



WORK PACKAGE 4

CONSEQUENCES OF ECONOMIC AND SOCIAL TRANSFORMATION POLICIES IN THE NORTH CAUCASUS



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Abstract¹

The North Caucasus is Russia's most unstable region. It is characterised by ethnopolitical and territorial conflicts, economic crises, social turbulence, and growing Islamic influence. Processes that are under way in the North Caucasian republics are described in terms of both "modernisation" and "de-modernisation".² The region's development is a key priority on the agenda of the federal and regional authorities. At the same time, their opinions on opportunities and ways for development differ significantly³. Practically all regional elites emphasise the uniqueness of "their" republics, and the federal authorities, on the contrary, strive to depart from the asymmetry of relations, seeing the solution to the problem in a wider use of unified and politically neutral approaches to development. This working paper attempts to evaluate the results of administrative efforts to develop the regions of the North Caucasian Federal District (NCFD). The authors focus mainly on the analysis of processes that adapt the undertaken reforms to regional specifics and on the symbiosis of the results of self-organisation of the population and federal and regional novations. The block of stories related to the administrative policy in the North Caucasus follows a brief analysis of the demographic situation in the region. The latter is viewed as a challenge, which simultaneously creates opportunities for development and amplifies social instability.

¹ The authors would like to thank Pr. Bruce Grant for his comments on the draft version of this paper.

² Khalidov D. Severnyi Kavkaz: Shto delat'? Sistemnyi analiz, nazrevshie mery i aktualnye proekty (North Caucasus: What to Do? A System Analysis, Imminent Measures and Actual Projects). Moscow: RGGU, 2010. 108 p.; Severnyy Kavkaz: modernizatsionnyi vyzov (North Caucasus: the Challenge of Modernisation) / Starodubrovskaya I.V., ed. Moscow: Delo, 2011. 328 p.; Markedonov S.M. Severnyi Kavkaz: modernizatsionnye perspektivy bespokoinogo regiona (North Caucasus: the Perspectives of a Disturbing Region's Modernisation // Neprikosnovennyi Zapas, 2011. № 1. P. 62-69. Sokolov D., Magomedov Kh., Silaev N. Istochniki konfliktov i razvitiya na Severnom Kavkaze. *Doklad Kavkazskogo Tsentra proektnykh reshenii*. Moscow: Kavkazskii uzel, 2013. Access: <http://www.kavkaz-uzel.ru/articles/222451/>.

³ Kolosov V.A., Sebentsov A.B. Severnyi Kavkaz v rossiiskom geopoliticheskom diskurse (North Caucasus in Russian geopolitical discourse // *Polis (Political Studies)*, 2014, №2. P. 146-163.

The North Caucasus has a large demographic potential. While Russia as a whole was characterised by unfavourable demographic trends in post-Soviet years, all regions of the North Caucasus, on the contrary, were marked by stable growth of population (table 1). However, opposite demographic processes were at the back of this fact, which experts and administrators viewed as a challenge that revealed the deficit of regional development. While the positive demographic dynamics in Stavropol *krai* depended on migration inflows, in the republics it was determined by a natural increase. The highest indicators are typical of Chechnya, 19.9‰; Ingushetia, 17.7‰; and Dagestan, 13.3‰ (in the remaining republics, they are at 4–7‰), and the lowest indicators are typical of Stavropol *krai* (0.9‰). The populations age structures are different as well. In Stavropol *krai*, despite the replenishment of young cohorts by migration, the share of people younger than the working age is 18%, and that of pensioners is 22%. In Chechnya, this ratio is 35 to 9%; in Ingushetia, 31 to 10%; and in Dagestan, 27 to 11%. Differences in the demographic potentials of neighbouring regions combine with dissimilarities in the level of their economic development. Although Stavropol *krai* is far from being the most economically successful region in Russia, it is seen as the NCFD economic leader, attracting large private and public investments and labour resources from neighbouring regions. In addition to demographic and economic factors that contribute to the redistribution of the population between the regions of the North Caucasus, we should not disregard the effect of stress migrations caused by the disintegration of the Soviet Union and the flight of people from "hot spots", like Chechnya, Dagestan, and the zone of the Ossetian–Ingush conflict, as well as other tinderboxes of interethnic tension, including the countries of the South Caucasus. Although geopolitical instability today does not affect migration flows as much as before, it still affects the demographic and economic situation in the North Caucasus, which echoes painfully the events in Ukraine and the Middle East.

The asynchrony and intensity of demographic changes in the NCFD republics and Stavropol *krai* after the disintegration of the Soviet Union contributed to the escalation of interregional contradictions. *First*, the economic development and the NCFD labour market clearly mismatched the NCFD demographic potential. For the North Caucasian republics, characterised by high birth rates and young age structures, this became a source of instability and "negative selection" in the population as a result of the outflow of the most educated and professionally trained youth to other regions of the country and abroad. At the same time, young people found a way out in turning to radical forms of Islam⁴.

Second, intensive migration processes, which favour population restructuring and replacement, have led to a change not only in the ethnic composition but also in the habitual economic pattern (table 2). The mass migration of the Russian population from the republics of the North Caucasus meant the outflow of competences, the simplification of the economic structure, and personnel problems. The inflow of immigrants from Dagestan into the steppe areas of Stavropol *krai* contributed to the spread of distant-pasture cattle raising there, putting competitive pressure on other forms of farming and

⁴ Abdulgatov Z.M. *Islamskoe massovoe soznanie postsovetsoi Rossii (Islamic Mass Consciousness in Post-Soviet Russia)*. Makhachkala: Alef, 2013. – 380 p.

leading to the degradation of grazing areas and hayfields⁵. The region gives many examples of economic conflicts associated with the changing population mix.

Table 1. The number of population and the territory of regions making part of the North Caucasian Federal District (NCFD) and Southern Federal District (SFD)

Regions	Number of population registered by censuses, thous.			Number of population in 01.01.2016, thous.	Population change index by 1989	Territory, thous. sq. km	Density of population
	1989	2002	2010				
Russian Federation	147401	145167	142857	146545	99,4	17125,2	8,6
NCFD	7748	8934	9429	9718	125,4	170,5	57,0
Republic of Dagestan	1803	2581	2914	3016	167,3	50,3	60,0
Republic of Ingushetia	211*	469	415	472	223,7	3,6	131,1
Republic of Kabardino-Balkaria	760	901	860	862	113,4	12,5	69,0
Republic of Karachaevo-Cherkesia	418	439	477	468	112,0	14,3	32,7
Republic of North Ossetia-Alania	634	710	712	704	111,0	8,0	88,0
Chechen Republic	1065*	1105	1275	1394	130,9	15,6	89,4
Stavropol <i>krai</i>	2857	2733	2786	2801	98,0	66,2	42,3
SFD	13770	13973	13854	14045	102,0	418,5	33,6
Republic of Adygea	433	447	440	451	104,2	7,6	59,3
Astrakhan oblast'	998	1005	1010	1019	102,1	44,1	23,1
Volgograd oblast'	2594	2699	2610	2546	98,1	113,9	22,4
Republic of Kalmykia	323	292	290	279	86,4	76,1	3,7
Krasnodar <i>krai</i>	5113	5125	5227	5514	107,8	76,0	72,6
Rostov oblast'	4309	4404	4278	4236	98,3	100,8	42,0

*- estimates based on data of All-Union Population Census of 1989

Source: the official site of the Federal State Statistics Service, access: <http://www.gks.ru/>; Demoscope Weekly, access: http://demoscope.ru/weekly/ssp/rus89_reg1.php.

Third, the ethnocultural diversity of the population on the plains increased significantly, primarily in large cities and their suburbs. This is true not only of Stavropol *krai*, where the share of Russians decreased, but also of republics in the lowland parts of which the natural habitats of "indigenous" peoples became fuzzy and urbanisation led the republics to challenges of multiculturalism. Sociodemographic processes acquired ethnopolitical interpretations, which, in turn, began to be used as arguments in the struggle for limited economic resources, primarily land, and access to investments.

Thus, demographic processes as a crucial driving force of deep political, social, and economic transformations actualised the demand for a regional policy that would account for the specifics and internal diversity of a region.

⁵ Nefedova T.G. *Selskoe Stavropolie glazami moskovskogo geografa (The Countryside of Stavropol Krai by the Eyes of a Moscow Geographer)*. – Stavropol: SGU, 2012. – 81 p.

The North Caucasus development strategies: External agreement and internal contradictions

By the time the NCFD was established in January 2010, all the regions of the North Caucasus already had their development strategies, which were updated in line with the new administrative reality. At that time, the North Caucasus Development Corp., JSC, and the Northern Caucasus Resorts, OJSC, were created as public–private partnerships. The next wave of corrections came after the approval of the Government Programme "The Development of the North Caucasian

Table 2. The dynamics of the ethnic structure of population by the regions of the North Caucasian Federal District

The most numerous ethnic groups in the population of the regions of the North Caucasian Federal District	1989		2002		2010	
	Number of population, thous.	%	Number of population, thous.	%	Number of population, thous.	%
Republic of Dagestan						
Avars	496,1	27,5	758,4	29,4	850,0	29,2
Dargins	280,4	15,6	425,5	16,5	490,4	16,9
Kумыks	231,8	12,9	365,8	14,2	431,7	14,8
Lezgians	204,4	11,3	336,7	13,1	387,7	13,3
Laks	91,7	5,1	139,7	5,4	161,3	5,5
Republic of Ingushetia						
Ingush	138,6	74,5	361,1	77,3	385,5	93,5
Chechenians	19,2	10,3	95,4	20,4	18,8	4,5
Russians	24,6	13,2	5,6	1,2	3,2	0,8
Republic of Kabardino-Balkaria						
Kabardians	363,5	48,2	498,7	55,3	490,5	57,0
Russians	240,8	31,9	226,6	25,1	193,2	22,5
Balkars	70,8	9,4	105,0	11,6	108,6	12,6
Meskhethian Turks	4,2	0,6	8,8	1,0	14,0	1,6
Ossetians	10,0	1,3	9,8	1,1	9,1	1,1
Republic of Karachaevo-Cherkessia						
Karachays	129,4	31,0	169,2	38,5	194,3	40,7
Russians	175,9	42,2	147,9	33,6	150,0	31,4
Cherkessians	40,2	9,7	49,6	11,3	56,5	11,8
Abazins	27,5	6,6	32,3	7,4	36,9	7,7
Nogais	14,0	3,1	14,9	3,4	15,7	3,3
Republic of North Ossetia-Alania						
Ossetians	334,9	53,0	445,3	62,7	485,7	68,1
Russians	189,2	30,0	164,7	23,2	147,1	20,6
Ingush	32,8	5,2	21,4	3,0	22,3	3,1
Armenians	13,6	2,2	17,1	2,4	16,2	2,3
Kумыks	9,5	1,5	12,7	1,8	15,1	2,2
Chechen Republic						
Chechenians	715,3	66,0	1031,6	93,5	1206,6	95,1
Russians	269,1	24,8	40,7	3,7	24,4	1,9
Kумыks	9,6	0,9	8,9	0,8	12,2	1,0
Stavropol krai						
Russians	2024,1	84,0	2231,8	81,6	2232,2	80,1
Armenians	70,2	2,9	149,2	5,5	161,3	5,8
Dargins	32,2	1,3	40,2	1,5	49,3	1,8
Greeks	26,8	1,1	34,1	1,3	33,6	1,2
Roma	12,6	0,5	19,1	0,7	30,9	1,1

Source: Ethnic Atlas of Stavropol Krai / V.S.Belozerov, A.N.Panin, R.A.Prikhod'ko, V.V.Chikhichin, A.A.Cherkasov. — Stavropol: FOK-Yug, 2014. P. 18-19.

Federal District until 2025" (hereafter, the Government Programme) in 2012 and the establishment of the Ministry of North Caucasus Affairs in 2014. The new ministry undertook coordinating functions. Currently, the system of strategic planning is based on three interrelated components—regional development strategies, the NCFD Strategy, and the Government Programme, which includes the target federal programmes "The South of Russia," prolonged until 2020, and "The Socioeconomic Development of the Republic of Ingushetia for 2010–2016" (table 3).

All official strategic planning documents in the NCFD are coordinated as to their goals, objectives, and adopted action programme⁶. Moreover, the Government Program envisages the stimulation of interregional cooperation. This is an important step toward development, because until recently, the neighbouring NCFD federal subjects perceived one another not so much as partners but as competitors in the development of tourism and the agroindustrial complex, which is mentioned in the Strategies of Chechnya, Dagestan, and North Ossetia–Alania. However, the coordination reached at the administrative level does not exclude significant contradictions.

First, both the NCFD Government Programme and the adopted development strategies assume direct government regulation of regional development. Hence this logically supervenes the orientation toward large investment projects associated with government financing, somewhat neglecting the problems of small and medium businesses. The availability of resources to lobby regional interests in Moscow are seen as competitive advantages. In the Strategy of the Chechen Republic, these provisions are recorded directly (pp. 85, 86), while in the other Strategies, it is a tacit conviction. Such an approach secures the "subsidised paradigm" of the development of the North Caucasus and nullifies all attempts to rely on its own sources of growth and development.

Second, the desire to achieve a coordinated policy in the region by unifying goals, objectives, and actions also creates the demand to unify all official information about the regions and to standardise their problems and competitive advantages. Among the usual problems are the bad image; the inadequate development of the social, transport, and production infrastructures; and the underdeveloped economy and unemployment, and among the advantages are the high level of the human potential, the availability of mineral resources, and conditions for the development of agriculture and tourism. As a result of neglecting relations between phenomena of different origin, standard approaches to territorial development are proposed. For example, Dagestan has accumulated serious competences in light industry, livestock raising, and vegetable farming, but these industries operate as part of the shadow economy. However, the republican strategy contains no programme to legalise these sectors, to preserve and develop competences, to resolve the "land issue".

Third, no strategy answers the question of how to account for the sharply increased diversity of formal and informal social institutions, which resulted from the interweaving and juxtaposing of the interests of various groups, from business elites to religious communities and jamias. However, this particular factor often explains the successes and failures of local initiatives and points of growth in the North Caucasian economies⁷.

⁶ Interview of the Minister for Caucasian affairs Lev Kuznetsov // *Kommersant*, 14.09.2015. Access: <http://www.kommersant.ru/doc/2809511>

⁷ Eneeva M. Severnomu Kavkazu nuzhny ne dengi, a institutsionalny reform (North Caucasus needs not money but institutional reforms) // *Obshchestvo i ekonomika*, November 2010, № 10. P. 184-199.

Table 3. The North Caucasian Federal District: the main acting of strategic planning

Title	Year
The Strategy of the Socio-Economic Development of the Republic of Dagestan until 2025	2011
The Strategy of the Socio-Economic Development of the Republic of Ingushetia for 2009-2020 and for the period until 2030	2014
The Strategy of the Socio-Economic Development of the Chechen Republic until 2025	2012
The Strategy of the Socio-Economic Development of the Kabardino-Balkar Republic until 2030	2007
The Strategy of the Socio-Economic Development of the Republic of Karachaevo-Cherkesia until 2030	2010
The Strategy of the Socio-Economic Development of the Republic of North Ossetia-Alania until 2025	2012
Стратегия социально-экономического развития Ставропольского края до 2020 года и на период до 2025 года	2009
The Strategy of the Socio-Economic Development of the North Caucasian Federal District until 2025	2010
The State Programme "The Development of the North Caucasian Federal District until 2025"	2014

After the federal law on strategic planning came in effect (2014), all federal subjects were to harmonise their strategies with its provisions by 2017. By that time, the municipal strategies should also appear. Despite the progressive nature of this law, which envisages public hearings during the adoption of municipal and regional strategies, concerns are voiced about the prospect of its implementation⁸. On the one hand, the number of municipalities in the NCFD is approaching 2000, sharply complicating the agreement procedure, and on the other, the lower subjects of strategic planning are recommended to "fit" into the upper-level programmes⁹.

"Anchor" investment projects: Implementation prospects

During the post-Soviet years, Russia has accumulated a sizeable experience in using the instruments of public–private partnership for regional development. For these purposes, special economic zones and territories of advanced development were created; the Investment Fund of Russia was institutionalised; and numerous programmes to support monocities and industrial parks were adopted. Finally, large projects were implemented, such as the 2014 Winter Olympics and the APEC summit. These instruments helped solve the modernisation problems of local economies, creating foci of economic growth, increasing the incomes of regional and municipal budgets, and improving employment opportunities.

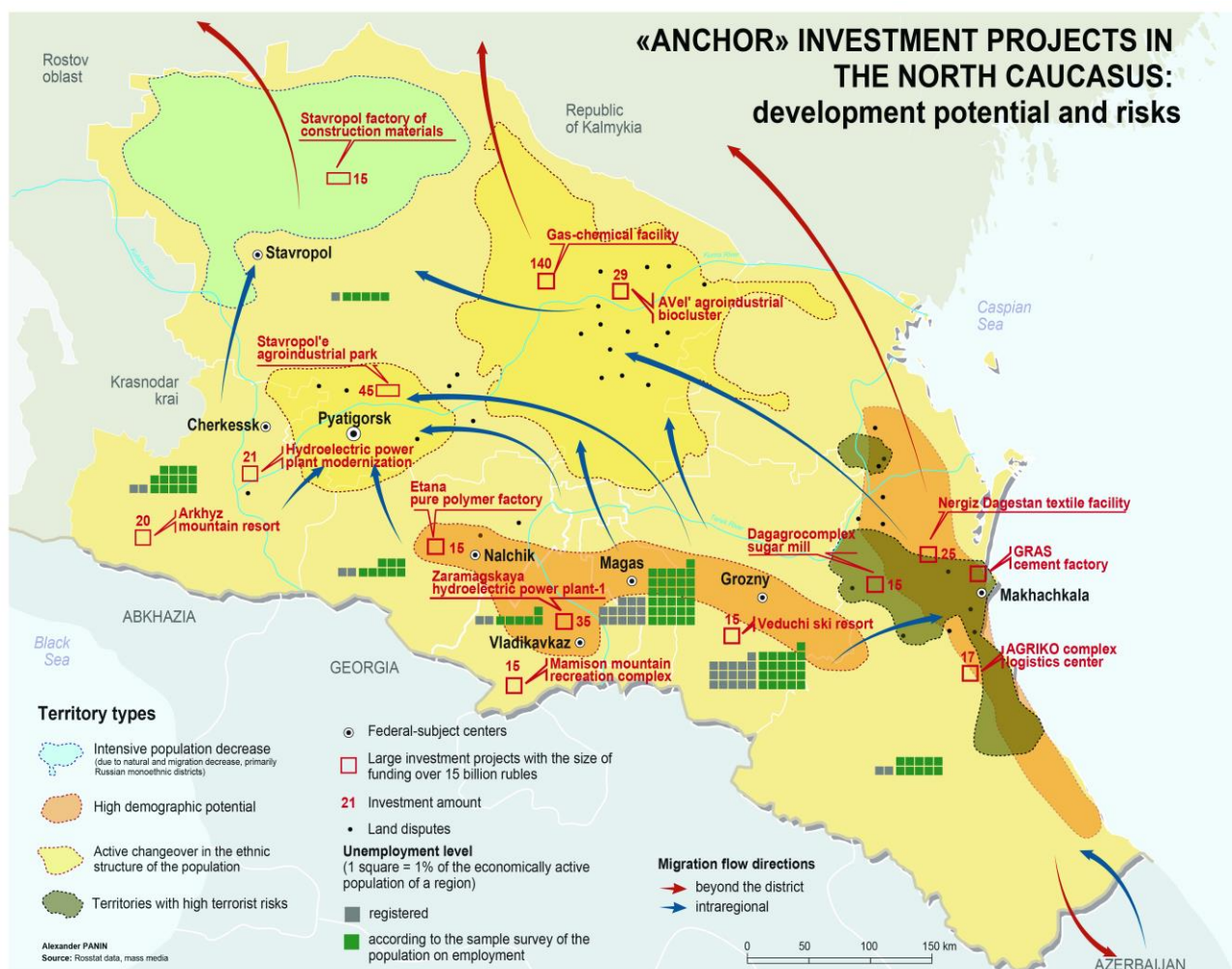
This approach was also used in relation to the North Caucasus. From 2012 through 2014, the region's investment portfolio numbered over 30 investment projects in the agroindustrial complex, tourism, the manufacture of building materials, small-scale power generation, and the transport infrastructure, totaling 1.2 trillion rubles. Potential investors and conditions and scope of government support were assigned to each project (Figure 1). Special attention was given to the tourism–recreation cluster—the resorts Arkhyz, Veduchi, Elbrus-Bezengi, Mamison, Lagonaki, Matlasu, Tsori, the Caspian coast, and the Caucasian Mineralnye Vody Region (Stavropol *krai*).

⁸ Lebedeva N.A. Zakon priyat, voprosy ostalis' (The law is adopted, questions remain) // Region: *Ekonomika i sotsiologiya*, 2015, №1 (85), p. 305-318.

⁹ Voprosy realizatsii Federal'nogo Zakona ot 28 iunia 2014 g. № 172-FZ «O strategicheskoy planirovani v Rossiiskoi Federatsii» na regional'nom i munitsipal'nom urovniakh. Informatsionnoe pis'mo (Problems of the implementation of the Federal Law № 172-FZ of 28 June 2014 "About Strategic Planning in Russian Federation" on the regional and municipal level. Information letter). Moscow: Departament strategicheskogo i territorial'nogo planirovaniya Minekonomrazvitiia RF, 2015., p. 9.

When making decisions whether to include projects into the investment programme, the experts faced a number of problems. *First*, it was the low quality of project preparation at a high activity of regional lobbies, who wished to obtain government guarantees to implement their own business interests. *Second*, it was uncertainty with the land issue and the absence of the necessary land-cadaster documents. For example, in Dombai, a mountainous resort, which was actively developed back in Soviet times, no legally "pure" land plot was found; therefore, when selecting priority projects, the decision was made in favour of Arkhyz. However, a strong resistance sprang up there among the local population, who traditionally went into cattle grazing. *Third*, it was the underdevelopment of the institutional framework and strong dependence of investors on personal arrangements and interests of regional and municipal administrations.

Figure 1. "Anchor" investment projects in the North Caucasus.



Source: Rosstat data, mass media

Contrary to expectations, the population did not support large investments. The local elites started actively to implement them, seeing the priority of local development in them, which created problems for local small businesses. For many local entrepreneurs

(local "kings"), the problem is a decline in their social status and inadequate attention to their problems on the part of the authorities become problems. They associate their dissatisfaction with the current state of "their" affairs with nonmarket competition and administrative protectionism. The local entrepreneurs, as well as inhabitants, fear that large players will move them to the background "in their own home." As a result, the expected investments yield an unexpected effect: they slow down social "lifts" and provoke social tension and population outflows.

Many experts criticise the approach to the development of the North Caucasus used by the federal authorities and large businesses. They point to the need to build the local population and business into the process of forming investment clusters and to take account of land and clan relations. This thesis, however, has not been elaborated in detail. It is totally unclear how to combine the ideology of "transparency," which is preached by present-day business and is based on public–private partnership, and the traditional practices based on corruption and privileged relations. The experience of large projects implemented successfully in the North Caucasus (for example, the Derways automobile factory in Karachaevo–Cherkesia) demonstrates the abandonment of traditional clannish relations and the use of current social practices, which proves the provisions of modernisation theory.

Internal resources of development: Regional budgets and the shadow economy

The discrepancy between the impressions of field trips to the North Caucasus and its statistical characteristics is a well-known fact. In the first case, it appears as a dynamic and intensively developing region of the country, although burdened with numerous problems; in the second case, it is the poorest, backward, and subsidised periphery. One of the causes of the inconsistency in evaluations is the extreme polarisation of the situation in the entire NCFD, as well as inside its subjects. According to official statistics, in 2012–2014, the share of transfers from the federal budget to the budgets of the North Caucasian republics varied from 56% in Kabardino-Balkaria and North Ossetia–Alania to 81–85% in Chechnya and Ingushetia. Only in Stavropol *krai*, this indicator was about 30%¹⁰. The existing situation is usually explained by a low level of the region's economic development, the insufficiency of the taxation base, the undervaluation of taxable property, the inefficiency of tax and payment collection, and the presence of tax benefits. Although this argumentation is justified, it still raises certain doubts: the above facts also characterise the majority of other Russian regions. Nevertheless, the total per capita tax and nontax incomes there, as a rule, are 2–4 times higher than in all the NCFD republics. Only Stavropol *krai* keeps the national average.

The same striking differences exist in the structure of tax revenues. The basis for the consolidated budgets of the Russian federal subjects (about 70% of tax and nontax incomes) comprises three taxes—the corporate profit tax, the personal income tax (PIT), and the property tax. As a rule, the revenues from the profit tax are higher than from the property tax (in oil-and-gas producing regions, more than two times), and their total contribution to the regional budget exceeds the PIT share. The situation in the NCFD is opposite: *with a small absolute size of the PIT, its share exceeds two-thirds of budgetary*

¹⁰ Regiony Rossii: sotsialno-ekonomicheskie pokazateli (Regions of Russia: Socio-Economic Indicators). – Moscow: Rosstat, 2015. Access: http://www.gks.ru/free_doc/doc_2015/region/reg-pok15.pdf

tax incomes. In 2014, the PIT share was 82% in the Chechen Republic and about 40% in Stavropol *krai*¹¹.

The republics see this situation as negative: the PIT is mainly collected from budgetary organisations. The closed circulation of budgetary funds is unable to secure economic growth even under the conditions when per capita incomes of consolidated budgets of the North Caucasian regions, taking into account the federal transfers, are at a level typical for the Russian regions, 30 000–50 000 rubles per person (about €600 to €1 000 by the average weighted exchange rate of 2014). The main way out is seen in the development of the tax basis. Chechnya dreams about recovering its oil-producing and oil-refining industries. Other republics speak more about the development of tourism, commercial agriculture, and the processing industry. All projects bump into the shortage of investments, marketing difficulties, and providing raw materials for production capacities.

However, the underdevelopment of the tax base is just the tip of the iceberg of the NCFD republics' problems. The local experts whom we questioned confirmed that, if economic activity, from renting property (land plots, buildings, and apartments) to the operation of large businesses, had come out of the shadow, the PIT share in the republican budgets would have decreased to the level of Stavropol *krai*. The attitude to tax evasion is ambivalent in the region.

First, it is stressed that business plays an active role in the economic development of the republics, despite its weak effect on the formation of regional budgets. Business is interested in the shortest times of work performance and constantly incoming orders. For the business person, this means a quick cash cycle, and the opportunity to use profit for new projects and minimise the taxable base to be reported. Money goes not into the budget but into a new business project. The profit of a region is the quick introduction of new facilities, businesses, infrastructures and repairs, which otherwise would be prolonged indefinitely. *Second*, business is an important employer, even if we speak about "shadow" hiring. In an excess-labour region, like the North Caucasus, employment without labour contracts and payments to social and pension funds is seen as lesser evil than real unemployment, especially among the young. The population trades on this situation by working and simultaneously drawing unemployment compensations.

The same ambiguous situation exists with property taxes. The issue of land ownership, land survey, and land-plot inclusion into the public register has not been resolved in any of the NCFD subjects. A full-fledged land market has not formed (see the "Land issue" section). The population does not strive to register property, let alone to pay property taxes. *First*, there is a mess with the current owners of homes and surrounding grounds. One person may own several homes where various members of the family clan live. *Second*, traditionally, the youngest son inherits the parental home, but, as long as the parents live, any other family members may live in it, and the youngest son may, for example, move to Moscow or Tyumen'. In addition, it can be the oldest son who has built the home for his parents. Collisions that arise between the compliance with Russian legislation and tradition lead to the protraction of property registration. In the case with land plots, especially in suburban districts, the situation is even more complex due to the collision of not only family but also intergroup interests (clan, ethnic, etc.). *Third*, the practice of using real estate (for example, the "parental home" or "ancestral lands") as a banking pledge for loans is not approved by society. *Finally*, a modest rent received for property letting, rather than incomes or savings, is a financial "safety cushion" for the

¹¹ Regiony Rossii. Op. cit.

population, and, as a rule, it is used for daily needs. Therefore, a rent decrease because of paying the property tax is perceived as a reduction of the current living standards.

The policy of "reconciliation" with the shadow economy and tax evasion when resolving the tactical problems of today (mitigating social tension, increasing personal incomes, minimising costs, etc.) drives the NCFD regions into a strategic trap, securing their reputation as financially dependent on federal transfers and unattractive for investments. The preservation of high unemployment indicators under a high level of self-employment and low indicators of tax revenues under lively business activities create a wrong idea of the republics' potential and internal resources of their development.

The land issue

The North Caucasus is a classic example of a region that suffers from a contradiction between land scarcity and agrarian overpopulation, which is burdened by attitudes to land not only as an economic value but also as a symbolic one. The concepts of *ancestral lands* and *traditional land use rights* did not lose here their legislative meaning and were reactivated after the actual liquidation of the kolkhoz–sovkhoz system. This predetermined the inclusion of various groups of interests—from local authorities and businesses to ethnic and rural communities (*jamias*)—into the process of redistribution of land resources. The rivalry among them has led to various strategies of resolving the land issue.

From 1993, Russia started a reform of land relations, which was based on the principle of free transfer of kolkhoz property and land to the employees through a system of shares, allocated in relatively equal proportions, and formalisation of land use rights. This process envisaged land surveying and drawing a land cadaster. The Russian federal subjects received the right to decide themselves on the times and forms of the land reform, which predetermined the diversity of its results and situations.

A *share privatisation* was conducted in the districts of Stavropol *krai* and partially those of the North Caucasian republics; however, a full-fledged institution of land ownership and land market has not formed here. Land shares that existed on paper were not allotted on the ground. Land surveying and drawing a land cadaster were unprepared technically and met with resistance on the part of ethnic, administrative, and business elites. The incompleteness of privatisation led to a decrease in the value of "paper shares", their mass engrossment, and property redistribution. In many cases, the former boundaries of kolkhozes, determined on the ground, became the boundaries of new units, and the local inhabitants, the former share owners, became hired employees. As a result, several large vertically integrated agribusiness holding companies appeared. These specialised in the production of grain and flour and invested considerable funds into agriculture modernisation, infrastructure development, and sales channel diversification. Simultaneously, several successful smaller units appeared in place of the former kolkhozes and sovkhozes, which specialised successfully in cattle raising and horticulture¹² (table 4).

However, this scenario was only implemented where units were quite successful in Soviet times as well. The rest of the territory witnessed economic degradation. The

¹² The North Caucasus: the challenge of integration. – International Crisis Group (www.crisisgroup.org). *European Report* nos. 220, 221, 226, 237; Sokolov D., Magomedov Kh., Silaev N. *Istochniki konfliktov i razvitiia na Severnom Kavkaze. Doklad Kavkazskogo Tsentra proektnykh reshenii*. Moscow: Kavkazskii uzel, 2013. Access: <http://www.kavkaz-uzel.ru/articles/222451/>.

undervalued "paper" shares depreciated their worth as financial instruments to pledge loans for small business development and as necessary land improvements to maintain land fertility. The absence of a full-fledged land market led to the formation of a share market, where the right to acquire a rent for land use was offered for sale. A "share rent" was formed, which became a way of turning paper rights into cash. This land-use system led to the progressive depletion of farmlands. An especially alarming situation occurred in the plains of Dagestan (Nogai district) on the border on Stavropol *krai*, where irrigable lands became desertified and salinised as a result of the demolition of the irrigation ditch system.

The authorities are aware of this acute problem. Since 2009, Russia has been introducing an automated farmland accounting and control system, which is already working in a test mode in Krasnodar *krai*. It is assumed that similar work on inventorying and monitoring the land fund will be conducted in Stavropol *krai* before 2018.

In the mountainous republics of the North Caucasus, the situation developed differently. Here, *administrative veto on land privatisation* was introduced practically at the same time on the plains as well as in piedmont territories. This was caused by both interethnic contradictions (each people claimed "its" ethnic lands) and specific economic organisation. The seasonal nature of distant-pasture cattle raising required the availability of pastures in the mountains and valleys. In Soviet times, this problem was resolved from the perspective of economic advisability and the need to preserve and maintain pastures. Kolkhozes in the mountains received *kutan*¹³ lands in the valleys (in Dagestan's Nogai district, *kutan* lands occupied about 80% of all farmland), and kolkhozes in the valleys acquired hayfields and pastures in the mountains. The dissolution of kolkhozes depreciated the logic of economic advisability, uncovering a sharp conflict of interests. The maps of winter and summer pastures assigned to kolkhozes became the basis for claiming rights of collective and private ownership. Even entrepreneurs who did not live in the republics but indigenously affiliated themselves with rural communities joined the land disputes.

The moratorium imposed on land privatisation and the land transfer to the category of republican property froze the conflict of interests but led to corruption and the emergence of "sovereigns" represented by administrations with the preemptive right to redistribute land resources. Ex-managers of collective farms, who, as a rule, are affiliated with the authorities and whom the local farmers and human rights organisations call "latifundists," became long-term land tenants. Part of these lands is operated by new agribusinesses that rely on republican and federal support programmes. The remaining lands are subleased to local farmers under less favourable conditions. All this rouses discontent among local inhabitants, who think that they are illegally deprived of their rights. It is hard to call the existing economic system stable, despite individual foci of modernisation, because the changeover of administrations or disloyal actions of large tenants lead, as a rule, to despotism and land rearrangement.

The Chechen Republic represents a special case. In addition to the moratorium on land privatisation, which predetermined the transformation of collective farms into public and municipal enterprises, in force here is the factor of minefields left after hostilities: their area in the republic's valleys is estimated at 1500 hectares.

¹³ *Kutan* was initially a camp of shepherds on a winter pasture. In Soviet times, Dagestani kolkhozes in the mountains received lands in the valleys for grazing, which gradually turned *kutans* into 145 permanent settlements with a population of almost 80 000 people, with schools and libraries, but without an official status. The *kutan* inhabitants are constantly facing problems of home and land registration, pension entitlement, social benefits, etc.

The land issue has also become a major problem when adopting economic development programmes that envisage the allocation of plots for residential development and the creation of new investment sites. In many cases, this led to ethnopolitical conflicts. The Kumyks and Nogais of Dagestan opposed the "divestment of their ethnic lands" (Uchkent, Manaskent, and Kyakhulyai), appealing to the threat of "destruction" of their ethnic culture as the result of its erosion by an "alien" population. The Balkars (Bezengi, Elbrus) raised an outcry against transferring "their" lands to the construction of a ski resort infrastructure, justifying this with cultural arguments as well. The inhabitants of the suburban Kumyk village Tarki did not agree to its inclusion into the limits of Makhachkala, as well as the Balkar villages Belaya Rechka and Khasan'ya did not agree to their inclusion into the limits of Nal'chik. An especially sharp and long-standing conflict arose around Prigorodnyi district of Vladikavkaz, which the Ingush considered "their" ethnic territory.

Here we can add a tangle of unresolved problems associated with the deportation and repatriation of peoples in Soviet times (for example, the "Lak" and "Chechen" lands on the "Kumyk" plain) and human migration, which leads to the dissolution of territories densely inhabited by ethnic communities. The claims of Cossacks to admit that they are a special ethnocultural group with rights to "historical Cossack lands" in lowland Shelkovskoi and Naurskii districts of Chechnya also amplify the tension.

Unlike in lowland and piedmont territories of the North Caucasus, the solution to the land issue in mountainous regions has acquired new forms. Where rural communities had transformed into *jamias*¹⁴, the *local restitution of land ownership rights* occurred under Sharia law with the participation of the imam. In some cases, lands were distributed "by inheritance" or "by lot" to this effect. Restitution, which poorly agrees with Russian legislation, also generated numerous conflicts, since lands could simultaneously be considered the property of a rural or tribal community, a family, or an ethnic group. In addition, the leaders of *jamias* showed great interest in managing the local economy, striving to acquire full control over the local community and to build up financial opportunities. Frequent are situations when the head of a mosque undertakes simultaneously the functions of a *kolkhoz* manager and a judge to resolve local conflicts and land issues using Sharia law. However, people do not always want *jamias* to participate in administration. The local authorities and, in a number of cases, the few survived *kolkhozes* in the persons of their managers compete with *jamias* for economic and social influence in their districts and settlements. This struggle results in "squeezing" one private business by another and destroying the existing economy.

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¹⁴ *Jamia* (*community, society* in Arabic) is a community of Muslims created on the territorial basis or reuniting the believers confessing the same interpretation of religious dogmas for studying Islam and praying together, mutual aid, regular communication and other purposes.

¹⁵ See note 13.

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Table 4. The structure of land use in the regions of the North Caucasian Federal District (NCFD) and Southern Federal District

Regions	Share of rural population, %	Structure of land use, thous. ha												
		Total, thous. ha	Agricultural lands per capita, ha	Agricultural lands					Other lands					
				Arable lands	Laylands	Long-term plantings	Hayfields	Pastures	Settlements/lands	Industrial lands	Lands of protected territories and objects	Forests	Waters	Stock lands
Russian Federation	26,0	196072	1,3	115338	4197	1170	18597	56770	9258	1082	545,4	4437	30,3	9037
NCFD	50,9	11347	1,2	5388	23,5	98,7	519,9	5317	379	23,7	31,6	52,8	2,9	262,4
Republic of Dagestan	54,9	3221	1,1	468	4,8	48,7	156,0	2544	104	5,6	0,2	17,1	1,4	-
Republic of Ingushetia	59,3	140	0,3	82	-	3,4	5,5	50	34	2,3	-	2,9	-	42,6
Republic of Kabardino-Balkaria	47,8	627	0,7	289	-	7,9	58,7	271	31	0,9	2,9	8,9	-	25,1
Republic of Karachaevo-Cherkesia	57,3	603	1,3	146	3,8	2,5	136,7	315	18,8	2,8	26,0	5,3	0,1	7,9
Republic of North Ossetia-Alania	35,9	297	0,4	184	0,5	4,0	19,7	90	24,3	2,0	2,5	4,0	-	70,7
Chechen Republic	65,3	799	0,6	292	-	4,8	40,6	462	54,9	7,5	-	10,0	0,1	108,2
Stavropol <i>krai</i>	41,9	5659	2,0	3929	14,4	27,4	102,7	1586	112	2,6	-	4,6	1,3	7,9
Southern Federal District	37,1	29717	2,1	16631	25,4	172	745	12144	810	437	124	87,4	14,8	621,1
Republic of Adygea	52,9	310	0,7	242	0,2	4,6	4,2	59	22,5	0,1	23,4	4,2	0,3	1,2
Astrakhan <i>oblast'</i>	33,5	2476	2,4	245	7,7	5,2	332,3	1886	38,9	413,8	17,2	9,1	-	229,7
Volgograd <i>oblast'</i>	23,5	8579	3,4	5794	4,5	26,3	187,8	2566	156,6	4,2	0,1	19,0	-	229,7
Republic of Kalmykia	54,9	5945	21,3	877	13,0	1,3	92,6	4961	27,9	0,2	32,9	12,9	4,7	253,7
Krasnodar <i>krai</i>	45,9	4247	0,8	3754	-	99,0	51,5	342	339	15,6	43,3	18,9	76	41,7
Rostov <i>oblast'</i>	32,1	8161	1,9	5718	-	35,3	76,8	2330	225	3,4	7,0	23,3	2,2	92,0

Sources: Report on the State and the Use of Agricultural Lands, – Moscow: FGNU “Rosinformagrotech”, 2010, – 100 p.; Report on the State and the Use of Agricultural Lands, – Moscow: Ministry of Agriculture of Russian Federation, 2011, – 155 p.; *Regions of Russia*, The Main Characteristics of the Subjects of Russian Federation, – Moscow: Rosstat, 2015, Access: http://www.gks.ru/bgd/regl/b15_14p/Main.htm

The cumulative effect of the above factors has led to the *polarisation of the land use system* in the North Caucasus: it is either large producers or personal subsidiary farms (their share is 84.2% in Chechnya, 71.2% in Dagestan, 68.3% in Ingushetia, 66.7% in North Ossetia, and 45% in Kabardino-Balkaria)¹⁶. Most experts agree that, without the formation of a full-fledged institution of land ownership and its legislative and

¹⁶ Sel'skoe khoziaistvo, okhota i okhotnichye khoziaistvo, lesovodstvo v Rossii (Agriculture, Hunting and Hunting Economy, Forestry in Russia). – Moscow: Rosstat, 2015. Access: http://www.gks.ru/bgd/regl/b15_38/Main.htm

infrastructural support on the part of the government, the land issue will remain a factor that will constantly destabilise the situation. The public institutions are also moving toward inventorying the land fund, land use monitoring, and the creation of a full-fledged land market. The process of land fund inventorying has been practically completed in Ingushetia, Dagestan, North Ossetia, and Kabardino-Balkaria.

Municipal reform and local development

According to the first (1991) and second (1995) federal laws on local self-government, Russian federal subjects independently formed their municipal structures "with account for historical and other local traditions." As a result, several models emerged. The situation began to change cardinally with the adoption of the third law, "On the General Principles of Organisation of Local Self-Government in the Russian Federation", dated October 6, 2003, no. 131-FZ, which introduced a single system of a two-level territorial structure of local self-government for the entire country. According to this norm, by 2006, each Russian federal subject established by a special regional law a structure of municipalities, which in general terms was based on administrative-territorial division (in Chechnya and Ingushetia, municipalities were created in 2009).

The municipal structure in the North Caucasus largely replicates the former administrative division. Instead of 111 administrative districts, 114 municipal districts were formed; instead of 56 cities and 47 urban-type settlements, 30 urban districts and 43 urban municipal settlements were created; and instead of 1530 rural administrations, 1525 rural municipal settlements appeared. As we see from the above list, significant changes touched only the urban network. The urban districts with centers in the largest cities, like Makhachkala and Nal'chik, included suburban villages and urban-type settlements, and more modest Karachaevsk integrated remote settlements and even one town. Small mountainous mine settlements that had lost their industrial base lost their urban status and joined municipal rural settlements. Thus, the population of many urban-type settlements lost their right of establishing an independent municipality.

The issue of municipal district territories turned out to be most controversial, differentiating the situation in the North Caucasus from the rest of Russia¹⁷. Russian legislation allows singling out intersettlement territories within municipal districts with low density of the rural population. In Kabardino-Balkaria, more than half of the republic's area was assigned to the category of intersettlement territories using this formal criterion but contrary to the existing land use, which led to territorial disputes taken as law cases to the Constitutional Court of the Russian Federation. An equally sharp situation emerged in lowland districts of Dagestan, as well as in the suburbs of Makhachkala and Derbent, in connection with *kutan* communities, which had no status of settlements. The lack of the status means that local governments do not exist, the budget and municipal property are absent, and the inhabitants have no opportunity to influence decisions that directly affect their lives, to participate in municipal elections, and to enjoy social services, since they are "assigned" to mountainous villages. Acute territorial conflicts require amendments to the current regional legislation on municipalities; however, both in Kabardino-Balkaria and in Dagestan, the solution to this issue is still a distant project.

¹⁷ Starodubrovskaya I., Mironova N. *Munitsipal'naya reforma v respublikakh Iuzhnogo Federal'nogo okruga (The Municipal Reform in the Republics of the Southern Federal District)*. Moscow: IEEPP, 2010.

Thus far, by no means all objectives of the municipal reform have been met in the North Caucasus. The effectiveness and completeness of introducing local governance are assessed on the basis of three main parameters: (1) the scope of authorities, (2) their support by financial resources, and (3) community participation.

1. *The scope of authorities.* The list of "local issues" in the federal law was predominantly noneconomic, but municipalities gradually acquired new powers, which, as a rule, entailed budgetary (payable) liabilities, for example, to support small business or to improve territories. However, guaranteed income revenues were not given to the local level. As a result, these powers remained on paper. The gap between the powers and the low possibility to ensure their administration in the republics of the North Caucasus led to the growing influence of adat law as a social institution that carries out regulative functions and maintains order in society. Jamias also undertook regulatory functions (ordering alcohol sales, ensuring public order in an *aul* (mountain village), protecting the interests of the inhabitants, precourt conflict examination, etc.).
2. *Financial resources.* The dependency of Russian municipalities on subsidies is overall very high. In the North Caucasus, municipal budgets are filled 70–90% with federal and regional transfers, although large urban districts of the NCFD fill their budgets with tax and nontax incomes to 35% and regional capitals to 40–50%. We cannot say that the problem of financial dependence of local budgets was not acknowledged initially. However, it was assumed that the weakness of the municipal budgets' income basis would be compensated for by a system of subsidies until the institution of private ownership was established together with the accompanying tax liability. In practice, the dependence on subsidies paralyzed the development of many municipalities and led to the actual transfer of powers to the upper level—from municipal settlement to district or even federal subject.
3. *Community participation* in municipal governance envisages elections of the heads of administration and local deputies, as well as decisions on individual issues of everyday life. A single model of municipal elections has not been formed in the NCFD. This issue was left to the discretion of regional legislation assemblies. Some regions give priority to direct elections of the head of the local administration, while other regions elect the head from among the deputies, and still others maintain the coexistence of both models. However, in cities and districts where the most significant resources are concentrated the heads are elected by the deputies, and local administrations are usually headed by hired managers.

The practices of community participation in solving local problems are much more diverse. The North Caucasus is one of the country's few regions where informal institutions—jamias and councils of elders—mediate between the authorities and society. The informal mechanisms of administering a local community often interweave with formal ones: members of the council of elders may enter the official bodies of local self-governance, for example, be elected as deputies. However, in places where active migration processes are under way and the former social relations are weakened, the role of jamias is insignificant. Striving to act in the interests of "indigenous inhabitants," they often conflict with the administration, especially if the "resettlers" receive land plots for construction and farming bypassing the jamia.

It would be wrong to reduce community participation in municipal administration in the North Caucasus only to traditional practices. In addition to councils of elders, there are youth boards, business associations, and women's councils. Involving women in administration is especially noticeable where they play an important role in the economy, for example, in resort areas. In Stavropol *krai*, the degree of community participation in municipal administration is noticeably lower than in the NCFD republics and it mainly has passive forms, such as participation in gatherings or meetings.

The emergence of local self-governance as a democratic institution by definition encourages the modernisation of society. However, in the North Caucasus, as well as in Russia in general, it affects weak local development, which largely depends on decisions made at the federal and regional levels and not on local initiatives. Gradually, *municipal administration becomes increasingly built into the government vertical*. The distinctive feature of the NCFD municipal reform is its conflictogenity due to land scarcity, specific land use under transhumance, complex ethnic composition of the population, and unfinished demographic transition.

With their high dependence on subsidies, most local budgets are unable to serve the goals of development. At present, municipal administration is able only to counter degradation or ensure stabilisation. Most municipalities can at best conserve the existing conditions and at worst observe degradation, both economic and social. Modernisation and real self-governance are possible only in regions' capitals, as well as in rare urban and rural settlements—the foci of relative economic well-being and financial independence.

Conclusions and recommendations

Owing to the complexity and patchiness of geographical and social conditions, including the ethnic composition of the population, and a high proneness to conflicts of the interests of various groups, the processes of modernisation in the North Caucasus differ specifically from other regions of Russia. Various forms of modernisation—demographic, sociocultural, technological, and institutional—manifest themselves in various territories in different combinations and degrees, and often conflict with one another. Large projects based on federal or regional investments have controversial results. On the one hand, they certainly contribute to modernisation of local communities, particularly establishing transparent relations not based on clan or ethnic networks. On the other hand, in North Caucasus large investments often are related with corruption and do not justify expectations of an immediate multiplicative effect and sometimes even provoke negative consequences. For instance, the emergence of farm-garden industry or the construction of a big poultry farm can deprive small local producers of earnings. Moreover, construction works and the need in skilled labour usually attract personnel from other regions which are negatively perceived by locals seeing in them a threat to their identity. It can break a social balance in a district or a locality. Population in North Caucasus is particularly sensitive to the preservation of local communities and traditions. The construction of new roads also is, on the one hand, an important condition of modernisation but, on the other hand, accelerates depopulation of mountain areas.

Regional development programmes call to fix the population in the mountains, despite excessive labour resources and the growing spatial and social mobility of the population. The causes of excess labour are, in turn, the unfinished demographic transition, technological modernisation, and the economic downfall. Differences between lowland and mountainous territories are still very noticeable, although they have been smoothing out since recently. The post-Soviet archaisation of

the economy, social structures, and relations blends to different extents with modernisation and leads to a fantastic plexus of archaic elements and innovations.

Therefore, investments programmes are not enough for modernisation. They should be accompanied by the improvement of social infrastructure and the strengthening of economic and legal institutions protecting private property, disseminating the best practices, contributing to the creation of new economic actors able to cooperate with large business, and counteracting pervasive corruption which is the strongest obstacle for the development of small and medium enterprises. Without cooperatives rural localities highly specialised in commodity production of vegetables, beef or other goods, and based mainly on cheap family labour can lose soon their competitiveness as compared with other regions of the country. So, it is rather important to stimulate productive and marketing networks and especially agricultural cooperatives possessing significant material resources which can be canalised to urban business.