

VOLOGDA OBLAST AGRIBUSINESS INVESTMENT  
PROMOTION PLAN  
MARKET-ORIENTED FARM SUPPORT ACTIVITY (MOFSA)

Submitted to  
United States Agency for International Development

Submitted by  
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## EXECUTIVE SUMMARY

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In September 1997 the USAID-funded Market-Oriented Farm Support Activity (MOFSA) project implemented by Chemonics International Inc initiated the development of a strategic plan for promoting agribusiness investment in Vologda Oblast. The investment promotion plan that resulted from the strategic planning process can guide the oblast in competing for investment funds in a market economy. The process and the plan may be useful to other oblasts and other sectors.

An important result of the process was the establishment of an interdepartmental commission to promote investment in oblast agribusiness firms from external sources. The commission consists of representatives from the Department of Agriculture, Department of Economics, State Property Management Committee, and the Legislative Assembly.

To improve the investment climate in Vologda, the commission proposed to focus the oblast administration's resources on four objectives: investor services, the legal environment, management skills, and information services. The commission decided to use three methods—publications, exhibitions, and trade missions—to promote investment opportunities.

This report describes both the strategic planning process and the plan that was developed through the process.

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## SECTION I INTRODUCTION

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### A Background

In September 1997, the USAID-funded Market-Oriented Farm Support Activity (MOFSA) project implemented by Chemonics International Inc initiated the development of a strategic plan for promoting agribusiness investment in Vologda Oblast. Centered around an eight-week assignment by agricultural economist Kingsley Bash, assisted by MOFSA consultant Alexander Aleksin, MOFSA directly addressed the oblast administration's limited resources and skills in agribusiness investment by developing a plan based on a strategic planning process. The resulting investment promotion plan can guide the oblast in competing for investment funds in a market economy.

MOFSA's first step in the strategic planning process was to gain the support and cooperation of the Vologda administration and Legislative Assembly. This was accomplished by drafting a decree, signed by Governor Vyacheslav Pozgalev on September 22, 1997, establishing an interdepartmental commission to promote investment in oblast agribusiness firms. The commission consisted of representatives from the Department of Agriculture, Department of Economics, State Property Management Committee and the Legislative Assembly. Commission members included Leonid V. Frygin, Galina F. Burzeva, Olga N. Kulilova, Vladimir V. Vorapayev, and Anatoli V. Monastyrrov, Department of Agriculture, Olga V. Petrov, Mikhail D. Lazarev and Albert Baskov, Department of Economics, Tatyana A. Andreeva, State Property Management Committee, and Vladimir N. Petrov and Anatoly M. Harpov, Vologda Oblast Legislative Assembly. Mr. Bask and Mr. Aleksin provided technical assistance.

The purpose of the agribusiness investment promotion commission is to attract external investment, i.e., investment from sources outside Vologda Oblast, both Russian and foreign, excluding investment by the Russian government organizations. The commission has a three-year planning horizon. Commission members and their departments in the oblast administration are jointly implementing the agribusiness investment promotion plan that was developed in the strategic planning process. The plan can be modified for attracting investment to other industries, both in Vologda and throughout Russia. A detailed implementation plan is available in a companion report.

The commission expects external investment in Russian agribusiness to increase in the next three years. Vologda Oblast's participation as a recipient in this early stage of external investment activity will provide the financial and technological resources the oblast needs today and significant competitive advantages it will need in the future.

### B Basis for Strategic Planning

After the establishment of the commission, MOFSA's next step in laying the groundwork for a strategic investment plan in the oblast was to provide the logistical and conceptual basis for the planning process. Mr. Bash and Mr. Aleksin worked with members of the commission to draft a mission statement. The commission began this task by defining terms, acknowledging the members' differences in political and investment philosophies, and identifying common investment goals. Only then did the commission formulate an approach to stimulating external investment in local agribusiness by Russian and foreign parties.

In early October 1997 the commission defined a series of planning assumptions in order to restrict investment goals and objectives to viable opportunities and available administration resources. To establish clear goals for stimulating investment the commission developed a list of "threats and opportunities" in the current business environment and strengths and weaknesses of the oblast administration in promoting investment. Based on these lists, the commission identified two goals for stimulating external investment: (1) create a public policy environment conducive to investment and develop financially attractive local agribusiness firms as targets for investment and (2) promote local agribusiness investment opportunities to investors outside the oblast.

Several weeks later, as MOFSA transferred leadership of the commission to the oblast administration, the commission identified objectives to measure its success in achieving the goals. To improve the investment climate in Vologda, the commission proposed to focus the administration's resources on four objectives: investor services, the legal environment, management skills, and information services. The commission decided to use three methods—publications, exhibitions, and trade missions—to promote investment opportunities. Subsequently, the job of assessing these objectives was allocated to commission members, who drew up task lists and implementation schedules for each objective.

With the transfer of the strategic planning process completed, commission members began preparing for an agribusiness round table at an investment conference November 3-8, 1997, in Cherepovets.

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## SECTION II

### AGRIBUSINESS IN VOLOGDA OBLAST

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#### A Agricultural Conditions

The primary agricultural industries in Vologda Oblast are dairy farming and milk processing, timber harvesting and lumber products, flax production and processing, and poultry production. In the first half of 1997, agricultural conditions in Vologda Oblast began to show signs of recovery. While the gross regional product declined 3 percent in the first quarter of 1997, compared to the first quarter of 1996, agricultural output increased 5 percent in the same period and continues to grow and raw milk production rose more than 10 percent. With most agribusiness firms privatized, the overall investment climate in the oblast is improving. Vologda Oblast ranked 18 out of over 70 Oblasts and kray in the Russian Federation in an "entrepreneurial climate" study conducted in 1997 by the Russian Expert Institute and the Moscow State University Laboratory for Regional Analysis.

##### A1 Dairy

The dairy industry experienced an abrupt turnaround toward increasing output and profits in the second half of 1997. During the first half of 1997, the growing demand for milk and processed milk products and the competition between milk processors for raw milk supplies resulted in higher milk prices and improved management of dairy farms. The 10 percent increase in total milk production occurred despite a 7 percent reduction in size of dairy herds, due to culling. The quality of milk produced in Vologda also improved during the past year, resulting in a 12 percent increase in Grade A milk yields and premium prices of chilled Grade A milk.

The market for Vologda dairy products has grown during recent years in the oblast and throughout Russia. Basing their marketing strategies on Vologda's national reputation for high quality dairy products, oblast milk processors extended their product line and expanded to penetrate large metropolitan markets in Moscow, St. Petersburg, Yaroslavl, Arkhangelsk, and Murmansk. With minimal promotion, Vologda butter, kefir, sour cream and cheeses successfully compete with heavily advertised Western imports. The oblast exported more than 31,000 tons of dairy exports to other oblasts in 1996, eight times the quantity of imported products.

Vologda's dairy markets in Moscow and Arkhangelsk are particularly successful. In Arkhangelsk, Vologda dairy products have driven away virtually all competitors. In Moscow, trial sales to high-end grocery stores indicate an increased demand for Vologda dairy goods by affluent Moscow consumer, a market segment that is potentially greater than the entire Vologda Oblast dairy market.

##### A2 Meat Products

Commercial beef and pork production began in Vologda Oblast in the early 1970s in response to a growing demand for meat products. Production was concentrated in several large beef and hog farms. The major obstacle to meat production—the high cost of quality feed—was overcome in the command economy by trading the oblast's surplus milk for high-protein feed produced in southern Russia. With the collapse of the command economy, feed costs rose dramatically and the oblast's meat industry went into a rapid decline.

Vologda pork production is dominated by two large hog complexes located between the cities of Vologda and Cherepovets. Both farms face rising feed costs and declining average weight gains, which in 1996 averaged 234 grams per animal per day. Vologda produces negligible beef. Virtually all commercial beef is a result of culling dairy herds. Beef production costs are typically higher than farmgate beef prices.

### **A3 Timber and Lumber**

The timber industry is a major agribusiness in Vologda Oblast. Over 70 percent of the region's 56,000 square miles is covered by spruce, pine, birch, and aspen forests. As a leading export product, timber has attracted nearly three-fourths of all international investment in the Oblast in recent years. Western investment in timber firms has increased the level of technology in this industry. Many timber and lumber firms add value to their products by additional processing, which increased the production of composition board, doors, and plywood by 22 percent, 22 percent and 11 percent, respectively, in the first quarter of 1997, compared to the first quarter of 1996, despite the 16 percent decline in raw timber production.

The market for Vologda timber products is changing. Exports of timber and wood products decreased 15 percent from 1995 to 1996 while domestic markets—particularly the market for solid wood paneling—increased. According to the chief executive officer of the Sokol Loeschen wood processing plant, the demand for paneling in some Russian markets is stronger and prices are higher, than in European markets.

### **A4 Poultry**

The oblast's two major broiler producers have experienced dramatic changes in their competitive environments and as a result have changed their structures and production technologies. The Cherepovets Chicken Factory, for example, modernized its production facilities to meet world standards. In 1996, it replaced its former Russian genetic stock with high-yielding French ISA-Vendette birds, rebuilt half its poultry houses, introduced shrink wrap packaging, and sought financing for a feed mill.

Despite increasing competition from U.S. chicken producers, rising production costs and declining consumer purchasing power since 1993, broiler producers are regaining market share from foreign competition by taking advantage of their ability to provide fresh chicken products. Broiler sales fell 5 percent in 1996, but in the first half of 1997 broiler producers increased sales of fresh chicken products to upscale Moscow markets where prices are significantly higher than in Vologda Oblast. The Cherepovets Chicken Factory plans to sell 100 tons of chicken breasts annually to Moscow supermarkets. Egg production by the six principal producers in Vologda Oblast has remained relatively stable. Egg sales increased 7 percent in 1996 to 350 million units.

### **A5 Flax**

The flax industry includes 16 processing plants where seed and fiber are separated and two spinning factories known as flax combines, where fiber is converted to yarn and fabric 1.5 meters wide. Despite the high quality of Vologda flax products, flax production fell 36 percent in 1996 due to the financial problems of local spinning factories, outdated equipment which prevents spinning factories from producing cloth at the international standard width of 1.6 meters, and management errors. New consumer preferences for natural fibers provide a niche market opportunity for local linen producers. For example, Voltri Plus Knitwear company of Vologda

has acquired new customers in Western Europe and the United States. The problems facing linen processors continue to reduce flax production in the oblast, although a recovery is anticipated due to Vologda's participation in the Federal Flax Program and to support from leading clothing manufacturers in terms of favorable payment terms and planning strategies.

## **B Agriculture Financing**

### **B1 Agricultural Credit**

Sixteen commercial banks operate in Vologda Oblast, but few provide loans to agribusiness. Agroprombank devotes 60 percent of its loan portfolio to agricultural credit, amounting to approximately \$9 million in 1996. Agricultural credit from other banks is negligible. Metkombank has outstanding loans to only two agribusiness firms in Vologda Oblast. Only 7 percent of Vologda Bank's loan portfolio is in agribusiness. Sokolbank and Vologzhanin Bank have no outstanding agricultural loans.

### **B2 Foreign Investment**

Foreign investment in Vologda Oblast during 1993-1996 totaled \$36 million. Foreign firms are slow to penetrate Vologda's agricultural sector. Most foreign investment in agribusiness is in food processing equipment and in the timber industry. Of Vologda's 160 joint venture companies involving investment partnerships between Russian and foreign partners, 35 percent are in the timber and wood processing industries. Tetra Pak, a Scandinavian firm, sells and leases milk processing equipment to Vologda dairy processors. Tetra Pak equipment is designed to use its own packaging materials, so Tetra Pak successfully dominates the market for dairy product packaging.

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## SECTION III STRATEGIC PLANNING METHODS AND PROCESS

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### A Process Components

The strategic planning process, described in detail in Appendix A, combines several methods (1) brainstorming techniques involving unexpected combinations of ideas in order to create new solutions, (2) planning assumptions and goals that set realistic parameters to evaluate new ideas and solutions, and (3) consensus decision-making. Throughout the planning process moderators play a critical role by reminding planners of the constraints of planning assumptions, asking open-ended questions, and organizing information in creative ways to stimulate new ideas. The planning process used to develop this agribusiness investment promotion plan followed the steps described below.

**Mission statement** The process began with the development of a statement of the purpose of the planning exercise and definitions of key terminology (see "mission statement" section below).

**Planning assumptions** The next step was to assess "external opportunities and threats" in the investment environment and "internal strengths and weaknesses" in the oblast administration's ability to influence investment behavior. The resulting list of planning assumptions were used to assess subsequent ideas and proposals and to constrain them to realistic parameters (see "planning assumptions" section).

**Goals** The planning assumptions were organized into major categories which suggested general goals.

**Objectives** Once the goals were established, planners used brainstorming techniques to develop a list of potential objectives for each goal. The potential objectives were organized into categories, and minor objectives were combined into major objectives.

**Strategies** Major objectives were sorted into categories (e.g. information systems, regulatory issues, advertising and promotion) to suggest overall strategies to guide the implementation process and stimulate investment (see "investment promotion strategy").

**Tasks** Tasks and schedules were specified for each objective, forcing planners to consider the proper sequencing of tasks and the resources that will be required (see companion report containing the detailed implementation plan).

**Scheduling** A scheduling committee organized tasks into a master implementation schedule.

**Transfer of leadership** Moderators relied on planners to provide all information, make all decisions, and implement the resulting investment promotion plan. The transfer of leadership from moderators to commission members occurred spontaneously as moderators acknowledged limits to their understanding of local government institutions and as natural leaders emerged from the group.

**Management support** From its inception through implementation the strategic planning process had the active support of top management which formally established the planning group and endowed it with explicit responsibilities and authority Top management was involved at all stages of the planning process and informed of significant decisions, such as the determination of goals and strategies

**Implementation** The literature on managing change is extensive Several requirements for successfully managing change are worth considering here Change requires a driving force to overcome the inevitable sources of resistance Change also requires a shared vision of the potential benefits to be gained by implementing the change This vision must be communicated and repeated until it becomes an established and shared truth of the organizations involved Planners usually do not have adequate authority to implement change, significant changes typically require the leadership and long-term, active support of top management A sense of urgency is helpful in maintaining momentum and is critical to the successful implementation of any plan involving significant change Short-run victories are also helpful in maintaining momentum and organizing support Change usually requires more time and effort than anticipated, so it is important to avoid premature declarations of success

## **B Mission Statement**

The commission developed the following mission statement in the strategic planning exercise

The goal of the Vologda Oblast administration is to ensure the welfare of the citizens of the oblast One of the primary conditions for their welfare is the existence of a stable, developing and profitable oblast economy By creating a set of conditions favoring economic development, the administration facilitates growth in the tax base, creates new jobs, increases incomes and improves living conditions The Vologda administration recognizes the importance of agribusiness to the economic development of the oblast As a significant portion of the oblast consists of rural communities, the welfare of the oblast largely depends on the success of its agribusiness sector to generate revenues needed to support social services in rural communities

The role of the oblast administration in agribusiness development is to maximize the benefits from public sector assistance by creating conditions conducive to economic growth including, where appropriate, government influence on agribusiness firms, including the financial and economic instruments the oblast administration has at its disposal

Agribusiness development requires investment Since the agricultural sector is not an investment priority for the federal government, support for agribusiness is needed at the oblast level Since few agribusiness firms can procure loans from commercial banks on conventional terms, and since the administration has only limited resources to invest in agribusiness development, the remainder of the funds needed for agribusiness development must come from private investment

*The critical mission of the administration with respect to agribusiness investment is to stimulate external investment by Russian and foreign investors, including agribusiness firms, nonagribusiness firms, private investment companies, nongovernment investment funds and commercial banks*

## C Planning Assumptions

The following planning assumptions were developed after an extensive assessment of “opportunities and threats” in the investment environment, and the “strengths and weaknesses” of the oblast administration in promoting agribusiness investment. This assessment was conducted by the Vologda Oblast administration using the matrix provided as Annex B.

### C1 Investment Opportunities

*General economic conditions in Vologda Oblast will show signs of improvement during the next three years.*

The decline in agricultural production after the 1992 price liberalization and subsequent increase in the differences between agricultural and nonagricultural prices was less severe in Vologda than in neighboring oblasts, and much smaller than the national average. While other oblasts are ahead in terms of economic development and external investment, Vologda Oblast has the potential to recover quickly from its current agricultural crisis because it suffered less than other oblasts in northwestern Russia.

The resilience of Vologda's economy is largely due to the strength of its steel industry. However, heavy reliance on a single industry suggests that the oblast should diversify its production. Vologda's dependence on imported feed grains suggests that it should increase grain production. The neglected agricultural sector, including timber, lumber and food processing, calls for investment, but the financial support available from the administration is severely limited. Therefore, future agricultural development will largely depend on private investment, at least during the next three years. A significant increase in private investment in agricultural production is unlikely to occur, but appropriate public investment policies and incentives may increase private investment in the timber, lumber and food processing industries.

*The oblast economy is increasingly market-oriented. Market conditions will drive the investment process.*

Radical economic reforms caused deep social and economic transformations throughout the agribusiness sector. As a result, agribusiness firms now determine their own organizational structures, production volumes, target markets and marketing strategies, independent of administrative directives. These changes increase the attractiveness of investment in Russian agribusiness. However, while business is increasingly market-oriented, the oblast administration lacks experience with the dynamics of free markets. The Vologda administration is attempting to use market forces to improve agribusiness market conditions and guide investment. It recognizes the need for its role in regulating imperfect markets in order to make them more efficient, but its mission—to increase the security and welfare of citizens—is not necessarily consistent with private investment objectives.

*Current investment activity in Russia indicates that external investment is frequently attracted to technologically backward firms producing for domestic markets where modernization can rapidly increase the rates of return on investments.*

Modernization has increased the profitability of many firms in the Russian automobile, electronics, food and light industries. Technologically backward industries in the oblast may

represent attractive investment opportunities in this respect. For example, the timber, lumber and paper industries are technologically backward. Investments by the International Finance Corporation in Nizhny Novgorod and by foreign agribusiness firms in Vologda Oblast in the timber and lumber industries provide useful precedents for attracting investments for modernization.

Additional opportunities exist in Vologda Oblast for attracting investment to upgrade food processing technologies and improving product quality, which would increase the ability of Vologda Oblast food products to compete with imports. There may also be attractive niche marketing opportunities for locally produced, organically grown food and flax products.

There are other opportunities to attract investment for upgrading technology. Many agribusiness firms in Vologda Oblast are operating at less than 50 percent capacity and substantial government-owned, underutilized assets exist. The oblast administration could conduct an inventory of these assets, advertise their availability, and lease them to external investors at discount prices.

*Declining interest rates on government bonds are forcing Russian banks to make loans to business in order to survive. Banks are increasingly integrated into the international financial community and are expanding their services. Interest rates will continue to fall during the next year, but at a slower rate than last year.*

The Central Bank of Russia is enforcing standards on the national banking community. These standards, combined with Russian banks' integration into the international banking community, will increase the efficiency of inter-bank transactions and reduce investment costs and risks.

Banks have not invested in agribusiness to a significant degree and rarely make loans to agribusiness firms. In the long run, lower interest rates will reduce the cost of loans to agribusiness and loans will become increasingly available. To date, however, lack of collateral and expectations of problems with loan repayment continue to discourage lending to agribusiness. Until they become solvent, agribusiness firms will continue to lack access to bank loans.

*Vologda Oblast's proximity to European markets favors investment in export industries and access to major Russian markets favors investment in firms marketing to other oblasts in Russia.*

Industries involving high transportation costs, such as timber, lumber and dairy products, can benefit from Vologda's proximity to major metropolitan markets. Vologda Oblast has abundant natural resources for the timber product industry, and has good roads, railroads, and water transportation systems.

*Vologda Oblast will continue to have low levels of crime.*

Investors can feel safe in Vologda Oblast. The oblast administration should take all necessary steps to minimize organized crime.

*Most foreign investors consider Russia's current national political conditions to be stable, inflation to be under control and the economic transformation to be irreversible.*

Foreign investors believe that political and economic conditions are increasingly stable and that this is a good time to invest in Russia

## C2 Threats to Investment

*During the next three years the size of the Federal and oblast budgets for agribusiness development will not increase significantly. Agribusiness savings will not grow, so reinvestment rates will continue to be low. Household savings will remain a negligible source of investment for agribusiness. The Russian stock market has not yet developed an effective method for attracting investment to agribusiness. External investment in agribusiness will slowly increase.*

The recent reduction in inflation was a necessary but insufficient condition for stimulating investment particularly investment in manufacturing. Current investment activities indicate a preference for investment in natural resource extraction, telecommunications and distribution firms which are either stable or generate a rapid return on investment.

The most active source of private foreign capital investment in Russia during the mid-1990s was American. Swiss capital was a close second, followed by Germany and Great Britain. Foreign investment activity is concentrated in service industries—primarily trading and banking—and in extraction industries such as oil or timber. The lack of investment in value-adding processing industries may be due to the lack of related support industries, including raw materials, packaging and distribution. This suggests a potentially useful role for the Vologda Oblast administration in identifying target industries and promoting clustered investment for related and complementary industries.

*In the next three years there will be negligible investment by external investors in agricultural farm production.*

Vologda Oblast is in a marginal agricultural zone. Feed grain imports reduce the profitability of the Vologda livestock industry. The quality of oblast livestock genetics is good but economic conditions threaten its maintenance. The Department of Agriculture allocates limited funds to livestock genetics, seed production and agricultural machinery, and is responsible for maintaining and eventually upgrading these technologies.

On average, farm productivity and profitability are low, resulting in chronic shortages of capital for investment and operations. The weak financial condition of farms creates a weak basis for agribusiness development. The oblast cannot rely on public investment in agricultural production. Given current and anticipated restrictions in public budgets, the prospects for increasing government investment in agriculture are bleak, at least in the short run. However, the administration can selectively invest in farms supplying raw materials to target agribusiness processors. Allocating budgetary support to farms supplying food processors encourages value-adding activities.

Farms and agribusiness firms in western and central areas of the oblast have geographic and infrastructure advantages over those located in other areas of the oblast. The oblast administration could encourage investment in western and central areas where it is most likely to attract external investment, or the administration could provide incentives to invest in eastern and northern areas in order to distribute investment more equitably.

*Investments in natural resource industries are anticipated*

The energy industry will continue to be a strong competitor for private investment. Timber and lumber are similar to energy in terms of being extractive industries representing attractive investment opportunities to generate significant profits. In the long run, investment in wood processing industries should be encouraged to add value to local timber and lumber products.

*Private external investors want a rapid return on investment in the short run or a high return in the long run. They also want low production costs and, in order to facilitate profit repatriation, a location providing access to export markets.*

Some agribusiness firms can generate high, long-term returns on capital. For example, Russian banks demonstrate a growing interest in the potential profits of chemical firms producing pesticides and fertilizers. Currently, however, most agribusiness firms are unprofitable, and many are heavily in debt.

*The Vologda Oblast administration will maintain its current investment priorities*

In the "Vologda Oblast Agribusiness Development Program to the Year 2000," the oblast administration calls for investment in the following priority agricultural projects: feed concentrate production equipment, milking parlors, dairy farm construction, dairy herd improvement, computer systems for dairy farms, dairy product packaging, greenhouse heating and ventilation systems, high-yielding meat breeds of cattle and hogs, new production technologies including grazing-intensive cattle production, new machinery and equipment for grain farming and storage and for increased feed production and grain yields.

*Foreign investors consider Russia's legal and tax systems to be ambiguous and unreliable. This is one of the most important factors limiting investment.*

Russian tax regulations change frequently and are considered by potential investors to be capricious and extortionary. The large number of tax laws undermines the stability of agribusiness firms, and high taxes undermine their financial viability.

The primary laws regulating taxation in the agribusiness sector include "On the Foundations of the Tax System in the Russian Federation" and "On Government Tax Service of the Russian Federation." There are additional Federal and oblast laws concerning specific taxes, including those pertaining to investments in Vologda Oblast.

Twenty-seven regulations govern investment, but there are few incentives for investment. Investment laws need to be updated. For example, the law "On the Division of Products" needs revision. At the same time, new legislation is under consideration. For example, the Vologda Legislative Assembly accepted the first and second readings of the local law "On Investment Activity Within the Territory of the Vologda Oblast" which is intended to provide investment incentives. However, the draft law is vague concerning (1) the types of guarantees offered, (2) conditions under which guarantees are offered, and (3) requirements for insurance and how this insurance differs from government guarantees. The draft investment law offers property tax exemptions (100 percent for the first 2 years, 50 percent for the subsequent 2 years) for investments of at least \$1 million in the first year, as long as the property tax exemptions are reinvested into the firm in Vologda Oblast. The minimum investment required to qualify for the

exemption is large and the tax exemption period is short since few investments generate significant taxable income in the first two years. The current draft of the tax law therefore provides incentives favoring large, short-term investments. The legislative assembly should consider incentives to smaller long-term investments in the next draft of the legislation. A tax policy that compensates for the influence of unfavorable investment conditions would contribute significantly to attracting investment. A new tax code which provides for an overall reduction in corporate tax rates is being discussed at the federal level.

### **C3 Weaknesses In Promoting Investment**

*The support services Vologda Oblast currently provides to investors are insufficient to generate significant growth in external investment.*

Some support services provided by the administration to potential investors arise from the needs of investors. For example, the oblast administration provides investors advisory services on writing contracts, in response to the difficulties some investors experienced in contract enforcement due to inadequately specified contracts.

It is difficult to predict what services will be useful to investors. For example, a one-stop investment promotion office providing information on investment regulations and documentation services is appealing, but may have little value in practice, given current investment conditions. According to an agribusiness investor who spent the last two years learning about local legal and regulatory conditions, the existence of a one-stop investment office would not facilitate new agribusiness firms investment in Vologda Oblast. Instead of the investor going from one government official to another, someone from the one-stop center would have to make the rounds. Instead of emerging from the process with a useful network of contacts, the investor would wait impatiently, ignorant of the processes underway and the officials involved.

*There is a lack of coordination between departments of the administration involved in agribusiness investment promotion.*

There is a growing sense of mutual trust and cooperation among departments of the oblast administration involved in promoting, supporting and regulating investment activities but interdepartmental coordination and a shared vision of the administration's role in investment promotion are lacking.

Administration officials are already overworked and cannot undertake additional responsibilities without additional resources. The situation is exacerbated by the fact that most departments involved in investment promotion have no funds specifically designated for this purpose.

### **C4 Strengths In Promoting Investment**

*The Vologda administration has an effective influence over budgets and legislation concerning agriculture.*

The Vologda Department of Agriculture develops oblast-level programs for agribusiness development. The Department of Economics registers new firms and conducts analysis to provide

the basis for setting prices and tariffs on natural monopolies. The Department of Economics also develops recommendations on changes needed in existing legislation.

*The Vologda administration knows many investors and investment opportunities*

The Department of Economics works with international financial institutions and prepares promotional materials for potential investors. The Department of Agriculture has market research capabilities. It can assess the market potential of products such as flax and organically grown dairy products, and recommend appropriate methods for producing and marketing them. Before undertaking this activity, however, the oblast administration should frankly assess its ability to conduct unbiased market research. On the basis of this assessment the administration should decide whether to conduct in-house research or to subcontract it to a market research company.

*Labor costs in the oblast are low compared to Western countries providing Vologda a comparative advantage in labor intensive industries*

The investment resources available to the oblast administration are severely limited. This presents a dilemma: should it continue to pursue its current investment priorities, thereby spreading its resources over a wide range of industries, or should it focus on target industries where its resources can be leveraged by private investment? If the administration chooses the target industry approach, appropriate targets include labor intensive industries, in which Vologda has a competitive advantage over Western agribusiness firms.

*The oblast administration is gaining a better understanding of investor needs, including the current constraints to agribusiness investment*

A recent USAID-funded survey conducted in the Russian Far East indicates that many factors constraining investment involve problems with contract enforcement and taxes, and that many of these investment constraints can be reduced by government actions. Over half of the constraints involve the ambiguity of the legal system, economic risks and the uncertain political environment. About ten percent of the responses concern the ability to serve markets from facilities outside Russia. Approximately one-third of the responses could be addressed at the oblast level, i.e., difficulties negotiating with local authorities, excessively restrictive customs regulations, lack of access to financial information, financial constraints to investment, inability to find appropriate local partners, lack of physical infrastructure and high costs of local production.

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## SECTION IV INVESTMENT PROMOTION STRATEGIES

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### A Strategic Planning Process

The strategic planning process developed strategies that can be used to promote investment over the next three years

#### Focus Resources on the Most Likely Investments

Concentrate resources initially on the most likely recipients of external investment—timber, lumber, poultry, beverages, and dairy industries. If investment promotion activities during 1998 are successful, reallocate resources in 1999 to a second tier of less likely candidates—meat and egg production—and in the year 2000 to the third tier of least attractive candidates—feed, bottled water and flax.

#### Initiate Investment Policy Reforms

Attempt to influence legislation at both the oblast and federal levels by drafting legislation for introduction by Governor Pozgalev, submitting legislation directly to the Vologda Oblast Legislative Assembly, and organizing a public relations campaign to influence public opinion in favor of legislation supporting investment.

#### Share Information Freely

Design information systems to share investment information among departments of the administration. Provide potential investors with free, easily accessible information on investment regulations and opportunities.

#### Coordinate Current Resources

Assess the functions of administrative departments currently involved in investment. Eliminate redundancies and redefine responsibilities and authority over investor support and investment promotion activities. Develop a new organizational mechanism to coordinate activities using current institutional resources more efficiently. Avoid establishing new agencies or offering services that could be provided by the private sector.

### B Planning Goals and Objectives

The goals of this strategic plan are achievable in the next three years. Objectives are determined for next year, i.e., until the end of 1998. At that time, the plan will be reviewed and new objectives will be set for the following year.

#### B1 Goal I Improve The Investment Climate

The first requirement for increasing agribusiness investment in Vologda Oblast is to identify the constraints and opportunities in the investment environment. The constraints to agribusiness investment are provided in the planning assumptions section above. The solutions to

these constraints are provided below, grouped into four categories: information systems, investor services, legal environment, and services to local agribusinesses.

### **Information Systems**

*By the end of third quarter of 1998, create a central database of investment information, including legal, regulatory, economic, and social conditions, as well as information on local agribusiness firms seeking investors. This information will be shared by all relevant departments in the oblast administration.*

A computerized information system, well maintained and regularly updated, will enable government officials to be more responsive to the information needs of potential investors and of the Vologda Oblast administration. Potential investors will have access through any department, regardless of their point of contact. The system will eliminate any department's control over information, and will eventually produce significant savings by streamlining the administration's operations, excluding redundancies and information duplication. Based on the principle of "information sharing," the information system will encourage government officials to collaborate more efficiently to attract investment.

### **Investor Services**

*By the end of 1997, review the responsibilities of all officials and departments of the Vologda Oblast administration involved in agribusiness investment and redefine their responsibilities to meet the specifications of the agribusiness investment promotion plan.*

Implementation of this plan is impossible without the cooperation of several departments of the administration. However, current departmental mandates and scopes of work do not coordinate the activities of the departments and officials involved. Some activities require coordination with other agencies of the oblast government, such as the legal services department, the general administrative department, and the finance department. To successfully implement the plan, departmental mandates and scopes of work must be reviewed and revised to promote coordination.

*By the end of the first quarter of 1998, design a system to monitor agribusiness investment and investor needs.*

Monitoring investment will enable the Vologda Oblast administration to assess the success of the investment promotion plan, evaluate the effectiveness of implementation activities, and adjust them to meet the changing needs of investors and other participants in the investment process.

*Improve the quality of legal and advisory services for investors. The quality of these services will be measured in terms of providing satisfactory responses to at least two-thirds of all investor inquiries.*

According to a recent survey, officials of the Vologda administration consider the current level of advisory services provided by government agencies to be insufficient. Investors also complain that unsatisfactory responses to their inquiries to government officials are a constraint to investment. Since many external investors lack an understanding of investment conditions in Vologda Oblast, professional advice on legal, regulatory, and marketing issues is critical.

## Legal Environment

*By the end of 1997 improve the text and promote the adoption of a new oblast investment law*

While legislation promoting investment is needed, the current draft of the Vologda Oblast investment law is inadequate. The text of the legislation is ambiguous. Investment incentives favor large-scale, short-term investment, which is unlikely to occur in agribusiness. The law also creates excessive regulatory discretion over investment incentives by providing the executive government authority to form an "oblast investment program." Unless the legislation is rewritten, it is unlikely to attract significant external investment to Vologda Oblast agribusiness firms in the near future.

*By the end of 1997, include in the 1988 oblast investment program a list of the agribusiness industries most likely to attract external investment*

The law on investment currently being considered by the Vologda Oblast Legislative Assembly provides for the administration to determine which industries to include in the investment promotion program. The administration should include in this program those agribusiness industries most likely to attract external investment, i.e., timber and lumber, dairy processing, broiler production and processing, and alcoholic beverages.

*Ensure that incentives for agribusiness investment are included in annual oblast laws concerning the budget*

For legislation to be effective, the provisions of each law must be reflected in other legislation. If investment incentives in the oblast are not included in the annual law on government budgets, the incentives will not apply. Therefore, it is critical that the two laws correspond.

*Develop a pilot project establishing a free economic "mini-zone" in Vologda Oblast within nine months of the adoption of the respective federal legislation*

Free economic zones do not significantly expand a community's tax base, but they can stimulate economic growth by attracting investors to critical economic sectors, thereby encouraging economic growth and increasing employment. The establishment of a free economic zone in Vologda Oblast will require the adoption of appropriate federal legislation.

*By the end of 1998 develop drafts of new oblast legislation on land and mortgages collateralized by land and submit them to the oblast Legislative Assembly and federal agencies*

The absence of legislation allowing for land sales and mortgages collateralized by land continues to be a major constraint to investment. The oblast administration lacks authority to introduce these laws, but it can lobby other agencies to adopt appropriate legislation by using the administration's influence in the local Legislative Assembly and the federal government.

*Inventory all underutilized and unused assets owned by the oblast administration*

The Vologda administration owns commercial assets throughout the oblast, but most of these assets are underutilized. An accurate inventory of these assets will provide an opportunity to offer them to investors at discount prices, thereby helping to reduce investor start-up costs.

**Services to Local Agribusiness**

*By the end of 1998, ensure that at least 50 agribusiness managers receive training in business management, accounting, marketing, and business planning*

Most local agribusiness managers have good production skills but lack expertise in management, accounting, and marketing. Even managers with these skills lack an understanding of how to present information to credit institutions in the form of business plans and of using business plans as tools to guide management decisions. When specific investment opportunities are identified, management training and credit will be provided in order to develop them into attractive targets for external investment.

*By the end of 1998, secure funding for at least one agribusiness project from an international donor organization*

International donor organizations provide funding for many different projects in the Russian federation. Agribusiness is a priority industry for the World Bank, International Finance Corporation, USAID, European Bank for Reconstruction and Development and the Eurasia Foundation. By obtaining funding for agribusiness projects, the Vologda Oblast administration can assist local agribusiness firms and improve private agribusiness investment opportunities by creating a community of successful agribusiness firms.

*By the end of 1998, ensure the inclusion of Vologda Oblast in the USAID farm credit guarantee program administered by Agroprombank*

In October 1997, USAID announced a joint effort with Agroprombank of Russia to promote lending to Russian agribusiness firms by guaranteeing 50 percent of the amount of selected loans to agribusiness firms in Novgorod Oblast and Primorsky and Khabarovsk krais. This guarantee program will reduce bank risks while increasing agribusiness firms' access to commercial loans. If this guarantee program is implemented in Vologda Oblast, it will improve the financial condition of agribusiness firms and increase their attractiveness as investment opportunities.

**B2 Goal II Promote Investments**

The second goal of the investment promotion plan is to provide information on the investment climate and investment opportunities in the oblast to potential Russian and foreign investors. Investment promotion methods include publishing information in public sector and private commercial publications, exhibiting information in fairs and conferences, and hosting trade missions for potential investors.

## **Publications**

*By the end of 1998, publish investment information in at least 4 public sector publications of the oblast administration and the cities of Vologda and Cherepovets*

Publications provide an important source of information for potential investors. Most publications currently carry insufficient information on the local investment climate and investment opportunities. By including investment information in public sector publications, the oblast administration will significantly expand its opportunities to attract investment in local agribusiness.

*By the end of 1998, publish information on the investment climate and agribusiness investment opportunities in at least six newspapers and magazines in the Russian Federation*

Popular media such as newspapers and magazines serve investment promotion efforts in two ways. First, these mass publications provide a means of getting information to potential investors. Second, they reach not only investors, but the general public, thereby contributing to the public opinion campaign to support external investment.

*By the end of 1998, develop an investment information package and distribute it at "sister cities" meetings*

Using "sister cities" meetings to distribute agribusiness investment information is a low-cost method of increasing the oblast's exposure to potential foreign investors.

## **Exhibitions**

*During 1998, provide investment information at eight exhibitions, fairs and conferences throughout Russia*

Trade exhibitions and fairs are a primary source of information for external investors. Agribusiness industry conferences provide another way to contact potential investors and to influence policy makers. Dozens of exhibitions, fairs and conferences exist in Russia and neighboring countries, drawing thousands of agribusiness participants.

## **Trade missions**

*By the end of 1998, host at least one trade mission of potential investors*

Trade missions provide opportunities for potential investors to assess local business conditions, visit businesses and meet potential partners. Vologda Oblast can attract trade missions without paying for them by offering to provide investment information, introductions to local government officials and agribusiness managers, and logistical support to the institutions organizing the trade missions.

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**ANNEX A**  
**MANAGING VOLOGDA OBLAST'S AGRIBUSINESS**  
**INVESTMENT PROMOTION PLAN**

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During the autumn of 1997, a group of officials from several departments of the Vologda oblast administration, supported by Russian and U S consultants, developed a plan to stimulate investment in local agribusiness firms. The plan, based on the strategic planning method, focuses on investment opportunities in Vologda Oblast. However, the method itself is widely applicable to various locations and sectors.

The investment promotion plan, available from the Vologda's Department of Agriculture or Governor Pozgalev, is a pragmatic response to the rapid decline in agricultural production and investment since 1990, and can be implemented at low cost using existing resources. The plan is a product of an interdepartmental planning group. Each member understands the plan's purpose, the assumptions on which it is based, and the goals and objectives for which it is intended. Each can explain and defend the plan, and the planning group can lead its implementation. The plan speaks for itself but the planning method, which is applicable to other industries and oblasts, requires explanation.

The formal components of the strategic planning method, summarized below, were provided to the planning group when it was formed in September. The strategic planning process is not a simple "cookbook" method. It involves critical decisions and continuing support from key decision makers, and a planning group capable of sifting through voluminous information, understanding investment and marketing systems, identifying critical planning assumptions, and determining variables subject to influence. Disagreements over issues such as the proper role of government in market regulation and its ability to effectively intervene in business systems can sidetrack the planning process and render the group ineffective. Members of Vologda's planning group remained committed to reaching agreements, even resorting to "agreeing to disagree." All group decisions were made by consensus. Group leaders emerged during the planning process from different departments of the administration. The impetus for interdepartmental cooperation also came from several departments, and the plan's implementation will require continuing cooperation between departments.

The following account of the events and decisions in the formation of Vologda's investment plan illustrates how the planning process was managed. It also provides an opportunity to discuss some of the implications of the plan. A summary of strategic planning methods, also provided below, includes benchmarks of the process. The resulting investment promotion plan, available in a separate document, provides the rationale for Vologda's planning goals and objectives. The plan's implementation, currently underway in Vologda Oblast, will be proof of the value of the planning process described below.

**A Managing the Strategic Planning Process**

The strategic planning effort began by ensuring support from key officials. Russian and U S consultants, sponsored by USAID, met with several of Vologda's deputy governors to explain the purpose of the planning exercise, describe the strategic planning process, solicit support, determine a schedule, and estimate the level of effort required from each department involved in the process. The next step was to formally establish a strategic planning group. In

Vologda, the deputy governors briefed Governor Pozgalev on the results of their meetings with consultants and requested an executive decree to formally establish an interdepartmental group to develop the investment promotion plan and set a deadline for its completion. The decree was issued in late September and the planning group began work immediately.

### **A1 Planning Group**

The goal of initial planning meetings was to form an effective planning group in which all members participated freely. The objectives of these early meetings were to begin delegating responsibilities to individual members and to coalesce the desires and intentions of members into a comprehensive statement of the group's mission. The composition of the planning group, made up of officials from different departments which compete for budgetary resources, and of officials who vary in rank and authority, provided opportunities for internal politics to discourage the free flow of ideas and opinions. To reveal the intentions of each constituency, group members were asked a series of questions about departmental mandates concerning investment, actual and potential roles in investment promotion, and attitudes toward the government's role in regulating market systems. This discussion identified common interests and provided a basis for pursuing common goals, despite conflicting that threatened to sabotage the planning process. Acknowledging the similarities of group members' objectives, despite differences in their political beliefs, provided a useful precedent to seeking consensus while acknowledging diversity.

### **A2 Mission Statement**

During its first meetings, the planning group defined key terminology and determined the scope of the plan. The term "agribusiness" included forestry, farm production, machinery, seed and farm services, and food and fiber processing and distribution, but excluded fertilizers and agrochemicals. "Investment" included direct equity investment, technology transfer, and management contracts in Vologda, but excluded foreign trade and distribution of imports. These definitions provided the basis for the planning group's mission statement. The group also determined the scope of the promotion plan to include both Russian and foreign investors. Before the mission statement was included in the investment plan document, it was subjected to several drafts to refine its terminology and style. However, a unified vision and purpose had developed during the first meetings, and the substance of the mission statement remained intact in its final version. The mission statement, in part, declares

"Agribusiness development requires investment. Since the agricultural sector is not an investment priority for the federal government, support for agribusiness is needed at the oblast level. Since few agribusiness firms can procure loans from commercial banks on conventional terms, and since the administration has only limited resources to invest in agribusiness development, the remainder of the funds needed for agribusiness development must come from private investment. Therefore, the critical mission of the Vologda Oblast administration with respect to agribusiness investment is to stimulate "external" investment by Russian and foreign investors, including agribusiness firms, non-agribusiness firms, private investment companies, non-government investment funds and commercial banks."

The SWOT analysis (strengths, weaknesses, opportunities and threats) was the most cumbersome component of the strategic planning process. Its purpose was to determine which of the systems operating in the investment environment were relevant to the planning process, how they functioned, where to intervene to stimulate change and whether planning group members and their departments could intervene effectively. Some planning groups allocate only an hour or

a single meeting to identify and assess the strengths and weakness of participating institutions prioritize the opportunities and threats in the planning environment and organize them into common categories and related themes Vologda's planning group devoted two weeks to identifying the constituencies potentially involved in stimulating investment, assessing their abilities and resources, organizing these factors into common categories and summarizing them in general assumptions and themes These themes provided a useful transition from the SWOT analysis to the determination of planning goals

By organizing the SWOT assumptions into themes, general planning goals became apparent Once the goals were established, it was relatively easy to identify specific, measurable objectives by using the SWOT assumptions Having determined planning objectives, group members were assigned responsibilities for detailed planning to individual members For example, one of the goals of Vologda's plan was to share information between departments and investors The SWOT analysis identified sources of information, investor information needs and obstacles to information sharing The information needs of investors, problems of transferring information between departments of the oblast administration, and the planning group's ability to share information suggested the need for a system to share information between departments and investors The new system would profoundly affect the way departments interact Sharing information, rather than defending it, encourages interdepartmental cooperation and reduces communications barriers between departments and levels of departments, potentially reducing government hierarchy Computers were already installed in many of the departments and offices involved in investment promotion The only requirements for the new system were access to a server, development of a Web site, continuing support from department managers to enter and update investment information, a modest investment in computer hardware and software, and system maintenance

Another way to improve the investment environment was to provide legal and advisory services to investors The planning group decided that the administration should serve the interests of investors, a reversal of their respective roles in previous administrations, with profound effects on public sector behavior Planned investment promotion activities included a survey of investor needs, a review of current services provided by the oblast administration, coordination of responsibility for responding to investor needs, and a method to monitor investor satisfaction A third way to improve the investment environment was to eliminate legal constraints to investment and provide investment incentives A coordinated effort by various departments of the oblast administration could improve the likelihood of successfully introducing appropriate legislation This planning goal also reversed the roles of investors and government agencies Instead of competing for control over investment, government agencies coordinated their efforts to stimulate investment

#### **A4 Gaining Support for the Plan**

The final stage of the planning process prior to the implementation phase was to advertise the plan in order to gain support and momentum for its implementation Vologda's planning group presented its plan in early November at an investment promotion conference sponsored by the Vologda Oblast administration, the Cherepovets city government, and several local industry leaders The planning group organized a panel discussion on agribusiness investment, presented its plan and answered questions from an audience of government officials, businessmen and potential investors After the conference, Governor Pozgalev agreed to call a meeting of planning group members and the principal decision makers in the Vologda Oblast administration The purpose of this meeting, scheduled for late January, was to maintain the momentum of change

defined in the investment promotion plan. The objectives of the meeting were to review the plan, reestablish the planning group, define and schedule its current responsibilities for developing detailed implementation plans and, if necessary, develop a strategy for presenting the plan to the oblast Legislative Assembly.

## **B Recommendations**

The experience gained in Vologda provides important lessons for other oblasts and industries developing investment promotion plans. Follow-up interviews indicate that planning group members consider the strategic planning process to be useful for a variety of planning activities of the Vologda Oblast administration, involving other industries and policy initiatives, and are eager to use strategic planning methods in the future. Among the strengths of Vologda's agribusiness investment promotion plan are its pragmatic, results-oriented objectives, easily understood style, and focus on specific problems. Members also value the teamwork approach, which encourages open discussion and consensus decision making. Tatyana Andreyeva of the State Property Management Committee says, "Working in a group stimulates all the members, even the most passive, leading to higher creativity of the group as a whole. People begin to behave differently. This is a great team-building experience." Planning group members offer the following recommendations for future strategic planning:

- Include key decision makers in the planning group. If they cannot participate in day-to-day planning, keep them informed of planning activities and ask for feedback at all stages of the process.
- Demand consistent, high quality work from each member of the planning group. This will save time, increase productivity and result in a better plan.
- Carefully organize the planning process in order to avoid irrelevant discussions. Meeting agendas should be reviewed by group members before each meeting, and moderators should restrict discussions to germane topics. On the other hand, moderators should avoid limiting the duration of discussions. Group members should feel free to discuss relevant matters at length, if necessary, to reach consensus.
- The planning group should represent a balance of technical personnel and high level managers, and should ensure that the interests of all departments involved are adequately represented.
- Narrow and short-term departmental and industry interests should be subordinated to general, long-term planning perspectives.
- If the implementation of the plan requires new legislation, the work group should include representatives from local administrative assemblies. The inability of Vologda's planning group to retain legislators in the planning group led to the passage of a new oblast investment law that was inappropriate for the group's purpose.
- If consultants are included in the planning group, they should gradually turn over planning responsibilities to group members responsible for the plan's implementation. The consultants' role should eventually be reduced to observer status, occasionally providing advice, information and logistical support.

- Publicly promote the plan in order to increase commitment to its implementation. Get the commitment of key decision makers to maintain strong pressure for change. Plan early victories in the implementation process to maintain the momentum for change, but expect resistance.

## **C Strategic Planning Methods**

Strategic planning does not substitute for other types of planning, instead, it should complement them. It should be consistent with the broader development plans of the institutions involved, whether at the local, oblast, regional or national levels, and should be incorporated into the day-to-day operations of each of the agencies involved in implementing change.

Strategic planning is a process focusing on selected, critical problems facing an organization, assessing the strengths and weaknesses of an organization in resolving its problems and analyzing the opportunities and threats occurring outside the organization, which affect its problems. Strategic planning results in the definition of goals and objectives, choice of strategies and action steps needed to fulfill the goals and objectives, and identification of available resources and schedules for carrying out the action steps. The strategic planning process is formalized into a document called a strategic plan. Although many variations exist, the basic steps in strategic planning are described below.

### **C1 Organizational Mandates and Purposes of Planning**

It is important to agree on the purpose and process of strategic planning, as well as on its implementation, so the process is taken seriously and receives the full attention and commitment of planning group participants and top managers. Every organization, particularly public ones, have mandates to fulfill. These mandates typically are decided by the legislature or at other high levels of government. Every organization has a formally or informally defined system of values and basic operating principles upon which its work is organized. Examples of system values include commitment to serve the public, standards of acceptable behavior in the organization, the degree of consensus existing between senior officials, conflict resolution methods, priority of social welfare over other issues, etc. Note that the term "value," as it is used in this context, does not bear a moral connotation, but instead represents the existing priorities influencing decision making and performance within an organization.

### **C2 Mission Statement**

A mission statement is a concise but general expression of the essential purpose of an organization, which justifies its existence and defines its responsibilities concerning critical issues and objectives. It changes little over time. A mission statement may include a description of an organization's role in the current environment and a statement of how an organization intends to develop in the future. For example, a mission statement may have the following theme: to provide the maximum quality and quantity of public services to the taxpayers and other constituents at the lowest tax rate possible.

### **C3 Environmental Scan**

The purpose of an environmental scan is to describe the current environment, identify the factors that drive it, and project future trends that may affect critical issues. One way for a planning group to reach agreement on future trends is to develop alternative scenarios. For

example, planners could project a probable, most likely future based on existing trends. Another scenario could be based on pessimistic trends while a third could be based on optimistic trends. Some formal or informal method should be applied to reach a consensus on which scenario the participants should try to achieve. Projecting future scenarios will enable strategic planners to develop objectives and strategies best suited to each scenario.

The scanning process consists of two parts: an "internal scan" to identify and analyze strengths and weaknesses of an organization, and an "external scan" to identify threats and opportunities in its environment. For example, an external scan might include macroeconomic factors at the oblast and national levels, federal legislative and executive decisions, national and local political environments, demographic characteristics, etc. The scanning process should result in an understanding of the principal factors influencing the problems under consideration, as well as a prioritized list of the strategic problems to be addressed.

#### **C4 Planning Goals**

Once an organization has examined the factors affecting its future, it should decide how it wants to develop in future years. The next step in strategic planning is to set goals and objectives, devise strategies and create implementation plans. At this point the time frame for planning begins to shorten. While the environmental scan may look ahead for a period of years, it is preferable to set a shorter time frame for the remaining planning steps.

Goals are generalized, concise and typically nonquantifiable statements of how an organization intends to develop in the future. Goals tend to be few in number, relatively nonspecific, ambitious yet achievable. Although it is preferable to limit goals to one planning period, e.g., one year, some goals require several periods to accomplish. At the end of each period, the organization's success can be judged by whether it achieved its goals.

#### **C5 Planning Objectives**

Objectives are specific, measurable and typically quantitative targets set for each goal. There are usually several objectives corresponding to each goal. Schedules for achieving objectives tend to coincide with the schedule for the goal to which the objectives correspond, therefore, when a goal and its objectives exceed one planning period, subobjectives are formulated for each period. Dividing objectives into subobjectives or "steps" allows planners to quantify objectives in the short run when they are not easily quantifiable in the long run.

#### **C6 Choice of Strategy**

Strategies are the behavior patterns an organization adopts to accomplish its objectives. Strategies are typically described as programs, events, operations or projects. Each objective pertaining to a goal may involve several strategies. Goals and objectives indicate what an organization intends to achieve, strategies tell how to achieve it. Examples of strategies include reducing tax rates in selected industries where investment would generate significant growth, and increasing tax collection rates.

#### **C7 Action Steps**

Action steps are the measures taken to fulfill a strategy. They should be concise, explicit and understandable. Action steps are usually short term, i.e., no more than one planning period,

and must match be consistent with strategies and objectives in order to maintain the strategic plan's internal consistency

### **C8 Plan Implementation**

An implementation plan takes the strategic planning process to the level of individual responsibility. It assigns specific responsibilities for the strategies and action steps to individuals and groups within an organization. It is critical that this section of the plan, perhaps more than any other, receive the commitment of top managers, their staffs and other important constituencies. Assigning duties and responsibilities to individuals and organizational units provides a basis for performance evaluation. Implementation plans also specify deadlines for completing action steps, define the resources needed to complete each action, and determine sources of funding. Implementation plans, which are usually presented in the form of tables, typically list the strategies and action steps required for each objective and the corresponding official or agency responsible for it.

Once strategic planning is completed, it must be implemented. The plan must be understood and followed by all parties involved in its implementation. It is vital that an organization controls this process and overcomes resistance to implementing the plan. A strategic plan usually proposes changes, and change is usually resisted. It is desirable to schedule some quickly attainable objectives which will help build momentum and enthusiasm of the people involved, and may reduce resistance by demonstrating real accomplishments.

### **C9 Monitoring Results**

It is crucial to monitor the implementation process by measuring the level of performance, evaluating results and making adjustments to the plan if it turns out to be unrealistic or if environmental changes make it impossible to achieve the stated goals and objectives or to pursue the strategies and action steps. Feedback channels must be established and used. Human and financial resources must be allocated for these activities. It is also important to hold regular meetings between top managers and project monitors, some of whom may be from the strategic planning group, to report on progress and solicit advice on possible changes. The monitoring group should be involved in analyzing feedback data as well as working with alternative scenarios of future development. Developing contingency plans helps an organization prepare to solve unforeseen problems in the implementation stage.

### **C10 Adjustments to the Strategic Plan**

After each period, the strategic plan and its implementation must be evaluated and adjustments made. Once the evaluation is completed, the planning group should repeat the entire planning process to determine if the plan remains consistent with the group's mandate. This second planning process is likely to require only about 15 percent of the time required for the initial plan. Results of the evaluation may indicate a need to adjust or redefine some of the goals, objectives, strategies, action steps or budgets. The evaluation also shows if full attention was given by the constituents to the implementation of their respective duties and responsibilities under the strategic plan. Monitoring and evaluation provide a "reality check" for strategic planning and implementation. It also helps an organization determine how to adjust the strategic plan and its implementation to changing conditions.

## **D Summary of Vologda Agribusiness Investment Promotion Plan**

### Strategies

- Focus on the most likely investment opportunities
- Create an investment policy reform initiative
- Share information freely
- Reorganize current resources and avoid creating new institutions

### Goal A Improve the investment climate

#### Objectives

- Improve information systems
- Increase investor services
- Improve the legal environment
- Upgrade management skills
- Make local agribusiness firms financially attractive

### Goal B Promote investment opportunities

#### Objectives

- Publications
- Exhibitions
- Trade missions

### Agribusiness Investment Promotion Strategies

#### **Focus on the most likely investment opportunities**

Concentrate resources initially on the most likely recipients of external investment—timber, lumber, poultry, beverages and dairy. If investment promotion activities in 1998 are successful, reallocate resources on less likely candidates - meat and egg production—in 1999, and on the least attractive candidates—feed, bottled water and flax—in the year 2000.

#### **Develop investment policy reform initiative**

Use all available means to influence legislation at the oblast and federal levels, including drafting legislation to be introduced by Governor Pozgalev, submitting legislation directly to the Vologda Oblast Legislative Assembly, and organizing a public relations campaign to influence public opinion in favor of legislation supporting investment.

#### **Share information freely**

Organize systems for sharing information between departments of the administration, and provide potential investors free, easy access to information concerning investment regulations and opportunities.

### **Reorganize current resources and avoid creating new institutions**

Assess the functions of administrative departments currently involved in investment, eliminate redundancies, redefine responsibilities and authority concerning investor support and investment promotion, and develop new organizational mechanisms to coordinate activities and use institutional resources more efficiently. Avoid establishing new agencies and offering services which could be provided by the private sector.

**External Scan Matrix**  
**Vologda Oblast Strategic Plan for Investment Promotion**

Constituents Factors		Private Investment Companies	Non government Investment Funds	Banks (acting as investors)	Guarantee & Insurance Agencies	Investor Agri Businesses	Recipient Local Agri Businesses	Russian Federal Government	Banks Investment Promotion PR Ad Legal & Other Support Agencies	Russian Population at Large & Local Population
		A	B	C	D	E	F	G	H	I
Marketable agribusiness investment opportunities in Vologda Oblast	1	X	X	X	X	X	F 1	X	X	X
Competition (including alternative financial and investment markets)	2	A 2	B 2	C 2	D 2	E 2	F 2	X	X	X
Oblast location and other geographic factors	3	A 3	B 3	C 3	D 3	E 3	F 3	X	X	X
Macroeconomic situation in Russia and VO (incl inflation, interest e rate etc )	4	A 4	same as previous	same as previous	same as previous	same as previous	F 4	G 4	X	I 4
Taxes in Russia and Vologda Oblast (including Raions)	5	A 5	same as previous	same as previous	same as previous	same as previous	F 5	G 5	X	I 5
Financing resources available to constituents	6	A 6	B-6	C 6	D 6	E 6	F 6	G 6	X	X
Services available (PR ad promotion legal)	7	A 7	B 7	C 7	D 7	E 7	F 7	X	X	X
Political stability in Russia and Vologda Oblast	8	A 8	same as previous	same as previous	same as previous	same as previous	F 8	G 8	X	I 8

Constituents Factors		Private Investment Companies	Non government Investment Funds	Banks (acting as investors)	Guarantee & Insurance Agencies	Investor Agri-Businesses	Recipient Local Agri Businesses	Russian Federal Government	Banks Investment Promotion PR Ad Legal & Other Support Agencies	Russian Population at Large & Local Population
Legal environment & contract enforcement practices in Russia and Vologda Oblast	9	A 9	B 9	C 9	D-9	E 9	F 9	G 9	H 9	X
Crime in Russia and Vologda Oblast	10	A 10	same as previous	same as previous	same as previous	same as previous	F 10	G 10	H 10	I 10
Social and cultural factors (including Russian foreign differences)	11	A 11	B 11	C 11	D 11	E-11	F 11	G 11	H 11	I 11
Level of technology and capacity utilization	12	X	X	X	X	E 12	F 12	X	X	X
Constraints to investment (as seen by constituents)	13	A 13	B 13	C 13	D 13	E 13	F 13	G 13	H 13	X
Current level of nongovernment agribusiness investment	14	A 14	B 14	C 14	D 14	E 14	F 14	X	X	X
Environmental/ecological factors	15	A 15	same as previous	same as previous	same as previous	same as previous	F 15	G 15	H 15	I 15

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