

Investment factor in the development of Volgograd Region economy: rating assessments and main trends

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Abstract — The present paper deals with the definition of the main characteristics of the investment factor in the development of the region's economy: investment attractiveness, investment climate and the investment image of the region as well as the investment activity. It also covers the most common methodologies used by the Russian rating agencies: National Investment Climate Rating (ASI - Agency for strategic initiatives), Investment attractiveness rating of Russian regions ("Expert RA"), and Investment attractiveness rating of Russian regions (NRA – National Rating Agency). The author of the present paper has conducted an analysis of the above-listed ratings and the official statistics of Volgograd region in 2011-2018. Based on the conducted analysis the stable investment situation of Volgograd region has been revealed as well as the emerging tendencies to the active growth of the main investment activity indicators.

Keywords — investments, rating, investment attractiveness of the region, investment climate, investment potential, investment risk, fixed assets investments, Volgograd region.

I. INTRODUCTION

Russian territorial development is defined by the possibilities of building sustainable economies in all regions of the country. The attraction of investment resources into the economy of the region is the basis for further development and extension of all the reproduction relations that will eventually lead to the further development of all the spheres of the region. The provision of the constant steady inflow of investments becomes the key aspect of the regional development and the main goal of the regional investment policy. In current conditions the situation becomes more complicated due to the severe interregional competition for the investment resources.

Thus, the issues of increasing the investment attractiveness of the region as well as creating a favourable investment climate become even more important. The issues of defining the investment attractiveness of the region become especially relevant for the potential investors, who are interested in an objective assessment of the future investment parameters, as much as for the regional authorities that are interested in increasing the amount of investments in the economy of their regions. In this case the investment ratings of Russian regions become much of a help.

Volgograd region is one of the most dynamically developing and promising regions of the Russian Federation. It has a lot of investment advantages such as abundant natural resources, significant industrial potential, highly qualified specialists, low cost of labour, etc. Comprehensive work is being carried out in the region to improve the investment climate with the help of a dialogue established between the authorities, business structures and the scientific community.

II. MATERIALS AND METHODS (MODEL)

The creation of a favourable investment climate in the region is a key factor for boosting the regional investment process and the main task of the regional authorities and management in the current situation.

The main goal of this research is to identify the main trends in the investment development of Volgograd region on the basis of studying rating assessments of the investment attractiveness of the regions of the Russian Federation.

In order to achieve this goal the following set of interrelated analytical tasks is to be conducted:

- determination of the components of the region's economy investment sector based on the fundamental provisions of the theories of investment and management;
- consideration of the methodology of the most applicable in the Russian economic practice ratings of the investment attractiveness of regions;
- identification of the main trends in the development of the investment sector of the Volgograd region's economy based on the analysis of ratings of the investment attractiveness of the region as well as on the official statistics.

The object of this research is the economic and investment as well as the organization and management relations that develop in the course of the investment sector of the region's economy functioning in the condition of aggravation of interregional competition for attracting investments. The subject of the research combines methods, tools and analytical solutions aimed at identifying the main

trends in the development of the Volgograd region's economy determined by the investment factor.

The theoretical and methodological basis of this research comprises the fundamental provisions of the theory of management, the theory of investments as well as the scientific papers written by domestic and foreign scientists and dedicated to the investment processes and problems of the investment management in the economy of the region.

For the purpose of this research the author used the following general scientific methods: abstraction, deduction and induction, comparison, analysis, synthesis, as well as systematic, historical and logical approaches. The theoretical level of knowledge of the investment management system of the region was supplemented by a comprehensive empirical analysis of the investment development of Volgograd region in 2010-2018.

The information basis is built on the following materials: National Investment Climate Rating (ASI - Agency for strategic initiatives) [1], Investment attractiveness rating of Russian regions ("Expert RA") [2], Investment attractiveness rating of Russian regions (NRA – National Rating Agency) [3], statistical compendiums such as "Russian Regions. Social and economic indicators", "Volgograd region in figures" [4] and the website on investments in Volgograd region [7].

III. RESULTS AND DISCUSSION

A. The investment factor in developing region's economy

The investment activity acts as a system-building condition for the development of the extended reproduction, both at the macro and at the micro levels. This clearly shows the creative role of investment in the economy of the state, region and enterprise.

Investments are the basis of the reproduction process and that is why, they are the incentive and the key factor of the region's economy development. Thus, the investment sector is the key sector in terms of creating a material basis and the defining prospects of the region's economy development. The practical work of the parties involved in the investment activity is carried out in the investment segment of the financial market or the investment market. At the same time, the investment relations that are being established between the parties shape the investment sector of the region's economy.

The success of the investment process is directly determined by the state and the prospects of developing the investment sector of the region's economy. The investment sector of the region's economy can be assessed by a system of the key generalizing characteristics: investment attractiveness, investment climate, investment image of the region and investment activity in the region.

Practically and theoretically "investment attractiveness of the region" and "investment climate of the region" are perceived as synonyms. However, here it is necessary to draw a line between the ways these terms are used. Investment attractiveness of the region is an integral

characteristic of a set of factors of different nature (economic, social, organizational and managerial, technical and technological, legislative, political, and others) that affect the state of the investment environment and the investment sector of the region. The assessment of the investment attractiveness of the region is based on the assessment of the investment potential (the ability of the region to create conditions for effective investment) and investment risk (the possibility of implementing investment conditions) of the region. The expediency of investing in the economy of the region is determined by the investor's assessment of the investment attractiveness of the region, which is subjective due to the nature of one's perception.

The investment climate of the region is an integral characteristic of the conditions and prospects of developing the investment environment and the investment sector of the region. The assessment of the investment climate of the region is based on the assessment of the investment attractiveness of the region in a long run. The investment climate of the region is a long-term trend (from 5 to 10 years) of the investment attractiveness of the region. The assessment of the investment climate of the region is a determining factor in persuading a potential investor to start investing in the economy of the region.

The "investment image of the region" is derived from the investment climate concept and reflects the entire range of information about the region as well as its unique features resulted from the regional development at a given period of time. The investment image of the region represents a set of ideas about the conditions and trends in terms of developing the investment sector of the region's economy, which are steadily reproduced in the mass and (or) individual consciousness of potential investors. In other words, the investment image of a region is a reflection of the real investment climate of the region in the minds of potential investors. Thus, the main task of the regional authorities is to focus administrative and managerial efforts on the formation of an investment attractive image of the region.

Investment activity is the result of all efforts aimed at creating a favourable investment and attractive image of the region. The results of the investment activity in the region are the resulting assessment of the directions, volumes and nature of investors' activities in terms of the region's economy.

B. Russian rating assessments of the investment attractiveness of the region

The dynamic of the investment indicators is one of the key indicators of the region's economy development. At the same time the integrated rating assessments are an essential factor in terms of the regional investments decision-making process. Currently the below-stated methods of assessing the regional investment attractiveness are used. Each of them has its own advantages and disadvantages.

The first method is used by the Agency for strategic initiatives (ASI) for The National Investment Climate Rating. The pilot tests of the National Rating were carried out in 2014 in 21 entities of the Russian Federation. Full-

scale ratings were first compiled in 2015 in 76 entities of the Russian Federation and in 2018 in every region of the country. In order to assign the National rating of the ASI it is necessary to poll only those respondents, who are directly engaged in the entrepreneurial activity. The Rating is based upon 44 indicators that comprise four major focus areas: "Regulatory environment", "Institutions for business", "Infrastructure and Resources" and "Small business support". All the calculated rating indicators are reduced to an index (maximum 400 points). And also "Indicators outside the Rating" are defined for the purpose of the analysis of their applicability in terms of their inclusion in methodology in the future periods.

Based on the experience of implementing a rating, the compendiums of the best practices of the National rating system are made, so that the authorities of the lagging regions could also implement them. The main goal of the National ASI rating is to motivate the regional authorities to take effective measures in order to improve the investment climate in the Russian Federation [1].

The National ASI rating is aimed at assessing the efforts of the authorities and thus, it becomes the main tool for managing the development of the investment climate in the country. In this regard the National rating acts as a tool and incentive leverage of the state governance. The National ASI rating is not a tool of the market economy since the investors are not supposed to use its indicators as a guideline for choosing a potential territory for future investments.

The second method was introduced for the first time in 1996 by the Russian consulting agency "Expert RA". This rating system is based on the comparison of two relatively independent indicators: investment potential and investment risk. The assessment of the investment potential is in its turn based on 9 individual potentials: natural and resources potential, labour potential, production potential, innovation potential, institutional potential, infrastructural potential, financial potential, consumer potential and tourism potential. Investment risk is determined by the values of the following six types of risk: economic, financial, social, environmental, criminal and managerial. The "Expert RA" rating system is built upon a significant mass of statistic data generated by state authorities and administrations, the legal database as well as the information gathered by the administrations of particular entities of the Russian Federation. At the same time the assessment of the contribution made by each of the components to the total potential or the integral risk is formed on the basis of annual surveys conducted among Russian and foreign experts [2].

According to the ratio of the total potential (the scale of the business the region is ready for) and the integrated risk (the riskiness of building this business in the region), each region of the Russian Federation belongs to one of twelve rating categories (table 1).

TABLE I. "EXPERT RA" RATING ASSESSMENT SCALE FOR THE REGION'S INVESTMENT ATTRACTIVENESS

Region rating	Level assessment	
	<i>investment potential of the region</i>	<i>investment risk of the region</i>
1A	High	Minimal
1B	High	Moderate
1C	High	High
2A	Medium	Minimal
2B	Medium	Moderate
2C	Medium	High
3A	Low	Minimal
3B1	Reduced	Moderate
3C1	Reduced	High
3B2	Negligible	Moderate
3C2	Negligible	High
3D	Low	Extreme

^a. Made by the author based on [2]

The most investment attractive regions attract a bigger volume of investments and show a higher speed of the economic development.

The third method was created in 2013 by the National Rating Agency (NRA). It is based on the combination of factors that affect the reasonability, effectiveness and level of investment risks in a particular region. The factors of investment attractiveness of a region are geographical location and natural resources, labour resources of the region, its infrastructure, domestic market of the region (regional demand potential), production potential of the region's economy, institutional environment, social and political stability, financial sustainability of the regional budget and regional enterprises. For the proper assessment of the listed seven factors of the investment attractiveness the system of 55 indicators is used. The following three sources of information regarding the investment attractiveness factors are used by the National Rating Agency: statistical data, expert assessment and the results of the surveys conducted among entrepreneurs. As a result all the regions are divided into nine groups [3].

The rating of the investment attractiveness of a region is decided according to the special scale (table 2).

Volgograd region is a part of the Southern federal district (SFD) and is located in the south-east of the East European Plain, in-between the Volga River and the Don River. Volgograd is the administrative centre of the region and it was founded in 1589. Volgograd region borders with Kalmykia (in the south), the Rostov region (in the south-west and in the west), the Voronezh region (in the north-west), the Saratov region (in the north), with Kazakhstan (in the east) and with the Astrakhan region (in the south-east). The distance between Moscow and Volgograd is 1073 km.

TABLE II. NRA RATING ASSESSMENT SCALE FOR THE REGION'S INVESTMENT ATTRACTIVENESS

Region's rating	Investment attractiveness of a region	
	category of the investment attractiveness	level of investment attractiveness
IC1	high	first
IC2		second
IC3		third
IC4	medium	first
IC5		second
IC6		third
IC7	moderate	first
IC8		second
IC9		third

^b. Made by the author based on [3]

C. The assessment of the investment factor in the development of the Volgograd region's economy

The assessment of the Volgograd region's investment climate is based on the rating of the investment attractiveness of the region (table 3).

The data stated in the table prove the sustainability of the development of the Volgograd region's economy in terms of these rating systems. Since 2014 the region had been getting the same result - IC6 in the NRA rating on the "Average investment attractiveness – level 3". And in 2018 Volgograd region became 52nd instead of 55th (out of 85 regions of the Russian Federation).

Throughout the whole period under review, the position in the "Expert RA" rating in the "Reduced potential – moderate risk" has not changed – 3B1. At the same time it is necessary to point out the positive dynamics of the

components of the rating: the "Investment potential" had progressively increased from 19 in 2011 to 27 in 2017 (+8); the "Investment risk" had decreased from 58 in 2014 to 42 in 2017 (-16).

The positive dynamics of the investment climate in Volgograd region in 2011-2018 is evidenced by the indicators of investment activity in the region presented in table 4.

The table shows the positive dynamics of the indicators characterizing the investment activity in Volgograd region in the period under review.

The investments in fixed assets most accurately reflect the results of the investment processes that take place in the economy of the region. Thus, in 2017, there was a gradual increase (except for 2016) in investments in fixed assets in actual prices up to 191,710 million roubles. At the same time, the investments in fixed assets in comparable prices amounted to 105.6 % in 2017. It confirms the identified dynamics of growth of investments in fixed assets per capita in actual prices up to 75,827 roubles in 2017 (44th among the regions of the Russian Federation).

Speaking about the results of the investment process, it is necessary to note a commensurate progressive growth of the fixed assets from 1,200,283 million roubles in 2010 to 2,180,917 million roubles in 2017 – almost 2 times (181.7 %). It also should be noted that the dynamics of the degree of depreciation of the fixed assets and the proportion of fully worn fixed assets indicate the need to intensify the investment process in the region.

The growth of the investment activity in the region is confirmed by a gradual increase (except for 2016) in the volume of foreign direct investment up to \$ 345 million in 2017. The indicator increased by 174.24% in 2017.

TABLE III. REGION RATING IN 2011-2018

THE DYNAMICS OF THE INVESTMENT ATTRACTIVENESS OF THE VOLGOGRAD

Name of the rating agency	The assessment of the level of investment attractiveness of Volgograd region							
	2011	2012	2013	2014	2015	2016	2017	2018
"Expert RA" rating								
Investment attractiveness of the Volgograd region (total of 85 regions)	3B1	3B1	3B1	3B1	3B1	3B1	3B1	3B1
	«Reduced potential – moderate risk»							
	37th	38th	38th	39th	38th	39th	41st	
-"Investment potential" rank	19	↑ 22	22	↑ 23	23	↑ 24	↑ 27	
-"Investment risk" rank	43	↓ 39	↑ 50	↑ 58	↓ 54	↓ 52	↓ 42	
NRA rating (since 2013 total of 80 regions since 2017 total of 85 regions)	No rating		IC5	↓ IC6	IC6	IC6	IC6	IC6
			«An average investment attractiveness – level 3»					
	36th	47th	51st	53d	55th	52nd		

^c. Made by the author based on [2, 3]

TABLE IV. DYNAMICS OF INDICATORS OF INVESTMENT ACTIVITY IN VOLGOGRAD REGION IN 2011-2018

Name	Indicators value							
	2010	2011	2012	2013	2014	2015	2016	2017
Fixed assets investments (in actual prices), (millions, roubles)	78431	104080	136154	140680	182798	200191	183642	191710
Fixed assets investment (in comparable prices; over the previous year), %	99,1	124,8	120,2	96,9	125,4	99,1	88,8	105,6
Fixed assets investments per capita (in actual prices), (roubles)	30041	40013	52591	54610	71315	78455	72284	75827
Availability of fixed assets (by the end of the year; at full book value; including revaluation), (millions, roubles)	1200283	1346669	1462441	1570668	1735392	1818202	2069566	2180917
Depreciation of the fixed assets (by the end of the year), %	49,6	51,1	51,3	51,5	52,5	52,4	50,6	51,3
The relative share of fully worn-out fixed assets (by the end of the year; at full book value), %	16,2	19,7	21,6	24,1	24,6	24,6	24,6	24,5
The inflow of foreign direct investments, millions, U.S. dollars	159	159	152	289	417	598	198	345

^d. Made by the author based on [4]

The identified positive trends of the investment attractiveness of the Volgograd region's economy rating and the dynamics of the indicators that characterise the investment activity in the region are the result of the systematic work in this sphere. The main goal of the Investment strategy for Volgograd region is to create an effective system of attracting investments and supporting the investment projects in the region as well as increasing in 2015-2020 the volume of investments aimed at implementing the projects in priority sectors of economy and creating a necessary infrastructure that would guarantee the investment attractiveness of the region [5].

There are 53 different types of the state support options for the investors: tax benefits, reduced tax rates, investment tax credit, preferential rent for the land and the objects of the state real estate, state guarantees and collateral security of the credit obligations of an investor, subsidies for the reimbursement of the part of the cost of the interest payment, direct participation in the investment activity by making budget investments, non-financial measures and other types of the state support provided by the law of the Russian Federation and Volgograd region. The investor has the right to claim several types of the state support in the aggregate amount not exceeding the cost of the investment project [6].

The following coordination advisory bodies operate on a regular basis in the region: the Volgograd regional investment Council and the Council for improving the investment climate of Volgograd region under the Governor of Volgograd region.

In order to provide a visual representation of the investment opportunities of Volgograd region and to inform about the issues of the investment sector of the region, there is

a website dedicated to the investment situation in Volgograd region [7].

IV. CONCLUSION

The investment development of the region's economy is directly influenced by such components as: investment attractiveness and investment climate, and ultimately, the investment image of the region. The resulting component of the investment development is the growth of investment activity in the region.

Integrated ratings are an important indicator of the regional investment development and a key factor in making informed investment decisions. The following ratings are most actively used in the Russian economic practice: National Investment Climate Rating (ASI - Agency for strategic initiatives), Investment attractiveness rating of Russian regions ("Expert RA"), Investment attractiveness rating of Russian regions (NRA – National Rating Agency).

The calculations show a fairly stable progress of Volgograd region in the presented ratings. Thus, the NRA rating states IC6 "Average investment attractiveness – level 3"; the "Expert RA" rating states 3B1 "Reduced potential-moderate risk". At the same time, the dynamics of key indicators characterizing investment activity in Volgograd region is confirmed by the rating assessments. It is a result of the systematic work of all participants in the investment sector of the region.

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