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**RESTRUCTURING AND REVITALIZING THE KALININGRAD REGION\*  
(PHASE I-A)**

TF/RUS/94/001 and US/RUS/93/134

RUSSIAN FEDERATION

**Technical report: Study on institutional infrastructure\*\***

Prepared for the Government of the Russian Federation  
by the United Nations Industrial Development Organization

*Based on the work of R. Foelster,  
consultant in institutional infrastructure, and  
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## **0. Preface**

In the system of planned economy SMEs have mostly been seen as more or less disturbing elements. Being aware of the importance of the SMEs with respect to the wealthy development of almost all sectors of industry in a market economy we have concentrated our work on analysing the soft, institutional part of Kaliningrad's infrastructure as far as it influences the development of the SME sector of the still slowly developing economy of the region.

The objective of our report has been to identify bottlenecks relevant for the development of the SME sector with the purpose to describe suitable instruments to be applied and actions to be taken for eliminating or at least reducing the most severe obstacles.

Our suggestions are meant to be implemented immediately thus influencing the development of the coming 12 or 36 months.

Our instruments are constructed in a way that their implementation can take place at a low cost level without big investments but with a high degree of personal dedication. They are based on the activation of local competent persons ready to participate in the development of their region, initially in close cooperation with foreign experts.

The work is undertaken within the "Restructuring and Revitalisation of the Kaliningrad Region", UNIDO Project US/RUS/93/134 March to October 1995. It has been performed in close cooperation with the IRC team under the leadership of its managing director Alexander V Alexeev.

Information has been obtained from official sources, media, expert evaluations and a great number of interviews and discussions with relevant persons in the region.

## Summary and recommendations

The SME sector of Kaliningrad region is still very weak in comparison with other countries undergoing the transition process from planned economy to market economy. In European countries traditionally following market economic principles, the SME-sector is forming the basis for economic development, due to its high degree of flexibility and creativity. Most of today's giant industries have arisen out of family enterprises. In Germany and Sweden who traditionally are furthering the SME sector 99 % of all enterprises are SMEs and they are employing about 60 % of the work force. The importance of the SME, is also demonstrated by the fact that some of the most important sectors of market economies are by numbers dominated by SMEs, such as the service and maintenance sector, the building and building material sector, the agricultural and food sector, the touristic sector.

Looking at Kaliningrad region we found a profound weakness in these sectors due to an underdeveloped SME sector.

Despite severe efforts from the administration to promote the establishment of SMEs they still occupy only 24 % of the workforce and provide only about 50 % of the number of enterprises. At the same time we find a rising number of highly competent but idle persons.

The main reason for this is obviously to be found in the heritage from times of centrally planned economy, where investments, production, distribution and consumption were directed by central decision.

SME, if they existed, were mostly seen as sometimes necessary but mostly disturbing elements and business was synonymous to illegality.

Having in mind the importance of the SME sector with respect to a prosperous development of market economies we now can imagine the complexity of the problems arising from today's weakness of this sector in the Kaliningrad region.

Aiming at strengthening the SME sector in the Kaliningrad region and thus the economic development we have to work in two directions. First we have to identify and influence the facts impeding the development of the SMEs and second we have to concentrate our efforts into sectors where a high degree of SMEs is decisive for the development of the sector itself and the economy in whole.

From our analysis we have found that the development of the SME sector is primarily suffering from insufficient support functions in the townships and regions as well as insufficient promotion instruments, lack of appropriate knowhow and experience in connection with an insufficient network for dissemination of knowledge. Adding to that the poor transparency of the region and shortage of seed money you have got a description of the problems the Administration is facing when trying to improve the performance of the earlier mentioned SME-intensive sectors of industry being of vital importance for the region. (Not to mention the general negative circumstances influencing the SME sector which cannot be influenced by direct action and/or external support).

Intending to improve the negative trend of the region's industry we have to create instruments and initiate actions which directly counteract the above mentioned impediments for the development of the SME sector. These measurements described in the analytical part are intended to be implemented immediately by existing institutions and with the help of a limited number of external experts, being well acquainted with the special historical and actual circumstances of the region.

Such a compound SME development program will help to absorb idle human and material resources, improve the performance of industry in general, upgrade the production, distribution and acceptance of domestic food products, strengthen the domestic building industry and to reduce the dependency on support from the Federal Government.

It will contribute to the integration of Kaliningrad into one of Europe's most promising areas, the Baltic Sea Region.

# **1. Introduction**

## **1.1 Overall objective**

The UNIDO project, Restructuring and Revitalization of the Kaliningrad Region (Phase 1 a), aims at preparing a detailed regional development survey of the Kaliningrad region, identifying industrial development projects, and advising on policy and institutional measures. Particular emphasis is put in identifying concrete projects and areas for development to be further developed in subsequent project phases.

## **1.2 Objectives of institutional infrastructure sector study**

This sector report deals with the soft infrastructure: official administration, institutions for support of SMEs in the region, business associations, bank services, education and tourism.

The other part of the sector study on infrastructure deals with the technical (hard) infrastructure.

The objectives of this study are to assess strengths and weaknesses in the infrastructure's ability to support a short medium term industrial development. This means that the study is not primarily focusing on strategic long term infrastructure developments.

## **1.3 Methodology**

Basic information about the existing situation as well as instruments and action for the development proposed and initiated by the sector authorities, was obtained through public sources (newspapers, official statistics), and when possible, directly from the authorities, as well as relevant private persons, (enclosure).

## **1.4 Limitations**

Within the limited scope of this sector study some strategic aspects may have been missed. We feel, however, confident that the conclusions and recommendations form realistic suggestions how the infrastructure can be improved to support a short to medium term industrial development.

## **1.5 Study team**

The study has been carried out by Mr Alexander Alexeev, Mr Igor Maltsev, Mr Igor Akmanov from Investment Research Centre, Kaliningrad, together with Mr Reiner Fölster, UNIDO expert.

## **2. Analysis and conclusions**

### **2.1 Conclusion**

In pluralistic societies based on market economy, SMEs play an important role with respect to a prosperous development of all sectors of the economy. From our SWOT analysis of the Kaliningrad region we can draw the conclusion that the low amount of SMEs as well as the low degree of new registrations of enterprises forms one of the main obstacles regarding a healthy industrial development of our region.

### **2.2 Bottlenecks concerning the SME sector:**

We have identified a number of obstacles which impede a more intensive development of the SME sector (1) and we have identified a number of key sectors of the region's economy where the low number of SMEs can be seen as one of the main obstacles against a more prosperous development (2). Finally we will point at a number of general circumstances being unfavourable with respect to the development of the SME sector (3).

#### **1. The first group consists of the following bottlenecks:**

- Insufficient support functions for SMEs and business development found in the townships and regions
- Insufficient promotion instruments for stimulating New Starts and SMEs
- Inadequate transparency in the region, not all actors are acquainted with each other
- Shortage of appropriate knowhow
- Shortage of appropriate business experience
- Insufficient network for dissemination of knowledge over the whole region
- Shortage of appropriate premises
- Shortage of seed money

#### **2. Key sectors being influenced by the weakness of the SME sector**

- Service and maintenance sector vital for the performance of the industry and the municipality
- Agricultural and food processing sector
- The building industry
- Building material sector
- The touristic sector

#### **3. General negative circumstances influencing the SME sector**

- No political consensus on the future status of the Kaliningrad Region, which causes legal instability



- Taxation system being inappropriate for the SME sector - too high rates and too complex
- Border Crossings not up to date
- Discriminating transfer fees on transports to and from the motherland
- Low degree of understanding the importance of the SME sector for the welfare of the region

### 3. Actions and instruments

#### 3.1 Introduction

Based on experience from other transition countries as well as traditionally pluralistic societies based on market economy and backed up by the information got from numerous discussions with all kinds of relevant actors in our region we shall describe a number of actions and instruments which might be applied with the purpose to overcome the weakness of the SME sector and open up the bottlenecks described above, and stimulate the interest for starting up new businesses.

The whole program consists of 8 items and is divided into three sections as shown below.

#### 3.2 Section 1

**Actions to be taken within UNIDO project phase 1b or 2, eventually in connection with or initiating a TACIS project**

1. Net of supporters
2. Identification and establishment of centres of excellence
3. Compound instrument **knowledge, experience, contacts, money**
4. Improvement of the regions transparency
5. Task oriented seed capital

The instruments of the first group are to be applied in such a way that they either induce a domino effect of further similar actions and/or achieve profound and long lasting results influencing the development of the private enterprises in general and the SMEs in special counteracting the bottlenecks described earlier.

Two of them are to be initiated in close cooperation with the administrations on different levels and shall be described below. The third is completely based on the individual person or enterprise. It is based on the fact that lack of appropriate knowledge especially regarding the principles of market economy is one of the most serious obstacles for a healthy development of the SME sector. There are two reasons for this, one being the high ambition for quick profit thus not leaving time to obtain appropriate knowledge and the other being lack of awareness of the necessity to do so. Add to that insufficient experience and ability to read the signals of the market and you will have the explanation for many personal tragedies as the final result of promising business ideas.

Experience from highly developed countries following market economic principles shows that there often is available a great number of idle greatly experienced seniors from all sectors of economic activity. Many of them despite of being older than 60 still have desire and ability to take part in the solution of demanding tasks.

Beside this, we have learned that money alone is not sufficiently working as a promotor of new businesses, and likewise not seminar knowledge alone or organised contact trips to other markets, but that the simultaneous implementation of these components in a compound project can provide a powerful synergetic effect.

Against this background this instrument has been developed and successfully (as per evaluation) been applied in Latvija. (The draw backs from the Latvian case analysed in the evaluation have been eliminated here). It should be used after the net of local supporters (see above) has been initiated. Probably several rajons have to cooperate to form an appropriate group being rather homogeneous regarding branch and size of company. It can also be used to strengthen a special sector in the region.

It should be mentioned that this instrument not necessarily has to be tied to international export activities. Suitable markets can also be found in undersupplied areas in the region to overcome infrastructural shortcomings for instance regarding supply of fresh food or milk products.

It can be linked to a task oriented seed capital program forming the fifth component of the project.

The fourth instrument is aiming at improving the poor transparency of the whole region with respect to authorities and enterprises, supporters and services, customers and clients, resources and possibilities. It might also serve as a marketing instrument for the whole region in its effort to attract foreign investors.

## **Description of actions and instruments counteracting the bottlenecks in section 1**

### **1. Net of supporters**

Install one high competent strong function as a skilled driving force for supporting SMEs and new starts in the central administration connected with one corresponding function in every township and rajon. The persons chosen here must be carefully selected being experienced and highly recommended with respect to the task. His/her main tools not being money but competent advice. In the administration he or she shall give advice to the administration regarding laws, rules and measurements promoting the quantitative and qualitative development of the SME sector and shall be the link between the administrative bodies related to economic development and his/her corresponding functions in the cities and rajons.

In the cities and rajons their function shall be to actively advise and support all initiatives aiming at SME development. From my contact in Baltijsk, where I met the responsible person, Mr Koshelev, we can get a very good demonstration how such a function might work. With respect to the high demands on such a person this support net should be built up carefully and not under time pressure. The main goal being to engage the most suitable person. The effect of such a network

can hardly be overestimated not at least due to the fact that this will induce a SME movement with a great spectrum of positive effects.

A suitable project within the ongoing UNIDO activity might comprise the starting phase where one regional expert together with an external expert starts up the program and assists in establishing the first (5?) supportpoints. Much effort to be spent on making the program public all over the region so that the process goes on when the external expert has left.

## **2. Identify and establish centres of excellence**

The most suitable source of knowledge and competence is that being at hand when you need it. A program for identifying outstanding competence in the whole region relevant for the development of selected areas of economic life has to be started. Such competence might be idle or occupied in civil or military sector in research or industry. The main criterium is that the competence found is really outstanding and that it is available.

This competence might be found in persons or institutions, and well being identified as a centre of appropriate excellence. There will be a contract to be signed between the person or institution in question and the program. After the contract and thus the centre being established it has to be made public mainly through support points as per pos 1. Such an instrument improves the utilization of the region's competence, makes SMEs acquainted with and gives access to competence necessary for the successful development of their business and intensifies the power of the SME campaign. This instrument might also be seen as a contribution to that part of the UNIDO project aiming at utilizing idle military competence.

A suitable project within the ongoing UNIDO activity might comprise the starting phase which most probable will be more resource demanding than the no. 1 action (net of supporters). But this can be motivated by the double effect of this action i.e. activating idle competence and providing SMEs with urgently needed knowhow.

The project might be led by the head of the administration department for science and technology and an experienced external industry engineer. They should work in close cooperation with a group of domestic experts from highschool/university, industry and the SME sector, who jointly have to identify the most critical competence bottlenecks in industry, maintenance and service and from that identify suitable domestic competence around which a centre of excellence will be established. It might be envisaged in the beginning to back up the newly started centre by external competence.

The starting cost of such a program might be limited to the cost for the external experts. In the starting phase 4 man months might be envisaged. The initial phase might be arranged within the frame of the UNIDO activity and possibly be phased over into a TACIS project.

## **3. Compound instrument "knowledge, experience, contacts, money"**

This instrument consists of three obligatory components and one optional. The three components are: knowledge, experience, contacts. The fourth is task

oriented seed money. A project where this instrument is implied consists of three phases:

1. The inventory phase. Here a number of suitable entrepreneurs are selected with respect to branch, activity, existing competence, future plans. This selection is done jointly by a regional and a foreign expert.
2. The implementation phase. Based on the findings of the inventory a group of about 15 individuals (per project) are selected and the two experts, forming the project management elaborate together with a high school teacher specialised on SME development and with experience from transition countries, the teaching course. This course will consist of 4-6 weekend seminars to be arranged during a time of 6-8 months.  
Simultaneously an appropriate number of senior advisors from for instance Sweden and Germany are engaged into the project. Their task is threefold: 1) to see to it that the newly acquired seminar knowledge is utilized in the business of the participant, 2) that he assists the entrepreneur in developing his business and 3) establish contacts on the market and assists in acquisition activities.
3. The stand by phase. In this phase the senior advisor is not any longer actively taking part in day to day business but he is available in case of emergency. The entrepreneur has telephone access to him and can get advice for the solution of special problems.

#### **4. Improvement of the region's transparency**

During more than four years of work in the region of Kaliningrad I have succeeded in identifying one or more institutions or persons being of importance for the region's development every time I visited the region. I have also met a great number of Russian as well as international business men who did not or only with great effort succeed in finding the right contact for solving a special problem.

Recently I found for the first time two similar books showing the whole administrative and other institutional infrastructure as well as sources of supply and service (see enclosure). This is very welcomed and my suggestion is now to permanent the follow up, increase the edition and edit an English and/or German version to be bought at a moderate price in every hotel, magazin shop and other suitable places. I am sure this will become a bestseller providing it always is available and continuously followed up. This might well be the starting point of a SME.

This item should be dealt with immediately. It will especially have a positive influence on the performance of future as well as established JVs, where the foreign partner constantly loses plenty of time searching for a right contact.

This might be combined with an English translation of the book providing comments on the existing business law. (Ref. Mr. Zsarkow at the Chamber of Commerce in Kaliningrad). Foreigners would feel much more comfortable and might probably also help eliminating Threat pos 3.

## **5. Task oriented seed capital**

This instrument will be dealt with by the investment promotion group within the UNIDO project. Carefully implemented and thoroughly followed up it provides excellent possibilities for releasing bottlenecks and was widely used in the transition process of Eastern Germany especially improving the touristic infrastructure in certain areas, improving fresh water supply systems and other infrastructural measurements promoting the SME sector in combination with improving supply, service and maintenance.

Seed capital can be used in two ways in connection with above described compound instrument. Either to assist the entrepreneur in investments emanating from the project or alternatively that the granting of seed capital is conditional for to the participation in a project described above. Thus substantially increasing the grade of utilization of the implemented seed capital.

### **3.3 Section 2**

#### **Programs to be started by the administration**

##### **1. Converting idle military and other premises into business incubators**

Idle buildings, earlier used for military purposes are found all over the region. With the engagement of skilled jobless workers, these buildings can be renovated up to a low but acceptable standard. Here new starters get a chance to establish themselves at very low cost, occasionally being supported by a central secretariat. There are different models regarding type of business and length of stay. This might be decided from place to place. Most important is that one prevailing idea is connected to every incubator. Coordinator/initiator being the local SME supporter.

##### **2. Training program for serviceminded staff at borderstations**

At border stations travellers get the first impression of a country. If the Kaliningrad region really wants foreigners to participate in the development of their region it is necessary to improve the servicemindedness of the custom officers. Despite the fact that during the last two years there has been a substantial positive change of the staff's attitude towards visitors much more should be done. This might suitably be achieved through arrangements of on the spot seminars in connection with brush up activities as a first low cost step towards the already planned general improvement of the potential of Kaliningrad's border control stations.

### **3.4 Section 3**

#### **Recommendations for the political establishment**

##### **1. Initiate the evaluation of the enterprise taxation system**

Experience from different countries shows that too complicated as well as exaggerated tax systems encumber growth of the SME sector and promote illegal business. Furthermore, illegal business is promoting blackmailing activities being as destructive as a cancerous disease for society. We therefore suggest a thorough evaluation of the dual taxation system (federal, regional) with respect to

the willingness of entrepreneurs to practice legal business and its final effect on the public budget. This evaluation should be done with the assistance of a Swedish senior tax advisor well acquainted with these phenomena.

## **2. Installation of the Law on economic zone of Kaliningrad**

Uncertainty is one of the worst obstacles on the way to business success. To a certain degree an experienced businessman knows how to compensate sudden changes. The last 12 months still provided the Russian and international businessmen working in Kaliningrad and thus participating in the positive development of the region with so severe completely unpredictable changes of the whole framework of economic rules and laws that quite a few businessmen retarded or omitted planned or already started new businesses. This is especially true for JVs being a very important source of new technological hard- and software. From numerous discussions with quite a number of persons from administration and business life I have learned that it is more important that the new law on Kaliningrad will be clear, farsighted and longlasting than the establishment of different privileges. The day of the final establishment of this law might be the most important day since the opening of the borders for foreigners and quite decisive for the further development of the Kaliningrad region.

## 4. Applications of instruments on prioritized sectors of industry

Four sectors of industry have been identified as of special importance for the industrial development in Kaliningrad. Their performance is highly dependant on the existance of a great number of competent SMEs. These sectors are:

- The maintenance sector
- The agricultural and food sector
- The tourism sector
- The building sector, construction and material

In the following we list bottlenecks and appropriate instruments and describe their implementation.

### 4.1 The maintenance sector

#### **Bottlenecks:**

- too few SMEs
- Lack of knowhow and business experience
- lack of modern equipment
- lack of adequate premises
- insufficient transparency of the market

#### **Actions:**

- Competence improvement by implementing the **compound instrument** eventually backed up by seed capital (UNIDO/TACIS)
- Program for converting idle premises
- Set up and edit a Service Guide for the whole region (UNIDO/TACIS ?)

#### **Program:**

In societies based on developed market economies the maintenance sector is dominated by SMEs. ( The SMEs in certain sectors being organised and sometimes dominated by chains under the control of bigger enterprises.) The relatively still small amount of SMEs in transition countries in general and in the Kaliningrad region in special and thus the poor availability of appropriate services are one of the main reasons for the poor performance of most of infrastructural functions, which has been identified as one of the most severe bottleneck towards a powerful industrial development. We therefore suggest the following: Starting up of a "SME program aiming at developing the maintenance sector", consisting of the following actions:



### **Compound instrument "Knowledge, Experience, Contacts, Money"**

Such a program as described above might attract mainly people with experience from maintenance work, in the military or agricultural sector because here we find the highest amount of idle relevant competence and people from these sectors probably cover the widest field of demand. The seminar knowledge has to consist of a technical package and an economical package and the senior advisers should be well acquainted with working conditions in transition countries. The first programs for about 15 to 20 persons each should be arranged according to number and qualification of available aspirants. Later this program might be applied as a strategic instrument from the administration to ease maintenance problems in combination with high unemployment.

### **Converting idle military and other premises into business incubators**

SME - supporters from whose region presumptive maintenance technicians are recruited should identify suitable idle premises which could be converted into service shops of different kind. This conversion could partly be executed by the entrepreneurs to be part of the starting up work, thus substantially reducing the amount of start capital. Premises should be leased for a reasonable time period at modest fees and with uncomplicated administrative process, with the assistance of the SME-support.

### **Maintenance Catalogue for the Kaliningrad Area**

Visibility and accessibility of resources is one of the most important preconditions for the development of a region. Transparency being an important part of well functioning infrastructure.

For speeding up the development of the maintenance sector in Kaliningrad region we suggest as a first action to set up and edit a Maintenance Catalogue for the Kaliningrad Area. Such catalogue should be elaborated by one project group and with active support from SME-supports at town- and rajon-administrations as well as Chambers of Commerce and other associations acquainted with service and maintenance sector.

This project has highest priority and should be dealt with a.s.a.p. Financing might be possible within the TACIS-program and should be organized as a permanent institution as mentioned. The cost of such a catalogue in Russian and English language is dependant on where and by whom it will be produced, number of copies, outfit etc.

## **4.2 Agricultural and Food Sector**

### **Bottlenecks:**

- Remnants from period of planned economy ion management, production and distribution
- Outdated equipment
- Inadequate distribution

- lack of modern technical knowhow
- lack of marketing competence and business experience
- shortage of appropriate premises

#### **Actions:**

- Launching of a non financial promotion program for SMEs in this special sector all over the region
- Identify and establish centres of excellence (UNIDO/TACIS)
- Implementation of the compound instrument (TACIS?)
- Conversion of idle or outdated premises (Seed capital program)

#### **Program**

This joint sector is still suffering from the fact that in the transition process the former planned production/ distribution system not yet has been replaced by an appropriate infrastructure enabling the market's actors to reach each other.

The result is seen in insufficient supply of domestic products, both regarding quality and quantity simultaneously an increasing amount of imported food products from amongst others Poland and Lithuania which both by price and quality seem to be more competitive than domestic products. This causes an unnecessary outflow of currency as well as permanenting unemployment in rural areas.

We therefore suggest the application of the following instruments:

##### **1. Net of supporters**

The regions SME-supporter initiates with the help of local experts a program aiming at improving the local/regional availability of an appropriate choice of domestic quality food products. An obstacle to be noticed and taken care of might be as earlier mentioned still existing remnants from the period of planned economy eager to maintain their still existing monopoly. Their chance to participate but as one of many actors on the market remains, provided they can supply a product with quality and price being competitive to other domestic and foreign suppliers.

##### **2. Identify and establish centres of excellence**

The program mentioned above should also contain efforts to identify sources of modern competence which might be available for the establishment of at least one Centre of Excellence. The Identification and activation of such a centre is probably one of the most important efforts within this program with respect to the low level of appropriate knowledge available.

##### **3. Compound instrument "Knowledge, Experience, Contacts, Money"**

A number of projects of this kind should be directed into the food sector. With respect to the special character of this sector the knowledge/seminar part should consist of three parts, business basics, organizing small farmer cooperatives, production knowledge (farming and processing). The marketing/distribution part might primarily aim at regional supply in the first line, later interregional and finally

international. This suggestion follows the pattern we experience from transition regions in Poland and Eastern Germany.

#### **4. Task oriented seed capital**

A seed capital program aiming at improving production and distribution of food products and applied in obligatory with the No 3 Projects will most probably induce a dramatic change in the food supply of the region both regarding quantity, choice and quality. It is still important to achieve an appropriate distribution of such projects with respect to amongst others the following facts: Population density, existing sources of competence (centres of excellence), ongoing production both in farming and processing, existing distribution systems, both well and poor functioning.

### **4.3 The tourism sector**

#### **Bottlenecks:**

- inadequate or non existing infrastructure
- insufficient administrative support
- insufficient appearance on the domestic and the international market
- mostly unacceptable performance of staff
- lack of managerial knowledge and business experience
- poor transparency of the regional market

#### **Actions:**

- Appoint a tourist manager in every city/rajon working together with the local SME supporter
- Initiate the inventory of actual and possible tourist objects in the region, including both coastal and country side objects. (TACIS ?)
- Edition of a tourist catalogue of the whole region (UNIDO/TACIS?)
- Engage a highly competent person being responsible for the launch of a regional tourist development program (TACIS ?)
- Participation in important European Tourist and Travel Fairs.

#### **Program:**

As mentioned before tourism in Kaliningrad may be characterized by excellent preconditions but poor infrastructure. This is shown by both Russian and foreign studies on this item from recent years. What startled us was the absence of severe market studies and market strategies.

Customers probably to be found both in Russia whose tourists have lost easy access to most of tourist centres at the Baltic Sea, Germans who want to visit the land of their childhood, and tourists looking for active holiday, might probably be attracted to visit the unique features of our region provided they know where it is, how to get there, and being sure they will be well taken care of.

### **Competent tourist manager**

Therefore as a **Number One Action** we suggest that within the framework of the TACIS-program the Kaliningrad administration **engages an international advisor being an expert on travel business**. By advertisements in big international newspapers a **high competent tourist manager** with experience from the special mix of features of our region should be engaged to build up and realize an offensive tourist marketplan and strategy comprising both the costal area and selected inland regions. This work should be organized in close cooperation with the tourist group of the administration.

### **Local tourist manager**

In expectance of this international advisor and parallel with the work connected with his/her engagement the tourist group should adress all appropriate towns, and rajons informing about the envisaged touristic program and each engaging one person interested in becoming the support person for tourism.

### **Inventory of tourist objects, edition of tourist catalogue**

His/her first task being to identify and describe possible touristic objects of the region with respect to Russian tourists, German nostalgia tourists, active / adventure tourists and last not least business travellers. This work is finally resulting in a tourist catalogue of the Kaliningrad region.

The result from this first action program may probably not only be a comprehensive realistic working material for the international No 1 Support but it may also initiate local actions towards development of tourism so badly needed counteracting joblessness and poor infrastructure in this respect. It might become the starting point for small scale and rural tourism in the Kaliningrad region.

## **5. Facts**

### **5.1 Official administration supporting SME**

#### **5.1.1 Region**

Kaliningrad region is situated in Eastern Europe on the southern Baltic sea coast. The territory of the region reminds by its shape of a rectangle outstretched from the east to the west for 204 km and from the north to the south for 107 km. The area of the territory is 15.1 thousand km<sup>2</sup>.

Kaliningrad region is the smallest region situated on the territory of Russia. Nowadays, the region does not have a common continental borderline with Russia. It is an exclave separated by Poland and Lithuania from the mother land.

The climate on the territory of the region is moderate continental seaside with high humidity, moderate warm summer and soft winter. The quantity of rain is high. Average temperature in summer is +7-21 degrees Celsius, average temperature in winter time -1 degree Celsius.

Extremely seldom the territory of the region is influenced by natural disasters. The ecological situation is normal and favourable for the organization of production.

The Kaliningrad region has 926,5 thousand inhabitants. 723,2 thousand live in the cities of the region and 203,3 thousand people in the country side. The workable population in the age from 16-60 counts 526,0 thousand people.

The capital of Kaliningrad region is Kaliningrad city with about 420 thousand inhabitants. Kaliningrad region is situated 26 km from the Baltic sea.

Kaliningrad region is not an independent political unit. On its territory are ruling the general laws of Russian Federation. Russian policy on the territory is carried out by a special administration (regional administration) and local parliament (regional дума) executing decisions of Moscow authorities. The regional leadership is carried out by the Head of regional administration (Yuri Matochkin).

More than 20 parties and public movements of Russia take part in different political processes on the territory of the region.

In 1991 the whole region became a free economic zone - FEZ "Yantar". It resulted in an intensive growth of the number of joint ventures on its territory. Now there are more than 1000 JVs, and their basic capital is about 13,7 billions roubles (appr.) 2,74 mio US dollars). Polish and German investments are the leading investors.

On December 7, 1993, the President of Russia signed up Edict N 2117 "About Kaliningrad Region" according to that, the region got certain privileges on customs and taxes. It resulted in a big upswing for both producers and traders. Especially trade operations with other countries increased significantly.

On March 6, 1995, the President issued Decree N 244 "About cancelling privileges of those who take part in foreign trade activities" according to that the whole region as well as the whole of Russia has lost certain part of customs privileges. The result was a sudden drop in the number of cargoes passing through the border of the Kaliningrad region.

However, today there is an agreement made between the regional government and the federal government, according to that 75 % of fees paid to Russian customs should be returned to the owner of cargo passing through the border.

On May 18, 1995, the President signed Decree N 495 "About social economical development of Kaliningrad region where is foreseen further development of FEZ "Yantar".

The draft of the new law was presented to Moscow on June 10, this year.

It passed the first hearing in state Duma and was examined in government. In case it will be accepted in the second reading, the region will get a number of additional customs and tax privileges.

During the period of 1991-1995 a considerably increased interest for the region was noted from the side of business and governments of Germany, Poland, Sweden, Denmark and Lithuania. Now in Kaliningrad are operating consulates of Lithuania and Poland and a German consulate is planned. The Danish government considers the region as highly prioritated for investments. In the region are operating many organizations from different European countries.

FEZ "Yantar" is aiming at the restitution of some privileges. The administration of the region plans to cancel all local taxes or to give tax privileges to all new JV companies. It is also planned together with EBRD to create a free financial zone to facilitate payments.

### 5.1.2 Municipal areas

In the Kaliningrad region there are five clearly defined areas which are close to military, industrial or resort centres. Below you can see the necessary data:

Region	Population	Production	Particular features
Baltyisk		Bread, confectionery	Big marine military base
Pionerskyi		Fish goods and fish cans	Big fishing fleet base
Svetlogorsk		Bakery goods	The biggest resort in the region
Svetlyi		Construction materials and fish cans Paper, cardboard.	Was constructed as city companion of Kaliningrad

Sovietsk

cloves, flour, sweets,  
yeast, beer, meat,  
bread, cansSituating on the  
border to Lithuania

### 5.1.3 Rayons

In the Kaliningrad region there are 13 rayons. The biggest is Chernyahovskiy rayon. The centre of this rayon is Chernyahovsk city, a centre of industry and a transport junction. In the same rayon are situated the biggest agricultural areas. The smallest rayon in the region is Gysev rayon. This rayon has industrial and agriculture character. In Gysev city are situated more than 20 industrial enterprises. Distinctive characteristics of Nesterov rayon is a variety of natural resources - peat, construction materials and timber. Ozerskiy rayon traditionally is specialised on growing cattle and pigs. The main part of vegetables is growing in Gyrievsk rayon. All rayons have specific industrial specialisation. Below you can find the data.

Rayon	Population thousands	Production	Particular features
Bagrationovskiy		Sausages, cans, meat, milk	
Gvardeiskiy		Sausages, meat, macaronies, margain, milk, bread, umbrellas, paper, cardboard, construction materials, hosery	
Gurievskiy		Construction materials, oil	
Gusevskiy		Electric engines, knitted wear, forage, bread, milk	
Zelenogradskiy		Bread, confectionary, cloves, bricks	
Kraznoznamenskiy		Milk, timber	
Nemanskiy		Bread, cellulose, paper, cardboard, sawmaterials	
Nesterovskiy		Milk, timber	
Ozreskiy		Agricultural products	
Poleskiy		Bread, milk, cans, timber	
Pravdinskiy		Beer, butter	

Slavskiy

Butter

Chemyahovskiy

Confectionary, meat,  
cheese, milk, bread,  
timber, furniture, goods  
from leather,  
construction materials

## **5.2. Institutions supporting SME in region in whole (private non profit organizations, supported by official authorities)**

### **5.2.1 Fund of development of FEZ "Yantar"**

This fund was established by Property Management Committee of the regional administration, Committee of the development of FEZ "Yantar" Regional Property Fund. City Property Fund and Property Management Committee of Kaliningrad city. Fund of development of FEZ "Yantar" was created with the purpose to support the development of the Kaliningrad region.

This fund investigates concepts of development of the Kaliningrad region, creates necessary data bases, works out, promotes and finances investment projects. The fund gets its financial means from payments of founders, voluntary payments and credits, and according to the President's Decree no 548 (4.06.92). The fund uses part of the means from privatisation of federal owned enterprises.

The fund is controlled by a Board which consists of the head of the administration, the mayor of Kaliningrad city, representatives of the regional Duma, tax inspection and committee on economics and prognosis of the regional administration.

### **5.2.2 Centre of development and support of entrepreneurs**

Supports entrepreneurs in the SME sector and develops business plans for entrepreneurs, helps to choose a partner and assists with all legal and marketing services. The address of the centre: 236006, Kaliningrad, Barnaul'skaya str., 4-36.

## **5.3 Associations**

### **3.3.1 Chamber of commerce**

Is working with the registration of lawyers specialized in international business, making expertises for different products, gives certificates of origin in the Kaliningrad region, helps entrepreneurs to find foreign partners. The address of the Chamber of Kaliningrad, prospect Pobedy, 55.



### **5.3.2 Other business associations**

Among other associations supporting and promoting the SME sector we should first of all point to the Association of workers in private and privatised entrepreneurs. Associations of insurers, the address of the association: 236016, Kaliningrad, Klinicheskayastr., 83-a.

## **5.4 Education**

### **5.4.1 Elementary school and grammar schools. Professional preparation.**

Today Russia has a compulsory 8 year elementary school. Those who desire can continue their education in this school to the 10th form. Education in this obligatory school is free. In the Kaliningrad region there are also different types of high schools. The pupils in these schools pay fees.

In the cities Kaliningrad and Ozersk there are situated 4 technical schools, educating specialists for the local market.

### **5.4.2 Universities and colleges**

In Kaliningrad there are general and technical universities, a navigation college, medical and musical colleges.

The Kaliningrad School of International Business is a private school on academic level with different institutes, such as finance and law, management, marketing and others. There is a management and agrobusiness academy in the city.

Teachers have opportunities to upgrade their qualifications in the Upgrading Qualification Institute, which is situated in Kaliningrad city. In Pollessk is situated a branch of St. Petersburg agriculture university. All these institutions prepare specialists for the regional market.

In Kaliningrad is situated the High Military Marine School, which prepares marin specialists for work in military fleets of Russia. Here is also situated the fish industry academy training specialists for relevant enterprises of Kaliningrad and Astrachan region, far east of Russia. Russian upgrading qualification institute for the leaders and specialists in fish industry prepares specialists in management, finances, audit and computer skills. Kaliningrad police high school prepares officers for their further service from different regions of Russia.

### **5.4.3 Other institutions purposed for SME education**

In Kaliningrad is established and successfully operating for 2 years The European Business School "Kaliningrad" which prepares managers in cooperation with 10 leading European business schools. During the studies the participants are offered to work as trainees in European companies. Here also operates the Russian/German educational centre, teaching computer skills and German language. (Enclosure)

## 5.5 Bank services

### 5.5.1 Regional banks

In Kaliningrad region there is a big number of finance institutes (totally 73). Part of them was established on the basis of local banks of Soviet times. Others were opened as branches of big banks from Moscow, Archangelsk, Ufa, Kazan, Vladivostok and other big cities of Russia. By Russian standards regional banks can be considered as medium size. Maximum equity capital is not higher than 2,0-2,5 mio. US dollars for the biggest regional banks. The main direction of activities of regional banks is banking and realisation of investment programmes. Below you will see a list of main regional banks.

Name	Address
Avrora	Kaliningrad, Sovietskiy prospect, 12
Atlantbank	Kaliningrad, Pionerskaya str., 61
Baltika	Kaliningrad, Orechovaya str., 7
Baltvneshtorgbank	Kaliningrad, Bolnichnaya str., 5
Baltcredobank	Kaliningrad, Sommera str., 27
Baltconversbank	Kaliningrad, Carl Marks str., 19
Investbank	Kaliningrad, Leninskiy prospect, 28
Kvarts	Kaliningrad, Ozerova str., 20
Marine bank ("Morskoj")	Kaliningrad, Olhovaya str., 21
Municipal bank	Kaliningrad, Leonova str., 21
Russko-Baltiski bank	Kaliningrad, 9 Aprelya str., 60
Sberbank	Kaliningrad, Telmana str., 30
Sirol-Westbank	Kaliningrad, Gendelya str., 3-a
Energotransbank	Kaliningrad, Bagrationa str., 71
Embakenigbank	Kaliningrad, Klinicheskaya str., 83-a
Yantar-bank	Kaliningrad, Ivannikova str., 15

There are only a few other Russian banks represented in the region. They lead their activities in financial operations in different industrial spheres. Below you find a survey.

Bank	Origin	Profile	Address
Agroprombank	Moscow	agriculture	Kaliningrad, Janalova str., 42
Vozrozhdenie (Revival)	Moscow	commerce	Kaliningrad, Sovietskiy prospect, 12
East-West	Moscow	investments	Kaliningrad, Komsomolskaya str, 27-a
Gandvikbank	Archangelsk	economical development	Kaliningrad, Kirova str, 1
Far-east bank	Vladivostok	commerce	Kaliningrad, Radisheva str
Zarechie	Kazan	commerce	Kaliningrad, Leninskiy prospect 83
Investcombank	Obninsk	investments	Kaliningrad, Mendeleeva str, 8
Credobank	Moscow	commerce	Kaliningrad, Bagramyana str, 4

### 5.5.1 Branches of banks in the region

The majority of regional banks have branch offices in other cities of the region. Some banks have branch offices in Moscow and other big cities of Russia (f.e. izhevsk). Among cities and towns of the region which have branches of regional banks we can mention Svet'yi, Svetlogorsk, Selenogradsk, Baltyisk, Pionerskyi, Gvardeisk, Chernyahovsk, Sovietsk and also the township of Zheleznodorozhnyi.

## 5.6 Small and medium size enterprises

### 5.6.1 Number of companies by ownership

The majority (78 %) of registered enterprises and companies today found in the private sector. Below you can see a table showing the distribution of enterprises by ownership.

Property form	Number of companies
State	804
Municipal	636
Public unions	274
Private	13310
Mixed	1224
Foreign	198
With foreign participation	512

Among private enterprises those in the SME sector are leading.

### 5.6.2 Private enterprises

The so called cheque privatisation has been finished and is now leading into the active forming of market structures. The majority of new companies, as it was mentioned, is private owned. The sphere of activity of the new companies is mainly commerce connected with the import of food stuffs and consumer goods. However, an increasing part of the newly registered enterprises is dealing with building and construction, metal and wood working, training and education and other services.

### 5.6.3 Size and turnover of companies

On July 1, 1995, the number of employees in the SME sector of the region was 72490 people. It is 22,6 % of the total labour force. There are totally 8130 SMEs. In 1994 SME companies paid taxes in dollar equivalent to 8,4 mio. dollar. During the first eight months of 1995 there were transferred 3,1 mio. dollar in form of taxes. Below you find the SME sector's main branches.

**Industry**

Production	362
Agriculture	1777
Construction	549
Trade	2002

**5.7 The cost of labour****5.7.1 Average cost of labour**

During 1994 there was a constant increase in average cost of labour in the region. However, the increase of consumer prices especially during the second half of the year was higher than the growth of average labour cost.

During 1994 average cost of work force in the region was 0,54 US dollar per hour. It increased comparing with 1993 3,7 times in rouble equivalent and 2,8 times in dollar equivalent. Minimum level of labour cost in 1994 was 0,063 US dollar per hour.

**5.7.2 Average cost of labour in main industries**

In 1994 the different wages an hour were as follows:

<b>Main industries</b>	<b>Average labour cost, US dollar/hour</b>
Production	0,53
Agriculture	0,3
Forest industry	0,48
Transport	0,82
Communication	0,79
Construction	0,63
Trade	0,53
Informational systems	0,51
Geology	0,64
Municipal services (sewage, etc)	0,53
Health care	0,42
Education	0,42
Culture	0,34
Science	0,45
Finances	1,3
Management	0,72

From this table we see that the highest rates in 1994 were in spheres connected with financial and credit services, as well as management and transport services.

**5.8 Production and labour****5.8.1 Occupation in industries**

In 1994 the whole labour market decreased by 4 %. The biggest drop (almost 15 %) was in machine building, light industry, pulp paper industry and science.

The sectors of agriculture and geology were decreasing less. In these spheres the number of unemployed rose from 5 % to 10 %. At the same time in 1994 there was a constant increase of employees working in this sector.

A special problem of the Kaliningrad labour market is the constant growth of hidden unemployment in production and building. During 1994 more than 30 thousand people were working part time. About 200 thousand people had long (more than 3 months) vacation without financial support. Total volume of hidden joblessness was about 200 thousand people in 1994., i.e. about 38 %.

Official unemployment in the region continues to grow. In the beginning of 1994 the monthly growth of unemployment was about 500 people, at the end of 1994 about 1000 people. At the end of 1994 total unemployment was about 40 thousand people from them 68 % women, 22 % young people. In general we can consider 9-10 % of the total labour force as officially unemployed (47-52 thousand people).

### 5.8.2 Efforts fighting unemployment

The main efforts on decreasing the level of unemployment are done by the Centre of Employment, the address of the centre: 230000, Kaliningrad, Kommunalnaya 6. In the staff of the centre there are 140 specialists which are registering, teaching and reeducating jobless people. The centre has its representatives in all big cities of the region. Based on professional and technical schools of the region the centre organises short time courses on preparation of bookkeepers, waiters, insurance agents and so on from the number of unemployed.

### 5.8.3 Production and size of companies

Sector of economy	Quantity of enterprises
Production	2500
Agriculture	2973
Forest industry	22
Transport and communication	451
Construction	1624
Trade	2143
Supply and sale	189
Municipal services (sewage, etc>)	170
Health care	225
Education	222
Culture	209
Finances	288
Management	533

## 5.9 Natural resources

On the territory of Kaliningrad region there are natural oil fields, brown coal, peat, stone salt, mineral water, amber and construction materials.

### 5.9.1 Extraction of natural resources

Oil was for the first time found in 1962. It is of high quality and has a low content of sulphur. Up to now there were extracted more than 20 mio tons. The total

amount of oil on the territory of the region is estimated to be 50 mio. tons. On the Kaliningrad shelf there are estimated 80-100 mio tons of oil.

## 5.10. Border crossings and customs services

Border crossing	Regime of work	Transport	Status	Capacity per day
Mamonovo 1-Bronovo	9-21	Passenger	Two ways	500 cars and 5 buses
Bagrationovsk-Bezledy	24 hours	All types	International	1000 cars, 100 trucks, 50 buses
Gusev-Goldap	8-20	Passenger cars	Two ways	200 cars
Chemyshevskoe-Kibartay	24 hours	Passenger and cargo	International	400 cars, 100 trucks, 20 buses
Progranichnyi Shakyai	8-22	Passenger cars	Two ways	100 cars
Sovietsk-Panemune	24 hours	Passenger and cargo	International	750 cars, 100 trucks, 50 buses
Kurshskaya kosa	24 hours	Passenger	International	130 cars, 20 buses
Zelezodorozny Michalkowo		Railway		
Kaliningrad		Airport		
Kaliningrad		Seaport		

### 5.10.1 Customs duties

## 5.11 Tourism

Tourists from the West can arrive and leave Kaliningrad region by airline Kaliningrad-Berlin, Kaliningrad-Hamburg or Kaliningrad-Copenhagen. Also they can use train to Vilnius, Riga, Berlin, Gdynia. By bus you can get to Kaliningrad on roads from Gdansk, Hannover, Riga, Vilnius and Warsaw. By the Baltic sea you can get to Elblong, Frombork and Krynica Morska. After arriving to the region western tourists can stay in one of 12 middle class hotels, guest house "Bremerhafen" or camping "Baltica".

The climate of Kaliningrad region is temperate, transitional from maritime to continental. Average temperatures of July are 17-18 degrees, average temperatures of January minus 2-4 degrees. Average annual quantity of rain is 700 mm, with a fluctuation from 400 to 1100 mm. The flat wetlands of the region are rich in rivers and lakes.

On the territory of the region grow pine and leaftreas. 40 % of these forests are cultivated.

In the coastal region there are 141 touristic recreational objects in the Kaliningrad region. Below you can see the structure of this complex.

<b>Name</b>	<b>Quantity</b>	<b>Summer visitors thousand people</b>
Sanatoriums, resting houses, resort hotels	26	6,1
Hotels, motels, camping sites, cottages	89	8,4
Sport camps	26	6,6
<b>Total</b>	<b>141</b>	<b>21,1</b>

On the territory of the region there are different types of institutions for treatment and cures, sanatoriums for adults and children, prophylactic sanatoriums, rest bases, resort hotels. Most of them established during the Sovjet Regime. Also there are touristic hotels, motels, campings, sport and children camps, fishing and hunters' houses. Today only a few places can be considered as really of touristic interest: Kaliningrad, Coastal area, Kurshskaya kosa, cities Chernyahovsk and Sovietsk.

### **5.11.1 Touristic cities and places**

#### **Coastal area**

The coastal area consists of one of the most popular sectors of the Baltic Coast and includes Svetlogorsk, Zelenogradsk, Yantarnyi and Pionerskyi. Here are situated the main resorts and touristic institutions of Kaliningrad region.

The seaside resorts have been famous since the 19th century. After construction of the rail road this area was successfully competing with other resorts of Germany, Austria and Czechoslovakia until 1939.

Svetlogorsk city is situated in a hilly area by the sea. There is a vast sandy beach, lakes and old beautiful streets. Zelenogradsk city is situated close to the beginning of Kurshskaya kosa. It has a charming architecture and is surrounded by forests.

In the coastal area are concentrated practically all sanatoriums of the region and 70 % of resort hotels and children summer camps. In summer time at some days about 70 thousand people visit this area. They come by rail road and by car. Half of them stay at the seaside close to Zelenogradsk, the other half visits the area of Svetlogorsk and Pionerskyi.

### **Kurshskaya kosa**

Kurshskaya kosa is a long and narrow peninsula, separating the Baltic sea from the Kurshskiy gulf. The length of Kurshskaya kosa is 48 km. The surface of the kosa is 2-6 m above the sea level and there are dunes up to 60 m high.

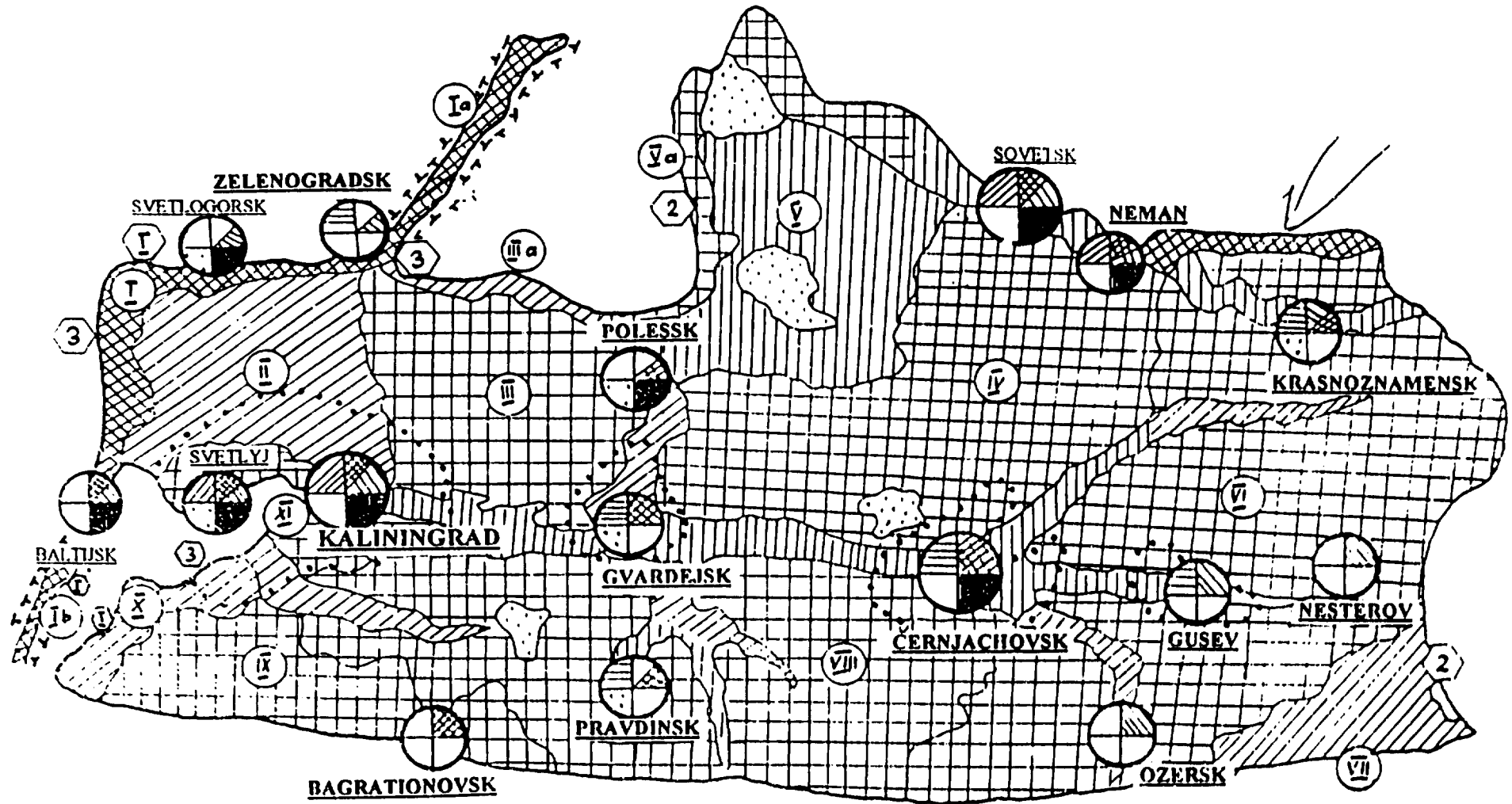
Influenced by western winds the dunes are constantly moving. On the territory of kosa there are the following townships: Lesnoi, Rybach' and Morskoe. Here you find resort bases, where 2,2 thousand people can stay. Kurshskaya kosa is a national park, so the entrance to the kosa is limited. Exceptions are made only for tourists going to the rest bases.

The following map shows the touristic potential of the whole Kaliningrad region. It has been elaborated by Baltic Scientific Institutes and points among others at the potential of a number of now undeveloped areas of the countryside of the Kaliningrad Region.



Abbildung 1

ERHOLUNGSPOTENTIAL DES KALININGRADER GEBIETES



## Legend Tourism Map Kaliningrad

<b>I Coastal Area</b>	<b>Most suitable (sun like Jalta, more than Jurmala Latv)</b>	<b>Therapy, Profylax, recreation (cottages), Tourist hotels, housing, Motels, family/youth</b>
<b>Ia</b>	<b>Most suitable</b>	<b>Recreation (like above) scientific and cultural tourism</b>
<b>Ib</b>	<b>Most suitable</b>	<b>Recreation</b>
<b>II</b>	<b>Suitable</b>	<b>Recreation, cultural tourism</b>
<b>III</b>	<b>Conditionally suitable</b>	<b>Hunting, fishing, mushrooms, berries</b>
<b>IIIa</b>	<b>Suitable</b>	<b>Fishing, game waterbirds</b>
<b>IV</b>	<b>Conditionally suitable</b>	<b>Hunting, fishing, cultural tourism (Sovje:sk)</b>
<b>V</b>	<b>Less suitable, dull landscape, rainy, windy</b>	<b>Hunting, fishing, possible cultural tourism Neman-Delta, Gromovo Moore</b>
<b>Va</b>	<b>Conditionally suitable</b>	<b>Game waterbirds, moore game, fishing</b>
<b>VI</b>	<b>Conditionally suitable</b>	<b>Sport tourism, hunting</b>
<b>VII</b>	<b>Suitable (lakes, woods, few contamination sources, low moisture)</b>	<b>Hunting, fishing, mushrooms, berries, short and long vacation, hunting</b>
<b>VIII</b>	<b>Conditionally suitable</b>	<b>Sport and cultural tourism, recreation on water</b>
<b>IX</b>	<b>Conditionally suitable</b>	<b>Cultural tourism</b>
<b>X</b>	<b>Suitable</b>	<b>Cultural tourism, fishing, sailing</b>
<b>XI</b>	<b>Conditionally suitable</b>	<b>Fishing (limitations due to pollution of surface water)</b>
<b>XII River valleys</b>	<b>Variations in suitability (probably due to environmental pollution)</b>	<b>Fishing, cultural tourism on water (Pregel, Lava) Sport tourism (Neva)</b>

## 6. Executive summary

A survey of the Kaliningrad Region **soft institutional infrastructure** influencing the development of the **SME sector** was carried out during June-September 1995 by a UNIDO consultant in close cooperation with a national counterpart.

The work was carried out by a review of published data as well as in depth discussions with persons from selected enterprises, institutions and different departments of the regional and local administrations.

**Concrete suggestions for immediate actions** are made aiming at improving infrastructural draw backs as well as the low degree of appropriate knowhow and experience.

The region has the **advantage** of being easily identified due to its **geopolitical situation**. Projects and efforts aiming at developing this specific region can never run the risk of fading out into neighbouring areas. Its inhabitants are identifying themselves with their region.

There is a **well structured administration** established both on regional and local level. The responsibility for the region's border control stations has recently been moved from the federal to the regional administration which already has resulted in better performance thus facilitating the increasing flow of travellers and goods in both directions.

The **roadnet** connecting the cities and villages is **well spread** and in rather good condition quite in contrast to the road **surface within almost all communities** being in urgent **demand of instant repair**.

The traditionally **well structured educational system** comprises primary and secondary school as well as universities and different institutes of advanced studies, both civil and military. Due to the system changes of the last five years a great number of **private institutes** for adult and vocational training have been established forming a new sector in itself being a part of the transition process going on. A growing number of people are trained here, improving their skills for better performance in the developing market economy. Vocational training is being offered for 44 professions most of them found in the SME sector.

The **banking sector is developing fast**, the legal exchange of currency being one of the most profitable businesses in the region. More than 50 banks are said to be acting officially but only less than 10 of them are offering an all round banking service. A small enterprise has carefully to chose a bank suitable for its special demands and expectations. Only few of the business banks maintain offices outside Kaliningrad City and the coastal area.

The **SME sector** of the Region consists today of about 8000 units. But despite this positive development it is still forming one of the most **severe bottlenecks** with respect to a prosperous development of the Kaliningrad Region.

A number of **vital sectors** of the region's industry are **suffering** from the weakness of the SME sector, such as technical maintenance, food production and

distribution, building and building material, exploitation of local raw material, tourism.

From 1993 to 1994 the number of people **working in SMEs** has doubled but still only **22% of the labour force** were engaged in SMEs, compared with about 60% in countries with developed market economies. Adding to that the low degree of appropriate professional skill and experience found in most of the SMEs you get a description of one of the reasons for the rather **slow industrial development** of the region.

The **explanation** for this situation is only partly to be found in the **past**, where individual businessmen often were working illegal. Business was synonymous with criminal activity and SMEs, if they were allowed, mostly were seen as disturbing elements in the process of centrally planning the entire life of about 320 million people. The other reason being the **legal instability** in the region as a result of the political dissension about the status of the region in relation to the motherland.

Against this background **concrete suggestions** for immediate actions have been made aiming at improving infrastructural draw backs as well as **counteracting the low degree of appropriate skill** and experience in the whole SME sector. The increasing amount of **idle highly competent people** from both the military and the civil sector is in this context been seen as **an asset**.

The measurements suggested are **furthering the cooperation** of all SME relevant actors of the region.

The result from this survey as well as experience from other transition countries show that a **strengthened SME sector** in the Kaliningrad region will substantially **contribute** to an intensification of the **industrial development**. It will have a **positive influence** on **vital sectors** of the region's **industry** and further the economic **integration** with the **Russin mainland** as well as with other **European countries**.

## 7. Resources, costs and budget for section 1 actions

### 1. Net of supporters

External consultant assisting in selecting and appointing right persons for the first 10 support points.

One man/month, spread over two months	20.000 \$	
Three travels, thirty hotel nights, per diems	6.500 \$	26.500 \$

Regional counterpart working on regional payroll

### 2. Identification and establishment of centres of excellence

Costs must be identified in close cooperation with the administration being dependant on type and location of every centre as well as type of public support granted to the support point

?

### 3. Compound instrument knowledge, experience, contacts, money

15 participant enterprises per project

#### Inventory phase, selecting participants

1 external consultant, 0,75 man months, spread over 1,5 months	15.000 \$	
1 regional counterpart, 1 man month, spread over 1,5 months	3.000 \$	
Two travels, 2 x 15 x hotel and per diem	6.400 \$	6.400 \$

#### Inventory phase, evaluation and preparation of study material

1 external consultant, 0,25 man months	5.000 \$	
1 regional counterpart, 0,25 man months	750 \$	
One travel and 5 x hotel and per diem	1.400 \$	31.550 \$

#### Performance phase

##### 6 seminars Friday/Sunday

teacher's salary 6 x 4.800	28.800 \$	
6 travels, 12 x hotel and 18 x per diem	37.000 \$	
Translator 18 days x 40 \$	720 \$	68.020 \$

##### Senior advisors, 5 persons x 9 = 45 man months

5 x three travels and 1355 visiting days, per diems and hotels = 185.000 \$	185.000 \$	
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These senior advisors are normally working at reduced or 0 fee.

**Back Up and Stand By Phase**

Senior advisors, 5 persons x 1 man month , spread over  
9 months = 5 man months  
10 travels and 50 hotel nights and per diems

15.000 \$

**Project management and administration  
during 12 months**

30.000 \$

329.570 \$

**4. Improvement of the region's transparency**

A booklet about the business related institutional infrastructure  
of the region including all branches of business has to be produced.  
Today there are two versions in Russian language. These should  
first be translated into English and/or German and followed by  
continuous new editions, once a year. 2.000 copies,  
to be sold for 2 \$ a copy.

The cost for the first edition is estimated to 30-40.000 \$ (reduced  
by income from sales).

40.000 \$

**5. Task oriented seed capital**

This will be handed by the financing group of the UNIDO project.