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## Conference Paper

How institutional factors influence economic diversification of the Russian Arctic monoprofile towns: (the case of cities in Yamal Nenets Autonomous Okrug)

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**How institutional factors influence economic diversification of the Russian Arctic monoprofile towns (the case of cities in Yamal Nenets autonomous okrug)**

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## Introduction

This research is based on the materials collected during the preparation of the official Strategies of socio-economic development of two oil-dependent cities in Yamal Nenets Autonomous Okrug: city of Muravlenko and city of Gubkinsky. Common viewpoint among the Russian federal and regional authorities that the diversification of monoprofile cities depends only upon the amount of financial resources in the form of state or corporate support seems to be very limited.

Our study has demonstrated that many factors are important for the success of economic diversification: for instance, model of local government, scheme of property rights for the major assets; position of the city in the regional settlement pattern; level of entrepreneurial energy of the local community, etc. These factors are interdependent and influence each other.

Effect of these factors has become evident after comparative analysis of two Arctic cities of similar specialization.

## Twin cities? Similar, but different

Monoprofile cities of Muravlenko and Gubkinsky are both located in the southern part of the Yamal Nenets Autonomous Okrug. They have similar economic age (years of their foundation were, respectively, 1984 and 1986), similar population (33 thousand and 25 thousand inhabitants). Both cities specialize in oil production, and have suffered from the decrease in oil production during the last decade at the result of gradual depletion of the nearest oil deposits. However the volume of the municipal budget in both cities is impressive for the common Russian city of the same size (3,9 and 3,3 billion rub. in 2012, respectively).

But the trajectories of the economic diversification of these cities have been radically different. The key point of difference is small business activity.

In the city of Gubkinsky entrepreneurial sector of the economy has been developed much more actively in comparison with Muravlenko (Fig. 1); new start-ups are being established constantly. At the result of small business development city of Gubkinsky has more amenities, more service industries (Fig. 2 and 3) and, finally, more comfortable and friendly social atmosphere.

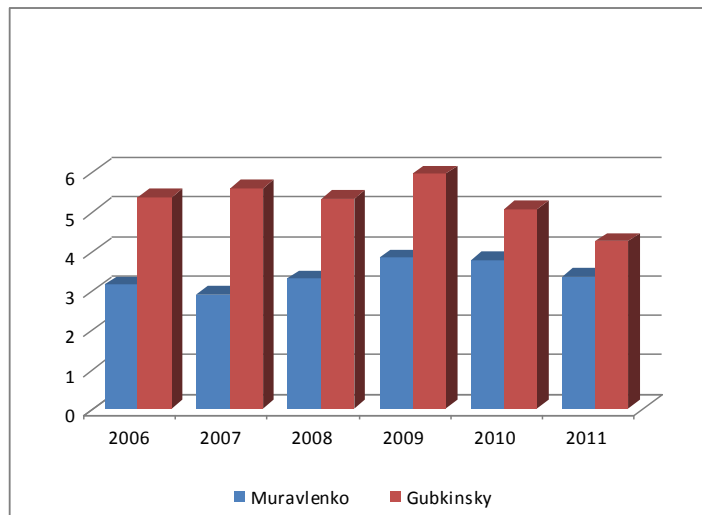


Figure 1. The share of SME income tax in the total revenues of municipal budget, %.

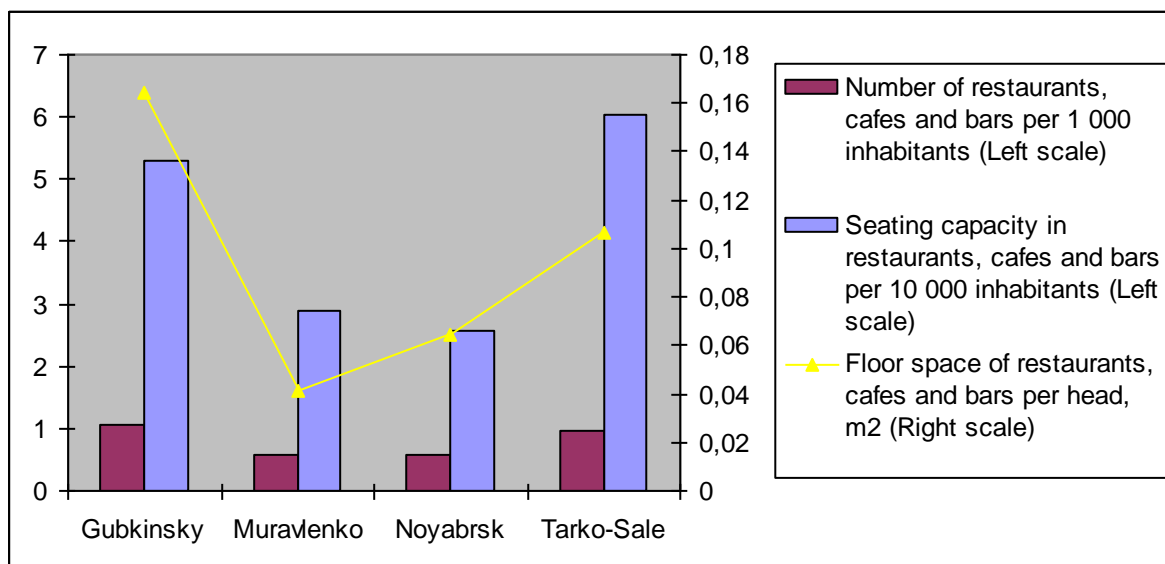


Figure 2. Public catering enterprises in the cities of the southern part of Yamal Nenets Autonomous Okrug

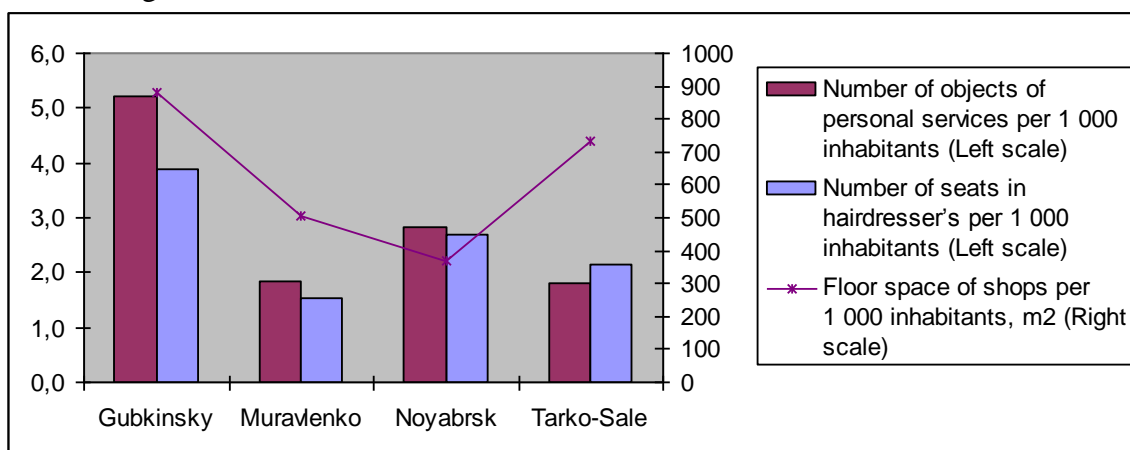


Figure 3. Personal services in the cities of the southern part of Yamal Nenets Autonomous Okrug

The city of Gubkinsky has a high level of small business development not only in services but also in industry. Local small enterprise LLC «Kirill» in the city of Gubkinsky is the largest manufacturer of dairy products in the Yamal Nenets Autonomous Okrug and provides neighboring cities with this production.

In both cities Gubkinsky and Muravlenko small business is the generator of innovations. But there is a qualitative difference here. In the city of Muravlenko innovations take place in such traditionally industries as baking (for instance, IP Trofimov introduces some energy-saving and other innovative technologies in his bakery). On the other hand in the city of Gubkinsky the innovative industries are developed: for instance, in 2011 small enterprise “Aphrodite” used Cellulab technology in apparatus cosmetology as well as Er:YAG laser. Small enterprise for high quality packaging from plastic biodegradable products has also started in the city of Gubkinsky.

Of course, one of the principal reasons of high level development of small business here is the active and durable support from the local government. The amount of support received by the small business in the city of Gubkinsky from the municipal government is absolutely unprecedented for the Yamal Nenets Autonomous Okrug (Fig. 4).

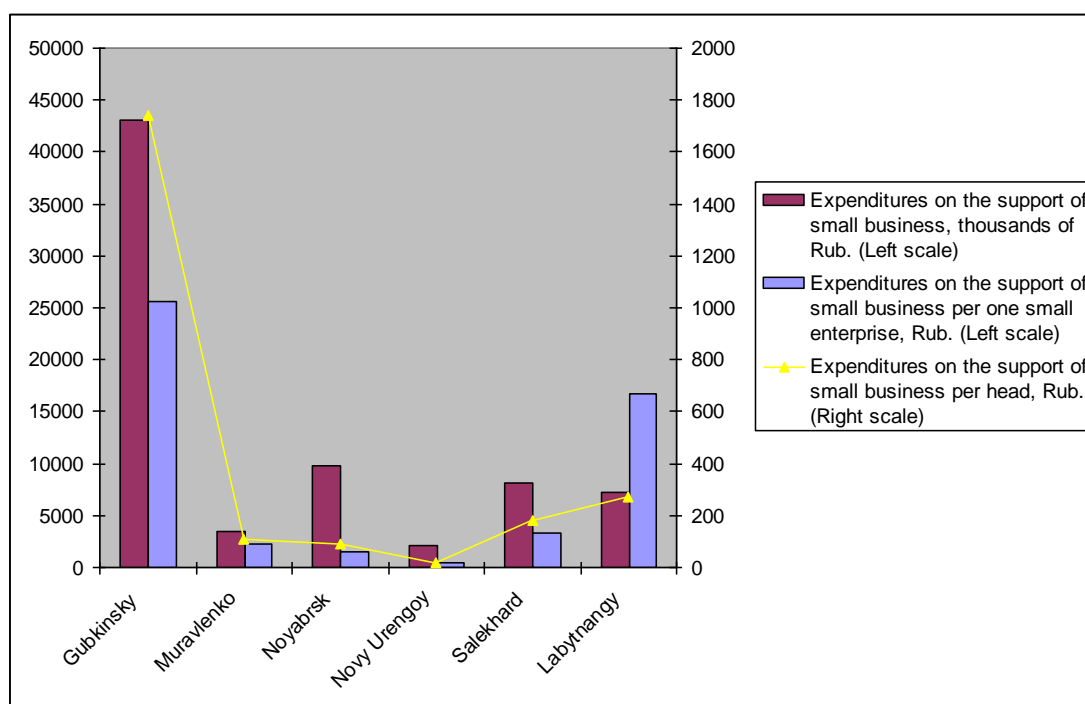


Figure 4. Expenditures for the support of small business in the cities of Yamal Nenets Autonomous Okrug.

It seems to be easy: small business is developing, where it is supported by the local authorities. However it is important to look deeper. Why is the support to the small business enterprises in one city so much greater than in the other - in spite of very similar economic conditions?

The comparative institutional analysis has been undertaken to answer this question. The result is that the development of monoprofile Arctic Russian city first of all depends upon the degree of embeddedness of the local government. And in our “tale of two cities” local government embeddedness depends upon the location of the city!

#### **How to measure embeddedness: indicators of the local government’s embeddedness on the city level**

The embeddedness of local government is a popular topic in modern studies of the Russian regional economic development<sup>1</sup>. Many researchers work with the databases of biographies of the local authorities. But our task is to see how does the government’s embeddedness manifest in the definite city, how does it work. So we must change the research toolset paying more attention on the mechanism of its influence on the local community and development.

First of all we must look how does local government interact with local community. Does local government have any public consulting institutions, is it open for cooperation with local community? Does it pay attention to the spirit of local community, its cultural memory and

<sup>1</sup> See, for example: Camerone Ross & Turovsky Rostislav. The representation of political and economic elites in the Russian Federation Council // *Democratizatsiya. The journal of Post-Soviet Democratization*. 2013. Vol. 21, No 1. Winter Pp. 59-88; Pilyasov Alexander. Regional Property in Russia: Friends and Foes // *Otechestvennye Zapiski* 2005. № 1 (22) (in Russian); Panov P. Hiring the Governor in the conditions of uncertainty: the case of Perm Region// *Politicheskaya nauka*. 2007. № 2 (in Russian); Petrov N., Titkov A. (eds.) *Government, business, community in the regions: unequal triangle*. Moscow: 2010; Chirikova A.E. Moscow recruiters among the Governors: review of the case of Samara Oblast// *Politiya*. 2011. № 4(63) Pp. 61-73 (in Russian); Podvintsev O. Governors from outside and regional political elites in contemporary Russia: conditions and tendencies of interaction// *Politeks*. 2009. № 2 (in Russian).

identity? We must look also at the local small business enterprises as a good indicator of local creativity: does local government cultivate it carefully as a “beautiful garden” or leave without care as a weed of the road?

*Government-community cooperation.* The appropriate measure of this cooperation is the number of public councils under the local government and its departments.

*Local culture.* Due to their powerful municipal budget both Yamal cities have schools of arts and a good amount of cultural events. We have done research on the local news structure for the years 2006-2010. It was surprising for us that the number of cultural events was quite similar in both cities despite our expectations to get more creative atmosphere in the city of Gubkinsky (Table 1).

**Table 1. The percentage of cultural events in all local news of the cities of Gubkinsky and Muravlenko (by search engine Google-news)**

The City of Gubkinsky					The City of Muravlenko				
2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
19	17	20	4	10	11	22	27	12	14

The majority of cultural events was however typical for Yamal cities (concert tours, art and music contests) and often inspired by the Yamal Nenets Autonomous Okrug government. We have found only a few original events in Gubkinsky (such as the exhibition of sculptures from assembly foam). So we can remember here what R. Florida has noted: the quality of cultural infrastructure and events matters: the modern music scene is more important for the creativity than an opera theatre<sup>2</sup>.

Due to the small scale of both cities they do not have their own theatres, galleries or any other significant cultural amenities. But we have decided that for the young Arctic cities the local museum is of the major importance. The pioneer community is in evident search for the sense of embeddedness and local identity to direct its creativity for local development instead of out-migration. Moreover under the conditions of poor cultural infrastructure in Russian Arctic cities the local museum usually works simultaneously as an art gallery, discoursing and communication place, social club, educational institution and even as a public space “under one roof”. So we have decided to use the characteristics of local municipal museum as an indicator of the care of local government for culture and identity (it is suited for the Russian North but it may not work for the other regions)<sup>3</sup>.

*SME.* Besides above mentioned quantitative indicators of the small business development we have done a qualitative research of its institutional history in both cities.

Using the combination of all these indicators we found out two different models of local government embeddedness: the model of colonial authority in the case of Muravlenko and the model of local responsible leadership in the case of Gubkinsky.

<sup>2</sup> Florida R. The Flight of the Creative Class. NY: HarperCollins. 2007. 326p.

<sup>3</sup> One can mention several studies on the culture as collective memory that have inspired our approach: Collective Remembering / Middleton D., Edwards D. (eds.). L.: Sage, 1999; Misztal, Barbara A. Theories of Social Remembering. Maidenhead, Berkshire, England; Philadelphia, PA: Open University Press, 2003.

## Two models of local governments embeddedness: colonial authority or local responsible leadership

Our research has demonstrated clearly that local government in Gubkinsky pays much more attention to the interests and creativity of local community in all examined aspects. And vice versa the local government in Muravlenko acts in an authoritarian way.

First of all this is reflected in the number of public councils under the local government and its departments (17 in Muravlenko and 54 in Gubkinsky).

The financing of the local Museum also looks more attractive in the city of Gubkinsky than in Muravlenko, which resulted in the difference between number of researchers in staff and between the floor area in both Museums (Table 2). Using their better opportunities the staff of the Gubkinsky Museum has made it much more popular in the city than those in Muravlenko which results in 3,6 visitors pro 10 000 inhabitants in a year in Muravlenko and 9,1 in Gubkinsky (2011).

**Table 2. Characteristics of the local Museums in the cities of Muravlenko and Gubkinsky**

	Local Museum of the city of Muravlenko	Museum of Northern development in the city of Gubkinsky
Floor area, m <sup>2</sup>	328,9	733,9
Number of employees, 2011	8 (including operating personnel)	12 (excluding operating personnel)
Number of items, 2011	5 622	8 693
Number of visitors in 2011, thousand persons	12	23,5
Number of visitors in 2011 per 10 000 residents	3,6	9,1

Source: data of the Departments of Culture of the municipal administration in the City of Muravlenko and Gubkinsky: URL: <http://uksimp.muravlenko.com/ob-upravlenii/podvedomstvennye-uchrezhdeniya/uchrezhdeniya-kultury-i-iskusstva/muk-ekologo-kraevedcheskiy-muzey-g-muravlenko/>, <http://www.gubadm.ru/gubadm/life/kult/uk/pod/muzey.php>

The most important indicator of the level of embeddedness of the local authorities is their attention to the small business. The survey on the institutional history of the small business in the cities of Gubkinsky and Muravlenko has demonstrated a great difference between them. After entrepreneurship being legal in Russia, it had started development in Gubkinsky and formed its institutional frame very quickly and early. In 1994 the Council of entrepreneurs of Gubkinsky was formed<sup>4</sup>. In Muravlenko the Unit of entrepreneurs was formed much later in 2002.<sup>5</sup>

The first business-incubator of Muravlenko was set up in 2011 while in 2012 the third business-incubator has been established in Gubkinsky (it was the business-incubator for start-ups in manufacturing named “Start”); the first business-incubator in Gubkinsky (“Business-center” for start-up offices) had been established in 2003 and the second (“Dom byta” for start-ups in personal services) in 2007.

The entrepreneurship is also one of the main generators of city news in Gubkinsky (Table 3) while the more important themes of Muravlenko’s news are the news in social and in criminal spheres (cultural and some other themes are of the similar importance for Gubkinsky and Muravlenko).

<sup>4</sup> Public union «Gubkinsky union of entrepreneurs»// City of Gubkinsky. Information portal of the local government. URL: <http://www.gubadm.ru/gubadm/economy/msb/gsp.php>. (accessible April 12, 2013). In Russian.

<sup>5</sup> Union of entrepreneurs is forming in the city of Muravlenko // RIA-News. Urals. November 15, 2002. URL: <http://ural.ria.ru/economy/20021115/39611.html>. (accessible April 12, 2013). In Russian.

**Table 3. The percentage of news on some themes in Gubkinsky and Muravlenko (by search engine Google-news)**

Theme	The percentage of news on a certain theme, %									
	Gubkinsky					Muravlenko				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Small business	4	3	12	7	3	1	0	5	7	0
Institutional innovations	5	4	3	2	3	0	1	0	0	0
Innovations in technology	4	3	0	2	3	1	0	0	0	1
Social sphere	10	13	4	5	6	26	33	3	7	8
Criminal sphere	7	13	14	16	8	16	14	12	21	19

Small business in Gubkinsky has not only the considerable financial support from the local government but it also enjoys very friendly social atmosphere and institutional conditions contrasting those of Muravlenko. The institutional conditions are of special importance because small business in Russia is extremely sensitive to institutional conditions. Our comparative analysis of Muravlenko and Gubkinsky has verified this clearly. Only that city is friendly for the small business where the local authorities are open to the community and its creativity.

Level of local business development and local museum development look like two sides of “one” local creativity (in the case of Russian pioneer Arctic and Northern settlements). Not accidentally do the level of small business support and the number of museum staff look very similar in the cities of Yamal Nenets Autonomous Okrug (Figure 5).

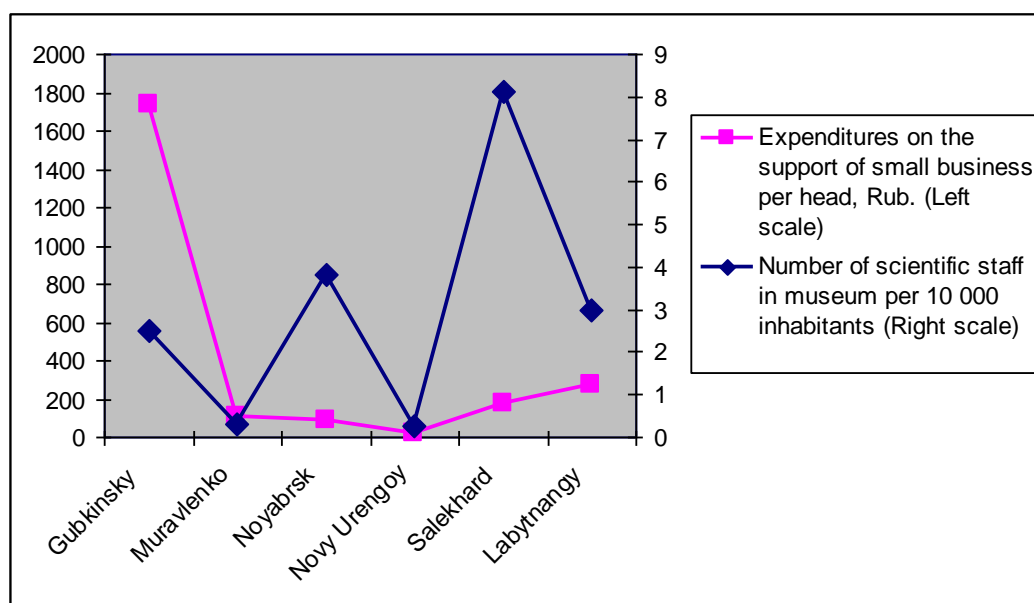


Figure 5. Expenditures on the support of small business per resident, Rub. (left scale)/ Number of scientific staff in museum per 10 000 residents (right scale)

Our research has demonstrated the presence of local government embeddedness in the case of Gubkinsky, on one side (manifested in the cooperation between the government and local community, in great attention to the development of local business and local museum) and, on the other side, the absence of such embeddedness in the case of Muravlenko. This phenomenon provides good conditions for economic diversification in one city; but the other city does not have such an advantage. Why has it formed in Gubkinsky and not in Muravlenko?



### **Explanation: location of a city as a reason of local government embeddedness**

During the process of preparation of the official strategies of socio-economic development for neighboring Yamal cities of Muravlenko and Gubkinsky we have done a series of interviews with local authorities, entrepreneurs, journalists and some other experts. The main conclusion is that local authorities of Gubkinsky are accountable to the local community, and local authorities of the Muravlenko are accountable to their counterparties in the city of Noyabrsk.

The key factor generated the differences had been the *geographical location* of these cities to sub-regional center – that is the city of Noyabrsk (109 thousand of residents in 2012): Muravlenko has 120 km distance from Noyabrsk (or 1,5-2 hour drive by car), Gubkinsky has about 240 km (or 3,5 hour drive). In the beginning of economic development the drive from Noyabrsk to Gubkinsky might take the whole day due to the absence of appropriate transport infrastructure.

This seemingly small difference in the geographical location has resulted in big difference of *institutional position*: city of Muravlenko has become an *institutional periphery*, and Gubkinsky – quasi-independent *sub-center* (Table 4)

**Table 4. Institutional implications of the location of the cities of Gubkinsky and Muravlenko**

<b>Factor</b>	<b>The city of Gubkinsky</b>	<b>The city of Muravlenko</b>
Administrative history	<i>The earlier administrative independence:</i> The settlement was established in 1986 under the jurisdiction of Purpe settlement Council, in 1988 r. was excluded from the Purpe Settlement Council jurisdiction due to foundation of independent Gubkinsky Settlement Council. The status of city has received in 1996.	<i>The prolonged administrative dependence:</i> The settlement was established in 1984 under the jurisdiction of Noyabrsk city Council. The independence came in 1990 with the status of city.
Position of the major and biggest enterprise against the headquarters of its “parent” Corporation	<i>Sub-center:</i> «Purneftegaz» was the main enterprise of the “Rosneft” corporation with its own headquarter in the city of Gubkinsky	<i>Periphery of sub-center:</i> Muravlenko oil-producing enterprise was a branch of Noyabrskneftegas (with a seat in Noyabrsk) which was in its turn one of the branches of “Sibneft” corporation <sup>6</sup>
<b>Institutional position</b>	<b>Sub-center</b>	<b>Periphery</b>

The key oil producing enterprise of Muravlenko had been managed from the headquarters in Noyabrsk («Noyabrsk Neftegaz») up to 2008 when a branch "Muravlenkovsk-neft" was formed. The city itself in the first six years of its existence was an administrative part of the city of Noyabrsk, despite the distance of 120 km between them.

Initially, the major oil producing enterprise of the city of Gubkinsky had also been directed from headquarters in Noyabrsk, but due to the inconvenience of management of geographically remote assets it was separated in 1986 as the independent company with

<sup>6</sup> Since 2005 he has merged with “Gasprom Neft”.

headquarters in Gubkinsky («Rosneft-Purneftegaz»); the settlement almost immediately (in 1988) also became an independent administrative unit.

The role of Noyabrsk economic and political actors in the development of *peripheral* Muravlenko was so large that we should recognize that the type of “colonial” model of local government has been formed in Muravlenko. Even the establishment of the settlement of Muravlenko in 1984 had been the result of decision of the manager of Noyabrsk oil-producing structure («Noyabrsk Neftegaz») V. Gorodilov<sup>7</sup>.

In the colonial model the local government is oriented directly to the actors of its “metropolis” (Noyabrsk) in the process of their decision-making. Local community is managed by such an authorities in an autocratic way (which was true for the case of Muravlenko).

Gubkinsky has the other model of government. It was too distant from the “metropolis” city to become a real colony (on the initial stage of development) and it became a quasi-independent *sub-center*. The authorities of such a sub-center had to rely on their own resources and first of all they had to establish cooperation with their local community. Here a model of local responsible leadership had been formed where the head of the local government was the real leader for the local community.

Being concerned with the community sustainable development local government and mayor of Gubkinsky had payed attention to the support of the local museum as an institution of collective cultural memory and identity. The main economic resource of this local community (opposed to the) is the small business, not global oil-producing corporations, so it became the area of the major importance and care for the authorities in Gubkinsky.

### **Conclusion**

Under the conditions of colonial model in Muravlenko it is very difficult to fulfill the goal of economic diversification. Local government itself has narrowed «the window of opportunity» in this case.

On the contrary, under the conditions of embedded model in Gubkinsky the local authorities have actively contributed to the process of economic diversification by their long-term and insistent support of small business development.

The model of the influence of institutional factors on the social and economic development of monoprofile city can look like this:

### **SOFT FACTORS IN LOCATION**

1. Dual location on the pioneer stage of territorial colonization – that is, center or periphery?
2. Position of the key city industrial enterprise inside the resource corporation, that is degree of its independency in the economic and financial decision-making process

### **EMBEDDEDNESS AND THE SENSE OF LOCAL CONTROL, LOCAL PROPERTY**

3. Degree of local government embeddedness
4. Interaction between local government and local community, administrative assistance for exposure of creative potential and economic activity of the local community
5. Small business development

### **DIVERSIFICATION**

6. Diversification of the economy

Finally, we can state that financial and natural resources and conditions are not the decisive factor for diversification of the monoprofile city economy, though they definitely are important. One of the key conditions of successful diversification is the favorable local institutional “environment”. It embraces such closely interconnected factors as open model of the

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<sup>7</sup> The history of the city // The city of Muravlenko: official Internet-site.  
[www.muravlenko.com/istoriya\\_goroda.html](http://www.muravlenko.com/istoriya_goroda.html) (In Russian).

local government, oriented on the cooperation with local community, formation of the sense of local identity, exposure of the creative potential of the local community, mature institutions of the local small business assistance and entrepreneurship.