

INVESTMENT CLIMATE AS A FACTOR OF SOCIAL AND ECONOMIC DEVELOPMENT IN REGIONS OF THE RUSSIAN FEDERATION

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In this article, the authors attempt to view into the notions of investment potential, investment climate and investment activity, as well as to analyze investment attractiveness of modern Russia due to its place in different global ratings. We also analyze the operation of regions in the situation of sanction restrictions, the amount of direct foreign investments into different enterprises on the territory of the country. We evaluate investment potential of regions in Central Federal District for eight indicators and give recommendations for increasing investments to the regions, which is to provide a higher level of adaptability of development strategies in the dynamic and complex economic environment.

Key words: Investment, Foreign direct investment, Investment activity, Investment attractiveness, Investment potential

INTRODUCTION

At the present stage of the modern Russia economic development, one of the problems that require urgent solutions is problem of increasing the investment attractiveness of the regions. The existing on the macro level issues and peculiarities in the situation of polarization and differentiation in the development of the constituent entities (regions) of the Russian Federation acquire a certain specificity. The depth of such issues and peculiarities manifestation varies depending on the current situation in the investment sphere in one or another territorial entity.

The changes in the economic situation in the country, that have led to the structural and volume investment transformation, define as a priority the task of increasing the investment attractiveness of regions, thus, the work in this direction would contribute to the growth of investment inflow into the national economy and structural intensive readjustment and innovative development. During the recent years, the development of market relations in Russia has led to the revival of investment activity, which in its turn led to the increased requirements to the assessment of investment attractiveness of certain regions.

Investments for Russian regions mean the possibility for realization of investment potential.

Efficient investment policy at the regional level is quite able to create a favorable investment climate (Figure 1). The investment climate represents a combination of factors (conditions), that have developed over a number of years and now determine the value of incoming investments to the region.

To evaluate the investment attractiveness of Russian regions, we use criteria of investment potential and investment risk. Investment risk is composed of several types of risk. The rank of the region for each type of risk is determined basing on the index of investment risk relative deviations from the national average, taken as one. Investment potential of the region takes into account the main macroeconomic characteristics.

The development of an integrated approach to the evaluation of investment attractiveness of the region works to satisfy interest of potential investors about the level of possible risks, as well as provide an opportunity for local authorities to take timely measures to reduce investment risk in the region.

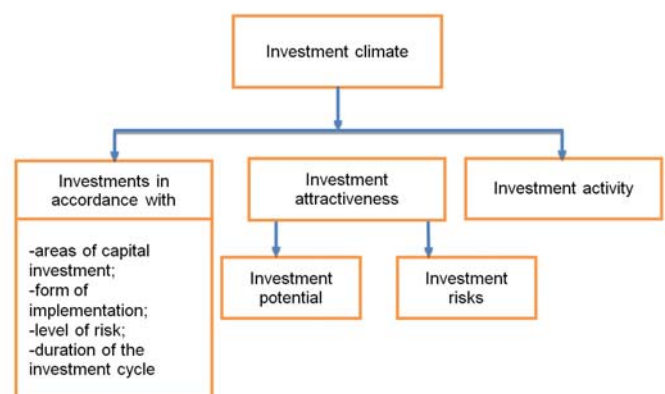


Figure 1: System of investment climate evaluation in the region

THE INVESTMENT CLIMATE IN THE RUSSIAN FEDERATION

The external environment in which the economy of the Russian Federation has necessary to operate in recent years is rather hostile. In 2014, several events occurred that resulted in changes in the investment climate of the country and expectations of foreign investors operating in its territory. In particular, the imposition of sanctions and the sharp decline in oil prices played in it the most significant role. As a result, we had increased inflation, the ruble exchange rate instability, difficulties in funding attraction and restrictions in the foreign trade, which influenced, in its turn, the investment climate in Russia. The investment climate of the country is being analyzed by government agencies, academic institutions and various rating agencies.

In our article, we use the data of the Doing Business rating. Doing Business is a World Bank study that assesses the ease of doing business in 189 economies for 10 indicators. In 2016, Russia rising for three steps, took 51 place.

Certain rating criteria (indicators) are presented below:

- Registration of a new business – 41 place;
- Registration of construction permits – 119 place;
- Connection to power supply – 29 place;
- Registration of ownership rights – 8 place;
- Availability of a loan – 42;
- Protection of minority investment shareholders – 66 place;
- Taxation – 47 place;
- International trade – 170 place;
- Contract fulfillment – 5 place;
- Settlement of insolvency or bankruptcy – 51 place.

The criteria according to which the Russian Federation has improved its position in comparison with 2015 are the following: connection to power supply (24 points); the availability of a loan (19); taxation (3). Such indicators as registration of property rights and enforcement of contracts remained at the same level as in 2015, all the other criteria, unfortunately, have a tendency to reduction (Figure 2).

One of the indicators characterizing the level of investment climate of the country is the amount of direct foreign investments. The report, published by UNCTAD in 2014 displayed, that Russia was on the third place in the world in terms of incoming foreign investments in 2012 and 2013 (79 and 51 billion dollars respectively).

The distribution of foreign investments in Russia is unequal and has unstable character. Foreign investors are ready to invest their funding in the regions with developed infrastructure and high customer potential, resource regions, major industrial centers (Figure 3). This fact is, obviously, associated with the sufficient level of reliability and high profitability.

As it is displayed in Figure 3, the leader by volumes of direct foreign investments is Central Federal District. This area traditionally takes high investment position, mainly due to investments made in Moscow, the growth in the rate and volume of investments year to year is high and stable. The second place is taken by Ural Federal District, followed by North-West Federal District. The smallest amount of investments is in North Caucasus Federal District, the obvious reason for which is unstable situation in the region. At the present time, promising and feasible way of attracting foreign investments is the release of the Russian Eurobonds. The release of this type of securities was purchased by foreign investors from the USA – 53%, Europe 43% Asia – 4%.

The growth of foreign direct investments on the territory of Russia will allow obtaining a practical effect with appearance of new workplaces, growth of tax revenues, development of infrastructure, the influx of foreign technologies and management experience.

In order to improve investment climate in the Russian Federation a number of programs of economic development are worked out, the legal ground regulating the investment activities implementation by both foreign and home investors is being adjusted, funds to support investors are established.

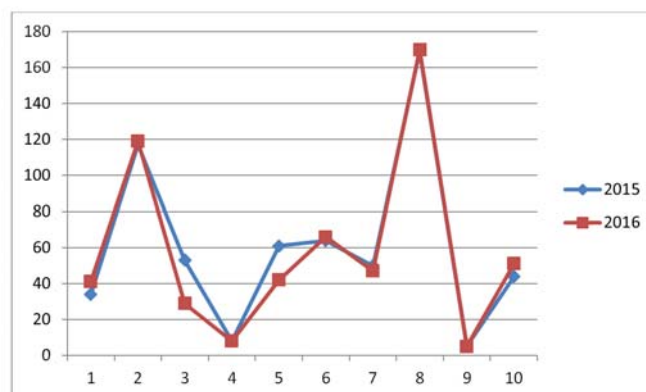


Figure 2: Graph of the Russian Federation position change according to Doing Business rating in 2015-2016

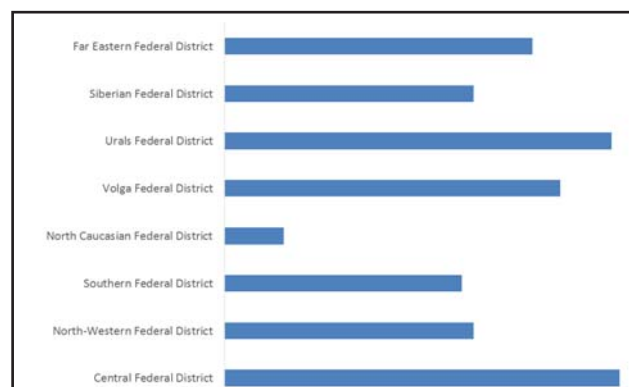


Figure 3: Chart of direct foreign investments distribution by Federal regions of the Russian Federation

INVESTMENT CLIMATE OF REGIONS IN CENTRAL FEDERAL DISTRICT OF THE RUSSIAN FEDERATION

Under modern economic conditions of the investment implementation, investors have to conduct a detailed assessment of not only investment possibilities, but also investment attractiveness and investment climate of the region.

Investing into regional economy, it is necessary to take into consideration a range of different factors, such as climate and geographical position, economic and political environment, quality and infrastructure development, scientific and innovative capacity, natural resources, the environmental situation in the region, which in complex influence the level of investment attractiveness of the region. After a detailed study, the investment potential of regions in Central Federal District look the following way. We carried out sampling among the regions in Central Federal District, in order to choose those with the highest values for indicators of investment potential.

Analysis of indicators of investment potential of regions in CFD of the Russian Federation displayed the tendency to increase over the period 2010-2015. One of the most important indicators of the level of social and economic development of the regions is the amount of the gross regional product. The period from 2010 to 2015 is characterized by the increase in the values for such indicators in the above-mentioned regions of the Russian

Federation. The leader with the largest GRP is the city of Moscow (the growth rate amounted to 51%). During the analyzed period, Lipetsk region achieved the increase in this indicator of 87%, Kaluga region – 78%, the Moscow and Belgorod regions – 70%.

Statistics displays that the indicator of life expectancy at birth in Russia has increased from 69 to 71 years, which improves the employment potential in the country as a whole and the named regions in particular. In addition, positive in assessing the investment potential of the regions of the CFD is the fact that the consumer potential (income per capita per month, thousands.) also tends to increase. The density of paved moto roads in ratio is an indicator characterizing the level of infrastructure development. Unfortunately, in the studied regions, there has been a slowdown in the rate of development of infrastructure capacity, or reduction of it (Lipetsk region).

Among the studied regions, we can see a relatively high institutional capacity, including the number of individual entrepreneurs. The actual number of operating individual entrepreneurs is the biggest of the Moscow region, though, during the analyzed period there is a significant increase in values for this indicator in Belgorod region, the increase is from 83 thousand in 2010 to 92 thousand in 2015. The modern economy is becoming more and more innovative, necessitating the search of really acceptable, alternative methods of stimulation of innovative activity of the enterprises, provision of favorable conditions for creation scientifically productive environment.

Table 1: Indicators of innovative potential of CFD regions

Indicators	Moscow		Moscow regions		Lipetsk region		Kaluga regions		Belgorod regions	
	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015
GDP per capita, thousands RUB.	730,8	1103,5	259,4	441,8	211,6	395,5	186,3	331,5	260,1	443,1
Life expectancy, years	69	71	69	71	69	71	69	71	69	71
Monthly income per capita, thousands RUB	44,1	59,9	22,6	37,6	15,9	27,6	15,5	27,6	17,0	28,3
The density of paved public roads, %	-	99,8	79,0	81,0	85,7	75,3	59,2	59,3	92,6	90,3
The number of individual entrepreneurs, per a thousand of people	107,7	197,0	110,5	204,6	49,8	53,0	27,2	31,9	83,0	91,7
The number of enterprises that provide technical, marketing, management innovations, %	13,3	19,7	6,7	8,0	8,9	20,0	8,3	10,9	10,9	12,7
The volume of innovative goods, works, services, thousands RUB	64,5	851,6	90,2	294,0	31,5	64,8	7,2	14,8	9,4	29,3
The ratio of the region area to the area the Russian Federation, %	0,01	0,01	0,26	0,26	0,14	0,14	0,17	0,17	0,16	0,16

In this respect, we can say that construction of conditions for innovation capabilities is a necessary requirement of the development of enterprises, regions and countries. By analyzing the indicators of innovative activity, we can form an opinion on the innovative capacity present in the studied regions. The increasing number of institutions implementing technological, marketing, organizational innovation can be found, along with the increase in the volume of innovative goods, works and services. The ratio of the region to the area of the Russian Federation characterizes the natural resources potential.

During 2010-2015, Central Federal District was attractive for the investors, and remained the leader in terms of investments coming into the country. Within the district, the most important in the respect are Moscow and Moscow region, which occupy a leading position, Kaluga region is quite promising from the position of attraction of investment funds, and Belgorod region has obviously a high investment potential.

CONCLUSIONS

Investment attractiveness of the region represents the objective conditions for investment and can be quantitatively expressed in amount of capital investments, which the region is able to attract, basing on its investment potential and investment risks. The level of investment attractiveness shall be viewed upon as an integral indicator.

During 2010-2015, Russia was attractive enough from the point of view of investment activity, despite the existence of negative factors limiting investments into the state's economy.

Among the regions of our country in terms of incoming investments, the leading one is Central Federal District. That can be explained by several factors: high indicators in production, employment and consumer potentials. In the district there are mainly favorable natural conditions, convenient geographical location ensures the availability of traffic infrastructure and high institutional capacity.

High investment attractiveness is a key factor in improving the competitiveness of the region, ensuring high and sustainable rates of social and economic growth. Measures aimed at increasing the investment attractiveness of the region, constitute one of the main issues of the implementation of strategies of social and economic development of Russian regions. Considering the infrastructure development, the regional market is a key strategic objective of the regional investment policy, it should be borne in mind that many elements of the market infrastructure already exist in a certain form they do not need to build entirely anew, and it is only necessary to develop and improve. The integral and essential elements of institutional infrastructure are investment banks and funds, institutions providing paid advisory and consulting services on investment attraction, business evaluation and real estate investment projects.

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