



Flag of the Vologda Region

VOLOGDA REGION



Coat of arms of the Vologda Region

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1.Introduction

Enterprise Europe Network Russia, Module A, Vologda regional center was set up in accordance with the contract signed between the Russian Agency for Small and Medium Business Support and the Government of the Vologda region on March 22, 2010.

A primary purpose of Enterprise Europe Network Russia, Module A, Vologda regional center is a grant of informatively-consultative support to the small and middle enterprise of the Vologda region, interested in establishment and development of mutually beneficial business collaboration with enterprises and companies of Russia and countries of European Union.



2.Information about Vologda region

General information



According to some archaeological facts, the history of the region dates back to the paleolithic period. The first settlements were founded along the Mologa and Sukhona rivers and near the Beloe lake. One of the first towns of the Oblast is Beloozero (862). The first reference to Vologda, the center of the Vologda Oblast, dates back to 1147 the same year Moscow was founded. Peter the Great favoured greatly the industrial development of Russia. In 1703 two metal working plants were commissioned in the oblast.

Woodworking industry started to develop in the XVIIIth century. Wood processing enterprises of Vologda and Tot'ma supplied timber products not only to local but also to Arkhangelsk and foreign consumers. Then two glass factories were set up in Vologda and near Kadnikov.

Since the end of the XVIIIth century the importance of Cherepovets, the biggest industrial city in the oblast nowadays, started to grow dramatically, particularly after the construction of the Volga-Baltic canal.



One of the prior industries of the XIXth century was the flax spinning industry. In 1851 in Krasavino, near Veliky Ustyug, a flax spinning factory was commissioned producing scarves, napkins and tablecloths that became widely spread in Russia. Towards the end of the XIXth century a pulp and paper and wood processing factories were set up in Sokol 40 Km (25 MI) off Vologda. Butter making became popular at that period of time.

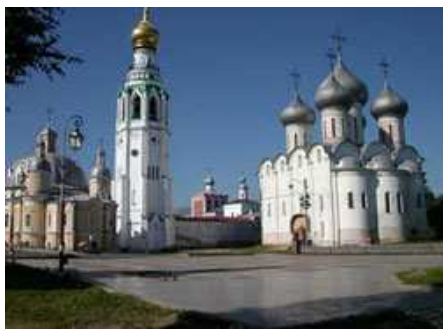
Vologda butter, as well as Vologda lace, is nowadays known world-wide.



The Vologda oblast is famous for the number and significance of its historical and cultural monuments: the Vologda Kremlin; Spaso-Prilutsky, Kirillo-Belozersky, St. Ferapont, St. Michael and Archangel monasteries. Ancient towns of Vologda, Veliky Ustyug, Tot'ma, Ustyuzhna, Belozersk and Kirillov are well known all over the country. Dionisy's frescoes in the Nativity of the Virgin Cathedral of St. Ferapont monastery are real treasures among the monumental fine art works. Today the Vologda Oblast is one of the important cultural and economic centers of Russia's North-West.

Geography

The Vologda oblast was established on September 23, 1937. It is situated in northwestern Russia 500 Km (311 MI) off Moscow and borders on the Republic of Karelia, on the Arkhangelsk, Kostroma, Yaroslavl, Tver, Novgorod, and Leningrad oblasts. The oblast occupies the territory of 145.7 thousand square kilometres, which is equal to



the territories of Belgium, Denmark, the Netherlands and Switzerland taken together. The Vologda territory is crossed by important ways connecting central Russia with the Urals and Siberia. The rivers flowing through the oblast's territory carry their waters to the Baltic, White and Caspian seas.

The centre of the oblast is Vologda. The city of Cherepovets is the first city in the oblast by its population and industrial value. It is one of the largest centres of steel and chemical production in the country.

Political division

The executive power of the Vologda Oblast is presented by the Government of the Vologda Oblast, headed by the Governor. The local law-making body is the Legislative Assembly, headed by the Chairman.

Today 1,324 thousand inhabitants of the oblast are being proudly named "Vologodians" (0.9% of Russia's population). From ancient times the Vologodians have been and still are famous for the love to their Motherland and their families and for their quite, imperturbable, and hardworking nature.

Climate

The Vologda region is located on the northeast of the East - European plain. Seasons change each other and the Vologodians experience the so-called moderate-continental climate: a cold snowy winter followed by a short summer. During a year precipitation quantity makes 650-800 mm. In summer it makes 3/5s of this amount. The winter days are short, lasting only six hours or so. The coldest month in Vologda is January, with an average temperature ranging between -15 and -17C. The summer, although short, is one of Vologda's most prized assets. It lasts about three months. People take an advantage of this special time by going to the country, festivals, side-walk cafes. The average temperature in July is between +23 and +25C.

Western part of area has the characteristic exterminated relief with by a great number lakes. The forests occupy 2/3 territories, mainly coniferous (fir-tree). The area of south and middle taiga is here located.

Natural resources

The Vologda Oblast is a vast wooded area with some 71% (10 mln has) of its total land covered with forests: mostly spruce, but also pine and deciduous (birch, aspen, etc.). Wood is the most precious treasure of the region.

The forests contain an abundance of wilderness, wildlife and spectacular beauty. Elks, wild boars, brown bears, lynxes, red foxes, martens, squirrels and hares can be found there. Typical representatives of fauna are elks (29,100 in number), bears (7,200 in number), lynxes, red foxes, wild pigs (6,200), forest martens, squirrels, and hares. The total supply of timber amounts to 1,6 bn cu m, 852 mln cu m of which are conifers. The planned annual wood-cutting area makes up 22 mln cu m.



Agricultural lands make up 10% of the total available land. Arable land equals to 718,400 has, pastures and hayfield - 571,000 has, marshes - 1272,000 has.



The Vologda Oblast is a region with the largest number of marshes, with the total reserves of peat making up 2,7 mln tons.

The Vologda oblast has a really unique nature. The Sukhona, Yug, Kubena, Sheksna rivers crossing its territory, as well as numerous lakes being pearls of the Vologda land are sources of water resources. The largest number of rivers is chiefly concentrated in the western part of the oblast (87%).

The Vologda oblast is noted for a watershed of three seas (the Baltic, the White Sea, the Caspian Sea).

The Vologda oblast boasts a wide natural resource base including major deposits of peat, fluxing limestone, gravel, construction sand, loam, spropel, haydite, underground waters and other strategic minerals. On the territory of the region there are 409 deposits of peat, 348 deposits of construction sand and gravel, 54 - with brick earth and keramzite clay, 31 deposits of carbonate rocks and 10 with spropel. All in all over 800 fields of mineral resources have been prospected.

Depending on their quality, carbonate rocks are used as flux in the metallurgical industry, presenting a top-quality raw material, which meets the industry's strict requirements as regards chemical composition and physical parameters.



The biggest deposit of flux limestone for blast furnace and open-hearth production is situated in the Vytegra district. Its reserves estimated by category A+B+C₁ make up 546,948

The total reserves of clay by category A+B+C₁ are estimated at 66.2 mln cu m, by category C₂ - 89.4 mln cu m. The group of developed deposits numbers 25, with commercial reserves containing 46.8 mln cu m of clay.

Their total estimated reserves make up 83.1 mln cu m by category A+B+C₁, and 30.7 mln cu m by category C₂. Twelve deposits are developed. They contain 65.3 mln cu m which account for 78% of the explored reserves.

The deposits are distributed over the territory of the oblast rather unevenly, the big and medium ones being chiefly concentrated in the central districts: Cherepovets, Ust'-Kubina, Kirillov, Sokol and Tot'ma.

Peat deposits were found throughout the region territory - in the districts of Babaevo, Kadui, Mezhdurech'ye, Ustyuzhna, Chagoda and Cherepovets.

Numerous lakes contain considerable reserves of spropel deposits, however the potential of this mineral raw material has not been sufficiently studied. In the region 277 deposits of medical spropel muds with a total square of 26,100 hectares have been prospected.

Authorities



The Governor of the Vologda Oblast is the head of the Oblast and the Government. The Governor is assisted by Vice-Governors. The Government elaborates the draft budget, social and economic development programmes and it is responsible for their administering and executing. Governor submits the draft budget for consideration in the Legislative Assembly and represents the interests of the Oblast when dealing with the

federal executive bodies and government bodies of the Federation entities.

The Government of the Vologda Oblast and executive bodies represent the interests of the population and assume responsibility in decision - making process and promote the region's progress.

To achieve its mission, the Government conducts activities and provides services that fall into the following categories:

- increase in budget-forming potential and tax collection;
- boost of investments into the region;
- concentration on reviving industries, production of competitive goods, backing of the manufacturers' interests;
- creation of working places, curbing of unemployment rates;
- protection of the stability of the Vologda Oblast.

The Government consists of the Governor (head of the local Government), Vice-Governors, members of the Government, and heads of the local organs of executive power. The members of the Vologda Oblast Government provide vision for the region-wide development, leadership and direction for efficient functioning of the local Government.

3. Industry

Industrial output and key sectors



The Vologda Oblast is one of the highly-developed regions of Russia. In terms of gross regional produce per capita it takes the 13th place in Russia and 4th in Russia's North-West. Of Russia's total production, in 2009 the Vologda Region produced 16.2 percent of its iron, 16.0 percent of its steel, 24.4 percent of its bearings, 12.9 percent of its mineral fertilizers, 10.5 percent of flax fabrics, 8.5 percent of its glassware, and 5.2 percent of its timber products. The major industries of the region are steel and chemical production (Cherepovets), machine building and metal processing (Vologda), woodworking industry, and pulp and paper industry (the town of Sokol). Light industry is primarily concentrated by flax processing operations: two large flax spinning factories in Vologda and Krasavino, a lace firm Snezhinka, and several other linen producing companies.



The ferrous industry has always been the major source of revenue in the region. Over the last nine years such industries as food processing, machine building, timber and glass industries increased production and became more competitive.

Metallurgy industry of the oblast which has always been economically-efficient and technology intensive. The town of Cherepovets is home to the Region's steel industry. Severstal Steel Mill is the largest producer of rolled products in Russia. It produces a wide range of hot-rolled and cold-rolled sheet steel, zinc and aluminized zinc plated sheets, steel wire and steel rope, pig iron, and other iron and steel products.



Forests occupy over 70 percent of the Vologda Region. Within the last years timber industry has been rapidly developing owing to an abundant stock of wood - 1,6 bln cu m. The local government attached

considerable attention to this industry by establishing an international annual "Russian Wood" Trade Show. The main woodworking companies in the region are Vologodskiye Lesopromyshlenniki, OAO LPK Kipelovo, VologdaLesprom, and CherepovetsLes.

The Vologda Oblast has advanced mechanical engineering. The region's machine building industry includes the Vologda Bearing Plant which produces bearings, the Vologda Machine Tool Plant which manufactures technical equipment for wood processing, the Vologda Optical and Mechanical Plant specializing in optics and household electrical equipment, the Vologda Machine Building Plant producing equipment and spare parts for dairies, mini-bakeries and mini-breweries.

Engineering industry is oriented at manufacturing products that will have a ready market in Russia and abroad. Most enterprises of machine building are certified according to the highest quality standards and in agreement with ISO 9001:2000. Obtaining such a certificate is a sign for clients and customers that the services focus on quality and are run with efficiency.

Maching-building enterprises are involved in exhibition activities. Participation in fairs and exhibitions gives an opportunity to establish new business contacts and promote company's brand among customers. This is the best way to attract more potential customers.



Vologda is also a region of high-intensity chemical industry. The bulk of the Region's chemical products is produced by two large companies located in Cherepovets. OAO Ammophos is the largest producer of sulfuric acid, but its primary products are phosphate fertilizers. Its production meets all the prescribed requirements of ISO standard: ISO 9001:2000 and ISO 14001:2004. OAO Cherepovetsky Azot produces ammonia, non-concentrated nitric acid, ammonium sulphate, dimethyl benzene, carbamide and medical nitrous oxide. The company received the certificates on conformity to ISO 9001:2000, ISO 9001-2001, ISO 14001:2004 and ISO 14001-2007 standards for quality management system.



The Vologda Oblast is also characterized by a highly-developed agroindustrial complex. There is a growing demand for the products of the land which are grown by traditional methods and are biologically sound and additive-free. The region is more than self-sufficient in nearly all major products. It produces close to 100% of its needs for cereals, flax fibre, meat, dairy products, poultry meat and vegetables. Farmers of the Vologda area are amongst the most productive in Russia. They supply the essential foodstuffs for the region, they feed other parts of Russia as well. Leading branches of agriculture are plant growing and cattle breeding. The Vologda region is in top ten Russian regions in terms of milk and eggs production per head.

The region is highly integrated into the world economy. In 2009 the external trade turnover of the Vologda Oblast amounted to \$2950,4 mln. Total exports in 2009 were \$2522,0 mln. The Region's businesses export ferrous and non-ferrous metals, hardware, chemical products, timber and lumber, industrial machinery and other products. OAO Severstal, OAO Severstal-metiz, OAO Ammophos, OAO Cherepovetsky Azot, ZAO Vologda Bearing Factory are leaders in export supplies.

A few years ago the Sheksna Industrial Park was founded in the south of the Vologda Oblast at the intersection of the main Russian transportation lines. It is approved as the only economic-technological development area in the region. It is entitled to preferential policies as both an economic and technological area and as a national-level high-tech industrial park.

The Vologda Oblast is a region with the lower investment risks in the Expert rating agency and ranks 20th (as compared to the year 2000 - 35th) among the Russian regions that underwent an examination by experts.

4. Economy

Innovation Activity

The highest innovative activity is demonstrated by large enterprises, usually distinguished by more stable financial conditions and diversified ranges of economic activities, and possessing sufficient fixed assets. However the last years were notable for the increasing innovative activity of middle-sized and small enterprises.

The role of higher educational institutions as centers for the growth of innovation activity in the Vologda Oblast is great. There are 6 state-run higher educational institutions, 7 affiliates with the state universities, 9 branches of non-state educational establishments, 3 branches of the Academy of Sciences and one non-state institute in the Oblast. Public contribution to innovation expenditure of four state universities in the Vologda region (Vologda State Technical University, Vologda State Pedagogical University, Cherepovets State University and Vologda State Milk Academy) increased greatly over the last years.

Business incubators that sprouted up throughout the region, Innovation Centre of the Vologda State Technological University, a Centre for Innovation Technologies (set up to support innovation entrepreneurship among students), 15 information centres and consulting firms, a Centre for venture investments "Vologodchina", two Chambers of Commerce and Industry operate on the territory of the Vologda Oblast and serve the interests of innovative firms forming an effectively operating system for commercializing technologies and other scientific-technical results.



Another factor promoting innovations is creation of industrial parks in the region. The Sheksna Industrial Park is the only economic-technological development area in the Vologda Oblast. It is entitled to preferential policies as both an economic and technological area and as a national-level high-tech industrial park. The industrial park encourages the development of industries and businesses which are economically efficient, high in added value and technology intensive. The first enterprise on the territory of the Sheksna industrial park - ZAO Severstal Pipe Works - Sheksna - was laid on September 27, 2007. The enterprise will be oriented towards production of round, square and rectangular pipes. The annual volume of production is expected to be 250 tons. The production facilities will be fully operational by the end of 2010.

The basic goals of the innovation activity on the territory of the Vologda Oblast are the following:

- development of the infrastructure of the innovation complex;
- training and retraining of personnel capable of converting intellectual property to salable goods under market conditions stimulating the development of top-priority fields of scientific-technical research;
- providing grants for research and innovation work;
- commercialization of new knowledge and technologies creating conditions for honest competition and entrepreneurship;

- encouraging inter-regional cooperation;
- providing incentives and support for innovation activity.

Investment Climate

Economic development is impossible without domestic and foreign investments. Favourable investment climate, assistance to enterprises in attracting investors will remain a priority objective for the Vologda Oblast Government over the coming years.

Main factors providing investment attractiveness of the Vologda Oblast are as follows:

- industrial potential characterized by highly-developed machine building and metalworking, chemical industry, light industry and timber industry;
- perfect natural conditions - water resources (numerous rivers and lakes), forests covering some 70% of the total land of the region and a number of perspective exploitations of minerals;
- presence of highly skilled scientific and technical potential;
- favorable geographical location and advanced network of communications - the oblast is one of the most important junctions of railways, automobile roads and airways in the North of Russia;
- stable political situation;
- implementation of a public finance reform programme and development of a sustainable fiscal policy that allowed accumulation of solid cash reserves safeguarding against the negative revenue shocks;
- availability of a developed legal basis of the State support of domestic and foreign investors, including issues of providing taxation and other privileges.

As far as the Vologda Oblast is concerned, first the Law "On Investment Activity in Vologda Oblast" (passed in 1997) and at present the Law "On State Regulation of Investment Activity on the Territory of the Vologda Oblast" that came into force in October of 2002 provide guarantees and preferential policies for enterprises that attract investments or deposit investments into production. The law:

- provides a wide range of forms of state financing of investment projects;
- grants privileges to the entities involved in investment activity;
- applies the principle of "non-deterioration of conditions for investors in case new acts of law are passed";
- provides dataware to would-be investors.

The Vologda Oblast is an active participant in events raising investment attractiveness and strengthening Russia's outside economic positioning, integrating Russian businesses into global markets and implementing innovative technologies.

Foreign Relations

Integrating the Vologda Oblast with the rest of the world through commerce and expanded foreign investment has been a high priority of the Vologda Oblast Government over the recent years. Being a reliable partner for long-term mutual collaboration the region attracts attention of the world official and business circles.

The modern history of partnership relations of the Vologda Oblast with the foreign countries spans many years. The oblast has concluded treaties on collaboration with Borsod-Abaúj-Zemplén (Hungary), Prešov (Slovakia), Oulu and Lapland (Finland), Jämtland and Västmanland (Sweden), Styria (Austria), Telemark (Norway), Moravian-Silesian Region (Moravskoslezsky kraj) of the

Czech Republic, and the Chinese province Jilin. They are about partnership and sustainability. The implementation of these agreements and protocols is already underway.

Our foreign partners: Oulu (Finland), Lapland (Finland), Jämtland (Sweden), Västmanland (Sweden), Telemark (Norway), Borsod-Abaúj-Zemplén (Hungary), Prešov (Slovakia), Styria (Austria), Moravia-Silesia (Czech Republic), Jilin (China).

A whole system of international events that promote goods and services manufactured in the Vologda Oblast to the foreign market emerged - participation in the international exhibitions (in Graz and Berlin), Days of the Vologda Oblast in European states, Days of the Austrian, Bulgarian, Italian and Finnish business in Vologda, business seminars and presentations of investment projects both in Vologda and abroad. In addition, such events give serious support to Russian producers, helping to develop national enterprises.

Collaboration with the international funds in a whole series of realms is defined as an important activity for the government bodies of the Vologda Oblast. A number of investment projects sponsored by the international funds is carried out in the Oblast. They are focused on economic and social sectors, tourism, education, ecology and culture. Non-profit organizations of the Vologda Oblast cooperate with the Swedish International Development Agency (SIDA), International Research and Exchanges Board (IREX), and other grant makers.

Small and Medium Business

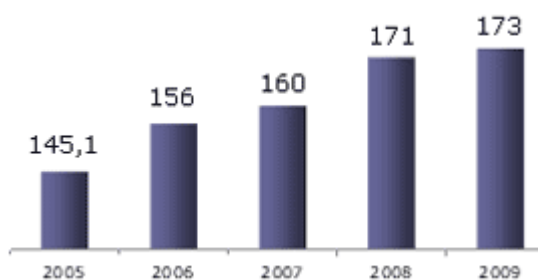


For the Russian economy to develop its potential there is an immediate need to reform and establish appropriate institutional, legal, and taxation frameworks, as well as to create an economic and political environment, which would encourage increased activity of small businesses. At present small and medium-sized businesses are main employees on the Russian market, a source of scientific and technical progress, and technological innovations. They became a principal driving force of economic development in Vologda too.

As of January 1, 2010, over 6,000 small businesses function on the territory of the Vologda Oblast and employ an estimated 73,000 people, registered private entrepreneurs amount to 44,000 people.

Sectoral distribution of small enterprises in Vologda is characteristic of Russia as a whole. Fields of action are trade, construction, agriculture, and manufacturing. Small enterprises employ 27% of all people working in the economic sector of the oblast.

Employment in small businesses, thousand people



With every passing year contribution of the small-sized businesses to the oblast's economy is becoming more significant.

Over the recent years, an effort has been made to create a legal and institutional framework for SMEs in Russia, and to establish state policies and programs of SME development. A network of private, federal, local and municipal support funds and organizations has appeared. These institutions offer training, educational, informational, consulting, financial, and other services to SMEs. Recent research indicates that the majority of small and medium companies consider government support to be most needed in the early stages of their development. Government support is needed on all administrative levels (i.e. federal, regional and local).

Programs aiming to develop infrastructure, presenting a legal framework, regulation and institutions of enforcement, finance and credit support for small entrepreneurship development are adopted in most municipalities of the Vologda Oblast.

The following institutions for entrepreneurs, start-up companies, small and medium-sized enterprises function on the territory of the Vologda Oblast: the Agency for Urban Development (Cherepovets), Centre for Venture Investments "Vologodchina", Information Centre for agricultural SMEs, two Chambers of Commerce and Industry, clubs for businessmen and entrepreneurship councils in all municipalities of the Vologda Oblast.

A stable and well-functioning tax system is of particular importance to the successful development of SMEs. In this context, local bills controlling relations in the sphere of small-sized business are examined on a regular basis with respect to the current tax system and the changes that need to be introduced in order to find an appropriate balance between the needs and interests of entrepreneurs, on the one hand, and the needs of the state (at different levels) to generate tax revenue, on the other.

The Vologda Oblast Government renders assistance and a wide range of services to start-ups by creating business incubators encouraging and assisting entrepreneurship. Business incubators, facilities designed to assist businesses to become established and sustainable during their start up phase are powerful economic development tools. They support the entrepreneurial process, helping to increase survival rates for innovative startup companies. Entrepreneurs admitted into the incubators are offered an array of targeted resources and services. The resources and services open to an entrepreneur include: provision of physical space, management coaching, help in making an effective business plan, administrative services, technical support, business networking, advice on intellectual property and sources of financing.

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