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6.8. Strategy of Socio-Economic Development of the North-Caucasian Federal Okrug: the First Steps

Strategy of the socio-economic development of the North-Caucasian Federal Okrug through 2025 was approved more than a year ago, and its implementation has already kickstarted. But already at the onset there arose risks which experts had long forewarned of: specifically, the Strategy implementation mechanisms may exacerbate typical of the North-Caucasian regions problems and fuel new ones. Hence an integral component of the NCFO Strategy should become a policy comprising strictly defined rules and procedures and aiming at prevention of conflicts.

Strategy in a Nutshell

Strategy of the socio-economic development of the North-Caucasian Federal Okrug through 2025 was approved by Resolution of the RF Government No 1485-p of 6 September 2010. The mission of the strategy is “to ensure conditions for advanced development of the real sector of the regions in the Okrug, generation of job opportunities, raising the residents’ living standards”. In the frame of an optimal scenario of development of NCFO by 2025 it is planned to:

- create no less than 400,000 jobs and bring unemployment from 16% down to 5%;
- reduce the proportion of the population with incomes under the subsistence level from 16.5% to 9.2%;
- raise average salaries and wages from Rb 9,600 to 23,800;
- ensure the annual GRP increase rate at a level of 7.7% (with its cumulative growth over the period in question accounting for 2.7 times) and the annual increase rate in the industrial sector at a level of 10.1%;
- quadruple consolidated regional budget revenues per capita.

It is envisaged to ensure such a breakthrough by encouraging advancement of the real sector, including the agro-industrial complex, tourist-recreational one, energy, mining and processing industries, and transit functions. It is also envisaged to bolster innovation-educational activities and establish a federal university.

During most of the period of 2010-2011, the Strategy was largely “appended” with necessary paraphernalia, such as the normative base, organizational structure, etc. There began functioning the Commission of the RF Government for the North Caucasus led by PM V. Putin as its Chair. To implement the Strategy, there were established JSC “the North Caucasus Development Corporation”, a subsidiary to Vensheconombank, with the authorized capital of Rb 500mn, and JSC “Resorts of the North Caucasus”, a subsidiary to JSC ‘Special Economic Zones’ with participation of Vnesheconombank and Sberbank of Russia, with the authorized capital of Rb 5,35bn. The RF Ministry of Regional Development, regional agencies in charge of economic development became engaged in projects selection. A range of public advisory bodies were created: the Council under the Envoy, the Public Council of the Okrug, The Anti-Corruption Council, the Council of Elders, the Council for Youth Policy, the Council of Alims, the Okrug Commission for Cossack Affairs, the Expert Council, to name a few.

That said, not all the problems were solved even on the organizational level. Specifically, the widely publicized federal target program “Development of the North-Caucasian Federal Okrug through 2025” was not adopted. In accordance with the FTP, it was planned to allocate Rb 3.9 trillion, including 2.6 trillion out of the federal budget, for development of the North Caucasus. Devised in July 2011 by the RF Ministry of Regional Development, the FTP consists of 10 sub-programs and over 8,300 measures. It is envisaged that three currently implemented federal target programs which concern the NCFO regions, namely, “The Socio-Economic Development

of the Republic of Ingushetia for 2010-2016”, “The Socio-Economic Development of the Republic of Chechnya for 2008-2013”, “South of Russia (2008-2013)” (with regard to RF Subjects within NCFO), should form structural components of the Program. It is planned to allocate, on the annual basis, some Rb 400 bn to implement this program in years to come.

However, the program has not been adopted as yet, particularly because of significant controversies with the RF Ministry of Economy and Ministry of Finance with respect to its funding. The program is to be approved by May 2012, but it is not clear how to combine a gargantuan increase in the federal spending on the North Caucasus with the task to ensure a sustained balancing of the budget and ensuring a budget maneuver in favor of sectors of the social sphere which the nation faces today in connection with the imperative of attaining its strategic development objectives on the whole.

Prospects and Risks Facing the Tourist Cluster

It was the work on shaping the tourist cluster that proved particularly active. With its Resolution No. 833 of 14 October 2010 “On creation of the tourist cluster in the North-Caucasian Federal Okrug, Krasnodar krai and Republic of Adygeya”, the RF Government ruled to establish 5 tourist-recreational special mountain skiing economic zones, of which 4 ones – in the North-Caucasian federal okrug (Matlas in Dagestan, Elbrus-Bezengi – in Kabardino-Balkaria, Arkhyz – in Karachaevo-Cherkessia and Mamison – in North Ossetia – Alania). It was envisaged that the Government would invest, through JSC “RNC”, Rb 60 bn in the transport and communal infrastructure of these projects, with the private businesses financing construction of resort infrastructure objects against the RF Government’s guarantee to return up to 70% of their investment in the event of force majeure and vows to grant tax and customs benefits. More specifically, tax benefits include exemption from the federal component of the corporate profit tax (2%) coupled with a possible slashing to 0% of the current 18% regional component thereof, and exemption for the term of up to 10 years from land and property, and transport taxes.

The year of 2011 saw vigorous efforts to attract foreign investment into the project. The Russia-France summit in Dauville in May 2011 resulted in a joint declaration on inclusion of the project of development of a tourist cluster in the North Caucasus in the list of priority directions under the aegis of the nations’ strategic partnership. At the St. Petersburg Economic Forum, JSC “RNC” signed a memorandum of intention with the French state-owned holding Caisse des Dépôts et Consignation with regard to a joint venture to contribute to the tourist cluster development project. In late 2011, a joint Russian-French venture “The International Development of the Caucasus” was incorporated, which is to commence its operation in February 2012. In compliance with the Incorporation Agreement signed by the parties thereto, the newly established joint venture plans to attract up to Euro 1 bn in investments in the project.

The work on building a mountain skiing cluster has just kicked off (construction *de facto* is in progress only in Arkhyz), but with its Resolution of 29 December 2011 No. 1195 “On special economic zones in the North-Caucasian Federal Okrug”, the RF Government has already doubled in size the territory of the North-Caucasian tourist-recreational complex. More specifically, special economic zones of tourist-recreational type are established in the Republic of Ingushetia (in the territory of Jeirakh and Sunzhen districts), along the Caspian shore in the Republic of Dagestan and in a number of other territories. At this point, it should be noted that peaceful environment, the absence of ethnic and confessional conflicts and acts of terror are not typical of all those territories. There also exist plans to have the company’s operations spread across other territories, including those beyond the North Caucasus. In parallel there intensify demands for public funding to build the infrastructure. It has been announced recently that it is imperative to build four new airports and reconstruct two existing ones in the region.

The envisaged deliverables indeed pursue the goal of a substantial transformation of the economic basis to bolster the region’s advancement and include creation of over 1,000 km of pists, over 200 cable tramways, erection of hotels, apart-hotels and private cabins of different categories with the overall capacity of some 85,000 beds. It is envisaged that the project

implementation will generate over 330,000 jobs in the region. It is planned to have local resorts in the North Caucasus and along the Caspian shore be able to accommodate up to 250,000 tourists a day. In accordance with the publicly voiced estimates, once the project gets into top gear, the tourist inflow in the region will account for 10 mn people. The peak of construction works will fall on 2013-17 and the program is scheduled for completion in 2019.

Meanwhile, a series of fundamental questions raised a year ago regarding development of the tourist cluster in the region still remain unanswered. Let us cite three of them.

First, the *occupancy rate*. At the existing resorts in the North Caucasus, the high-season occupancy is 10-15,000 alpine skiers a day. The season lasts for 100-120 days. Besides, even prior to the 2011 developments which battered the local ski industry (see below), the number of tourists there had been dwindling¹. There has been no in-depth examination of demand for services of those tourist giants which are supposed to be created in the region or, at least, respective findings were not made public.

Second, *what is going to happen to the existing tourist centers?* There are at least two large ski centers in the region: at the vicinity of Mt. Elbrus (Kabardino-Balkaria) and Dombai (Karachaevo-Cherkessia). Given development of the tourist cluster, their prospects remain murky. They will obviously prove undesirable rivals to the ski cluster under construction which lower their chances for survival. That said, it is worth noting they both are holders of a real brand, with the Elbrus one boasting an internationally recognized brand of both ski and mountaineering center. They secure quite a number of job opportunities for both locals and seasonal staff and it is not guaranteed they would be able to find their niche in the frame of the new tourist industry with its greater, and somewhat different, requirements. It is not at all granted, either, that residents of once long-standing tourist industry leaders which subsequently fell prey to the state would necessarily welcome new privileged rivals. It is more likely that such a development would fuel new intense conflicts in the region and no one is insured against such conflicts growing violent.

This compels posing the third and, perhaps, the most thorny – at the moment – question: *how can development a tourist cluster receiving 250,000 visitors a day, including women and children (as it is also planned to develop family tourism), combine with the threat of acts of terror?* The act of terror in Kabardino-Balkaria on 18 February 2011, which left three tourists dead and another three wounded², is a perfect demonstration of the gravity of the threat in question. The fact that the first act of terror against tourists took place after making public the gargantuan plans to develop a tourist complex in the region, thus increasing the political and economic significance³ of security issues, cannot help but compel contemplating the urgency of creation of efficient anti-terrorist mechanisms. This problem is a genuine life-and-death one for the future tourist cluster. That said, while discussing respective plans in this sphere, these problems have not even been made public.

In practice, it is the forceful option that still remains predominant in this regard, with the sole response to the rise of terrorism in the Republic being a counterterrorist operation regime (CTO) since 20 February 2011. In Elbrus district and in a part of Baksan district the CTO regime was

¹ See: North Caucasus –Modernization challenge.-M.: Delo Publishers, 2011, p. 222-223.

² Actually, the killing of the tourists on 18 February was just the first link in the chain of terrorist attacks in the territory which aim at derailing the local tourist business. The next night, a pillar of a local cable tramway was blown, and a mine-strewn car was found at a local alpine place popular with tourists.

³ Experts differ on the issue. Thus, Islam Tekushev, Director of medium Orient news agency suggests that behind the acts of terror were forces striving to topple Arsen Kanokov, the incumbent President of Republic of Kabardino-Balkaria: “It is not known when clans and local thugs represented by the Kabardino-Balkar underground began to systematically work on destabilization of the situation for the sake of their common objective, that is, toppling Kanokov... Customers realized very well that killing tourists within the zone of a federal ski resort popular with mountaineers, rock-climbers and skiers throughout Russia and European states does not fit in the framework of permissible risks set by Russian elites in the Caucasus” (Islam in the North Caucasus: history and modernity. Prague, Medium Orient, 2011, p. 178-179). In the Republic, a widespread opinion is that the spike of violence is directly associated with the struggle for control over the tourist business.

canceled only on 5 November 2011, thus having lasted for over 8 months. From the perspective of forceful action, its results were positive and the militant underground suffered a serious blow. According to the local Ministry of Interior, 95 illegal militants were killed and another 97 detained during the CTO period. That said, a longer-range success of such a policy does not seem that granted.

First, like many other actions of this sort, the one in question was accompanied with abuses of human rights, including killing innocent individuals who were taken for militants and inflicting damage on non-combatants' property. Specifically, once again the crackdown on the regular "mosque-goers" was on the upswing. During the CTO, mosques stayed empty in Elbrus district as local residents were afraid of dropping by. NGO "Memorial" cites an example of the local authorities' failure to engage militants' families to get their children out of the "woods". A month and half after airing their mothers' video with an appeal to put an end to the civil war there was broadcast another one which evidenced that sons of two women who had recorded the video in the summer were killed literally in their presence during a "special operation" in the town of Baksan⁴. It is this kind of situation that gives rise to the "vicious cycle of violence" when suffering and deaths of the innocent, often relatives, friends and mates, in the course of combat against terrorism bolsters the desire to revenge and result in augmentation, rather than fading, of the armed struggle.

Second, the territories concerned saw the local economic activity in ruins. The influx of tourists in the locality has fully discontinued since the moment of imposition of the anti-terrorist operation regime there. Hoteliers and other operators and owners of the local tourist infrastructure objects faced a grave challenge, as they had already taken loans in the hope to expand their businesses. Employees, too, found themselves on the verge of hunger, and so did small-sized businesses, including, in particular, craftsmen and artisans (there even was a probability of not sending children to school on 1 September, as there was nothing to wear). Unknown structures were vehemently buying land at giveaway prices⁵. While the CTO regime was canceled in early November 2011, it goes without saying it will be fairly hard to avoid its long-term adverse effects.

For one part, the residents' growing discontent is centered both on militants and the authorities, which manifested itself even on the official level. While meeting with residents of settlement Elbrus, President A.Kanokov of Kabardino-Balkaria enunciated that, "Nobody was going to impinge upon the local residents' interests, despite the dearth of talks about that". However, in private conversations the local residents cited a comment made by a high-ranked federal bureaucrat: "You are going to starve till the last Wahhabi!" Such an automatic labeling of local residents as terrorists' accomplices does not help ensure a social harmony in the Republic, either, and contributes to the said "vicious circle of violence".

On the other hand, development prospects for tourism in the region and, perhaps, throughout the North Caucasus have been jeopardized. While it is yet premature to assess prospective losses, some short-term results have become already known. Since mid-December the local resort's occupancy rate has been just 15%, while during the high season (New Year holidays) it received twice as little tourists than a year before. According to information available, local businesses' economic losses are further exacerbated by the need to invest in security and no possibility for even an inflation-adjusted price rise. Meanwhile, compensations payable to local residents for damages inflicted by ACT are preposterous: according to information available, the Elbrus district residents are entitled for a total of Rb. 1.5mn in compensations, while the neediest households received a Rb. 15,000-worth compensation each.

⁴ Bulletin of the Memorial human rights watchdog. Situation in the zone of conflict in the North Caucasus: the human rights activists' assessment. The summer of 2011. Source: the human rights advocacy center "Memorial"/"Caucasian knot". <http://www.kavkaz-uzel.ru/articles/194174>. 18 October 2011.

⁵ We visited this locality during the ATO period. Even on the surface the picture was terrifying: packs of hungry dogs, rags of billboards flying in the wind, and not a single human being around.

Apart from ACT, the official reason for a meager tourist inflow in the region is the snowless winter. Future will show which factor plays a greater role; however, it is already clear that restoration of the Elbrus district and the North Caucasus on the whole as an appealing ski resort can take a lot of time and costs.

At this juncture it is evident that a successful development of the local tourist cluster is up in the air without fundamentally new approaches to security challenges in the region. Most North-Caucasian Republics already rejected the credibility of the purely forceful solution.

Some efforts were made, albeit with a different level of consistency and success, in Dagestan, Ingushetia and Kabardino-Balkaria to mitigate the standoff and return former militants to peaceful life, but federal structures did not contribute to the process, thus drastically lowering its efficiency. Should such a policy be pursued further on, it may seriously torpedo the Strategy implementation.

Project Financing

The possibility to obtain guarantees or other forms of backing to investment projects aroused much interest in the region, primarily with the medium-sized business community. Practically all its representatives we interviewed last year were preparing projects to apply for the support. Meanwhile, those entrepreneurs who have already faced the selection procedure sounded ambiguous. Thus, it was noted that structures engaged in the selection process are keen to pick large, rather than small, projects and explicitly encourage the entrepreneurs to extend their projects and increase volume of investment. But the process is at its onset, and it is too early to assess its efficacy. Thus, Rb 50bn allocated in the 2011 budget for provision of state guarantees against loans attracted by legal entities to implement investment projects in the North Caucasus was carried forward to the 2012 budget (accordingly, the latter now provides for Rb 100bn in allocations for the said purpose).

Main technical problems exposed by now were quite predictable. Those were: an insufficiently high quality of projects and a low level of their development. This factor might become one of the reasons behind the decision to transfer implementation of most projects to Stavropol krai, with its lower risks and a relatively higher culture of project implementation, as evidenced by Mr. A. Khloponin, the presidential Envoy in NCFO: "For next year Rb. 6.6bn from the Investment Fund was planned in the budget, and all the allocations are for projects in NCFO, infrastructure development. But it is only Stavropol krai which is ready and already in receipt of Rb 3bn. The rest of the money has not been assigned as yet, as there are no concrete projects and documentation in accordance with which the projects need to be funded"⁶.

Meanwhile, conflicts engendered by implementation of state-sponsored investment projects were not long in coming. A particularly explosive situation emerged in Nogaysky district of Dagestan, where it was planned to build a sugar-processing plant.

The fuel for the future conflict had been there even before the respective decision was made and it was the land. The district in question is a territory where most lands (over 60%) fall under the category of the so called distant-pasture cattle rearing ones and as such are used by settlers from mountainous regions (the Dargin and Avar peoples), rather than the local Nogays. Ex-highlanders have also staked out most pastures in the district that did not fall under the above category, thus de-facto leaving the Nogays with a meager fraction of arable land in their hands. It is most of these lands (some 100,000 hectares) claimed by the sugar-processing plant development project. The locals conceived of the project as a threat from different perspectives.

First, in the absence of formal land titles, the disputable lands *de facto* prove to have been fixed with the locals. Informal property rights are widespread in Dagestan and the residents therein regard them as legitimate ones. Thus, the investor's arrival was *de facto* perceived of as a

⁶ Yuri Goverdovsky. The North Caucasus have a Development Strategy// The Parliament Gazette, No. 48 (2464). <http://www.pnp.ru/newspaper/20101001/4614.html>. 1 October 2010.

way to strip the residents off their last land plots. Besides, the Nogay *vox populi* is that sugar beet cannot be cultivated in the local climatic conditions.

Second, the construction of the prospective plant was perceived of as a means to ensure the highlanders' further migration into the territory of the district. Such conclusions were made basing on the fact that the project provided for 15,000 new jobs. But the local residents cannot supply workforce in such quantities. Besides, there practically is no qualified staff among them, as the Nogays have never been engaged in planting sugar beet. The need to attract extra workforce into the region was voiced by the Republic's leadership too.

More fat into the fire was added by the fact that the project was initiated by an Avar from Khasavyurt district of Dagestan.

The local residents' protests were ultimately a success and the project was transferred to a neighboring district. But a fragile equilibrium in the district was broken, the residents grown politically mobilized and the conflict started living its own life which was independent of the investment project which had triggered it. At the congress of the Nogay people⁷ held in the capital of Nogay district, the settlement of Terekli-Meleb, in late May 2011, in addition to the problem of the sugar-processing plant, the residents raised more general political issues: the need to unite all the Nogays in the frame of an administrative-territorial entity, transition to direct elections of the district Head, etc. Even after the decision was made to relocate the construction project in question, the Nogays' activity did not subside, the conflict with the district authorities escalated and the range of political demands was expanding (the opposition now is against election of the local legislature on party ticket). According to mass media, "the region itself is growing into a full-fledged zone of conflict"⁸.

The risks emerged already at the onset of the Strategy implementation, which proved associated with escalation of the conflict potential in the North-Caucasian regions, require an additional development, in the frame of the NCFO Strategy, of a policy aiming at prevention of the rise of additional conflicts. This can be at least partly ensured through devising a set of rules and procedures which would secure a sound awareness campaign, taking into account the residents' opinion and refusal of projects that may have an adverse effect on social stability in the region.

The latter is in need for a more detailed explanation. The previous record of launching investment programs in the North Caucasus exposed an extreme danger of implementation of projects that provided for withdrawal from the economic turnover of sizeable arable land sites (eg., as a result of their impounding). By destroying traditional livelihoods without offering a credible alternative, such projects can provoke the rise of extremism in the territories concerned. It seems appropriate either to shelve such projects at all, or to secure a maximum possible account of the popular opinion and get the projects implemented only upon mobilization of a broad public consensus. As in the conditions of the North Caucasus monitoring of genuineness of such a consensus may pose certain problems and be associated with sizeable costs, the former option (a ban on projects associated with a large-scale land withdrawal) may prove the most sound one.

The policy in question should also encompass anti-terrorist activity and provide for abandonment of a purely forceful solution to the problem and engagement of mechanisms securing public consent with participation of the federal center which should become a guarantor behind agreements reached and coordinator of law enforcement agencies and other "*siloviki*"'s contribution to the process in question.

⁷ Main territories of the Nogays's compact residence; Dagestan, Chechnya, Karachaevo-Cherkessia and Stavropol krai, and Astrakhan oblast. There are Nogay national districts in Dagestan and Karachaevo-Cherkessia.

⁸ Ivan Sukhov. The Nogay Riot. The biggest district in Dagestan demands for non-party elections. Moscow news. http://mn.ru/blog_caucasus/20110905/304671811.html. 5 September 2011. 17:12.

