EVOLUTION AND SPECIFICITY OF THE ECONOMIC INSTITUTIONS OF KHANTY-MANSI AUTONOMOUS OKRUG — YUGRA

The paper is dedicated to the study of the evolution of economic institutions in the resource-producing region, to the investigation of their specificity and institutional traps. As the initial data, the legal framework, the experience of the functioning of economic institutions and statistical data were used. The subject matter of the research is the influence of regional specificity on the evolution of economic institutions. The research topic is the analysis of the evolution, specificity and institutional traps of the economic institutions of the resource-producing region on the example of Khanty-Mansi Autonomous Okrug — Yugra. The purpose of the research is to identify the relationship between the regional specificity and the direction of the evolution of economic institutions. The hypothesis of the study is that the regional specificity has an impact on the evolution of economic institutions and contributes to the formation of institutional traps. The framework methodology of the work is a comparative institutional analysis. As a result, the stages of the evolution of economic institutions are determined, their regional specificity and institutional traps are revealed. The scientific input is in the revealing of the specificity of institutional traps at the regional level as well as the influence of specificity on the evolution of economic institutions. The author came to the conclusion that the regional specificity is appeared in the evolution of the economic institutions for development, whose institutional traps are in many respects predetermined by the regional specificity. The results can be applied by the public administration at the regional level for the development and introduction of amendments to the legislation and further research. There is still the question of what comes first — the regional economic institutions or the economic development of the region, that is necessary to study both the co-evolution regional institutions and regional economics. Also, more research is needed to assess the impact of institutions on the level of transaction costs of economic entities.

Keywords: economic institutions, resource-producing region, Khanty-Mansi Autonomous Okrug — Yugra, basic institutions, supporting institutions, evolution of institutions, regional specificity, institutional traps, comparative institutional analysis.

1. Introduction

The development of economic institutions occurs within the framework of the institutional environment, which is common for the economy of any country. At the same time, there are regional differences and specific features of institutions that have an impact on the nature and economic development indicators. Only recently there have been organized the studies of the effect of the regional institutional environment specificity on the development of regional economies [1–6].

Khanty-Mansiysk Autonomous Okrug — Yugra has a distinct specificity, which is determined by the resource-orientation of its economy. The evolution of economic institutions in the region is characterized by a vicious circle, where further development of the economy demands new institutions, but their development is inhibited by the prevailing institutional environment, which is especially characteristic for resources-producing regions (the so-called "resource curse").

Thus, the need to study the regional specificity of economic institutions and its impact on their evolution in Yugra is very important.

2. Theoretical foundations for economic institutions of the resource-producing region

The concept of economic institution is considered as a part of the concept of institutional economics. It is necessary to note that foreign researchers do not isolate economic institutions in a separate category, considering the social institutions in general. The reason for this is in the fact that all the institutions in one way or another affect the economic interaction. However, the Russian scientific literature allocates economic institutions in a separate category [7, p. 9; 8, p. 59].
and refer to it only those institutions that are directly related to the interaction between economic agents. It is, therefore, logical to allocate the additional signs of economic institutions:

— regulation of reproductive processes at different stages: production, distribution, exchange and consumption;
— predominance of economic sanctions in the mechanism of their functioning.

At the regional level, economic institutions acquire specifics related to the climatic conditions and the characteristics of the regional economy. The resource-oriented economy of a number of Russian regions gives additional specific features to economic institutions.

Thus, in our opinion, the economic institutions of the resource-producing region are formal and informal norms and rules that regulate the interaction of economic agents in the process of reproductive activity at the meso-level in the region with a predominance of resource-producing industries.

When determining the structure of economic institutions, E. S. Nedorezova [8] divides them in accordance with their dominance (the role in the economy), and separates basic and supporting economic institutions. It seems to us that it is more correct to allocate the first-order economic institutions by their role in the economy, which determine the structure of the institutional environment, set up the general direction of economic development, and the second-order economic institutions, which are derived from the first-order institutions.

We consider following institutions as first-order institutions:
— ownerships;
— business institutions;
— protection of competition and anti-trust regulatory institutions.

For resource-producing region, the institution of economic exchange of natural rent should also belong to the first-order economic institutions, since the formation and removal of natural rent have been the basis of its economy.

The second-order institutions can be divided into 3 groups according to the functions they fulfill:

— financial and economic institutions that regulate the most obvious financial transactions of business entities: taxation, government funding, lending, leasing, insurance;
— socio-economic institutions that regulate the part of the economic system, which is closely connected with the social environment: environmental management and environmental protection, organization of labor and pay, social and health insurance, pensions;
— institutions for development whose main task is to provide the progressive development and competitiveness of the regional economy: investment, encouraging of innovation behavior, public-private partnership.

3. Methodological approaches to the study of the evolution of economic institutions and their regional specificity

Many works of both foreign and domestic researchers are devoted to the study of the institutions evolution.

The article by J. Hodgson [9] considers in detail the main areas of contemporary research, which is centered on the problem of the institutions origin. However, there is an imperfection in current models of institutions organization, as it is not always possible to predict the evolution of economic institutions on the basis of such models.

Popov E.V. [10] describes an interesting model of the evolution of economic institutions, based on the life cycle theory and the diffusion of institutions in his article. This model can serve as a basis for predicting of their expansion. However, the model does not explain the expansion and consolidation of inefficient institutions.

The expansion and consolidation of inefficient institutions are well explained by the theory of institutional traps by V. M. Polterovich [11] and by the related effect of depending on the trajectory of the previous development [12] and by lock-in effect [15].

According to V. M. Polterovich, an institutional trap, or lock-in effect is “inefficient stable rate (inefficient Institution) which has a self-sustaining character”. [11] The features of institutional traps are:

— inefficiency of the existing structure and the combination of institutions and the need to change something which is recognized by the majority of participants in the interaction;
— stability and self-reproducibility of existing structure of interactions due to a positive feedback loop when nobody is interested to change something first.

The most popular methodological approach to the study of the specificity of the institutional environment has recently become a comparative institutional analysis. The method includes the simultaneous comparison of the institutional environment and economic performance of some areas, ceteris paribus. It is referred to the regions with relatively similar characteristics of territorial location and resources endowments. Accordingly,
all of the differences in the rate of economic development can be explained by differences in the completeness and quality of the regional institutional environment. Abroad, this approach can be considered sufficiently developed, as there are many training aids [14, 15], as well as examples of its practical application [16, 17]. Russian researchers have just begun to assimilate this methodological approach [18, 19].

4. Obtained results

4.1. Evolution of economic institutions in Khanty-Mansiysk Autonomous Okrug — Yugra

Despite certain independence in the development of economic institutions, we should recognize their direct connection with political institutions, and first of all—with government institutions. Therefore, the stages of economic institutions development in many respects repeat stages of the development of political institutions (Table 1).

The analysis of the stages of economic institutions development in Khanty-Mansiysk Autonomous Okrug — Yugra suggests that in general regional economic institutions have developed with the same scenario as in other regions of Russia. We can only note some lag in the development of economic institutions, which is characteristic for all the peripheral regions of Russia, as well as a more rapid degradation during the crisis.

The stages of evolution determine in many respects the specificity and institutional traps, inherent to the economic institutions of Khanty-Mansiysk Autonomous Okrug — Yugra.

4.2. Specificity and institutional traps of the first-order economic institutions

The specificity and institutional traps of the first-order economic institutions in Khanty-

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Stages</th>
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<tbody>
<tr>
<td>The features of a stage</td>
<td>Institutional vacuum</td>
</tr>
<tr>
<td>Political background</td>
<td>Struggle for the allocation of the region out of the Tyumen region</td>
</tr>
<tr>
<td>Legal framework of economic institutions</td>
<td>Almost missing</td>
</tr>
<tr>
<td>Infrastructure of economic institutions</td>
<td>First elements of infrastructure were created, f.ex.: the Bank of Khanty-Mansiysk</td>
</tr>
<tr>
<td>Budget expenditure for the creation and maintenance of infrastructure</td>
<td>Almost missing</td>
</tr>
<tr>
<td>Economic activity of economic entities</td>
<td>Fall due to shock</td>
</tr>
<tr>
<td>Average index GRP, %</td>
<td>73.0</td>
</tr>
<tr>
<td>Existence and role of informal economic institutions</td>
<td>There are informal institutions: barter, racketeering and others</td>
</tr>
</tbody>
</table>

Source: compiled by the author.
Mansiysk Autonomous Okrug—Yugra are prede-
termined by climatic conditions of the region, as 
well as by resource-producing orientation of its 
economy (Table 2).

The trap of political rent [20] appears in an in-
complete legitimacy and in a private property pro-
tection. It is not specific to Yugra, it is extended all 
over Russia. The only real ways to protect the pri-
ivate property are government relations and “com-
pensations” to officials, that in fact lead to the 
development of the political rent. The proba-
bility of an evolution way out of this trap is rather 
small, since it requires not only reforming of the 
ownership but also the reforming of the political 
institutions.

Insider rent trap [20] appears in the absence of 
real control over the property from the direc-
tion of owners of a small capital, and it is caused 
by the previous one. The probability of an evolu-
tion way out of this trap is also quite small, but 
it exists. The conditions for the way out can arise 
under the influence of the sanctions crisis, when 
business owners will have to finally pay attention 
to the domestic stock market in order to attract 
investment.

The trap of derivative nature of business is a 
kind of a rent-oriented behavior trap. Its gist is that 
the majority of business communities are focused 
on the profit through the close cooperation with 
large oil companies or through the "development" 
of the budget. The oil and gas production domi-
nates in the structure of Yugra GRP—2004,4 tril-
lion rubles, or 74.9 % of GRP in 2013.1 At the same 
time, the turnover of small and medium-sized en-
terprises accounts 335.1 billion rubles, which is 
only 12.5 % of GRP. This trap may cease to exist 
on its own, especially in terms of crisis and reduc-
ing of large companies profits, as well as reducing 
of the regional budget revenue.

The trap of mono-cities is the most specific 
trap for Yugra, although in Russia, there are sev-
eral regions with such large proportion of single-
industry towns. Yugra includes 17 single-industry 
towns of the 106 municipalities; it means that almost all of them are large residential ar-
as, excepting the regional center—the city of 
Khanty-Mansiysk. This trap appears in the fact 
that the Anti-Monopoly Service faces the limita-
tion of its powers in respect of the core enter-
prises and their subdivisions in order to avoid 
social catastrophes in mono-cities. The proba-
bility of evolution way out is also low, because 
it requires the political will of the authorities. 
However, this trap can disappear in a natural way 
at one time with the disappearance of single-in-
dustry towns.

The oil rent trap is also very specific to Yugra, 
although similar traps exist in other resource-pro-
ducing regions. The share of oil and gas produc-
tion in the GRP structure is 74.2 %, while the 
share of all other industries, producing natu-nel resource rent does not exceed 0.5 %. Accordingly, the 
amount of formed and withdrawn oil rent is so 
high compared to other possible forms of natu-
ral resource rent (mining, forestry, water (includ-
ing fishing) and others), that no one of the key ac-
tors does not see the need for the development of 
relevant economic institutions for their formation 
and removal. As a result, all other types of natural 
resource rent are partly lost, partly blurred. This 
trap may cease to exist on its own, especially in 
terms of crisis and lower oil prices.

The trap of vertically integrated oil companies 
predominance means that only this kind of com-
panies are able to compete effectively with one 
another in Russian oil and gas sector. According 
to the data of Oil and Gas Department of Yugra 
Government, there were about 60 small indepen-

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1 Sayt Federalnoy sluzhby gosudarstvennoy statistiki [Website 
gks.ru (date of access: 11.10.2015).
ent oil companies working in the region in 2009, which all together were producing 4 % of oil in the region. Currently, there are only 28[1]. The way out of this trap is only possible through the development of infrastructure institutions in the oil and gas industry.

The trap of excess return on the oil export is seen in the fact that the profitability of raw oil export is higher than the profitability of its refinery, which leads to the orientation of oil and gas companies towards the export and higher prices for oil products inside the country. As a result, society loses a part of the oil rent. This trap has already begun to self-destruct, influenced by the fall of world oil prices, and in the result of the tax maneuver\(^1\).

4.3. Specificity and institutional traps of the second-order economic institutions

The specificity and institutional traps of the second-order institutions are determined not only by natural and climatic conditions, but also by the specifics of the political institutions and the first-order economic institutions. This is particularly noticeable for the financial and economic institutions (table 3).

Lack of incentives for the development of the tax base for regional and local taxes trap is typical for institutions for taxation and tax concessions. This trap is inherent in all regions of Russia, but it is manifested mostly in Yugra. The evolutionary way out of this trap is not possible, there is a need for a political will of the federal government.

The widespread public finance system trap, which appears in ineffective spending of budget funds is very characteristic for budget financing institutions of Yugra. According to A. E. Demenko [21], the proportion of ineffectively spent budget funds reaches 10–15 % in the region. This trap can be overcome through the introduction of innovative tools in the public administration, in particular, one of these tools, as indicated by A. E. Demenko can be crowdsourcing.

The rationality trap [22], which is a kind of the insider rent trap in relation to the banking system, is operating in the system of credit institutions. In the Yugra region, the consequences of this trap are clearly evident on the example of the Bank of Khanty-Mansiysk, which began to show significantly inferior results after its reorganization through absorption by the group “Otkrytie”. This trap has all the chances to be overcome and here we should note the efforts of the Central Bank of Russia for the rehabilitation of the banking system.

Another trap that has appeared recently is a trap of the deposit insurance system. It is manifested in the growth of opportunism on the part of the management of low-capitalized banks as well as on the part of investors. As a result, there has been a manifold increase in insurance claims and related payments to depositors, that led to the fact that in 2014, the amount of the Deposit Insurance Fund decreased by 71.1 billion rubles and on January 1, 2015 totaled (minus allowance for payments on occurred insured events) 68.9 bil-

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Specificity and institutional traps of socio-economic institutions in Khanty-Mansiysk Autonomous Okrug — Yugra

<table>
<thead>
<tr>
<th>Institutions names</th>
<th>Regional specificity</th>
<th>Institutional traps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutions for environmental management and environmental protection</td>
<td>Climatic, geographically and transport features of the territory; existence of ancestral lands of indigenous peoples, who have a special status for natural resources use; pollution on a large scale; a large number of high environmental hazards</td>
<td>Trap of inefficiency of the system of ecological sanctions</td>
</tr>
<tr>
<td>Institutions for organization of labour and pay</td>
<td>Application of regional coefficients and percentage for wage supplements; rotational method of work in remote locations; low share of “gray” salaries</td>
<td>Trap of higher earnings</td>
</tr>
<tr>
<td>Social and health insurance institutions</td>
<td>Correction factors to tariffs; monopoly in CHI; weak commercialization of medical services</td>
<td>Trap of impossibility to establish uniform insurance rates</td>
</tr>
<tr>
<td>Institutions for retirement insurance</td>
<td>An earlier retirement; assistance program for pensioners resettlement; a relatively low proportion of pensioners in the population structure</td>
<td>Trap of receiving of “northern” retiring pension at the place of residence</td>
</tr>
</tbody>
</table>

The trap of higher earnings appears in exaggerated requirements of potential employees from among the citizens of Russia to the level of the proposed salary. This trap inhibits the development of labor-intensive industries in the region. It can be overcome by natural means, with the gradual equalization of salaries in Yugra and Russia.

The trap of impossibility to establish uniform insurance rates for the entire network of medical institutions of the Autonomous Okrug is manifested in a forced use of various correction coefficients to the rates of compulsory health insurance for equalization of funding. To exit out of this trap, there is a need for differentiated, but economically justified common tariffs for medical services to be prohibited by law.

The trap of the receiving of “northern” retiring pension at the place of residence is manifested in two ways. On the one hand, an employee who honestly earned “northern” pension when moving to southern regions loses a part of the supplementary pension. On the other hand, the residents of the Okrug bring and register their retired parents in their house ownerships on purpose they could receive a supplementary pension. This trap can be overcome by the introduction of personalized pensions, which are not linked to the place of residence but to a specific recipient, and do not depend on the region of the pensioner residence.

The institutions for development are the most important in terms of the regional economy growth (table 5).

The trap of rapid pay-back is a kind of catching up development and imitation trap and is manifested in an effort to profit quickly from short-term investments. The reason is in the psychological phenomenon of favorites — when private investors do not associate themselves with the region and do not focus on long-term investments. One of the ways to overcome such institutional trap in Yugra may be the development of additional institutions for investment support.

The trap of the lack of innovation proposals is typical not only for Yugra, but for the whole Russian Federation. An indicator of this trap is a chronic lack of truly innovative projects while organizing competitions and awarding grants. The self-destruction of this trap is possible, since the financing system of science has become more sane and efficient in recent years, it means that in the medium term, we should expect the growth of scientific and technical potential of Yugra and the corresponding growth in innovations supply.

The trap of readily available foreign technologies is a kind of catching up development and imitation trap and is manifested in the preference of the majority of vertically integrated oil companies which are functioning in the region, towards ready-made imported technologies instead of domestic production. The trap of readily available foreign technologies is being destroyed by sanctions and by the fall of the national currency. However, this trap can be preserved if oil companies find a way to get around sanctions, for example, acquire access to the Chinese copies of Western technologies.

The institutional traps of public-private partnership appear in the absence of guarantees from the State. It means that, in a situation where there is a risk that the state will not be able to redeem some already built object from an investor due to the lack of funds in the budget, the investor needs for an additional assurance that this object will be purchased. However, already adopted law on public-private partnership does not give such guarantees as the appropriate changes are not provided by the Budget Code.

### 5. Conclusion

The study of economic institutions of Khanty-Mansiysk Autonomous Okrug — Yugra showed that the specificity of the economy of the resource-producing region has led to the formation of a variety of institutional traps. At the same time, some traps have a system-wide nature and do not depend on the specifics of the region; it concerns the first-order economic institutions. The strongest regional specificity is manifested in the evolution of social and economic institutions and institutions for development, whose institutional traps are largely predetermined by resource-producing specifics.

However, it remains a controversial question, what comes first: the regional economic institutions or economic development of the region. In our opinion, there is no single answer, and it is necessary to study the co-evolution of economic institutions and of the regional economy.

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Author

Vadim Faruarovich Islamutdinov—Doctor of Economics, Professor, Department of Economics, Pro-Rector for Economic Development, Yugra State University (16, Shekhova St., Khanty-Mansiysk, Khanty-Mansi Autonomous Okrug—Yugra, 628012, Russian Federation; e-mail: isvad74@gmail.com, V_Islamutdinov@ugrasu.ru).