



DEVELOPMENT INSTITUTIONS: ROLE IN RUSSIAN ECONOMICS MODERNIZATION

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Abstract

Russian economics modernization encounters several problems. First, financial, industrial-technological and cadre infrastructures are undeveloped. This impedes the formation of steady innovation chains “basic research – the applied scientific research and experimental-design developments – the commercial technologies”. Secondly, the investment needs of the economy considerably exceed the volume of the long-term borrowed resources, which needs domestic particular financial sector. Thirdly, the Russian producers outgoing on the international markets are situated in the unequal competitory conditions in comparison with the exporters from other countries.

The formation of the effective system of development institutions is a way to solve these problems. Therefore state undertook decisive steps toward the formation of this system in recent years. Development institution is a specialized state (quasi-state) organization (corporation), created for the eliminating “market failures” in a concrete sphere, which restrain the economic and social development of the country.

The development institutions meet four basic challenges:

- overcoming failures of market in the sphere of innovations (“quasi-innovation”);
- elimination of institutional failures (forming of the absent, but necessary segments of market);
- development of economic (power engineering, transport, other communications) and social infrastructure;
- equalizing of the essential regional unbalances of development.

The development institutions in Russia have some shortcomings. The system of the development institutions created up to the present moment in Russia is enormous and cumbersome. Majorities of existing institutions possess the extremely insignificant scales of activity. Their ineffectiveness and opacity is one additional drawback of domestic development institutions. Furthermore, for the development institutions in Russia the absence of coordination is typical. In spite of variety of development institutions in the country, the economy is still developing due to the export of raw material, and situation is not assembled to change. Practically all development institutions existing in Russia are only “money bags”, which distribute the financial resources between “priority” projects.



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The process of Russian economic modernization is accompanied by different problems. First, financial, industrial-technological and cadre infrastructures are on the undeveloped state. This impedes the formation of the steady innovation chains “basic research – the applied scientific research and experimental-design developments – the commercial technologies”. Consequently, the process of the modernization of Russian economy and reproduction of its scientific innovation potential is hindered.

Secondly, the investment needs of the economy considerably exceed the volume of the long-term borrowed resources, which domestic financial sector can provide. The share of long-term credits (more than three years) in the total volume of the loans, given out to enterprises by the Russian banks (except Sberbank), is only 15%. The share of the credits, drawn on the domestic market for financing the investments to capital stock is less than 9% [1].

Thirdly, the Russian producers entering the international markets are in the unequal competitive conditions in comparison with the exporters from the other countries. Delivery conditions for Russian highly technological production for the outside markets do not often correspond to the taken standards because of the limited possibilities of the assignment of export crediting and insurance, undeveloped post-sale service system, low adaptation of production to the requirements of concrete customer and others.

The formation of the effective system of the development institutions is necessary to solve these problems. Decisive steps toward the formation of this system are made in Russia in recent years.

Development institution is a specialized state (quasi-state) organization (corporation), created for the eliminating “market failures” in a concrete sphere, which restrains the economic and social development of the country.

The very idea of such institutes is based on the confidence, that there are specific segments in national economy, which are worthy development to the larger degree than others, – either because they are key or because they not developed and they must be pulled, that, in the end, it leads to the acceleration of Gross Domestic Product (GDP) growth. Development institutions make it possible to redistribute the means of the society in favor of “key segments”.

Such institutes are claimed both on the developed and developing markets. They do not have universal form and united status – the special tasks, laid by governments for these institutes; frequently make it necessary to assume special standards and laws for them. This is caused by the fact that many functions, carried out by the development institutes (and this is just their common feature), it is difficult to implement on a “purely market” conditions.

This is due to the fact that many of the functions carried out by institutes of development (and this is just a common feature), it is difficult to implement on a “purely market” conditions.

These institutions may promote infrastructure development, or they may work as catalysts of innovations. In most cases they are based on private-public partnership principles. There are two main groups of development institutions: financial and non-financial ones.

Financial development institutions provide co-financing of the projects necessary for national economy but unattractive for private business. The state participation in such projects through the development institutions reduces the risks and increases the return for private business, or at least it gives a positive signal for private business. These are development banks, development funds, export insurance agencies etc.



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Non-financial development institutions do not provide direct financing to business, but they develop the infrastructure necessary for it, – the material one as well as the financial, informational and consulting infrastructure. These are industrial parks, techno-parks, business incubators, special economic zones etc.

The development institutions facilitate the resolution of at least four basic problems:

- overcoming failures of market in the sphere of innovations (“quasi-innovation”) [2];
- elimination of institutional failures (forming of the absent, but necessary segments of market) [3];
- development of economic (power engineering, transport, other communications) and social infrastructure;
- equalizing of the essential regional unbalances of development.

The development institutions are being formed in Russia since the 1990’s. The main period of their formation is approximately 2006-2008. There is a considerable quantity of diverse development institutions in Russia now (see Table 1).

Some of them have already a certain experience of functioning while others have been created recently and they only start working. Many of them possess considerable capital amounting to billions of dollars. They operate in different spheres, such as promotion of innovations, export support, venture business development, promotion of housing mortgage lending, small business support, financing of agriculture etc. Most of them have been created by direct order of the government, and their capitals were provided by Russian Federation (sometimes also from regional and municipal budgets) [4].

Table 1

Development Institutes in Russia

Financial development institutions	Non-financial development institutions
<ul style="list-style-type: none">• The Bank for Development and Foreign Economic Affairs (Vnesheconombank),• The Investment Fund of Russian Federation,• The Russian Venture Company,• The Agency for Housing Mortgage Lending,• The Russian Agricultural Bank,• The Russian State Agricultural Leasing Company (“Rosagroleasing”),• Support institutes of small and mid-sized business (regional venture funds, guarantee funds, funds of direct investments)	<ul style="list-style-type: none">• The Russian Corporation of Nanotechnologies,• The Russian Investment Fund of Information and Communication Technologies,• The Support Fund for the Reform of the Housing and Utilities Sector,• Techno parks, industrial parks, business incubators,• Special economic zones, etc.

Today in our country “three-storied” structure of the development institutions is formed: the federal level (Vnesheconombank, the Agency for Housing Mortgage Lending, the Fund for the assistance to reformation of housing and utilities economy, the Fund for the assistance to development of the home construction activity), the regional departments of these structures and the regional institutes of development. The predominant role belongs to the Federal institutions, the share of which makes up 70%. [5]



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To the beginning of 2010 total capital of the Russian development institutions was about 1.2 trln. rub. (or about 3% of GDP in 2009) [6]. The operational system includes the organizations, focused on the support of the small business (Russian Development Bank, the funds of the supporting of the small and mid-sized business), the stimulation of export (Roseksimbank) and home construction activity (the Agency for Housing Mortgage Lending), the development of advanced technologies (Rosnano, the Russian Venture Corporation), and also international investment collaboration (Eurasian Development Bank).

The Russian development institutes use diverse mechanisms of the realization of their tasks: the two-level financing model, the assignment of state guarantees and guarantees, insurance, consultation, Grants, participation in the developments. The existing capitalization of the Russian development institutes for the efficient influence on the structure of the economy must be brought to 5-6% GDP, and the distribution of means must be determined by the effectiveness of concrete institute in each case.

Despite the still small volume of activity, Russian Development Bank and the Agency for Housing Mortgage Lending as a whole effectively carry out the tasks assigned to them. At the same time the return of some major projects (Rosnano, the Russian Venture Corporation) is practically imperceptible on scales of the economics. To improve the quality of the system of the development institutes it is necessary to enlarge considerably the scales of the activity of the more effective institutes (including due to the redistribution of the part of the resources), to increase transparency and effectiveness of decision making, to simplify the principles of the work of the development institutes. Moreover it is necessary, in my mind, to fix the coordination of their activity both on the regional and at the federal levels.

Today the majorities of the development institutes in Russian Federation use predominantly financial (credit) mechanisms for the realization of their functions. Russia, following the experience of the developed countries, emphasis the cooperation of the development institutes with the credit institutes (banks, leasing and factoring companies, micro-financial organizations). Similar mechanisms may solve two significant problems simultaneously: first, the stimulation of crediting and the guarantee of financial institutes with long-term liabilities, i.e., second, the stabilization of financial sector.

The experience of Russian Development Bank and the Agency for Housing Mortgage Lending shows that long-term re-financing of the given out credits, augmented by limitations to the use of the means given, is an efficient tool of the stimulation of the credit expansion of banks. Thus, the Agency for Housing Mortgage Lending within the sufficiently short times was possible practically from zero to form in Russia the valuable market for the mortgage underwriting. The two-level re-financing model can be successfully used in other spheres also, including within the framework of the modernization of Russian economics.

In my opinion, the guaranty funds became the effective tool of the stimulation of crediting under the conditions of budget deficit. The assignment of the state guarantees through the system of the guaranty funds makes it possible to divide the risks of crediting between the banks and the state, and also has multiplicative effect, i.e., to each ruble in the guarantee it is possible to give out 1.5-2 rubles in the credits. This mechanism may be very effective for stimulating the crediting of most “problematic” segments, in particular startups [7] and long-term investment projects, without the essential additional expenditures of budget. In Russia today act already 78 organizations, which give guarantees for the credits to the subjects of small and mid-sized business.



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The insurance of export credits together with the assignment to the exporters of guarantees and credits is the efficient tool to the stimulation of national export. Today in Russia these functions are allotted for Vnesheconombank (through Roseksimbank); however, its role in this sphere remains insignificant. In 2005-2009 years Roseksimbankom were given less than 1 bln. dollars of state guarantees, and credit briefcase to the beginning 2011 year composed only 349 bln. rubles [8]. Therefore, Vnesheconombank plans to increase export support from 26 bln. rubles at the beginning of 2010 to 90 bln. rubles by January 2016, and increase the credit portfolio – up to 850 bln. rubles [9]. The more essential volumes of state support are necessary for structural reconstruction of Russian export. Despite the limited number of branches is included in the sphere of the interests of institute, in the case of the active development of this direction is already over the intermediate-term perspective possible the considerable positive effect – diversification of export.

The expansion of the scales of the activity of the development institutes offers new possibilities for participants at the market and ensures financing the most problematic spheres. In the middle of 2010 Russian Development Bank started the program of financing the innovation and modernization projects of the small and mid-sized business in the production sector of economics and in the sphere of modern technologies. The volume of financing according to this program can reach 150 bln. rubles to one project, and the period of crediting is increased of up to 5-7 years.

At the beginning of 2011 the volume of financial support for small and mid-sized businesses at the expense of the Development Bank was 121 bln. rubles and is planned to increase it up to 150 bln. rubles to 01.01.2016 [9], however, the potential of this program is sufficiently high since it gives the real possibility to small and mid-sized enterprises to obtain on the advantageous conditions long-term means for the renovation of the stock capital and improvement in the quality of production.

In this regard Vnesheconombank sets the following strategic goals:

- participation in the capital of companies and banks, promoting the realization of investment projects should be not less than 280 bln. rubles;
- to increase the volume of crediting of innovation projects up to 170 bln. rubles;
- the share of credits for financing of innovation projects in the volume of credit portfolio of the development bank should be 20% [9].

From the beginning of 2010 the Agency for Housing Mortgage Lending launched the program “Stimulus” for to stimulate the crediting of the economy-class dwelling building and to increase the demand for the mortgage in the appropriate regions of the country. This program makes possible for housebuilders to obtain means for the completion of the unfinished units building, ensures the timely recovery of credits to banks, and population it helps to purchase dwelling already at the stage of building on the obtainable prices and the conditions of crediting.

The significance of the development institutes is determined not only by the volumes of support, but also by the effectiveness of the financed projects. In 2009 the Agency for Housing Mortgage Lending re-financed about 20% of entire volume of the given by banks mortgages, while the share of the Russian Development Bank credits within the framework of the total volume of the market for the crediting of the small and mid-sized business it doesn't exceed 1%. Nevertheless, state support is directed precisely to “narrow” places. At the beginning of 2011, 92% of Russian Development Bank means are placed for the period more than 3 years, and industry occupies the significant share – 49.4% [9]. Moreover, large credits accounts for 50%, it



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allows to suppose the investment nature of financing [10]. Thus, state resources are sent to those segments of market, which small and mid-sized banks, first of all in the regions, can't be used because of the weak resource base diversification.

The development of the guaranty funds system is restrained by their weak geographical diversification, insufficient capitalization and absence of the unification of activity. Today guaranty funds are present even not in all federal regions, but within the framework regions they are concentrated in the federal centers mainly. This limits access to financing of the significant number of enterprises, which fulfill activity in the distant regions. Namely in such regions the subjects of the small and mid-sized business usually experience the greatest difficulties in obtaining the bank credits.

The development institutions in Russia have some shortcomings. The system of the development institutions created up to the present moment in Russia is enormous and cumbersome, – in any case, if we judge to the number of created organizations. In the country there is the complete set of the development institutions, what are only in the world. But it is still very difficult to say about the effect from them: either they are recently created or work ineffectively, and most likely, everything taken together.

Most of them possess the extremely insignificant scales of activity. Many specialists note that the means, which are been at their disposal, are negligible (see table [11]). The Ministry of Economic Development plans to increase the capitalization of the institutes – in particular, to introduce additionally 15-20 mil. rubles in order to increase The Russian Venture Company capital, to double capital of The Russian Investment Fund of Information and Communication Technologies, and to also increase the budget of the fund for assistance to the development of the small forms of enterprise in the science in 2011 from 1.4 to 5 mil. rubles. But these sums will not lead situation to the substantial change. The noted macro-deficit of the sovereign finances is reflected in the resource base of all Russian development institutes. Their volume simply cannot have a significant effect on economic development.

Table 2

World and Russian Development Institutions in 2009

Development Institution	Country	Assets (bln. doll.)	Shareholders' Equity (bln. doll.)
Germany Credit Reconstruction Bank (KfW Banking Group)	Germany	394	13.1
China Development Bank	China	190.2	12.99
Japan Development Bank	Japan	147.32	15.13
Korea Development Bank	Korea	99	11.79
Brazil National Bank of Economic and Social Development	Brazil	61.78	5.32
Industrial Development Bank	India	13.25	2.64
Export-Import Bank of the United States (Ex-Im Bank)	USA	11.4	0.9
National Development Bank	Mexico	20.93	0.67
Investment Fund of Russian Federation	Russia	2.6	–
Vnesheconombank	Russia	52	8.02



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Their ineffectiveness and opacity is one additional drawback in the domestic development institutions. Complex and opaque procedure of making decision by the selection of the objects of investment and support, the excessive volume of documentation from the candidates, “selectivity” in decision making with the identical input parameters of candidates for the financing – it isn’t the full list of problems.

Thus, many banks note complexity and protracted length in the time of the process of obtaining re-financing from the Agency for Housing Mortgage Lending and Russian Development Bank side, a certain opacity of decision making by these organizations, and also sufficiently stringent requirements to the quality of the allowed by bank – partners credits.

Furthermore, the absence of coordination is typical for the development institutions in Russia. Each institute was created in accordance with it’s own logic, it solved it’s own problems, they were not correlated to the scales with each other and it is not always correlated with the needs of the real economy. However, ideally they should be formed for global and visual all-Russian “design map” with the clear strategic priorities. This will make it possible to avoid the irrational and ineffective arrangement of the objects of infrastructure and business.

In spite of variety of development institutions in the country, the economy is still developed due to the export of raw material, and situation is not assembled to change. Practically all development institutions existing in Russia are “money bags” that distribute the financial resources between “priority” projects. Some institutes distribute the money in the form of credits, others – in the form investments, the third – in the form the non-repayable aids, and in the case of special economic zones – in the form of services on the creation of infrastructure.

Furthermore, the state of technological base in Russia is such, that our industry is not simply capable mass and of qualitatively letting out the developments, which the science gives. There is a weak connection between science and production, which is reflected in the activity of the development institutes.

Conclusions:

1. By now basic financial and non-financial development institutions been established or are in the process of forming in Russia. They allowing to solve the tasks of support of the innovation process and the development of high-tech branches of the economy.
2. Our analysis of the Russian development institutes shows: the situation is far from being satisfied. A certain number of financial development institutions exists, but they are either formal or lacks money. And as the very development policy, as financial resources for the implementation of this policy, are absent.
3. Besides, non-financial development institutions are underdeveloped practically. The government must pay more attention to these institutes and take into account the world experience.
4. It is necessary to enhance the role of development institutions that should:
 - act as co-organizers and key sources of financing of large projects, aimed at achieving breakthrough results in strategically important areas;
 - form the infrastructure providing free access to the priority areas of the economy to the necessary financial, innovative and informational resources.



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