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TRENDS AND OUTLOOKS**

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RUSSIAN ECONOMY IN 2017. TRENDS AND OUTLOOKS / [Alexander Abramov etc.; Doctor of sciences (economics) Sergey Sinelnikov-Murylev (editor-in-chief), Doctor of sciences (economics) Alexander Radygin]; Gaidar Institute for Economic Policy. – Moscow: Gaidar Institute Publishers, 2018. – 544 p. – ISBN 978-5-93255-530-9.

The review “Russian economy in 2017. Trends and outlooks” has been published by the Gaidar Institute since 1991. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social services; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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6.5. The North Caucasus in 2017: major development trends¹

In 2017, the social and economic development of the North Caucasian regions was proceeding amid introduction by the federal center of some new forms of regional economic support. A change in economic policy priorities in the North Caucasus was taking place amid sluggishness of the health resort sector, growing debt accruals for gas- and power supply and prevailing land-related conflicts.

6.5.1. The federal program for development of the North Caucasian federal okrug: a shift in priorities?

In 2017, the main document setting out the federal center's approaches to development of the North Caucasian Federal Okrug's (NCFO) regions was still the State Program for Development of the North Caucasian Federal Okrug approved in 2014. However, the program's funding was substantially cut as compared to the earlier approved funding volumes: by the RF Government Resolution of March 31, 2017 the volume of federal budget allocations for implementation of the program in 2017 was set at RUB 13.9 billion against RUB 31.8 billion planned earlier.

This reduction took place amid introduction into the state program in question of a new component, that is, support which is to be rendered for real economy projects via regional development corporations on the co-financing basis with private businesses. This program component which was put into action in 2017 was announced by Lev Kuznetsov, Minister for the North Caucasian Affairs at the meeting of the Government Commission dealing with the issues of social and economic development of the North Caucasian Federal Okrug on October 21, 2016. Lev Kuznetsov said that: "We get down to the new segment of our state program, that is, support for and development of the real sector of the economy... At the first stage, identical limits are set in respect of each subject of the NCFO. It permits us on one side to start on equal grounds, while on the other side to assess effectively the performance of each management team... Agricultural projects are a key niche within the framework of those projects which we expect to carry out."²

Out of 15 investment projects rendered support to within this new line of the program in 2017, the Republic of Dagestan, the Chechen Republic and the Republic of Karachayevo-Cherkesia started to implement 3 projects each; the Ingush Republic and the Republic of North Osetia-Alania, 2 projects each; the Republic of Kabardino-Balkaria and the Stavropol Territory, one project each. The above projects can be divided into the following three categories: agricultural projects (10), manufacturing projects (3) and tourism-related projects (2). Such a distribution points to the fact that in 2017 the support of projects in manufacturing became a

¹ This section is written by Konstantin Kazenin, the Gaidar Institute, IAES-RANEP.

² <http://government.ru/news/24968/>

priority in implementing the program. According to the data of the RF Ministry for the North Caucasus, with co-financing taken into account in 2017 investments in projects underpinned by the program amounted to about RUB 9 billion, while implementation of the projects permitted to create 1,800 jobs. It seems that in the course of further implementation of the program the government intends to make an emphasis on co-financed investment projects in regions. As early as November 2016, O. Beisultanov, First Deputy Minister for the North Caucasian Affairs declared that the level of funding of the NCFO's regions under the federal program in 2018-2019 would depend on the 2017 performance of regional subprograms which included such investment projects. However, it is too premature to judge on the efficiency of program-funded projects in 2017.

In implementing large-scale investment projects which profile federal officials regarded as drivers of the NCFO's development in the beginning of the 2010s, no break-through dynamics were observed in 2017. According to the data of the OAO Kurorty Severnogo Kavkaza (Resorts of the North Caucasus), out of six ski resorts which were to be created in the republics of the NCFO building activities were carried out only at three of them: Arkhyz (the Republic of Karachayevo-Cherkesia), Elbrus (the Republic of Kabardino-Balkaria) and Veduchi (the Chechen Republic). It is to be noted that RUB 4.2 billion was envisaged by the Law on the 2017 Federal Budget and allocated on implementation of a tourist cluster project in the North Caucasian Federal Okrug; most of the budget allocations were spent on building of the ski resort infrastructure in Chechnya. The analysis of the open source data on the progress in carrying out of resort projects in the North Caucasus permits to identify the following problems which arose in 2017:

1. Even those resorts where in 2015–2016 the tourist infrastructure was largely expanded saw no growth in the number of tourists. According to unofficial estimates published in the mass media, during the 2017/2018 New Year holidays 120,000 people and 60,000 visited ski resorts of the Republic of Karachayevo-Cherkesia and the Republic of Kabardino-Balkaria, respectively. A 50 percent growth in the number of tourists at these resorts is within the limits of those fluctuations which are related to weather conditions, so one cannot speak about a progressive increase in the flow of tourists;

2. There are explicitly different levels of investors' interest to projects which are underway in the republics. This is proved by the current number of residents of special economic zones (SEZ) established on the basis of resorts in various regions. For example, out of 28 SEZ residents 27 SEZ residents are registered at the Arkhyz SEZ in the Republic of Karachayevo-Cherkesia, including 3 SEZ residents who appeared there only in 2017 and invested over RUB 1 billion in design and construction jobs. Despite the fact that budget funding of building of resort-based special economic zones continues, private investors do not take much interest in them;

3. There are technical problems related to introduction of unified standards of services at the ski resort complex of the NCFO. According to the data of the OAO Kurorty Severnogo Kavkaza, in 2017 there were difficulties, for example, in introducing a unified ski pass at the resorts of the Republic of Kabardino-Balkaria, the Republic of Karachayevo-Cherkesia and the Chechen Republic. The diverse ownership pattern of these resorts and a lack of consensus between owners are the obstacle.

The above two factors prove the existence of the trend – identified in the 2016 review¹ – towards the “fragmentation” of the ski resort cluster of the North Caucasus: initially planned as a single commercial body, at present it represents standalone recreation entities in different regions with a different level of development, investors’ interest and explicit problems related to introduction of any unified service standards.

6.5.2. Problems with accruals of debts for gas and power supply

One of the North Caucasus’s most explicit economic problems hindering the development of the region’s power generation sector and the economy as a whole is debt accruals for gas and power-supply. In 2017, negative dynamics were observed in that sector. So, in September 2017 the management of the PAO MRSK Severnogo Kavkaza (Interregional Utility Distribution Company of the North Caucasus) declared that the debt accruals for power-supply of the subjects of the North Caucasian Federal Okrug exceeded RUB 22.8 billion, while debt accruals from the beginning of the year amounted to RUB 2.75 billion. In January 2018, the press-service of the PAO MRSK Severnogo Kavkaza stated that ultimate customers’ debt for power-supply in the North Caucasus already amounted to RUB 23.6 billion. As regards debts for gas-supply, in September 2017 Viktor Zubkov, Chairman of the Board of Directors of the RAO Gazprom announced that the debt accruals of the North Caucasus for gas-supply exceeded RUB 61 billion. The share of the North Caucasus in the aggregate debt of Russia’s residents for gas-supply amounted almost to 84%. Lev Kuznetsov, Minister for the North Caucasian Affairs estimated the debt of the North Caucasian regions for gas-supply and power-supply in H1 2017 at RUB 7 billion and RUB 2 billion, respectively.

In 2017, high-ranking government and corporate officials not only acknowledged publicly the debt problem, but also proposed methods of handling it, mostly through promotion of supervision over the energy consumption, strengthening of responsibility for payments of regional and local authorities and ownership restructuring in the power-supply sector. So, in September Viktor Zubkov, Chairman of the Board of Directors of the PAO Gazprom said that it was necessary to appoint in each populated area of the North Caucasian regions authorized persons responsible for the payment discipline. Commenting on the situation with debt accruals for power supply in the Republic of Dagestan, Deputy Prime Minister Alexander Khloponin declared the need of consolidating the region’s power grids. At the level of the RF Government and top corporate management of large companies, a task was set to resolve the existing debt crisis. It is to be noted that in previous years efforts of federal government and corporate entities to cope with growing debt accruals for gas- and power supply in the North Caucasus did not crown with success. It is noteworthy that in 2017 no new ways of solving this problem were offered by responsible persons at least in the public space. According to numerous expert estimates, high debt accruals for gas- and power supply in the North Caucasus can largely be explained by consumption of power by small enterprises operating without proper registration and paying nothing for electricity consumed (for example, brick-making plants and garment and shoe-making workshops). It appears that the crisis situation with debts cannot be overcome without constant efforts being made to make the economy of the North Caucasus more transparent.

¹ See: The Russian Economy in 2016. Trends and Prospects. The Gaidar Institute Publishing House, Moscow, 2017.

6.5.3. Conflicts at the municipal level

Throughout the entire post-Soviet period, conflicts between different groups of the population or between residents and the government and local authorities taking place at the level of individual municipal entities (districts, towns and rural settlements) have been a major factor of destabilization in the North Caucasus. In 2017, the economic basis for such conflicts was still in place and no solid institutional foundations were created to solve them.

An example of quite a dramatic land-related conflict at the level of the rural municipal district was the developments in the Nogaisky District in the north of Dagestan in July 2017. The situation in that district changed much for the worse after Ramazan Abdulatipov, head of the region appointed the acting head of the district.¹ District assembly deputies refused to approve the decision of the head of the region. After almost two weeks of confrontations with district deputies, the leadership of Dagestan and the district assembly agreed on a compromise candidature of the head of the district. The confrontations were accompanied by numerous meetings of district residents protesting against the decision of the region's leaders; anti-riot police was permanently deployed in the district to maintain law and order.

It is to be noted that unresolved land issues instigated ethnic mobilization in this conflict. Local activists raised the issue of the status of agricultural land plots within the boundaries of the district. Nearly half of agricultural land plots in this and other flat districts of Dagestan are attributed to distant-pasture cattle tending lands,² which under the legislation of the Republic of Dagestan are in the ownership of the government of the region and are leased out to various agricultural organizations, primarily, from mountain districts. The presence of the so-called "external" lessees causes often protests of public activists who position themselves as advocates of the interests of flat land locals (during the abovementioned conflict in the Nogaisky District a group of public activists which opposed the republican authorities held a Congress of the Nogai people and put forward to the leadership of Dagestan demands related to distant-pasture cattle tending lands³). A lack both of any decisions on disputed lands and clear-cut conflict resolution procedures put on a hold this situation in which land disputes become a kind of an "asset" used by the sides in their fight for control over municipal entities.

Another municipal level conflict was observed in the North Caucasus in 2017 and it showed that in resolving land disputes in this region there was a great danger of force being used instead of appeals to the law. This conflict is about the land meant for development in the Volny Aul neighborhood of Nalchik, capital of the Republic of Kabardino-Balkaria. In mid-2017, the initiative group representing about 1500 residents of the neighborhood demanded land plots for private housing development being allocated free of charge. The activists referred to the fact that land plots in question belonged in the Soviet period to an agricultural enterprise for which family members of those who now claimed that land used to work. According to the initiative group, those families were entitled to receive that land free of charge for private housing building because they had been on the waiting list from the Soviet days. Initially, the position of the Nalchik City Council was to auction off that land. After the activists expressed their disagreement with the stance of the Nalchik City Council, they declared that pressure, including

¹The protesters disrupted the presentation of the head of the Nogaisky District. Kavkaz Uzel. 03.07.2017. <http://www.kavkaz-uzel.eu/articles/305406/> The decision on appointment of Yarlykov as acting head of the Nogaisky District was cancelled. Kavkaz Uzel. July 04, 2017. <http://www.kavkaz-uzel.eu/articles/305487/>.

² See K.Kazenin. *The Components of the Caucasus: Land, Power and Ideology in the North Caucasian Republics*. Moscow: REGNUM, pp. 24-49.

³ The Nogai People Congress participants stated that the confrontation with the authorities of Dagestan was growing. Kavkaz Uzel. July 17, 2017. <http://www.kavkaz-uzel.eu/articles/304488/>

unlawful detentions of some public activists was exerted on them by law enforcement agencies.¹ It is to be noted that only interference of regional authorities helped ease tensions around that issue. The problem was resolved through assignment of disputed land plots to the leasehold of the cottage building cooperative established by neighborhood residents for distribution of the land plots among those who needed them. Town council officials who opposed that decision were dismissed.²

The common dominators of all local land-related conflicts are as follows:

- land-related conflicts were not considered by courts of law. They were solved either through interference of the executive authorities or remained unresolved;
- land-related conflicts are becoming the factor of protest mobilization of groups of residents of the North Caucasus.

It is noteworthy that similar specifics of land-related conflicts in the North Caucasian regions were observed in previous years, too. By virtue of the above-stated specifics, land relations remain the factor of social and political tensions in the North Caucasus with explicit lack of lawful instruments being available for resolution of such conflicts.

¹ Nalchik city residents' fight for land led to mass detentions. Kavkaz Uzel. October 31, 2017 <http://www.kavkaz-uzel.eu/articles/311852/>

² Allocation of land plots inspired Volny Aul residents. Kavkaz Uzel. February 15, 2018. <http://www.kavkaz-uzel.eu/articles/316583/>