansiysk autonomy).

**The sixth basic direction** is the increase of competition at the building market as the result of carrying out the enterprises' institutional transformations, the support of the small-scale business, and the development of the integrated structures. The competition in construction will appear when the regional authority will guarantee the transparency of the pricing system, the builders' legitimacy with the control of their activity from the beginning up to the end. The state support measures, directed on the increase of the building production competitiveness, can include the following steps: the assistance to the introduction of the production quality standards; the formation of institutional and legislative conditions for the scale development of progressive technologies and manufacturing hi-tech products; the creation of the favorable conditions (for example, the tax amnesty, the system of privileges and preferences) for the development of the hi-tech directions, the elaboration of the new generations of the competitive technical equipment; the activation of the innovational steps such as the formation of the vertically-integrated building corporations, which are carrying out the unified process of works' design, manufacturing building materials, fulfilling in-vestment operations, construction and sale of the fixed property objects. The creation of such structures, besides the ones mentioned above, will allow to lower the construction cost price, to use effectively the labor force and the means of production, to reduce the transaction costs, and to raise the manufacturing competitiveness of.

**The seventh basic direction** is the Vologda Region Government's assistance to the development of the building materials' industry. The perspective development of the regional building industry's bases coordinates with the rational use of the local raw materials and the replacement of 20 – 30% of the natural mineral raw materials with the industrial and house-hold waste products while manufacturing some kinds of building materials with the considerable cost decrease. It can be expedient to elaborate the regional investment program of the development of the building complex industrial base in the Vologda region for a medium-term project with subprojects, such as "Development of the mineral and raw-material base of the building industry" and "Waste products' use manufacturing building materials"; to provide the building materials' enterprises with the energy-effective and import-replacing production techniques of the building materials and the promotion of their production to the markets; also to carry out the state competitive selection of the perspective technologies and to support them through the system of grants; to involve investments on the realization of the important investment projects, the modernization of the obsolete manufacturing, the un-charged capacities' type modification.

Certainly, while deciding the housing problem each indicator is significant in its own way. The growth of the house-building volumes is the most important among them, it de-termines the general success. If there is a lot of apartment, all the subsequent problems of the prices, of the habitation lack, of the habitation availability will disappear. That is why in "Basic directions of activity of the Russian Federation Government for the period till 2012" the central problem of the housing policy is the increase in construction volumes of high-quality and reasonable habitation from 61 million sq. m in 2007 up to 100 million sq. m in 2012.

In the Vologda region in 2007 and 2008 for the realization the housing policy the complex of housing programs is accepted; among them the main direction is the stable development of mass habitation construction and doubling of its volumes by 2012. For achieving these aims the consolidation of efforts of all participants of the housing relations will be necessary, the housing policy will be coordinated with the purposes of the social and economic development of the region.

The crisis which burst in 2008 at the international financial markets, caused a rather uneasy and inconsistent situation in the sphere of house-building, characterized by the bank system liquidity falling, by the difficulty of access of the population and builders to bank credits, by the reduction of the building companies' financial stability and by the considerable reduction of the volumes of the lead-in habitation. According to the results of 2008, the growth rates of house-building in the region made 8% to 46% in 2007.

The crisis situation in the building complex will cause the necessity of the prognosis parameters updating of the lead-in habitation volumes as the attempts to reach the mentioned volumes of house-building at an existing condition of the resource base will lead to the strict limitations. It is necessary to develop measures which will help to lower the crisis phenomena influence on the branch. The further perspectives of the house-building market development depend on the timely reorientation of the housing policy towards the state financial resources' investment into the building branch as the regional economy's bases, and on the efficiency of the preventive measures on stabilization of the situation in the housing sector. The measures on the housing market liquidity support should become prime by means of budgetary financing for the state purchase of apartments in new buildings; introduction of the tax privileges, the ground payments; the decrease of the payment for connection to services; for the crisis period to stop the natural monopolies tariffs; registration of the government works on the construction of social habitation; attraction of the long-term pension funds' into the system of house-building financing.

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# Economic-organizing mechanisms of strategy priority realization of tourism and recreation development in the North-West of Russia

*The article is devoted to the problem of definition of organization and economic mechanisms, contributing to effective implementation of strategic priorities in tourism and recreation development at macroregion level (NWFD). The article also grounds the statement, according to which initiation of mentioned mechanisms gives essentially new possibilities for development of tourism and recreation at the level of separate municipalities and regions of NWFD. The conditions/ factors that constrain and promote mobilization of organization and economic mechanisms are considered as well; it provides recommendations on improvement of current management in tourism/ recreation sector at macroregion level.*

*Regional development of tourism and recreation; a tourism and recreation infrastructure; tourism and recreation territories / areas; destinations; tourist corridors; tourist product; organization and economic mechanisms; strategic priorities.*

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The North-West of Russia has a great tourist recreational potential which makes it possible to develop almost all types of tourist recreational activity in its area. 34% of all historic and cultural monuments of the RF are concentrated in the North-West including 5 out of 15 objects designated by UNESCO as World Heritage Sites: historic center of Saint-Petersburg, its suburbs and fortifications, the architectural ensemble of Kizhsky Pogost; historic center of Veliky Novgorod and the monuments of its suburbs; cultural and historic ensemble "The Solovetsky Isles"; the ensemble of the Ferapontov Monastery. Every seventh national park and nature reserve of Russia, a lot of ancient strongholds and monasteries, archaeological monuments, memorial estates and so on are in the North-West.

Considerable areas of NWFD and first of all the territories of the Komi Republic, the Arkhangelsk Oblast and Nenets Autonomous District are the least developed European areas from the point of view of tourism and recreation. That is why they attract great interest of many domestic and foreign wildlife lovers. In particular, nature conservation complex "The Virgin Forests of the Komi Republic" (the state nature reserve "Pechyoro-Ilychevsky" and the national park "Yugyd Va") designated by UNESCO as World Heritage Site in 1995 has a unique tourist potential (reference: the second designated natural monument in the North-West together with Lithuania is “Kurshskaya Spit”).

*Table 1* presents all quantitative characteristics of distribution of main NWFD tourist recreational resources in accordance with the RF regions.

According to the Russian specialists' estimations the total capacity of recreational informative resources of the North-West is 52 million people per year including 8,1 million people in the Murmansk, Arkhangelsk and Vologda Oblasts, the Karelia and Komi Republics; 42,1 million people in Saint-Petersburg, the Leningrad, Pskov and Novgorod Oblasts; 1,8 million people in the Kaliningrad Oblast [1].

According to the most optimistic estimations only 15 – 17% of the potential in question is being used in NWFD nowadays. Taking into account the fact that an average tourist spends about 100 dollars a day in the regional destinations the amount of non-received profit from the tourist recreational sphere of NWFD comes to hundreds of millions dollars. These non-received profits are the reserves for the effectiveness growth of the regional tourist recreational sector functioning, accelerated mobilization of such reserves is caused by scientific choice of strategic priorities of its further development.

Strategic priorities are established in the process of studying corresponding both world and Russian tendencies and factors which contribute to and deter tourism and recreation development in the region.

The main tendency in the sphere of tourism and recreation development in the North-West of the RF is to attract tourists' attention: to environmentally safe areas which are not used as economic land; to active types of tourism, which mean attending as many destinations as possible within one trip; to event tourism, sanitaria and health tourism, sea and river cruises, club and family unorganized tourism, local tourism including the so called week-end tourism and rural (dacha, country, farm) tourism.

There are some positive factors which contribute to tourism and recreation development in NWFD: diverse and unique recreation potential; rich historical and cultural heritage; great potential of hospitality; a strong system of personnel training and retraining in the tourism and recreation industry etc.

The negative factors which deter tourism and recreation development in the region are the following: low level of intraregional cooperation in the process of tourism and recreation development; irregularity of tourism and recreation development in NWFD; lack and imbalanced development of infrastructure objects (accommodation, entertainment industry an so on); underdevelopment of transport network especially in northern parts of NWFD; slack marketing; severe competition with domestic

Table 1. Distribution of Main NWFD Tourist Recreational Resources in Accordance with the RF Regions

| The RF regions included in NWFD | Natural attractions included on the list of specially protected natural territories (SPNT) | | Part of SPNT relative to the whole territory of the RF region, % | Number of historical and cultural attractions |
|---|---|---|---|---|
| | Number | Area, thousands of hectars | | |
| The Republic of Karelia | 162 | 947,1 | 5,50 | 4 000 |
| The Komi Republic | 289 | 6 083,0 | 14,63 | 1 273 |
| The Arkhangelsk Oblast (including Nenets Autonomous District) | 114 | 7 218,4 | 12,29 | 3 000 |
| The Vologda Oblast | 149 | 749,4 | 5,14 | 3 500 |
| The Kaliningrad Oblast | 70 | 139,3 | 9,23 | 1 854 |
| The Leningrad Oblast | 40 | 570,0 | 6,64 | 3 900 |
| The Murmansk Oblast | 66 | 1 433,2 | 9,89 | 804 |
| The Novgorod Oblast | 121 | 356,2 | 6,44 | 4 631 |
| The Pskov Oblast | 28 | 364,3 | 6,59 | 3 000 |
| Saint Petersburg | 6 | 2,1 | 1,49 | 7 783 |
| Total in NWFD | 1 045 | 17 863,0 | 10,64 | 33 745 |

(predominantly Moscow) and foreign tourist agencies for using tourist recreation resources of NWFD and tourist streams.

The solution of many problems caused by the negative factors and tendencies mentioned above is closely connected with the process of accelerated development of the integrated tourist recreational space[1] in the North-West of Russia. Intensification of this integration process is becoming of high priority for macroregion nowadays that is made for by the following:

1. The necessity of creation of the preconditions to develop general regional coordinated policy in the sphere of tourism and recreation development including its orientation towards other regions/ countries. The higher the level of intraregional integration is the stronger and economically more beneficial the positions in the strategic prospective will be achieved by certain regions of the District in the process of their collaboration with other Russian regions and foreign countries. As far as NWFD was formed not long ago on the basis of the regions which were part of the North, North-West and Baltic (the Kaliningrad Oblast) economic districts it has rather low level of intraregional cooperation. This fact makes for integration vacuousness which has a tendency to be quickly filled with not always economically beneficial integration with other Russian regions or foreign countries.

2. The necessity of creation of macroregional conditions for effective development of territorial division of labour in the sphere of tourism and recreation that will lead to progressive territorial forms of specialisation, concentration, combination and cooperation which are going to provide rapid occurring everywhere development of tourist recreational resources of the macroregion.

3. The necessity of considerable increase of tourism and recreation contribution to the macroregional economy on account of:

- as full and effective usage of the existing tourist recreational resources as possible;
- joint realisation of large-scale intraregional programs and projects on formation and development of the priority tourist recreational areas, tourist corridors, all-regional objects of tourism and recreation infrastructure;
- elimination of unjustified duplication of investments; transition of competition for tourist streams and investments from the intraregional level to the macroregional one;
- improvement of management of various processes in the sphere of tourism and recreation.

4. The necessity of transition to new principles of territorial organisation of tourist recreational activity based on cluster approaches.

The necessity of rapid creation of the single tourist recreational space makes for the following sub-priorities which are closely connected with its realisation:

- improvement of territorial organisation of tourist recreational activity in the macroregion;
- rapid development of objects of tourism and recreation infrastructure;
- creation and promotion of competitive all-regional tourist products to domestic and international markets;
- development of macroregional and international collaboration in the sphere of tourism and recreation;
- improvement of strategic territorial planning in the sphere of tourism and recreation.

***1. Improvement of territorial organisation of tourist recreational activity in the macroregion.***

The governing condition of rapid creation of a single tourist recreational space in NWFD is improvement of territorial organisation of tourist recreational activity on the basis of integration principles.

Macroregional, intraregional and international tourist corridors which contain main

[1] According to the author, tourist recreational space is a geographic defined area («receptacle») where tourist recreational resources are located and the system of organisational economic relationships concerning their usage and development is functioning.

regional tourist streams are the basis or the organisational framework of territorial organisation of tourist recreational activity in the macroregion. Macroregional tourist corridors are formed on the basis of the existing transport utility lines (water, railway, road) and determine the conditions (including the comfort level) of transferring tourists from one destination to another. The corridors can be short (up to 500 kilometers), middle-sized (from 500 to 1 000 kilometers) and long (more than 1 000 kilometers; *tabl. 2* ).The geographical direction (West-East-West/ North-South-North) determines latitudinal and meridional character of tourist corridors, their total set presents territorial network with junctions in the most attractive tourist recreational territories as a rule (TRT; *tabl. 3* )[2]. The higher the intraregional density of tourist corridors is the more intensive the integration processes are which are connected with development of tourist recreational potential in the area.

The basis of TRT including data from table 3 is specially protected natural and historic-cultural territories which provide steady tourism and recreation development.

On the whole the current level of SPNT (specially protected natural territories) development corresponds to the European level that is 10 – 12% of the total territory of the country/ region (tabl. 1). However it is considerably differentiated among the NWFD regions. Thus, in most cases SPNT share is no more than 7% of the total territory but in the Murmansk and Arkhangelsk Oblasts, the Komi Republic it makes up 9,9, 12,3 and 14,6%, respectively. Such a large scale SPNT development in the named regions is mainly caused by the needs to compensate intensive subsoils usage on their territories while running oil and gas wells, coal and other natural resources mines, logging. Moreover, according to the existing projects, it is planned to considerably enlarge SPNTs in the nearest future. In particular, the SPNT in the Arkhangelsk Oblast and Nenets Autonomous District will be enlarged up to 33,9% of the total area of the region.

The situation is not the same in the western regions of NWFD where there is a desperate shortage of SPNTs and recreational zones. Weak control over the processes of property and mainly of high-value recreational suburban areas privatization can lead to the axe of tourist recreational potential in the regions and as a result to the possibility of the equal access of both local population and coming tourists/ recreants to the recreational resources. In this connection the formation of SPNTs and recreational zones in modern Russian conditions is the form of maintenance of the land for mass tourism and recreation development. It will also allow to escape considerable economic loss for federal and regional budgets that can be connected with the necessity to buy recreational areas from landowners by the state. This item of expenditure is the most considerable one in the structure of state costs on tourism and recreation development in many countries of the world, first of all in the USA.

The most effective organisational economic mechanisms aimed at development of SPNT macroregional system are the following:

⇨ Rapid legal implementation of the revealed and planned SPNTs (receiving the corresponding status of a federal or regional nature reserve or wildlife preserve, national or natural park etc.).

⇨ Development of new SPNTs and specialized recreational zones mostly in suburban areas of NWFD cities – Saint-Petersburg, Arkhangelsk, Vologda, Kaliningrad, Murmansk, Petrozavodsk etc.

[2] According to the author TRT is a rather large area which has a considerable tourist recreational potential. In such a context the notion “TRT” is very close to the notion “destination” which is defined as a territory with high concentration of objects of tourist attraction. In its turn a tourist area is part of TRT and tourist recreational activity development is a great priority for it (even the only possible one in case of closely protected territories) in comparison with the rest types of activity. In some cases (with specially protected natural and historic-cultural territories) the boundaries of TRT and tourist area can coincide.

Table 2. Main Operating and Potential Tourist Corridors in the North-West of Russia

| Meridional Corridors | Latitudinal Corridors | Cruise Corridors |
|---|---|---|
| **I. Long corridors**<br>1.1 “North – South” (road-railway): Murmansk – Kirovsk / Apatity – Kandalaksha – Belomorsk – Petrozavodsk – Lodeynoye Pole – Novaya/ Staraya Ladoga/ Volkhov – Saint-Petersburg – other similar directions:<br>1.1.1. To the south-west: Saint-Petersburg – Luga – Pskov – Daugavpils – Vilnius – Kaliningrad<br>1.1.2. To the south: Saint-Petersburg – Dno – Velikiye Luki – Vitebsk – Kiev – the Black Sea coast<br>1.1.3. To the south-east: Saint- Petersburg – Moscow – the Caspian Sea and the Black Sea coasts<br>1.2. “North – South” (water): Murmansk/ Arkhangelsk – Belomorsk – Belomorcanal (The White Sea Route) – Petrozavodsk - other similar directions:<br>1.2.1. To the south-west: Petrozavodsk – the Svir River – Lake Ladoga – Novaya/ Staraya Ladoga – other similar directions:<br>1.2.1.1. Novaya/ Staraya Ladoga – the Volkhov River – Ilmen/ Veliky Novgorod<br>1.2.1.2. Novaya / Staraya Ladoga – Shlisselburg – the Neva River – Saint-Petersburg/ Gulf of Finland<br>1.2.2. To the south-east: Petrozavodsk – the Volga-Baltic Route – Moscow – the Volga River – the Caspian Sea (“From Varangians to Khazars”) and the Black Sea<br>1.3. “The Great Amber Route” (road, railway): Kaliningrad – Warsaw – Brno – Vienna – Venice – Rome<br>1.4. “Russian Seaboard” (road, railway): Arkhangelsk – Vologda – Moscow<br>1.5. “Novgorod River Pirates' Route” (water): Veliky Novgorod – Ust-Tsilma – Pustozersk / Naryan-Mar<br>**II. Middle-sized and Short Corridors.**<br>2.1. “About Pushkin's Places” (road, railway): Saint-Petersburg/ Pushkin – Verkhny Oredezh Park/ Sujyda/ Viyra/ Kobrinskoye – Pskov – The Pushkin's Hills<br>2.2. “To the Sources of Russian Statehood” (water, road) (through Gardaricki ): Staraya Ladoga – Veliky Novgorod<br>2.3. “Valaam” (water): Saint-Petersburg – Konevets Island/ Priozersk – Valaam Island/ Sortavala | **I. Long corridors.**<br>1.1. “North – West – East” (road-railway): Stockholm / by ferryboat – Turku – Helsinki – Vyborg – Saint-Petersburg (“The Tsars Route”) – other similar directions:<br>1.1.1. To the north-east: Saint-Petersburg – Novaya/ Staraya Ladoga/ Volkhov – Tikhvin – Cherepovets – Vologda – Veliky Ustyug<br>1.1.2. To the east: Saint-Petersburg – Moscow – the Trans-Siberian Railway to the Far East (“Eastern Land Bridge”)<br>1.1.3. To the south-east: Saint-Petersburg – Veliky Novgorod<br>1.2. “Hansa Route” (water option): seaports in Denmark/ Germany / Poland – Kaliningrad – seaports in the Baltic States – Saint Petersburg – the Volkhov River (Novaya/ Staraya Ladoga) – Veliky Novgorod<br>1.3. “Hansa Route” (land option) – “Via Hanseatica”: along the Baltic Sea coast from Lyubek to Saint-Petersburg/ Veliky Novgorod<br>1.4. “Blue Road” (land): Norway/ Sweden/ Finland / checkpoint “Vyartcilya” – Sortavala – Petrozavodsk – other similar directions: to the north-east – Petrozavodsk – Kargopol – Arkhangelsk; to the south-east – Belozersk/ Kirillov – Vologda<br>1.5.“The Barents Sea Route”: Bode (Norway) – Khaparanda (Sweden) – Rovaniemi (Finland) – Alakkurtti – Kandalaksha – other directions to Apatity – Murmansk and the Solovetsky Isles – Arkhangelsk<br>1.6. “The Northern Sea Route”: Murmansk/ Arkhangelsk – Naryan-Mar – Vaigach Island – the Gulf of Ob – the Taz River/ the Mangazeya River (“Mangazeya Sea Passage”) – Dickson/ Dudinka – Ticksy – Peveck / Vrangel Island – Wellen – Anadyr<br>1.7. “The Easten Route” (road, railway): Kaliningrad – Vilnius – Minsk – Smolensk – Moscow<br>**II. Middle-sized and Short Corridors.**<br>2.1. Pskov / Khilovo – Staraya Russa/ Veliky Novgorod – Valday – Moscow<br>2.2. Tallinn – Narva / Ivangorod – Saint-Petersburg<br>2.3. Finland / checkpoint “Lyuttya” – Kostomuksha – Kalevala – Kem / the Solovetsky Isles<br>2.4. “Murmansk Corridor”: Finnmark Province (Norway) – checkpoint “Borisoglebsky” – the Pechenga District (the Murmansk Oblast) – Murmansk | **I. Long corridors.**<br>1.1. “Around Europe” (complex cruise route with sea and river vessels): Saint Petersburg/ river cruise ships – the Volga-Baltic Route – the Sea of Azov/ sea cruise ships – the Black Sea – the Mediterranean – the Atlantic Ocean – the Northern Sea – the Baltic Sea – Saint-Petersburg<br>1.2. “Around Northern Europe” (“Aurora Borealis”) (complex cruise route with sea and river vessels): Saint-Petersburg/ sea cruise ships – the Baltic Sea – the Northern Sea – the Norwegian Sea – the Barents Sea – the White Sea / river cruise ships – Belomorcanal – Saint-Petersburg<br>1.3. “Around the Baltic Sea” (water, road, railway): Saint-Petersburg – Helsinki – Turku (by ferryboat) – Stockholm – Copenhagen – Kiel / Hamburg/ Lyubek – Gdansk – Kaliningrad – Klaipeda – Riga – Tallinn – Saint-Petersburg<br>1.4. The Arctic Cruises by nuclear-powered ice-breakers as well: Murmansk – Spitsbergen – the North Pole – Franz Joseph Land – Novaya Zemlya – Vaigach Island – Naryan-Mar – Arkhangelsk – Murmansk<br>**II. Middle-sized and Short Corridors.**<br>2.1. “Silver Ring of Russia” (road, railway), option: Saint-Petersburg – Pskov – Veliky Novgorod – Staraya Ladoga – Saint-Petersburg<br>2.2. “About the White Sea” (water): Belomorsk – Kem / the Solovetsky Isles – Kandalaksha – Umba – Arkhangelsk/ Malye Karely – Lake Onega – Belomorsk<br>2.3. “Ladoga Necklace” (water, road, railway): Priozersk/ Konevets – Sortavala/ Valaam Island – Olonets – Lodeynoye Pole – Novaya / Staraya Ladoga – Shlisselburg/ Kirovsk – Priozersk<br>2.4. “Around Lake Onega” (water, road): Petrozavodsk/ Kizhi Island – Kondopoga – Medvezhjegorsk – Pudozh – Vytegra – Voznesenie – Petrozavodsk |

Table 3. Main Tourist Recreational Territories and Objects of Tourist Interest in the North-West of Russia

| NWFD Regions | Tourist Recreational Territories (TRTs) and Objects of Tourist Interest |
|---|---|
| The Republic of Karelia | **TRT "Petrozavodskaya"**: HCAM of Petrozavodsk; SCP "Kizhi"; health resort "Martsialnye Vody" and waterfall "Kivach"<br>**TRT "Severnoye Priladozhie":** HCAM of Sortavala; Culture Preserve "Valaam" and the Valaam Monastery of the Holy Transfiguration; Ladoga Skerries<br>**TRT "Kalevalskaya":** Kalevala Land - homeland of "Kalevala" epos; fleece singing villages; wildlife preservation "Friendship Park" in Kostomuksha |
| The Komi Republic | **TRT "Syktyvkar":** HCAM of Syktyvkar including the National Museum and the Komi Republic Gallery; religious objects; Beloborsk Wildlife Preserve<br>**TRT "The Virgin Forests of the Komi Republic":** SR "Pechoro-Ilychevsky"; NP "Yugyd Va"; NM "The Weathering Columns" (1 out of the 7 Wonders of Russia)<br>**TRT "Ust-Tsilemskaya":** the most ancient settlement in the Komi Republic (1542); the ancient Novgorod language, way of life, ethnic aspect, Old Belief are in state of preservation |
| The Arkhangelsk Oblast (including Nenets Autonomous District) | **TRT "Arkhangelsk":** HCAM of Arkhangelsk; SCP "Malye Karely" (25 kilometers from Arkhangelsk); the Mudiyuga Culture Preserve<br>**TRT "Solovetskaya":** SCP "Solovetsky", the Solovetsky Monastery; masonries and labyrinths<br>**TRT "Kenozerskaya":** NP "Kenozersky" with great concentration of historic and cultural monuments and biosphere reserve |
| The Vologda Oblast | **TRT "Vologda":** HCAM of Vologda (the Kremlin and so on); town neighborhood with the mansions of the nobility and homeland of famous Vologda butter<br>**TRT "Kirillo-Belozerskaya":** the Kirillo-Belozersky and Ferapontov Monasteries; NP "Russian North"<br>**TRT "Veliky Ustyug":** the Residence of Jack Frost; churches, cathedrals, monasteries of the XVII–XVIII centuries (28 churches); famous folk artistic trades: factory "Northern Niello" and souvenirs factory "Veliky Ustyug Tracery" |
| The Kaliningrad Oblast | **TRT "Kaliningrad":** the cathedral with the grave of I. Kant; fortification works; the Amber Museum; theme parks<br>**TRT "Kurortno-Primorskaya":** HCAM of resort towns of Zelenogorsk, Svetlogorsk, Otradnoye and so on; recreational sand, developed service infrastructure; the unique plant which extracts and works amber (settlement Yantarny)<br>**TRT "Kurshskaya Spit":** NP "Kurshskaya Spit"; sand-drifts (up to 60 meters in height); one of the first in the world ornithological station |
| The Leningrad Oblast | **TRT "Staroladozhskaya":** SCP "Staraya Ladoga"; HCAM of Novaya Ladoga, the first hydropower station in Russia (Volkhov)<br>**TRT "Vyborgskaya":** The Vyborg Castle with St. Olaf Tower and the museum; SCP "Monrepo Park"; burying place of Swedish ships near the Krestovy Cape<br>**TRT "Gatchinskaya":** SCP "Gatchina" with Paul's Palace; the Priorates' Palace-Museum; estates including the estate of P.E. Szczerbov |
| The Murmansk Oblast | **TRT "Murmansk":** HCAM of Murmansk; Russian holiday camp of sea arctic tourism; the museum-aquarium on Semyonovskoye Lake<br>**TRT "Khibini Mountains":** ski resort of NWFO (Apatity, Kirovsk, Monchegorsk); functioning NP "Lapland"; NP "Khibini" is being planned<br>**TRT "Kandalakshskaya":** HCAM of Kandalaksha and other settlements; functioning SR "Kandalakshsky" and SCP "Kutsa"; SCR "Kutsa" is being planned |
| The Novgorod Oblast | **TRT "Veliky Novgorod":** the Novgorod SCP with unique landmarks of the XI–XIV centuries (the Novgorod Kremlin with St. Sophia Cathedral, monasteries and churches with wall painting of Theophanes the Greek and so on); NR "Vostochno-Ilmensky"; oak-groves<br>**TRT "Starorusskaya":** HCAM of Staraya Russa including site of ancient settlement "Staraya Russa"; the Memorial House of F. M. Dostoyevsky<br>**TRT "Valdaiskaya":** HCAM of Valdai including the museums and bells of the chief town of the uyezd; the State Establishment (SE) "National Park "Valdaisky""; Lakes Valdai, Streglino and others |
| The Pskov Oblast | **TRT "Pskov":** the Pskov SCP with the Krom town, the Dovmont town and assembly square; numerous monuments of religious architecture (churches, cathedrals, monasteries – XII–XVII centuries) and secular architecture (stone palaty of the Pogankins, the Menshikovs, the Rusinovs and others – XVII century)<br>**TRT "Pechoro-Izborskaya":** the ensemble of the Pskov Dormition Monastery of the Caves; SCP "Izborsk"; the museum of Setu People "Sigovo"<br>**TRT "Pushkinogorskaya":** SCP "Mikhailovskoye" named after A.S. Pushkin; the memorial ensemble the Svyatogorsk Monastery of the Holy Dormition with the grave of A.S. Pushkin and the necropolis of the Gannibal-Pushkins; the memorial estates "Mikhailovskoye", "Trigorskoye", "Petrovskoye"; SCC of the Pushkin Reserve |
| Saint-Petersburg | **TRT "The Historic Center of Saint-Petersburg":** The State Hermitage; The State Russian Museum; The State Museum "Peter and Paul Fortress"<br>**TRT "Palace-Park Museum Complexes of Saint-Petersburg Suburbs":** SCPs "Tsarskoye Selo", "Pavlovsk", "Peterhof", "Oranienbuam"; museums and fortification works in Kronshtadt<br>**TRT "Kurortnaya":** sanitaria and health resorts in Zelenogorsk, Sestroretsk, Repino; recreational sand and developed service infrastructure |
| Acronyms: HCAM – Historic Cultural and Architectural Monuments; SCP – State Culture Preserve, SR – State Reserve, NP – National Park, NM – Natural Monument, SCR – State Complex Reserve, SCC – Scientific Cultural Center. | |

⇨ Development and implementation of regional targeted programs (RTPs) and later the all-District targeted program similar to the functioning RTP in the Leningrad Oblast "Support and Development of Specially Protected Natural Territories in the Leningrad Oblast till 2010". The part of the programs connected with organisation of regulated recreation within the boundaries of every SPNT should be emphasized most of all in comparison with the existing state of affairs. Such points as the system of routine measures, organisational economic mechanisms of their realisation must be touched upon in the programs. The mentioned mechanisms are connected with the tourist recreational provision of SPNTs: a kind of zoning that is assigning of the zones in SPNT with different degree of their usage by tourists and recreants; providing special grounds for watching wild animals and birds, for halts; special trails for walking and skiing tours, riding, cycling, motor sledges, reindeer and dog teams; moorages for boats, yachts, launches and other small-size vessels; rental agencies of sports, tourist, fishing, hunting equipment; accommodation facilities (including camping zones), public catering, picnic grounds etc.

⇨ More active and large-scale involvement of federal and regional budgets resources as well as private capital including means from large domestic and foreign manufacturing companies using natural resource potential of the areas in question in formation and development of tourist recreational infrastructure in SPNTs and recreational zones.

⇨ Encouragement of small business (including family one) development in the sphere of tourist recreational infrastructure in SPNTs and recreational zones.

⇨ Large-scale usage of voluntary work while providing SPNTs and recreational zones with tourist roads, trails, halts and other components of infrastructure that is very topical under conditions of crisis and unemployment growth.

⇨ Revival of the practice of attracting student and youth construction gangs for SPNTs and recreational zones provision that is also the most effective method of patriotic upbringing.

⇨ The mechanisms mentioned above can be effectively used in rapid formation of macroregional system of protection and reasonable exploitation of the historic and cultural monuments of NWFD. Development and implementation of the macroregional targeted program "Development of Historic Cultural Zones in NWFD" could contribute to preservation and reasonable exploitation of the historic cultural heritage of the region.

Development and rapid infrastructure provision of the mentioned elements which form the single tourist recreational network in the North-West need considerable investments. The international experience shows that special economic tourist recreational zones and concessions can be effective organisational economic mechanisms of attracting and raising funds for achieving the objectives in question.

According to Federal Law №76-FL of June 3, 2006 "On Amendments to Federal Law "On Special Economic Zones in the Russian Federation" 7 tourist recreational special economic zones (SEZ) of federal importance were established in the country, unfortunately, only one of them is located in NWFD – National Park "Kurshskaya Spit" in the Zelenograd District, the Kaliningrad Oblast. In case the current experiment gives positive results the number of tourist recreational areas including the North-West will grow. They will be given a special status which will provide the most favourable conditions for attracting investments and tourist recreational business in general.

Priority tourist recreational areas in NWFD which were not given the federal status would be able to receive the similar status of all-District (intraregional) importance within the Federal District. To do it the TRTs must have all the necessary documentation including feasibility study of the prospectives of their development as special economic zones.

Such a territorial form of organisation of tourist recreational activity as concessions which became legal in Russia in 2005 (Federal

Law № 115-FL of July 21, 2005 "On Concession Agreements") can contribute to rapid tourism and recreation development in the North-West.

In order to raise the effectiveness of territorial organisation of tourist recreational sphere of the macroregion the mechanisms of attracting investments and fund-raising stated above should be followed by the progressive forms of usage of these resources while developing huge tourist recreational potential of the territory. Unfortunately, at present tourism and recreation is considered in Russia as a sphere of small or at least middle-sized business. Although, foreign experience opposes the fact. It is impossible to develop steady, effective, competitive tourist recreational sphere without corresponding organisational economic forms of concentration, combination, cooperation and so on of regional, national, international corporations which can unite not only tourist firms (tourist agencies and tour operators) but enterprises from different economic sectors.

Creation of such a tourist recreational territorial-sectoral association (by analogy with the emerging shipbuilding corporation) comprising tourist and transportation firms, special store chains, public catering enterprises, rental agencies, scientific educational and loan insurance establishments etc. could contribute to rapid tourism and recreation development in the region. Principles of private-state partnership, cluster ideology of voluntariness and share must be used in the process of developing and realisation of the concept of formation and development of the corporation.

***2. Rapid Development of Tourist Recreational Infrastructure***

Most specialists note that insufficient and unbalanced in different spheres (accommodation facilities, entertainment business) development of tourist recreational infrastructure in the region is one of the most important problems which prevent tourist recreational potential from successful development in the North-West.

Undoubtedly, accommodation facilities are almost the most prominent components of tourist recreational infrastructure as they determine the general rate of tourist recreational infrastructure development that is the tourist density coefficient (the number of accommodations per 1 000 of local people). The current domestic tourist statistics deals with the so called mass accommodation facilities (MAF) only (hotels, motels, holiday camps etc.) but not in full measure. For example, many mini-hotels, family hotels and so on which have appeared recently in great number turn not to be registered in the corresponding agencies on different grounds. Evidently, under such conditions the general number of MAF in NWFD can be assessed with the help of the corresponding factors which increase the number of officially registered accommodations. According to our estimations the general number is about 140 000 accommodations or 10 accommodations per 1,000 local people. The stated number of accommodations in NWFD with the average annual use of 60% can meet no more than 1/5 of macroregional requirement in accommodation facilities. It may seem that the way out is rather simple that is just to attract investors and to build the needed number of hotels. However, it is rather a capital-intensive (connected with considerable economic risks) and long-term process.

The effective way to solve the problem of the shortage of accommodation facilities rather quickly is to employ individual accommodation facilities along with mass ones. Such an approach to the solution of the problem is very urgent in the rural areas where individual accommodation facilities are the only ones. Individual accommodation facilities are becoming popular in NWFD nowadays especially in the process of country tourism development. But this development has a half-legal character so it can meet the requirements of comparatively small number of prospective tourists/ recreants. The most important reasons for such a situation are the following: lack of the initial capital which is needed for the proper provision of the necessary facilities; lack of access to favourable mini-crediting as well as expensive marketing and information services etc. The solution of the problem is closely connected with the development of the system of market integrators which will be able to stimulate and organise legal activity of the owners of the functioning and potential guest houses (flats) [2].

Along with the traditional (permanent) mass and individual accommodation facilities it is more reasonable to actively use mobile accommodation facilities on the vast territories of the North-West: "hotel ships" – sea and river cruise ships; "house ships" – yachts and launches; "mobile hotel" – specialized consists (tourist trains); various kinds of caravans etc.

The North-West of Russia is washed by 4 seas (the Baltic Sea, the Barents Sea, the White Sea, the Kara Sea). 5 out of 11of its oblast seats are sea port junctions and tourist centers as well (except Naryan-Mar). Due to this fact and to the constantly growing demand the sea cruise tourism development is an important element of tourist development in the North-West. This statement can be proved by the example of Alaska, a relatively similar in its natural climatic conditions American state. According to American specialists the sea cruise tourism development has played an important part in economic growth of Alaska, at the same time more than 17 000 new jobs has been created with the annual salaries of more than 530 million dollars. In particular, coastal expenditure on only one ship with 2 000 passengers aboard made up average 180 000 dollars [3]. Moreover, sea cruise ships are widely used during big events (the Olympic games, world championships, festivals, carnivals, anniversary celebrations and so on) in order to cover the deficit of hotel accommodations in the destinations. Everything mentioned above concerns other mobile accommodations to a considerable extent.

The organisational economic mechanisms which contribute to rapid development of mobile accommodation facilities in the North-West are the following:

1. Updating the existing and building new passenger sea and river port complexes, launch and yacht moorages, stopping places for tourist trains and caravans equipped with the facilities necessary for tourists.

2. Developing the existing and organising new production of sea and river cruise ships, launches and yachts in NWFD. Development and usage of different programs on building cruise and small-size vessels of tourist recreational purpose within the all-federal program on formation and development of the shipbuilding corporation have all beneficial prospectives.

3. Taking into account tourist needs while designing atomic-powered icebreakers, the effectiveness of using them as cruise ships is proved now by the experience of atomic-powered icebreaker "Yamal" which has been taking tourists from Spitsbergen to the North Pole since 1993.

4. Organising tourist trains and railway routes (including international ones) on the territory of NWFD. "Russian Railroads" public company is working on the question now.

5. Organization of production of various caravans on the basis of automobile industry plants operating in NWFD such as "Ford Motor" and "General Motors". These corporations has been taking an active part in producing caravans and other mobile recreational accommodation facilities as subcontractors of the companies.

6. Developing wide network of caravans rental and service agencies all over the Russian North-West.

Rapid and balanced development of mass, individual and mobile accommodation facilities will make it possible to provide the tourist recreational sphere in NWFD with accommodation stock on a tight timetable. Taking into consideration complicated intrasectoral character of the problem it is reasonable to solve it within the existing all-District targeted complex program "Rapid Development of Accommodation Facilities in NWFD".

Creation of **all-regional network of information tourist centers (ITCs)** which are going to provide tourists with information and comfortable staying in the region is the second strategic tendency of tourist recreation infrastructure development in NWFD. The network is being formed now and comprises the following:

➡ local ITC (of single destinations/ TRT), for example, ITC "TRT "National Park "Kurshskaya Spit";

➡ municipal ITC (for example, 7 district ITCs and 7 city ITCs are functioning in the Leningrad Oblast);

➡ regional ITC (regional ITCs are effectively functioning in Saint-Petersburg, the Leningrad Oblast and other NWFD regions).

The final stage is going to be creation of the all-District ITC which will contribute to effective intraregional cooperation of all kinds of ITCs in order to coordinate (including effective distribution and redistribution) of tourist flows along the federal (intraregional) tourist corridors / routes. With the help of the opportunities of geoinformation systems and other modern information technologies the all-District ITC will provide steady tourism and recreation development in NWFD in the nearest future controlling permissible anthropogenic loads on TRTs and separate objects of tourist interest and eliminating various organisational blunders, disagreements, failures and so on. This ITC network can become the key participant of tourist recreational process in the region while coordinating and promoting the tourist recreational image of NWFD and its separate products.

**Entertainment business** is the third priority of all-District tourist recreational infrastructure development. The world experience proves that the presence of large entertaining objects in the destination:

– considerably increases the general effectiveness of its tourist recreational potential; such objects are often become the leading tourist recreational resources of a territory (the classic example is Disneyland in France which exceeds the most part of traditional objects of tourist interest located in Paris by its attractiveness and profitability);

– contributes to rapid and considerable growth of capitalization of land and immovable objects in the destination (numerous Russian examples which are connected with construction of ski resorts, casinos etc.);

– provides the year-round use of the whole tourist recreational infrastructure, raises employment and profits of the local people and improves quality of life in general.

Recently we have observed rapid development of entertainment and recreation objects in NWFD: modernisation of old ski resorts and construction of new ones; construction of various aquaparks and museum-aquariums; construction of ethnic villages and so on. However it is not enough. The region needs unique attraction objects of international level for which it has all necessary preconditions (see below).

***3. Creation of Competitive Tourist Products and their Promotion into Domestic and International Markets***

Creation of Competitive Tourist Products. One of the most considerable reasons which prevent effective use of the enormous tourist recreational potential of NWFD is lack of modern competitive tourist products of international level. Only one new tourist product meeting the international requirements has appeared in the District recently with the help of the federal government – "A Trip to Veliky Ustyug – Jack Frost's Homeland". The Murmansk and Leningrad Oblasts, other areas in the North-West are trying to use both this brand and the brand "Snow Maiden" along with the Vologda Oblast. Obviously, this tourist product will hardly be able to compete with the tourist products created on the basis of the worldwide brand "Lapland – Santa Clause's Homeland" even on condition of overactive promotion of it.

The North-West of Russia has a great historic cultural heritage. Many legends, stories and popular beliefs are associated with it. Many ethnic groups are living in the area including aboriginal ones: Russians, Karelians, Komi, Izhortsy, Vepsy, Sami, Nenets and others who preserve traditional ethnic culture (including historic cultural monuments) from the pre-Mongolian era.

Taking into account growing interest of both domestic and foreign tourists to historic and ethnic cultural heritage and the fact that the tourist sphere actively involves history and mythology for its development it is quite possible to create new tourist products of international level based on the brands which truly belong to the North-West from the historical point of view:

- Legendary northern country "Hyperborea". According to ancient Greek legends the blissful life of Hyperboreans was full of songs, dances, music and feasts. There are many versions concerning the location of the mythic country but the majority of them insist that it was located on the territory of the modern North-West of Russia: in the foothills of the Urals, on the Kola Peninsula, in the Republic of Karelia, on the Solovetsky Isles and so on. The Russian Academy of Sciences finances the expeditions to the supposed area of existing of the Hyperborean civilisation – Seydozero Lake (the Murmansk Oblast) every year. The international festival "Hyperborea" devoted to this legendary country has been held in Petrozavodsk every year since 1999. We believe the tourist attractiveness potential of the idea of the reconstruction of Hyperborea within the boundaries of the corresponding tourist town with the developed entertainment infrastructure excels in attractiveness the existing European centers of the contemporary followers of Aristipp (the founder of hedonism).
- Biarmia, "The Northern Home of Rus" was a rich powerful well known to the ancient vikings state on the White Sea coast. The idea of historical reconstruction of Biarmia as a cultural and historical, commercial and fair center of international level can also contribute to a considerable growth of tourist recreational attractiveness of the whole region.
- Gardaricki ("the state of Russian towns") – old Scandinavian name for the Novgorod land including Veliky Novgorod and Staraya Ladoga, the first capital of the Northern Rus. This brand can be actively used while developing the international tourist corridor "From Varangians to Greeks and Khazars".
- The unique tourist product of all-District and international level can be developed on the basis of the legendary route along the White Sea and the Barents Sea coasts – "Mangazeya Sea Passage" from the mouth of the Northern Dvina/ Arkhangelsk to the Pechora Bay/ Naryan-Mar/ Pustozersk – Vaigach Island (the only sacred island of Samoyeds in the Arctic), the Gulf of Ob and the Gulf of Taz, the Taz River/ the Mangazeya River – the places of the legendary Russian settlement ("the sovereign's golden patrimony", "the Siberian treasury") which was built in 1607 and existed for over 70 years.
- An attractive tourist product of international importance can be created in the Pskov Oblast on the basis of the brand "A.S. Pushkin". The construction of a Disneyland-type "fairy town" with the characters from A.S. Pushkin fairy-tales on the shore of Lake Pskov would considerably raise the attractiveness of the tourist recreational complex of the Pskov Oblast and the whole North-West as well.
- Due to the growing demand of tourists from all over the world for the tourist products connected with the national military subject area as well as the great popularity of the movement of historical reconstruction devotees both in Europe and Russia a specialised museum and exhibition complex on the shore of the Gulf of Kaliningrad in the Kaliningrad Oblast would become a very attractive tourist recreational object [4]. The basic components of the complex can become national military museums (museums of cold steel; of small arms; of accoutrements / armours; of waxworks of famous commanders and so on), a permanent exhibition/ fair of arms with firing grounds and infrastructure objects – hotel and congress, restaurant, commercial and entertainment, production (workshops on custom tailoring of military uniform, production of cold steel, souvenirs, toy models), waterfront structures and launch and yacht moorages etc. We believe this tourist object can become one of the most popular destinations not only in the Kaliningrad Oblast but in the whole North-West of Russia.

◆ The Gulf of Finland with its islands and coastal territories has a great potential of tourist recreational attractiveness. Greater resort to this potential can urge on tourist recreational development of Saint-Petersburg and the Leningrad Oblast as well as the whole North-West. The following projects prove the statement:

– the project of the international tourist center "Gogland Isle" (with passenger sea terminal, shopping arcade "Baltic Circle" with ethnographic structures which symbolise all Baltic countries, multifunctional complex "Crystal Globe" with 121 meters in diameter, with aquaparks, entertainment complex, hotel accommodations etc.);

– the project of a holiday health-improving entertainment complex "Orange", the largest international tourism center on the Baltic (with high-rise hotels and cottage-hotel buildings, a yacht center, an aquarium, an aquapark, a botanical garden, restaurant and sports complexes and so on) which is going to be planned on the south shore of the Gulf of Finland.

These are only few examples of the attractive objects of international level which can be considered as the basis for creation and promotion of corresponding competitive tourist products that are able to considerably raise the effectiveness of using tourist recreational potential in the North-West of Russia.

Creation of new attractive objects and competitive tourist products of the international level is science intensiv and very expensive (the realisation of the project "Gogland" can cost approximately 1 billion dollars, "Orange" – 3 billion dollars). That is why it is necessary to receive an appropriate state support in the form of development and realisation of the all-District program "Creation and Development of New Attractive Tourist Recreational Objects and Tourist Products of International Level in the North-West of Russia". The process of the program development should include the mechanism of government order and involve the leading scientists / specialists of Saint-Petersburg and other cities in NWFD (historians, economists, ethnographers, culture experts, geographers, experts of local history, tour operators, developers, investors and others).

**Promotion of competitive macroregional tourist products into domestic and international markets.** Successful realisation of competitive tourist products of all-District and international levels needs appropriate publicity and marketing support and effective organisational economic mechanisms. International practice shows that such mechanisms should be functioning on continuing basis but not occasionally as it happens in practice in this country nowadays. Tourist product promotion is a costly market mechanism. At present only state-private partnership with the key role of the state can bring it into operation. Cost savings for tourist products promotion into domestic and international markets can lead to considerable economic losses provoked by the decrease of profits from tourism and recreation which come into the budgets of all levels and to lower investment activity because of extension the time of recoupment of capital investments which are aimed at the tourist recreational infrastructure and destinations in general. According to the foreign specialists' estimations in order to attract 1 foreign visitor who provides the country economy with 1 000 euros on the average a country spends 3 – 10 euros for tourist products / destinations advertisement. At the same time Russia spends only 0,69 euros [5].

It is important to notice that the active promotion of tourist products is not only the way to achieve direct economic effect based on the growth of entrance tourist flows but it is an effective form of counter advertisement in confrontation with unfair competitors.

In order to effectively promote tourist products / destinations of NWFD into domestic and international markets it is reasonable to use all organisational economic mechanisms from the domestic and foreign experience. The most prominent of them are:

⇨ Development of the NWFD single all-District marketing strategy with the detailed investigation of potential markets (domestic and foreign) of regional tourist produce/ services with attraction of specialists from the corresponding countries/ regions.

⇨ Preparation of the single exhibition stand «Tourism and Recreation in the North-West of Russia» on the basis of the propositions of the marketing strategy and using it in Russian and international tourist exhibitions.

⇨ Considerable growth of number and quality of information and advertisements about tourist recreational possibilities of certain districts and the whole NWFD on the Internet. The majority of the operating regional and municipal specialised websites devoted to tourism and recreation do not meet modern requirements and therefore potential consumers can have a negative attitude to the tourist products in question. Promotion of all-District tourist products and advertisement of tourist recreational possibilities in the whole NWFD are in a poorer condition. To improve the situation it is necessary to create a high-quality constantly updating multilingual Internet site "Tourism and Recreation in the North-West of Russia".

⇨ Usage of such an effective instrument which became greatly popular in this country and abroad as event tourism in behalf of promotion of attractive tourist recreational image of the North-West of Russia. Celebrations of cities' / towns' anniversaries, holding international competitions, festivals and so on are a great urge for increasing tourist recreational potential in the area. In this context it is necessary to implement the all-regional program "The North-West Capitals' Anniversaries" in all important historical cultural settlements of the region *(tabl. 4)* and to organise a special all-District Fund which would finance development and realisation of projects/ programs of holding anniversary, sports, culture and other events accumulating investments from different resources.

Table 4. Forthcoming Anniversaries of the NWFD Cities/ Towns till 2020

| City/town | Anniversary date | Year |
|---|---|---|
| Belozersk (the Vologda Oblast) | 1 150 | 2012 |
| Borovichi (the Novgorod Oblast) | 250 | 2020 |
| Valday (the Novgorod Oblast) | 250 | 2020 |
| Velikiye Luki (the Pskov Oblast) | 850 | 2016 |
| Veliky Novgorod (the Novgorod Oblast) | 1 150 | 2009 |
| Veliky Ustyug (the Vologda Oblast) | 800 | 2018 |
| Izborsk (the Pskov Oblast) | 1 150 | 2012 |
| Kotlas (the Komi Republic) | 100 | 2017 |
| Kronshtadt (Saint-Petersburg) | 300 | 2010 |
| Lyuban (the Leningrad Oblast) | 100 | 2012 |
| Murmansk (the Murmansk Oblast) | 100 | 2016 |
| Opochka (the Pskov Oblast) | 600 | 2012 |
| Oranienbaum (Saint-Petersburg) | 300 | 2012 |
| Petrodvorets (Saint-Petersburg) | 300 | 2011 |
| Staraya Russa (the Novgorod Oblast) | 850 | 2017 |

### *4. International and intraregional collaboration development in the sphere of tourism and recreation*

Working out different organisational forms of international and intraregional collaboration greatly contributes to tourist recreational development of the vast territory of the North-West of Russia (it excels the total territory of all Baltic countries).

*International cooperation.* The North-West of Russia is the leader in the sphere of international cooperation including tourism and recreation sector due to its geopolitical location, strategically important for the whole country development prospectives (intensive commercial development of new oil and gas deposits and other raw material resources, wide usage of innovative technologies in regional economies and so on) and unique historical cultural and natural potential. The collaboration activities are carried out in different ways both on unilateral and bilateral basis. The priority forms of international cooperation in the sphere of tourism and recreation in NWFD are the following:

1. Frontier collaboration. The region borders on 7 countries (Norway, Finland, Estonia, Latvia, Lithuania, Poland, Belarus) and has a great potential of frontier collaboration due

to similar natural climatic conditions, tight historical cultural connections and minimal language barriers.

2. Joint cooperation with the EU in the process of development and realisation of international programs/ projects under its aegis.

3. Long-term multilateral collaboration within the framework of the greatest in Europe megaproject of the Barents European Arctic Region development which has been under way since January 11, 1993. Among the project participants there are Norwegian provinces (Norland, Troms, Finnmark), Swedish provinces (Westerbotten, Norrbotten), Finnish provinces (Lapland, Northern Ostrobotnia, Kainuu) and NWFD regions (the Murmansk and Arkhangelsk Oblasts, Nenets Autonomous District, the Komi and Karelia Republics).

4. Multilateral collaboration in the sphere of tourism and recreation within the framework of development of the system of twin cities/ municipalities.

*Table 5* contains the list of the priority projects (programs) of international cooperation in the sphere of tourism and recreation in the North-West of Russia which are suggested and realised in different forms of intergovernmental collaboration.

*Intraregional collaboration*. Unique tourist-recreational potential, coastal and border location (close area to the EU countries) and ramified transportation system (railway, motor, air and water routes, which connect the region with other regions of the European part of Russia) provide NWFD with considerable potential of intraregional collaboration in the field of joint development of its tourist recreational resources.

Tourist recreational development of the territories between Saint-Petersburg and Moscow is a complete priority, a strategically important area of collaboration. This territory comprises 7 RF regions (Saint-Petersburg, the Leningrad, Tver, Vologda, Yaroslavl, Moscow Oblasts and Moscow) where about 25 million people live that is every sixth citizen of Russia. The most important destinations of Russia - Saint-Petersburg, Moscow, Veliky Novgorod and many other attractive cultural historic and natural objects are concentrated here. The main tourist flows from the whole country and abroad are coming just here. Tourist recreational infrastructure is intensively developing and large-scale federal investment transportation-related projects are being realised here (construction of a new passenger port in Saint-Petersburg, construction of the second circular road around Saint-Petersburg, updating and expansion of airport “Pulkovo”, construction of a new express railway route and a toll highway from Saint-Petersburg to Moscow, rebuilding of the locks in the Volga-Baltic Route, the capacities development of airport «Sheremetievo», construction of a circular road around Moscow in the Moscow Oblast etc.).

In prospect it would be quite reasonable to build specialised tourist roads and water routes within the areas in question. In particular, to reach the goal it would be necessary to restore the Mariinskaya and Vyshnevolotskaya Water Systems which connect Saint-Petersburg and Moscow. Along with tourist recreational development of the territories it would favour social economic development of villages and small settlements which are located along these water transportation routes.

The scale of the problems which are solved within the boundaries of the territory and considerable social economic benefits which are connected with the decision of these problems cause the necessity of development and realisation of the long-term intraregional megaproject of federal importance (in its way the Russian variant of the mentioned above Barents-Project). Development and realisation of the project should be carried out by the North-West Federal District and the Central Federal District together.

Another prospective area of intraregional collaboration would become the joint (with

Table 5. Priority Projects and Programs of International Collaboration in the Sphere of Tourism and Recreation in NWFD

| Forms of collaboration | Priority projects and programs of international collaboration |
|---|---|
| Frontier collaboration | • with Norway;<br>- development and realisation of the projects on joint usage of tourist recreational potential of the border areas of the province Finnmark and the Pechenga District of the Murmansk Oblast<br>- development and realisation of the projects on joint usage of tourist recreational potential of Spitsbergen Isle<br>- joint realisation of the project "Murmansk Corridor"<br>• with Finland:<br>- development and realisation of the pilot projects on joint development of the border area of «Paanayarvi» (national parks "Paanayarvi", "Oulanga", "Kuusamo", "Vuokatti") and Rakhmoivskaya Tundra<br>- development and realisation of the projects on joint designing of water tourist routes from Southern Finland along the Saimensky Chanel into the Gulf of Finland and through the system of lakes and rivers Vuoksa into Northern Ladoga<br>- development and realisation of the projects on joint creation of common tourist products for border towns Imatra and Svetogorsk<br>• with Estonia:<br>- development and realisation of the projects on joint designing of water tourist routes including Lake Pskov and Lake Chudskoye, the Narva River and the Gulf of Narva areas of water<br>- development and realisation of the projects on joint creation of common tourist products for border towns Narva and Ivangorod (realisation of the project "Waterjoy" – "Organisation and Construction of the International Year-Round Recreational Hotel Complex in the Narva River Water Area on the border of Estonia and Russia")<br>• with Latvia:<br>- development and realisation of the projects on joint usage of tourist recreational potential of the border areas of Latvia (Latgalsky Land) and the Pskov Oblast<br>• with Lithuania and Poland:<br>- realisation of the project on joint creation and development of Vishtynetsko-Suvalskaya transboundary closely protected territory<br>- development and realisation of the projects on joint usage of tourist recreational potential of the delta of the Neman River, the Kurshsky Gulf, the Kurshskay Spit (together with Lithuania)<br>• with Belarus:<br>- development and realisation of the projects on joint usage of tourist recreational potential of the border areas of the Pskov and Vitebsk Oblasts |
| International megaproject of the Barents European Arctic Region development | • creation of international landscape ecological network "Ecological Framework of the Barents European Arctic Region" and realisation of the project "Green Walls of the Barents European Arctic Region"<br>• development and realisation of the projects on creation of the national parks "The Onega Coastal Area", "Kuloysko-Belomorskoye Plateau", "Khibini", "Kutsa" and others<br>• development of international tourist corridor "The Barents Route": Bode (Norway) – Khaparanda (Sweden) – Rovaniemi (Finland) – Alakkurtti – Kandalaksha – directions to Apatity – Murmansk and the Solovetsky Isles – Arkhangelsk |
| International programs and projects under the aegis of the EU | • development and realisation of the projects on creation of international tourist corridors/ routes in the priority tourist recreational areas of NWFD and on creation and promotion of tourist products of all-okrug/ international levels |
| Collaboration between twin-cities / towns | • programs/projects in the sphere of promotion of tourist products of twin-cities in their own regions and countries<br>• programs/projects on joint participation in preparation and holding various events (big sports competitions, festivals, anniversaries an so on)<br>• programs/projects on exchange of experience in the sphere of tourism and recreation including personnel training and retraining |

the participation of the North-West, Central, Privolzhsky and South Federal Districts) development and infrastructure provision of the water tourist route "From Varangians to Greeks and Khazars" which could be the Russian part of the combined cruise route "Around Europe" at the same time (see tabl. 2).

Intraregional cooperation of NWFD with the regions of Siberia and the Far East concerning joint tourist development of "The Northern

Sea Route" on the whole and "Mangazeya Sea Passage" in particular has a great potential too.

Absolutely new possibilities of tourist recreational potential development in NWFD (the Komi Republic and the Arkhangelsk Oblast) by the inhabitants of Ural and Western Siberia are connected with the completion of the construction of the railway route Perm – Kudymkar – Syktyvkar – Arkhangelsk.

Finally, the priority of intraregional collaboration for NWFD is joint (with the participation of establishments and organisations of Ural and Western Siberia regions) designing and realisation of the projects in the sphere of water tourism development (construction of passenger port complexes, moorages for ships, launches and yachts an so on) and health-improving tourism (updating the existing and construction of new sanataria and health establishments, mostly in the Kaliningrad and Leningrad Oblasts and in Saint-Petersburg).

***5. Improvment of territorial strategic planning in the tourist recreational sphere***

The most effective form of activation of the stated above organisational and economic mechanisms for realisation of tourist recreational development priorities in NWFD is elaboration of territorial strategic planning documents: concepts, strategies, targeted complex programs.

The North-West of Russia is the leader in the whole sphere of strategic regional social economic development and tourist recreational sphere in particular. Nowadays not only NWFD Districts but their municipalities as well possess concepts, strategies, targeted complex programs. Development and realisation of these strategic documents have greatly contributed to the formation of tourist recreational spheres of the regions as one of the leading sectors of their territorial specialisation. Yet complicated intraregional problems (including those examined in this work) considerably impede effective tourism and recreation development and still remain unsolved on the local and regional levels. All this makes for the necessity of rapid completion of developing the corresponding strategic documents of the all-District level. The existing experience will allow to eliminate a number of drawbacks characteristic for regional/ municipal documents in the process of their development and to provide:

- Long-term character of the documents which are developed in prospect till 2020 and their compliance with the basic items of the RF development program for the same period.
- Same-time interrelated development of the whole set of strategic documents (all-District concepts, strategies, targeted complex programs).
- Harmonization of sectoral/ intrasectoral and territorial/ inter-territorial aspects of salvation of different all-District problems connected with tourism and recreation development by designing and interpreting corresponding minor programs.
- Taking into consideration the main participants in the process of realisation of priority tourist recreational development of NWFD.
- Optional character of the process of problems salvation and use of scenario approaches.
- Attracting of investment and financial resources to realisation of the main strategic measures at the expense of working out and using corresponding organisational economic mechanisms (creation of all-District system of loans and guarantees, investment risks insurance, effective leasing and mechanism of conventional pledge that is pledge of property rights on the constructed object and so on [6]).
- Effective monitoring of realisation of all-District tourism recreational development program.

The organisational economic mechanisms of realisation of macroregional priorities of tourism recreation development in NWFD can be used nowadays as crisis management ones because entrance (internal) tourism is able to involve a great number of available employees; to replace the demand for expensive tours abroad saving a considerable part of currency resources at the same time; to economize municipal and regional budget funds aimed at infrastructure objects development (transportation communication lines, entertainment and recreation objects and so on).

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# OPINIONS, JUDGEMENTS, COMMENTS



## «Postindustrial» illusions or systemic «neoidustrialization»: modern Russia choice *

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Discussions on the problems of structural and institutional modernization of the Russian economy and the role of business and the government in this process appeared to be at second place in the face of harsh realities of the global financial and economic crisis, deeply affecting our country.

Of course, the problems associated with the support of the real sector and banking system strengthening, tensions reduction on the labor market require complex solutions, and coordinated action by the government and business. However, as evidenced by the history of world and domestic economy, the crisis comes to its end sooner or later, a new wave of economic growth begins, and as a rule, on a new industrial and technological basis.

The fundamental question is what this framework would be like in Russia, and what structural and institutional changes it will cause. Will the new industrial recovery become gradual stabilization of the result, whether the transition to a fundamentally different way delineated as "neo-industrialization" in the article by S. Gubanov happen, ("Economist". № 9. 2008)?

According to the author of the article, system reconstruction of the Russian economy can not and should not be based on reckless of the plants of Western theory, which persistently and consistently insisted on the "post-" myth as alleged is clear, and the fait accompli. Besides scientific arguments are often replaced by adepts of western "post" Civilization by peremptory assurance of the inviolability of the current unipolar world economic system.

Statistical data analysis and conclusions in the article by S. Gubanov, indicate in favor of the fact that the global process of industrialization of the economy is still far from complete, despite the favorite argument of the "post-" mythology adherents that the share of services in the XX century became the dominant and almost determines the main vector of the modern civilization evolution. In fact, as amply demonstrated in the article, check reveals a completely different, really genuine fact: *the development of the major powers of today is moving through the production of capital goods rather than services.*

Moreover, the imperative of the modern stage of industrial development is an organic unity of science, innovative production and

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vertical integration of the corporate sector of the economy. That is, according to S. Gubanov, one of the objective economic laws in force in the highly developed economies which have reached a high level of socialization and concentration of production and capital.

This law, if you bear in mind the specific modalities of its practical implementation requires that the current profitability of the production of intermediate remained zero, a final economic effect obtained at the outlet of the corporation, would serve as a criterion for evaluating the quality of corporate governance in general. This is possible only if the re-based plants transfer pricing and contractual relationships transfer their products to each other in the chain not in order to maximize profit, but for the sake of common vertically integrated corporations end result – updated product range, improve its quality and competitiveness, building capacity for innovation, developing new markets and the accumulation of a corporate capital.

Just remember that the economic development of Russia was carried out because of the adoption of the model of privatization in the opposite direction. In the transition period, based on large and major industrial enterprises there appeared a lot of smaller private entities that have chosen the daily survival tactics at the expense of existing resource and production base, pulling apart liquid assets and extract the highest possible current income.

It is our conviction that the established adaptation economic model has been in the integral mainly only for small and medium-sized businesses, but only in those few industries where there were conditions in order to achieve short-term profitability and which are not urgently required to attract significant investment (trade, catering, personal services, municipal transport and communication, in part, housing). But this model has been contraindicated for big business.

*Focusing on the benefits of private capital and market-based mechanism for self-knowledge-and capital-intensive industries is clearly a failure.*

Since the beginning of reforms the state is largely lost the real levers of influence on technology and capital intensive production, and corporate behavior of the new property owners was basically a profit through the use of monopolistic market situation. And in the most advantaged position were those that received control over the most lucrative export commodity of the economy, producing intermediate rather than final products. Politics of spontaneous «adaptation» to the emerging markets, presented by ideologists of radical reform as a panacea for stagnating, went bankrupt, giving the race for a false purpose.

Domestic machinery, including electric locomotive building lost not only two decades, but much of the potential, which it had before the start of large-scale change.

The outcome of irrational, largely destructive economic rate of 1990's are very sad: it is not only a partial de-industrialization and the disintegration of the country's economy, the loss of many traditional markets of high-tech products but also managers' staff degradation who are not seeking to assume responsibility for the implementation of major investment projects.

As a result of such tactics of the Directorate industrial, financial and social activities of many enterprises and companies are deformed. In order to achieve the particular interests the companies are deliberately stocked to bankruptcy. Corporate Codes of Conduct adopted by many companies, are only to create an attractive image of the company in the eyes of the controlling authorities, while maintaining the resources pulling apart policy and hiding information. To this end, the leadership of the companies creates "friendly" companies, with which they conclude unprofitable contracts on behalf of society, on favorable terms production facilities are provided, equipment, electricity and raw materials, assets and profits are "pumped" to the accountable companies, money laundering and capital flight abroad are organized.

To act in this way is possible because of a lack of checks and balances subsystem in the corporate governance mechanism. Only responsible active industrial policy of state-based partnership with the business community can stop this catastrophic trend. S. Gubanov expressed its main core in the formula: "neo-industrialization plus vertical integration". It is, as we see it, not so much in the theoretical component of the proposed paradigm, but in its sound practical sense, based on real experience of painful search for the way out of domestic firms from crisis deadlock.

In 1990s the giants of Russian industry, which traditionally have been developed on the basis of guaranteed state orders and stable sources of funding for R&D and mass production were in the most difficult situation.

Thus, the abolition of state orders has brought many factories, the giants of Rostov Region (Rostselmash, NEVZ, Taganrog, Krasnosulinsk, Belokalitvinsk metallurgical plants, etc.) to the brink of bankruptcy, creating a wave of layoffs a significant number of employees. A similar situation is repeated in these and other companies in the current crisis.

*The traditional self-supporting regime, inherited from the previous system, and indicating our businesses to maximize profits, drives skill-and capital-intensive production to a standstill*: companies are forced to curtail production of technologically complex products due to continuing growth in prices for all types of components, raw materials, electricity, fuel transport fares, etc. They are pushed to it by steadily declining demand for the ultimate machine-building products in the domestic and foreign markets.

The natural reaction at the situation where there is nobody to pay for a new, technically sophisticated and competitive products is re-production in favor of a more simple and inexpensive to manufacture products and, consequently, regressive institutional and financial restructuring of companies. As a result of this reorganization of joint stock companies, focusing exclusively on the removal of current income, wins, of course, neither the state nor the majority of the population.

In this context, it is relevant and valid idea put forward by S. Gubanov of the need to reorient the strategy of the national economy in the course of overcoming the current crisis on a different vector of development. *Russia should not withdraw out of the crisis with the old archaic (export commodity) economy structure*. The country must come to the best stage of growth, with different priorities, different dominant values, and other strategic installations and institutions, other mechanisms for their achievement.

Russia really is on the threshold of neo-industrial development phase, which is characterized by the following features:

- accelerating restructuring of the economy, the transition from a predominantly commodity production to the production of high-tech, competitive end-use product;
- formation and expansion of modern innovation and industrial sectors with the subsequent release of their products to international standards of quality and reliability;
- decriminalization and debureaucracy of government, regional, municipal and corporate governance, training and promotion of management-based skills relevant to the terms and conditions of neo-industrial economy.

Which of the available or required in the future economic structures are capable of providing such a development? The answer to the question suggests the corporate practice of most developed countries, where rapid growth and progressive development of the economy are determined by the most significant scientific and industrial company profiles, i.e., the leading industrial corporations. In the United States, for example, there are more than three million of these corporations, which constitute 20% of the total number of American firms. They cover 90% of total sales of goods and services. However, not they, but only one hundred largest corporations determine the status and international influence of the American economy. They account for 45% of the workforce and 60% of national investment.

Skeptics may argue that this structure did not save the U.S. economy of unprecedented crisis. However, in our opinion, the reason for the current crisis lies in the strains of modern financial and monetary system, as the crisis itself is not a kind of cyclical crisis of capital overaccumulation.

When the heads of the major nations of the world in which different models of a competitive market economy are long-established and entrenched, say with alarm that responsibility is more important than profit, one has to talk about the possibility of transformation, enabling radically alter the fundamental framework and modalities of the world economy. With respect to our country, we are less likely to threaten the foreseeable future crises overproduction of goods, if our industries will be able to develop import-substituting domestic production of mass demand, for which there is an enormous and far from saturated the market. Besides its size, no doubt, will rapidly increase in parallel with the process of neo-industrialization based on vertical integration of corporate structures.

Objective process of production and capital on the basis of the vertical integration of corporate relations for many industries is characteristic for the industrialized countries. Integrated corporations demonstrate unquestionable advantages over other forms of modern knowledge production. They are, at least in the following points:

- greater efficiency of production and economic activity through the increase in scale and impact on market sales;
- opportunities of complex scientific and technical developments, effective innovation and attracting highly qualified staff and use of modern marketing tools and instruments;
- a significant resource potential, its effective use and development.

Therefore, referring to the railway engineering branch, on the analogy there should be a powerful integrated electric center in our country that meets the requirements of today and tomorrow, that can successfully compete with the best European and Asian manufacturers of electric locomotives.

As you know, Novocherkassk Scientific-Industrial Complex (VELNII and NEVZ) had and now has a unique position in the domestic market as the only country in the developer and producer of electric locomotives to thrust and has the status of our country's largest electric power. Creating at its base a vertically integrated corporation, the concentration of the state's and private companies' investments provide in the shortest possible time significantly (several times) to increase the production of electric locomotives, update equipment and technology, create electric rolling stock of the new generation and more efficient use of financial resources.

Leadership of industrialized countries in the material production is ensured not by mythical predominance of services in gross national product (GNP) and not by technothrone-specificity of the information structure of modern production *but by the increasing role of the powerful vertically integrated corporate structures*, covering all levels of reproduction cycle and capable of efficiently meeting the challenges of sustainable financing for R&D, design, development, mass production of the series, sales and postproduction service of products of new generation.

That does not detract from the role in the reproductive processes of modern means of searching, storing, processing, analysis and information transfer. These means of information and technologies may serve as a catalyst, accelerating the transition to the new stage of industrial development, but do not give an idea about the entire specifics of modern stage transformation of the global economy.

The mechanism of vertically integrated corporations functioning, based on a rational combination of the capacity of corporate strategic planning, market self-regulation and partnerships with the state, has, we believe, a particular importance for our country.

First, the tactics of survival alone has not lived up, it resulted in a number of cases to the disintegration of large research and production associations, with strategic importance for the country, and secondly, the development of the vertically integrated structure provides effective interaction with the country's external environment, starting from the markets of States abroad to integrate into the world market.

And this is understandable as foreign trade integration is not based on narrow-profile corporate commodity type. In essence, these companies have nothing to offer foreign partners in terms of long-term joint activities and strengthening of market positioning. They are interested in TNK and FIG solely as external partners, suppliers of cheap raw materials and hydrocarbons.

A new formula for the development of Russia, put forward by S. Gubanov in applications means the need for the development and implementation of the federal target program of the formation of vertically integrated public-private and public corporate structures, aimed at the creation, development, mass production and implementation of innovation products. Today's crisis gives us a certain time period for taking appropriate policy decisions and action in this direction.

Of course, vertically integrated corporations have not only the advantage. Like any complex institutional foundation, they are able to generate in the process of its functioning and the negative side effects.

The biggest fear in this regard is the traditional and possible tilt of integrated corporate structures to limit competition and reinforce monopolistic tendencies. However, one can not help but notice, the other side. Large vertically integrated corporations at the expense of profitability in the regulated regime about intermediate levels reduce transaction costs throughout the processing chain and thus increase the efficiency of the ultimate innovative products.

Innovation-based companies are well positioned to focus the scientific, industrial, natural resources, financial and human capital, increasing the speed and scope of its expanded reproduction. As part of such corporations new opportunities to optimize the costs of intermediate products, improve quality and competitiveness of products of final consumption appear, which is essential for all companies seeking to acquire transnational status.

In other words, on the basis of vertically integrated corporations development economy may get the most advanced modern forms of management of the national economy.

It is also apparent that large vertically integrated companies do not arise without active state support. Our State which lost ability to influence the private business effectively and be responsible for macro-economic processes during the period of liberal romanticism is now trying to use all the traditional regulators. Given the strategic challenges, the state has no right to limit by the urgent measures of financial recovery of the corporate sector, aimed at maintaining the liquidity of banks and companies, curbing inflation, preventing massive bankruptcies and rising unemployment, social support for disadvantaged groups.

It is necessary to make substantial adjustments to the recently adopted (October 2008), but because of the racing events already outdated Concept of long-term socio-economic development of the Russian Federation until 2020 as soon as possible, set for the near term several priority technologies and industries, which can develop rapidly in the private-public and public vertically integrated corporations.

Breakthrough technology can be a versatile nanotechnology, biotechnology, life extension technologies, new medical technologies and other innovations that would be beneficial for investment, as catalysts for the transition to neo-industrial economy can be industries such as aviation, space technology, shipbuilding, transportation engineering, nuclear energy, etc.

This is a time of consolidation, time for responsible decisions able to bring the corporate sector of the Russian economy to a new neo-industrial development level.

# Economic and social state of the Vologda region in the Russian Federation and in the North-West Federal District according to the results of the 1st quarter, 2009

Taking place in the country economic crisis has a different degree of range and depth in the regions. This is due to specialization of regional economy and its involvement into inter-regional and external economic relations.

Relatively high rates of the Vologda region economy dynamics in recent years were largely determined by the ferrous metallurgy pace of development and the export rolled metal deliveries add-ins. The sharp downturn of steel products sales in the global and domestic market has had rather morbid impact on the economy of the region. In the first quarter of 2009, economic and social situation of the region in Russia and the North-West Federal District had pronounced downward trends.

During January – March, 2009 compared to the same period of 2008 industrial output in the region decreased by 27,4% per capita. It is considerable more than the average in Russia and the NWFD *(fig. 1)*. However, it should be noted that the region retains the first place in the district according to this indicator.

Another negative development is the sharp contraction of investment processes. In the Vologda region fixed capital investment per

Figure 1. Industrial output per capita, thousand roubles (mark-to-market)

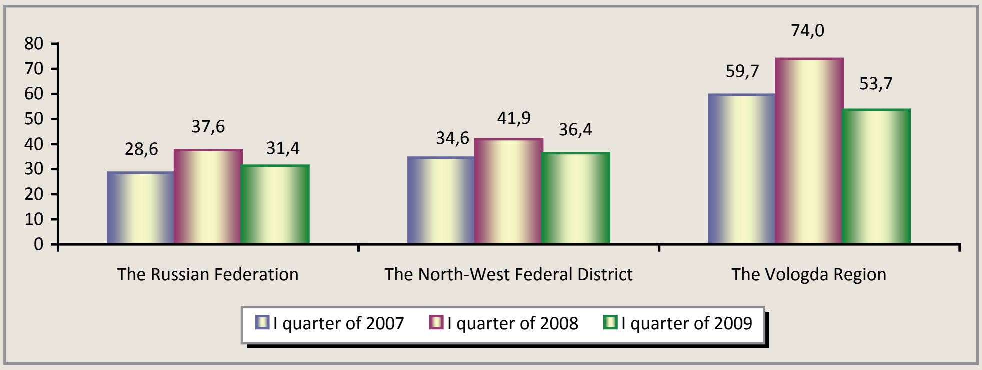
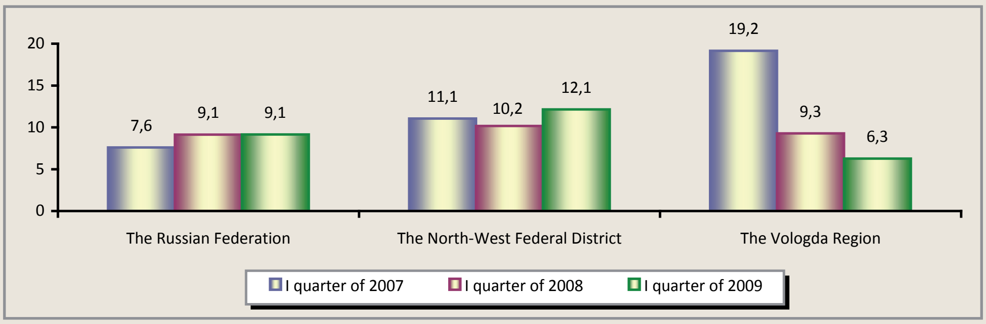



Figure 2. Volume of fixed capital investment per capita, thousand roubles (mark-to-market)



capita decreased by almost one third during the 1st quarter of 2009 compared with the 1st quarter of 2008. They were half as less than in the district *(fig. 2)*. According to this indicator the region dropped from the 4th to the 8th place among the regions of the NWFD.

Many construction companies had to suspend their activities. In the first quarter the volume of put into operation housing per capita in the Vologda region was less than the average in the North-West and Russia *(fig. 3)*.

In January – March, 2009 the average wage in the Vologda region was as before lower than in the NWFD and Russia, and although the nominal drawn payroll has increased by 9,5% compared with the last year, in real terms its decline has occurred *(fig. 4)*.

The retail trade turnover has decreased in the region as well. It was the lowest in the North-West per capita *(fig. 5)*.

The decrease of production in the real sector and the service industries could not but af-

Figure 3. Putting into operation housing (м$^2$ floor area per capita)

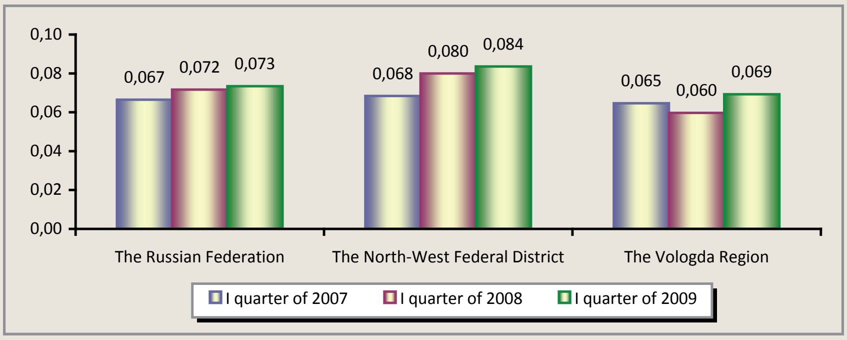



Figure 4. The average monthly nominal drawn payroll, roubles

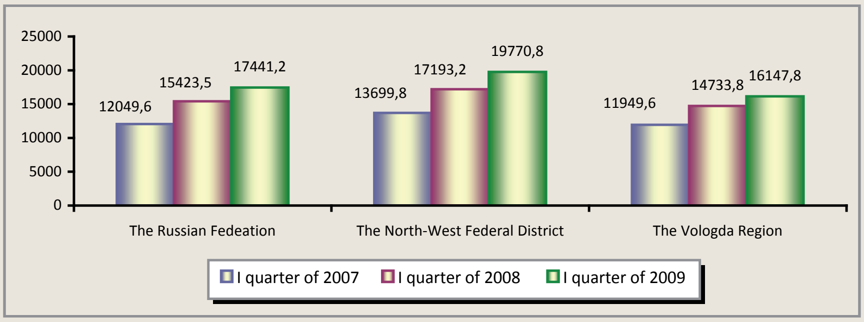



Figure 5. The retail trade turnover per capita, thousand roubles (mark-to-market)

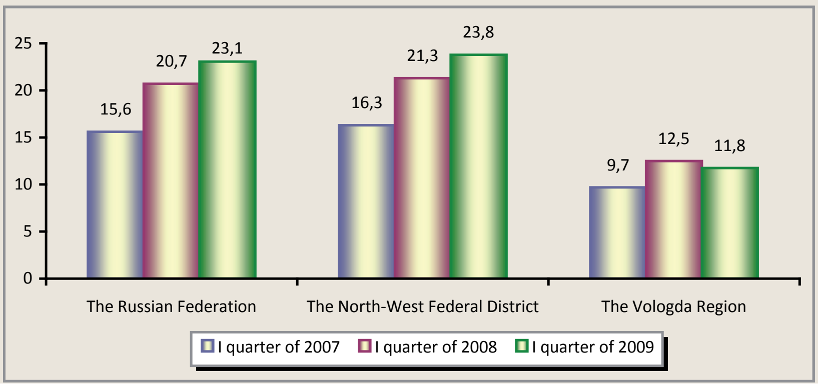


Figure 6. Balanced financial performance of large and medium-sized enterprizes (thousand roubles per capita)

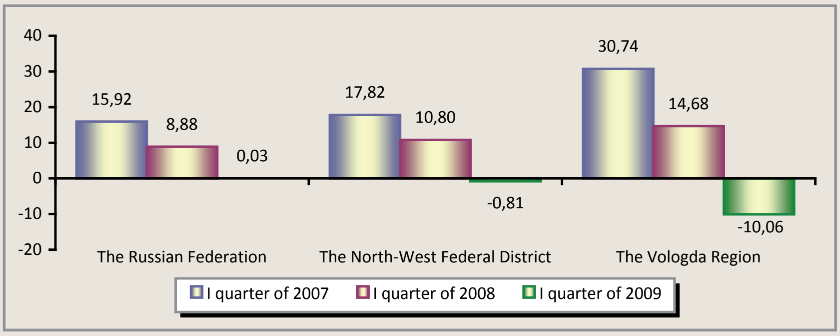
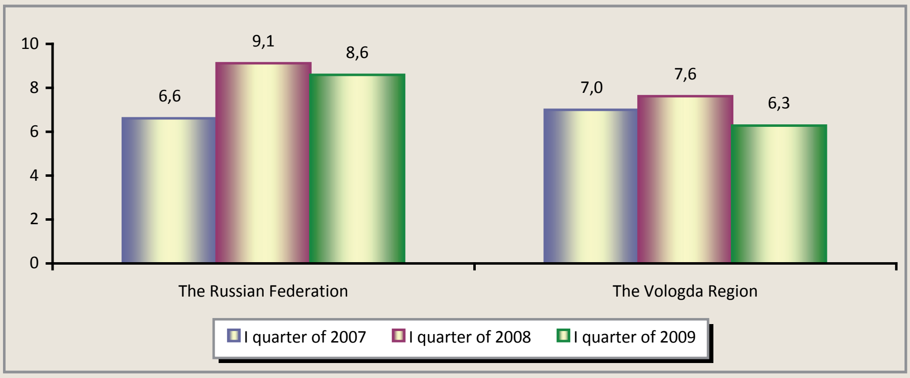



Figure 7. Consolidated regional budget revenues per capita, thousand roubles




fect the financial performance of organizations. Region's large and medium-sized enterprises received damage in the 1st quarter of 2009. It is average 10 thousand rubles per capita *(fig. 6)*.

In turn, the complexity of enterprises' financial situation affected the region's budget performance. In the 1st quarter of 2009, there was a decrease in consolidated regional budget revenues per capita by 18% compared with the same period of the last year, while in Russia this figure has fallen by 6% average *(fig. 7)*. On this indicator the region is on the 9$^{th}$ place in the district, while in the 1st quarter of 2008 it was in 6$^{th}$ one.

The regional authorities intensify anti-crisis measures in this situation. Particular attention is paied to the stabilization of the largest enterprises forming a company town, to the employment of the population and social support of its low-income groups.

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