

Chapter 11

Creation of the Territory of the Advancing Socio-Economic Development as a Way to Diversify the Economy of a Single-Industry City



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Abstract The relevance of the research topic is due to the existence of the problem of low level of socio-economic development of a significant number of Russian single-industry towns. This problem was formed in the process of transition from a planned to a market economy. It was caused by the bankruptcy of previously active and dynamically developing city-forming enterprises in the transition period. This led to a decrease in the level and quality of life of the population of single-industry towns, completely dependent on these enterprises. Currently, a special research interest is the search for new effective tools for the development of single-industry towns and improve their socio-economic development. In the scientific work the definition of the concept of “single-industry city” is given, its criteria and characteristics are highlighted. The necessity of state support in the development of single-industry towns is substantiated. It is proved that one of the main ways to assist in the diversification of the economy of single-industry towns is the creation of territories of advanced socio-economic development in them, which are characterized by special conditions and have their own characteristics. In the article the experience of creation

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of the territory of the advancing social and economic development “Kotovsk” was studied, problems of its functioning and directions of its development are defined.

Keywords Single-industry town · City-forming enterprise · Territory of advanced social and economic development

JEL Classification Codes K2 · L5 · R1 · R5

11.1 Introduction

In scientific sources, the term “single-industry city” is used, which is formed by combining the concepts of “single-industry” and “city” [1].

This term has been widely used in the Russian Federation relatively recently: in 1990, due to the need to determine the list of municipalities whose socio-economic development is directly dependent on the economic condition of the city-forming enterprises. The Russian specificity lies in the fact that at the end of the 20th century there were a large number of city-forming enterprises. They were created and initially functioned in a planned economy. In the transition to a market system of management, they were uncompetitive. This fact caused crisis situations in many Russian cities where they were located.

Thus, on the map of Russia began to appear municipalities with huge problems of social and economic development, the solution of which became impossible without the intervention of the Federal center. Therefore, today the state must solve the important task of finding and justifying the ways of socio-economic development of single-industry towns. This requires the creation of a theoretical and methodological basis for the long-term development of single-industry towns.

11.2 Methodology

The scientific hypothesis of the study consists in the assumption that the creation of territories of advanced socio-economic development in single-industry towns can serve as a factor for improving the socio-economic situation in such settlements. This will be accompanied by an increase in the gross regional product, the creation of new jobs, an increase in average wages, as well as a decrease in the outflow of qualified personnel.

In the scientific literature, there are many points of view regarding the concept of “single-industry city”. According to the Russian researcher Granberg “a single-industry city is a city on the territory of which there is only one city-forming enterprise” [2]. Lipsits defines “monocity as a municipal formation on the basis of the city-forming enterprise” [3]. Neshadin gives the following definition: “a single-industry

city is a city whose economic base is one large production and several technologically related enterprises” [4].

Gureeva said “mono settlement (town, village) where there is a close relationship between the functioning of the major (backbone) of the enterprise and socio-economic aspects of life of the people and the market mechanisms of the growth can significantly affect the fate of the settlement” [5].

Western theorists consider the concept of “single-industry city” from the position of the city-forming principle: here they highlight its important feature-industry binding. Therefore, a single-industry city arises as a result of the development of a particular industry [6, 7].

According to Linda Carlson, “a single-industry city is a city that is owned by a company”. In her research, she considered the vector of development of single-industry settlements in the northwestern United States (near the city of Seattle) in order to identify the relationship between the main employer in the settlement and its population. According to the author, all multi-disciplinary entities are subjected to processes of socio-economic depression, as a result of which the presence of the main employer and the population in the settlement is reduced [8].

Hardy green called it a “one-company town”. Attention in his works he paid to successful examples of management of the company’s own single-industry town. To a greater extent, the companies, according to the author, had an operational approach to the population of single-industry towns in order to obtain the maximum possible profit. Some settlements the author cites as a positive example of the correct attitude of the employer to the population. For example, in the city of Corning in New York state, the reason for the high standard of living of the population was the direct interest of the company in its development [9].

As you can see, the basis of all the above definitions of the term “single-industry town” is a city-forming enterprise, whose economic development has a huge impact on the life of a single-industry town.

The methods of comparison, classification, grouping, and economic analysis were used.

11.3 Results

Consider the specifics of the development of single-industry towns in the Russian business practice.

Today in the Russian Federation there is 319 single-industry towns with about 15 million inhabitants [10]. The largest single-profile municipality is the Russian city of Togliatti, whose population is 702.7 thousand people (as of January 1, 2019). The next largest single-industry city is Novokuznetsk with a population of 554.9 thousand people. The city of Naberezhnye Chelny closes the three largest single-industry towns in Russia, its population is currently 531.0 thousand people.

Given the total population of single-industry towns and the fact that the population of some of them exceeds the population of many administrative centers of the subjects

of the Russian Federation, it is obvious the enormous impact of the results of their economic development on the economy of the state as a whole. It is worth noting that the most sparsely populated single-industry town in the Russian Federation is the village of Bering Chukotka Autonomous Okrug, which as of 1 January 2019 has a total population of 816 people.

The institutional framework regulating the activities of Russian single-industry towns is the Decree of the RF Government from July 29, 2014 No. 1398-R “On the List of monoprofile municipal formations of the Russian Federation (single-industry towns)”. This document reflects the classification of single-industry towns by risk factors of the socio-economic situation on the basis of the so-called “traffic light” principle. According to this principle, there is a division of all single-profile municipalities in Russia into three zones: red—the most risky zone; yellow—the zone of medium risks; green is a zone with relatively prosperous socio-economic development [10].

The Russian legislation defines specific criteria for identifying the type of single-industry city. In accordance with the proposed government methodology, at the first stage, single-industry towns are checked for belonging to the red zone, that is, the most risky. The implementation of at least two criteria of the methodology automatically allows to attribute a single-industry city to the red zone (Table 11.1).

If a single-industry city does not fall into the range of criteria of the red zone, then the possibility of its attribution to the green zone is revealed. The criteria for classifying a single-industry city as a green zone are also presented in Table 11.1. If the characteristics of a single-industry city do not allow it to be attributed to the green zone, it automatically falls into the yellow zone.

Currently, the largest number of Russian single-industry towns are assigned to the yellow zone (154 single-industry municipalities), 94 single-industry municipalities have features characteristic of the red zone. Only 71 single-industry municipalities in Russia meet the criteria of the green zone (Fig. 11.1).

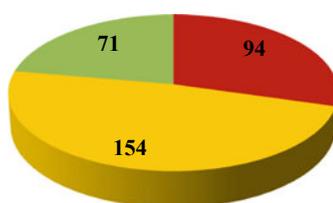
Note that in the period 2017–2019, 6 single-industry towns moved from the red zone to the yellow zone. This is evidence of a smooth process of stabilization of the socio-economic situation in these settlements.

The Ministry of economic development of the Russian Federation is the supervising Federal Executive body for monitoring the socio-economic situation of single-profile municipalities. According to the resolution of the Government of the Russian Federation “about criteria of reference of municipalities of the Russian Federation to single-industry towns and categories of single-industry municipalities of the Russian Federation depending on risks of deterioration of their social and economic situation” the Federal security service of the Russian Federation carries out monitoring of public opinion in such settlements [11]. The results of social surveys are one of the criteria for determining the types of single-industry towns.

Socio-economic development of mono-profile municipalities in the Russian Federation is characterized by the presence of various problems. First of all, these problems are caused by the crisis situation of the city-forming enterprises [12]. In such a situation, conditions are created for the growth of unemployment, a decrease in the level of income of the population of single-industry towns, a reduction in local

Table 11.1 Criteria for singling out the types of single-industry towns depending on the socio-economic situation

Critical situation	The criteria for inclusion in the “red zone”	The criteria for inclusion in the “green zone”	The criteria for inclusion in the “yellow zone”
Finding the city-forming enterprise in a state of bankruptcy	Yes	No	All other settlements
Intentions of the city-forming enterprise on implementation of reduction of workers, in %	10% or more	3% or more	
Unfavorable assessment of specialization of the industry market of the city-forming enterprise	Yes	No	
Assessment of the level of registered unemployment	Exceeds 2 times the average national level	Does not exceed the national average	
Assessment of the socio-economic situation in the single-industry town by population	Negative	Positive	

Fig. 11.1 The ratio of different types of single-industry towns in Russia depending on the socio-economic situation in 2019

- single-industry towns with the most difficult socio-economic situation
- single-industry towns with risks of deterioration of social and economic condition

budget revenues. In addition, the population is beginning to decline as a result of migration.

The government of the Russian Federation is taking measures to support single-profile municipalities. So, now the non-profit organization “Fund of development of single-industry towns” is created and functions [13].

To implement the main objectives of this Fund, budget funding in 2019 in the amount of 4.7 billion rubles is provided. In 2016 the Presidium of the presidential Council for strategic development and priority projects approved the passport of the priority program “Integrated development of single-industry towns” [14].

Reducing the dependence of single-industry municipalities on the economic condition of the city-forming enterprises is a key goal of the program. According to the passport of the program, 230 thousand new jobs (not related to the activities of city-forming enterprises) were to be created by the end of 2018. In fact, the value of this indicator reached 406.5 thousand jobs [15].

However, temporary jobs were also taken into account in the calculation of this indicator. The volume of investments in fixed assets, including extra-budgetary, by the end of 2018 was expected to reach 170 billion rubles. In fact, it was 1.8 trillion rubles, which is more than 10 times the plan. However, the calculation took into account all sources of funds, including loans and own funds of the population for shared construction.

In this regard, the accounts chamber of the Russian Federation criticized the state program for the development of single-industry towns. According to the accounts chamber of the Russian Federation, measures for state support of single-industry towns have not solved the main task of improving the well-being of their population [15].

The Ministry of economic development of the Russian Federation agreed with the conclusions of the accounts chamber. Thus, a new draft program of integrated development of single-industry towns is currently being developed.

One of the main objectives of the program “Integrated development of single-industry towns” is the creation of territories of advanced socio-economic development in single-industry towns in order to improve the socio-economic situation in single-industry municipalities by diversifying the economy and reducing the dependence of single-industry towns on the state of the city-forming enterprise.

Federal law “About territories of advancing socio-economic development in the Russian Federation” [16] and Government Decree from “On peculiarities of creation of territories of priority socio-economic development in the territories monoprofile municipal formations of the Russian Federation” (2015) establish rules for the creation, management, development, rights and responsibilities of residents of areas of advancing socio-economic development in these towns.

Article 2 of Federal law specifies that “the territory of advancing socio-economic development is part of the territory of the RF subject, including closed administrative-territorial education with special legal regime of entrepreneurial and other activities to create favorable conditions for attracting investments, ensuring accelerated socio-economic development and create favorable conditions for the viability of the population” [16].

The peculiarity of the territory of advanced socio-economic development is that the state provides its residents with various preferences, for example, tax incentives, customs procedures of the free customs zone, simplified connection to infrastructure facilities, and more.

On the territory of the Tambov region there are two single industry towns: the working village of Znamenka and the city of Kotovsk (currently both belong to the green zone). The RF Government decree “About establishment of territories of priority socio-economic development “Kotovsk” awarded the city the status of the territory of advancing socio-economic development [17].

In accordance with the tripartite agreement between the Ministry of economic development of the Russian Federation, the administration of the Tambov region and the administration of the city of Kotovsk within 10 years, the number of jobs created by residents of the territory of advanced socio-economic development will be 2,237 jobs, the number of residents of this zone will be 15 companies, the volume of investments made by these residents will be 10,745 million rubles [14].

The status of a resident of the territory of advanced socio-economic development “Kotovsk” implies the receipt of the following tax benefits until the end of 2027:

- reduction of income tax by 100% for the first 5 years and up to 13% for the next 5 years;
- land tax reduction by 100%;
- reduction of corporate property tax by 100%;
- reduction of insurance premiums to state extra-budgetary funds to 7.6%.

The condition of state support is to obtain the status of a resident of the territory by the investor, as well as the conclusion of an agreement on the implementation of activities in the territory of advanced socio-economic development “Kotovsk”.

The criteria for the competitive selection of investment projects for the provision of state support to investors are:

- Minimum investment—15 million rubles.
- During the first year after the inclusion of a legal entity in the register of residents of the territory of advanced social and economic development, the minimum amount of capital investment carried out within the framework of the investment project implemented by the said resident in respect of the relevant economic activities is 2.5 million rubles.
- The minimum number of new permanent jobs created as a result of the implementation of the investment project by a resident of the territory in respect of the relevant economic activities is 10 units.
- Compliance with economic activities of the investor in the implementation of the investment project to the list of economic activities included in classes of all-Russian classifier of types of economic activity in which the special legal regime of entrepreneurial activity on the territory of advancing socio-economic development “Kotovsk”.

A legal entity registered in the city of Kotovsk that intends to implement an investment project and acquire the status of a resident of the territory of advanced socio-economic development “Kotovsk” for the conclusion of the agreement shall submit an application to the administration of the city of Kotovsk in accordance with the legislation [18].

The application shall be accompanied by a passport of the investment project, a business plan, copies of constituent documents, a certificate of the absence of the applicant's debt on taxes, fees and other mandatory payments to the budgets of the budget system of the Russian Federation and state extra-budgetary funds, an expert opinion on the investment project (business plan) and more.

1. For one and a half years of functioning of the territory of the advancing social and economic development "Kotovsk" there were the following problem situations:
2. The first residents appeared only at the end of 2018.
3. As of April 1, 2019, within the territory of the advanced socio-economic development of Kotovsk, only 11 jobs were created (with a planned indicator of 290 jobs), the volume of investments amounted to 8.3 million rubles, while it was planned to 1 919 thousand rubles. Of course, such indicators do not have a positive impact on the economy of the city. However, it is worth noting that the number of residents amounted to 6 companies, while it was planned to attract 5 companies for this period. All 6 companies have become residents in the month of December 2018–March 2019. According to the plan to attract residents to the territory of advanced socio-economic development "Kotovsk" until the end of 2019, the status of resident of this territory will receive 4 more companies.
4. In accordance with the Decree of the government of the Russian Federation, residents of this territory of advanced social and economic development can open production according to 26 permitted economic activities [18].
5. Article 427 of the Tax Code of the Russian Federation defines the procedure for granting reduced tariff insurance premiums, which are applied to a resident of the territory of advanced social and economic development, who has received such status not later than within three years from the date of creation of the relevant territory [19].
6. The tax code of the Russian Federation defines that residents of the territory of advanced social and economic development can take full advantage of the preferential tax regime, if they are on the General tax system. In this regard, small and medium-sized businesses that are on the simplified tax system in Russia and wish to expand production and become residents of such a territory, unfortunately, do not have preferences in full [19].

11.4 Conclusions

Directions of development of territories of advanced social and economic development in the Russian single-industry towns are: introduction of changes in the legislative acts regulating functioning of territories of advanced social and economic development.

For the purpose of more active development of the territory of the advancing social and economic development "Kotovsk" and diversification of economy of the city, it is expedient to cancel restrictions on the all-Russian classifier of types of economic

activity. You should consider doing the investor any activity permitted by the legislation of the Russian Federation, in addition to classified in accordance with the national classification of economic activities in any of the following types: hunting, trapping and shooting of wild animals, manufacture of tobacco products manufacture of alcoholic beverages, wholesale trade and retail, in addition to trade in goods of own production activities financial and insurance activities for the organization and conduct of gambling and betting, organization and holding of lotteries, etc.

It is necessary to extend benefits on insurance contributions to state extra-budgetary funds regardless of the moment of obtaining the status of a resident of the territory of advanced social and economic development.

The Federal Law “About territories of advanced social and economic development in the Russian Federation” should be extended to individual entrepreneurs.

It is necessary to introduce benefits for residents of the territories of advanced social and economic development, which are on the simplified tax system, by reducing the applied interest rates.

Thus, at the moment it is too early to draw conclusions about the effectiveness of the territories of advanced socio-economic development. The creation of such zones in the Russian Federation began relatively recently, in practice, there are a large number of problems associated with their functioning. At the moment, both at the Federal and regional level, consider different ways to solve these problems, so the improvement of the situation in single-industry towns is possible over time. There is no doubt that the functioning of the territories of advanced social and economic development will have a positive impact on the stability of the economies of single-industry towns, attract investment, increase tax payments to budgets of all levels.

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