



**EU-Russia Cooperation Programme  
(formerly known as Tacis)**

Support for the Regional  
Development of Kaliningrad  
(EuropeAid/114287/C/SV/RU)

**Economic Bulletin No. 7**

**Progress of implementation  
of the Strategy of socio-economic  
development of Kaliningrad  
region as a region of cooperation  
for the period till the year 2010**



This project is funded by  
the European Union



A project implemented by  
a consortium led by Inno



**KALININGRAD**  
REGIONAL DEVELOPMENT AGENCY

Project partner



Bulletin has been prepared  
in cooperation with Kaliningrad  
Regional Administration

## **“Economic Bulletins” series**

The work presented to your attention **“Competitiveness of the enterprises of Kaliningrad region: analysis of macro-economic forces”** is the continuation of the series of Economic bulletins, issued in the framework of one of the joint activities of the Fund “Regional Economic Development Agency” (Kaliningrad) and the EuropeAid/114287/C/SV/RU project “Support for regional development of Kaliningrad.”

At present, the enhancement of Kaliningrad enterprises’ competitiveness is one of the main tasks of regional development. The central place here belongs to the identification of principal causes of low competitiveness of Kaliningrad enterprises in comparison with similar parameters of foreign and other Russian companies. The present bulletin contributes to the search of solutions to the issues of enhancement of competitiveness by the example of Kaliningrad region. This study was carried out by the Regional Economic Development Agency experts, and its results are shown in the next issue of the series of economic bulletins. It is focused on the comparative analysis of Kaliningrad enterprises’ competitiveness and, based on the analysis, development of practical recommendations for the companies and authorities in the region for improvement of competitiveness of Kaliningrad business.

The study is based on the available statistical data and on the information, collected in the process of implementation of the EuropeAid/114287/C/SV/RU project “Support for regional development of Kaliningrad”.

The work is addressed to a broad audience of experts.

The bulletin is prepared by European Union experts of the EuropeAid/114287/C/SV/RU project “Support for regional development of Kaliningrad” and of the “Regional Economic Development Agency” G. Bunatian, A. Vialkin, A. Yershov, S. Klessova, A. Usanov, and A Kharin.

### **G. Bunatian**

Board Chairman of the Fund  
“Regional Economic Development Agency”  
(Kaliningrad)

The bulletin is prepared by European Commission experts of the EuropeAid/114287/C/ SV/ RU project “Support for regional development of Kaliningrad” and of the “Regional Economic Development Agency” jointly with Kaliningrad region administration experts.

Authors of the Bulletin sections are V. I. Kuzin, V. I. Panteleyev, and A. G. Kharin.

General editors: V. P. Zhdanov and B. S. Zhiharevich.

*The present material is published with the support of the European Union. The contents of the publication are a subject of responsibility of the authors and do not necessarily reflect the point of view of the European Union.*

# Contents

<b>Preface</b> .....	<b>5</b>
<b>Introduction. Establishment of the process of strategic planning in Kaliningrad region, and the main provisions of the Strategy</b> .....	<b>6</b>
<b>1. Strategy implementation actions</b> .....	<b>9</b>
1.1 Social development.....	9
1.2 Economic development.....	14
1.3. Social development.....	19
<b>2. Main results of implementation of the Strategy</b> .....	<b>19</b>
2.1. Social development.....	20
3.1 Provision of information and maintenance of involvement of the stakeholders in the strategic planning .....	34
3.2. Drawing up of plans for implementation of the Strategy: IPAA.....	38
3.3. Formation of organisational structures and legal framework for strategic planning.....	42
<b>Conclusion. Results of implementation of the Strategy for 2003-2004: preliminary conclusions</b> .....	<b>44</b>

## ***Preface***

The present bulletin is prepared in the framework of the EuropeAid/114287/C/SV/RU project “Support for regional development of Kaliningrad” (the Project).

One of the Project tasks is assistance in support of the process of strategic planning in Kaliningrad region. Operating together with the regional administration and other stakeholders<sup>1</sup>, the Project has carried out a number of actions in support of development of the regional strategy implementation and monitoring, having organised a series of workshops and conferences. This activity is also reflected in the bulletin, but this not an executive report on the work of the Project. It is an attempt to carry out – together with the Administration of Kaliningrad region – the monitoring of the strategy implementation progress and to answer the following questions:

- What has been done according to the adopted strategy?
- What measurable results have been achieved in the social and economic development of Kaliningrad region?
- How did the processes of institutional strengthening of the system of strategic planning in Kaliningrad region pass?

The period of two years, gone after the date when the Declaration was signed, provide a sufficient basis for summarising of intermediate results.

---

<sup>1</sup> Stakeholders are influential participants of regional development.

## Introduction. Establishment of the process of strategic planning in Kaliningrad region, and the main provisions of the Strategy

The Strategy of social and economic development of Kaliningrad region as a region of cooperation for the period till 2010 (hereinafter – the Strategy) was developed under the leadership of the Head of Administration (the Governor) of Kaliningrad region V. G. Yegorov in 2001-2003. After a long discussion and public examination, the leading representatives of the authorities and community have adopted the Strategy. That was the first experience of creation of a regional strategy in Kaliningrad region.

The development and implementation of the Strategy is founded on the basis of social-partnership ideology, and the document was adopted by signing of the *Declaration on strategic partnership*. On 19 April 2003, representatives of the authorities, local self-management bodies, business and public organisations (see Fig. 1) signed the Declaration and undertook to apply joint efforts in the interests of implementation of the Strategy for achievement of the identified goals and targets.

Certain measures have been taken to provide the Strategy implementation. So, on 15 July, 2003, the Strategy was approved by the directive of the Administration of Kaliningrad region “About the Strategy of social and economic development of Kaliningrad region as a region of cooperation for the period till 2010”. The Directive prescribed using the approved Strategy by the regional authorities for developing concepts, programmes, plans of actions, and recommended local self-government bodies, to be guided by the Strategy provisions in developing their municipal development target programmes. The text of the Strategy was placed on the official web-site of Kaliningrad Region Administration (<http://www.gov.kaliningrad.ru>). The Project experts prepared a brief version (a Digest) of the Strategy and a Booklet, reflecting the basic ideas and guidelines of the Strategy, and assisted to mass edition of the Digest and Booklet.

### **Strategic planning**

**Strategic planning** is a process of identification of the purposes and parameters in the basic, most important directions of social and economic development of the region. Thereby, the problems would be solved which determine the character of social and economic transformations, economic stability, the level and quality of life of the population. Strategic planning represents **an adaptive process** as a result of which there takes place regular (annual) updating of the decisions made out as forecasts, programmes, plans, additions and changes to the system of measures on their implementation, based on continuous monitoring and evaluation of occurring changes to the social and economic development of the region .

### **Signatories of the Declaration on strategic partnership for implementation of the Strategy**

**On behalf of the authorities**, the Declaration was signed: V. G. Yegorov (on behalf of the KR administration), V. A. Nikitin (the Kaliningrad regional Duma), V. P. Valuev (the Command of the Baltic Navy), .Yu. A. Savenko, the mayor of Kaliningrad city. **On behalf of business and non-government circles** it was signed by A. I Chaplev (the Association of Municipalities of Kaliningrad region), V. K. Dvurechenski (territorial bodies of trade unions), N. V. Peterov (Public Chamber of Kaliningrad region), B. A. Ovchinnikov (the Union of Industrialists and Entrepreneurs of Kaliningrad region), A. L. Blinov (the Baltic Business Club), A. S. Voitov (Kaliningrad public organisation “Builders’ Union”), A. G. Poprov (Farmers’ Union of Kaliningrad region).

**The Strategy determines the mission and the overall goal of development of the region.**

**Kaliningrad region’s mission** is to become a region of cooperation, a place where conditions are created for integration of Russia and the European Union, where the regional, interregional, Russian, and international interests are harmonised for solving common strategic issues of economic, social, and territorial development.

**The overall goal** :is sustainable improvement of the level and quality of life of population in Kaliningrad region, reduction of the gap in the well-being compared with adjacent countries. .

**The Strategy determines the vision of the region’s future and its positioning in the national and international aspects:**

**The Strategy determines the strategic directions of actions of the regional authorities:**

- a steadily developing region in Europe, in which rational use of available potential (natural, human, and economic resources) in the Russian and regional interests is provided;
- a contact region of Russia and the European Union, in whose territory mechanisms would be tested and improved and the Russian/EU integration and interaction processes would be really implemented in the XXI century;
- a region of cooperation, actively assisting subjects of the Russian Federation in the organisation of the international economic, political and cultural relations);
- a region, that provides military and strategic interests of Russia – the Baltic Navy deployment area.

- formation and realisation of social standards for improvement of the quality of Kaliningraders' life, formation of a favorable social environment;
- strengthening of the life-support systems in the territory in conditions of spatial isolation of the region from the basic part of the country, development of an effective social and industrial infrastructure;
- creation of favorable conditions for economic activities, including improvement of legislative framework, formation of market and socially-oriented economy with stable and clear legislation;
- creation of a basis for implementation of provisions of the public contract as a key precondition for realisation of the Strategy;
- enhancement of the control system, in particular, of the basic struggle against crime and corruption; improvement of civil servants' professional skills, strengthening of professional discipline; providing higher predictability and openness of the authorities, transparency of the budget.

**Fig. 1. Strategy of social and economic development of Kaliningrad region as a region of cooperation for the period till 2010.**

The legitimacy of the procedure of adoption of the regional strategy by signing of the contract of public consent, represented by the Declaration on strategic partnership, followed by its subsequent approval stated in the Regional Administration's Directive, was confirmed by the ruling of the Charter Court of Kaliningrad region No. 13 of 14 October, 2003 *"About reception of Kaliningrad Regional Duma deputy I. P. Rudnikov's enquiry concerning formal interpretation of the Item 2 of Clause 20 of the Charter (Basic Law) of Kaliningrad region and about refusal to accept the enquiry for consideration to check the legitimacy of Kaliningrad region administration's actions with regard to approval of the Strategy of social and economic development of Kaliningrad region as a region of cooperation for the period till the year 2010"*

In order to coordinate the regional executive authorities actions for implementation of the Strategy and to provide a steady process of strategic planning by the Administration, the Administration of Kaliningrad region adopted Directive No. 542 of 29 September, 2003 *"About setting up of a commission for development of an integrated plan of actions (to be carried out) by the Administration of Kaliningrad region"*. The development of the *Integrated Plan of Actions of the Regional Administration in 2004-2007 for implementation of the Strategy of social and economic development of Kaliningrad region as a region of cooperation for the period till 2010* (further on – *the IPAA*) was an important stage in the formation of the system of mechanisms and tools for implementation of the Strategy. Further development of the system of strategic planning in Kaliningrad region has been reflected in Kaliningrad region law No. 489 of 18 January, 2005 *"About the general principles of organisation of strategic planning in Kaliningrad region"*. The law stipulates the guidelines for organisation of strategic planning, the procedure of involvement and participation of the territorial community in the development, adoption, and implementation of basic documents on sustainable development of Kaliningrad region.

With a view to ensure implementation of the Strategy of territorial development of Kaliningrad region, the Administration of Kaliningrad region has adopted Directive No. 600 of 24 December, 2004 *"About the approval of "The territorial integrated scheme of urban development planning of the territory of Kaliningrad region and its parts. Main provisions"*. In of interests of stimulation of the process of strategic planning on the municipal level and improvement of efficiency of interaction of the regional administration with municipalities for implementation of the Strategy the administration of Kaliningrad region has adopted Directive No.47 of 16 February, 2004 *"About carrying out of the second regional competition for the best development of a long-term plan of social and economic development of the municipality in Kaliningrad region for the period till 2010"*.

Alongside with the current federal policy, the main provisions, the purposes and priorities of the Strategy have formed the basis for formulation of the basic purposes of reforming of the State and municipal finance in Kaliningrad region, which have been reflected in the programme of reforming of the regional finance in Kaliningrad region for 2005-2006, approved by the regional administration by Directive No.531 of 24 November, 2004.

The Strategy represents a system of interconnected decisions and directives, determining the priority directions of actions of the regional and municipal authorities, local self-management bodies, public and business circles for creation of conditions comparable to the adjacent countries for improvement of the level and quality of a life of the population.

In fact, it is a document of a programme character, determining the framework conditions for social and economic development of Kaliningrad region for a long-term prospect and aimed at the use of benefits and advantages of the region in the interests of all its inhabitants.

The Strategy is aimed at formation of favorable social environment and such model of regional economy that would possess a long-term potential of the dynamical growth, capable of providing a steady increase of well-being of the population, effective reproduction and development of industrial potential, strengthening of competitiveness and safety of the region.

The Strategy is focused on the overall objective – ensuring a steady increase of the level and quality of life of the population in Kaliningrad region, reduction of the gap in the standard of well-being compared with the adjacent countries.

The basic objectives of the Strategy are:

- assistance to development of small and medium-size businesses, based on acceleration of the transfer of technological and social innovations;
- creation of conditions for effective utilisation of the human potential and establishment of favorable social environment for its development;
- formation of a competitive regional economy, leaning on innovations and intellectual resources, possessing a sustainable and long-term growth potential;
- achievement of social consolidation as the basis for strengthening of the Russian statehood in the territory of the region and realisation of vital interests of the population.

According to the selected target purposes, the actions of regional public authorities within the framework of implementation of the Strategy should be concentrated on:

- ensuring of social standards directed at improvement of quality of life of the population;
- creation of the conditions, compensating the spatial isolation of the region from the basic part of the country;
- formation of favorable conditions for economic activities, including improvement of the legislative framework and development of an effective social and industrial infrastructure in the region

To achieve the goals and to fulfill the tasks of the Strategy, it is planned to apply a system of economic and legal mechanisms. The following mechanisms are considered as basic ones:

- improvement of the federal and regional legislation in view of strengthening of the region's role in the international cooperation of the Russian Federation (improvement of the laws in force, including the law "About the Special Economic Zone in Kaliningrad region", and adoption of new laws);
- implementation of *the Federal target programme of social and economic development of Kaliningrad for the period till 2010* and development of the *Complex regional programme* for the medium-term prospect;
- formation of an advanced market environment in the region
- provision of deeper and more effective inclusion of the region in the international division of labour, based on the new strategic approaches, including transition to new quality of relations between Russia and the European Community (possibly, on the basis of a special Agreement between them, determining Kaliningrad region as a region of cooperation), increase of the region's value in the economic integration in the Allied State of Russia and Belarus, etc.
- the implementation of the Strategy is to result in strengthening and development of positive tendencies of the current economy in the region, and formation of new positive trends and changes finally providing achievement of its purposes and targets. The mission of the region, formulated in the Strategy, is its development as a region of cooperation, a territory of contacts between Russia and the European Union.

Therefore, the main components of the vision of Kaliningrad region's future, setting the quality targets of its perspective development, are as follows:

- **A steadily developing region in Europe**, where sustainable use of the available potential natural, human, and economic resources) in the all-Russian and regional interests. Its basic characteristics will be: an advanced transport system, integrated in the European networks, a powerful port complex, an attractive tourist-recreational complex, intensive foreign economic relations, modern and high- technology manufacture, modern and effective education, a healthy way of life

- **A contact region of Russia and the EU**, in the territory of which the mechanisms would be tested and improved and the Russian/EU integration and interaction processes would be really implemented in the XXI century. The concept envisages creation of an experimental contact region and a contact platform of Russia for approbation of new mechanisms of economic and technological EU/Russian cooperation, transformation of the region into a financial, telecommunication and consulting centre for servicing of the East – West relations.

- **A region of cooperation** playing an active role in the development of economic, cultural and educational relations of Russian regions with other countries, whose basic partners will be other subjects of the Russian Federation, CIS and Baltic countries, special economic and free economic zones.

- **A Region of strategic interests of Russia**, providing realisation of long-term Russian strategic interests in the central and north-western Europe, including those in the framework of cooperation of Russia and NATO in the Baltic region.

The period of two years, gone after the formal adoption of the Strategy, allows making an adequate evaluation of the progress and character of implementation of its major actions and establishing of the rate of approach to the objectives and targets of social and economic development targets, set in the Strategy.

## **1. Strategy implementation actions**

The Strategy in its present form represents an official programme-type document, directed at achievement of pre-set medium- and long-term objectives. The achievement of these purposes requires concentration of efforts of all parties, participating in the implementation of the Strategy. However the central place in the Strategy belongs to the activity of the regional authorities – its basic initiators, who are acting not only as the main coordinating force, but also are directly participating in the execution of most actions stipulated by the Strategy. The activities of the regional authorities within the framework of implementation of the Strategy are centered on several basic (priority) directions. The Kaliningrad region government's priorities are as follows:

1. **Social development**, including improvement of the quality of life of the population, creation of conditions for development, and effective utilisation of human potential.

2. **Economic development**, providing for formation of a competitive economy, leaning on innovations and intellectual resources, possessing a steady and long-term growth potential

3. **Societal development**, making the basis for strategic partnership, aimed at achievement of social consolidation as the basis for strengthening of the Russian statehood in the territory of the region and realisation of the population's vital interests.

The said priority directions of development of the region have been lately in the focus of attention Kaliningrad region authorities, and have made the basis for regional social and economic policies pursued by them.

### **1.1 Social development**

The Social policy in the region is based on such national social priorities of development of the Russian Federation, as:

- continuous increase of the standard of living of the population, based on self-actualisation of each citizen;
- reduction of social inequality;
- preservation of independence and cultural values of Russia<sup>2</sup>.

---

<sup>2</sup> The web-site of the RF Ministry of Economic Development and Trade (MED&T) ([www.economy.gov.ru](http://www.economy.gov.ru))

These national priorities were the guidelines for identification of the Strategy priorities, taking into account the social specificity and features of development of the region. The main priorities of development of the social sphere in Kaliningrad region are:

- provision of a standard of living of the population of Kaliningrad region comparable to the standard of living of citizens in the adjacent countries;
- achievement of social consolidation as the basis for strengthening of the Russian statehood in the territory of the region and formation of a stable Kaliningrad society.

The Strategy determines the following primary objectives of social policy, the achievement of which is called to provide an increase of the general standard of well-being of the population in the region:

- improvement of position of the least provided layers of population.
- creation of conditions for social and economic mobility of the population.
- increase of the motivating role of wages.
- legalisation of the population's incomes.

The issues of increase of the level and quality of life of the population in the region are in the focus of the Strategy, therefore, special attention is given to the Administration's activities for implementation of this direction of the Strategy by means of an active social policy and an increase of social orientation of the market economy, including:

- assistance to growth of employment and to reduction of unemployment;
- establishment of an effective labour market, overcoming of unfairly low labour prices, their increase in the process of economic growth;
- settlement of social security problems, including growth of the living standards, reduction of property ownership gaps, formation of a system of social guarantees in labour payment, pensions, social benefits, scholarships grants, and health services;
- rehabilitation, development and increase of efficiency of the social sphere branches, including transition to rated financing, introduction of personal educational credits for higher education and high vocational training, transition to budgetary/insurance medical service system, etc.

In the framework of practical implementation of the concept of social partnership in the region, a *Kaliningrad Trade Unions' Regional Commission for regulation of social and labour relations between the territorial authorities, associations of employers and the Regional administration* has been created and is operative. The parties involved have signed a special agreement, to assist development of the economy, social and legal security of the region residents, based on practical application of the principles of social partnership laid in the Strategy. The successful development of the system of social partnership in Kaliningrad region contributes to the achievement of public consensus and, as a consequence, to abatement of social intensity. So, in 2003-2004, no collective labour disputes ending with strikes were registered in the region.

On the initiative of the Regional Administration a number of regional target programmes with a clearly social orientation have been developed and started with a view to ensure systemic settlement of social problems and to increase the living standards of the population in the region. These target programmes fully comply with the Strategy priorities and include measures for practical implementation of its basic objectives in the social sphere.

One of the central places in the regional social policy is given to issues related to provision of **growth of the population's incomes**. The following measures are envisaged in this direction by the Strategy:

- improvement of the mechanism of **establishment** of regional extra payments in addition to the wages of people, employed in the state-financed public sector;
- indexation of the rates and tariffs of the uniform scale of labour payment of workers in state-financed public sector in the framework of regional compensation;
- regional extra payments to pensioners up to the level of living wage, established for this category of the population;
- establishment of a regional minimum of wages.

After adoption of the Kaliningrad region Law No. 480 of 28.12.2004 "About establishment of regional extra payments to workers of state-financed entities in Kaliningrad region", the previous order of setting of the level of wages to workers of state-financed entities in the region, effective before implementation of the Strategy, was essentially changed. According to this law, the payment of regional extras is made to employees of organisations financed from regional and local budgets and receiving wages according

to the labour tariff rates (wages) of the Uniform Scale of wages to be paid to workers of state-financed entities in the public sector.

The regional Administration's Directive No. 641 of 30 December, 2004 approved the Procedure and Terms of Application of stimulating and compensating additional payments (incentive extras, bonuses, etc.) in public-sector educational/training institutions in Kaliningrad region, financed from the regional budget funds. Similar decisions have been adopted with regard to other public sectors.

A number of Kaliningrad regional laws were prepared and adopted at the end of 2004: "About public social assistance to the population of Kaliningrad region", "About measures of social support to some categories of Kaliningrad region residents", "About allowances to the citizens, who have children", "About payment of employees of Kaliningrad regional public institutions and organisations financed from the regional budget". The legal formalities for the transfer of some public powers in the sphere of social security to municipal self-government bodies are close to completion.

In 2004, the work continued for development of social partnership in the territory of the region.

After long negotiations with employers, it became possible to reach a compromise, according to which the employers undertook to provide a higher level of minimum wages at regional enterprises in 2004, in comparison with the federal level, by setting the minimal size of labour payment: at least 1000 rubles for public servants, and at least 1300 rubles in the basic branches of economy. To follow up the process, the stakeholders prepared and on 21 December 2004 signed a trilateral regional Agreement for 2005-2006, according to which the monthly minimal wages were once again increased in Kaliningrad region in 2005:

- at least 2000 rubles for employees in non-budgetary economic branches;
- at least 1500 rubles for employees, who have signed a labour agreement with employers, who are physical persons ;
- at least 1000 rubles for employees of state-financed organisations, according to Kaliningrad regional legislation and sub-law regulations, adopted by institutions of local self-government bodies, .

These measures have led to a partial legalisation of shadow wages and to a faster growth of real wages in the region. However, despite the high growth rates, exceeding the average Russian growth rates in 2003-2004, Kaliningrad region failed to overcome the backlog of this parameter (in 2004, the monthly average wages in the region made up 90 % of the average Russian level).

Within the framework of realisation of social policy, additional measures were taken to provide the growth of incomes of the idle population. The law of Kaliningrad region No. 473 of 16 December, 2004 "About measures of social support to individual categories of Kaliningrad region residents" establishes measures of social support to labour veterans and persons, equal to them; the persons, who worked in economic entities during the period from June, 22 1941 to 9 May, 1945 for at least six months, except for the period of work on territories of the USSR, temporarily occupied by the enemy during World Patriotic War (WW2); persons awarded with USSR orders or medals for selfless work during the WW2; persons, who underwent political reprisals and later rehabilitated, persons who suffered from political reprisals; large families; who need additional social support; veterans of establishment of Kaliningrad region; persons awarded with the title of "Honourable blood-donor of Russia" or the title of "Honourable blood-donor of the USSR", living in the territory of Kaliningrad region. One of the measures is an extra monthly payment from the regional budget in addition to normal pensions.

The following legal regulatory acts were adopted for achieving the Strategy objectives in the sphere of **employment of the population** in Kaliningrad region in 2004:

- The law of Kaliningrad region No.366 of 14.02.2004 "About the approval of the Regional Target Programme "Social development of rural territories in Kaliningrad region for the period till 2010". One of the purposes of the said Programme is expansion of the labour market in the rural areas and provision of its attractiveness.
- The law of Kaliningrad region No.382 of 09.04.2004 "About the Commission for juvenile delinquency cases and protection of juveniles' rights". The said law stipulates that Commission's decisions, based on conclusions of psychological/medical/pedagogical consultations with indication of specific forms of rehabilitation of juveniles, shall be directed to public institutions – population employment centres – for providing assistance in their employment and specialist training.
- The law of Kaliningrad region No.392 of 22.04.2004 "About the approval of the regional Programme "Assistance for labour employment of the population of Kaliningrad region for the years 2004-2005." The Programme envisages that 2.9 million rubles would be allocated from the regional

budget for implementation of measures of active support to the employment policy< including 0.9 million rubles in 2004 and 2.0.million rubles in 2005. The funds from the regional budget will be directed to four municipalities, where the unemployment rate is the highest.

- The law of Kaliningrad region No.194 of 28.04.2004 “About the organisation of rest, health improvement, and occupation of children in 2004”.
- The law of Kaliningrad region No.09.468 of 12.2004 “About approval of the Programme of public support to small business in Kaliningrad region in 2005-2007”. The purpose of the programme is provision of conditions for growth of small business.
- The Directive of Kaliningrad region Administration No.131 of 30.03.2004 “About the plan of actions for implementation of the Concept of actions on the labour market in Kaliningrad region in 2003-2005”. The Plan contains actions on the following directions of activity: improvement of the current legislation in the sphere of population employment; improvement of labour quality and competitiveness of citizens on the labour market. Provision of workers and experts of required trades for the economy, assistance to employment, stimulation of creation and preservation of workplaces; development of the regional labour market, and regulation of labour migration; assistance to improvement of the situation with regard to the employment of the population in rural areas in the region, assistance of employment of citizens in special need of social protection; and development of social partnership on the labour market.
- The Directive of Kaliningrad region Administration No.304 of 22.06.2004 “About the amendment of the Directive of Kaliningrad region Administration No.309 of 10.06.03 “About the Commission for determination of the quota for delivery of invitations to foreign citizens for entry in the territory of Kaliningrad region for implementation of work activities”.
- The Directive of Kaliningrad region Administration No.488 of 01.11.2004 “About the delivery of quotas of workplaces to be provided to disabled people in Kaliningrad region organisations”.

In 2004, the implementation of the regional programme “Assistance to labour occupation of the population in Kaliningrad region in 2004-2005”, developed by the Department of the Federal Service for Employment of the Population in Kaliningrad region together with the Administration of Kaliningrad region, was started. The necessity of adoption of this programme was caused by gradual reduction of financing of regional programmes of employment by the Government of the Russian Federation from the federal budget and by active involvement of regional authorities of the Russian Federation subjects and local self-government bodies in the settlement of employment problems.

The programme allows implementing of the strategy of formulation and development of the state policy with regard to employment of the population with reference to concrete conditions and features of the labour market in Kaliningrad region. In this connection, in addition to the practical actions aimed at assistance to employment of the population, it envisages to institutionalising and legislative fixation of the guidelines and approaches to the solution of the population employment problems. Similar programmes have been adopted in a large number of municipalities in Kaliningrad region. They envisage a number of measures for solving the employment problems. Thus, in the regional programme, great importance is given to the organisation of public works, which are the basic kind of temporary employment of the population, giving the unemployed an opportunity to earn a legal income, to keep up the labour motivation and an active life attitude of the citizens. In addition, it renders effective support to solution of socially significant problems in cities and towns in Kaliningrad region at minimum financial costs.

According to the Programme, in 2004-2005, it is envisaged to annually organise at least 3.5 thousand workplaces for carrying out public works, basically on the public project sites and in the areas where labour is the most lacking on the labour market. In 2004, according to the data available from the public employment services, 3023 persons were involved in public works (which is 14 % more than in 2003) of which 50.1% were women. Among those, who worked in this way, 1378 citizens (45,6 %), did not have the ‘unemployed’ status, 1645 persons (54.4 %) had been registered as unemployed, including 9.7 % of citizens who had not received unemployment allowances. The share of youth among the people involved in public works was 24.1%; and citizens of pre-retirement age made up 7.9 %. Three hundred and thirty-three persons, or 11 % of those involved, in the work, were citizens, who had been looking for work for the first time and did not have any professional skills. In the course of the public works, the people worked 99,489 man-days, an average of 33 worked days, or 1.1 month, per one person participant in the work.

According to the public employment service, in the year 2004, 3,107 persons were directed to vocational training courses, which makes up 11.6 % of the last year’s number. Most of them were directed to educational institutions of primary, high vocational training courses, and to vocational skills-upgrading institutions. 673 unemployed citizens were engaged in training institutions, to be prepared for work in

the sphere of business (almost 3 times more than in 2003). 69.3 % of the total number of the people, who underwent the training, learned a new trade or upgraded their skills in worker trades. 30.7 % were retrained and improved their skills as experts. Among those, who received vocational training under the direction of the Population Employment Service, 5.4 % had been recognized unemployed (11.3 %, the highest percentage of citizens, recognized unemployed again after re-training in Kaliningrad State Population Employment Centre). 2,634 jobless citizens found employment after the conversion training.

In 2005, the implementation of the Programme will be continued. It is planned to allocate 1.22 million rubles from the regional budget for this purpose during the current year.

The organisation of temporary employment of minors is one of the most required directions of active employment policy, producing a significant social effect. In addition to direct encouragement of socially significant activity, it stimulates involvement of youth in real work. Annually, as many as 4.4 thousand minors take part in these actions. It is expected that, in 2005, the expenditures on organisation of such actions from the regional budget will make up 0.28 million rubles. Besides, additional funds for these purposes were attracted in 2004 from extra-budgetary sources, amounting to 1.5 million rubles, and in 2005 it is planned to attract at least 1.7 million rubles. An amount of 0.5 million rubles from the regional budget will be allocated to support self-employment and entrepreneurship in 2005.

The Programme actions are focused on the most problematic areas in the region. The selection criterion is the 5% critical threshold of official unemployment rate of the economically active population.

A big gap exists between the levels of social security of urban and rural population in the region. The regional target programme "Social development in rural areas of Kaliningrad region for the period till the year 2010", adopted in 2003, is directed at reduction of the gap.

This programme consists of 8 sub-programmes, called to provide solution of social problems of rural population in concrete areas: "Development of housing construction"; "Development of socially focused branches of education/training, public health services, physical culture and sports, culture and organised leisure"; "Development of trade and consumer services"; "Development of information/consulting services"; "Development of electric power networks"; "Development of gas-supply in rural areas"; "Development of water-supply"; and "Development of telecommunication networks". The regional programme "Resettlement of citizens in Kaliningrad region from existing dilapidated houses and from houses which require urgent repairs for the period of 2003-2010" is a component of the system of actions for reforming the housing and municipal services in Kaliningrad region. The programme was prepared to follow up and extend the regional programme "Reforming and modernisation of the housing/municipal complex in Kaliningrad region for the period of 2002-2010" and approved by the Kaliningrad region Law No.170 of 12 July, 2002. Among the priority directions of activities under this programme are:

- a detailed inspection of existing housing facilities in the region;
- development of the design/budget documentation with obligatory carrying out of its expert examination according to the established procedure;
- creation of maneuverable housing facilities;
- liquidation of dilapidated houses and houses, which require urgent repairs, by construction of comfortable residential buildings, by purchases of the comfortable apartments in the secondary housing market, by rehabilitation and major overhaul of existing residential houses in view of general plans for development of municipalities in Kaliningrad region.

According to the Strategy priorities, the basic form of public participation in the provision of citizens with housing is development of mortgage housing crediting. The implementation of the regional programme "Housing on credit" is proceeding. With a view to further development of mortgage crediting and social support to Kaliningrad region residents, the Regional Administration has developed a law "About development of long-term mortgage housing crediting in Kaliningrad region", and, in 2005, the implementation of the regional programme "Mortgage housing crediting of the population in Kaliningrad region in 2004-2007" was started.

In 2003-2004, positive results were achieved in the sphere of **labour safety**. Thus, implementation of the regional target programme "Improvement of working conditions in Kaliningrad region in 2003-2005" began in July 2003. For the first time in many years, the Programme envisages financing of actions for evaluation of labour conditions and improvement of the quality of workplaces at the enterprises in the region.

The complex **demographic policy** in the region, stipulated in the Strategy, establishes the following priorities:

- taking measures against depopulation ;
- overcoming of the excessive rate of mortality of the population;
- provision of a rational migratory exchange rate;
- further solution and monitoring of urgent social and demographic problems.

The fulfillment of the tasks put forward by the Strategy will be effected by the public authorities in the framework of their powers. The interaction of the authorities with other participants of implementation of the Strategy is limited and regulated. Therefore, regional programmes, as well as municipal programmes on the level of local self-management, are the most convenient tools for implementation of the Strategy, .The beginning of implementation of the following regional programmes has allowed strengthening of the struggle against depopulation and overcoming of excessive rate of mortality of the population.

- Preferential provision of medicines (in 2005-2007).
- Social development of rural areas in Kaliningrad region during the period till 2010.
- The programme of public guarantees of rendering free medical aid to the population of Kaliningrad region in 2004 (and a similar programme for the year 2005).
- Movement of residents from dilapidated houses and from houses requiring urgent repairs in Kaliningrad region (in 2003-2010).
- Healthy child (in 2005-2008).
- Prevention and struggle against diseases of social nature in Kaliningrad region (in 2003-2007).

On the basis of the regional programmes, similar municipal programmes were developed, taking into account the specificity of concrete municipalities, i. e. "Urgent medical measures for fighting tuberculosis in the city of Kaliningrad in 2005-2008". These and other measures allowed to slightly decrease the rates of growth of the general death-rate in Kaliningrad region in 2003-2004.

The reforming of *the education system* in Kaliningrad region in 2003-2004 was carried out according to the basic directions of the Concept of modernisation of the Russian education system till 2010 and to the priorities of the Strategy.

The implementation and financing of the actions for improvement of the education system are carried out within the framework of the regional target programme "Development of education in Kaliningrad region in 2002-2005", and in the framework of federal and regional investment programmes.

An important direction of implementation of the social component of the Strategy is *proactive youth policy*. Recently, a regional target programme "Youth of Kaliningrad region in 2002-2005" was developed and started up including a system of actions for public support of activities of children's and young persons' societal associations' in Kaliningrad region, assistance to carrying out of various actions dedicated to youth problems, help to talented and creative youth. In 2003, a regional target programme "Provision of housing to young families (2003-2007)", was launched, to provide budgetary financing of housing construction for young families,

## **1.2 Economic development**

The main components of the regional economic policy are the efforts aimed at improvement of the mechanism of the Special Economic Zone and further development of the economic climate and market environment in Kaliningrad region.

In 2003-2005, the central place in the activities of the Regional Administration belonged to rendering assistance to the operation and development of the *Special economic zone* mechanism. The status of special (free) economic zone in the territory of Kaliningrad region was introduced in the second half of 1991. Since 1996, the basic document regulating the regime of economic activities in Kaliningrad region is the Federal law "About the Special Economic Zone in Kaliningrad region".

In terms of economics, this law was primarily designed to compensate for the additional costs resulting from the isolation of the region from the main territory of Russia, and to create a favourable investment climate for its development. According to the Law, special, preferential regime - in comparison with the general economic regime in Russia - is established for business, investment and foreign trade activities in the Special economic zone (the SEZ) "within the entire territory of the region, except for territories of

objects of defensive and strategic importance for the Russian Federation – military bases, military units, defence industry sites, as well as oil-and-gas production plants on the continental shelf..

The SEZ is part of the customs territory of Russia, but a special customs regime of a free economic zone operates in it – a customs regime, under which foreign goods, imported in the territory of Kaliningrad region are exempt from customs duties and charges. The imports are not subjected to interdictions and restrictions of economic nature, established according to the legislation of the Russian Federation with regard to the state regulation of foreign trade activities.

Today, the Federal law “About the Special economic zone in Kaliningrad region” is a unique legal mechanism. It allows taking into account the external conditions of economic development of the region in the environment of intensive integration of foreign states, surrounding the region, in the European Community and the preparation of Russia for accession to the WTO. The customs privileges constitute the main component of the SEZ mechanism. They have created a powerful incentive for business development, especially, for the foreign trade activities in the region. Under their influence, Kaliningrad region’s economy has acquired a distinct import-substituting specialisation. It has taken leading positions in the Russian manufacture of many kinds of commodities and is successfully competing with import production on the Russian market.

By now, due to the effect of the law about the SEZ in the region as a whole, it has been possible to solve some priority problems for stabilisation of the social and economic situation and for creation of preconditions for an accelerated economic growth. At the same time, in the process of expansion of the scope of economic activities, the limits of the current free customs zone regime and the increasing contradictions with the intensively reformed legislation in the Russian Federation have become obvious. That is why one of the mainstreams of the regional authorities’ activity is improvement of the SEZ mechanism, called to provide for the further development of Kaliningrad economy, and it has become a strategic priority in the economic policy,

The efforts resulted in a new version of the Federal law about the SEZ in Kaliningrad region developed by the RF government. This document as a whole reflects the basic changes in the economic situation in the region and occurrence of new problems connected with the enlargement of the EU and NATO and the accession of Russia to the WTO.

Essentially important provision in the new version of the law about the SEZ is the establishment of a transitional period concerning Russian legal persons, who are officially registered in Kaliningrad region and who - at the moment of adoption of the new version of the law about the SEZ – are carrying out their activity, based on the Federal law No.13-FZ of January 22, 1996 “About the Special economic zone in Kaliningrad region”. Such enterprises can apply the free-customs-zone regime for another 10 years.

The new draft version of the law about SEZ stipulates guarantees of long-term preservation of the SEZ regime for subjects, using its privileges at the termination of the Special economic zone regime in Kaliningrad region. According to the draft law, the SEZ regime in Kaliningrad region shall be valid for 25 years.

Another important new feature of the SEZ mechanism, envisaged in the new version of the Law, are substantial tax benefits, particularly attractive for major investors in the regional economy. According to this provision, the profit and property of large investors who are carrying out capital investments in the SEZ territory in Kaliningrad region shall be completely (for 6 years) or partly (for a period of 7 to 12 years) exempt from taxation.

In this way the Administration of the region with the support of the local community has succeeded<sup>3</sup> not only to solve one of the tasks, strategically important for the region, to ensure - for a relatively long period - functioning of the regional economy under the free customs zone regime, but also to create the new mechanisms, capable of giving an additional impetus to development of the regional economy (we should remind, that the SEZ in not only the most important element of favourable economic, but also a part of the Strategy implementation mechanism).

Alongside with the SEZ, an important component of the implementation mechanism of the Strategy, setting the framework conditions for business activity in the region, is ***the Federal target programme of development of Kaliningrad region for the period till 2010*** (the FTP). The Strategy provides for continuous improvement and updating of the Federal target programme of development of the region in view of the problems, connected with the enlargement of the EU towards the east and the accession of Russia to the WTO. According to the Federal Treasury Department for Kaliningrad region, in 2004, 566.3 million rubles (66.7 % of the planned amount) was transferred from the federal budget for financ-

---

<sup>3</sup> At the moment of delivery of this publication for print, the draft law was not yet adopted by the State Duma

ing of the FTP. For this reason, the task of the Regional administration for the nearest several years remains to provide conditions for full and timely financing of the FTP actions by the Federal budget, as well as the updating (correction) of the FTP according to the new realities.

The SEZ and the Federal Target Programme constitute the federal component of implementation of the Strategy. The regional component of this mechanism is formed under the influence of measures of regional authorities' economic policy. Therefore, the Regional administration's actions for *development of the market environment and the economic climate* in Kaliningrad region became an important direction of implementation of the economic component of the Strategy in 2003-2004. Even though the market environment in Kaliningrad region is distinct with its higher level of development in comparison with the majority of Russian regions, it essentially does not meet the advanced market requirements and the level of the countries surrounding the region. This is especially important, considering that – because of its small size and the crisis of some 'old' industrial enterprises – the economy of the region does not generate enough financial and other resources for solution of the structural reorganisation problems, achievement of social stability, and steady growth.

The Strategy highlights the necessity of changing the conditions for economic activities for effective utilisation of the available local manufacture factors in view of enlargement of the EU to the East. In this connection, in order to shape a favorable market environment, the Strategy envisaged carrying out relevant actions for improvement of:

- conditions for business activity and competitive environment;
- tax system with a view of creation of conditions for economic growth in Kaliningrad region;
- real-estate market of the and urban-planning regulation;
- labour market and labour relations;
- mobilisation of financial resources in the capital markets in the interests of the region's economy.

The Strategy stipulates a number of objectives, the fulfillment of which will allow to considerably improve the condition of the market environment and the economic climate in the region. The objectives are:

**a) *Removal of obstacles to development of business activity.***

The objective will be achieved by means of the Regional Administration's actions for reduction of legislative, bureaucratic and other obstacles for all investors, irrespective of the type of ownership and origin of the capital as well as creation of conditions for formation of effective competitive environment (prevention of setting of unreasonably high prices by natural monopolists, creation of a system of continuous control and development of proposals for prevention of pricing collusions, etc.).

It should be noted, that all listed measures reduction of the so-called "administrative barriers" are basically beyond the limits of competence of the regional authorities, and they are mostly determined by federal, and not by regional policy. The federal legislation leaves few opportunities for administering business activity on the regional level.

Another measure, envisaged by the Strategy and directed at removal of obstacles on the way to development of entrepreneurship, is informational assistance to potential investors in the sphere of the Regional Administration's activity, including:

- support to development of advisory and innovative structures of all kinds of property specialised by kinds of activities and sectors;
- continuation of the work, started by the Regional administration, for creation of relevant regulatory documents and of a system for dissemination of the information about the orders and resources, allocated and provided by the region, and about the procedure of participation in competitive procedures;
- improvement of methods of interaction of managing subjects with regulating/supervising services and bodies of local authorities.

Among the actions, envisaged by the Strategy, are: regular organisation of interregional and international exhibitions and fairs in Kaliningrad region and creation of conditions for participation of Kaliningrad region enterprises in such exhibitions and fairs outside Kaliningrad region. Therefore, in the framework of active measures for ensuring development of business environment, there was the activity of Regional Administration aimed at organisation of exhibitions of Kaliningrad products and of trading missions, including, events abroad. Some business-missions for Kaliningrad businessmen were also organised with technical support of the Project.

This objective includes intensification of private investments in the real sector of economy by propagation and development of business directions, perspective for the region, and of formation of a system of guarantees to investors.

The Strategy stipulates realisation of a complex of actions for improvement of the investment climate by **improvement of procedures in the sphere of real-estate and land use**, including: - simplification of the procedures of coordination of construction projects,

- development of zoning rules, extension of offer of land plots,
- provision of guarantees for property rights;
- provision - whenever possible – of easy access to information about the use of land plots, real-estate assets, and about the existing urban planning restrictions;
- reforming of the regulatory/legislative framework of urban-planning regulation,
- introduction of an effective legal system of sanctions to be applied to designing and construction;
- development and adoption of urban planning zoning rules for changes to real estate and of a plan of reservation of territories.

All the listed measures are reflected in the adopted Federal regulatory legal acts and in those being developed. The framework conditions, guidelines, and provisions concerning land-use in the Russian Federation are stipulated by the RF Land Code, the RF Urban Planning Code, by the RF law “About the agricultural lands turnover”, and other RF laws. Similar laws, regulating land turnover issues on the regional level have been adopted by all Federation subjects, in particular, in Kaliningrad region, where it is the law of Kaliningrad region of 26.06.2003 “About legal regulation of land relations in the territory of Kaliningrad region”. With a view of arranging the procedures of distribution of and control over rational and target use of lands and to take into account specific local features, the general land legislation has been specified by federal and local regulatory legal acts. So, for example, the Directive of the Government of the Russian Federation No.808 of 11.11.2002 approves “The rules of organisation and conducting of tenders for selling State or municipal property of the land plots or rights for conclusion of contracts of rent of such land plots”. Special acts, in a certain way arranging the practice of land tenure and urban planning, have been adopted and are effective in the majority of municipalities in Kaliningrad region. Thus, the land-use improvement process in the region has been generally developing in the direction stipulated by the Strategy, but, in fact, it was mainly conditioned and determined under the influence of factors, external with regard to the region. An important contribution to provision of transparency and stability of investment activity conditions in Kaliningrad region was the adoption of “The complex territorial scheme of urban development in Kaliningrad region” (at the end of 2004). This is the basic document, determining the strategy of spatial development of the region.

Another method of intensification of entrepreneurship, envisaged by the Strategy actions, is **support to small business** by means of assistance to small and starting up enterprises in the interests of their survival and development; formation of an infrastructure for support to small and medium-size businesses, including creation of technoparks and business incubators; development and implementation of programmes of public support to small business.

Practical realisation of this direction of the Strategy is the Programme of public support of small business in Kaliningrad region in 2003-2004. A similar programme was carried out in 2001-2002, and now the Regional Duma is considering a programme for 2005-2007.

The goal of the Programme is to provide conditions for intensive growth of small business and on this basis to improve the well-being, the standard of living, and employment of the population in the region. The objectives of the Programme consist in creation of the legislative and tax environment, contributing to intensification of business activity, creation of new jobs, and improvement of well-being of broad layers of the population involved in entrepreneurship. The objectives of the Programme include:

- provision of access of small-business subjects to getting public regional and municipal procurement orders;
- completion of creation of an infrastructure for support to small business in Kaliningrad region, creation and development of regional centre of innovative technologies (technopark) and business support centres in Kaliningrad region districts.

In the framework of implementation of this direction in region, a Fund for support to small business and a ramified system of the centres of support to small business have been created, providing technical and business consultations to small enterprises and allowing them to successfully compete and introduce modern technologies.

One of the ways to assist to growth of investment activity, envisaged by the Strategy, is implementation of a complex of measures for **improvement of the organisation of management of investment processes**, including improvement of professional skills of the administrative staff, increase of the level

of openness of the authorities to societal control, and strengthening of the regulations with regard to officials' functions.

In 2003-2004, those measures became one of the major directions of improvement of organisations of the regional authorities' activities. In this framework, a new structure was developed for management of the regional economy, and strict procedures were worked out and agreed for regulation and evaluation of functionaries' activities. The strengthening of control and of the responsibility for results of activities of the regional authorities' officials is envisaged under the developed **Integrated Plan of Actions** to be carried out by the regional **Administration** (the IPAA).

#### ***b) Pro-active tax regulation policy in the interests of regional development***

A strategic direction of this policy is introducing **changes** – beneficial for the region – **to the federal legislation**. The necessity to modify the tax regime for aligning the taxation conditions and alleviating the tax burden for all economic entities is brought about by the competition with the countries surrounding the region and with other Russian regions, where significant privileges are offered to investors.

The activity of regional authorities in this direction of implementation of the Strategy was rather successful. As it was already noted above, special tax privileges are established for large investors by the new version of the Federal law about the SEZ in Kaliningrad region. Additional benefits to investors exist according to the legislation of Kaliningrad region. In particular, they are stipulated by the law of Kaliningrad region No.171 "About public support to organisations, making capital investments in the territory of Kaliningrad region". According to the Strategy, a complex of sectoral and target programmes was developed and implemented, to assist the formation of a favourable economic and social climate in Kaliningrad region. The implementation of those activities would be impossible without having built up amiable working relations of regional authorities with private business.

However not all problems of formation of the market environment and of a favorable economic climate in the region can be solved on the regional level. Among the issues, relating to federal authorities' competence, still unsolved down to recent times:

1. Development and substantiation of the *Main principles and directions of federal policy towards Kaliningrad region*. The adoption of this document is called to promote creation of favorable conditions for development of the exclave Russian region and to increase its role in the national economy.

2. Improvement of the federal legislation in view of guaranteeing the stability of the force of the law "About the Special economic zone in Kaliningrad region", as until now its contents often disagree with other existing and newly adopted federal laws.

3. Strict execution of the financial and other obligations, adopted in the framework of the Federal target programme of development of Kaliningrad region for the period till 2010 by the federal authorities (during all recent years, the Federal target programme was not fully financed).

4. Working out of solutions to provide stable conditions for transportation to other Russian regions. It is extremely important for the regional economy to solve the issues of transit of freights and people through the territories of the foreign states, including maximum simplification of customs regulations and other formal procedures.

A number of important problems, connected with the development and provision of life-support facilities in the region, can be solved only on **the international level**. It should be noted that most of the regional development problems are connected with the enlargement of the EU. It should be noted that most of the regional development problems are connected with the enlargement of the EU. For this reason, the federal bodies of the government of the Russian Federation with the participation of Kaliningrad regional authorities have to provide conditions for the region's viability in the changing external political and external-economic conditions.

On the background of the lack of visible progress in achievement of international agreements on Kaliningrad region, the Regional Administration widely used the opportunities of cooperation with international donor organisations, mainly through implementation of international projects and programmes corresponding to the priorities of regional development, formulated in the Strategy.

At present, the main multilateral donor organisation in the territory of Kaliningrad region is the EU, which - since 1991 – has been rendering appreciable technical assistance to the social and economic development in the territory of Kaliningrad region in the framework of implementation of individual Tacis programmes projects, and to maintenance of good neighbourhood and cooperation of Kaliningrad region, Lithuania, and Poland. In order to highlight its attention to Kaliningrad region, the EU started up implementation of the *Special programme for Kaliningrad* .

Besides, the Baltic Sea region is characterized by highly active interaction of the countries and regions, located in the seacoast area. In particular, the strategic issues of spatial development of the territories on the southern coast of the Baltic Sea are being solved in the framework of the VASAB programme and a number of projects, in which the region is actively participating. Over 50 international projects and programmes are to be implemented in 2005-2007 in Kaliningrad region. The total number of all the projects for that period is estimated at approximately € 70 million.

However, despite the importance of the expenditures on technical assistance for regional development, the regional authorities are primarily interested in strengthening of the infrastructural component of the international programmes and projects, in effective coordination of the procedures and resources of INTERREG and Tacis programmes for solution of practical life-support and regional development problems. One of the examples of such international assistance for solution of critical life-support problems is the project "Water purification in Kaliningrad region", started in 2005.

### **1.3. Social development**

Assistance to the consolidation of the civil society alongside with solution of socio-economic development problems is one of the priority directions of activities of Kaliningrad regional authorities, stipulated by the Strategy.

The essence of the regional policy in the sphere of internal political processes is creation of favourable legal and economic conditions for self-organisation of citizens, **assistance to formation of the civil society, in the framework of which the value of every citizen's personality is affirmed,**

The activities of Kaliningrad regional authorities and of local self-management bodies within the framework of implementation of this direction of the Strategy have been primarily aimed at

- support to activities of non-government organisations;
- assistance to civil political training, formation of the outlook, corresponding to the Russian values, democracy, and readiness for partnership;
- active involvement of the public, political parties and trade unions in discussion of key issues of regional development; and openness of decision-making;
- practical implementation of the current tripartite Agreement, conclusion and fulfilment of other agreements on regulation of social/labour relations between territorial trade union bodies, associations of employers, and Kaliningrad Regional Administration

1,532 public associations, including 14 regional branches of political parties, 326 associations of veterans and warriors, who had taken part in international operations, 153 political organisations, 180 trade-union organisations, 36 women's organisations, 77 creative and 17 human-rights associations, 46 organisations of social security of population and disabled people, 6 ethnic/cultural autonomies, and 61 ethnic/cultural societies, 20 immigrants' societies, 134 religious organisations, and 170 non-government foundations are currently acting in the territory of Kaliningrad region. About 50 elective associations take part in regional elections.

On 30 May 2001, a Communal Chamber of Kaliningrad region as a form of interaction of citizens with the authorities (Regional Administration, Regional Duma, Chief Federal Inspector in Kaliningrad region) in the framework of which discussions, consultations and coordination of positions, carried out on all important issues of life in the region, are based. The Chamber unites 181 associations, and its work is conducted in 13 directions. In 2004-2005, the process of formation of similar associations in municipal areas of Kaliningrad region continued.

## **2. Main results of implementation of the Strategy**

As noted above, the essence and contents of the changes of the social and economic situation in the region, occurring during the last two years, largely correspond to the targets and objectives, stipulated by the Strategy. There is no doubt that the changes were substantially conditioned by the actions, undertaken in the course of implementation of the Strategy. Moreover, many of the measures envisaged in Strategy were not limited to the Strategy time framework – they had been to some extent started long before its actual adoption – in the beginning/middle 90s. Thus, the Strategy, adopted in 2003 became, to a certain degree a follow-up and further development of the regional social and economic policy of previous years. For this reason, it is not easy to reveal its direct effect on the dynamics of the indicators of social and economic development of the region in 2003-2004. Nevertheless, the analysis of the statistics, shown below in the cross-section of basic directions of the Strategy, allows - from our point of

view - to speak in favour of the statement about positive influence of the Strategy on the quality and dynamics of socio-economic development of Kaliningrad region.

Table 1 shows the target reference points of key parameters of the Strategy in time intervals.

**Table 1**

**Target reference points of the Strategy\***

Indicator	2002, base	2004, fact	2007, target reference point		2010, target reference point	
Gross regional product (GRP), million rubles.	41096.0	50354	61371	49.3%-growth	83400.0	2-fold growth (with average annual 8% growth rate)
GRP per capita, rubles	43631	53144	65288	49%-growth	88500.0	2-fold growth
Volume of industrial production, mill. rubles	26662.7	38505.8	54748	2.1-fold growth	80000.0	3-fold growth (with average annual 14 – 15% growth rate)
Specific weight of expenditures of the regional budget on development of scientific and technological potential, %	0.03	0.03	0.09	3-fold growth	0.15	10-fold growth
Gross agricultural product, mill. rubles	4882.6	5230	5682	16.4%-growth	7350	1.5-fold growth (with average annual 5% growth rate))
Volume of handling of cargoes in the port complex in the region, mill. tons	9.9	13.9	15.9	61%-growth	22	2.2-fold growth (with average annual 10%growth rate)
Volume of investments in fixed capital, mill. rubles.	7740.5	13830	12458	1.6-fold growth	16250	2.5-fold growth
Volume of foreign investments, mill. USD	47.7	61.9	120	2.5-fold growth	1100	20-fold growth
Growth of real incomes of the population, %	100	131.2	162	62%-growth	200	2-fold growth
Share of population with incomes below living wage, %	41.7	27.6	26	15.7% decrease	20	21.7% decrease
Unemployment rate (by ILO definition), %	8.5	6.4	7	1.5 %-decrease	max. 6	1.0% decrease

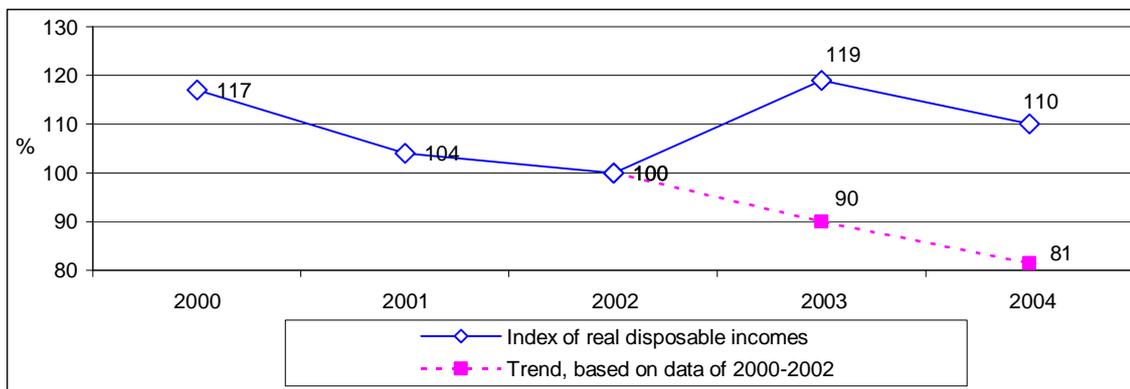
\*- The target parameters are determined compared to 2002 level, accepted as the basic level, and in 2002 prices.

As can be seen in Table 1, some of the Strategy indicators require correction, the procedure of which is still to be developed. Quantitative parameters of the weight of expenditures from the regional budget on development of scientific and technological potential and the volume of foreign investments show a significant backlog from required rates of achievement of the specified target reference points.

## **2.1. Social development**

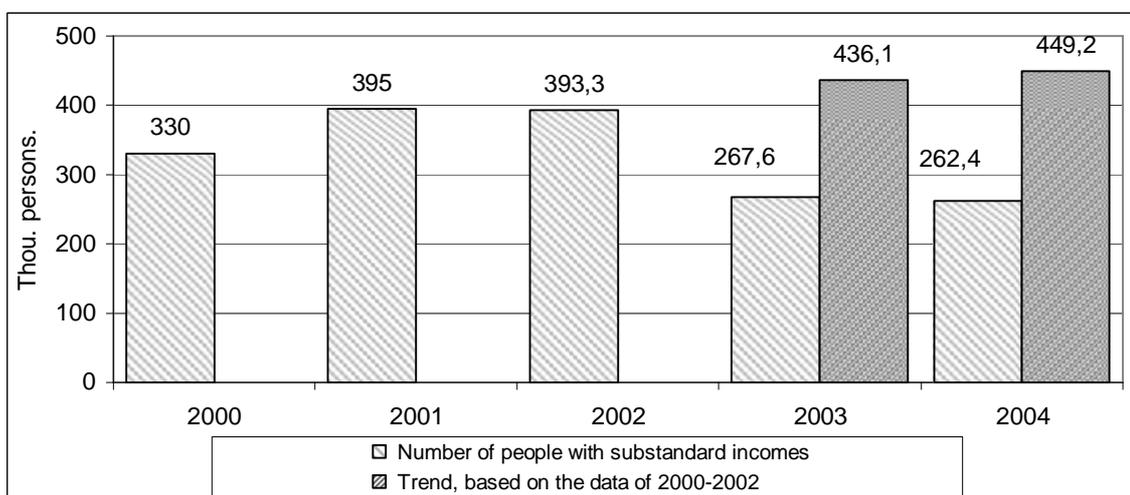
By the beginning of 2005, in the framework of implementation of the Strategy certain positive results were achieved in **improvement of the position of the least provided layers of the population**. In 2003-2004 it became possible to break the downtrend of real available monetary incomes of the population, which had developed in 1998-2002 (Fig. 2). After the beginning of implementation of the Strategy, in 2003, growth of real available incomes was registered for the first time in several past

years. It is necessary to emphasize, that the development of the Strategy was stimulated by the deterioration of parameters of social and economic development of the region at the end of 1990s.



**Fig. 2. Dynamics of real available monetary incomes of the population in Kaliningrad region**

This concerns not only the index of real available incomes, but also other absolute parameters. In particular, such parameters also cover the population with substandard incomes<sup>4</sup>.



**Fig. 3. Population with substandard incomes in Kaliningrad region**

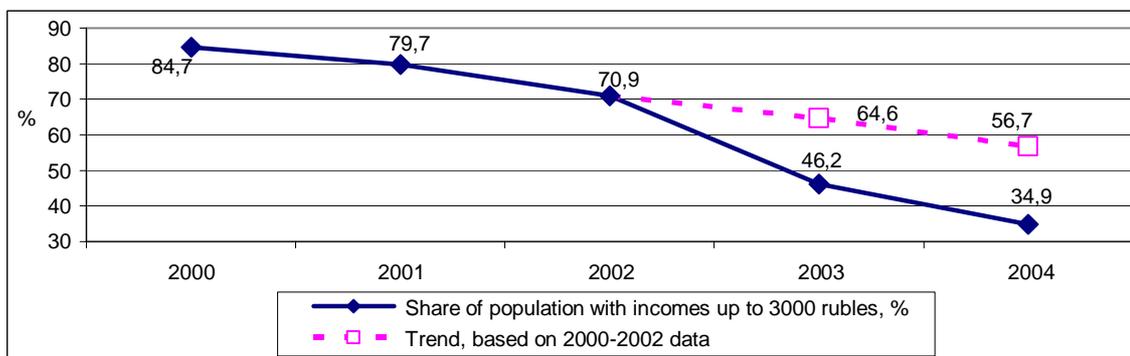
The decrease in the share of the population with substandard incomes occurred on the background of the fact that the living wage in 2004 grew up at higher rates (17.2 %) than the real available monetary incomes (10 %), which indicates an improvement of the position of the poorest layers of the population in the region (Fig. 3).

Reduction of the share of the population living below the poverty line to 20 % is quite an achievable parameter on the background of the measures undertaken in Kaliningrad region and described in Item 1.1. So, in the 4th quarter of 2004, the population with substandard incomes constituted 22 %.

However, the process of monetisation of privileges, the reform of housing and municipal services, and the forthcoming growth of tariffs for electric power and gas have led to an increase of the minimum standard cost of living, and this was reflected in corresponding regional acts.

<sup>4</sup> The standard minimum cost of living, determined according to the Federal Law No. 134-FZ of 27 October, 1997 "About the standard minimum cost of living in the Russian Federation and the Law of Kaliningrad region No. 39 of 30 April 2001 "About the consumer basket in Kaliningrad region", is the value of the cost of the consumer basket. The standard minimum cost of living is calculated according to the Guidelines, prescribed by the Ministry of Labour of Russia and the State Committee of Statistics No.36/34 of 28 April 2000, and established by a Directive of the Regional Administration. The average annual size of the cost of living in 2004 made up 2,641 rubles, which is 17.2 % more than in 2003.

Since 2003, the process of reduction of the number of Kaliningrad region inhabitants with incomes below 3000 rubles/month accelerated. If it proceeded at rates, characteristic for 2000-2002, the share of the poor population would be one and a half times larger (Fig. 4).

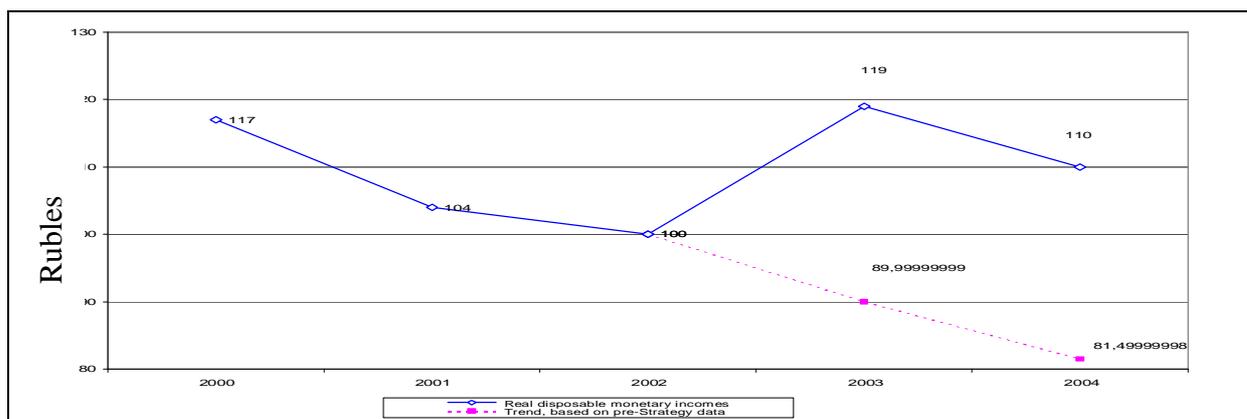


**Fig. 4. Share of Kaliningrad region population with incomes below 3000 rubles**

Thus, during the period after adoption of the Strategy, the process of poverty reduction was sped up. This was reflected in the increase of the rates of growth of real available incomes and in the reduction of the average annual number of residents with incomes below the minimum cost of living. During the last two years, the above parameters have been improving, and the rates of the improvements were considerably higher than those typical for the trends, that existed before adoption of the Strategy.

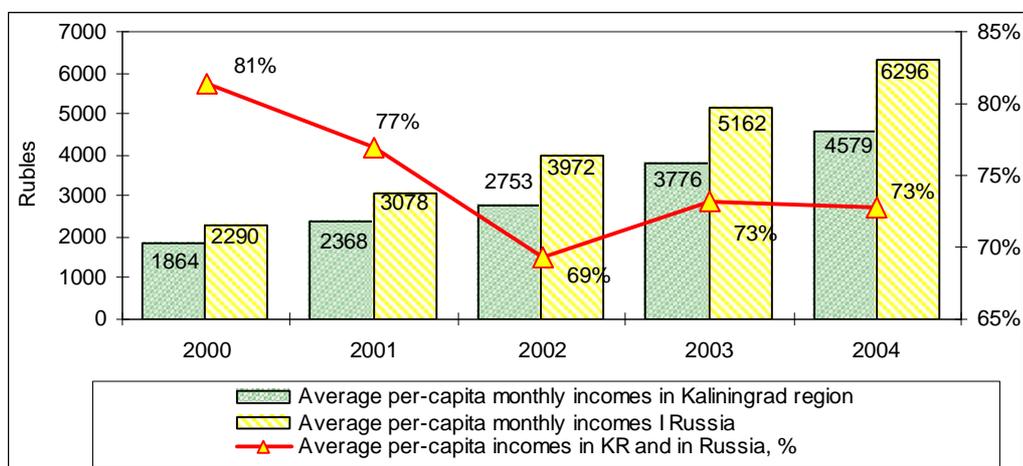
It is evident, the analysis of a situation, carried out in the course of development of the Strategy, has allowed to select correct priorities in the field of growth of the well-being of the population, to formulate the purposes and to plan the ways of their implementation. In addition to setting of the general lines of movement, establishing certain targets, the Strategy has quite clearly designated the basic steps for their achievement.

The Strategy has been especially focused on increasing of the stimulating role of wages and on legalising of the population's incomes. The measures undertaken within the framework of objective have led to an acceleration of the growth of wages in the region. In 2003 and 2004 the gross average monthly wages in Kaliningrad region grew up at rates outstripping the trends, developed in 2000-2002 (Fig. 5).



**Fig. 5. Average gross wages in Kaliningrad region**

The increase in wages paid to people working in the public sector and the special measures taken by the Regional Administration with a view to stimulate the growth of wages in the extra-budgetary sector have resulted in an acceleration of the population incomes growth rates. For two years after adoption of the Strategy, real available monetary incomes of the population have grown by 30 %. The ratio of average per-capita incomes in Kaliningrad region in comparison with the average Russian level has improved, however the backlog from the Russian parameters is still large. (Fig. 6).



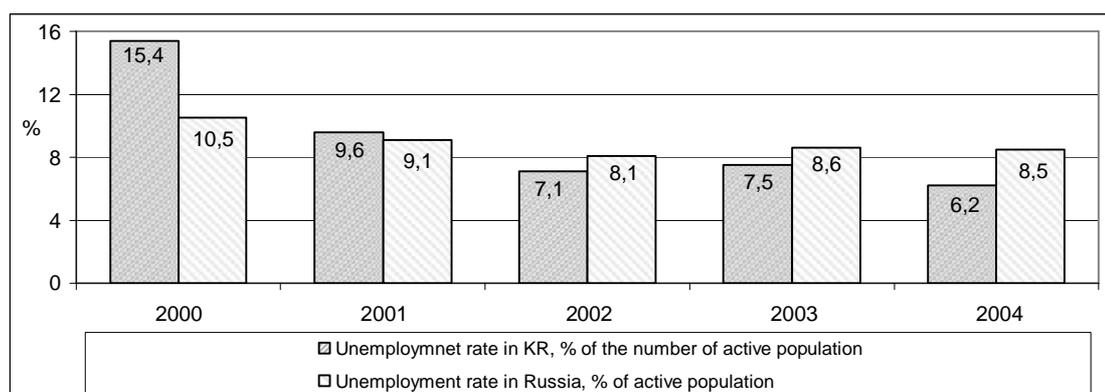
**Fig. 6. Ratio of average monthly per-capita incomes in Kaliningrad region and in the Russian Federation as a whole**

To a certain degree it is connected to a fairly large share of "federal budget financed staff" (military personnel, frontier guards, customs officers, etc.) in the number of able-bodied population in the region and with higher shares of the population officially not occupied in the economy than in other regions of Russia.

In the sphere of provision *of employment of the population*, the Strategy envisaged fulfilment of the following tasks:

- adaptation of the contents and structure of vocational training to the needs of the labour market;
- development of the system of improvement of professional skills and retraining of the workforce;
- redistribution of employed people from the shadow sector to the real sector of the economy;
- stimulation of employment in depressed areas in the region,
- reduction of the unemployment rate.

The measures undertaken by the Regional Administration for fulfilment of the strategic tasks have allowed not only to stabilise the level of employment of the population, but also to achieve some reduction of the unemployment in the region in 2004 (Fig. 7).

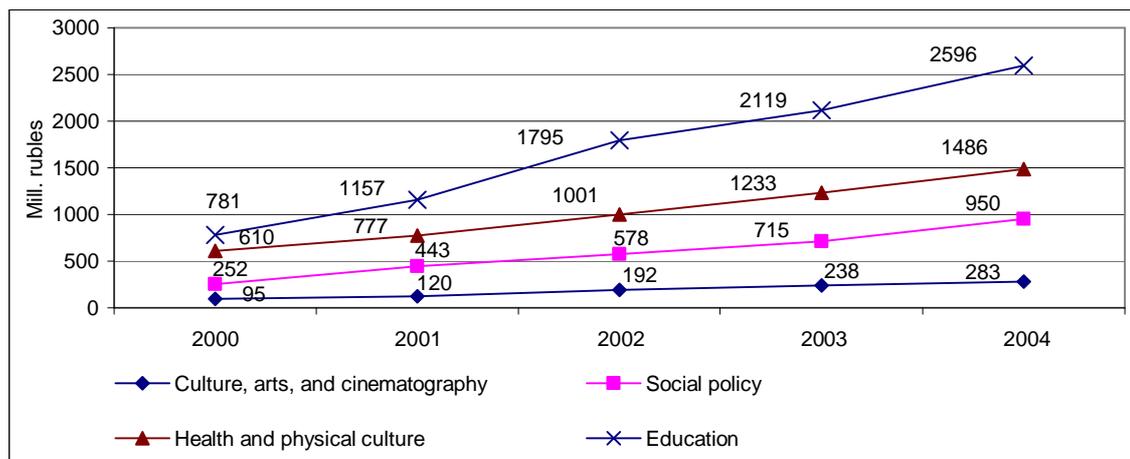


**Fig. 7. Unemployment rate, determined by the ILO technique in Kaliningrad region and in the Russian Federation**

Fig. 7 shows the changes of the unemployment rate, determined by the ILO technique in Kaliningrad region and in Russia as a whole. It can be seen that the region is close to reaching the target indicator, stipulated by the Strategy.

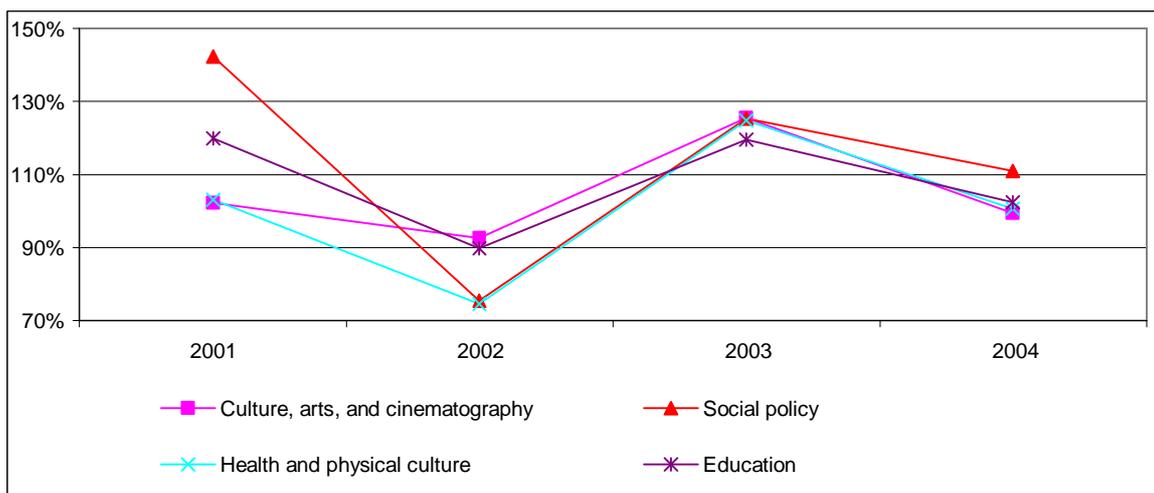
In sphere of provision of social stability in the region, the Strategy recognises that social consolidation, as a factor of strengthening of the Russian statehood in the territory of the region, is based on the increase of the standard of living and on the reduction of social differentiation of the population. The updated model of social policy, envisaged by the Strategy is oriented to fuller and more efficient use of

human capabilities and needs. It should provide **demand-led growth of allocations for education/training purposes as well as health protection and culture** in comparison with the majority of other directions of the public expenditures. This assumes an increase of availability, efficiency and quality of basic social services, which primarily are general education and health services. In order to estimate the effect of the Strategy on the budgetary financing of the social sphere, it is not sufficient to examine only the monetary volumes of financing of corresponding branches, as it is shown in Fig. 8. It is also necessary to take into account the capacity of the regional budget and the necessity to finance the actions, stimulating the development of the regional economic sector.



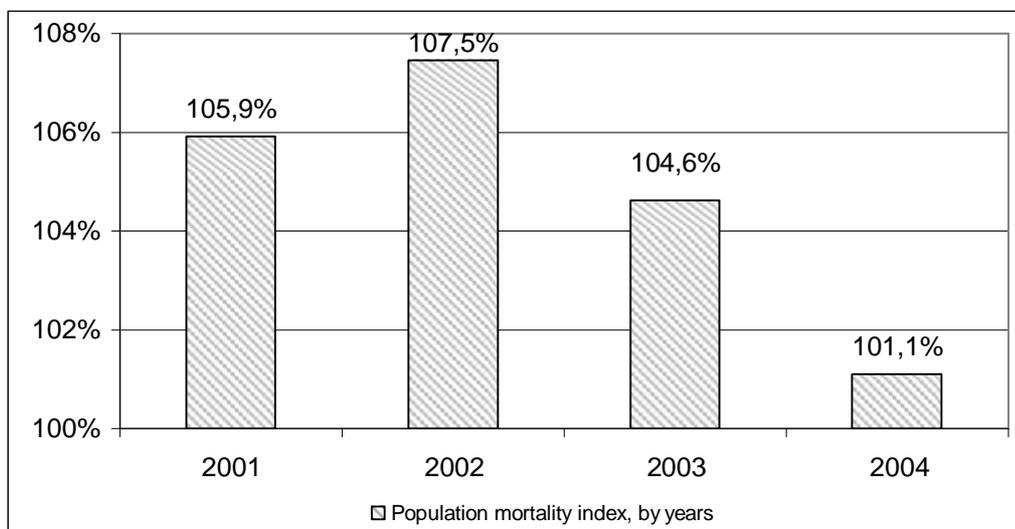
**Fig. 8. Budgetary financing of the social sphere branches**

It can be seen from Fig. 9, that after adoption of the Strategy, the rates of growth of budgetary expenditures on social needs exceeded the rates of growth of incomes of the consolidated regional budget (except for culture in 2004). This shows that the social sphere is a real priority in terms of budgetary expenditures.



**Fig. 9. Relation of changes of expenditures on social branches to changes of revenues to the consolidated budget of Kaliningrad region**

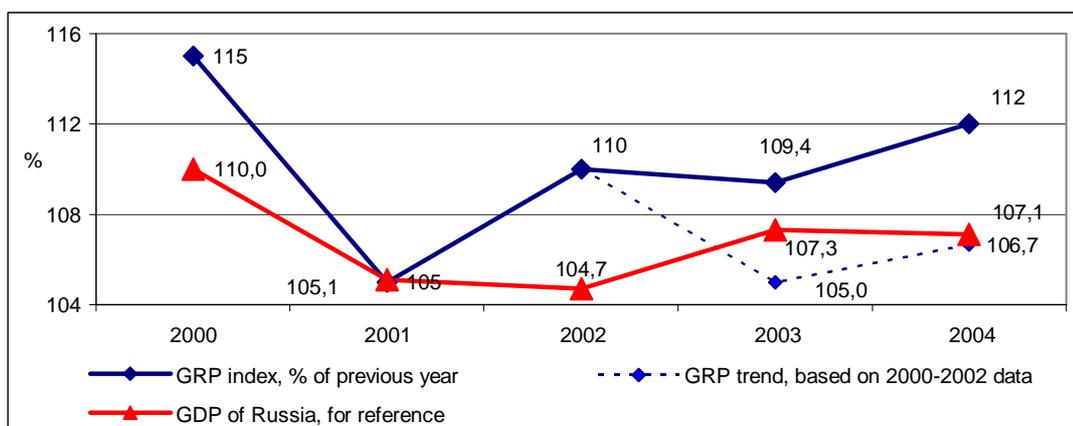
The regional **demographic policy** is based on several regional and municipal target programmes. An integrated indicator of the success of social policy changes is the parameter of depopulation of the region. The implementation of the social policy measures resulted in reduction of the mortality index in 2003-2004 (Fig. 10). If the positive trend remains, this factor is expected to decrease.



**Fig. 10. Kaliningrad region population mortality index, % of previous year**

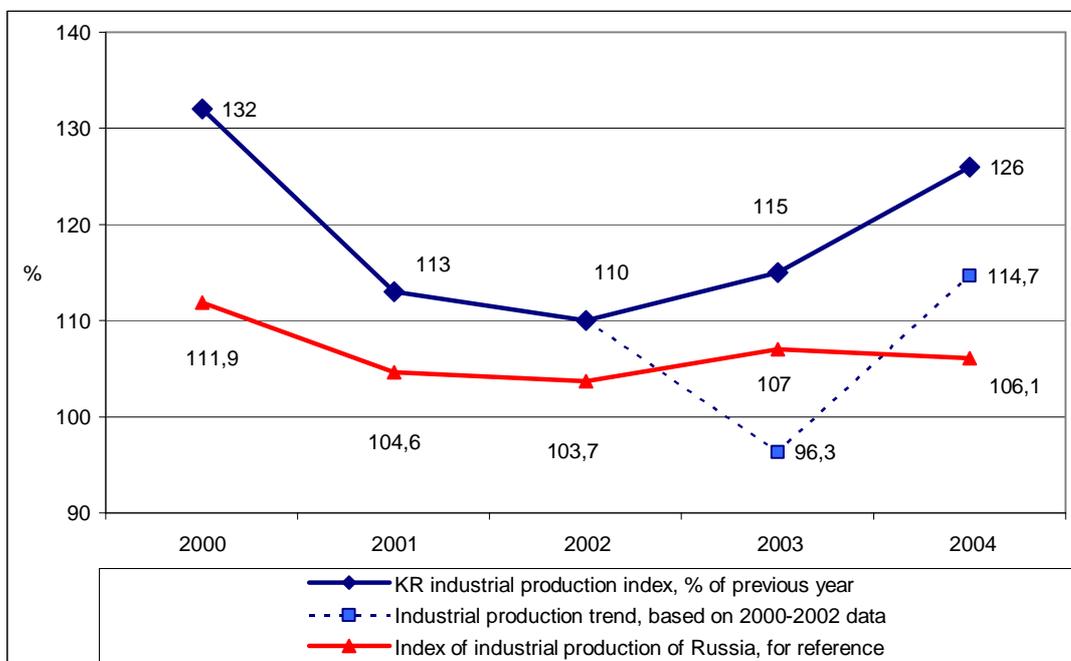
## 2.2. Economic development

Table 1 shows the basic target reference points of economic development of Kaliningrad region, stipulated by the Strategy. The changes of these parameters can be considered to be the main indicator of success of implementation of the Strategy in the process of its monitoring. Fig. 11 reflects the changes of Kaliningrad GRP index by years. It can be seen that, since 2002, the average annual growth rates exceeded those required for achievement of the strategic goal of doubling of the GRP by the year 2010.



**Fig. 11. GRP indices of Kaliningrad region and Russia**

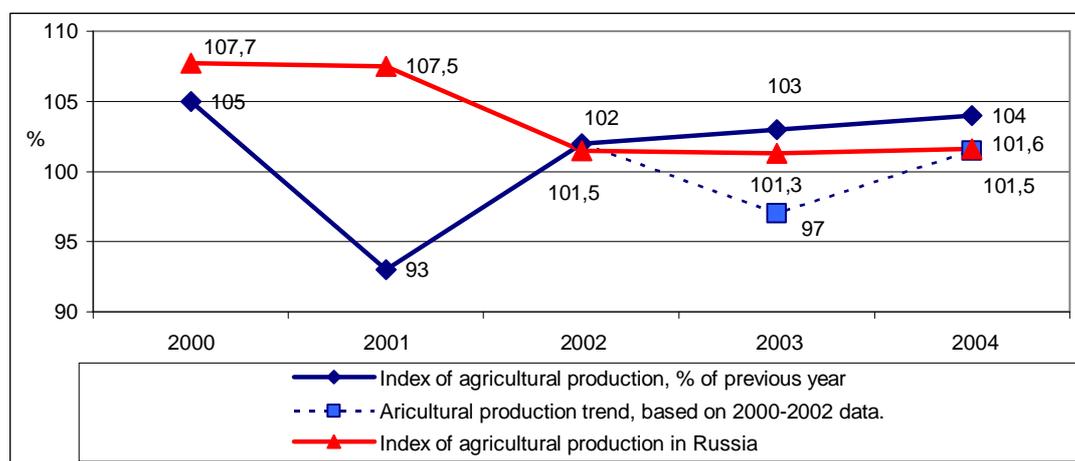
Fig.12 shows the changes of the industrial production index in the last five years. After the adoption of the Strategy and after the beginning of its implementation and of the realisation of the FTP, it became possible to achieve a value of the industrial production index, which can provide a 3-fold industrial production growth by the year 2010. So, the task for the coming years is to maintain the achieved rates and to ensure stability of this index.



**Fig. 12. Index of industrial production in Kaliningrad region and in the Russian Federation, percentage of previous years**

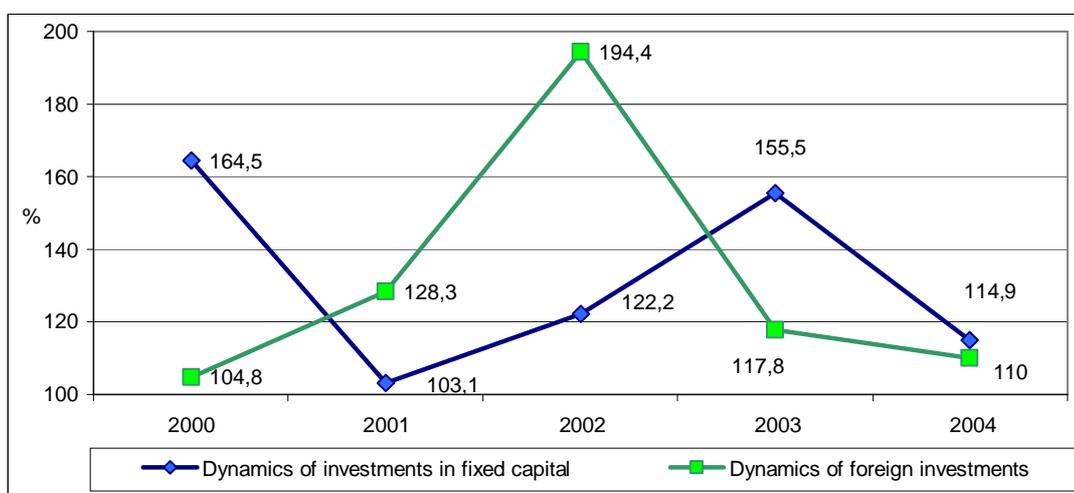
The largest growth of production volumes took place in kind in 2004 compared to the level of 2003 with regard to the following commodity items: TV sets – 2.6 times; electric vacuum cleaners – 90.4 %; cars – 72.6 %; jackets – 66.4 %; electric-welding equipment – 50 %; heating equipment – 45.1 %; refrigerating equipment – 32.2 %; cardboard – 12 %. About 60 % of the industrial output (in the sphere of import substitution this share is even higher) are new kinds of products, which had not been previously manufactured in the region.

In 2004, the growth of labour productivity as a whole in the industry in the comparable prices made up 60.6 %. The greatest growth of this parameter took place in the mechanical engineering and metalworking (2.05-fold), and the least in the printing industry (0.8 %). It can be seen in Fig. 13 that since 2002 the index of agricultural production in Kaliningrad region is above average Russian values and, after adoption of the Strategy, it has been growing by 1 % per annum, and outran not only the corresponding Russian indicators but even the calculated trend. However the agricultural production growth rates considerably lag behind the level necessary for achievement of the purpose, formulated in the Strategy (growth rates of at least 5 % per year are required).



**Fig. 13. Index of agricultural production in Kaliningrad region and in the Russian Federation, percentage of previous year**

The rates of growth of investments in fixed capital in the region for two years after adoption of the Strategy have provided a 78.7 % increase in the weight of accumulated investments, which is almost one third of the target reference point (Fig. 14).



**Fig. 14. Dynamics of investments in fixed capital and of foreign investments in Kaliningrad region, percentage of previous year**

In 2004, in the course of investment projects in industrial branches, a number of new industrial enterprises and manufactures were organised, including: M.N. Baltic, Ltd. – start-up of the 2-nd line of manufacture of BMW automobile components; Joint-Stock Company "Avtotor" - joint production of Hummer H2 automobiles with "General Motors; "TechPromInvest" open-end company (OEC) – organisation of manufacture of household refrigerators; "TeleBalt" OEC – building up of new facilities for manufacture of television equipment and other home appliances; "Stela Plus" OEC – organisation of manufacture of cases and other accessories for TV sets; "Kaliningrad tare factories" OEC – organisation of reconstruction of a varnish/printing production line; "Metal packing" OEC – tin-plate varnish-coating line; "KaliningradGazAvtomatika" OEC – building of new capacities for manufacture of switch-gears; "BaltMdors Grupp" OEC - organisation of assembly manufacture of motorcycles; OEC Branch "Russian Railways" OEC branch factory "Metallist" - manufacture of abrasive wheels; "Factory the Satellite" OEC – organisation of manufacture of commercial refrigerating equipment; "Amatel" - sewing factory; "Koenigsberg" furniture factory – organisation of manufacture of upholstered furniture; Neman pulp/paper plant OEC, and "Sovetsk pulp/paper plant OEC – a project of manufacture modernisation and construction of wastewater treatment facilities.

At the same time, the rates of growth of direct foreign investments considerably lag behind the level planned in the Strategy. For achievement of the target parameters, they should be about 45 % per year. Such rates were achieved only in 2002.

Therefore, the state authorities and municipalities in the region are actively working to create conditions for attraction of foreign investments. The Project is also providing its assistance for activation of the inflow of foreign capital to the region. One of the directions of activities in this direction is arrangement and support to the business-missions organised with the assistance of the Project.

The Strategy determines a fairly long list of priorities of economic development of the region. Among the priority industrial branches and sectors to be supported in their development, the Strategy covers:

- 1) high-technology enterprises;
- 2) export-oriented enterprises;
- 3) import-substituting enterprises;
- 4) enterprises, which have already arranged - or are potentially capable of arranging - industrial cooperation with the enterprises of other regions of Russia (primarily, of the North-West of Russia) and/or with foreign partners;
- 5) enterprises, practicing sustainable use of natural resources in the region;

6) the fishery complex.

As shown in Table 2, according to the Administration of Kaliningrad region, the region held a leading position in the Russian Federation with regard to a number of priority directions of economic development, stipulated in the Strategy. Thus, the share of the population of the region being 0.6 % of the total population of Russia and the share of industrial production volume being about 0.5 % of the national industrial production volume, some regional industries – production of TV sets and electric vacuum cleaners – provides a half of the national output, and the output of canned fish products is one third of the total Russian output. In addition, the region's share of this kind of production tends to grow.

Table 2

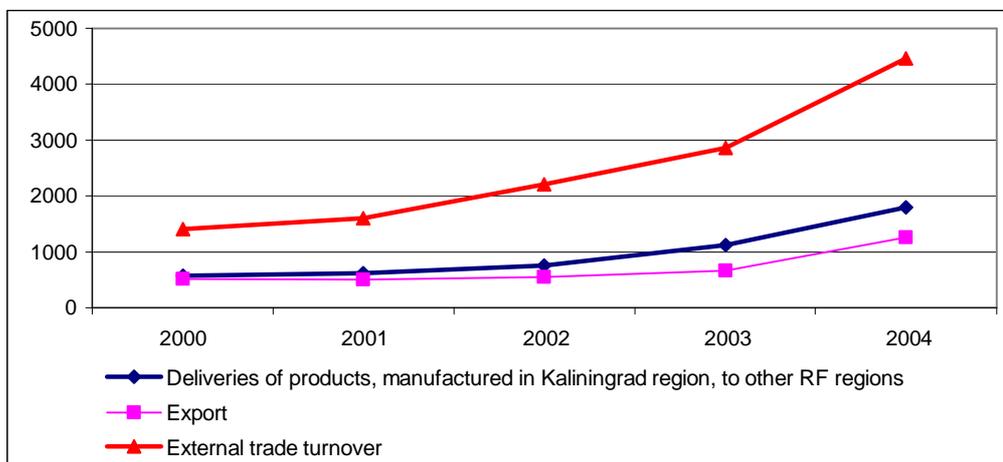
**Kaliningrad region's share of production in the industrial output of the Russian Federation according to results of 2004**

Products	Share in 2004, %	Share in 2003, %,	Growth of the share, percentage
TV sets, thousand pieces	47.9	35.8	12.1
Electric vacuum cleaners, thou. pcs	66.3	33.3	33.0
Canned or preserved fish and seafood, million standard cans	36.8	29.8	7.0
Canned meat, million standard cans	22.8	18.0	4.8
Fish and other seafood catch, thou. tons	11.3	10.6	0.7
Wood pulp, marketable, thou. tons	5.1	5.2	-0.1
Vodka and other liquors, million decalitres	2.7	2.0	0.7
Paper, thou. tons	1.7	1.8	-0.1
Automobiles, thou. pcs	1.3	0.8	0.5
Soft drinks, million decalitres	0.8	0.7	0.1
Meat, incl. subproducts of 1 <sup>st</sup> category, thou. tons	0.7	0.7	-
Beer, million decalitres	0.8	0.7	0.1
Sausages, thou. tons	0.3	0.3	-

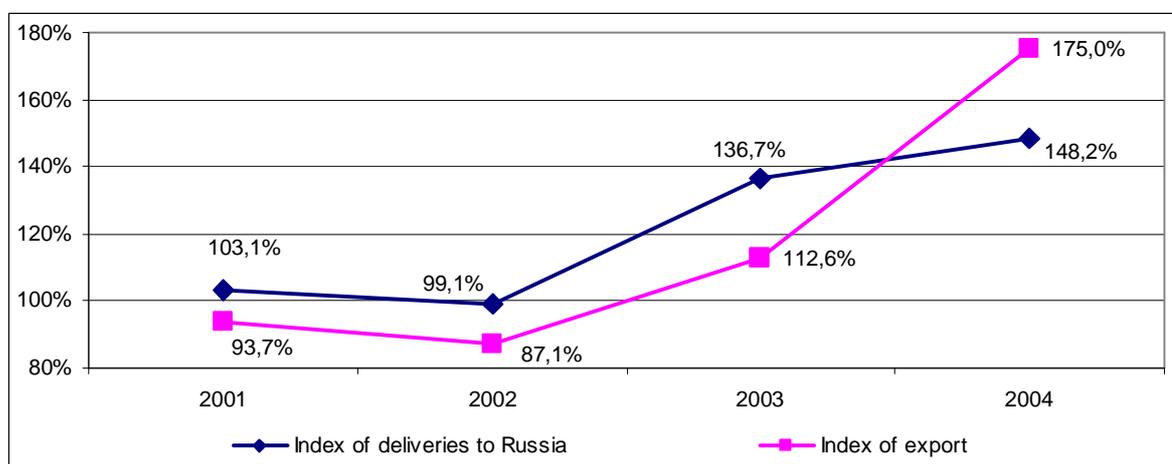
Among the purposes of economic development, the Strategy envisages formation of effective and competitive economy in region. Therefore one of the basic target reference points of the Strategy is improvement of energy-efficiency of production, which is reflected in the changes of the is energy-intensity of the gross regional product. During the period of 2002-2004, it became possible to reduce this parameter by 12.9 %.

In 2004, the amount of 372.33 million rubles was allocated for energy-saving actions, including 4.33 million rubles from the regional budget. In 2004, the economic benefit of energy-saving actions made up 75 million rubles, and 113 thousand tons of standard fuel was saved, which amounted to 273 million rubles.

Based on the regional economic development parameters of the last two years, it is possible to draw a conclusion about the correct choice of strategic priorities of development. This is confirmed by the rates of growth of deliveries of products, manufactured in the region, to other regions of Russia and for export (Fig. 16 and 17).



**Fig. 16. Values of deliveries of products, manufactured in the region, to other regions of Russia and for export, in current prices**

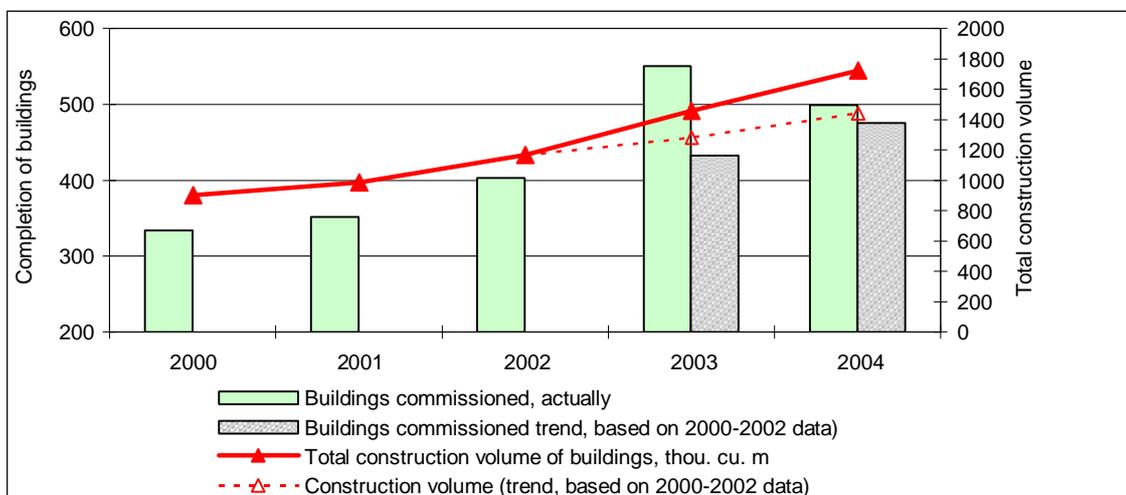


**Fig. 17. Indices of deliveries of products, manufactured in Kaliningrad region, in compatible prices, percentage of previous year**

It is noteworthy that in 2004 the export growth exceeded both the growth of imports and the total production volume growth rates, which might indicate that new trends are emerging in the regional economy.

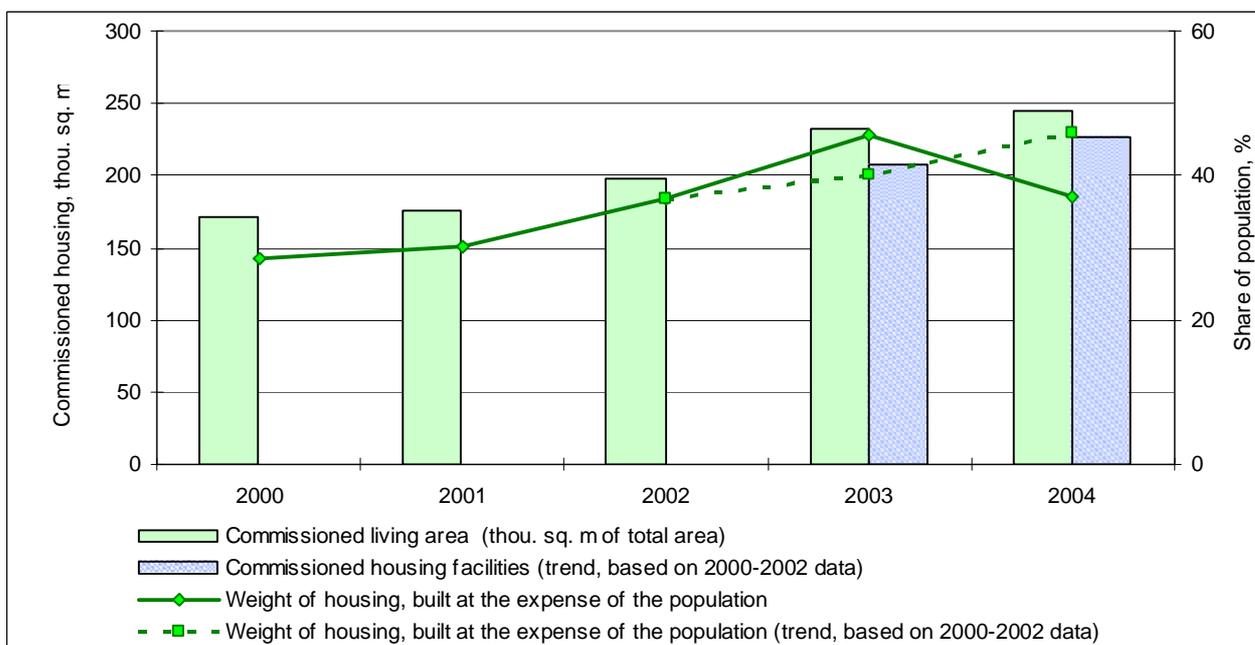
In order to improve the spatial organisation of the industry, conditions are created for its accommodation in a the north-eastern part of the region. For this purpose, in the framework of the Federal Target Programme of development of the region and regional investment programmes, the gas-supply network has been extended to Sovetsk and Neman urban areas.

The implementation of the Strategy actions in the field of economic and social development has intensified construction activities in the region. After adoption of the Strategy and the beginning of implementation of the Federal Target Programme, the growth of construction volumes exceeded the predicted trends. Even with the decrease of the number of completed projects in 2004 compared with the previous year 2003, the total construction volumes continued growing, and the number of projects exceeded the predicted trends, based on 2000-2002 levels. Besides the scale of building objects has increased, which is testified by the growth of building volumes with the reduction of the number of completed buildings. (Fig.18).



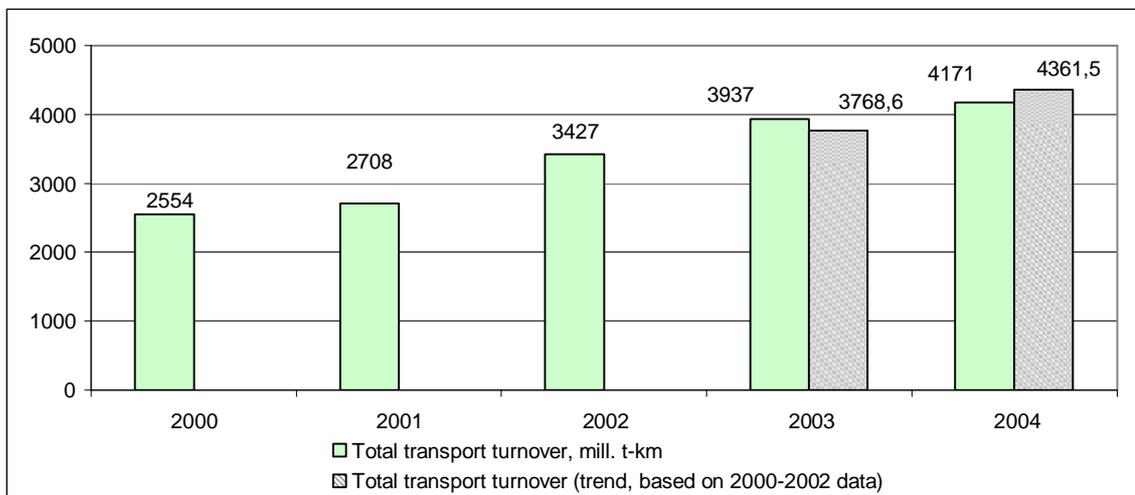
**Fig. 18. Commissioning of all kinds of buildings and their construction volume**

An important result of implementation of the Strategy was the growth of housing construction rates (fig. 19). It is necessary to note the decline of the share of housing built at the expense of the population, in 2004 in comparison with 2003. This can be explained by the fact that the sources of financing from saved or credit resources had been exhausted, and the programme of support to the mortgage housing crediting, envisaged by the Strategy and by the Federal Target Programme was adopted only in 2005, instead of 2003 as it had been planned.



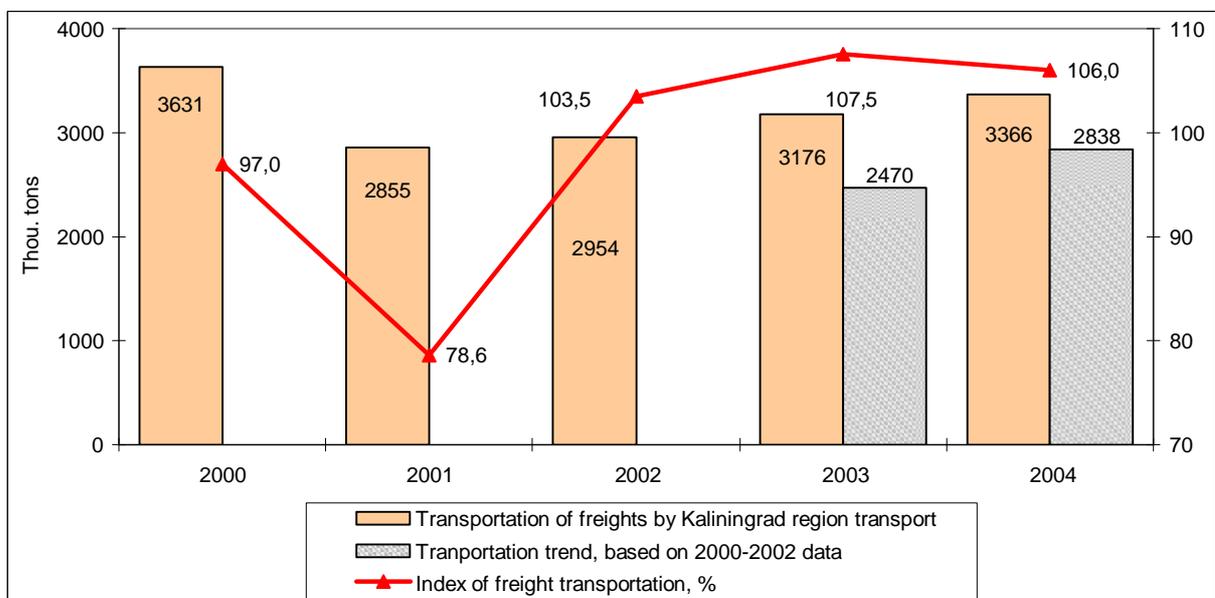
**Fig. 19. Commissioning of housing area and weight of housing, built by the population**

The adoption of the Strategy and the actions for its implementation have allowed compensating the impacts of the changes in the external surrounding of the region. So, the accession of Lithuania to the European Union has created a number of problems for transit from Kaliningrad region to other parts of the Russian Federation and back. However even in this situation, it has been possible not only to maintain, but to provide an increase of the turnover of goods, though the growth was less, than it had been expected according to the trends, developing during the previous years (Fig. 20).



**Fig. 20. Transport turnover**

Although the growth of the freight transportation by common transport exceeded the predicted calculated trends (Fig. 21), the growth rates are insufficient for achieving of the strategic purpose - 2.2-fold increase of the freight transportation volumes by 2010. This requires that the annual rate of growth of the freight transportation from/to the region should be about 10%. Meanwhile, in 2003, it was only 7.5%, and in 2004 6.0 %.



**Fig. 21. Dynamics of the volumes of freight transportation by common transport of Kaliningrad region**

In 2004, the implementation of many investment projects, aimed at development of the transport complex in the region, proceeded. The most significant of them were: the reconstruction of Hrabrovo airport (air transport); the construction of the Chernyshevskoye border railway station, and the reconstruction of the "Kaliningrad - Baltiysk" railway line (railway transport); the construction of a ferry complex in dock No.4 in Baltiysk and the rehabilitation of the container terminal of the Commercial Sea Port in Kaliningrad (sea transport). Last year, the arrangement of multi-directional automobile check points on the Russian-Polish border section was completed ("Mamonovo-1", "Bagrationovsk" and "Gusev-Goldap"), and construction of a check point at Chernyshevskoye was started on the Russian – Lithuanian section of the national border was started (road transport).

Due to the joint efforts of regional executive authorities and legislature in 2003-2004, it became possible to generate the framework of legislative preconditions making the basis of the economic mechanism for implementation of the Strategy. Table 3 shows the summary list of the new economic mechanisms, proposed in the Strategy and measures on their realisation. The analysis shows that practically in all directions, in 2003-2004, there took place an active formation of new economic mechanisms, providing

for fulfilment of the tasks for accelerated socio-economic development of the region. The formation of new principles of federal rent-based taxation of economic entities in the region is the only exception

Table 3

**Creation of new economic mechanisms, stipulated in the Strategy, and measures for their implementation**

Order No.	Economic mechanisms	Measures for implementation of new economic mechanisms
1	Tax privileges for foreign and domestic investors	<p>Law of Kaliningrad region No.171 of 15 July, 2002 (with amendments of 21.12.2002; 09.07.2003; 27.12.2003; 18.10.2004; 03.02.2005; No.214; No.347) "About public support to organisations making capital investments in the territory of Kaliningrad region".</p> <p>Law of Kaliningrad region of 10 April 2004 "About industrial (production) policy".</p> <p>Law of Kaliningrad region No.336 of 27 November 2003 (versions of Laws of Kaliningrad region No.381 of 09.04.2004; No.417 of 06.10.2004) "About the tax on property of organisations"</p> <p>Law of Kaliningrad region No.193 of 16 November 2002 (versions of Laws of Kaliningrad region No.241 of 26.03.2003; No.341 of 08.12.2003; and No.456 of 24.11.2004) "About the transport tax"</p> <p>Law of Kaliningrad region of 24 November 2004 "About the system of taxation as uniform tax on imputed income for individual kinds of activities"</p>
2	Participation of major investors in development (updating) of the Strategy of development of the region and in the implementation of large-scale regional programmes	<p>Law of Kaliningrad region No.489 of 18 January 2005 "About the general principles of organisation of strategic planning in Kaliningrad region"</p> <p>Law of Kaliningrad region of 10 April 2004 "About the industrial policy"</p> <p>Directive of the Administration of Kaliningrad region No. 542 of 29 September 2003 "About the Strategy of socio-economic development of Kaliningrad region as a region of cooperation for the period till the year 2010"</p> <p>Law No. 392 of 15 July 2003 "About the Strategy of social and economic development of Kaliningrad region as a region of cooperation for the period till the year 2010"</p> <p>Kaliningrad regional tripartite agreement of 21, December, 2004 on regulation of social/labour relations between territorial bodies of trade unions, associations of employers, and the Administration of Kaliningrad region in 2005-2006</p> <p>Regional programmes</p>
3	Insurance of investments	<p>Law of Kaliningrad region of 15 July 2002 "About public support of organisations making capital investments in the territory of Kaliningrad region".</p> <p>Directive of the Administration of Kaliningrad region No. 172 of 22 April 2004 "About the Commission for development of the insurance market".</p>
4	Compensation of interests to participants of priority regional projects	<p>Directive of the Administration of Kaliningrad region No. 83 of 11 March, 2003 (the version of the Directive of the Administration of the region No.38 of 11.02.2004 with amendments No.21, made by the Administration of the region on 29.01.2004) "About the procedure of subsidising of the interests on attracted</p>

		credits”.
5	New principles of taxation of economic entities in the region	<i>Determined by the Federal legislation</i>
6	Efficient utilisation of military dual-purpose sites (port facilities, military residential settlements, oil storages, air fields, etc. in the economy of the region);	Federal target programme of development of Kaliningrad region for the period till the year 2010 (approved by the Directive of the Government of the Russian Federation No. 866 of 7 December 2001). <i>Construction of the deep-water port at Baltiysk (Vostochniy point), development of Hrabrovo airport (including the improvement of the runway).</i>
7	Reform of the housing and municipal services and provision of target social aid	The programme of reforming and modernisation of housing/municipal services complex in Kaliningrad region for the period of 2002-2010 (version of Law of Kaliningrad region No. 306 of 22.09.2003). The regional target programme “Resettlement of citizens from existing shabby houses and from houses, which require emergency repairs, in Kaliningrad region in 2003-2010” (Addendum to Law of Kaliningrad region No. 240 of 07.03.2003). Directives of the Administration of Kaliningrad region: No.564 of 13 October 2003 “About measures for provision of financing of major overhaul, renovation, and construction of housing facilities and municipal services in the region in the context of preparation for the autumn/winter-period of 2003-2004” No.620 of 31 October 2003 “About the maximum limit of the cost of housing/municipal services on 1 sq. meter of the total living area per month in 2004”; No.306 of 22 June 2004 “About preparation of housing/municipal complex in Kaliningrad region for operation in winter conditions of the years 2004-2005”; No.387 of 9 August 2004 “About measures for ensuring the housing rights of children-orphans, children devoid of parental care, and persons from among children-orphans and children who have stayed without parental care”; No.589 of 21 December 2004 “About the maximum limit cost of housing/municipal services per 1 sq. meter of total living area per month in 2005”; No.636 of 30 December 2004 “About the Procedure of spending of the regional budget funds allocated for partial reimbursement of granting of privileges to labour veterans, to large families for payment of housing and municipal services”; No.151 of 28 March 2005 “About the approval of the procedure of financing of the regional budget expenditures on payment of the housing/municipal services provided to citizens, who had been exposed to radiation, for the account of subventions from the Federal fund of reimbursement of payment for housing/ municipal services to some categories of citizens in 2005 ”.
8	Start-up of mortgage-based housing construction	Law of Kaliningrad region No. 252 of 12 May 2003 "About the development of long-term mortgage housing crediting in Kaliningrad region". The target regional state programme of mortgage-based housing crediting of the population in Kaliningrad region on 2004-2007. (Annex to Law of Kaliningrad region No.533 of 31 March 2005).

### **3. Improvement of the strategic planning mechanism**

Improvement of the strategic planning mechanism. The achievement of appreciable social and economic effects of application of the strategic planning mechanism would be impossible without the efforts aimed at institutional strengthening and improvement of quality of the strategic planning itself and at creation of mechanisms of the Strategy implementation and monitoring. This section describes the relevant activities, which can be divided according to a number of lines:

- provision of information and maintenance of involvement of the stakeholders in the strategic planning and monitoring;
- development of plans of actions for implementation of the Strategy;
- formation of organisational structures and legislative framework for strategic planning.

#### ***3.1 Provision of information and maintenance of involvement of the stakeholders in the strategic planning***

In its time, the Strategy was created with the participation of many – but not all – regional stakeholders, whose interests were different, and sometimes contrary. With a view to maintain social consolidation, the leaders of development of the Strategy undertook a search of the compromise between various subjects of political process in the region. This slightly blurred the Strategy priorities, but allowed to achieve a consensus in signing of the Declaration on strategic partnership. Let us note, that the signing of the document is a single act, not automatically leading to creation of any technological mechanisms for implementation of the Strategy. Therefore the leading subject of strategic planning – the Administration of Kaliningrad region – has undertaken a number of steps of the regulatory/legislative and informational character for maintaining effective participation of the authorities in the implementation of the Strategy and support of other interested stakeholders.

As it was already noted above, a number of administrative decisions have been adopted:

- the Directive of the Administration of Kaliningrad region of 15 July 2003 stipulated that in developing of concepts, programmes, and plans of actions the executive bodies of the regional administration are to be guided by the approved Strategy;
- according to the Directive of the Administration of Kaliningrad region of 29 September 2003, a Commission for development of the IPAA (Integrated Plan of Actions to be carried out by the Administration in 2004-2007 for implementation of the Strategy). In its form and essence the IPAA is a medium-term indicative plan of development of the territories. It became an important core, around which actions for advancement of the Strategy values and targets in the current activity of the administration and other stakeholders were centered;
- in order to involve municipalities in the implementation of the Strategy, on 16 February the Administration of Kaliningrad region adopted the Directive "About organisation of the second regional contest for the best developed long-term plan of socio-economic development of a municipality in Kaliningrad region in the period till the year 2010. The Directive was approved by the Provision on the regional contest, establishment of the contest commission. In addition, it was planned to allocate budgetary funds for awards to the winners. The overall objective of the contest was to stimulate the development of well-founded and realistic perspective purposes, priorities, directions, and mechanisms of development of municipalities, worked out in conditions, where active layers of the population were involved in the implementation of the strategic purposes.

Besides, consistent efforts were made for distribution of information about the Strategy and about the measures for its implementation, in order to have a steady feedback from the stakeholders about the priorities formulated in the Strategy. For this purpose, first of all, it was necessary to continue the work both on the Strategy contents and on the form, allowing to make the contents clearer and more accessible for interested. In addition to paper publications and placement of the full version of the text of the Strategy (100 pages) in the Administration's Internet sites (<http://www.gov.kaliningrad.ru/strateg.php3>), two abridged versions of the text (a digest on 24 pages and a booklet on 4 pages) were prepared. Thus, the priorities were formulated more precisely and the visual solutions were found, allowing to briefly and clearly display the basic contents of the Strategy and to prepare and carry out presentations to large audiences.

These versions of the basic text in the autumn of 2003 were subjected to discussion at a session of the Project Advisory Committee, including basic stakeholders in Kaliningrad region. As a result of an intensive discussion, it was decided to include in the text the Strategy, among other things, some quantita-

tive indicators, which characterise achievement of the basic purposes of the Strategy, and this was done. After that, 1000 copies of the digest (the main provisions of the Strategy) and of the booklet were printed for circulation in the Russian and English languages. The publications were distributed by the Administration of the region and by the Project both among internal stakeholders, who were invited to seminars, to a conference and other events, organised in connection with monitoring of the Strategy and development of the IPAA, and among external investors and visitors to the region. The electronic versions of the digest, of the booklet and of the typical presentation are placed on the sites of the Administration and of the Regional Development Agency, which provides their availability to all interested persons. A report on the Strategy was made on the Second forum of leaders of strategic planning in St-Petersburg in October 2003.

During 2004, a number of the public events were conducted by the Project, dedicated to monitoring of the Strategy and to development of the IPAA:

- the deputy hearings, organised by the Standing Committee on Economic Policy and the Ministry of Economic Development and Trade, dedicated to development of the IPAA (in March);
- two 2-day seminars for functionaries of the Regional Administration and for other stakeholders, dedicated to development of the IPAA and to discussion of the progress of implementation of the Strategy and of the issues, relating to the institutionalisation of strategic planning on the regional level (in June);
- International Conference (attended by over one hundred of participants) "Kaliningrad region development strategy: priorities of its implementation and the task of its updating" (September). The Conference became a key event in the annual cycle of the Strategy monitoring. The reports, presented to the Conference participants, covered the approaches and the results, achieved in the field of strategic planning on the federal level, the implementation of the Strategy, the external conditions for development of Kaliningrad region, and the issues of strategic planning on the municipal level. The sectional sessions have passed were conducted according to the four basic objectives of the Strategy.

The following tasks were set for the conference:

- To consider the contents of the Strategy of development of Kaliningrad region in view of experience of development and implementation of similar documents in other regions of Russia.
- To correlate the mission of the region and the priorities of the Strategy with the federal policy and with the EU policy towards Russia (and, in particular, to Kaliningrad region) in the context of the changing situation.
- To exchange experience in the field of strategic and indicative planning with representatives of authorities of adjacent territories of Lithuania and Poland (Pomorie and Varmino-Mazurian voivodships, and Klaipeda district).
- To carry out a discussion of the efficiency of social partnership and mechanisms of its implementation for achievement of the overall goals of the regional development Strategy
- To discuss the organisation of monitoring and the system of possible indicators of achievement of the Strategy and IPAA targets.

One of the themes proposed for discussion was the search for a leading idea of development of the region as there is an opinion, that the idea developed in the Strategy – "a region of cooperation" – is not sufficiently impressive. Opinions were spoken out, that while the region has no brand, contributing to attraction of external resources to the region and activation of the internal potential, there is no idea, allowing to confidently position the region in the European economic, socio-cultural, and geopolitical space. In order to initiate the discussion of this theme, the following variants were proposed: Kaliningrad region is:

- transfer of advanced European technologies to Russia in sphere of innovative, small and medium-size business;
- "assembly shop" in Russia (import substitution);
- a beachhead for entering European markets;
- an off-shore zone (general-purpose, 'sectoral tax heaven');
- a contact region: an excellent place for holding fairs, conferences, an international meetings;

- a centre of tourism and recreation ;
- a powerful transport hub of Russia on the Baltic Sea;
- a fishery cluster centre;
- a centre of Russian culture in the Baltic region;
- a place for holding a dialogue of educational systems.

The conference discussed the proposal, expressed by signatories of the Declaration, on formation of a special Council on strategic partnership, which would include representatives of the authorities, business and community. It would become a permanent body for discussion of strategic issues of regional development, for organisation of monitoring of implementation and updating of the Strategy. As a result the conference participants made the following conclusions and recommendations to the authorities of Kaliningrad region, to other signatories of the *Declarations on strategic partnership for implementation of the Strategy*, to all active members of the regional community:

1. To recognize, that the main provisions of the Strategy – the mission, the overall goal, the basic objectives, elements of vision of the desirable future – are remaining valid.

It is proposed to specify the formulation of the following objectives:

the first one – *Creation of conditions for effective implementation of the human potential and establishment of favorable social environment for its development;*

the third one: – *Assistance to transfer of technologies between Russia and the EU, based on development of small and medium-size innovative business in the region.*

2. To continue the discussions for identifying and formulating of the leading idea for development of the region, and preparing a brand for it. В качестве опорных элементов такой идеи рекомендуется использовать It is recommended to use the following basic elements to build up the idea:

- a beachhead for entering European markets;
- a contact region: a place for holding fairs, conferences, and international meetings;
- transfer of technologies between Russia and the EU, based on development of small and medium-size business in the region.

3. To approve the activities of the Administration of Kaliningrad region for development of the Integrated Plan of Actions to be carried out by the regional Administration in 2005-2007г for implementation of the Strategy (IPAA) as a tool, allowing to introduce target budgeting elements and continuous indicative planning and to ensure orientation of the Administration's actions for achievement of the Strategy goals. To recommend the Administration of Kaliningrad region to orient the IPAA to meeting the following challenges in 2005-2007:

<b>Strategy objectives</b>	<b>Priority tasks of the Administration</b>
Objective 1. Creation of conditions for effective utilisation of the human potential and setting-up of a favourable social environment for its development	Increase of the level of incomes of the population
	Development of the social infrastructure, providing availability and efficiency of services in the field of public health, education, culture and sports
	Provision of employment of the population
	Improvement of availability of housing
	Social support of the weak and vulnerable groups of the population
Objective 2. Shaping of a competitive regional economy, leaning on innovations and intellectual resources, possessing a stable and long-term growth potential	Support of companies with a high growth potential (both export-oriented and import-substituting companies)
	Formation of balanced spatial organisation of regional economy (diversification of the economy in mono-functional cities and stimulation of development of local industrial zones in depressive areas)
	Improvement of the economic and investment climate, improvement of the SEZ mechanism
	Elimination of structural restrictions on the economic growth in view of the integration processes and international division of labour
Objective 3. Assistance to transfer of technologies between	Development of the regulatory/legal base for providing conditions for development of innovative and scientific/technical activities

Russia and the EU, based on development of small and medium-size innovative businesses in the region	Shaping of the infrastructure of support to innovative entrepreneurship activities (innovative centers, technoparks, business incubators)
	Creation of financial institutions for support to small innovative business
	Extension of opportunities of inter-regional and international cooperation for transfer of technological and social innovations
Objective 4. Achievement of social consolidation as the basis for strengthening of the Russian statehood in the territory of the region and realisation of vital interests of the population	Formation of a steady dialogue between the authorities, business and civil society, strengthening of the 'social contract' mechanisms
	Reduction of social differentiation between various strata of the population
	Creation of conditions for overcoming of the conflict of interests between the administrative territorial formations
	Formation of tolerant consciousness, behaviour, and attitudes, preventive actions against various kinds of extremism

4. To recognise it necessary to set up a special Council for Strategic Partnership, to be composed of representatives of the authorities, business, and non-government organisations, to become a permanent body for discussion of strategic issues of regional development, and for organisation of implementation and updating of the Strategy..

5. To continue the interaction with the government bodies and local self-management authorities of adjacent territories in Lithuania and Poland in the field of development and implementation of the Strategy of regional development and management of cross-border cooperation processes.

6. To approve the activities of the EuropeAid project "Support of regional development of Kaliningrad" and KOWI company (Denmark) for assistance to the process of strategic planning in Kaliningrad region.

7. To carry out annually the conference dedicated to implementation of the Strategy of development of the region.

8. To publish the conference materials.

Finally, the conference has become an important stage of the formation of an agreed vision of problems, objectives, and expected results of the basic directions of the Strategy and of the IPAA.

All above-mentioned public actions were covered by the regional mass-media. This allowed to maintain the general level of knowledge of the population in the region about the strategic priorities of development. The Strategy was also actively promoted at national and international events. In particular, in the framework of the Third Russian forum of leaders of strategic planning, held in St.-Petersburg in October 2004, a round-table meeting on Kaliningrad experience, where three representatives of Kaliningrad region highlighted the course of institutionalisation of strategic planning on the regional level. A number of discussions of the issues of organisation of strategic planning were also held in the framework of the STRAMAN project.

Several new centres for strategic planning emerged in the region since 2005. This made the work on coordination of strategic initiatives, undertaken - alongside with the Administration of the region - by the Expert Advisory Council of the Interdepartmental Working Group for Kaliningrad region development, headed by S. V. Yastrzhembski even more important. Therefore, in April 2005, in the framework of monitoring of the Strategy, the seminar "The progress of implementation of the Strategy of social and economic development of Kaliningrad region as a region of cooperation for the period till 2010. New strategic developments", organised by the Administration of Kaliningrad region, by the Expert Advisory Council of the Interdepartmental Working Group for Kaliningrad region development, and by the Regional Development Agency with the assistance of the Project. Leading Kaliningrad stakeholders were invited to the seminar, including those who had declared their own achievements in elaboration of the regional development strategy.

The seminar fixed the presence of several strategy development centres, partly alternative to the official body. The regional Administration's position is that the existing Strategy has not become obsolete in two years: it has been supplemented with a number of tools, to ensure its implementation, it is being successfully realised, and requires only some minor specifications. Meanwhile, the opponents consider, that it is senseless to try to improve something in the existing Strategy, but a new strategy should be

developed .However the availability of strong alternative ideas for regional development remains is still questionable<sup>5</sup>. Anyway, they were not expressed in a constructive form at the seminar.

The seminar revealed the need of institutional strengthening of the strategic planning. The matter is that an independent legal platform for coordination of positions already should have been set up, as the law "About the general principles of organisation of strategic planning in Kaliningrad region" has been formally effective since January 2005. However, the structures, stipulated in the law, have not been created (for more details see section 3.3.). В этих условиях компромиссной площадкой сейчас является только In these conditions, a compromise platform now is only the Expert Advisory Council, under the auspices of which and with the support of the Project the strategic planning can and must be continued.

Viewed in the large, the seminar has allowed to reveal the real situation concerning preparedness of the basic centres, claiming to actively participate in the strategic planning process, for a meaningful dialogue, planned to be continued in the framework of the series of actions for discussion of strategic issues of Kaliningrad region development. The actions include holding of a number of workshops and discussions. So, on 12 May, in the framework of the international conference "Competitiveness and attraction of investments into Kaliningrad region: priorities, tools, and practice" a discussion was organised of the priorities of economic policy and actions for enhancement of competitiveness of Kaliningrad region, which are to be reflected in an updated Strategy and plans for its implementation. An **annual conference** where results of similar seminars and discussions of the course of the Strategy implementation will be summarised, is scheduled for autumn 2005.

In general, it can be asserted that the level of interested participation of the stakeholders and public in monitoring of the Strategy implementation questions and development of strategic planning in Kaliningrad region has remained high. This is due to the active position of the regional Administration and some other stakeholders and to the support on the part of the technical assistance projects.

### **3.2. Drawing up of plans for implementation of the Strategy: IPAA**

The administration of the region is well aware of the necessity to create tools for implementation of the Strategy, primarily, plans of actions. For this reason, in autumn of the year 2003, development of a 3-year Integrated Plan of Actions to be carried out by the Administration for implementation of the Strategy (the IPAA) was started, and under the Directive of the regional administration a Commission for development of the IPAA was established, led by the Governor. The IPAA was designed as a medium-term indicative plan of social and economic development of Kaliningrad region, called to ensure coordination of actions by the Administration structural units and other public enterprises and institutions in Kaliningrad region and to orient them to achievement of the main goals, formulated in the Strategy. Besides, the role of the IPAA is to inform the federal structures and self-management bodies, the business community, the NGO's and the population of the region about the executive authorities' plans with regard to social and economic development of the territory for the 3-year forthcoming period.

The place of the IPAA in the system of planning on different levels is shown in Fig.22.

The introduction of the IPAA in the regional management practice is making it possible:

- To build a system of result oriented regional development management; to create opportunities for estimation of performance of the adopted programmes and plans of work of executive authorities
- To increase the transparency of management of the region and to involve interested representatives of business and community in the process of planning. To coordinate the procedures of socio-economic and financial planning of regional development, based on the formulated priorities and expected results of their implementation.
- To strengthen the coordination of activities of structural divisions of the regional Administration for implementation of the adopted regional development Strategy

---

<sup>5</sup> It is difficult to take seriously the Concept of economic strategy of Kaliningrad region for the period 2005-2025, published in March, 2005 in Kaliningrad mass-media on behalf of a team led by Yu. N. Vasiliuk, because at least 70 % of it literally copies the "Economic strategy of Ottawa (for 2003-2020)", stated in the book "Strategic planning of economic development: 35 years of the Canadian experience ", St.-Petersburg, Leontieff Centre, 2004.

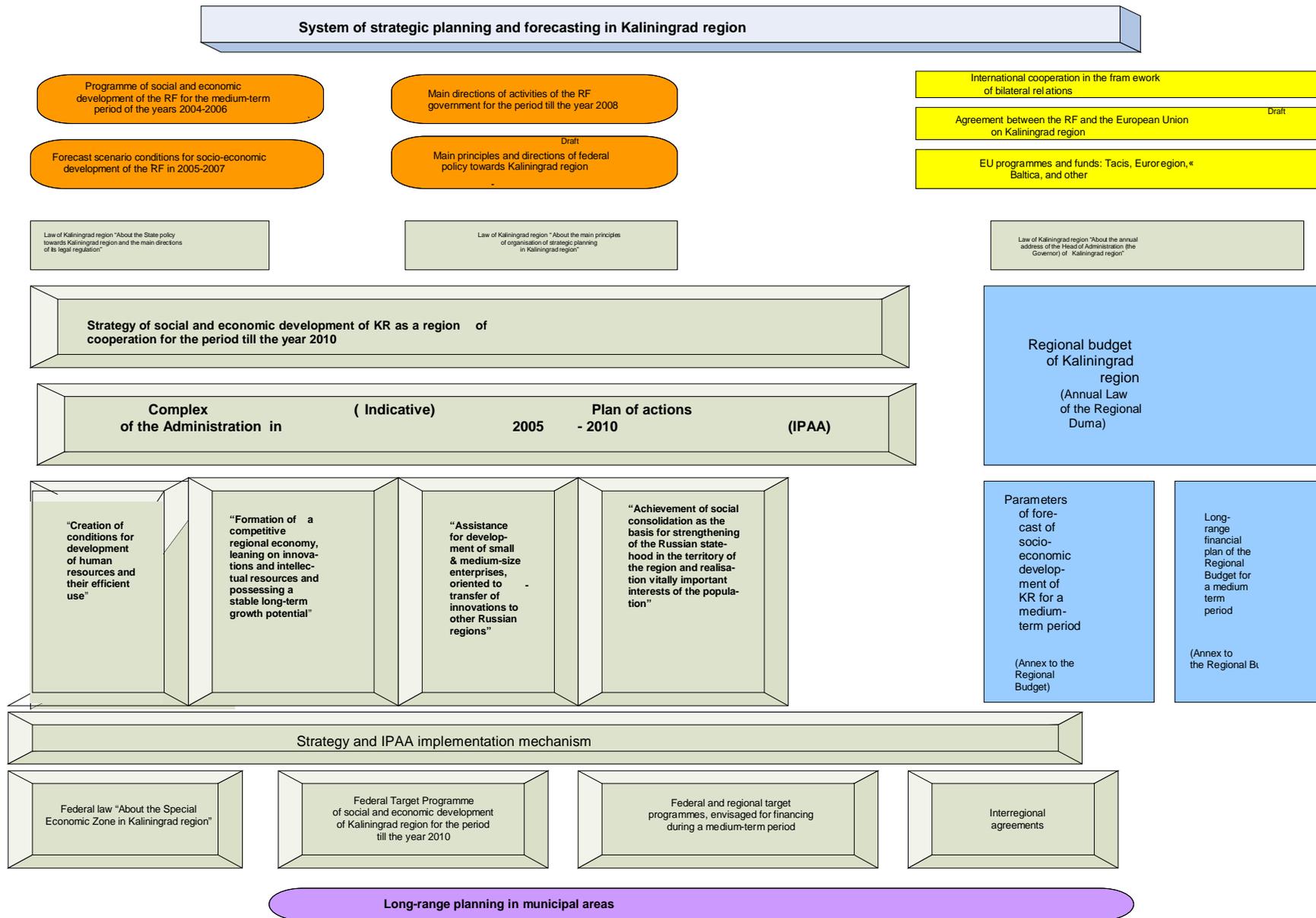
- To focus the current activities of the regional Administration divisions, based on the medium- and long-term objectives, with fixation of parameters of the level of their achievement
- To stimulate application of advanced administrative technologies in the practice of the Administration divisions' activities.

The IPAA comprises four sections, corresponding to four major goals (directions) of the Strategy, identified as the most important for the coming three years in the course of the thematic commissions, deputy hearings and seminars as well as the international conference "The strategy of development of Kaliningrad region: Priorities of implementation and the tasks of updating", which took place in September 2004.

The IPAA has three levels:

- the upper level, including the overall goal and the key indicators of its achievement;
- the middle level including four basic objectives, priority tasks and the individual indicators of their achievement;
- the lower level, which is represented with tables, containing characteristics of all planned actions (measures), including special indicators of the level of implementation of the specific actions in 2005-2007.

**Fig. 22. IPAA in the system of documents for strategic planning of development of Kaliningrad region**



The system of indicators has been generated, based on the Methodological recommendations for development of parameters of forecasts social and economic development subjects of the Russian Federation, and draft basic parameters (indicators) of the level of achievement of the goals of the Government of the Russian Federation for the period up to 2007. In the process of creation of the IPAA by structural divisions of the Administration of Kaliningrad region, sectoral and functional plans for 2005-2007, aimed at solving of key problems, have been developed. On their basis, the Plans of actions for implementation of the main objectives of the IPAA and a system of target indicators (special indicators) were developed, and the place and role of the structural units in implementing IPAA goals were determined.

All predicted parameters in the IPAA are considered not as directive planned targets, but as indicators – data carriers, concerning expected characteristics of social and economic conditions in the region. In other words, they are the reference points showing to the community the target orientation of the Regional Administration's actions for the three-year prospect, and the target values of social and economic indicators for the year 2007 are accepted on the level, allowing to achieve the target reference points of the Strategy in 2010.

The adoption of the IPAA provides for transition from estimated budgetary financing to implementation of programme/special-purpose approach (forecasting – programming – budgeting) in the regional administration's activities. It is envisaged to apply such approach in the framework of carrying out actions for the second stage of the administrative reform and, in particular, for implementation of the programme of public finance reform of Kaliningrad region in 2005-2006.

The IPAA implementation management will be carried out by means of inclusion of its actions in local (sectoral) plans and programmes, and in the current plans of activities of the Administration structural units, institutions, and enterprises. The IPAA must be integrated in the draft budget of the year 2006 and in the long-range financial plan for the period of years 2006-2008.

For this purpose, in 2005, corresponding regulatory/legal framework, regulating the process of strategic and indicative planning, will be developed in the region. The IPAA is developed for a three-year period, and it is annually updated with prolongation of the term for one year ahead. The control over the execution and implementation of the IPAA will be carried out by the Commission for development of the IPAA, led by the head of Administration (the Governor) of Kaliningrad region. The formation of the result-oriented control system assumes optimisation of the structure and functions of the regional Administration according to the overall Strategy and IPAA goals.

The system of the IPAA indicators will be applied for evaluation of performance of public executive bodies and enterprises in Kaliningrad region. On its basis will be created a system of regular reporting and monitoring. The monitoring will be carried out by the General Department of Economic Development and Trade of the KR Administration. Independent monitoring can be carried out on the part of signatories to the Declaration on strategic partnership for implementation of the Strategy.

It should be noted that the development of the IPAA is a labour-consuming and complex process, in the course of which the general slogans and ideas of the regional development Strategy have been decomposed to the level of concrete actions with the indication of measurable implementation indicators/ A 3-level system of implementation indicators has been developed, detailed plans of measures with the indication of responsible divisions have been determined, and the inventory of target programmes and international technical assistance programmes in coordination with the Strategy goals has been made.

Within one and a half years, since autumn 2003 till April 2005r, tens packages of materials accompanying the IPAA promotion were developed, adapted, prepared, and distributed. The documents were created and formed after numerous working meetings, discussions, seminars, consultations conducted by the Project experts with a group of developers from the GDED&T, based on the feedback from structural units of the Regional Administration.

At least 4 cycles of agreement of different versions of the IPAA text and tables have passed, in the course of which experts of the Administration structural divisions have formulated and specified the actions and the indicators for achievement of their results. In January 2005, the materials received from the Administration departments were processed, necessary corrections and summaries were made according to the adopted structure of the IPAA and directed for acquaintance to the members of the Commission before carrying out of the next session, which took place on 16 February, 2005. During discussion of the draft, critical remarks and judgments were spoken out. Based on the results of the discussions and adopted decisions, the Head of the KR Administration (the Governor) has proposed that the IPAA developers should take them into account and to make corresponding amendments and supplements to the draft document. After making necessary amendments to the text and to the annex to the IPAA draft version, the revised document was submitted for coordination to the Commission members – assistants to the Head of Administration of the region. In March 2005, some proposals were

received from the Administration divisions and from the Governors assistants for inclusion of some provisions and the corresponding visa was put on the draft IPAA.

Among the important lessons and conclusions from the experience of the IPAA development, and the emerged complexities, one can make the following notes.

It may seem that elementary requirements of rational management are not immediately understood and accepted at all levels of management in the administration. The task of formulating of the 'expected result' of department activity appeared very difficult for many experts. Probably – among other reasons – because. It does not easily fit the 'allocation approach' in the formation of the expense items in the budgets of all levels.

The space for long-range planning, provided in the presented draft IPAA to the structural divisions has not been uniformly used. Some of them have designated their actions in the framework of the IPAA too modestly.

At this stage, coordination of the IPAA with activities of municipal authorities is remaining outside the field of vision. It is obvious, that the experience of indicative planning accumulated at the regional level should be without delay extended to the municipalities in order to coordinate the activity of the regional government bodies with the activities of local self-management bodies.

It has turned out to be impossible to generate a full-value applicative annex, describing the volumes and scale of the financial investments by years. This work had to be postponed until the next year.

There remains a serious problem with the register of the regional target programmes, practically having little connection with the IPAA and Strategy purposes. The "expected results" column in those programmes is formulated very generally and inconcretely. As a whole, it should be recognized, that the development of the IPAA in Kaliningrad region is one of the first accomplished attempts in Russian regional practice to create a complete mechanism, aiming at actions of the government bodies and local self-management authorities, economic entities, noncommercial organisations, and NGOs, for achievement of the strategic goals of development of the region.

The process of development of the IPAA continued for over one year and it certainly contributed to strengthening of target-orientation of work of practically all administration divisions, to improvement of professional skills of the employees, and to an increase of interestedness and motivation of local government bodies, representatives of business, community, non-government public organisations, who had signed the Declaration on strategic partnership and taken part in preparation of the IPAA. The IPAA is in the tideway of the measures undertaken by the Government and of the President of Russia, aiming at introduction of management and budgeting, focused on the goals and results, in view of the formulated priorities. The IPAA, which basically is an example of indicative planning, can serve as a tool for possible improvement of the budgetary process in view of the forthcoming budgetary reform, planned to be implemented in Kaliningrad region according to the RF Government Directive No.301 of 8 May 2002 and the *Concept of the budget reform process*, approved at the RF Government session on 15 April 2004. This document also stipulates introduction in budgetary process of a system of financial forecasting, an increase of validity and accuracy of budgetary planning, and result orientation.

Maximum efforts should be applied to follow up the practice of development and updating of the IPAA. proceeded. The IPAA for the years 2006-2008 should be already integrated into the process of budgeting for the year 2006. For this purpose, it is important to modify the existing legislative framework of public planning in Kaliningrad region.

### ***3.3. Formation of organisational structures and legal framework for strategic planning***

Strategic planning can be successful if provided with necessary organisational structures and legal support. Inside the Administration of Kaliningrad region, the leading unit engaged in the strategic planning is the General Department of Economic Development and Trade (GDED&T), although the inavailability of a specialised section within this department essentially complicated the work<sup>6</sup>.

However the institutionalisation of strategic planning is even more complicated by the lack of independent branches of power structures in the framework of the civil society in the region, being the "owner" of the Strategy as a document of public consent.

---

<sup>6</sup> In May, 2005, the Department of macroeconomic analysis, strategic planning and forecasting was formed in the structure of the GDED&T of the Regional Administration, and that appreciably improved a situation.

The Strategy was legitimated by the single act of signing of the Declaration, but neither the structure, nor the status of the signatories have been fixed. Therefore, for example, it is difficult to find an answer to the simple question – who is authorised to make amendments to the Strategy? Those, who signed the Declaration? But some of them do not occupy their former positions any longer. Whom did they represent, when they were signing the Declaration – themselves as physical persons or their organisations? To answer these questions, in the beginning of 2004, just at the time when the issue of possible revision and modification of the Strategy became urgent, the Project experts together with representation of work of the Council for Strategic Partnership. The Council was designed as a regional public organisation with its own Charter, management organs, and executive bodies. The persons, who signed the Declaration on strategic partnership could become act as the Council founders, and then determine the procedure of accession by new members. The main objective set for the Council is to assist the social and economic development of Kaliningrad region by means of strengthening of partnership for the authorities, business, and community in development of the and implementation of the regional development Strategy

For achievement of its main goal, the Council can implement the following objectives:

- involvement of all influential participants of regional development – representatives of all levels and branches of power, of the civil society, and business in the implementation of the Kaliningrad region development Strategy;
- coordination of participation of representatives of the authority, business and civil society in the work of the thematic commissions and the working groups created for development and implementation of the plans and programmes, providing for realisation of the Strategy;
- discussion and coordination of integrated plans of actions of the Regional Administration for implementation of the Strategy (IPAA) and integrated plans of priority projects for implementation of the Strategy (IPPP), achievement of the political consensus;
- regular consideration of the course of implementation of the Strategy, the IPPP and IPAA, adoption of recommendatory decisions on the current priorities for implementation of the Strategy and execution if the IPPP and IPAA and about the necessity of updating of the Strategy and of the IPAA.

Besides, representatives of the Council participate in the development (updating) and implementation of the Strategy, providing political coordination and making key decisions.

However the attempts to initiate creation of such public structure on the part of signatories to the Declaration have failed. Another variant of solution of the problem has been realised and fixed in the Law of Kaliningrad region No.489 of 18 January 2005 “About the general principles of organisation of strategic planning in Kaliningrad region”. The law determines the general principles of organisation of strategic planning, the procedure of involvement and participation of the territorial community in the development, adoption, and implementation of basic documents, relating to steady development of Kaliningrad region. The law contains a proposal to establish a similar Council for strategic planning in the legislative branch of regional authority – in the Regional Duma.

The adoption of the said Law has caused a number of legal collisions as some of its important provisions were contradictory to effective Kaliningrad regional laws. In this connection, on the request and together with the Administration an expert group of the Project was set up, who have prepared the complete *Concept of improvement of the Kaliningrad regional legislation, regulating public forecasting and planning of social and economic development of Kaliningrad region* and the draft laws “*About the system of public forecasting and planning of social and economic development of Kaliningrad region*”, “*About modification of the Law of Kaliningrad region “About the general principles of organisation of strategic planning in Kaliningrad region”*”, “*About modification of the Law of Kaliningrad region “About the State policy in Kaliningrad region and the basic directions of its legal regulation”*”. After discussion of the draft laws at a session of the Working Group at the end of February 2005, the information on them was submitted for discussion at deputy hearings, conducted by the Chairman of the Permanent Committee on Economic Policy of the Regional Duma on March, 23 2005.

In the majority of the speeches at the hearings, the Concept was supported, and, based on the results of hearings, recommendations, including an item, stipulating setting up of a working group for improvement of the system of legislative support to public forecasting and planning in Kaliningrad region.

The implementation of this concept will allow to systematize the set of documents on public planning and forecasting and to bind them with real regional practice and modern trends, and to fix legislatively its basic frameworks, namely:

- the complete list, correlation, interrelation, structure, and the contents of the documents determining the regional and municipal development plans and forecasts ;
- the procedures of development, discussion and implementation of the region development plans, reflected in the documents

The proposed system of legal acts of public forecasting and planning of social and economic development of Kaliningrad region includes

Forecasting documents:

1. The long-term forecast of social and economic development of Kaliningrad region.
2. The short-term forecast of social and economic development of Kaliningrad region

Planning documents:

1. The Strategy of the social and economic development of Kaliningrad region
2. The complex territorial urban-planning scheme of development of the Kaliningrad region territory and its parts
3. The integrated plan of priority projects for implementation of the Strategy of social and economic development of Kaliningrad region (the IPPP)
4. Medium-term indicative plan (programme) of actions of the Administration for implementation of the Strategy of social and economic development of Kaliningrad region (analogue of the IPAA)
5. Annual plan of actions of the Administration of Kaliningrad region
6. Regional target programmes
7. Annual message of the Head of the Administration (the Governor) of Kaliningrad region
8. The budget of Kaliningrad region
9. The long-range financial plan
10. The Strategy of social and economic development of municipal territories
11. Indicative plans (programmes) of social and economic development of municipal territories.

The working group, set up at the regional Duma, has started discussion of this concept and of the draft laws for its implementation. This allows to hope for advancement of the process of legislative fixation of the developing institutes of strategic planning.

### ***Conclusion. Results of implementation of the Strategy for 2003-2004: preliminary conclusions***

The preliminary results of evaluation of the two-year period of implementation of the Strategy allow asserting, that, as a whole, the region has been developing in the framework of the strategic directions, planned in the Strategy. The vector and the revealed changes in the social and economic processes in the region in many respects coincide with the objectives and targets of the Strategy. Based on the analysis of the progress of implementation of the Strategy, it can be concluded that measures of regional social and economic policy, realised by the regional authorities, correspond to the directions, stipulated by Strategy. At the same time, for this period it was not possible to carry out a number of measures, including those beyond the competence of the regional authority and belonging to the powers of the federal authority, or those that cannot be taken but on the inter-governmental level.

Initially, the Strategy was developed as a programme document, leaning on and taking account of the existing tendencies of development in the region, in the country, and in the territories surrounding the region. The contents of the Strategy were significantly influenced by Federal documents, which determined its basic provisions, restrictions, and target reference points. At the same time, even though the Strategy comprises some elements of programme/target planning, it was based on the genetic approach. Therefore, the achievement of the planned Strategy results in many respects depends on the accuracy of the forecasts, laid in its basis, and the stability of the trends, which existed in the development of the country and of the region during the recent years.

The analysis of the basic events and nature of development of the region in two years, past since adoption of the Strategy, allows to assert that its developers, as a whole, managed to correctly estimate the prospects of the region's development and, basically, to take into account the character and the intensity of the forces, influencing the development. This allows to assume, that the social and economic results achieved in two recent year substantially reflect the objective trends of regional development, formed mainly under the influence of external factors, and only marginally dependent on the policy of local authorities.

The Administration of Kaliningrad region acted as the principal initiator of the process of strategic planning in the region and the basic developer of the Strategy contents. It was on the initiative of this organ that the Declaration on strategic partnership was signed and the Directive of the Administration was adopted, legitimating the Strategy as the main document of long-term planning on the regional level.

The structure and the system of internal organisation of the Strategy did not assume precise determination of the circle of its participants and distribution of functions or duties among them. At the same time, two years of realisation of the Strategy have shown that the Administration of the region continues playing the leading role in the implementation of the Strategy actions and, as a whole, it's been keeping leading positions in the strategic planning. A large number of regulatory/legal acts, aimed at support and practical implementation of the Strategy provisions. On the initiative of the Administration development of an important document, providing transition from strategic to day-to day planning and to control over all aspects of the Strategy implementation – the IPAA Other Strategy actions are also realised (although with a significant backlog) .

In spite of the fact that the Strategy was developed and adopted as a component of the mechanism of social partnership, in the course of time, past since the beginning of its implementation, this aspect of the Strategy has not been duly developed. An essentially important drawback of the current situation is the passive role of some enterprises and of the majority of public bodies, which are still insufficiently involved in the process of strategic planning. .

The ideas of strategic planning in Kaliningrad region have widely spread on the municipal level (about half of municipal territories in the region have developed or are developing their own Strategy), however municipal strategic plans, as a rule, do not sufficiently take into account the provisions of the regional Strategy; there is no coordination of actions for realisation of the Strategy between the regional government bodies and local self-management authorities. A serious obstacle in the way of improvement of the process of strategic planning, support to implementation of actions, and updating of the Strategy is the lack of a regional structure in the framework of the civil society, to act as "the customer or contractor" and of an independent operator of the Strategy, as a document of public consent. The consequence of it is the lack of a systemic organisation of actions for promotion of the Strategy ideas and informing the community, the weakness of coordination and monitoring of the implementation of the Strategy as well as the lack of procedures for preparation, updating, and modification of the Strategy implementation mechanism and target indicators. Without such an organ, there is a real risk of the Strategy losing its relevance and gradual turning into a lifeless and obsolete document. Therefore, the important step, to essentially expand the base of public consent in the region, should be creation of a centre, independent of the strategy-making authorities. This would allow to resolve in some measure the existing collision, where some stakeholders are unwilling to participate in the strategic planning, headed by the Regional Administration, and, at the same time, do not have sufficient influence and resources to present their own strong strategic alternative. The ensuing dispersion of forces and the petty conflicts interfere with the required consolidation of efforts for development of the region.

The analysis of the nature and course of realisation of the Strategy of social and economic development of Kaliningrad region in two last years shows that on the background of generally positive results, there are certain difficulties, connected mainly with the drawbacks in the design of the Strategy organisational mechanism. The efforts for improvement of the planning mechanism should be focused on overcoming of those restrictions.

## Fund “Regional Economic Development Agency” (Kaliningrad)

The Fund “*Regional Economic Development Agency*” (Kaliningrad) – hereinafter referred to as the *Agency*) was established according to European experts’ recommendations on the initiative of the Ministry of Economic Development and Trade of the Russian Federation with the participation of the Administration of Kaliningrad region in the end of 1999.

**The mission of the Agency** is assistance for development of Kaliningrad region as a region of Russian/European economic integration, formulation of partnership principles, and, on this basis – profound improvement of the quality of life of the population and growth of economic competitive potential of the western exclave of the Russian Federation.

**The current priorities of the Agency’s activities are:**

- § Monitoring and study of socio-economic and political situations in Kaliningrad region and external influence factors. Development of practical recommendations and political consultancy for the public institutions, determining Kaliningrad region development on international, federal and regional levels on the regional development strategy issues, relating to priorities, and creation of mechanisms for their realisation.
- § Support to formation of a competitive business climate in the region and creation of conditions for realisation of pilot priority business projects, aimed at improvement of the structure of regional economy and attraction of investments.
- § Building-up and promotion of the region’s new image, including success stories; support to institutes of strategic partnership of all stakeholders, interested in the new level of development.

*Key partners and contractors* – the Administration of the President of the Russian Federation, the RF Ministry of Economic Development and Trade, federal and regional legislative and executive authorities, all interested institutes of the civil society, and expert organisations, including foreign organisations. Representatives of the Agency on a constant basis participate in the activity or coordinate their efforts with the basic working groups and projects relating to the development of the region.

The European Union has been providing systematic support to the Agency’s activities for a number of years. At present, the Agency is a partner of a major EC EuropeAid project “Support for regional development of Kaliningrad”, aimed at development of the basic concepts of Kaliningrad region development and their practical implementation.

The agency possesses resources for rendering a wide range of services in the sphere of strategic consulting on issues, concerning regional development and direct support to significant business-projects for all interested partners.

Today, the Agency’s strategic partners are:

- the Russian Research Institute of Foreign Economic Relations at the RF Ministry of Economic Development, Moscow;
- the Fiscal Policy Centre, Moscow;
- the Institute of transition economy period problem, Moscow;
- the Financial Academy at the Government of the Russian Federation, Moscow;
- the “East-West” Research Institute, New York;
- the International Association of Experts on Development of Kaliningrad region;
- the International Baltic Association of Regional Development Agencies, Vilnius;
- the Leontieff Research Centre, St.-Petersburg;
- the Kaliningrad State University, Kaliningrad;
- the Baltic Institute of Economics and Finance, Kaliningrad;
- the Russian Public Fund for support to small enterprises;
- the Lithuanian International Chamber of Commerce ;
- the Expert Council under the Plenipotentiary Representative of the RF President in the NorthWestern Federal Area .

*The Board of guardians of the Agency is headed by:*

V. G. Yegorov

Governor of Kaliningrad region

A. G. Stepanov

Deputy Plenipotentiary Representative of the RF President in the North-Western Area.

A. B. Шаронов

Deputy Minister of economic development and trade of Russia

G Z. Bunatian

*Chairman of the RDA Fund Board*

N. V. Savina

*Executive director of the Agency*

Contact data:

Moscow, phone/fax: +7095927-06-78, +7095925-27-64 e-mail: [rdamoscow\\_aha.ru](mailto:rdamoscow_aha.ru)

Raliningrad, phone/fax: +7011253-08-51, +7011253-08-64,

+7011253-08-51

e-mail: [info@rda.baltnet.ru](mailto:info@rda.baltnet.ru)

Agency web-site

<http://www.kaliningrad-rda.org>