

# **Study of the Role of Banking Clusters as Initiators of Innovation Processes in the Conditions of Regional Economic Development: The Case of Tajikistan**

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## **ABSTRACT**

The formation of a modern financial system that meets international standards and effectively affects all sectors of the economy, contributes to the increase in revenues to the budget, will transform the business infrastructure and living conditions of the population. Proceeding from the fact that the banking cluster is the localization of banking and nonbanking organizations created with the aim of achieving a positive effect, we will conclude that in practice the use of the cluster direction in the financial markets is the key to the high development of the economic system and the natural stage in the development of the modern economy. The formation of clusters becomes a reliable means for banks to maintain their competitive advantages in the market. But there are a number of problems that hamper the development and development of banking clustering, such as the distrust of potential members of the cluster, the low level of funding, the lack of a culture of information transparency and openness. Therefore, it is advisable to involve the state in this process, which should promote the development of financial associations and bring the national economy to a high level of development on the international market. It is financial clusters that allow state structures in the regions to specifically regulate the directions of social and economic development of the territories, to forecast and correct the trends of economic development through coordination and efforts of interested parties.

## **KEYWORDS**

*Cluster; Building complex; Region; Banking cluster; Innovation.*

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## **1. Introduction**

The modern construction complex of the regions of the Republic of Tajikistan is rather fragmented, it is not managed from one or several centres, it consists of many self-managing entities with specific features. Clustering the construction complex in these conditions will raise the growth of the region's economy to a new

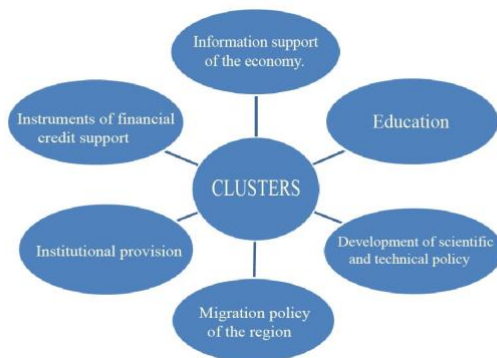
level. Since the construction cluster includes a huge number of production and service enterprises. Integration processes in construction contribute to accelerating economic growth on the basis of innovations, increasing the investment potential of the region and competitiveness. But before considering the clustering of the construction industry, we consider the basic concepts of the concept of “cluster” itself.

In the study the critical literature analysis and documental analysis were used, as well as observation, induction and deduction methods.

## 2. An Overview of Literature

According to the classical understanding, the cluster is a geographically concentrated group of interrelated companies, specialized suppliers, service providers, firms in the relevant industries, as well as organizations related to their activities in certain areas that are competing but also working together. From the viewpoint of the system approach, the cluster is a set of economic entities of interconnected different industries, united in a single organizational structure, the elements of which are interrelated and interdependent, and function together for a specific purpose (Larionova 2007). Uniting in a cluster, enterprises can reduce investment costs and facilitate the search for highly specialized specialists, as well as gain access to new technologies, management methods, suppliers and buyers (Shevchenko, Fedotova and Razvadovskaya 2013). It is generally accepted that the enterprises within the regional cluster structure have higher economic indicators. When considering the concept of a cluster, it is necessary to separate the clustering variant, which may be territorial, branch and corporate. Such cluster types operate on the basis of integrated structures, for example, within the framework of public-private partnerships.

Cluster as a specific organizational and managerial form of the local innovation system of interaction between the real and the banking sector of the regional economy is a sustainable partnership of interrelated economic entities. It can have a potential that exceeds the simple sum of the potentials of individual economic structures. This increment arises as a result of cooperation and effective use of innovative capabilities and capabilities of partners, a combination of cooperation and competition. National borders in the globalized economy do not always work as economic regulators, therefore new forms of business organization and its interaction with authorities and society are required. The influence of clusters on the economic policy of the region is shown in Figure 1.



**Figure 1.** The impact of cluster entities on the economic policy of the region Source: own work

The development of clusters stimulates a change in the social structure of the postindustrial society, which causes the emergence of new forms of organizational and consumer behaviour of people. Its essence lies in the fact that in specially developed regions, territories are specifically designated where state, local authorities, the corporate sector and foreign investors form clusters that become “growth poles” (centres of development) for these territories. M. Porter defines the cluster as a group of geographically adjacent interrelated companies and related organizations operating in a certain sphere and characterized by commonality of activities and

mutually complementary (Porter 2000). At the same time, he emphasizes the special role of clusters in the formation of state policy, not so much at the macro level, as at the level of individual territories, cities, etc. A similar point of view was held by the founder of the concept of regional clusters M. Enright, who scientifically substantiated the basic principles and forms of state support for the formation of clusters (Enright 1996).

There is a significant difference between industrial policy and cluster policy. Industrial policy implies the selection of priority sectors for state support. Cluster policy, on the contrary, states that all existing economic agglomerations are prioritized. The reality is that in any region there is space for many different successful clusters, where each of them can play its unique role. Thus, cluster policy, appealing to the existing structure of the economy, contributes to a more complete disclosure of the potential of the region.

A sound financial policy creates prerequisites for the formation of a banking cluster. The understanding of financial and cluster policies as complementary to each other is particularly characteristic in a situation where economic agglomerations and clusters are then created purposefully in a relatively short period. Initially, it is necessary to create financial zones, under which the conditions necessary for the provision of financial services are formed, first of all, the physical infrastructure, public-business institutions, human resources and the social environment that determines the quality of life.

Favorable conditions in the financial zones attract key companies. Key companies (anchor firms) are companies that encourage the emergence of other firms or even entire sectors of financial services providers. When the economic agglomeration is formed, there is a turn of cluster policy, the task of which is to make the localized organizations innovatively active. Moreover, as experience of realization of cluster projects across the world shows, cluster projects that rely on strong economic agglomerations are successful. In this regard, the first step in implementing the cluster policy should be to identify the existing economic agglomerations and analyze the potential for clustering.

The place of the state in the process of activation and development of clusters is that the state acts as one of three equal parties, each of which performs its specific functions. This approach in the foreign literature is called the Triple Helix concept. The meaning of this approach is that innovative development can be most effectively achieved through joint activities of the state, business and the scientific community. In practice, attitudes about the creation or use of innovations often have the character of a "double helix": the state – science, business – science, the state – business. Intensification and complication of innovative processes in society have led to the fact that bilateral relations lose their effectiveness.

### **3. Result of the Research**

#### **3.1 Development of the Construction Complex of the Region on the Basis of the Cluster Approach**

Clusters can be formed both within the construction industry, and at the junction of construction and other related industries. However, it should be noted that inter-industry clusters are the most common. They are formed as a result of the close relationship of the construction industry with other industries in the region. Buyers and manufacturers of products of the construction complex are united along the chain of creation of added value and reflect the possibility of a synergetic effect in deepening their partnership relations. A close connection between them creates conditions for the formation of cluster structures at the intersection of industries. The inter-sector approach to the clustering of the construction complex is the most common in the identification and analysis of cluster structures in the economy of the region. Consequently, the construction cluster represents a new organizational form, which is intended to enhance the competitiveness of the region. Clustering of the construction complex along with various industries has developed effectively in many

countries of the advanced world, such as Austria, Great Britain, Germany, Italy, Canada, USA, France and Japan. The intensive development of building clusters is also observed in some developing countries.

A distinctive feature of the construction cluster is targeted entrepreneurial activity. Combining the efforts of construction companies, executive authorities, financial institutions, research institutes at the regional level increases the efficiency of the construction complex development, contributes to the rationality of production processes, the redistribution of risks and the implementation of a flexible policy required in the rapidly changing market conditions. Such an alliance of efforts in developed countries was quite successful.

The number of participants in the clusters of the building complex is not limited to only such organizations, but also covers a large number of manufacturers of building materials, suppliers, engineering and consulting firms, research organizations and universities, design and landscape design enterprises, credit organizations and banks, infrastructure, administrations regions and professional and public organizations. Thus, the construction cluster covers a set of enterprises performing the basic construction works, with enterprises for the production of construction materials and raw materials, basic and auxiliary equipment, rendering transport, logistics services, repair and installation works, services in the areas of market research, trade, consulting, training qualified personnel. Such clustering of the construction complex on the territory of the region will allow developing to other branches and a lot of specialized enterprises of small and medium business, which will ensure the growth of competitiveness due to dynamism in development and constant changes.

The building cluster as a model of integration of entrepreneurial structures has distinctive specific features, due to the fact that they have a broader functional and target decomposition. It unites all components of the production process within the investment cycle from suppliers of material and technical resources to consumers of final construction products, including the service sector and specialized infrastructure (Subbotin and Builders 2011). However, the construction cluster as a set of organizationally interrelated independent economic entities has a more complex management model than the traditional general contract scheme. The building cluster unites all blocks of the organizations of the construction complex, which consists of enterprises for the production of building materials, organizations for the erection of facilities, enterprises supplying the appropriate equipment and construction technologies, preparing human resources, design organizations, architectural offices, organizations that purchase and sell objects of real estate.

In our opinion, the construction cluster is a special form of the cluster model, since construction is a kind of activity focused primarily on the domestic market, the main product of which is the construction of modern comfortable housing. The social effect of clustering the construction complex is expressed in the increase in the level of affordability of housing for the population. In the regions where construction clusters are created, the volume of housing construction is much larger. The presence of a servicing element in the cluster in the form of banks, legal state regulation, stability of the cluster system allows to increase this indicator by providing the population with affordable mortgage loans with guaranteed terms of commissioning of housing (Matveeva and Vaslenok 2014).

Thus, for the clustering of the building complex, a group of geographically adjacent interconnected enterprises and related organizations should act together in the creation of construction products, and complement each other. For the effective development of the regional construction complex, it is necessary not only to conduct an effective economic policy in this area, but also a qualitatively new structure of the relations of the participants in the construction complex. The efficiency of building clusters is achieved due to the synergetic effect, and as a result of this growth in investment in innovative development of production and formation of new companies, strengthening of export potential, increasing employment and product quality, developing new technologies, enhancing competitiveness and productivity of cluster members, developing close ties

between science and production, infrastructure development, raising the educational level of employees (Azhimov 2015).

That is why the identification of existing or potential clusters in the region's economy, as well as the provision of state support for their development, is a prerequisite for the further development of the region's economy. The difference between cluster analysis and traditional industry analysis is that when analyzing clusters, chains of value added, production and sales of the product are fully traced, and all those participating in this structure are singled out.

The development of the regional construction complex should be aimed at increasing the efficiency of the activities and development of construction enterprises by adopting a set of measures and measures based on the introduction of innovations and the formation of future regional clusters. Restructuring of the construction complex requires cooperation between large and small businesses, authorities, universities, research institutes, etc., and here the cluster approach can provide the necessary tools. The use of the cluster approach will allow small and medium-sized businesses to develop. The barriers to market entry can be significantly reduced by unifying the requirements within the cluster. Small and medium-sized firms can get access to orders, purchase hardware and software products, enjoy the reputation of participants (brand), effectively train staff. Regional innovative and other programs can take into account the interests of the cluster. Thus, the creation of a construction cluster as one of the tasks of the program of socio-economic development of the territory becomes, in modern conditions, a strategic tool for the systemic transformation of the regional socio-environmental complex to improve the investment attractiveness and competitiveness of the territorial economic system as a whole.

### **3.2 Bank Cluster as Initiator of Innovative Processes of the Region**

Today, the Republic of Tajikistan is taking real action to create a new financial environment. Using cluster policy as an instrument of innovative development, it is necessary to determine the target parameters of large clusters. On this basis, the government will be able to determine the place and role of each region's economy in the socio-economic and spatial development of the country. Business and the region will see specific goals and priorities for economic development, feel concrete support and interest of the government. It is necessary to form a legislative and financial base for the support and development of clusters. The mechanisms of the state cluster policy should ensure maximum use of the existing competitive advantages of specific regions, stimulate the creation of new competencies (Alikulov 2016).

In our opinion, the banking cluster can ensure: the successful allocation of investment funds, the pooling of interests and an optimized combination of regional and republican regulatory instruments. The modern banking cluster implies the availability of a variety of services to its customers: from traditional cash operations that characterize the basis of banking, to the new configurations of monetary and financial instruments used by banking institutions. A regional banking cluster is a collection of geographically localized credit institutions, regional administration bodies and a territorial institution of the National Bank of Tajikistan that jointly stimulate the region's economic growth based on the transformation of savings into investments with minimal transaction costs, the financial balance of the reproduction cycle, the development of internal competition, consolidation of interests. Thus, an institutional association of the following participants is observed in the regional banking cluster: the territorial institution of the National Bank of Tajikistan, representing the interests of the central administrative apparatus; regional authorities in the person of the relevant Department responsible for the work of the banking sector in the region and implementing regional interests; regional commercial banks; branches of commercial banks operating in the region; branches of foreign banks; non-banking credit organizations.

In our opinion, the need to study and develop cluster forms of innovative interaction between economic entities and the banking sector of the regional economy is based on the following reasons:

- firstly, the dis-functionality of the capital market, which caused the manifestation of regional voids for full-fledged financing and lending to the real sectors of the economy;
- secondly, the presence of innovative and investment “traps”, which are pursued by business entities in the implementation of projects;
- third, the uneven distribution of economic potential, as well as the asymmetric allocation of resources;
- fourth, the ineffectiveness of instruments for regulating the capital market.

Despite the existence of various models for modernizing economic development (revolutionary, organic, catching up), they all need adequate financial support. And with the catching-up model, which is more applicable now in Tajikistan, the role of the banking system is decisive, as the experience of the countries that passed this path (Japan, South Korea, Taiwan) showed. It should be noted that the lack of financial resources in the economy leads to restrictions on competition, production growth, stimulating a high level of inflation and a decrease in the purchasing power of the national currency – Somoni.

We believe that the most productive organizational form of local innovative systems of interaction between the real and the banking sector of the regional economy is clustering, which is oriented toward the reproduction of goods in order to obtain communicative and synergistic effectiveness. The banking cluster policy, which implements the functions of innovative interaction of economic entities in cluster formations, leads to an increase in the competitiveness of the regional economy. Regional bank clusters can play the role of domestic market growth points. After the first, new clusters are formed. This update is possible with innovative interaction between sectors, spheres and sectors of the economy.

#### **4. Conclusions**

Clusters are a link in the implementation of large-scale investment projects, optimally combining the processes of regional development with the development of all sectors of the national economy. By concentrating in its activities, both production and sales of products, clusters create conditions for the introduction of innovations, the development of knowledgeintensive and labor-intensive industries that ensure the stability of the regional economy in a dynamic market environment. Cluster formations serve as the foundation for the implementation of priority national projects. Thus, it is necessary to intensify the process of clustering in the construction sector, since the functioning of enterprises under conditions of delocalization, isolation or another form of combining entrepreneurial structures in a market economy is ineffective. Enterprises in the cluster demonstrate strong relationships. The flow of goods and services between geographically concentrated industries in a cluster is stronger than the flow linking them to the rest of the economy. Clustering facilitates cooperation to overcome common problems and obstacles.

The formation of a modern financial system that meets international standards and effectively affects all sectors of the economy, contributes to the increase in revenues to the budget, will transform the business infrastructure and living conditions of the population. Proceeding from the fact that the banking cluster is the localization of banking and nonbanking organizations created with the aim of achieving a positive effect, we will conclude that in practice the use of the cluster direction in the financial markets is the key to the high development of the economic system and the natural stage in the development of the modern economy. The formation of clusters becomes a reliable means for banks to maintain their competitive advantages in the market. But there are a number of problems that hamper the development and development of banking clustering, such as the distrust of potential members of the cluster, the low level of funding, the lack of a culture of information transparency and openness. Therefore, it is advisable to involve the state in this process, which

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