



Cultural Industries in Russia

Northern Dimension Partnership on Culture

*Katja Ruutu, Aleksander Panfilo, Päivi Karhunen.
Helsinki School of Economics, Center for Markets in Transition*

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TemaNord 2009:590

© Nordic Council of Ministers, Copenhagen 2009

ISBN 978-92-893-1958-4

Print: Kailow Express ApS

Copies: 300

Printed on environmentally friendly paper

This publication can be ordered on www.norden.org/order. Other Nordic publications are available at www.norden.org/publications

Printed in Denmark



Nordic Council of Ministers

Store Strandstræde 18
DK-1255 Copenhagen K
Phone (+45) 3396 0200
Fax (+45) 3396 0202

Nordic Council

Store Strandstræde 18
DK-1255 Copenhagen K
Phone (+45) 3396 0400
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Preface

The Northern Dimension Policy and Culture

During the Finnish EU Presidency in 2006, measures were taken to reform the Northern Dimension (ND) policy. The ND Summit of 24 November 2006 adopted new basic documents for the Northern Dimension: a political declaration and a framework document, which took force on 1 January 2007. With the reform, the Northern Dimension being a regional expression of the EU-Russia Four Common Spaces with full participation of Norway and Iceland has become an efficient political tool for the implementation of the four road maps in matters relevant to the Northern Dimension area.

According to the Northern Dimension Framework Document, the ND partners – the EU, Russia, Norway and Iceland – regard the partnership as a good model for cooperation and as an efficient tool to develop cooperation in commonly agreed priority sectors, which include culture. There are already three ND Partnerships in operation: the Environmental Partnership, the Partnership in Public Health and Social Well-Being, and the Partnership on Transport and Logistics.

The first Ministerial Meeting of the Renewed Northern Dimension on 28 October 2008 in St Petersburg noted that the culture sector offers significant potential for developing cooperation within the region. The Foreign Ministers decided to set up an ND *ad-hoc* Expert Group to examine the issue and to assess the feasibility of such a Partnership. According to the conclusions of the *ad-hoc* Expert Group, the cultural partnership could promote the development of creative economy in the Northern Dimension area, the accessibility of culture and awaken international interest towards the area, thereby boosting the economical impact and global competitiveness of the cultural sector.

The Northern Dimension Senior Officials Meeting convened on 12 November 2009 in Stockholm and decided to establish the Northern Dimension Partnership on Culture. The Partnership on Culture will be the fourth one to implement the Northern Dimension policy and should be operating from January 2011.

This report on Cultural Industries in Russia commissioned by the Nordic Council of Ministers is part of the preparatory work for the Partnership on Culture and provides broad and updated information on the emerging creative economy in Russia.

Helsinki, November 20th 2009

Maija Lummepero

Counsellor of Cultural Affairs at the Ministry of Education, Finland

Member of the ND *ad-hoc* Expert Group

Summary

The primary aim of the study was to provide knowledge and material for the Northern Dimension Ad Hoc Expert Group's endeavors to build instruments in order to support cultural cooperation in the context of the Northern Dimension. The study aimed at finding answers to questions on what is generally called creative business in Russia, how it is defined and whether creative business networks exist in Russia. The study was conducted at the Center for Markets in Transition (CEMAT), hosted by Helsinki School of Economics, in the summer of 2009. The overall responsibility for the research work was carried by Prof. Riitta Kosonen, director of CEMAT. The authors of the study were Dr. Päivi Karhunen, Dr. Katja Ruutu and Aleksander Panfilo. We thank Marianne Möller and Mikhail Gnedovsky for their valuable input to our research.

Unlike Nordic governments, which have recently been active in developing the creative industries and adopted governmental programs in creative industries, Russian federal government has not yet shown any great interest towards the sector. The idea that culture could be profitable and generate economic value is a new one in Russia and needs time to be adopted. Also the Russian trade policy is to some extent contradictory to the basic idea of creative economy, which emphasizes the importance of creative industry exports, a concrete manifestation of which is the reluctance of Russia to enter the WTO.

In view of statistics, creative industries in Russia have, however, shown growth in the recent years. The creative industries' contribution to GDP and national employment in 2005 was in Russia higher than for example in the neighboring Finland. In contrast, when foreign trade in creative goods and services is measured in per capita terms, Russia is way behind the other countries of the Northern dimension area. The growth in creative industries in Russia can in part be explained by the increase in the leisure industry segment. Traditional culture, representing museums and theaters, for example, has remained practically unchanged in terms of number of establishments. Their revenues have, nevertheless, grown substantially due to the rapid increase in the prices for cultural services.

Despite the growth tendencies in creative industries, the cultural sector in Russia is still in the transition phase, in which the rules and regulations between the private and the public spheres are still unclear. The state regulation for the creative industries does not as such prevent the participation of any type of organizations in creative business. However, there are some indirect disincentives to such activity.

First, most cultural organizations are still state-owned and their participation in commercial activities is somewhat restricted in the law. On

the other hand, state institutions enjoy tax and other benefits, which put them more advantageous position vis-à-vis commercial organizations. As a consequence, cultural organizations prefer to be defined as “cultural” and not “entrepreneurial”, because according to the laws, the private sector has difficulties in getting state subsidies or governmental loans.

Second, the so called independent non-profit sector, which is typical for the creative industries in the west, is not working well in Russia. This is due to the state policy towards NGOs, which has become stricter in the 2000s. As a consequence, many foreign donor organizations, which have been a major source for financing for NGOs, have left Russia.

Third, the development of small businesses in creative industries is hampered by the same problems as the SME sector in Russia in general. The problem of financing is particularly acute for firms, which do not have physical property to be valued as collateral for loan. In addition, excessive bureaucracy and corruption plague the sector.

Fourth, there is still a lack of clear policies towards the creative industries sector at the federal, regional and municipal levels in Russia. In the absence of an explicit definition for creative industries in the legislation, authorities have limited opportunities to target support for this sector.

Finally, despite the challenges described above, the future of Russian creative industries looks promising. The development is in some sense going in the same direction as in the West, for example cultural centers and some clusters have started to emerge in the metropolises and the regions as well. In addition, regional governments, for example in St. Petersburg, have included the creative industries in their regional development strategies. Moreover, there is a rich cultural life, and a solid science and education base in Russia, which provides a basis for the development of new innovations in the field of creative industries. The exploitation of this potential can benefit not only the Russian economy but the Northern Dimension area as a whole.

1. Introduction

The topic of this study is the state of the art of the cultural or creative industries in Russia¹, particularly in Northwest Russia. However, it is difficult to generalize the state of the creative economy in Russia because of the relative novelty of the field of creative industries in Russia. Like the United Nations' report on creative economies states, the economies in transition have particular economic and cultural circumstances. These countries share the common problem of how to deal with cultural assets that were formerly state owned and that are now in the domain of the private sector. Like many other countries in transition, Russia has not yet wholly understood the economic aspects of creativity and the way it contributes to entrepreneurship, fosters innovation, enhances productivity and promotes economic growth. However, Russia could have great potential in the creative industries because the word "creativity" is associated with originality, imagination, inspiration, ingenuity and inventiveness, which all suits very well into Russian cultural tradition.

The Soviet legacy is still present in the social and economic life of Russia. The complete subordination of the creative activity to the idea of socialist realism and the over centralized administrative system in Soviet times obstructed creative freedom and spiritual life. In these conditions, new trends, if they occurred at all, took place primarily in unofficial art. The collective was valued over the individual in the Soviet Union. This is still seen and the values of creative economy such as individuality, diversity and openness needs still time to fully develop in Russia. However, the soviet era also gave rise to informal networks of trust and mutual help. In the establishment of new types of creative enterprises, strong and informal networks are crucial. The long Russian experience of this way of functioning may prove a useful ground for creative industries.

The established definition in the Western countries of the creative industry sectors means spheres, which are based on individual creativity, skill and talent, and which create value, employment and intellectual property rights by creating and using goods. In other words, "creative industries" is the term used to describe entrepreneurial activity, the economic value of which is linked to cultural content. However, there is no commonly agreed definition at the national or international level of the "creative industries" or the "creative economy". It is a subjective concept

¹ The study uses parallel the concepts cultural industries and creative industries even though it is clear that the concept "cultural industries" refers more to the so called traditional sectors of culture than the concept "creative industries". The concept creative industry is developed in Britain and not yet widely used in Russia.

that is still being shaped. This makes comparisons over time and between different countries difficult.

Generally creative industries constitute a vast and heterogeneous field addressing the interaction of various creative activities ranging from traditional arts and crafts, publishing, music, and visual and performing arts to more technology-intensive and service-oriented groups of activities such as film, television and radio broadcasting, new media and design. The creative industry sector has a flexible and modular market structure that ranges from independent artists and small-business enterprises at one extreme to some of the world's largest conglomerates at the other.

This study aims at providing a state of the art analysis of the creative industries in Russia. This includes relevant statistics, as well as concepts and legislation in the field of the creative industry in Russia, such as the law on culture and the federal program on culture. The study elaborates the basic laws and practices of public organizations such as the changes of the cultural institutions to do business, and vice versa the opportunities of companies in the creative industries to take advantage of public funding. In this perspective, the divisions between governmental, non-governmental and commercial organizations are presented.

Related to that, the new law on small and medium sized enterprises is introduced and some new governmental initiatives concerning cultural organizations are elaborated. Furthermore, some basic points of cultural networks dating from the Soviet times are introduced in order to understand the possibilities to build creative clusters and creative business in Russia. In addition, the study settles the volumes of creative industries, where the main focus is on the Northern Dimension's Cultural Partnership Group's proposal raised areas: audiovisual and film industry, traditional culture, games industry and cultural tourism.

The concept "creative industries" is not yet well known in Russia and it also has different connotations than in the west. Unlike Nordic governments, which have approved programs on creative industries, the Russian government has not yet set up any federal programs in that field. The idea that culture could be profitable and generate economic value is a new one in Russia and needs time to be adopted. Nevertheless, the sector has raised interest also in Russia and the concept "creative industries" (*tvorčeskije industrii*) is mentioned already in some laws and governmental programs as well as in regional laws. In addition, some research centers and public organizations are involved in Russia within the creative industries and some education is provided.

The primary aim of the study is to provide knowledge and material for the Northern Dimension Ad Hoc Expert Group's endeavors to build instruments in order to support cultural cooperation in the context of the Northern Dimension. The study tries to find answers to questions, what is generally called creative business in Russia, how it's defined and whether creative business networks exist in Russia. The materials of the study are

scholarly articles, books and expert interviews. However, it's good to note that there is no broad analysis of Russian creative industries and also no kind of systematic gathering of statistics in the creative industries.

We start the analysis by discussing the concept of creative industries in the Russian context. Then we describe the magnitude of creative economy in Russia in international comparison based on the statistics available.

1.1 The concept of creative industries in the Russian context

Generally, it can be stated that the rise of the cultural (later creative) industries were bound up with the rise of "mass culture". The term "culture industry" appeared in the post-war period. The members of the Frankfurt School, Theodor Adorno and Max Horkheimer, developed the idea of "culture industry" as a reaction against what they saw as the misleading democratic connotations of the term "mass culture".² At that time, "culture industry" was a concept intended to shock, culture and industry were argued to be opposites and the term was used in polemics against the limitations of modern cultural life. The term "culture" referred to German idealists' notion of culture, as the expression of the deepest shared values of a social group, as opposed to civilization which referred to elite. The term "industry" referred both to Marxist economic concepts of commodification, commodity exchange, capital concentration and worker alienation and to the Weberian concept of rationalization. In the concept of "culture industry", attention was shifted from the content of culture to its forms and from the cultural product to the relationship between cultural producers and consumers.³

In early 1980's, the cultural industries began to emerge as an issue in national policy making in Britain. The idea that cultural industries could be an important way of reinvigorating post-industrial national economies started to gain popularity also in other countries in the 1980's. The idea that cultural or creative industries might be regenerative was the result of changes in the cultural-industries landscape when cultural policy is understood in the wider sense including media and communications. The liberalization of the media and communications sector began in the United States early in the 1980's. Then it hit a series of countries emerging from the authoritarian rule in the early 1990's and spread across the whole world. These changes have added legitimacy to the idea that national and local economies can be regenerated through the creative industries and fuelled the growth of cultural industries worldwide.⁴

² David Hesmondhalgh, Andy C. Pratt (2005) *Cultural Industries and Cultural Policy*. International Journal of Cultural Policy, Vol 11, No 1, p. 5.

³ Nicholas Garnham (2005) "From Cultural to Creative Industries". International Journal of Cultural Policy, Vol 11, No 1, p.16.

⁴ Hesmondhalgh, Pratt 2005, 4–5.

In the Soviet Union, culture was a powerful tool for state unity and for revolution. The critical, dissident culture flourished especially during the perestroika years and helped to overthrow the one party system. For state purposes, culture had an educative, moral, social and propagandist role. Thus, in the Soviet Russia, culture was crucially important politically, whether in support of the state or in opposition to it. In the present-day Russia, culture has not yet achieved the level where it provides legitimate comment on society.

The concept “creative industries” is translated into Russian “*tvorčeskije industrii*”. The term “*industrija*” in Russia differs from the western use of that term “industry”. Generally in Russia, the term “industry” refers to heavy manufacture and mass production and not so much to the sector of the economy. In addition, the term “culture” refers to what many in the west would define as “high culture” or “national heritage”. On the other hand, the term “popular culture” associates in Russia with “mass culture” and thus it has a more superficial flavour than in the west.⁵

The relative novelty of the “creative industries” means that the lag between the creation of definitions and new census categories and the respective data collection has left a knowledge gap world wide. In addition, the traditional taxonomies of industry used by official censuses were developed to monitor a manufacturing economy and ignore much of what are now regarded as the cultural or creative industries.⁶ For example, the classification of types of activity in the cultural sphere used in Russian statistics is different from that used in legal and regulatory documents. In addition, the statistics do not cover many sub-sectors of cultural life.

The creative industries policies of various countries place considerable emphasis on exports, as well on a certain amount of cultural protectionism. Here the most significant tension exists with respect to economic free trade policy. If the cultural industries are characterized as economic, then they are subject to World Trade Organization. The Government of the Russian Federation supports more cultural protectionism than cultural export. Russian culture is often characterized as being very unique and incapable of reaching the global markets. Russia has been against the economic free trade, a good example of this is its reluctance to enter into WTO. Globalization is seen in Russia, and not just by the political elites, as a threat to national integrity and self-determination.⁷ Also the Russian people take pride in their country’s historical culture. According to a poll by Bashkirova & Partners at least 52.5% of Russians say they feel proud of Russian

⁵ Linda Moss (2006) Arctic Roll? Cultural Industries and Tourism Development in Russian Karelia: Can It Succeed. *The 60th Parallel Journal*. No 4 (23) December.

⁶ Hesmondhalgh, Pratt 2005, 7.

⁷ Hilary A. Pilkington (2001) Looking West? Cultural Globalisation and Russian Youth Cultures. *Europaea*, No 1–2.

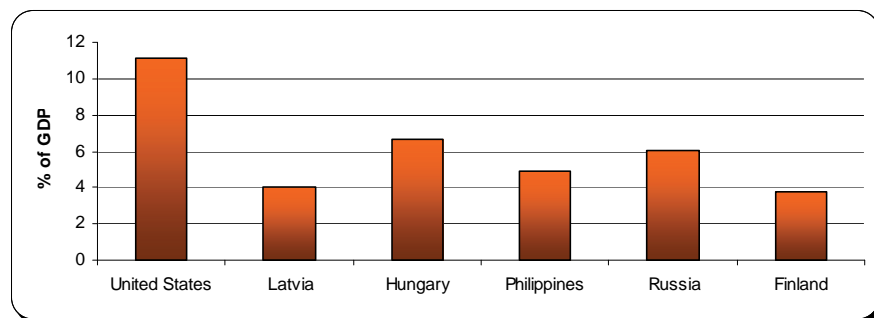
national history, culture and scientific achievements. In contrast, the state of democracy was valued only 5.9% of the respondents.⁸

Next we give an overview of the cultural industries in Russia in light of statistics available from national and international sources.

⁸ Angus Reid Global Monitor, June 2009. http://www.angus-reid.com/polls/view/33662/russians_proud_of_culture_not_democracy.

2. Russian creative industries in figures

As noted earlier, there is a lack of statistical information on the creative sector in Russia. However, the UNCTAD's Creative Economy Report gives some estimations of the size of the creative industries and their contribution to the national economy for Russia among other countries. According to the definition used by UNCTAD, creative industries are "cycles of creation, production and distribution of goods and services that use creativity and intellectual capital as primary inputs. They comprise a set of knowledge-based activities that produce tangible goods and intangible intellectual or artistic services with creative content, economic value and market objectives."⁹ Figure 1 demonstrates the share of creative industries in gross domestic product (GDP) in Russia and other countries covered by the UNCTAD report.



Source: Creative Economy Report

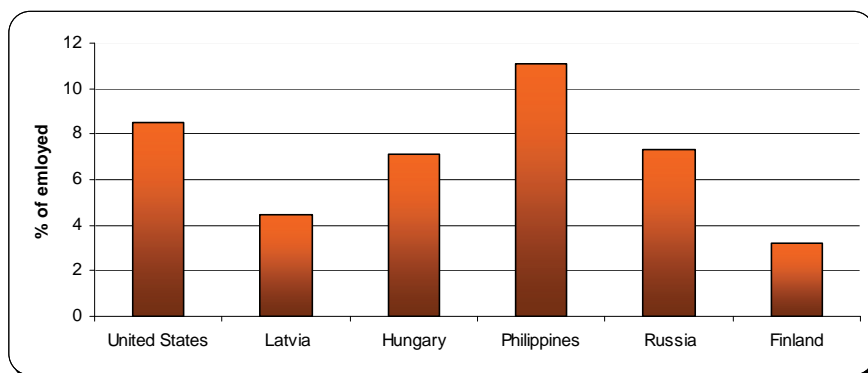
*The only Northern Dimension area countries included in the report are Russia, Finland and Latvia

Figure 1: Creative industries contribution to GDP in 2005 in selected countries*

As seen from the figure, the creative industries' contribution to the Russian GDP in 2005 was approximately 6%. The respective share was highest in the United States, where the share of creative industries in the GDP was nearly two times larger. However, when compared to the two other Northern Dimension area countries included in the analysis (Finland and Latvia), Russia performs better. On the other hand it is behind Hungary, which is another example of a Central and East European post-socialist economy.

⁹ Creative Economy Report 2008. The Challenges of Assessing the Creative Economy: Towards Informed Policy-making. United Nations, UNCTAD 2008.

The role of creative industries in the national economy can be measured also in terms of employment creation. Figure 2 shows the share of creative industries in national employment according to the UNCTAD study.

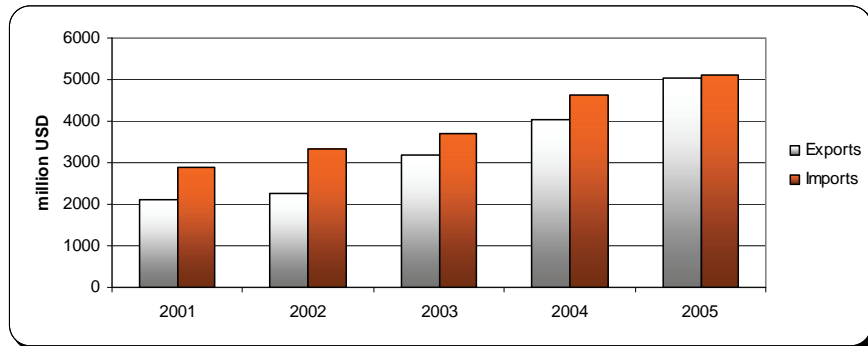


Source: Creative Economy Report

Figure 2: Creative industries contribution to national employment, 2005

The figure reveals first, that the creative industries' shares in GDP and in national employment do not necessarily correlate with each other. The share of creative industries in national employment is at highest in Philippines, regardless their modest contribution to the country's economy when measured in terms of GDP. At the same time the contribution of creative industries in national employment in the United States is considerably lower than their respective GDP share. This obviously reflects the higher capital intensity in the creative industries in developed economies. In this regard Russia is positioned somewhere "in-between" – the share of creative industries in national employment (7.3%) is somewhat above the GDP share (6.1%).

In addition to the figures above, the importance of the creative industries to the national economy can be examined against the volume of foreign trade in creative goods and services. In Russia, both export and import of creative goods and services grew steadily in the period of 2001–2005 (Figure 3).

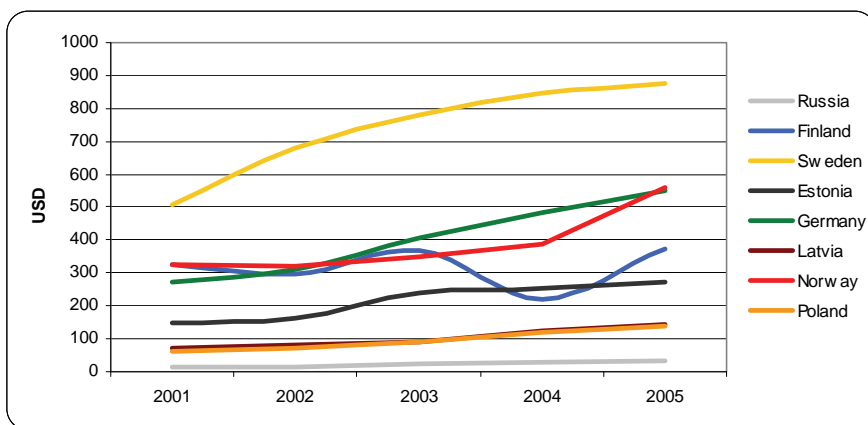


Source: Creative Economy Report

Figure 3: Creative goods and services of Russia: imports and exports, 2001–2005

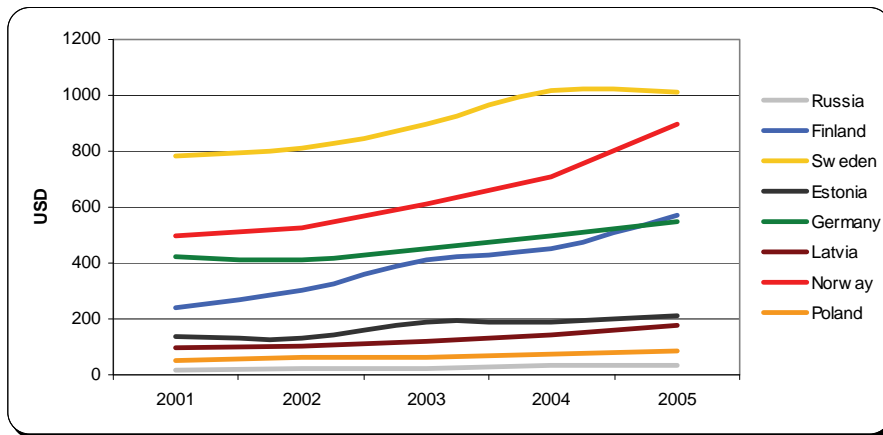
In 2005, which is the most recent year covered by the UNCTAD report, the Russian creative goods export amounted to 1.65 billion USD, whereas the corresponding figure for services was 3.4 billion USD. Furthermore, creative goods were imported to Russia for 2.68 billion USD, and creative services for 2.4 billion USD. The faster growth in export in comparison to import in the early 2000s has decreased the negative trade balance. In 2005 Russia's foreign trade in creative goods and services totaled ca. 10.2 billion USD, to which import and export contributed almost equally. These figures are quite modest when compared to other Northern Dimension area countries. For example in 2005 Sweden's foreign trade in creative goods and services amounted to ca. 17.1 billion USD and in Germany the figure was ca. 90.5 billion USD.

The picture is even clearer, when the export and import volumes are calculated as per capita values (Figures 4 and 5).



Source: Authors' calculations

Figure 4: Creative goods and services exports per capita in USD, 2001–2005



Source: Authors' calculations

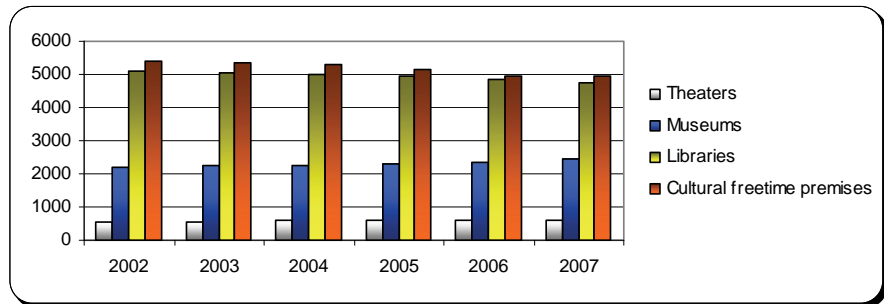
Figure 5: Creative goods and services import per capita in USD, 2001–2005

As seen from the figures, the per capita export and import of Russia's creative industries was a fraction of those of other countries of the Northern Dimension area.

The contribution of the creative industries in the national economy can be analyzed also on the growth dynamics in different sub-sectors of the creative economy. Next we give an overview of the development in the "traditional" culture sector (theaters, museums, classical music etc.), and the "non-traditional" part of cultural industries; the entertainment sector, the film industry, games industry, and cultural tourism. The non-traditional part of cultural industries can be viewed as having most business potential in view of the Northern Dimension cultural partnership.

2.1 Traditional culture

As will be discussed more in detail later in this report, most organizations in the Russian traditional culture sector are state-owned. This sector covers cultural establishments such as theaters, museums and libraries, as well as cultural free time premises which include cultural clubs, cultural houses and national cultural centers. The sector of traditional culture has remained relatively stable in the recent years when measured by the number of organizations (Figure 6).

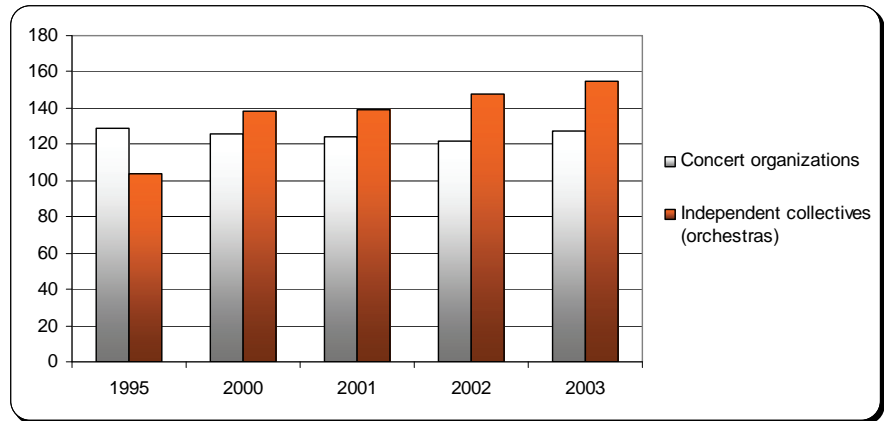


Source: Rosstat

Figure 6: Amount of cultural organizations in Russia

There is, however, a slight decline in the number of libraries and cultural free-time premises, whereas there is a minor increase in the number of museums. The amount of theaters has remained practically unchanged since 2002. The same trend of stable development can be observed in the number of visitors of cultural establishments, which has not shown significant changes in the recent years.

In the classical music field, which is very much dominated by state organizations, the development has been relatively stable as well. Figure 7 illustrates how the number of concert organizations and independent collectives (which are functioning under state organizations’) has been developing.

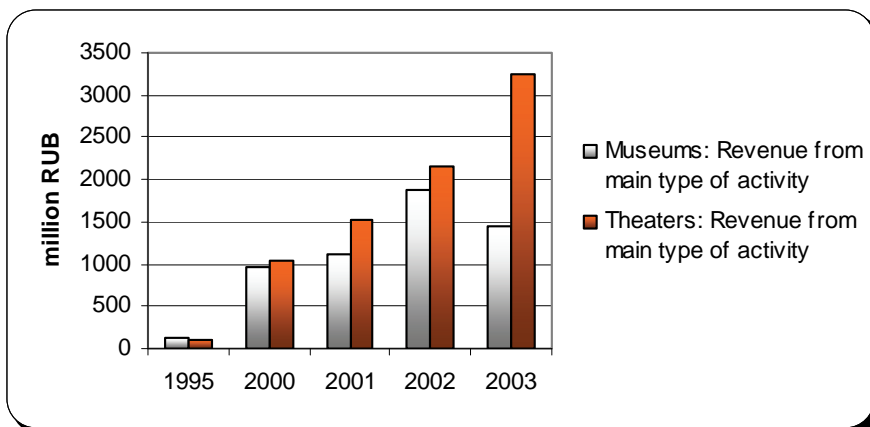


Source: Rosstat

Figure 7: Amount of concert organizations and independent collectives in Russia, 1995, 2000–2003

When comparing the growth dynamics of concert organizations versus independent collectives, it can be noticed that the number of the former was in 2003 approximately the same as in 1995. In contrast, the number of independent collectives has been in increase, being in 2003 ca. 20% higher than in 1995.

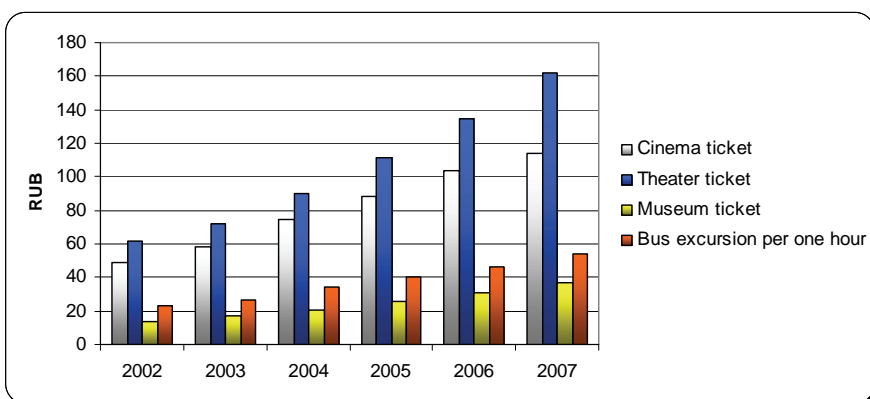
When measured in terms of revenues, more dynamical development in the traditional culture sector in the post-Soviet era can be observed (Figure 8).



Source: Rosstat

Figure 8: Revenues of theaters and museums, 1995, 2000–2003

When compared to the 1990’s the revenues of theaters and museums have reached a completely new level. Interestingly, the revenues for theaters from their main type of activity were in a steady increase in the period under examination, whereas the revenues of theaters turned into decline in 2003. The most recent statistical information is for the year 2003, but it is very likely that the high economic growth in Russia and the related increase in the population’s income have positively affected the revenues of cultural organizations as well. The average spending of Russian consumer on entertainment including traditional culture is 5–7% of the salary.¹⁰ Moreover, the revenues of the cultural organizations are closely linked to the price dynamics for cultural services (Figure 9).



Source: Rosstat

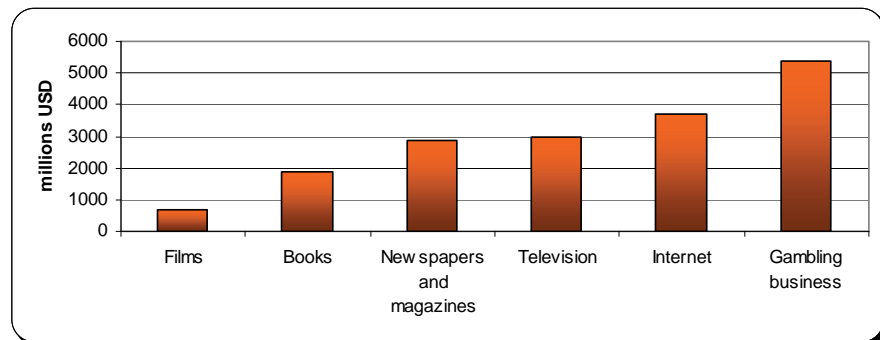
Figure 9: Average prices for cultural services, 2002–2007

¹⁰ SmartMoney (2006) Veselitsja i likuet <http://www.smoney.ru/article.shtml?2006/12/25/1956>.

As seen from the figure 9, the prices for cultural services in Russia have increased rapidly in the 2000's, which is by large part caused by the relatively rapid inflation in the country. However, even if the inflation is taken into account the tickets have become more expensive. For example in 2002 to 2007 the prices of cinema tickets increased annually by 19% while the annual inflation was ca. 12%. However, since then the growth in ticket prices has slowed down. In 2007 the inflation-adjusted price increase in cinema tickets was only 1.6%.

2.2 Entertainment sector

In contrast to the traditional culture sector, the Russian entertainment sector – which includes such areas as film industry, show-programs, sport events, musical festivals, cultural centers, nightclubs and gambling industry – has been progressing rapidly during the last years. In 2006 the growth of the Russian entertainment sector totaled 7.1%, which was the highest figure in Europe. In 2007 the growth was even higher, 12.2%, which substantially exceeded the growth rate of the Russian GDP. According to PriceWaterhouseCoopers (2007) the market value of the Russian entertainment industry in 2007 was 26.39 billion USD, and it was estimated to grow to 29.6 billion in 2008. The high growth was expected to continue also in the coming years, but the economic crisis in Russia has very likely affected this sector as well. Figure 10 illustrates the value of the most important sub-sectors of the Russian entertainment sector in 2006.



Source: PricewaterhouseCoopers

Figure 10: Market values of Russian entertainment industry sectors in 2006

As seen in the figure, the gambling business has developed into the largest sector of the Russian entertainment industry. However, since 2006 there have been changes in the legislation, which substantially affect this sub-sector. A new law was introduced in 2009, the purpose of which was to forbid gambling in other areas than Special Economic Zones (SEZ) assigned for this purpose. The deadline for moving all gambling facilities

and operations to SEZs was 1 July 2009. However, as such SEZ's are located in remote areas, it is very likely that a large part of the business will go "underground". There have also been some delays in preparing the gambling SEZ's and companies have been reluctant to move their operations to these areas. Instead, casinos are either being closed fully, moved abroad or being disguised as poker clubs, entertainment houses or even internet cafes which offer possibility to gamble online. Regarding other entertainment sub-sectors, the market value of Internet-based business has exceeded that of television also in Russia.

Another sub-sector, which can be classified under the entertainment industry, is the music industry. According to expert evaluations the earnings of the Russian music recording studios totaled ca. 60 million USD in 2007, and the revenues of music distribution companies amounted to 700 million USD in the same year.¹¹ In comparison, the worldwide music distribution volume was 6–7 billion USD in 2006. In Finland the music distribution market was evaluated to be 10 million USD in 2008.¹²

The music industry is especially vulnerable to piracy, and the high amount of pirated production is one distinctive feature of the Russian music market.¹³ It was estimated that in 2006, the total amount of music sales (including pirated production) would have been ca. 410 million USD.¹⁴ The growth of the Russian music market and especially for CD sales is opposite to the development in western countries. In Europe and USA the annual decrease in CD sales has been up to 25% whereas in Russia the CD sales grew in 2007 by 5% to the previous year.¹⁵ This means an increase from 72 to 75 million copies. Interestingly, the share of Russian music in CD sales is relatively high, more than 70%.¹⁶ In comparison to CD sales, the growth has been even more rapid in digital distribution of music in Russia. In 2006 digital distribution was expected to grow by 25%. An important factor in growth of digital distribution is the increase of fast speed Internet access among population.¹⁷

2.3 Film industry

The development of the Russian film industry in recent years is characterized by somewhat contradictory tendencies. On the one hand, the number

¹¹Hazzen (2008) Muzikalnyi biznes – sozdanie studii zvukozapisi
http://hazzen.com/publications/articles/muzikalnyj_biznes_sozdanie_studii_zvukozapisi.

¹² Argillander T, Martikainen, V (2009) Musiikkiala 2009, Digital Media Finland Oy.

¹³Vechernjaja Moskva (2009) Iosif Prigozhin shitaet, chto rossijskaja muika nuzhna zapadu
<http://www.vmdaily.ru/article.php?aid=70810>.

¹⁴Kommersant (2007) Poslednyi disk mody. Potrebiteli menjajut strukturu muzikalnogo rynka
<http://www.cforum.ru/news/article/041720.htm>.

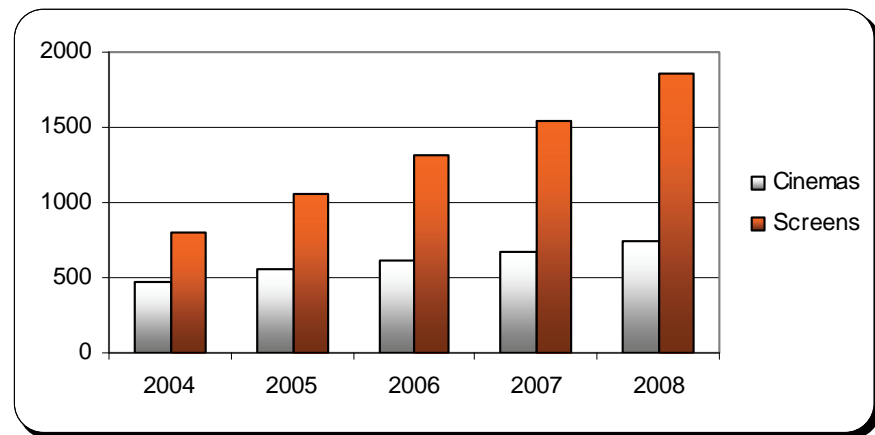
¹⁵Showbiz@Mail.ru (2008) Rossija voshla v desjatku muzikalnih derzhav mira
<http://showbiz.mail.ru/columns/94975/14312/>.

¹⁶Ibid.

¹⁷Kommersant (2007) Poslednyi disk mody. Potrebiteli menjajut strukturu muzikalnogo rynka
<http://www.cforum.ru/news/article/041720.htm>.

of cinema admissions has remained relatively stable. There was only a 2.5% increase in the total film audience in the time period of 2002–2006. In 2007 ca. 100 million movie tickets were sold in Russia, which was approximately the same amount than in 2006. In international comparison the cinema attendance figures per capita are relatively low. A third of the Russian population attends movie theaters, whereas in the United States the corresponding figure is ca. 67%.¹⁸

At the same time the amount of cinemas has been increasing in Russia during the last few years. In December of 2008 the amount of cinemas was 736.¹⁹ Figure 11 shows the development of amount of cinemas in Russia in 2004–2008.



Source: Kinobusiness

Figure 11: Amount of cinemas and screens in Russia, 2004–2008

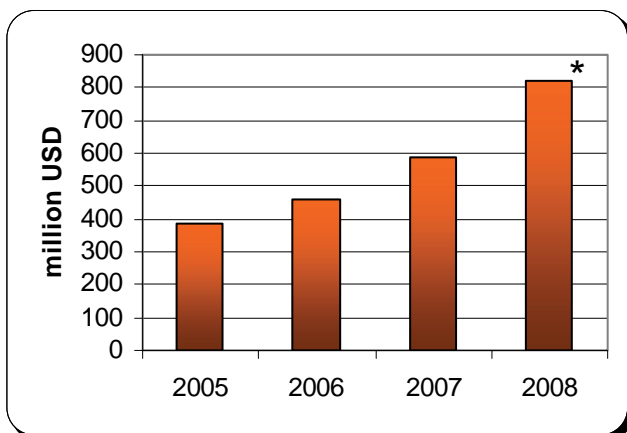
The lack of growth in the cinema audience means intensified competition for cinema operators. Around 80% of total new cinemas are opened in big shopping centers. In December 2008 the share of cinemas in shopping malls was around 50%. Main players in the cinema field are KARO Film, Cinema Park and Kinomaks. In total there are around 430 film operator companies operating in Russia.²⁰

On the other hand, the rapid growth in prices for movie tickets (see Figure 9) has substantially increased the box office income in Russia (Figure 12).

¹⁸ Russian Business (2008a) Razvlechenija i sport. <http://www.rb.ru/biz/markets/show/65/>.

¹⁹ Kinobusiness (2009a) Rynok Rossijskich kinoteatrov. Itogi 2008 goda <http://www.kinobusiness.com/content/view/1859/88888960/>.

²⁰ Ibid.



* estimate

Sources: PricewaterhouseCoopers, Interview of D. Dondurey

Figure 12: Total box office income in Russia, 2005–2008

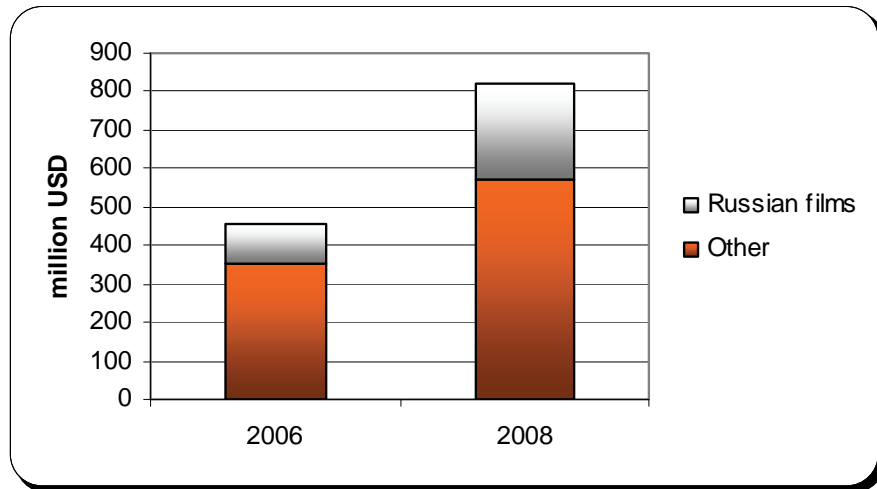
The total box office income in Russia in 2007 amounted to 590 million USD, which was 29% higher than in 2006 (PricewaterhouseCoopers, 2007). According to an industry expert's estimate the corresponding figure for 2008 would have reached 820 million USD, and the financial crisis would not have affected the industry much.²¹

Moreover, the development of box office income of domestic films has been faster than the growth of the market as a whole in the recent years (Figure 13). This income grew threefold in 2004–2006 to 106 million USD and since then it has more than doubled to over 250 million USD.²² However, this development is mainly due to the success of a limited number of film productions. In 2008 ten leading Russian film productions collected ca. 250 million dollars, which is about one third of the total box office income of both domestic and foreign films in Russia. From these 250 millions a sequel to a popular Russian film “Ironija Sud-by” collected about 50 millions. Up to the moment none of Russian film productions has managed to overcome the threshold of 50 million USD in box office incomes.²³

²¹ Dondurey Daniil, Radio Echo of Moscow, talk show, January 2009.

²² Russian Business (2008b) Turizm <http://www.rb.ru/biz/markets/show/84/>.

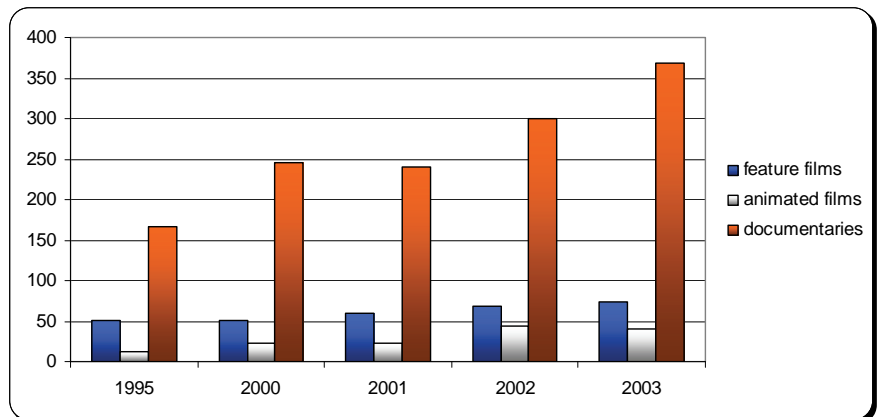
²³ Dondurey Daniil, Radio Echo of Moscow, talk show, January 2009.



Source: Russian Business

Figure 13: Combined box office income of Russian films out of total, 2006 and 2008

The other side of the coin regarding the success of Russian films is the fact that during the period from 1997 to 2008 a total of 550 Russian films were distributed to cinemas. From these only 15 films made a solid profit, five made a moderate profit and 530 didn't make profit at all.²⁴ In 2007 out of 250 films produced only 85 made it to cinemas and 90% of them were not profitable.²⁵ The most recent comprehensive statistics on film production in Russia are from 2003 (Figure 14).



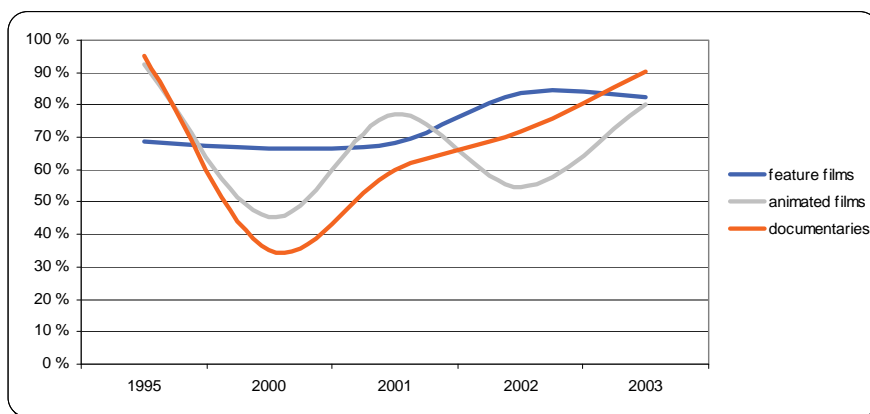
Source: Rosstat

Figure 14: Amount of films produced in Russia, 1995, 2000–2003

²⁴Kinobusiness (2009b) Kinoprokat SNG: Itogi goda <http://www.kinobusiness.com/content/view/1637/88888946/>.

²⁵BFM.ru (2008) Kinoindustrija v uslovijah krizisa. <http://bfm.ru/news/2008/11/13/kinoindustrija-v-uslovijah-krizisa.html>.

As seen in the figure, the number of feature films produced annually in Russia grew from 51 to 73 in the period of 1995–2003. More substantial growth, although smaller in absolute number of productions, was experienced in animated films – from 13 to 40. The largest segment, however, is the production of documentaries, the number of which more than doubled from 167 in 1995 to 369 in 2003. Interestingly, when comparing the development in the amount of films produced and changes in the funding structure of films production, a clear correlation can be observed only as regards to feature films. Their production has been growing modestly but steadily in line with the growth in the state share in financing (Figure 15).



Source: Rosstat, Author's calculations

Figure 15: Share of state supported films out of total film production in category, 1995, 2000–2003

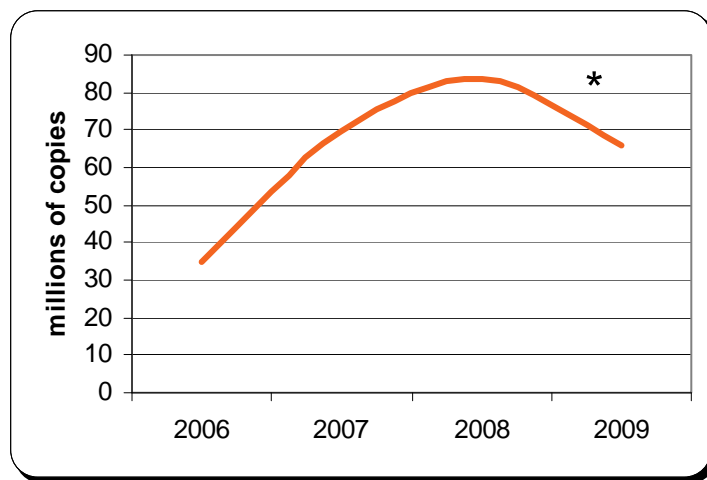
The share of state funding in the Russian film production was in 2003 ca. 80%. This is high when compared to for example Finland, where the public support for feature films as in 2001–2006 in average 42% of the production budget.²⁶ The share of state support for feature films in Russia remained relatively stable between 1995 and 2001, after which it started to increase. In contrast the state contribution to the budgets of animated films and documentaries has fluctuated, particularly in the case of the former. In 1995 more than 90% of the budgets of these film segments were covered by the state, and for the documentaries the respective share decreased to 35% in 2000 and grew again up to 90% in 2003. The state funding share in the animated film production fluctuated between 90% and 45% in the period under examination, reaching 80% in 2003.

The economic crisis has reflected on film production in Russia. In late 2008 there was anticipation of almost 50% wage decrease in the field as well as reduction of films under production. The lack of sponsors' interest and financing in general is showing. In 2009 only 70–80 films in-

²⁶ Vilhunen, Jukka (2008) Elokuvatuotannon rahoitusrakenteen vahvistaminen. Suomen Elokuvasäätiö: Helsinki.

stead of originally planned 150 were expected to be produced. Among other business fields also Russian film industry is relying on governmental support during the crisis. In 2009 2 billion RUB from the state budget were assigned for film production.²⁷

In addition to the box office income, the DVD sales are an important income source for the film industry. The current value of the Russian DVD market is estimated to be 1.5 billion USD.²⁸ The number of licensed DVDs sold in Russia in 2008 was 83.77 million copies, which was 1.2 times higher than in 2007 and 2 times higher than in 2006 (Figure 16)



* estimate for the year 2009
Source: Kinobusiness

Figure 14: DVD sales development in Russia, 2006–2009

The economic crisis has slowed down the growth in the DVD market. In the second half of 2008 the amount of sold DVDs was actually lower compared to the second half of 2007. Hence, the sales for 2009 are estimated to be on the 2007 level. In 2008 there were 11 Russian films among the Top 50 selling DVDs. Five of them were in Top 10.²⁹ However, it should be kept in mind that piracy is a severe problem in the Russian DVD market. The share of illegal copies is estimated to be as high as 70–75% and even growing back to 80% due to the economic crisis.³⁰

²⁷ BFM.ru (2008) Kinoindustrija v uslovijah krizisa. <http://bfm.ru/news/2008/11/13/kinoindustrija-v-uslovijah-krizisa.html>.

²⁸ Dondurey Daniil, Radio Echo of Moscow, talk show, January 2009

²⁹ Kinobusiness (2009c) Video v Rossii: Itogi goda. <http://www.kinobusiness.com/content/view/1884/88888964/>.

³⁰ Kommersant (2009) Piraty raskrutili disky. <http://kommersant.ru/doc.aspx?DocsID=1140371>.

2.4 Games industry

The games industry, which includes the design and production of video, mobile and other games, is one of the fastest growing sectors in the creative industries globally. Russia has some strong players in the game development field. Examples of such are Nival Group and 1C company. Nival Group has been behind the development of such global game hits as *Heroes of Might and Magic V*, *Blitzkrieg* and *Silent Storm*. 1C offers a wide variety of computer program development including games development. Their games division is responsible for games like *Resident Evil 5*, *Il-2 Sturmovik* and the online version of *Lord of the Rings*. Altogether Russian games industry has a great potential and a number of companies has already managed to establish a well working international cooperation. The perspectives have not remained unnoticed by the Russian authorities either. By the end of October 2009 Russia is preparing to unite its game companies under a national umbrella organization, which would be a first nation-wide games industry body. The goal of National Russian Association of Games Industry would be to improve Russia's position in global games development sector.³¹

In 2008 the Russian market for computer programs was estimated to be 3.2 billion USD. From this the share of home products was 660 million USD.³² Worldwide computer games market was estimated to be 37.5 billion USD in 2007. In 2006 the value of Russian games market amounted to 320–350 million USD.³³ The market grew further in 2007 by 24%. The peculiarity of the Russian games market is that the vast majority of players prefer using PC instead of game consoles. In comparison, in USA 80% of players prefer consoles. In Russia the main income sources for games industry in 2007 were PC games which brought 300 million USD and online games which generated 55 million USD of income. The total market value for online games in Russia was estimated to be 80 million USD.³⁴

Approximately 30% of Russians owns PC and 50% of them use PC for gaming purposes. Online players spend 4.5 USD per month on online gaming.³⁵ According to forecast there will be 43 computers per 100 people in 2010.³⁶ Market value of digitally distributed games in the first half of 2008 was 120 million USD and according to forecasts the market was

³¹ Develop (2009) Russia to Establish National Game Body. <http://www.develop-online.net/news/32833/Russia-to-establish-national-game-body>.

³² Kompijuternoe obozrenie (2009) Igrovaja industrija. Aprel-Mai. KRI-2009. 18th issue. <http://konline.com.ua/node/42927>.

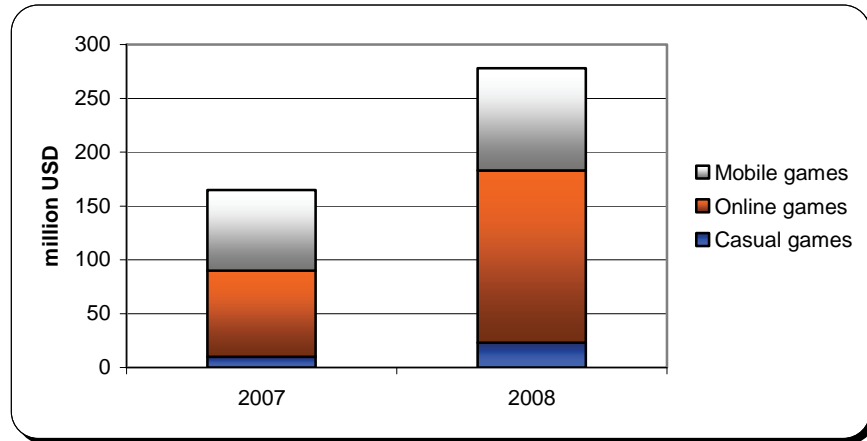
³³ Finam (2007) Rossijskij rynek kompijuternyh igr: tendencii razvitiija <http://www.finam.ru/analysis/conf00001001D3/default.asp>.

³⁴ Russian Business (2008b) Turizm <http://www.rb.ru/biz/markets/show/84/>.

³⁵ SmartMoney (2006) Veselitsja i likuet <http://www.smoney.ru/article.shtml?2006/12/25/1956>.

³⁶ Kommersant Dengi (2008) Zheleznyi standart razvlechenij. 3rd issue. <http://www.kommersant.ru/doc-rss.aspx?DocsID=845311>.

estimated to grow by 70% from 2007. This means that from 165 million USD the market would have grown to 280 millions.³⁷



Source: IKS Consulting

Figure 17: Segments of digitally distributed games in Russia

These growth figures are somewhat questionable due to the economic crisis which has reflected severely not only on digitally distributed games sell figures. According to experts the decrease in amounts of game copies sold in 2008 in comparison to 2007 has been from 30 to 90% depending on the product. The situation is not that severe in console segment compared to PC gaming sector. The experts forecast that first signs of revival in games market will be seen in late 2009 or in beginning of 2010.³⁸

An example of a company in Russian games industry is New Disk. In the first half of 2008 company's revenue was 56.3 million dollars, earnings before interest 14,7 million and net profit 6 millions. 31% of profit was allocated to educational programs, 39% to games and 17% to games distribution for Nintendo.³⁹

2.5 Cultural tourism

Cultural tourism is one of the sectors, which is closely linked to creative industries and culture. Owing to its rich cultural heritage, Russia has a vast potential for developing culture-based tourism products. The main actor in tourism development in Russia is the Russian Union of Travel Industry. Especially its department, which is responsible for developing

³⁷ IKS Consulting (2008) *Igry: cifrovaja distribucija*. <http://www.iks-consulting.ru/topics/thematic/multimedia/>.

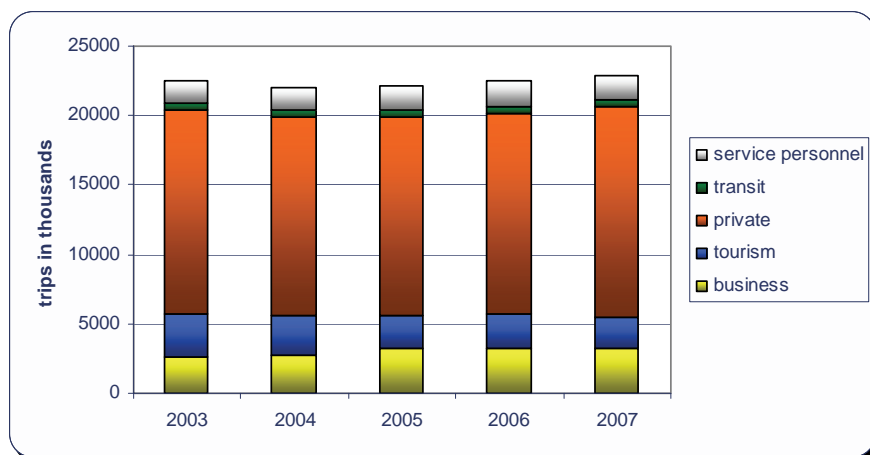
³⁸ *Kompjuternoe obozrenie* (2009) *Igrovaja industrija*. April-Mai. KRI-2009. 18th issue <http://ko-online.com.ua/node/42927>.

³⁹ *Ibid.*

tourism in St. Petersburg and other North-West Russia, has been active in promoting cultural tourism initiatives.⁴⁰

In a similar vein, Russian tourists form a potential clientele for cultural tourism products in other countries in the Northern Dimension area. According to a recent study conducted for the Finnish Tourist Board, Russian visitors value culture higher than foreign visitors in average as a criterion for selecting tourist destination. Moreover, Russians are more eager to visit museums, art exhibitions and historical objects.⁴¹ Cultural tourism is a phenomenon, for which practically no explicit statistical information is available. Its potential in the Russian context can, however, be analyzed on the basis of general tourism trends in the country.

The Russian tourism sector has been growing rapidly in the 2000s. In 2006 the Russian tourist market was valued at 80 billion EUR, which was a 25% higher figure compared to 2005.⁴² However, the growth in the Russian tourism sector has been mainly due to the increase in domestic demand. The amount of trips made to Russia from other countries has stayed consistently on the same level without showing any kind of development (see Figure 18).



Source: Rosstat

Figure 18: Total trips to Russia 2003–2007, 1000

As seen from the figure, a major share of incoming visitors to Russia represents the category “private” trips. This includes the visits to family, friends and relatives, which contribute little to the tourism industry income. This share is particularly great among visitors from the former Soviet Republics. The number of visitors categorized as tourists was in decline from 2003 to 2007, shrinking from 3.2 million to 2.2 million visitors. The economic

⁴⁰ Rata News (2008a) Kak razvivat' v Rossii kulturnyi turizm http://www.ratanews.ru/news/news_8102008_2.stm.

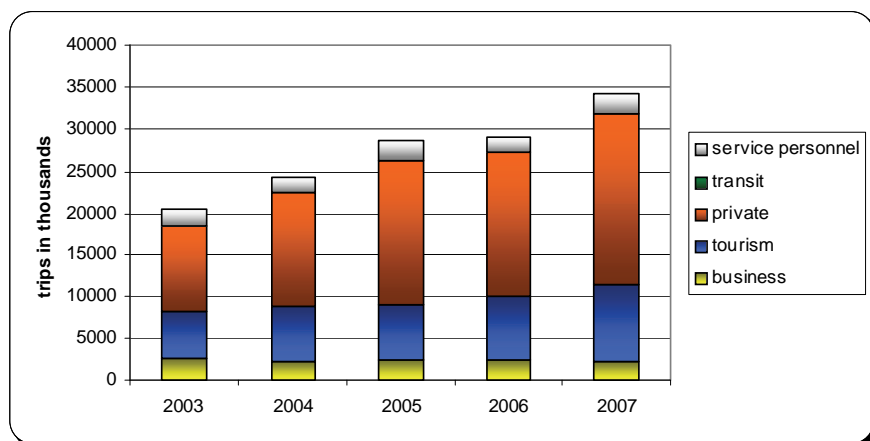
⁴¹ Eronen, Antti and Ruoppila, Sampo (2008) Ulkomaalaiset matkailijat suomalaisissa kulttuurikohteissa ja tapahtumissa. Net Effect Oy / MEK Publications A:162.

⁴² Russian Business (2008b) Turizm <http://www.rb.ru/biz/markets/show/84/>.

crisis has influenced especially the international segment of the Russian tourism market. The chief executive of Intourist, the company which is one of the most important Russian travel agencies, Alexander Artyunov estimated that Russian tourism market will fall by 40% in 2009. However, there have been positive signs in the development of domestic tourism. Due to the crisis people have less money to spend on trips and they do not go abroad as eagerly as earlier. Also travel agencies are turning their eyes towards domestic tourism to keep the costs reasonable. In 2009 domestic tourism segment was expected to grow by 5–10%.⁴³

Moreover, the international tourism to Russia is heavily concentrated to the two largest cities Moscow and St. Petersburg. It has been estimated that 80% of foreign tourists coming to Russia visit one of these cities. As for other touristic attractions the city of Sochi on the coast of Black Sea can be classified as both summer and winter touristic resort. At the moment the city is popular mainly among Russians but the fact that Sochi is the host of Winter Olympic Games in 2014 will surely give a boost for city’s touristic infrastructure development and international awareness among travelers. There is also so called Golden Ring of Russia which is a combination of touristic routes between eight historically significant Russian cities. As the city of Sochi also Golden Ring is mainly known among domestic tourists in Russia. In addition to these touristic attractions one can mention world’s oldest and deepest lake Baikal as well as numerous museum-national parks and museum-mansions across Russia.

In contrast, trips made by Russians abroad have shown a steady increase in the 2000’s as it can be seen from Figure 19. This is due to the rapid economic growth and increased income of the Russian population until the financial crisis.



Source: Rosstat

Figure 19: Total trips from Russia, 2003–2007, 1000

⁴³ Ibid.

In 2008 Russians made 36 million trips abroad. Tourist trips grew by 21% and amounted to 11 million trips. Consistently with the overall development also trips made by Russians to the Nordic countries Finland and Sweden showed growth. In 2008 there was a 14% increase in trips made by Russians to Finland. Also trips to Sweden increased by 10%.⁴⁴ The economic crisis has reflected negatively the Russian outbound tourism. According to recent statistics Russians made 22% fewer tourist trips abroad during the first quarter of 2009 compared to the same period in 2008. Total trips to Finland decreased by 5% and to Sweden by 7%.

In terms of tourism industry actors the Russian tourism market is still highly fragmented. In 2007 the 65 largest travel agencies had a combined share of only 10% of Russian tourism market. Some changes to the tourism legislation have been made in order to organize the sphere. In 2007 the tourism legislation was modified, including changes in the financial requirements for tourist firms and their registration procedure. According to the new law, tourist companies must provide a substantial monetary deposit as collateral or make an insurance contract in order to get a permission to operate. In addition, travel agencies are obliged to register themselves to a special governmentally maintained registry of travel agencies. Until these amendments there were around 10,000 companies offering tourism related services in Russia, whereas the number of companies registered to the new registry is a tenth of it.⁴⁵

Constantly developing technologies and the increasing usage of Internet have presented challenges for tourism industry world wide. The usage of Internet has resulted in more and more people arranging their trips independently. According to the director of Russian Museum, 46% of the 100,000 foreign visitors of the Russian Museum in 2007 came there independently.⁴⁶ Among Russian cities St. Petersburg has been the fastest to adapt to this change. St. Petersburg is the leading city in Russia selling touristic services online. Out of more than 400 hotels in St. Petersburg, about 170 offer online services for room reservation. This figure is comparable to European standards.⁴⁷

⁴⁴ Federal Agency for Tourism (2009) Statistika. http://www.russiatourism.ru/section_23/.

⁴⁵ Russian Business (2008b) Turizm <http://www.rb.ru/biz/markets/show/84/>.

⁴⁶ Rata News (2008b) Kulturnyi turizm v Peterburge. http://www.ratanews.ru/news/news_7022008_3.stm.

⁴⁷ Rata News (2008a) Kak razvivat' v Rossii kulturnyi turizm http://www.ratanews.ru/news/news_8102008_2.stm.

3. Basic bodies, laws and programs on culture in Russia

After giving an overview of the Russian creative industries in terms of market indicators, we next discuss the regulative environment for cultural activities in Russia. In this chapter, we introduce the state actors responsible for culture in Russia, and give an overview of the basic laws and Federal programs on culture.

3.1 Federal bodies in culture

The federal state is the main actor in the cultural policy of Russia. The President of the Russian Federation appoints members of the federal government, including the Minister of Culture and formulates principles and priorities of policies, which are then addressed to the State Duma. President has an advisory body called the Council on Culture and the Arts to assist him in the elaboration of cultural policy. The council was designed to keep the President in closer touch with cultural workers and the artistic community, and to discuss issues such as draft laws, awards and grants. Its members, which are appointed by the President, include prominent cultural administrators, artists and representatives of artists' unions. (see diagram of the federal bodies in culture in appendices).

The State Duma, together with the Federal Council, constitutes the Federal Assembly (the legislature), which adopts the federal budget drafted by the government, including the allocations for culture. The Federal Assembly elaborates and passes federal legislation. The State Duma has special Committees for Culture, for Ethnic Relations and for Information Policy, where laws are prepared for parliamentary discussion.

The Ministry of Culture was formerly called the Ministry of Culture and Mass Communication. However, the mass communication issues were recently transferred under a new Ministry of Communication and Mass Communication, which was established after Vladimir Putin was appointed as a prime minister in 2008. There are four agencies under the Ministry of Communication and Mass Communication; "Federal Agency for Supervision of Communication, Information Technology and Mass Communication", "Federal Agency on Information Technology", "Federal Agency on Press and Mass Communications" and "Federal Agency on Communication".

The ministry responsible for so called traditional culture is the Ministry of Culture, which elaborates and carries out federal cultural policy and

proposes legal provisions for culture and the arts, historical and cultural heritage and film. It is in charge of submitting the draft legal acts of the cultural sector to the government, of putting forward a sector proposal for the federal budget, and of providing cultural policy analysis. The Federal Archival Agency and the Federal Service for Supervision of Law in the field of Cultural Heritage are the subsections of the Ministry of Culture.

The Russian Federation incorporates 83 administrative and territorial units (subjects), with different political status: republics, krajs (provinces), oblasts, autonomous oblasts, autonomous districts and the cities of Moscow and St. Petersburg. In 2000, the federal subjects were clustered into seven federal districts, each of which is headed by the Plenipotentiary Representative of the Russian President. At the regional level, the committees of culture are in charge of formulating the regional laws on culture according to the principles of Russian federal laws.

The Public Chamber of the Russian Federation was established in 2005 according to a presidential initiative. It acts as a bridge between the government and public organizations, and involves the latter in the decision making. The Chamber has 17 commissions, including those for Cultural Development, for Preservation of Cultural and Spiritual Heritage, for Communication. The Commissions have rights to intervene directly in conflict situation and have access to expertise when developing legislation.⁴⁸

3.2 Federal Law on Culture

The promotion of artistic freedom and diversity was enshrined in the law on the Basic Principles of the Russian Federation Legislation on Culture, which was adopted by the State Duma in 1992. Most recent amendments were made into it in 2004. According to this law, a major responsibility of the state is to provide equal access to cultural values and opportunities to engage in cultural activities for all citizens. In addition, the promotion of artistic freedom and diversity is enshrined. The state defines the principles of the cultural policy and rules of law regarding the public support of culture. In addition, the non-interference of the state in creative processes is guaranteed in the law.⁴⁹

The Russian legislation describes cultural activity (*kulturnaja dejatel'nost'*) as “work to preserve, create, disseminate and teach cultural values”. Creative activity (*tvorčeskaja dejatel'nost'*) is defined as “making cultural values and their interpretations”.⁵⁰ There is no mention of the creative process; the focus is on its value and interpretation, not creation. The definitions pertain to activities that result from creativity rather than encompass it. Thus, when policy documents refer to “cultural activity”,

⁴⁸ Compendium of Cultural Policies and Trends in Europe, 10th Edition, 2009.
www.culturalpolicies.net/web/russia

⁴⁹ Russian Federal Law on Culture 2004, article 1.

⁵⁰ Russian Federal Law on Culture 2004, article 3.

this is understood by the government as meaning “valuing and interpreting (not making) culture”. In the Anglo-Saxon definitions, the emphasis is on creative industries, or on the social benefits of cultural participation, rather than “culture” per se. The British government defines cultural industries, “those activities that have their origin in individual creativity, skill and talent”. Thus, it makes the creative process the defining factor, while no mention is made of activities that follow from it.⁵¹

Thus, in the Russian legislation, the conservation and interpretation of national heritage is prioritized. There are no specific regulations of the possibilities of the non-governmental or commercial organizations to engage in culture. It is only stated that the cultural organization covers its costs with funds of the founder. Incomes from private activities, which are provided by the Russian legislation, are made possible. It is stated that, the cultural organizations have rights to the reception of gratuitous donations (gifts, grants) from domestic and foreign legal and physical persons.⁵² In the Law on Culture, the emphasis is on the state and local organizations of culture, which have also the right to conduct enterprise activity according to the legislation of the Russian federation.⁵³

The following section focuses on the implementation of the state cultural policy.

3.3 Federal Program on Culture and Mass Communications

The Law on Culture foresees the government to develop federal programs designed to promote and protect culture. The latest federal program, “The Basic Directions on the Development of Culture and Mass Communications” was adopted in 2008. It sets the general guidelines for the public policy in culture and the growth trends of the public media up to the year of 2015. One of the goals of the Russian Federation in the cultural field is the integration of Russia into global cultural processes. However, the first objective is to preserve the national cultural identity in an era of globalization and the main focus is on the CIS-countries⁵⁴. It is also promised in the guidelines to increase social equality and safeguard economic growth and maintain national security in the field of culture.

Contrary to the Law on Culture, the Program on Culture refers to the noncommercial sector. It is promised to have “the perfection of realization of the creative projects having noncommercial experimental charac-

⁵¹ Linda Moss (2006) Arctic Roll? Cultural Industries and Tourism Development in Russian Karelia: Can It Succeed. *The 60th Parallel Journal*. No 4 (23) December.

⁵² Russian Federal Law on Culture 2004, article 46.

⁵³ *Ibid*, article 47.

⁵⁴ The Commonwealth of Independent States (CIS) is a regional organization whose participating countries are: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

ter”. Also the private sector in culture is mentioned. It is promised to create conditions for adaptation of culture to the market conditions and the stimulation of the increase in the share of the private financing, including the use of the mechanisms state – private partnership and the developments of patronage of arts and charity. However, there are no more specific definitions or regulations on non-governmental or private sectors in the Federal Program on Culture.

The Program’s chapter “Preservation and development of the multinational cultural heritage of the peoples of Russia” includes a couple of sentences, which have connections to the creative industries. The perfection of the legislation in the view of specificity of maintenance of creative activity and the perfection of the conditions of a payment and a provision of the pensions of creative workers are mentioned. However, more specific definitions are not given. Furthermore, it is promised to develop a system of the state grants for support of outstanding cultural workers and creative collectives and talented youth. Finally, the introduction of modern forms of management and the perfection of a system of professional training of creative workers is mentioned. It will be seen in the future how the Program’s policies will be implemented, at least more specific law enforcement legislation is needed.

Next we move to analyzing the different actors in creative industries in Russia on the micro-level, i.e. discussing the nature of governmental, non-governmental and commercial organizations and their roles in the field.

4. Distinctions between governmental, non-governmental and commercial organizations in Russian cultural industries

Russia has been characterized by protective attitudes towards cultural policy and heritage in the 21st century. The nation-building and identity formation have affected the domestic as well as the foreign policy. Russia has wanted to restore its status as great power (*deržava*) in world politics. The cultural policy has been part of this policy and lacked of clear strategic visions.⁵⁵ After the year 1994, the state budget expenditure on culture fell significantly. (This will be discussed more in detail in Chapter 5.) At the same time with cutting the public money some institutional changes went through. The cultural organizations started to be characterized as governmental, non-governmental and commercial organizations.

It is typical for Russian cultural policies to draw a line between cultural (public) and commercial activities. This reflects the legislation. It is commonly regarded that art, heritage, patrimony and national culture are national treasures whose core identity must be preserved, without the commercialism, consumerism and global capital. Furthermore, it has been stated that culture and arts in the post-Soviet Russia have remained stuck between state dominance and marketization. It is typical that the cultural sector is mainly in the hands of large, traditional, long-established arts organizations supported by state funding and controlled by the administration that has remained intact from the Soviet period, despite political change.⁵⁶ Also the commercial sector, which is mostly oriented towards producing mass culture or appeasing the needs of the oligarchs and the emerging middle class, is not suited to foster cultural diversity in Russia at the present stage.⁵⁷

In Russia, market forces have had an impact in publishing, broadcasting, cinema and other media. However, the non-profit sector into which the most of the entrepreneurships on creative industries include remains underdeveloped. The major part of the non-state cultural enterprises has been for profit in Russia. This trend is different in many Western coun-

⁵⁵ Justin O'Connor, (2005): Creative Exports, Taking Cultural Industries to St. Petersburg. *International Journal of Cultural Policy*, Vol 11, No 1, p. 48.

⁵⁶ Moss 2007, 147.

⁵⁷ Lev Jakobson, Elena Koushtanina, Boris Rudnik (2000) The Emergence of the Nonprofit Sector in the Sphere of Culture in Russia. *Journal of Arts Management, Law & Society*, Spring Vol 30, p.1.

tries, where the independent non-profit economy constitutes a major part of the cultural economy.⁵⁸

After the collapse of the Soviet Union, the private cultural organization started to develop spontaneously, mainly as means of avoiding the dictates of government authorities and as means of pursuing the artistic vision and ideas of their founders. These private organizations did not emerge as a result of privatization or through conversion from state-funded organizations. Thus, independent cultural organizations that have been established directly through privatization are rare in Russia.⁵⁹ Once the transition to a market economy began, the new areas of culture that could form an obvious part of profit-driven growth developed rapidly. Unfortunately, the non-profit, socially motivated type of creative organization lacked the infrastructure for growth.⁶⁰

The cultural sector in Russia is still in the transition phase, in which the rules and regulations between the private and the public spheres are still unclear. The state has drastically reduced state funding to culture and at the same time hampered the ability of the state-funded institutions by placing legal restrictions on their commercial and entrepreneurial activities. Many cultural organizations are dependent on state subsidies, when they prefer to be defined as “cultural” and not “entrepreneurial”, because according to the laws, the private sector has difficulties in getting state subsidies or governmental loans.⁶¹ The legislation does not favor the commercial organizations in culture. Thus, it has been more beneficial to be either governmental organization or non-commercial organization, so called NGO. However at the moment “it is difficult to survive in a form of non-governmental organization”.⁶²

Elena Belova states that it is more beneficial for cultural organizations to function on a non-commercial basis because they receive more benefits than commercial enterprises. Also the committee for culture in St. Petersburg has a special program for non-commercial organizations where they can apply money for their project ideas.⁶³

The perceived distinctions between commercial and non-profit organizations are reinforced in Russia by the state law that uses the same distinction, giving tax and tax reporting advantage to the state-funded organization. Commercial activity by a non-profit organization is taxable, while for a state organization, it is tax-free. (The tax benefits enjoyed by the state organizations are discussed more in detail in Chapter 5.) Similarly, donations to a non-profit organization are taxable, but not so if the recipient is a state-supported body. Moreover, restrictions on what counts

⁵⁸ Moss 2007, 142.

⁵⁹ Jakobson & all 2000, 3.

⁶⁰ Moss 2007, 147.

⁶¹ Justin O'Connor, (2005): Creative Exports, Taking Cultural Industries to St. Petersburg. *International Journal of Cultural policy*, Vol 11, No 1, p. 48.

⁶² Interview of Vassily Pankratov, June 2009.

⁶³ Interview of Elena Belova, June 2009.

as non-profit are set by the state and are non-negotiable. This discourages the mixes of profit with non-profit activity in the same firm, which makes it difficult to take enterprising approaches to earned income for small mission-driven organizations. The non-profit organizations are allowed to have some commercial activity, but the commercial turnover is limited and the reinvestment of profit is highly regulated.⁶⁴ According to the Deputy Director of the Cultural Committee of the city of St. Petersburg, Vassily Pankratov it is impossible for the Committee of the Culture to give benefits for rent for example to commercial or even non-commercial company because of the federal law, which forbids it.⁶⁵

4.1 Non-governmental organizations

During the Soviet regime, culture was strictly controlled but some forms of self-organization in leisure activities and amateur arts existed that were not state-led or organized. The state even encouraged such initiatives as long as they were strictly nonpolitical. Usually, they were also affiliated to public institutions. By 1990, the Russian Ministry for Culture estimated that there were 65,000 cultural clubs.⁶⁶ These Soviet-era amateur associations and clubs can be considered as embryonic forerunners of the independent nonprofit organizations in Russian culture today.⁶⁷ According to the latest statistics, in 2006 there were 49,500 clubs⁶⁸ in the whole Russia, of which 43,700 were in rural areas and 5,800 in urban areas. The number of clubs has been in continuing decline since the year 1990.⁶⁹

Another type of non-governmental organizations in the field of culture are cultural networks – or professional associations – which started to emerge in the second half of the 1990's. Such networks united different organizations, aspired modernization and discussions about professional problems and exchanging experiences, etc. They included representatives of the state, independent organizations, and free creative professionals – artists, curators, critics. In some cases, such networks worked as independent organizations. As examples of these are the Commonwealth of museum workers of the Volga region (Tolyatti), Association “Open museum” (Krasnoyarsk), Association of museums Russia (Tula), inter-regional partnership “Automation of activity of museums and information technologies”, Association of the concert organizations of Urals Moun-

⁶⁴ Moss 2007, 150.

⁶⁵ Interview of Vassily Pankratov, June 2009.

⁶⁶ Moss 2007, 152.

⁶⁷ Jakobson & all 2000, 2.

⁶⁸ Clubs and related institutions comprise clubs, “homes and palaces of culture”, “homes” of creative workers, scientists, youth, teachers, medical doctors, agronomists, tourists, musical culture, technical crafts, national cultural centers and other types of recreational institutions oriented at cultural interests of particular professional, ethnic, age and sex groups and other sociodemographic categories of population. (Russia in Figure, 2008).

⁶⁹ Russia in Figures 2008. Federal State Statistics Services. www.gks.ru/wps/portal/english.

tains and Western Siberia (Yekaterinburg), and versatile associations, such as Association of the managers of culture of the North-west region “12+”. These professional associations of the third sector were essentially new and extremely important subjects in the sphere of culture.⁷⁰

Even during the most liberal periods of politics after the collapse of the Soviet period the attitude of the state to the organizations of the third sector has been guarded. It has been typical that the federal and regional officials have not been willing to cooperate with them. The impression has been that the professional associations have not been partners in the decision-making of cultural policy, but rather potential competitors. Regional authorities to some degrees are ready to discuss with the cultural networks in the administrative borders of the given territory, but as soon as there is an inter-regional aspect, the administration loses its interest.⁷¹

The development of the so called independent non-profit sector, which is typical for the creative industries in the west, is hindered in Russia by the government’s strict policy on NGOs in Russia in general. According to the Federal Law on Non-Governmental Organizations adopted in 1996, NGOs are organizations that do not aim to make a profit or to distribute any profit among their staff or members. NGOs may be founded to pursue a variety of social, charitable, cultural, educational, scientific, recreational, health, and spiritual goals. In 1997, statistics listed only 2,076 non-profit cultural organizations in the whole Russian federation. After the collapse of the one party system, cultural organizations developed in sporadic, an ad hoc way, often without any coordination or awareness that they constituted creative industries.⁷²

NGOs may take a variety of forms, such as social and religious organizations, associations, non-profit partnerships, institutions, autonomous non-governmental organizations, and foundations. In addition, the Law on Non-Governmental Organizations states that federal and local self-government body may provide various forms of economic support to NGOs such as provision of exemptions from taxes, custom duties and other payments. NGOs can also be granted other privileges, including full or partial exemption from payment for use of the state and municipal property. NGOs can also be awarded state and municipal social contracts on a tender basis.⁷³

Since Vladimir Putin came to power in the end of the 1990s; the non-governmental or the “third sector” has been in government’s control. President Putin called into question the legitimacy of foreign aid to NGOs and the state officials have taken a closer look at NGOs that receive foreign financing. The law on NGOs which came into force in 2006 has strengthened state control over the activities of non-governmental and

⁷⁰ Gnedovsky, M., Zelentsova, E. (2006): *Kultura v Rossii: Gosudarstvennii Proekt ili Graždanskie Initsiativi?* Cultural Policy Institute www.cpolicy.ru/analytics/gdedovsky_zelentsova.html.

⁷¹ Ibid.

⁷² Moss 2007, 147.

⁷³ Federal Law No 7 1996, “On-Non-Governmental Organizations”.

non-commercial organizations. Particularly, the registration requirements have toughened. The law establishes that a NGO can be denied state registration “if its goals contradict the Constitution and laws of the Russian federation, or create a threat to the sovereignty, political independence, territorial integrity, national unity and origins, cultural heritage, and the national interests of the Russian federation”.⁷⁴

President Medvedev approved amendments to the Law on Noncommercial Organizations (NCOs) in July 2009, which simplify the registration and the monitoring of the activities of these organizations. In particular, the law changes the forms and procedure for presenting NCOs accounts depending on the makeup of their founders, on the property and funds received by the NCO, and the source from which they were received. The document eases requirements for foreign NCOs. The document also stipulates that the operation of an NCO may be checked once every three years, instead of the current provision of once a year.

4.2 Small and medium sized enterprises in creative industries

There is little statistical data available on the small and medium sized enterprises (SMEs) in the Russian creative industries. Based on occasional data it has been noted that the number of creative firms employing fewer than 50 people has fluctuated wildly, for example from 1,500 in 2000, to 1,100 in 2001 in St. Petersburg alone. Also their contribution to the economy of Russia has never reached 2% of that of small enterprises.⁷⁵

The Tacis project “Creative industries, encouraging enterprise and creativity in St Petersburg” carried out during 2000–2003, exposed that although the amount of organizations such as design studios, art and craft galleries has grown, they are not seen as entrepreneurial structures are not able to look for government support offered to small businesses. Because these organizations are not in a position to make use of existing loan-provision schemes, they are unable to satisfy bank requirements. Also the placing of SMEs and non-profit organizations in strictly divided regulatory categories has hampered the development of creative industries in St. Petersburg. Elena Belova’s opinion is that non-commercial organization has more benefits than SMEs. The non-profit organizations can get some public financing, flexibility with taxes etc. At the same time, the SMEs face much more difficulties; they get higher interest rates etc.⁷⁶

However, recently there have been endeavors to facilitate the development of the small and medium sized business sector as a whole, which has been consistently left out of economic development strategies and hampered by over-regulation, over-taxation, and lack of finance. Presi-

⁷⁴ Federal law on Russian Federation of January 10, 2006, “On the Introduction of Amendments in a Number of Legislative Acts of the Russian Federation”.

⁷⁵ Moss 2007, 148.

⁷⁶ Interview of Elena Belova, June 2009.

dent Medvedev has set the development of SME sector for special attention. The falling of the oil prices has raised the debate on the dependency of Russia on raw materials and in this regard, the entry of alternative forms of incomes, like the development of the SME sector. The government has promised that state aid to small businesses will be in 2009, 10.5 billion rubles.⁷⁷ Also in the cultural sector, the development of the SME has raised interest among the government's officials. In March 2009, the Ministry of Culture gave an order (*prikaz*) to set up a working group to elaborate the prospects of economic growth of the SME in the sphere of culture.

The most prominent endeavor to facilitate the SME sector is the new Law on the Development of the Small and Medium Sized Enterprises in the Russian federation, which came to force in 2008. It brought the definition of different categories of SMEs (micro, small and medium-sized) more in line with international SME classifications. One of the aims was to ensure that the small business classified as SME is "real", because it has been common to demerge small companies from the parent company in order to benefit from the simplified taxation procedures and other SME benefits.⁷⁸ However, the new classification does not cover individual entrepreneurs, who do not have any employees in their payroll. As a consequence, it is difficult to estimate the volume of creative entrepreneurship and small business in Russia as a whole.

The SMEs in creative industries need to cope with the same challenges as other Russian SMEs. The rising costs of entering the market and maintaining a business in Russia have been major obstacles to the growth of the SME sector. Excessive bureaucracy and corruption have been a problem for a long time. Bribes demanded by federal agencies, courts and police are still named by businessmen as one of the major problems. According to the new law on SMEs, the government pledges to grant "equal consideration" to companies when distributing support programs although it is not stated in the law what the support programs are. The law mentions also tax credits, loosened accounting rules, financial and IT support etc. However, the implementation of these is still unclear.⁷⁹

Moreover, the global financial crisis has made the problem of getting reasonable-priced external financing even more acute for Russian SMEs. Elena Belova states that it is very difficult for the small and even medium sized enterprises to receive funding from the banks, because of the high interest rates at the moment. The current economic crisis has affected badly especially companies in the creative industries. In addition to that, there have been problems for establishing special support centers which maintain the SME sector in St. Petersburg.⁸⁰ However, also before the

⁷⁷ Heinen & all 2009, 11-12.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Interview of Elena Belova, June 2009.

financial crisis companies had difficulties in getting bank loans. According to the survey carried out in 2007 in St. Petersburg, 70 percent of companies had not applied for a bank loan. The high interest rates and the lack of collateral security have been the most common reasons for that. The problem is often the lack of collaterals, which is even more acute in creative industries, where the property of the firm is usually of immaterial nature. As a consequence, Russian small and medium sized companies finance their investments and business growth in the most part, by revenue funding. This has become difficult because of the decrease in demand affected by the financial crisis, when the cash flow of the companies has diminished. Thus, the main problem caused by the financial crisis is the drop in demand, which in February 2009 affected more than half of the companies.⁸¹

On the other hand, piracy and trademark infringement is a frequent problem in Russia. Although the Russian legislation concerning intellectual property rights (IPR) has developed considerably in the recent years, there are still gaps in its enforcement. This obviously hinders the development of creative business, which is often based on the creation and selling of intellectual property rights.

According to Nina Oding from the Leontief centre, “Creative industries are not on the agenda in the functions of ministries. From time to time, Ministry of Culture is interested, from time to time it is connected with small and medium size enterprises belonging to cultural sector, non-governmental or whatever.”⁸² Elena Belova states that one of the problems for promotion the creative industries are the continual changes in the regional committees: “People are coming and it is really hard to keep all these beautiful ideas in place, because every time we have chances”.⁸³ However, according to Belova, the Ministry for Economic Development and Trade in the federal level is very interested and has put the creative industries on its agenda.

⁸¹ Heininen & al. 2009, 19–21.

⁸² Interview of Nina Oding, June 2009.

⁸³ Interview of Elena Belova, June 2009.

5. Financing of cultural organizations in Russia

As discussed earlier in this report, the cultural sector in Russia is relatively dominated by state organizations. Respectively, the state is a major funding source for cultural organizations. It has been typical that the state cultural institutions can get budget allocated money without much effort. The state funding for cultural organizations has, however, been drastically reduced in the post-socialist era. Real reductions in government spending on culture began after 1994. The amount of government funding in constant prices dropped by almost half by 1998, reaching just 53 percent of the 1992 level, then it rose to 72 percent in 2000. In 2001 it fell below the 1998 level, to 45 percent.⁸⁴ There are no available statistics on culture as share of total central government spending, but government expenditure on culture per capita was 30.87 euro in 2005. The share of spending on culture by central government was 30.95% in 2005.⁸⁵

In spite of the reduction in budget allocations in culture, budgetary funds remain the most important source for development of the state non-profit cultural institutions. In 2000, they amounted to 63.5% of total income for theatres, 75.5% for museums and 66.5% for concert organizations.⁸⁶ These subsidies are usually very scarce, but they are guaranteed, which makes the state cultural institutions quite reluctant to realize market strategies in the field of cultural management. However, the non-governmental organizations in culture have sometimes managed to implement more successful projects than those executed by subsidized institutions.⁸⁷

In parallel to direct budgetary support, a new award system in culture was developed at the federal and regional level in 2000 in which the state grants and awards are given to well established and renowned institutions, prominent artists and companies in order to support high quality productions. The Russian president provides the most prominent grants for theatres, orchestras, higher art schools etc. Also the smaller (200–250 thousand RUB) presidential grants are proposed for particular projects.⁸⁸

⁸⁴ Gasratian 2004, 29.

⁸⁵ <http://www.culturalpolicies.net/web/index.php>.

⁸⁶ Gasratian 2004, 32.

⁸⁷ Andrey Deriabin (2009): Russia's Cultural NGOs: Seeking Affordable Independence. Depo, <http://www.depo.org.ru/english/news/140>. 28.7.2009.

⁸⁸ Compendium of Cultural Policies and Trends in Europe, 2009.

In addition, Ministry of Culture provides grants in culture. Independent organizations have been allowed to compete for these grants since the year 1993. Although the opening of this program of grants to non state cultural institutions was an important step in improving the government/nonprofit relationship, the program has number of problems. The volume of financial resources is rather limited and the public organizations in culture are usually favored in the decision procedures.⁸⁹

On the regional level, the local authorities have had the right to make independent decisions about how to distribute funds for culture since 1992. They are allowed to establish additional benefits for nonprofit institutions' regional and local taxes, fees, duties, and other mandatory payments to regional budgets.⁹⁰ Hence, various tax benefits granted to state and municipal nonprofit cultural institutions can be considered as an important form of non-direct state financing for culture. According to the law, such organizations are exempt from land tax, tax on property used for cultural needs and VAT. Various tax benefits have been also established for utility payments and rent. These also apply to independent artists. Moreover, there are benefits on customs duties and loans, and loans may be raised with government backing. Besides of providing paid services as part of their core operations, state nonprofit cultural institutions were permitted to supplement their income with certain types of commercial operations, such as renting out unused rooms and raising charitable donations. All in all, sponsorship and other assistance activities consisted of only 3.1% cost of Russian theaters in 2000.⁹¹

The basic source of the financial support of the independent organizations in the second half of the 1990's was foreign charity funds. It caused additional suspiciousness in the authorities. In some regions there was a private prohibition on the reception of the grants from the foreign organizations. At the end of 1990's and the beginning of 2000's, the third sector in culture could count on support from the western philanthropists, but since 2003 practically all accessible channels of financing have been blocked: Soros Foundation was closed down in Russia, Ford Foundation fund has practically stopped the delivery of new grants, and other funds have excluded culture from other priorities. In addition, the Ministry of Culture and the majority of regional administrations were extremely reluctant to cooperate with NGOs. Also the new budgetary code adopted in 2003 has put the activity of the state organizations in the rigid frameworks controllable by the Exchequer. Thus, it has become difficult for the independent noncommercial organization of culture to operate without influential "patrons", i.e. without organizations providing them with sponsorship, protection, space and financial support.⁹²

⁸⁹ Jakobson & all 2001.

⁹⁰ Gasratian 2004, 36.

⁹¹ Ibid, 31.

⁹² Gnedovsky, Zelentsova 2006, 5.

The foreign donor organizations have to some extent been replaced a new type of funding body, Russian foundations, which focus on supporting culture. Such foundations have been established either by the state, or prominent businessmen (often called the *oligarchs*).

In June 2007 President Putin signed a decree establishing the Russkiy Mir Foundation, for the purpose of “promoting the Russian language, as Russia’s national heritage and a significant aspect of Russian and world culture, and supporting Russian language teaching programs abroad.” The Foundation is a joint project of the Ministry of Foreign Affairs and the Ministry of Education and Science and supported by both public and private funds. Primary focus of the Russkiy Mir Foundation is providing grants and sponsoring competitions in support of the Russian language, Russian culture, and organizations representing the Russian world. It works directly with Russian organizations based outside Russia, and other non-governmental organizations operating through a variety of diaspora groups, education centers, universities and schools where Russian is taught.

An example of a private foundation is the Vladimir Potanin foundation, which was registered in 1999. It was established for implementation of socially significant long-term projects in the sphere of domestic education and culture. It is a private foundation with budget financed by personal assets of Vladimir Potanin and those of the “Interros” Company. It promotes the development of strategic philanthropy and recognition of active and creative professionals. The Foundation cooperates with those who are capable of changing themselves and are ready to make their contribution to the development of Russian society. The Potanin foundation shapes a social milieu, which values creativity, professionalism and proactive volunteer workers. The foundation primarily focuses on the implementation of long-term scholarship and grant programs. They are aimed at talented young students of the country’s major state educational institutions, as well as at talented teachers. Culture supporting projects are also of importance for the foundation, which aims to encourage vocational and creative growth of the Russian museum society. Grant Contest “A Changing Museum in a Changing World” was jointly launched in 2004 by the Vladimir Potanin Charity Fund and the Association of Culture Managers. The Contest aims at supporting and promoting the best projects and managerial solutions in the museum sphere. The total amount of grants allocated for the contest in 2004–2005 was raised up to \$285,000 with the maximum amount of a single grant being \$25,000. The Vladimir Potanin foundation strives to support innovations of pro-active and creative museum professionals with potential for cultural breakthrough. The Foundation annually awards over 400 grants and 2300 scholarships. The Vladimir Potanin foundation is a member of the European Foundation Centre and a founding member of the Russian Forum of Donors.⁹³

⁹³ See: <http://eng.fund.potanin.ru/about/>.

The Mikhail Prokhorov Foundation is another Russian private charity established in 2004. It carries out nationwide and international activities, as well as local projects in the Krasnoyarsk region, the Urals, Siberia, the Russian Far East, and in the industrial area of Norilsk. The long-term goal is to promote Russian culture and further its integration into global context. The concept of the Foundation is based on a broader notion of culture, its borders, and its social functions. This modern idea of culture determines the key activities of the Foundation, which include: initiatives in arts, science and education, the development of mass media, urban environment, sports and public health. The activities of the Foundation are based on the belief that a better life of the society is conditional upon its cultural level. Geographically, the Foundation tries to localize its activities to reflect the uniqueness and specific needs of the communities concerned.⁹⁴

⁹⁴ See: <http://www.prokhorovfund.ru/eng/>.

6. Future and potential of the creative industry in Russia

The UNCTAD Creative Economy report 2008 states that over the period 2000–2005, international trade in creative goods and services experienced an annual growth rate of 8.7% and the future growth of that sector is expected. Nowadays, in the most advanced countries, the creative industries are emerging as a strategic choice for reinvigorating economic growth, employment and social cohesion. Also some developing countries, mainly in Asia, have started benefiting from the dynamism of the global creative economy and are enhancing their creative industries. China, which is leading this process, became the world's leading producer and exporter of value-added creative products in 2005. However, the large majority of the developing countries are not yet able to harness their capacities for development gains because of the combination of domestic policy weaknesses and global systemic biases.⁹⁵

Like many other countries in transition, Russia has not yet wholly understood the economic aspects of creativity and the way it contributes to entrepreneurship, fosters innovation, enhances productivity and promotes economic growth. However, the figures provided by UNCTAD show that creative industries already comprise quite a prominent role in the Russian economy. According to the statistics, creative industries in 2005 comprised 7.3% of national employment and their contribution to GDP in Russia was 6.06%. In the US, these figures were 8.5% of national employment and 11.1% of GDP.

One incentive to develop creative economy is Russia's innovation potential which is said to be greater than most other countries at comparable level of GDP per capita.⁹⁶ Russia benefits from a substantial science base and well developed education system in science and technology. However, indicators of actual innovation activity remain disappointing. There seems to be an imbalance between the public resources devoted to knowledge creation and the observed outputs in terms of innovation as well as stimulating greater private-sector involvement in research and development, which remains limited. The lack of engagement between the science sector and business contributes to relatively poor performance with respect to innovation outputs. One indicator of this weakness is the relati-

⁹⁵ Creative Economy Report 2008. The Challenges of Assessing the Creative Economy: towards Informed Policy-making. United Nations, UNCTAD 2008.

⁹⁶ In 2004, the total R&D spending in Russia amounted to approximately 1.2% of GDP. While far below the OECD average, this compares favorably with R & D spending in most emerging economies. (Gianella, Tompson 2006, 5).

vely small number of patents held abroad.⁹⁷ Russia has been recommended to support more market oriented innovation development and commercialization of innovations, by means of development for instance public-private partnerships, in order to make the innovation process more effective.⁹⁸ This would promote also the creative economy sector.

The future development of the social and economic institutions in Russia will provide additional opportunities to develop the creative industries and extend the business value chains. At the same time the business opportunities of the creative industries will get broader understanding. The Russian people appreciate culture and are involved in its production and enjoyment. Russian opera, ballet and symphonic music are well known all over the world, but small and medium-sized players are in many ways unseen because of the strong social priorities set up the social structures and on the other hand, the general slowness of social and political change. The future development of the financial instruments world wide would create the right kind of impetus to the sector, particularly among the small and medium-sized enterprises. This in turn would help the Nordic creative industries for internationalization and broader visibility, and having broader operating environment.

There are great cities in Russia with outstanding cultural life and the concept of "creative city" has already got some understanding especially in St. Petersburg. There is widespread recognition of the significance of tourism for development and the rise of the amount of tourists has grown steadily in St. Petersburg. However, it is admitted that by supporting small-scale cultural producers together with appropriate institutional support for the development of culture-related SMEs could diversify the creative economies in St. Petersburg.⁹⁹ The Tacis project survey of "Innovative Funding for Stable Cultural Development in the North West of Russia" discovered that, creative industries are poorly developed in St. Petersburg in particular, contemporary art, popular culture and "life style" sectors. Small and creative businesses are growing in the cultural sector of St. Petersburg, but in comparison with e.g. Paris and Barcelona the differences are still high.

Cultural clusters, which would act as a hotbed for new businesses in creative industries by hosting a variety of activities, are still at their development stage in Russia. There are already in some regions of Russia examples of creative clusters and centers, as well as the communities of independent non-commercial businesses. Usually they are located at the former factories in the city center. These centers operate without government support and funding.¹⁰⁰

⁹⁷ Christian Gianella, William Thompson (2006): Stimulating Innovation in Russia: The Role of Institutions and Policies". Economics Department Working Paper no 539. OECD, p.5.

⁹⁸ World Bank. Russian Economic Report No 13. 2006.

⁹⁹ O'Connor 2005, 56.

¹⁰⁰ See: www.creativeindustries.ru.

Linda Moss stated that in some areas there has been more development in non-metropolitan areas in creative industries than in the big cities. In the republic of Karelia, the local politicians have been able to pursue local initiatives without federal interference, for example. The Centre for Cultural Initiatives, which is mainly funded by Ministry of Culture of the Republic of Karelia, is an active organization.¹⁰¹ The main role of the centre is to develop links between cultural and tourism agencies, but it also runs seminars for cultural managers, maintains web information about cultural sites in the republic of Karelia and has active international relations especially to the Nordic countries.¹⁰²

Deputy Director of St. Petersburg's Committee for Culture Vassily Pankratov's opinion about creative clusters and centers is that it is difficult to create a cluster without a territory or a venue which could house these clusters. Usually, these places are linked to industrial areas like in Britain. In St. Petersburg all industrial areas are private. Pankratov said that the city government of St. Petersburg has tried to buy back some of these privatized buildings in order to create a cluster, but without success. As an example of a cluster, Pankratov mentioned a special fair on Nevski Prospect "Dela Ruk", which was organized in a couple of weekend during June 2009. However, in July 2009 the officials of the city decided to close the fair. It was a place where artists could sale their products like crafts, souvenirs and gifts. Also exhibitions, concerts and spectacles were taking place during the fair. The organizers had difficulties in getting the permissions for the fair from the city government and there was a lot of bureaucracy and suspicion that they make good profit. First they tried to rent an industrial area for their activities, but without success.¹⁰³

One solution to promote the creative industries sector would be to increase the education of cultural management. In the Soviet period, policy-making was divorced from management, so integrated approaches to policy, marketing and management were not established among senior staff. Typically, Russian cultural management educational courses focus upon a technical approach to the methods of cultural management rather than on the rationales of cultural policy-making and the centrality of marketing to policy on arts enterprises. The barriers to enterprise in transitional economies arise from educational systems that do not stress entrepreneurial skills, as well as from low expectations of entrepreneurship among some sectors of the population.¹⁰⁴

It has been stated that the social creative enterprises have vast potential to offer a new variety of employment and enterprise opportunities in societies moving away from paternalistic state-funded provision. These

¹⁰¹ See: <http://develop.karelia.ru/?lang=eng>.

¹⁰² Moss 2007, 147.

¹⁰³ Interview of Vassily Pankratov, June 2009.

¹⁰⁴ Moss 2007, 143–150.

social creative enterprises can offer a new variety of employment and enterprise opportunities, which is more open to minorities and women.¹⁰⁵

The Tacis-project “Innovative Funding for Stable Cultural Development in the North West of Russia” carried out during 2000–2003 discovered that most of the organizations in the North West of Russia are dependent on the state funding, as well as grants of the international foundations. Culture is typically seen as the loss of a productive area of the state budget. Its’ ability to influence economic growth, for example, the increase in investment, tourism development etc. are not taken sufficiently into account. In spite of an increase in business in the area of culture, design studios, art and handicraft galleries are not seen as entrepreneurial bodies, and therefore they can not apply for governmental aid. They do not either attract private companies to support their activities. Thus, they need more innovative and flexible forms of support.¹⁰⁶

¹⁰⁵ Ibid, 144.

¹⁰⁶ Elena Belova, Timo Cantell, Susan Causey, Elena Korf, Justin O’Connor (2002) *Creative Industries in the Modern City. Encouraging Enterprise and Creativity in St. Petersburg*. Tacis Cross Border Cooperation Small Project Facility, p.8.

7. Expert opinions about the future of creative industries in Russia

A number of Russian experts in the field of creative industries were interviewed for this study. This section summarizes their views concerning the future development perspectives and current challenges of creative industries in Russia.

The director of the Moscow-based Cultural Policy Institute, Mikhail Gnedovsky believes in the growth of the creative sector in Russia, although, at the moment the sector suffers from low priority on policy agenda in education, in media, in the field of employment and career opportunities and even among the creative professionals. He states that the core participants in the creative economy in Russia are small and medium sized creative businesses, non-governmental and not-for-profit organizations and the independent creative professionals.¹⁰⁷

Gnedovsky points out that the Russian state should develop an articulated policy aimed at supporting the sector. He thinks that it is important to keep the traditional cultural institutions at the arm's length distance from the government, thus increasing their independence, despite the fact that the financial aid of the government would reduce.¹⁰⁸ Gnedovsky presumes that the development of creative clusters could be seen as a policy priority, as it is the case with the techno parks. The biggest difference is that the techno parks can be built outside the cities, in the green fields, while the creative clusters form an organic part of urban environment and can be also used for urban regeneration.¹⁰⁹

The head of the development department of St. Petersburg based Leontief centre, Elena Belova wishes that Russia accepts EU's Neighborhood and Partnership Instrument (ENPI), which will be the main financial instrument of EU for supporting partnership implementation with Russia: "Certainly we are planning to use this Baltic Sea Program of EU as a good resource for going ahead with all our pilots because we really need still to lobby very actively this theme among our authorities just to put it on the agenda as a priority direction, very competitive direction. Just to develop this cluster, creative industries cluster as the competitive cluster,

¹⁰⁷ Mikhail Gnedovsky (2009) Creative Industries in Russia: Points of Entry. Presentation t the Nordic Cultural Forum, Creative Economy in Northern Europe, Northern Dimension Partnership on Culture, Helsinki 11–12 September.

¹⁰⁸ Mikhail Gnedovsky, Elena Zelentsova, E. (2006): Kultura v Rossii: Gosudarstvennii Proekt ili Graždanskie Initsiativi?" Cultural Policy Institute. www.cpolicy.ru/analytics/gdedovsky_zelentsova.html.

¹⁰⁹ Ibid.

not as a donation part of activities, but really as a very important sector for St. Petersburg's economy."¹¹⁰

The deputy director of the St. Petersburg city government's Committee of Culture, Vassily Pankratov is worried about the situation of creative industries in Russia because there is no clear definition for them. "I was in charge of preparing the major concept of developing cultural policy in St. Petersburg region (in 2005–7). I tried to involve the cultural industries as one of the key factors, but I had no result because you know the juridical committees at all levels they just stopped it, because there is no definition, there is no exact explanation of what it is...The problem is not to give money to cultural industries sector, the problem is that there is no definition for the cultural industries sector at the moment in the legislation. It should be decided on the federal level or at least should be initiated by the city government, but not the cultural committee of a city."¹¹¹ Pankratov thinks that Russian cultural sector is traditionally much segmented like music, theatre, museums, arts, visual arts etc. Creative industries embrace all these, but at the moment there is not understanding or political will for developing the creative industries as such. He states that the concept "creative industries" is mentioned already in official documents, like in the program that develops St. Petersburg until 2025, but that concrete actions supporting the sector are lacking. "There is no special program for creative industries in Russia at the moment."¹¹²

In Gnedovsky's opinion the creative industries are atomized and do not form a unified field in Russia. Creative professionals do not see themselves as members of one "creative class". Reason for the poor integration is not merely the lack of clear policies towards the creative sector at the federal, regional and municipal levels, but also lack of cohesion within the creative sector itself. The sub-sectors are isolated from each other and, for example, a graphic designer would not feel affinity with the multimedia product makers. Therefore, the "internal PR" is as essential for the growth and unification of the field as the political will.¹¹³

However a more positive picture of the potential of the creative industries in Russia is given by the most popular author of creative industries in America, Richard Florida who has written the widely known book "The Rise of The Creative Class". His descriptions of the emerging "creative class" in society is a cohort of professional, scientific and artistic workers whose presence generates economic, social and cultural dynamism, especially in urban areas. The creative class includes people in science and engineering, architecture and design, education, arts, music and entertainment whose economic function is to create new ideas, new technology and

¹¹⁰ Interview of Elena Belova, June 2009.

¹¹¹ Interview of Vassily Pankratov, June 2009.

¹¹² Ibid.

¹¹³ Gnedovsky 2005, 6.

new creative content.¹¹⁴ Florida wrote in his newspaper column after visiting Russia that creative industries have good prospects in Russia because, “young Russians are well aware that they are part of a global economy, a global lifestyle and growing global class... with the international distribution of television and movies, the boom in Internet and social media, the country’s young people are participating in cutting-edge trends...a truly global creative class has emerged and is growing.”¹¹⁵

¹¹⁴ Richard Florida (2002): *The Rise of the Creative Class: And How it is Transforming Work, Leisure, Community and Everyday Life*. Basic Books.

¹¹⁵ Richard Florida (2008): *Russia’s youth ready to embrace the dawn of a new era*’. *Social Science: The post-Superpower World* 27.12.2008.

8. Discussion and conclusions

We conclude the report by summarizing the main findings of the study and presenting a SWOT analysis of the Russian creative industries. Figure 20 presents the strengths, weaknesses, opportunities and threats that we identified in the study.

Strengths	Weaknesses
<ul style="list-style-type: none"> – Large domestic market for creative goods – Strong cultural heritage – High innovation potential due to good science and education base – Emphasis on culture by Federal authorities – Russian opera, ballet and symphonic music are well-known all over the world – Grass root activity on local level (cultural clusters) 	<ul style="list-style-type: none"> – Creative industries are not recognized in national policies or legislation – Russian government is not interested in cultural exports – Legislation does not favor commercial enterprises in culture – Lack of law enforcement procedures in the cultural sector – The state-funded institutions in culture encounter legal restrictions on their commercial and entrepreneurial activities – Foreign investments are undermined by state officials – Piratism and weak IPR protection
Opportunities	Threats
<ul style="list-style-type: none"> – Promotion of creative businesses as part of SME sector – Good opportunities for cultural tourism based on national diversities – Big cities with opportunities to come growth centers for creative businesses – The long Russian experience of networks and mutual help may prove a useful ground for establishing networks for creative industries – Young Russians are well aware being part of global lifestyle and growing global class 	<ul style="list-style-type: none"> – Protective attitude towards culture – Negative attitude towards globalization – Foreign innovations are not welcomed – Innovation activity sinks – Not enough stimulus for private-sector involvement in research and development – Government's strict policy on NGOs continues – The general slowness of social and political change – The non-profit sector remains underdeveloped

Figure 20: SWOT-analysis on creative industries in Russia

Starting from the definition of creative industries, the fact that the concept is somewhat vague even in the international discussions shows also in the Russian context. The creative industries in Russia are described as “atomized” and creative professionals do not see themselves as members of one “creative class”.¹¹⁶ Moreover, this ambiguity is reflected in the lack of clear policies towards the creative industries sector at the federal, regional and municipal levels. In the absence of an explicit definition for

¹¹⁶ Gnedovsky, 2005.

creative industries in the legislation, authorities have limited opportunities to target support for this sector. In addition, the Russian trade policy is somewhat contradictory to the basic idea of creative economy, which emphasizes the importance of creative industry exports. The Russian government shows rather cultural protectionism than the promotion of international trade in this sphere. This reflects the overall attitude of the country towards the liberalization of foreign trade, a concrete manifestation of which is the reluctance of Russia to enter the WTO.

In view of statistics, creative industries in Russia have however, shown growth in the recent years. The creative industries' contribution to GDP and national employment in 2005 was in Russia higher than for example in the neighboring Finland. In contrast, when foreign trade in creative goods and services is measured in per capita terms, Russia is way behind the other countries of the Northern dimension area. The growth in creative industries in Russia can in part be explained by the growth in the leisure industry segment. Traditional culture, representing museums and theaters, for example, has remained practically unchanged in terms of number of establishments. Their revenues have, nevertheless, grown substantially due to the rapid increase in the prices for cultural services.

Of the individual segments of creative industries, the Russian film industry is characterized by somewhat contradictory tendencies. The number of cinema visitors has remained the same, but the box office income has increased due to rising prices. The Russian film production has suffered from the economic crisis. The sector has traditionally been heavily supported by the state and under the crisis the role of the state is even expected to increase. The sector has a bi-polar nature – a handful of films makers solid profits whereas the majority of films do not make profit at all or can not even make their way to the movie theaters.

The games industry, which is one of the locomotives in the global creative industry, is developing vividly in Russia as well. The state has started to pay attention to this sector as well by founding a national game body in 2009. The Russian game market is skewed towards PC games, whereas console games are less popular than in some other countries.

Another potential sector for Northern Dimension cultural partnership, cultural tourism, provides potential both in terms of attracting visitors from Russia and developing Russia as a destination. Russian tourists visiting foreign destinations are often oriented towards culture and interested in history and cultural objects. Similarly, Russia has a vast cultural heritage, which offers possibilities for the development of cultural tourism destinations. So far this potential remains somewhat unexploited as the most foreign tourists limit their visit to two major cities Moscow and St. Petersburg.

The state regulation for the creative industries does not as such prevent the participation of any type of organizations in creative business. However, there are some indirect disincentives to such activity. First,

most cultural organizations are still state-owned and their participation in commercial activities is somewhat restricted in the law. On the other hand, state institutions enjoy tax and other benefits, which put them more advantageous position vis-à-vis commercial organizations. As a consequence, cultural organizations prefer to be defined as “cultural” and not “entrepreneurial”, because according to the laws, the private sector has difficulties in getting state subsidies or governmental loans. Second, the so called independent non-profit sector, which is typical for the creative industries in the west, is not working well in Russia. This is due to the state policy towards NGOs, which has become stricter in the 2000’s. As a consequence, many foreign donor organizations, which have been a major source for financing for NGOs, have left Russia. Third, the development of small businesses in creative industries is hampered by the same problems as the SME sector in Russia in general. The problem of financing is particularly acute for firms, which do not have physical property to be valued as collateral for loan. In addition, excessive bureaucracy and corruption plague the sector.

Finally, despite the challenges described above, the future of Russian creative industries looks promising. The development is in some sense going in the same direction as in the West, for example cultural centers and some clusters have started to emerge in the metropolises and the regions as well. In addition, regional governments, for example in St. Petersburg, have included the creative industries in their regional development strategies. Moreover, there is a rich cultural life, and a solid science and education base in Russia, which provides a basis for the development of new innovations in the field of creative industries. The exploitation of this potential can benefit not only the Russian economy but the Northern Dimension area as a whole.

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Appendices

Actors and bodies of creative industries in Russia

Leontief Centre (www.leontief.ru) is an international research center, which was founded in 1991, by the mayor's initiative of St. Petersburg. The center is an independent, non-profit research and consulting organization, which has over the years grown into a significant research center. Since 1996 Leontief Centre has been responsible for the organization, management and monitoring the Strategic Plan for St. Petersburg. It has played a major role in the development of SME's as a key element in economic and social reform, including the setting up of support funds and other infrastructure institutions. Leontief-centre participated in the Tacis-project "Creative Industries Development Partnership", together with the cities of Helsinki, Manchester and St. Petersburg. The project was carried out during the years 2000–2003.

Cultural Policy Institute (www.eng.cpolicy.ru) was established in Moscow in 2002, as an independent agency providing consultancy, research and project development services. It was initially supported by Soros Foundation and, later, by various Russian and foreign charities. The institute aims to study culture as a resource of social development; foster partnerships between culture, business, government and society; promote the idea of creative industries and cultural entrepreneurship; encourage cultural networking; propose innovative cultural strategies; and develop new approaches to the information exchange, public relations, management, marketing and fundraising in the cultural sector. The Cultural Policy Institute has developed projects in collaboration with various cultural organizations in Russia, as well as foreign organisations, such as Comedia, Euclid and Arts and Business of the UK. In 2003–05 the Institute, in collaboration with the Council of Europe, developed a programme on creative industries development in Russia. The director of the institute is Doctor Mikhail Gnedovsky.

Creative Industries Agency (www.creativeindustries.ru) is an independent nonprofit organization working in the field of creative industries development in Russia. It implements research, consulting and education projects. The board of the agency comprises of professors, directors and other cultural persons from various universities and art centers. The Agency with the support of Oxford Russia Foundation conducts the Summer School "Creative industries" for the students of Russian regional universities. The Agency is running a new specialization "Creative industries" as a partner of the Cultural management faculty of the Moscow School of Social and Economic Science. The director of the agency is

Doctor Elena Zelentsova. The Agency cooperates with Russian and foreign institutions, among them Cultural Managers Association, Centre for contemporary art Winzavod, Project “Fabrika”, Centre for contemporary culture GARAGE, the German cultural centre (Goethe-institute), Tom Fleming Creative Consultancy, Open Society Institute, Oxford Russia Foundation and many others.

Institute for Cultural Programs (ICP) (www.spbculture.ru) is a state organization for culture and education. It was established in 1993 by the St. Petersburg Committee for Culture of the St. Petersburg City Government. Created in response to social demand for cultural information and education, the institute receives its funding from the city budget as well as federal and international grants. The institute's primary mission is the marketing of St. Petersburg's culture, including expertise, analysis, evaluation and other marketing researches in the sphere of arts and culture for the implementation of the city cultural policy. The institute works in the fields of information and continuing education, providing assistance in professional communication, personnel managing and public relations. The institute develops and coordinates local, regional, federal and international programs. ICP provides the work of St. Petersburg Toponymy Commission. The institute for Cultural Programs develops main areas of activity taking into account the challenges of the “Concept for Developing Culture in St. Petersburg 2006–2009”. To facilitate the development of successful up-to-date models of management in the sphere of culture and education, the institute learns, analyzes and summarizes the international experience. Doctor Andrei Zonin is the director of the institute and Irina Kizilova is the deputy director.

St. Petersburg Committee for Culture (www.spbculture.ru) is a structural subdivision of the St. Petersburg City Government. It was established for the purpose of carrying out state policy and implementing state governance in the sphere of culture and arts. The deputy director of the committee for culture is Vassily Pankratov. Before his post in the committee for culture, he was the head of the creative industries centre in St. Petersburg. The committee for culture has special programs, which are aimed to support non-governmental organizations including commercial ones. The apply procedure is based on the competition. They also have a new program to support non-governmental theatres. In 2009 besides the overall budget cuts in St. Petersburg city, the support for non-governmental institutions has remained the same than before.

A Diagram of the Federal Bodies in Culture

