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# **Enhancing regional competitiveness: tools and lessons learnt**



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## **“Economic Bulletins” series**

Recently, in connection with the increasing integration of Russian economy into the system of global economic relations, the issues of enhancement of competitiveness of the Kaliningrad economy come to the foreground among the regional development problems. The favourable geographical position of the Kaliningrad region in relation to the main trading partner of Russia - the European union, the presence of an advanced transport infrastructure, the relative cheapness of labour and, certainly, the preferences provided in the Special economic zone - all those factors have had determining influence on formation of the current economic specialisation of the region. However, in view of the inevitable and already changing conditions of economic management (the EU enlargement, the ensuing increased isolation of the region from the rest of the country, and the forthcoming accession of Russia to the WTO), it is becoming obvious, that further economic development of the region will be impossible without radical improvement of competitiveness of Kaliningrad enterprises. The central place in solving this problem belongs to identification of the main causes of low competitiveness of Kaliningrad enterprises in comparison with similar parameters of foreign and Russian companies.

These issues have already been covered in the economic bulletins issued earlier under the aegis of the Regional Development Agency, dedicated to the most important problems of economic development of the Kaliningrad region and, in particular, in the bulletin “Competitiveness of enterprises in the Kaliningrad region: the analysis of advantages in costs and productivity”. The Agency experts carried out a study, the results of which were reflected in the above-mentioned Bulletin, including benchmarking of Kaliningrad enterprises’ competitiveness and subsequent development of recommendations for companies and authorities, aimed at enhancement of Kaliningrad business competitiveness. The study was based on the available statistical data and on the information, collected in the course of implementation of the EuropeAid project “Support for regional development of Kaliningrad”.

The study was followed up by an International Conference “Practical recommendations for enhancement of competitiveness of the Kaliningrad region”, organised by the Regional Development Agency, the Administration of the Kaliningrad region, and the Expert/Consulting Council of the Interdepartmental Working Group for Kaliningrad region development issues with the assistance of the EuropeAid/114287/C/SV/RU project “Support for regional development of Kaliningrad”, and held on 22 September 2005.

The Conference resulted in development of practical recommendations for enhancement of competitiveness of the Kaliningrad region as a whole and of its individual sectors in particular.

The present Bulletin summarizes the statements and opinions expressed at the Conference by its participants. It also comprises practical recommendations and proposals, the use of which will help Kaliningrad companies and the REGION as a whole to enhance their competitiveness. As a separate section of the bulletin, positive examples of organisation of activity of foreign development promotion agencies. Based on the best practice, the authors suggest a long-term plan of activity of the Kaliningrad Regional Economic Development Agency.

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

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## Introduction

Nowadays, the problem of enhancement of competitiveness of the Kaliningrad economy is taking a central place among the issues of region's development in connection with an increasing integration of the Russian economy into the system of world economic relations. The Kaliningrad region's advantageous geographic location towards Russia's major trade partner – the European Union, region's well-developed transport infrastructure, relative cheapness of labour force and, of course, preferences of the Special Economic Zone have been the factors determining development of the region's current economic specialisation. However, in light of inevitable changes of conditions of economic activity, which are already taking place (EU enlargement and related growth of isolation of the region from the mainland Russia, forthcoming Russia's joining the WTO) it becomes obvious that further economic development of the region is impossible without a radical enhancement of competitiveness of Kaliningrad enterprises. The key to solving this problem relates to identification of main reasons for a low competitiveness of Kaliningrad enterprises as compared to similar indicators of foreign and Russian companies.

These issues has already been covered in many aspects by economic bulletins previously issued under the auspices of the Regional Development Agency and devoted to the most pressing issues of the Kaliningrad region's economic development, in particular, by the bulletin «Competitiveness of Enterprises of the Kaliningrad Region: Analysis of Advantages in Costs and Productivity». The research of experts of the Regional Development Agency (which results are reflected in the indicated bulletin) was focused on a comparative analysis of competitiveness of Kaliningrad enterprises and on development of corresponding recommendations to companies and regional authorities on enhancing competitiveness of Kaliningrad businesses. The research was based on statistic data available to the wide public, as well as information collected in the course of implementation of the EuropeAid project «Support to Regional Development of Kaliningrad».

The International conference “Practical Recommendations to Enhancing Competitiveness of the Kaliningrad Region”, organised by the Regional Development Agency, Administration of the Kaliningrad Region, the Expert and Advisory Council within the Interdepartmental Working Group on Issues of Development of the Kaliningrad Region with the support of the EuropeAid project “Support to Regional Development of Kaliningrad” (EuropeAid/114287/C/SV/RU), which took place on September 22, 2005 served as the follow-up to this research. The results of this conference were reflected in development of practical recommendations for enhancing competitiveness of the Kaliningrad economy as a whole, and its specific sectors in particular.

The present bulletin summarises views and opinions of participants voiced at the conference. It contains practical recommendations and proposals aimed to support Kaliningrad companies and the region as a whole in enhancing their competitiveness. As a separate section of the bulletin, one may find success stories of organisation of activity of development agencies abroad and a long-term master plan for the Kaliningrad Regional Development Agency proposed on the basis of summarising their experience.

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”. Authors of the Bulletin sections are A. Bonstra (Netherlands), S. Brazinskas (Lithuania), G. Bunatyan, V. I. Panteleyev, and A. G. Kharin.

## 1. Competitive Advantages of the Kaliningrad Region: the Present and the Future

Competitiveness – is a multilevel subject. It is formed at the following levels: goods (services), company, sector (market), region and country. At the same time, all these kinds of competitiveness are closely tied and linked to each other. According to the approach proposed by M. Porter<sup>1</sup>, region's competitiveness may be defined as an efficiency of use of region's resources, and first of all its labour force and capital, as compared to other regions, its ability to create conditions for a sustainable development of entrepreneurial structures, social and economic development of the territory.

According to the results of a research previously carried out in the framework of the EuropeAid project «Support to Regional Development of Kaliningrad» and summarising scientific publications devoted to issues of economic development of the Kaliningrad Region, it is possible to identify a group of factors, which render the strongest impact on the region's competitiveness. The major factors, which determine competitive positions and, actually led to the present specialisation of the Kaliningrad economy are as follows:

Positive factors:

- a unique geographic location;
- non-freezing seaport;
- competitive prices;
- a platform for further expansion of business activity in the mainland Russia;
- growing investments;
- Law on the SEZ;
- settled issue of transit via the EU territory;
- customs privileges, provided to local enterprises in accordance with the Law on SEZ in the Kaliningrad Region;
- relatively low cost of labour in the region compared to neighbouring territories.

Besides that we should focus our attention also on difficulties, which impede region's development:

- relatively low level of professional skills of a work force;
- outdated technical capacities of most of Kaliningrad enterprises;
- a low innovation and technological potential of the region.

Combination of these factors has determined development on the territory of the region of productions, manufacturing labour-intensive, primarily, technically primitive mass goods, designed for unexacting Russian consumer. In the international division of labour, the region is positioned as kind of an assembly workshop of Western companies entering the Russian market, specialised in fulfilment of simple operations on producing goods from imported materials and component parts and their subsequent exporting to the mainland Russia. Another specific feature of the region is fulfilment of functions of an inter-modal transport hub, servicing interests of Russian exporters. Within this direction of specialisation, the region has become a place for location of large terminals, which carry out export trans-shipment of Russian energy resources.

It should be noted that many of positive factors, which serve as a basis for current competitiveness of majority of Kaliningrad companies are not sustainable. With the adoption of new edition of the Law on SEZ, the term of provision of customs privileges (absence of customs duties and VAT on imported goods) will be limited to a transitional period (10 years at the most), while their significance will be diminished as the general reduction of tariff barriers occurs following Russia's joining the WTO. Lower labour costs in the region are also an unstable and quickly evaporating advantage. In view of a growing deficit of work force companies are forced to regularly increase the level of salaries paid to their employees with rates often forestalling productivity growth rates (i.e. damaging their competitiveness). This process has also been enthusiastically supported by the regional authorities, which determined growth of incomes of local population up to the level of neighbouring countries as one of the priorities for regional development.

On the other hand, tax privileges that are an alternative to existing customs preferences, which are stipulated by the draft of the new edition of the Law on SEZ, may not either be considered as a real competitive advantage, related to the region's economy as a whole. Firstly, they apply only to very large

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<sup>1</sup> M. Porter. International Competition — Moscow: *Mezhdunarodnye otnoshenia*, 1993.

(in the region's scale) investors, the number of which will not exceed 10-12 even according to optimistic estimates made by the regional authorities. At the same time, it is most likely that they will be represented by large companies, running their core business activities, and consequently, having major part of their competitive potential, outside the region. Secondly, the idea to render privileges to several selected companies, laid down as a basis for the Law, bears essentially an anti-market nature, which has little to do with the real competitiveness. On the contrary, deliberately creating unequal conditions of competition, preferential for some companies and discriminative for others, the Law contains a risk of artificially supporting inefficient and non-competitive companies, whose only advantage will be large-scale initial investments. And, finally, experience of countries with the most competitive economies (Finland, Switzerland) shows that large-scale investments, which the new Law on SEZ is designed to support, are not at all a guarantee of growth of competitiveness.

Thus, both the current growth of the Kaliningrad economy and its forecasted future are not firmly based on any sustainable competitive advantages. The advantages that are used as a basis for the present and proposed models of the region's economic development may be revised and do not fully comply with the principles of market economy. Many entrepreneurs are well aware of that, and so refrain from making long-term investments in the region. So, the Kaliningrad economy is mainly represented by enterprises, which ensure a minimal value added just enough to receive customs privileges, and in the future, as the new version of the Law on SEZ is adopted, it will be based on enterprises, making large-scale initial investments.

This conclusion urges searching real ways to enhance competitiveness of the Kaliningrad economy. Furthermore, in view of the high dynamics of changes taking place and urgency of the problem, the solutions proposed should be of exceptionally practical nature, and results of their implementation should be noticeable yet in the short-term perspective. Opinions voiced by participants of two International Conferences (spring-autumn 2005) organised under the auspices of the Kaliningrad Regional Economic Development Agency became an attempt to answer the question of what competitive advantages of the Kaliningrad region are and where potential for their strengthening should be searched for.

## **2. Practical Recommendation for Enhancing Competitiveness of the Kaliningrad Region**

The international conference «Practical recommendations for increase of competitiveness of Kaliningrad region », held in Kaliningrad on 22 September, 2005, was dedicated to discussion of the basic problems of territorial economic development and possible measures for creation of conditions for enhancement of competitiveness and steady economic growth of Kaliningrad region. The conference was organised as a follow-up of the discussion of the said theme at the international conference “Competitiveness and attraction of investments in Kaliningrad region: priorities, tools, and practice”, which had taken place in Kaliningrad on 12 May, 2005.

Over 80 representatives of Russian and foreign organisations, authorities, and economic-development experts participated in the work of the conference.

According to the conference agenda, four plenary sessions and a general discussion were conducted, and over 20 reports and communications were heard and discussed.

A brief description of presentations and recommendations is given below.

### **2.1. Enhanced competitiveness as response to shrinking world**

#### **2.1.1. Enhancing international competitiveness (D. Ivarsson)**

The challenges set by globalisation are great in number and give us great opportunities, which should be encouraged. First there are the benefits of trade (specialisation and diversification). We should also look at the long term developments: are they sustainable? To make the globalisation successful there should be a reorganisation of the public sector, a change of roles. Leadership and know-how are a key factor in the process of globalisation. Globalisation entails frequent meetings with different cultures. Know-how of business and business ethics are therefore elementary. We have to incorporate the risks by measuring and management.

Globalisation brings us great opportunities, but without acknowledging the challenges that are set by the various outcome of globalisation, we will never fully use its potential. The first opportunity globalisation brings is a more competitive market for inputs. Companies have increased access to a wider range of cheaper and better inputs. Secondly globalisation creates a more competitive market for outputs. There are more clients to attract, greater volumes to trade. There is more space for placing new products and for a higher turn-over and profitability.

Globalisation also brings us larger number of economic operators, which means greater possibilities to find matching business partners and investors. Moreover globalisation means increased exposure to best international practice, therefore greater opportunities to learn from clients and competitors and to gain know-how and experience. Finally globalisation brings internationally recognised rules, regulations and standards. Which means easier access to other markets and less need for local variants

To fully evolve as a company in a globalised world and to maintain your current position on the world market, you should abide to certain key success factors. The first key success factor is to know your firm and address its shortcomings. Secondly you should know your markets, your competition and fill the information gaps. You should ensure profitability, one loss and you are dead. You should be aware that modest plans brilliantly executed give success. Another key factor is focusing on quality: less waste, better productivity, less guarantee calls and lower production costs. Also of key importance is better reliability, better function and longer service life. Clients will be more satisfied and prices can be higher. Use available business support, value it properly, select it carefully and be prepared to pay for quality services. Next you should know your rights, respect the rules, help create a good business environment. By asking for what you are entitled to, insisting on fair treatment, participating in consultations and offering constructive solutions. Another key element is improving the value of the product to the client. You should match your competitive posture to client expectations. You should differentiate products and create and exploit market niches. Finally you should make your competitors irrelevant. Invent new, high-value, low-cost products and find untapped market potential

#### **2.1.2 Shrinking world: how to source & how to respond (A. Boonstra)**

How to source?

Executive management needs to address several questions before choosing a sourcing option. We can ask the following questions: *Can the business objectives be met by outsourcing and to what extent? What should be sourced and why? What risks are involved, what is the likelihood of the risks, what is the impact of the risk, what can be done to manage risks of impact? What is involved in managing and operating an outsourcing deal? What options exist with what impact? What decisions are required to be taken and with what consequences?* These questions are the start for executive management

After this question we start with developing a sourcing strategy to clarify why management should source and how to approach this.



Figure 1: Different roads to enter new market

We can distinguish two key drivers to source. The first one is by sales driven. This is the expansion to a new regional market, sourcing can help entering a new market (for example: attractive market size, fast growing market, proximity to market, reduction of transportation costs and import duties). The second one is by cost driven. Cost driven is the relocation of activities to a low cost region Sourcing can help reduce unit costs (for example: labor cost and abundant technical skilled resources, availability (and costs) of raw materials and intermediate products).

How to respond?

The response of a local partner must be aware of key driver of client and respond to that. It is necessary to create long term relationship and be a select reliable partner. Also is there a must to be aware that cost saving motive can lead to leaving the country after 5-7 years due to inflationary pressure on costs. You have to secure a stable supply of goods/services at agreed upon quality. At least there has to be a focus on cost reductions of the total value chain and a focus on strong market presence.

### 2.1.3 Growing requirements for supplies (J. Berg)

Characteristics of the Universal Thinking are: Task; Structures; Technology; People & Organization. The task of meeting the customers' demands includes two challenges: Producing the quality product fast and cheap and producing many variants or even a customised product. The structures are known as complicated chains or networks. The task of operating within this framework is referred to as: Supply Chain Management. SCM is the integration of business processes from original suppliers all the way to end users with the task of providing products, services and information that add value for customers and stake holders. It may also be described as a co-operation philosophy. Technology could be divided into different types: product, production and control. People and organization could be divided into: skills & competence, spirit & co-operation and leadership. Growing of people and organization need for broader skills and competencies, flexible and motivating structures and visionary leadership.

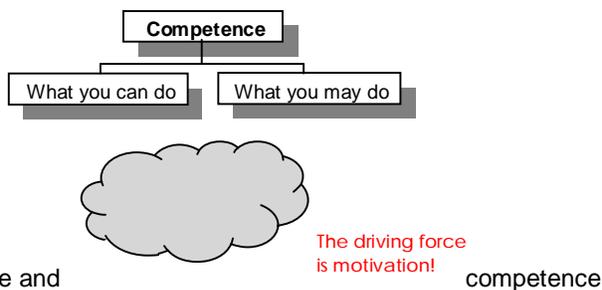


Figure 2: People, knowledge and

Looking at finance, costing and pricing, it is urgent to be in control. Being in control enables you to make realistic decisions based on facts. The purpose of Management cost control is to evaluate and calculate the costs in the value. Cost Management involves value chain (logistic production processes and customer value) and cost chain (the costs related to the Value Chain). The customers' satisfaction and the company's competitiveness are basically determined by a consistency between customer wishes and the products/services.

We can divide five conclusions. Firstly is the process flow and waste perspective still relevant - may be named lean. Secondly modularization and visualisation are important development inputs. Thirdly is it important to keep focus on the entire supply chain/network structure, 80 % of the waste are in between processes. Fourthly the technological limit is the human ability to implement it. At least the human effort depends on being skilled and trusted.

#### 2.1.4. Accelerating innovation process (S. Brazinskas)

Innovation is the conversion of knowledge and ideas into a benefit, which may be for commercial use or for the public good; the benefit may be new or improved products, processes or services . Innovation and technological change are without doubt the main drivers of economic growth at organizational, sector and economy-wide levels. Worldwide studies show that innovation is the key to the competitiveness of businesses and of nations.

Traditional strategy does not always work because of the fact that product-life cycle is much shorter, but also because of an unclear economic situation. Globalization makes tremendous impact and change whole industry structures. Multinational companies compete and dominate against local SME's in many markets and they do not produce anymore, they become R&D and brand owned companies mostly looking for a partnership in the supply chain and finally is it hard to plan where your industry will be in 5-10 years.

What should SME's have the following functions: they identify company's value proposition; clarify market segment; locate and position your company clearly in the industry supply chain; specialize and be innovative through exchange of information and sharing best practice with other companies / partners; be clear about the source's of revenue generation; consider your company as a part of a broader value network; take restructuring decisions with a clear strategic objective in mind; cooperate with international companies and do not compete on brand level.

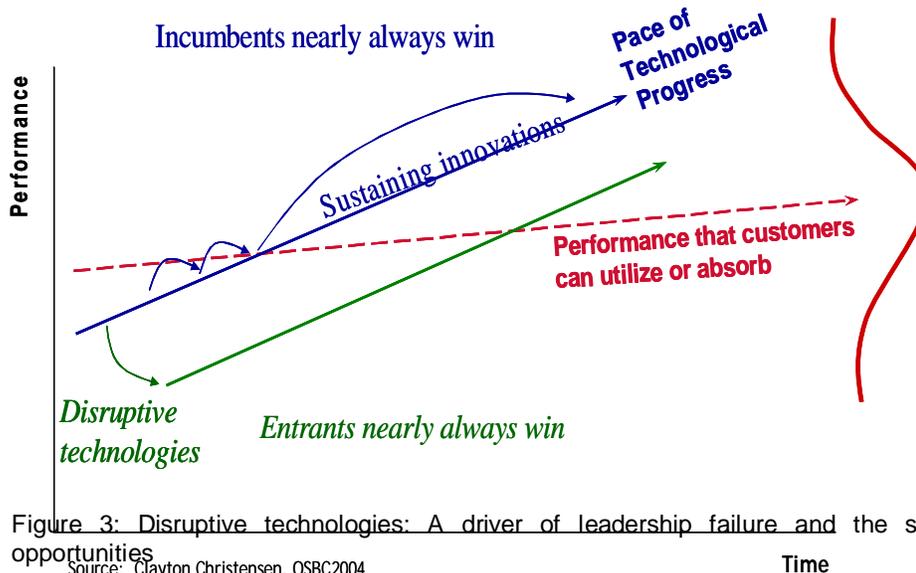


Figure 3: Disruptive technologies: A driver of leadership failure and the source of new growth opportunities  
 Source: Clayton Christensen, OSBC2004

## 2.2. Situation in the Kaliningrad Region

### 2.2.1. The Current and Future Competitiveness of Economy of the Kaliningrad Region (V. Zhdanov)

Since early 1990ies there have been two stages of economic development of the Kaliningrad region. The first stage was marked with a sharp decline in production. In 1998 industrial output in the Kaliningrad region amounted to just 29% to the level of 1990 (46% - in Russia), agricultural output – 48% (56% - in Russia), retail turnover – 42% (86% - in Russia %). The volume of construction reduced in 6 times (4.5 times - in Russia). During this period of time intensive process of structural reorganisation took place in the region, preconditions for region's further development were created, market infrastructure was formed, new ties among economic entities inside the region and with Russian and foreign partners were established. Also, some specific export-oriented and first import-substituting productions were launched.

The second stage of economic development has started in the region in 1999, and it is distinguished with an intensive growth of an output. Domestic investments in basic assets are growing fast after a long period of decline. A material basis for economic growth is created, - enterprises are upgraded and new ones are opened up with a view to processing imported raw materials and supplying goods to the Russian market. Not just the customs privileges of the SEZ and low labour costs, but simplified access for goods on the Russian market (due to their production in accordance with the Russian standards and taking account of preferences of Russian consumers) have also become factors of an accelerated development of import-substituting productions in the region. An advantageous location of the region towards country's major importing regions, an effective logistics and transport communication with foreign suppliers of raw materials, materials and semi-products have also contributed to economic growth.

Table 1

**Indexes of Physical Volume of Industrial Output in the Regions of the North-Western Federal District in Years 1999-2004, percentage to previous year**

<i>Physical Volume of Industrial Output</i>							
Republic of Karelia	122	108	100	103	101	109	149
Republic of Komi	102	106	107	98	103	104	122
The Arkhangel'sk Region	122	130	106	101	119	138	279
The Vologda Region	109	110	99	104	103	106	135
<b>The Kaliningrad Region</b>	<b>104</b>	<b>132</b>	<b>113</b>	<b>110</b>	<b>115</b>	<b>130</b>	<b>255</b>
The Leningrad Region	107	127	110	136	121	110	271
The Murmansk Region	108	109	102	98	103	102	158
The Novgorod Region	115	108	118	108	103	108	176
The Pskov Region	120	111	108	107	104	106	170
City of Saint-Petersburg	106	127	101	131	106	114	215
<i>The Russian Federation</i>	111	112	105	104	107	106	154

The main outcome of the region's development since early 1990ies is that a new structure of economy has been formed, where sector of rendering of services (especially transport, trade and tourism) plays an important role. The share of service sectors in the total number of employed in economy was equal to 62% in 2002, and in production of the Gross Regional Product – 53%.

The sectoral structure of processing industry has changed, because of a considerable increase in production of finished consumer goods. Quality of goods produced has been improved, and they have become more competitive not just on the regional and the all-Russian, but also, to a considerable extent, on foreign markets. The qualitative changes in the region's industry are reflected by an extended range and increased quality of goods, diversified sources of raw materials and target markets. About 60% of industrial goods produced (this share is even higher in the sector of import-substituting productions) account for new types of products, which have not been produced in the region before.

Selection of "profitable" and "unprofitable" (as concerns the Kaliningrad region) productions is going very swiftly in the region. Now, more that 1400 up-to-date passenger cars are assembled in the region monthly of such a standard, which did not exist at all 10 years ago. The same could be stated

regarding 250 thousand TV-sets manufactured monthly, technological equipment manufactured by regional enterprises, furniture, high-quality fish, meat, milk and bakery products. Goods produced in the Kaliningrad region have virtually no differences as compared to the imported products, and sometimes even exceed them in consumer utility.

The industry, producing 24.9% of the Gross Regional Product (GRP), remains to be the basic sector of the region's economy. Shares of other most important sectors of the real economy – agriculture and construction – are equal to 5.7% and 8.6% correspondingly. The importance of the sector of services is growing: the trade and public catering (17.9) take the second place in the share of production of GRP, and the third place is taken by transport and communication (11.1%).

Table 2

**Changes in the sectoral structure of the GRP of Kaliningrad region**

GRP components	2000	2003	Changes (+/-)
Total output of goods,	53.8	40.1	-25.5 %
out of which:			
Industry	38.3	24.9	-35.0 %
Agriculture	7.7	5.7	-26.0 %
Construction	6.9	8.6	+24.6 %
Other sectors	0.9	0.9	0.0
Provision of services, total	41.0	55.3	34.9 %
out of which:			
Transport	7.7	8.8	14.3
Telecommunication	2.4	2.3	- 4.2 %
Trading and catering	11.1	17.9	+61.3 %
Management	4.8	9.7	2-fold growth
Other	15.0	16.6	+10.7 %
Net taxes on products	5.2	4.6	-11.5 %

How will the region's economy benefit from adoption of the new version of the Law on the SEZ in the Kaliningrad region?

Adoption of the law in the new version will lead to creation of new enterprises in the following sectors of economy:

1) The transport complex – construction and upgrading of key facilities, including port facilities, ferry communication, aviation complex, airport, multi-modal transportation, local communication, etc.

2) Agricultural complex – creation and development of large agricultural companies.

3) Construction industry – development of industrial and civil construction (production of construction materials).

4) Tourist and recreational complex – development of the industry, including construction and upgrading of hotel facilities, conference and office centres, development of cultural and historical areas, etc.

5) Power engineering – ensuring of the region's energy independence.

6) Public utilities – improvement of the environmental situation as a result of construction of treatment plants, introduction of new technologies of waste recovery.

7) Integrated development of territories by means of mass mortgage construction with a view to meeting population's demand for dwellings.

### 2.2.2. Advantages and pitfalls in company-company co-operations (N. Gabrielson)

An SME network must prove its worth! We can distinguish three drivers for SME collaboration. Firstly, the large companies reduce the number of direct suppliers. Secondly the large companies demand (R)&D resources and global presence. At least is the price not a (long term) factor of competitiveness.

Why do we joint co-operation? On the one side is by an economies of scope that's based on a higher complexity of products (system supplier), specialization & flexibility (R&D resources) and innovation power (knowledge transfer). On the other side by economics of scale, that's based on cost reductions (by production, logistics and distributions and purchasing), broader customer interface and "lobbying" power for the market position.

The risk of collaboration situated on the leakage of confidential information, the uneven distribution of power and loss of control, the high costs and high input of time, the dependence on external support and/or the scepticism of customers. This scepticism arise from a failure to deliver, a breakdown of communications or insecurities about the future of the network.

There are two generic objectives of collaboration: added value of the participants and of the customers. The objective of collaboration added value of the participants that consist of the strategic fit (what benefits could be achieved?), the collaboration atmosphere (what is needed to achieve the benefits?) and the management measures (what could we do to steer the process?).

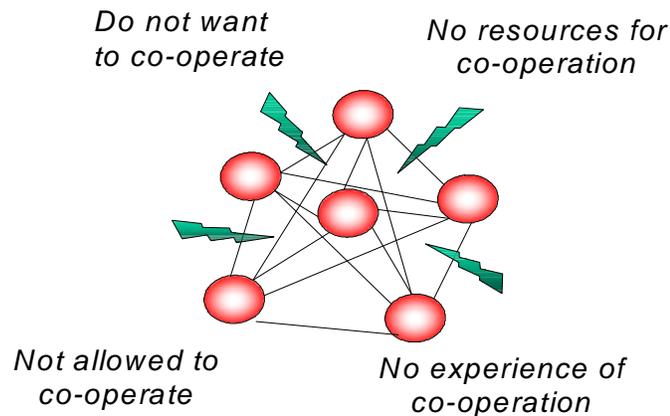


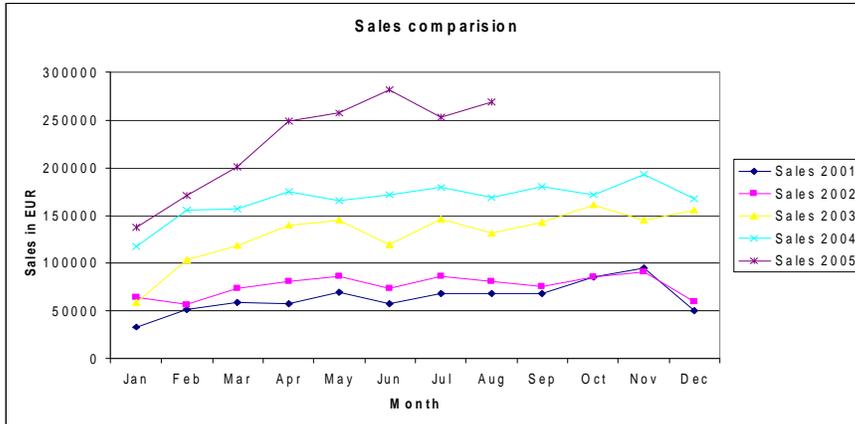
Figure 4: Strategic fit

### 2.2.3. Main trends tendencies in themarket of transport services in Kaliningrad region: challenges and opportunities (Kalashnik)

The challenges are numerous, we can identify the following. Price damping on the part of Polish and Lithuanian carriers. Toughening of technical requirements to the rolling stock on the part of EU countries. A redistribution of the freight traffic for the benefit of railways and sea transport. Growth of the

cost price of automobile services due to the rise in prices of fuel, taxes and transit charges in EU countries. Growth of the share of small batches in cargo transportation. Higher requirements on the part of customers to delivery in due time. A challenge is also the high degree of competition on the road transportation market. About 1000 independent automobile carriers are registered on the local transportation market, and 2500 articulated lorries, of which about 170 are ASMAP members. Another challenge is the reduction of the transport turnaround time, because of the duration of customs registration of freights on the border of the Russian Federation. Finally there is the challenge of discrepancy of the capacity of existing sea infrastructure for handling container cargo traffic to the current needs of regional economy.

The opportunities can be identified as follows. Firstly there is the advantageous geographical position of region for transit freight flows. Secondly the large potential for development of internal transport infrastructure in Kaliningrad region. The next opportunity is the trend to growth of the border cross-points capacities. Finally there is the relatively favourable tax and investment environment for road transport carriers.



### 2.3 Respond of KGD businesses to approaching challenges

#### 2.3.1. Establishment of the Foreign Investors Association (A. Grove)

In Kaliningrad, foreign investments will contribute to the local economy by firstly providing investment capital for economic growth. Secondly by contribution to innovation and development of business culture in general. And at last by contribution to integration between Russian and European and world Economy.

There is a need for an improved dialogue between foreign investors and local authorities, stakeholders and local business community. The level of foreign direct investments in Kaliningrad is low. One of the reasons for this is the general image of the region and especially the investment climate in the region.

One of the important steps to improve foreign direct investments in the region is to improve the dialogue between foreign investors and local stakeholders, including authorities and the local business community.

The subjects for dialogue are specific questions for the individual companies as well as questions related to the general business environment: General issues for Russia as such general unstable legal situation and, weak legal enforcement, corruption and language and cultural barriers.

In addition for Kaliningrad the unclear situation, related to the exclave status, which includes the law on SEZ and the transit of goods to mainland Russia.

The best of world experience will be used in the activity of the Association of Foreign Investors. In different regions of the world different approaches are used by the authorities and by the investors. In some regions the authorities take the initiative as e.g. Invest in Denmark or Invest in Japan, where the authorities want to attract foreign investors. In other regions the initiative is taken by the investors already on the spot or to be investors as Foreign Investors Associations in other regions the investors and the authorities have created Foreign Investors Council (as e.g. Estonia, Ekaterineburg, Moscow, Romania), where both investors and administration is represented.

Different models have been discussed in Kaliningrad since spring 2004. Last autumn a group of investors and representatives of foreign representations in Kaliningrad decided to create an association of foreign investors in Kaliningrad. The group of investors was not big and homogeny and the discussions were not easy – the group was new, unstable, no experience in organisational work, with different visions and priorities and nobody have tried to set up an association of investors. In addition the work was done on a voluntary basis, with limited administrative assistance as well as legal assistance for preparation of the charter offered by my office.

According to the charter of FIAS the members are the investors. Representatives of foreign representations in Kaliningrad constitute the advisory board of FIAS. The advisory board also includes the president of the Chamber of Trade and Industry in Kaliningrad as a link to local the business community.

The overall objective of the Association is to unite, as far as possible, all foreign investors acting in the Kaliningrad region with the aim to contribute to building a favourable investment climate in the Region, the legislation related to the protection of foreign investors rights and to contribute to exchange business experience and to expand education possibilities for young entrepreneurs and specialists. Another aim is to develop and expand local bank and credit system facilities and to attract new technologies and know-how to the region. Furthermore is there the object to support businessmen intending to invest in the economic development of the region and to extend partner relations between Russian and foreign companies. At least is there an aim to conduct joint seminars and meetings and to provide foreign investors with profound information on business possibilities in the Kaliningrad region, priority sectors for investing and to take part in the dialogue on the strategic economic development of the region.

The prospects of activity of the Association of Foreign Investors in the Kaliningrad Region are connected, first of all, with the region's high potential for economic development and growth. In order to be able to give an important contribution to the realisation of this potential the Association will need to adopt a concept of continuous development as well, which will include development of efficient internal organisation, in order to serve the needs of the investors and support an improved dialogue between local and federal stakeholders. FIAS will also need to adopt a good stable working relations with administrative structures at relevant level, in order to meet the needs of its members. But also good working relationships with local as well as relevant foreign business organisations to the benefit of local and foreign investors and the region. The advisory board and a regular and systematic dialogue between the Association and the authorities is necessary to be able tot give an important contribution to the realisation.

On the basis of a multiyear experience of presence in the region of the Association's member investors a number of recommendations was proposed, which are designed to support enhancement of investment attractiveness of the Kaliningrad region.

Kaliningrad region should develop a clear foreign investment policy, taking into account that foreign investors moving to Russia are comparing the risks and benefits of different regions. The foreign investors ask: where can we be sure that we will get return on our long-term investments. Within this policy to enhance foreign investments in Kaliningrad the stability in regulation and law enforcement should be addressed.

But they have also to improve clarity and efficiency in administrative services, transparency in real estate market and financial market, improve in infrastructure for transport, energy, water, waste and environment, technical education, financial services and improve logistic services.

Furthermore is it necessary to continue development business development policy around the concept of industrial clusters.

And finally to support an improved dialogue between business, administration and society by taking advantage of the existing of FIAS.

### **2.3.2. Quality issues (ROSK)**

Regional Advisory Council on Continuous Quality Improvement has a lot of activities. They assisted to development and implementation of the Regional Quality Program, and to the establishment of the Regional Quality Prize Foundation. Promotion and support for quality initiatives is another activity. Furthermore are they looking at establishing, strategic management and creation of institutional and legal conditions for functioning of the Working Group.

There is an activity based on resource support of the Working Group functioning, of the Regional Quality Programme. Preparation of recommendations for introduction of quality management systems and popularisation of quality principles is also one of the activities. At least can we distinguish activities like monitoring of the Regional Quality Programme. Preparation of reviews of situation with quality in the Kaliningrad region, assistance to participation of organisations in contests at the Russian and international levels and integration of initiatives in the sphere of quality.

The next figure shows the philosophy behind all the activities above.

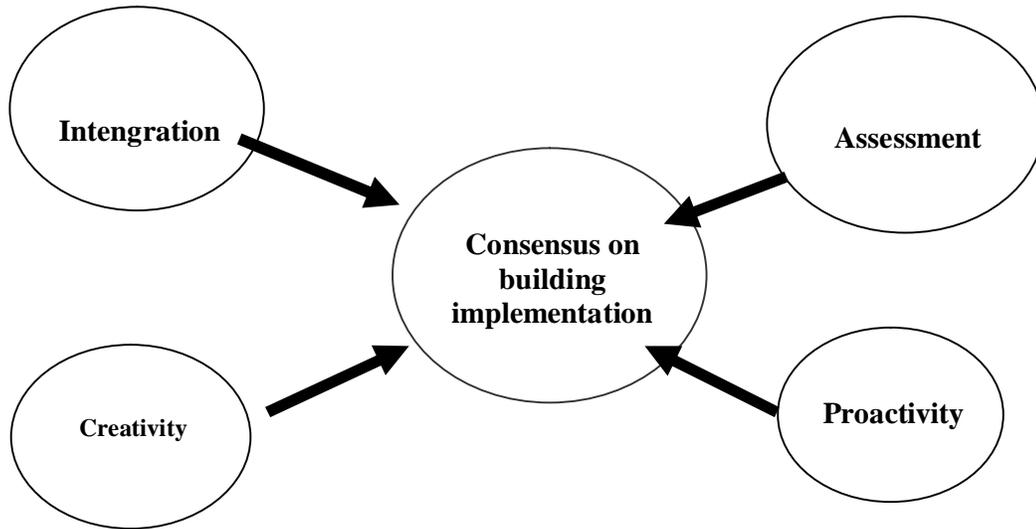


Figure 5: RAC philosophy

**2.3.3. De-bureaucratisation (S. Vlahovich)**

It is difficult to asses what the cost of administrative, customs and other bureaucratic barriers in the economy is and what the benefit from their absence is. Each entrepreneur has his own estimates of expenditures related to overcoming these barriers. However, from our experience of working in the conditions of the Kaliningrad SEZ, advantages for entrepreneurial activity in the region are obvious. Even if raw materials and materials used in the production of goods are not subject to the free customs zone regime (as it is the case at our enterprise), the duty-free, and more importantly, fast delivery of import spare parts and materials required for the equipment remains a substantial advantage. This is especially important for large-scale and technically sophisticated productions. Those customs procedures that may take several months in other Russian regions and require engagement of a number of specialists are solved during a few days in the region by one employee. Thus, simplified customs procedures are a real advantage of the Kaliningrad region as compared to other regions of Russia.

As we see it, the region’s future is in further de-bureaucratisation of its economy. This will allow to even more strengthen position of the Kaliningrad region as a “testing ground” and a “launching site” for foreign entrepreneurs, willing to work in Russia.

## **2.4. The Regional System of Competitiveness Support**

### **2.4.1. Improvement of the regional legislation, regulating investment processes in Kaliningrad region (M. Belonogova)**

The concept of improvement of the legislation, regulating investment processes in Kaliningrad region can we define as a creation at the regional level of an advanced mechanism of legal regulation of investment processes, based on uniform principles and coordinated policies of regional and local authorities in direct dialogue with the Russian and foreign business circles, by improvement of the current regional investment legislation through adoption of necessary laws and statutory acts and elimination of the gaps and contradictions in the legal regulation of these relations.

There are a lot of tools for legal regulation of regional investment processes. One of them is the establishment of a system of preferential taxation and differentiation of tax rates regarding the part of the tax transferred to the regional budget. Another tool is the provision of financial aid in the form of grants, subsidies, subventions, or budgetary loans for development of priority territories, industries, and manufactures. Besides is there an opportunity by implementation of a special financial, crediting, depreciation, and pricing policy. Another tool for legal regulation is the establishment of a system of guarantees for protection of investments. At least is the tool of ensuring legal regulation of creation and activities of the structures, providing support to the investment process (investment attraction agency, investment commissions under regional administrations, mortgage funds, accreditation of participants of investment activities, etc.).

### **2.4.2. Business Informational Centre**

Business Informational Centre on EU Legislation aims to provide widespread support for Kaliningrad enterprises in informational assistance sphere and legal support for their initiatives and projects, which aimed at strengthening of competitive activities on EU markets and introduction the new mechanisms of cooperation between entrepreneurs of Kaliningrad region and European Union. BIC delivers services like informational retrieval in EU legislation databases, seminars and trainings on EU commercial law, analysis EU legislation with expert comments, advice on general questions of EU legislation, registration the representative offices and branches of Kaliningrad companies in EU countries and legal support for leasing contracts with EU partners.

### **2.4.3. VOSS: One stop shop for investors**

VOSS is a Virtual One Stop-Shop for providing services to Investors. It is an informational resource an a system for informational servicing of investors (available informational data bases, provision of access to up-to-date information about investment opportunities and 'rules of the game' in the region – all in one source).

#### ***Main objectives of the VOSS***

Provision of structured up-to-date information (from a single source) tot investment process participants. A tool for shaping and promotion of the regional and municipal marketing products and for attraction of investments.

Critical success factors are the client (customer), the executive (support, updating, informational services), the region 'selling' strategy, information + its presentation design, marketing products and the promotion of VOSS.

## **2.5 Recommendations**

Over 80 representatives of Russian and foreign organisations, authorities, and economic- development experts participated in the work of the conference. According to the conference agenda, four plenary sessions and a general discussion were conducted, and over 20 reports and communications were heard and discussed. As a result of the discussion, the conferences participants have adopted the following recommendations.

#### **The Conference recommends:**

1. The authorities of Kaliningrad region - to accept as priorities of economic policy and to envisage in the plan of actions for implementation of the Strategy of social and economic development of Kaliningrad region as a region of cooperation till 2010 the following directions:

- development of the investment (marketing) strategy of Kaliningrad region;
- formation of the investment infrastructure, including maintenance of functions of the regional Investment Attraction Agency, realising regional marketing policy on the permanent basis and

providing services to potential investors in close cooperation with the authorities of Kaliningrad region;

- gradual formation for potential investors in target physical infrastructure;
- creation of favorable conditions and incentives for development of investment activity, including the mechanisms of the private-public partnership, development of industrial clusters, and improvement of quality of manpower.

2. The Administration of Kaliningrad region and the Agency of Regional Development: to consider efficient models of formation of the infrastructure of the Investment Attraction Agency of Kaliningrad region, by delegating the functions of realisation on the constant basis of marketing policy of the region and of providing services to potential investors.

3. To approve the initiatives of the Regional Economic Development Agency, implemented with the support of the EuropeAid/114287/C/SV/RU project "Support for regional development of Kaliningrad", concerning development of investment activity in Kaliningrad region, including such directions of work as:

- Assistance for formation of the regional infrastructure of the Investment Attraction Agency (IAA) and creation of a network of interaction between the IAA and municipalities in the region
- Creation of a system for provision of informational services to investors (the OSS Service Centre for Investors)
- Preparation of recommendations for development of the regional marketing strategy and municipalities in Kaliningrad region
- Assistance for creation of legislative conditions, favourable for development of investment activity in Kaliningrad region
- Adaptation of European experience of economic development and development of methodological support to investment policy in Kaliningrad region.

To address the management of the Regional Economic Development Agency and the EuropeAid/114287/C/SV/RU project "Support for regional development of Kaliningrad" with a request to prepare proposals on further development of investment initiatives in the form of new projects, and on potential sources of funding for implementation of such projects.

4. To address the Ministry of Economic Development and Trade of the Russian Federation, the Ministry of Regional Development of the Russian Federation, and other Federal agencies, implementing public policy, concerning economic development of Kaliningrad region, with the proposal to take into account the issue of the use of tools for enhancement of competitiveness of the region, used in European practice, in the course of updating of the Federal target programme of development of Kaliningrad region till 2010, and in the course of preparing other measures of public support.

### **3. Master Plan of the Kaliningrad Regional Economic Development Agency and Establishment of the Investments Promotion Agency**

One of the recommendations of the International conference "Practical Recommendations to Enhancing Competitiveness of the Kaliningrad Region" was a proposal to further improve performance and strengthen potential of the Kaliningrad Regional Economic Development Agency. In this framework, a master plan for the RDA was prepared by the experts of the EuropeAid/114287/C/SV/RU project. Its authors used their experience of cooperation with many European development agencies, while especial emphasis in elaboration of the Agency's development strategy was placed on summarising and analysis of performance of agencies in countries with economy in transition. The materials presented by the authors are mainly of a practical nature. The basic thesis of the proposed Master Plan designed to be a substantial contribution to the support and enhancement of the competitiveness of Kaliningrad businesses are given below.

#### **3.1. Key Steps of Establishment of the Regional Development and Investment Promotion Agency**

##### **3.1.1. The Regional Development Agency – a leading regional policy and business advisor**

The fund "Regional Economic Development Agency" (briefly named as "Regional Development Agency") is a not-for-profit organisation, founded following the initiative of the Ministry of Economy of Russia in November of 1999. The Administration of Kaliningrad Region and the All-Russian Scientific and Research Institute of External Economic Links at the Ministry of Economic Development and Trade of Russia have become the founders of the Agency.

The main objectives of the activity of the Regional Development Agency are support of an integrated social and economic development of Kaliningrad region and development of new mechanisms of co-operation between Russia and EU, mainly in Kaliningrad region. Achievement of the indicated objectives is implemented by the Agency by means of a joint work with the Federal executive authorities,

the Regional Administration, European Commission, business society, scientific and educational organisations.

With a view to successful coordinating of actions between experts of the Agency and Administration of the Kaliningrad Region a Memorandum of Cooperation was signed, which sets priority directions for the Agency's activity as follows:

1. Implementation of the Strategy of Social and Economic Development of the Kaliningrad Region as a Region of Co-operation up to Year 2010.
2. Support to elaboration of the Federal policy towards the Kaliningrad region, policy advice.
3. Analysis and development of the labour market in the Kaliningrad region.
4. Development of export potential and attraction of investments in the region.
5. Creation of an effective infrastructure for economic development.

The institutional and structural changes, which took place in the activity of the Regional Development Agency in 2003-2004 caused a considerable strengthening of its positions both as an influential policy advisor and a leading regional consulting centre for issues of economic development. Owing to that, the Agency has become a real actor able to propose effective ways of solving social and economic problems, to estimate possible effects of corresponding policy and economic decisions taken, to support implementation of necessary changes by the State authorities and business community designed to solve problems of regional development. The reputation and experience gained during previous years, prospective tools developed along with the Agency's organisational capacities lay down a solid foundation for its future activities.

In 2003-2004, owing to technical support by the EuropeAid project "Support to Regional Development of Kaliningrad", as a result of a constructive cooperation with the State Federal and regional authorities and local stakeholders, creation and testing of major tools of the Agency's activity have been mainly completed. In the short-term, use of these tools will serve as a reliable basis allowing to strengthen positions and influence of the Agency. The task for the Agency for the next years will be further improvement of tools developed, their elaboration and adaptation in accordance with contemporary requirements.

Taking account of the mentioned above, a work has been carried out with the assistance of the Project experts, which resulted in development of a Master Plan for the Agency's development, which is designed to be a substantial contribution to the support and strengthening of competitiveness of the Kaliningrad region.

Development of the Master Plan, first of all, required to clearly identify services of the Agency that will be mostly demanded in the long-term perspective. At that, the authors' reasoning was based on the fact that for small countries and regions there is an important necessity to combine "under one umbrella" two main functions, which are basic services of any development agency and are engines in field of business development. These are services on investment promotion and development of trade. In various countries, many institutions of business support, fulfilling functions delegated by local governments, further extend range of their activities covering such fields as tourism, SMEs development, promotion of introduction of technologies and innovations in the regional development. Specific directions of activity vary from one country to another.

However, despite such an extended approach, a number of functions, for instance such as investment promotion and internationalisation (export, cooperation, subcontracting) remain the principal direction of activity of State authorities in the field of business development and agencies for attraction of investments (or other institutions, authorised to render these services).

### ***3.1.2. Linking trade and investment promotion***

Major trends underway include combining trade and investment promotion; a new emphasis on clients; better ways to measure performance; and ways to optimise staff performance. These have emerged in the context of government budget cutbacks and growing demand from firms, business associations, other government agencies and parliaments.

Many organizations are combining the functions of trade and investment promotion. Among trends driving this are business demands for a "one-stop shop" for trade and investment support services; a push for cost efficiency; and the impact of changing trade and investment patterns. In the course of analysis and decision-making on functions of the Agency, the main attention is paid not to the structure, but objectives of its activity. An answer to the question whether combination of functions of promotion of trade and promotion of investments is necessary largely depends on the country's (region's)

size, business culture, efficiency of expenditures and many other factors. In either case, both trade and investment promotion services find themselves addressing the growing impact of regionalisation.

Vision of a RDA might be addressed to cover existing demand of promotion and development of the region and to narrow a gap where services of private sector are not applied.

### **3.1.3. Vision and mission of RDA:**

Kaliningrad region will be a prosperous area with a dynamic development for EU and Russian cooperation.

The RDA aims to be the main service provider of relevant economical information, meetings needs of investors and enterprise support.

Vision and mission of RDA:

- To attract investment into the region (foreign and local)
- To promote cooperation between local indigenous industries and foreign companies
- To build image of the region as an attractive place to do and expand business

The RDA could follow one of the best information sources such as [www.fdicenter.org](http://www.fdicenter.org) which provides comprehensive information for development, structure, tools and other key issues for effective and result oriented services for investment promotion. This is a key source and it is recommended to be used. Many foreign RDA's follow this material and adopt in their daily activities.

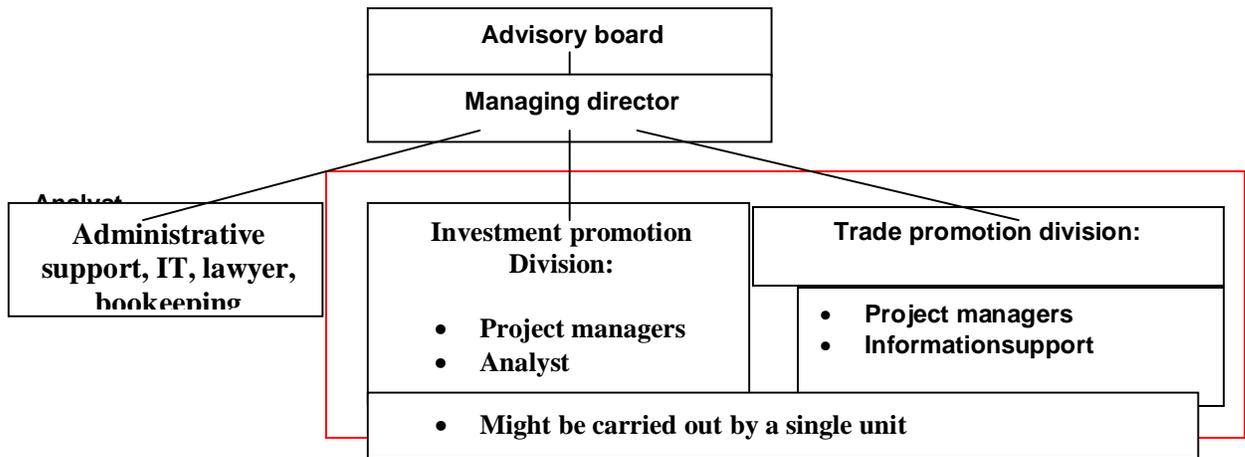
### **3.2. The Model Structure of the Agency**

The objectives and tasks of activity of the Agency determine requirements to the organisation's structure. It should be rather flexible, while stakeholders should be entitled to choose a model most suitable for them. In most countries, the RDAs are non-profit public organisations within State authorities (Ministry of Foreign Affairs, Ministry of Industry and Trade, within a municipal or regional administration or may even find itself under a general jurisdiction of a ministry or municipality).

It is already common that an advisory board defines general and strategic directions for activities, services and results set for the RDA. A board contains from various organizations: representatives from national and regional authorities (ministries, municipalities), associations, confederations. Representatives from private companies also could be on the advisory board too.

The regional development agency is a consulting company in a broader perspective there might follow a common practice for organizational structure. Management of a RDA follows a typical functional structure. However there are some models where a matrix structure is available as well (for special tasks assigned). An agency is led by a managing director According to the number of staff a deputy director could be assigned.

Further the staff is divided into functional (investment and business promotion) and administrative (financing, IT, secretary etc.) divisions. Project managers are assigned for various tasks who are able to work on a self-motivated base, have an appropriate education (economics, business administration, legal, management), communication level, language, communication, presentation skills, entrepreneurial spirit. One of advantages for project managers is an availability of experience in private business. This facilitates to understand needs of business and communicate with it at an appropriate and more efficient way.



Pic. 6. A traditional organizational structure of the RDA

Project managers could carry out tasks divided according to their specialization:

- Functional (enterprise development, regional marketing, investment support, regional development)
- Geographic (defined activities in certain areas according to a project manager)
- Sectoral (specialization in a certain sector, companies: food processing, furniture etc.).

Management decide which specialization is appropriate mostly however in a small organization a sectoral specialization is among dominating as events, exhibitions, missions are getting even more specialized.

Functions mentioned under Investment and Trade promotion could be carried out by one single division or separately. The main issue that trade support can not be neglected by a purely investment promotion oriented institution.

Project managers are driven force of the RDA operating on a pro-active approach.

A lawyer could support RDA's activities with following services: guide of foreign companies with initial services on business establishment conditions, taxation, contract rules.

An analyst could support RDA's activities with following services:

- identification of target countries from which investors could be attracted,
- presentation reports on most developing sectors which attract investors,
- development and maintenance a database of sites / buildings in a region.

### 3.3. Choosing specialisation and investment sources

One choice facing many RDA's is whether to combine investment and export promotion in one agency. The combination is often a tempting one for government officials because it is less expensive than operating two separate agencies.

Nevertheless, the following aspects should, first of all, be taken into account when making a choice of the future specialisation of the Agency:

- While trade and investment promotion require common expertise in some areas (such as marketing and knowledge of foreign markets), they are really two different functions.
- Trade promotion helps domestic firms find overseas markets. Investment promotion, however, aims to attract foreign firms into the domestic market. This difference in focus is significant, and it is preferable that these two functions be managed separately.

Investment promotion and trade promotion approach the same company differently. Different techniques must be used, and different units and individuals must be targeted, depending on whether a foreign company is approached as a potential investor or as a potential purchaser. Combining these functions into a single agency can dilute the RDA's focus on its message and its market. Investment promotion involves persuading a company's top management to commit resources to a foreign country for the medium to long term. This decision requires input from senior management and

approval from the chief executive and board of directors, and a decision to go ahead can take many months or even years to obtain. By contrast, middle or junior managers typically make the decision to import goods from a new source or identify new forms of cooperation (subcontracting, sourcing). Export promotion activities generally target these individuals, who usually do not need top management approval except for very large purchases, and have a quick decision-making process. They also operate within much tighter time constraints. The efforts of the investment promotion and trade promotion personnel in a combined agency are often directed at the same market, but the techniques, businesses and individuals targeted are generally different.

Specialization (promotion of investment, trade or both) remains among the main issues for stakeholders to define which model might be adopted. The decision depends on following indicators:

- Staff size and structure (preferably more than 10 employees would allow to combine both services where also a matrix structure could be formed for particular assignments such as arrangement of an exhibition trying to identify both – potential investors and promote local companies abroad)
- Staff qualification (rather large number of services link to lower level of services which are more general and just marketing oriented). This would limit to act as consultants and deliver services with higher value added
- Financing (if the budget is financed in an appropriate amount and there is no need to charge local companies the RDA could work on more investment attraction. However shortage in budget will require to deliver service which generate incomes, here local companies could be almost the single source to generate incomes. In this case the RDA should launch services directed to promote export)
- Staff qualification (rather large number of services link to lower level of services which are more general and just marketing oriented). An example of a narrow specialisation of the RDA's activity is identification of potential investors or promotion of local companies abroad.

However it is obvious that it would be rather difficult to run an agency just for investment promotion.

Some reasons describe that

1. Many investors require to identify a network of local companies as potential sub-suppliers for deliveries for their companies which will be built under investment. The RDA could play dominating role in this function. Usually local companies are better known by those project managers who are involved in trade / business development. Thus the RDA would carry out both functions.
2. The RDA promotes a “product” – region – as a whole unit which consists from incentives, infrastructure, qualification, local indigenous companies and could contribute to facilitation of an investment process. The quality of a “product” causes size of investment and export growth. Thus the RDA has to be committed and interested about quality of a “product” where it is described by contribution to improve investment climate, infrastructure (more investment promotion function) as well as companies -training, standards, competitiveness (more trade related promotion). Thus the RDA would carry out both functions.

Therefore a strict border is rather “invisible” between investment and trade promotion functions, they overlap each other often. The RDA has to decide itself up to which level promotional activities go and make clear statement about it.

Financing part is one of the most crucial of the RDA in order to sustain continuous development. However it is vitally important to define and it is stressed again what functions are carried out by the RDA: investment promotion, trade development or both. If an agency is involved in investment attraction purely there is almost the only way of financing – budget and / or various programmes (local, international) additionally. It is a world practice that foreign investors searching for a location for their investment will not be charged. Therefore it has to be understood by stakeholders and planned each year. Invested amount for a RDA will be returned by investments under paid taxes by multiplied effect.

Another issue remains for budget construction of an RDA. Generally there is a need to finance 2 types of costs:

- Оплата труда персонала Агентства (с начислениями) и создание условий для его деятельности (аренда помещений, услуги связи, Интернет, автомобиль);
- Финансирование основной деятельности (массовые мероприятия, публикации, обучение, рыночные исследования, разработка сайта в Интернете, создание и ведение баз данных, получение и распространение информации).

It has to be clearly understood that staff has to be paid by a budget exclusively. However there are opportunities to identify additional financing sources for activities (e.g., EU TACIS, cross-border programmes, Swedish International Development Agency ([www.SIDA.se](http://www.SIDA.se)), the European Bank for Reconstruction and Development ([www.EBRD.org](http://www.EBRD.org)), International Finance Corporation ([www.IFC.org](http://www.IFC.org)), Kreditanstalt fuer Wiederaufbau ([www.KFW.de](http://www.KFW.de)), the National Agency for Enterprise and Construction ([www.EBST.dk](http://www.EBST.dk)), the Swiss Import Promotion Programme ([www.sippo.ch](http://www.sippo.ch)), the Swiss Organization for Facilitation Investments ([www.sofi.ch](http://www.sofi.ch)) and many others) where the RDA has to develop a strategy how to approach these funds for possible financing. These funds do not provide financial support with direct financing injections for staff (salaries) however they could support various activities where synergy created between a direct government and an international support could lead to tangible results.

If an agency carries out trade promotion activities also its budget is formed from several sources and it is more flexible model to form its budget. In that case, the sources of funding will include:

- ü Direct government support
- ü Incomes from local companies under specific activities such as training, consulting, partner search abroad
- ü Incomes from foreign companies where they could pay for partner search activities in a country, arrangement of inward missions
- ü Project management (as administrative, consulting support).

If the RDA carries out both tasks (investment and trade) the generating unit will become the trade department which has more flexibility to charge local companies in particular. Such combination is very important from a management point of view in order to avoid misperception among staff and equalize deliverables for motivation. It might cause a situation that trade department might want to be motivated in financial package more (as a consequence of generating incomes) what would be not fully correct as the RDA is reaching the same goals as a single unit

One of the major points in securing the financial standing of the RDA is its pricing policy which has to be quite different. It does not have to compete with private sector and its price level. The RDA being non-profit institution has to work on cost-covering pricing policy (to cover operational costs where staff is financed by the budget).

### **3.4. Functions and Tools of the Agency's Activity**

The fund "Regional Economic Development Agency" (briefly named as "Regional Development Agency") is a not-for-profit organisation, rendering marketing and consulting services, while its services are often delegated by governmental authorities. Ordinary business companies (consulting, legal, marketing) do not provide such services (as the RDA does) at all or provide on private base for foreign and local companies. However these services are demanded and needed by business therefore governments have already taken decisions to establish and support such agencies.

Quality of provided services is very closely linked with continuous improvement of staff skills therefore some agencies revise it and make focus on one or another line (described below). However the overall picture remains the same.

Functions of the RDA are directed in 3 core lines mostly:

- **Information:**
  - ü Generally: lobbying, development of site database, development of companies / local suppliers database, publications, leaflets, CD, gifts-away, presentation materials, movies
  - ü for foreign companies: about country's legal environment, taxes, incentives, business establishment, useful links, partner search, logistical facilities and other
  - ü for local companies: about international requirements, current trends in company's and product development, business inquiries, sources of database for potential partners abroad
- **Consulting:**
  - ü how to penetrate foreign markets, export capacity audits, presentation materials, sales messages, tools to identify foreign partners, training of local companies, municipalities, how to establish business and expand it
  - ü project management
- **Organizing:**
  - organizing of inward / outward sales missions, seminars, conferences, workshops, companies visits, site visits.

The RDA could implement various tools in its practice where the range of them is described by some factors similar to those which impact structure and specialization: staff size, structure, skills, budget.

Tools might distinguished according to the next schema:

<b>Tools for foreign companies</b>	
<b>Proactive (initiated by the RDA)</b>	<b>Responsive (reactive)</b>
Internet (legal, general information, features and advantages for a region, success stories, testimonials, databases of sites, local suppliers)	<p>The RDA's staff simply responds to requests (investment, trade) which are got by e-mails, mails, faxes, phone calls.</p> <p>All activities belong to this segment which are inspired by contacting from sources which are outside the RDA.</p> <p>These inquiries are difficult to be predicted, incoming flow is fluctuating</p>
Direct marketing (mailing campaigns, processing of response sheets and follow-up)	
Phone calls, e-mail leads, processing of response sheets and follow-up	
Events (conferences, presentations, investor forums)	
Trade fairs (international, specialized), inward / outward missions)	
Established contacts with intermediaries (agents, consultants, law firms)	
Advertising	

As the RDA will be impacted by trade development in larger or more narrow scope it is important to distinguish tools to be applied for local companies as well.

<b>Tools for local companies</b>	
<b>Proactive (initiated by the RDA)</b>	<b>Proactive (initiated by the RDA)</b>
Internet (training, customs, events)	<p>The RDA's staff simply responds to requests of local companies on various subjects such as export/import tariffs, where to find information about perspective buyers etc.</p> <p>All activities belong to this segment which are inspired by contacting from sources which are outside the RDA.</p> <p>These inquiries are difficult to be predicted, incoming flow is fluctuating</p>
Enterprise export development programmes	
Training and consulting (penetration of foreign markets, export capacity audits, quality management, presentation material, search of potential partners)	
Information (market information, databases of potential companies, business inquiries)	
Facilitation to establish contacts with foreign companies	
Trade fair participation (international, specialized), inward / outward missions)	
Facilitation to establish contacts with intermediaries (agents, consultants, law firms)	

### **3.5. COOPERATION WITH OTHER PARTNERS**

To be successful in investment promotion requires effective cooperation between the RDA and other organizations in each location. During the development of an investment promotion strategy, other public and private sector agencies which could provide assistance in the development and delivery of image building, investment generation, and investor servicing should be considered for potential partnerships. Not all activities can benefit from such partnerships. The objective of this module is to help to determine which activities are best undertaken together with other partners, and how the resulting relationships should be managed

#### **3.5.1. Defining Partnerships**

For the RDA, a partnership can be defined as a joint working arrangement with public or private sector agencies to develop or deliver components of the investment promotion program. The partnership can be identified and developed by the RDA or by any agency with a role to play in the investment process. It can be a formal or informal relationship. The key element is that it aims to meet objectives that can be better achieved by working together than they can individually. Only those partners that can add value to the particular set of activities to be undertaken and bring resources to bear should be involved.

Several important questions should be considered from the outset: What are my partners trying to achieve through the partnership? What are the specific objectives? How will success be determined?

### 3.5.2 Potential partners abroad (in target countries)

К числу потенциальных организаций-партнеров Агентства в других странах и регионах можно отнести:

- Chambers
- Sector associations
- National development agencies as initiators of various programmes
- Investment and trade promotion agencies
- Honorary consuls
- Embassies of the own country
- Legal and consulting companies
- Venture funds
- Banks

### 3.5.3. Особые партнеры

The RDA can enhance its competence in partnership with following organizations:

- **WAIAA (World Association of Investment Attraction Agencies, [www.WAIAA.org](http://www.WAIAA.org))**

The World Association of Investment Attraction Agencies (WAIAA) was established in 1995 and is registered as a non-governmental organization (NGO) in Geneva, Switzerland. The Association currently has 177 member agencies from all over the world. WAIAA acts as a forum for investment attraction agencies (IAAs) to provide networking opportunities and facilitate the exchange of best practices in investment promotion. Membership is open to all agencies whose prime function is to promote any country or territory for investment.

#### **Benefits of being a member of the WAIAA**

Members benefit from three types of services: Publications, Training and Networking

**1. Publications:** WAIAA Members regularly receive the following:

- The quarterly WAIAA Newsletter;
- The fortnightly WAIAA Electronic News Bulletin;
- A selection of investment-related publications of WAIAA's Consultative Committee members (UNCTAD, MIGA, FIAS, UNIDO and OECD).

**2. Training:** WAIAA provides a full Programme of training workshops organized independently or in cooperation with other international organizations and private companies. Participation in these workshops is free of charge for WAIAA members. In 2003, the WAIAA training Programme is including workshops on "Cluster Creation and Development", "Investor Servicing and Aftercare", "Strategic Marketing" and "Event Management". Each workshop is custom-tailored to the geographical area of the participating IPAs. Finally, WAIAA offers the unique opportunity enabling the professionals of WAIAA member agencies to spend up to two weeks training at successful IPAs worldwide.

**3. Networking:** WAIAA's Annual Meeting offers cost-effective networking opportunities with corporate executives, and representatives of international and multilateral organizations. Additionally, WAIAA offers to its members the showcasing facilities of its website. The website provides links to their homepages. Last but not least, WAIAA jointly represents its member IPAs at investment fairs and other international fora.

### **Multilateral Investment Guarantee Agency (MIGA, [www.miga.org](http://www.miga.org))**

MIGA's mission is to promote foreign direct investment into developing countries, in order to support economic growth, reduce poverty and improve people's lives.

MIGA's technical assistance services also play an integral role in catalyzing foreign direct investment by helping developing countries around the world define and implement strategies to promote investment. MIGA develops and deploys tools and technologies to support the spread of information on investment opportunities. Thousands of users take advantage of MIGA's suite of online investment information services, which complement country-based capacity-building work.

## **Benefits in cooperating with MIGA**

Cooperation with this agency could lead to increase competence of the RDA in investment promotion. Material under [www.fdicenter.org](http://www.fdicenter.org) might be used for further adoption in daily activities.

### **International Trade Center (ITC, [www.intracen.org](http://www.intracen.org), under the WTO and UNCTAD)**

If the RDA possesses trade promotion in the region it is recommended to establish contacts with this organization. The web-site is very valuable and provides with effective tools and information on trade / export development.

The International Trade Centre (ITC) is the technical cooperation agency of the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO) for operational, enterprise-oriented aspects of trade development.

ITC supports developing and transition economies, and particularly their business sector, in their efforts to realize their full potential for developing exports and improving import operations.

#### **ITC works in six areas:**

- Product and market development
- Development of trade support services
- Trade information
- Human resource development
- International purchasing and supply management
- Needs assessment, programme design for trade promotion

ITC's technical assistance concentrates on the three issues for which it believes the need for national capacity-building is most critical: helping businesses understand WTO rules; strengthening enterprise competitiveness; and developing new trade promotion strategies.

## **Benefits in cooperating with the ITC**

The RDA could obtain valuable publications for its training as well as to deliver this information to local companies in a form of workshops, seminars. The web-site provides with comprehensive material about sector surveys, other tools needed by the RDA.

### **Association of Regional Development Agencies in Europe (EURADA, [www.eurada.org](http://www.eurada.org))**

EURADA is a non profit-making organisation aiming to promote regional economic development through dialogue with the European Commission services, interchange of good practice among members, trans-national co-operation among members, regional development agencies as a concept.

EURADA represents the interests of all organisations which work with public sector participation to implement programmes for regional economic development in the European Union.

It exists to serve the needs of its members: identifying and promoting best practice in economic development, representing members' interests with the European Commission and the key organisations within it or associated with it, helping its members to work more effectively by brokering partnerships and helping to foster cross-border business, and maintaining strong international links outside the European Union to bring global best practice to further enhance the capabilities of its members.

It is not used by national development agencies widely and it is recommended just to establish contacts with this association for the regional RDA at the initial stage.

The Kaliningrad region holds an exceptional role surrounded by the EU countries, established contacts by the RDA with neighbouring countries and business support organizations would be highly welcome and lead to .

### **3.6. Agency As One of Factors Ensuring Region's Competitiveness**

Investment promotion brings prosperity to a region and this activity has to be performed by relevant institutions. Many East European countries have already established public institutions with delegated function to promote investment and development in early 90's. This decision was taken by following demand of businessess as well as experience of the European and world practice.

Any country raises a question about the need of such institution, it was proven and justified.

Another driven force is that all neighbouring countries around the Kaliningrad area have already established and well functioning RDA's thus its absence will caused to lower competitiveness of the region.

Establishment and sustain improvement of the RDA will contribute towards economical development of the region, will facilitate to increase of foreign and local investments, enterprise development, will expose more to the world advantages of Kaliningrad region.

On the other hand the present guidelines suggest seven critical success factors for regions willing to develop and implement a regional marketing strategy:

**Strong, effective leadership** The marketing strategy must be lead effectively by public sector and private sector organisations. Regional authorities play a strategic role in being proactive and aligning stakeholder organisations, initiating major infrastructure projects, promoting the territory internationally and securing the support of central Government.

**A sense of place and community; a vision and a strategy**. This ensures an imperative to act and helps clarify the respective roles of the organisations, public and private, which will deliver the strategy.

**Regional businesses strengths as the foundation for attracting new investors**. Using their traditional sector strengths as a foundation, regions will build, or are building, a marketing strategy. SMEs, but also large companies, centres of education, universities play a key role in this process.

**An international mindset**. Regional marketing strategies have to be fully international. Regions trumpet their global orientation – not only in reaching out to foreign investment but also in celebrating their exports and the strengths of the region that these demonstrate. The European regions have worked specifically to build their credentials as great European cities/regions.

**Improvements to physical infrastructure**. Infrastructure projects (adequately promoted) and improvements to the urban environment are key. Commercial developments are used to create a positive image of 'prepared-ness' for international investment and the renewal of (historic) city centres is strategic.

**Smart 'packaging' of the region**. Successful 'packaging' of a region is key and needs to operate on a number of levels. A region's city or cities need to be explicitly packaged within the region and the best of the region needs to be brought together.

**Human recourses**. Successful RMS are implanted by dedicated and professional teams with relevant experience supported by outside consultants when appropriate.

## Conclusion

The increase of the national and regional competitiveness is an objective, which currently is a general political priority both for European countries and for Russia as a whole.

Foreign experience testifies that successful integration in the global economic space, occurring on the level of national states, increasingly more often begins at the level of individual regions.

In modern conditions, the improvement of the territorial economy, the formation of mechanisms for sustainable and dynamical economic development can be realised, leaning on formation of competitive advantages, and the ability of the region to carry out an active policy for attraction of investments and new business.

By virtue of its geographical features, Kaliningrad region - more than other regions of Russia - feels the need of taking into account the process of regional economic competition.

The purposes of social and economic development of Kaliningrad region cannot be considered without regard for the context of the issue of competitiveness. For Kaliningrad region, the task of enhancement of competitiveness is a serious challenge. Therefore, the promotion and use of modern methods and tools, as well as successful international experience in this sphere are of great importance and urgency today.

The policy of development of competitiveness can be successful, only if it pursues exact purposes and is based on adequate understanding of the problem.

The region's competitiveness depends on a wide range of factors: institutional, technological, financial, commercial, administrative, cultural, etc. Therefore, the policy of competitiveness should be implemented, based on a complex approach and a high-quality long-term strategy of actions.

Today, there is a good basis for implementation of a successful policy of competitiveness of Kaliningrad region:

- availability of public support - the Federal target programme of development of Kaliningrad region till 2010,
- the mechanism of the special economic zone;
- the availability of a regional Strategy of social and economic development of Kaliningrad region and the plan of its implementation of the Integrated Plan of Actions of the Administration;
- the availability of the potential for cooperation with the European Union.

However, today, these tools and opportunities have no due synergetic effect, which can be reached only by means of concentration of forces and resources, based on a common coordinated vision of the priorities of the implemented policy and on active participation of all key players on the federal, regional, and international levels.

Development and implementation of the regional policy of competitiveness are a complex and long-term task, but for further promotion already today steps can be made, which can give new quality to development of Kaliningrad region. First of all, it is development and implementation of the pilot projects in the region, supporting the overall goal of increase of the region's competitiveness.

Taking into account the special position and status of Kaliningrad region, the goals of the pilot projects have two interrelated measurements.

Firstly, it is the international measurement – it is necessary to achieve a new qualitative level of cooperation of Russia and the European Union.

Secondly, it is the national measurement – it is the use of new mechanisms of regional economic development, testing of these mechanisms for distribution of successful models realised in Kaliningrad region, to other regions of Russia, testing of the mechanisms for spreading of the successful models, approbated in Kaliningrad region, to other Russian regions.

Successful foreign and Russian experience shows, that the priority tasks for selection of pilot projects in the environment of Kaliningrad region are as follows:

- Preparation of investment (marketing) strategy and of a plan of its implementation: carrying out of a well-thought and consistent investment policy, based on certain strategic objectives, precise positioning of the region, formation of a marketing "portfolio" of the region's products (benefits for investors), and promotion of the region.
- Creation of the basic infrastructure for attraction of investments, primarily, of a specialised professional organisation – of a regional Investment Attraction Agency, to implement a marketing policy in the region on a permanent basis and to provide 'one-stop-shop' services to potential investors.

- Creation of a target physical infrastructure for potential investors (prepared land plots, industrial zones, technoparks, etc.).
- Assistance to development of labour resources by means of direct programmes for training of personnel for implementation of strategic investment projects.
- Development of the mechanism of private-public partnership in implementation of investment projects.
- Provision of services for development of business and supporting measures, including those based on formation and development of industrial clusters.

Solution of these tasks should be a priority in the activity of authorities and business community of the Kaliningrad region for a short-term and strategic perspective.