

# Problems of forming sustainable investment climate in the Leningrad region of the Russian Federation

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**Abstract**—The article describes the actions of the authorities and economic entities of the Leningrad region of the Russian Federation to create a sustainable investment climate in the region. A retrospective analysis of the development of approaches to the organization of investment activities in the region is given, current measures of the regional administration to attract investments to the region are analyzed, the success of such measures is evaluated, the main problems are identified, and a forecast for the near future is given.

**Keywords**—*investments, investment management, regional economy, leningrad region, investment climate.*

## I. INTRODUCTION

In today's global world, it is often investments in the real economy that play a key role in ensuring the economic development of countries and regions, since they involve the creation of new industries, and, accordingly, products, jobs and taxpayers. In this regard, the leadership of countries and regions arises and is aware of the need to carry out certain regulatory actions in the field of investments and create attractive or special conditions for investors (investment climate), thereby entering into competitive relations with other countries and regions in terms of locating the required economic capacity. Therefore, goal-setting, competitiveness and variability of these actions, their conditions and consistency, the correspondence of the ideas proclaimed to the implemented activities, as well as the results of attracting investments in the regions both in the primary performance plan (volumes, structures and physical implementation of investments) are of economic interest for researchers, and in the final one (impact on the socio-economic development of the region, the dynamics of the quality of life of the population, etc.).

## II. METHODS

The study, conducted by the authors, was aimed at determining the level of managerial and economic efficiency in the formation of a sustainable investment climate in the region from the beginning of the 1990s to the present. In this study were used a) scientific and informational materials on the regional economy, theory and practice of investment climate management, including information on the work of organizations and corporations, state and municipal authorities and management of the Leningrad region of the Russian Federation, as well as documents of the legal framework of investment management in the Russian

Federation ; b) modern methodology of socio-economic research, including systemic and historical approaches, methods of forecasting, comparison, formal-logical, statistical and meta-analysis, as well as tools for the scientific analysis of documents and performance results.

## III. THE RESULTS

Elibrary currently has about 9 thousand articles in various branches of science that are indexed in the RISC, which constitute about 0.031% of the total number of publications (about 30 million), including 32 works for the period 1990-1999, 943 working papers for the period 2000-2009, and 8082 publications for the period 2010-2019. There is an obvious increase in the interest of researchers to this topic, even taking into account the error on the "forgotten" (when indexing) publications. We also note that quite regularly the subject of economists' scientific research are both theoretical and situational aspects of investment activity [1; 4; 5; 9; 10; 12; 18], and trends to attract direct investment - global [2; 21], quasi-state [6; 8; 16] and all-Russian [10; 15; 19; 26], including in the regional aspect [7, 11; 13; 23; 25]. At the same time, not all regions and not all the subjects of the Federation of our country can boast a special attention of research economists, including applied scientists, and theorists. This fact can be explained at the same time as the minimal investment attractiveness of a region, as well as the significant attractiveness and outward openness of another region and its leadership for potential and real investors. Interestingly, along with scientific publications, analytical texts, such as reports [22] and account reports [20], commissioned by associative organizations of different levels, from a political party to the OECD, are freely available. This, in our opinion, testifies to the enduring interest in economic activities in our country of various economic entities, albeit with possibly multi-directional goals.

In the case of the Leningrad Region, it should be stated that various elements of the regional economy are interesting for researchers (about 1.700 works), but the actual investment climate of the region was affected from 1990 to the present in individual works indexed only in the RISC. We fill the existing gap.

The general characteristics of the region under study are known: the Leningrad Region (an independent subject of the separation of St. Petersburg, is a constituent entity of the Russian Federation, part of the North-West Federal District,

the total area of the territory is 83.9 thousand sq. km.), has a widespread area (from west to east - 500 km, and from north to south - 320 km), the external (state) border with two countries: Finland and Estonia, and the internal border with 5 subjects of the Russian Federation: the Republic of Karelia and the regions: Vologda, Novgorod and Pskov, and the city of federal significance Saint Petersburg. As of January 1, 2019, the population of the Leningrad Region amounted to more than 1.8 million people, including more than 0.6 million rural people. The region is a highly urbanized territory, since almost two thirds of its population lives in 19 cities of the regional and 10 cities of district subordination, and seven cities of the region (Vyborg, Gatchina, Tikhvin, Sosnovy Bor, Kirishi, Volkhov, Kingisepp) are classified as middle-sized with over 50 thousand inhabitants. In general, there is an imbalance in the area of the settlement system, the uneven development of municipalities, there are 217 municipalities in the region, however the Leningrad Region supreme state authorities are currently located in St. Petersburg [3].

Correct retrospective analysis of the socio-economic development of the region is possible, in our opinion, only for the period of its existence as an independent subject of the Russian Federation, since the statistics of the USSR period includes indicators of joint activities of the region and its capital, Leningrad (now St. Petersburg), although the last one has been the city of republican subordination since the 1930s. It is interesting that from the same time to the present moment there is a clear, then hidden competition between the city and the region - for everything, including investments.

Nevertheless, the Leningrad Region, having significant natural resources - the territory, land, water and some minerals, and industrial capacities time and developed agriculture created under the USSR, is traditional, despite the devastation in the literal sense of the 90s and some related environmental problems [24], is one of the leaders in economic development in the North-West Federal District of the Russian Federation. The basis of the regional economy at the moment is industry, it accounts for about a third in the structure of the GRP. The following industries are represented in the industrial complex of the Leningrad Region: engineering, automotive, shipbuilding, chemical production, petrochemistry, timber processing, pulp and paper production, the aluminum industry, the building materials industry, etc.

The investment climate in the region is shaped by the administration of the Leningrad Region represented by the Governor, the Government and the relevant department - the Committee for Economic Development and Investment Activities of the Leningrad Region (Committee). The latter, within the framework of his authority under the Regulation on the Committee from 2014, is responsible for working with investors of any level, including their attraction, maintenance and control of results. One of the results of such activities with the use of innovative methods was the development and maintenance of an investment portal <sup>1</sup> and an integrated regional information system "Investment Development of the Territory of the Leningrad Region", which is an interactive map that clearly demonstrates the investment advantages and opportunities of the Leningrad Region in order to "increase

the investment attractiveness of the Leningrad Region and ensure access for the international community, public authorities, organizations and citizens to the full and current information on the integrated development of the territory of the Leningrad region".<sup>2</sup>

We can evaluate the results of such activities both through real numbers (Table I) and through the prism of various ratings, the current values of which for the Leningrad Region are given in Table II.

TABLE I. GENERAL INVESTMENT INDICATORS FOR THE LENINGRAD REGION FOR 2018<sup>3</sup>

| Indicator  | Units of measurement | Value of indicator |
|--|----------------------|--------------------|
| Gross regional product (GRP)                       | trillion rubles      | 1.06               |
| Growth of GRP for 2013-2018                        | interest             | 56                 |
| Export volume                                      | billion rubles       | 7.1                |
| Number of countries to which GRP are delivered     | units                | 130                |
| Investment in fixed assets                         | billion rubles       | 466.0              |
| The volume of foreign direct investment (for 2017) | billion USD          | 5.3                |

<sup>1</sup> <http://lenoblinvest.ru/>

<sup>2</sup> <https://map.lenoblinvest.ru/>

<sup>3</sup> According to <http://lenoblinvest.ru/>

TABLE II. SUMMARY TABLE OF INVESTMENT RATINGS FOR THE LENINGRAD REGION IN 2019

| Rating  | Rating agency   | Rating value for the Leningrad region   | Interpretation of rating value                    |
|---|---|---|---|
| Investment appeal   | National rating agency  | IC2   | High investment attractiveness - the second level |
| Region's investment rating  | Expert Rating Agency  | 3A1<br>Rating of investment risk of the regions of the Russian Federation - 4th place | Lowered potential - minimal risk                  |
| The level of development of PPP mechanisms                          | National Center for Public Private Partnership (PPP)  | 16th place among the regions of the Russian Federation                                | High  |
| Long-term credit rating   | STANDART&POOR'S   | BB+   | Forecast: Stable                                  |
| Long-term credit rating (national scale)                            | STANDART&POOR'S   | ruAA+   | Forecast: "Stable"                                |
| Index of creditworthiness of the regions of the Russian Federation  | RIA Rating Agency (universal rating agency of the MIA "Russia Today" media group)               | 5th place   | High  |
| Index of Socio-Economic Status of Regions of the Russian Federation | RIA Rating Agency (universal rating agency of the Russia Today group of the MIA "Russia Today") | 7th place   | High  |

The assessment of the investment climate per region in our country has been carried out since 2014 according to the methodology of the Agency for Strategic Initiatives.<sup>4</sup> The rating results are presented in Table III.

Thus, the efforts of the regional authorities in shaping the investment climate in the Leningrad Region are highly appreciated. The methodology of this rating includes an assessment of 44 indicators distributed in the specified 4 areas.

A direct consequence, in our opinion, of a sufficiently high-quality investment climate is the fact that the key enterprises located in the Leningrad Region include CJSC Ford Motor Company, CJSC Philip Morris Izhora, LLC Nokian Shina, Gestamp Automocion, Caterpillar owned by foreign investors. Even the closure of the plant of Ford Motor Company, which was announced recently, is caused not by the state of the region and its investment climate, but, by all accounts, by the strategic mistakes of the company's management in Russia, both in terms of production preferences and ignoring the principles of social partnership in the labour sphere. The plant itself will most likely be bought by another car company this year. The development program of the region until 2030 provides for the implementation of other major investment projects in the field of petrochemical industry, transport and energy [17; 14]. Not surprisingly, in November 2017<sup>5</sup>, the region's investment attractiveness rating assigned by the National Rating Agency was upgraded from IC3 to IC2 (first ten).

TABLE III. CALCULATION DATA OF THE INVESTMENT CLIMATE RATING OF ASI IN THE LENINGRAD REGION FOR 2014-2018

| Indicator                    | Indicator Value |            |                       |                       |                       |
|------------------------------|-----------------|------------|-----------------------|-----------------------|-----------------------|
|                              | 2014            | 2015       | 2016                  | 2017                  | 2018                  |
| Final rating                 | III (Level)     | II (Level) | 34 (place)            | 20 (place)            | 12 (place)            |
| Regulatory Environment       | E               | B          | Federal district data | Federal district data | Federal district data |
| Institutes for business      | A               | B          | Federal district data | Federal district data | Federal district data |
| Infrastructure and resources | B               | B          | Federal district data | Federal district data | Federal district data |
| Small Business               | E               | C          | Federal district data | Federal district data | Federal district data |

For an express assessment of the current state of the region under study, you can use the methodology of the Expert Rating Agency for calculating the index of economic "health" of the regions. This index, calculated by RA Expert, is used to assess the current level of Russian regions development (state map) and to assess changes in the regional economy (dynamics map). On both maps<sup>6</sup>, the Leningrad Region is in the green (healthy) zone. Specifying indicators in comparison with St. Petersburg are shown in Table IV.

<sup>4</sup> Agency for Strategic Initiatives. National rating of the investment climate. <https://asi.ru/investclimate/rating/>

<sup>5</sup> National Rating Agency. Ratings of regions. 2018. : [http://www.ra-national.ru/sites/default/files/analytics\\_article/IPR-6-06112018.pdf](http://www.ra-national.ru/sites/default/files/analytics_article/IPR-6-06112018.pdf)

<sup>6</sup> Expert RA calculations. Integral assessment as of early January 2019 [https://raexpert.ru/researches/regions/rif\\_2019](https://raexpert.ru/researches/regions/rif_2019) [https://raexpert.ru/researches/regions/rif\\_2019](https://raexpert.ru/researches/regions/rif_2019)

TABLE IV. CALCULATION DATA OF THE INDEX OF ECONOMIC "HEALTH" OF THE LENINGRAD REGION AND ST. PETERSBURG AT THE BEGINNING OF JANUARY 2019

| Indicator group                        | Indicator   | Leningrad Region/ Saint Petersburg |                        |  |
|--|---|------------------------------------|------------------------|--|
|  |   | Current stat, %                    | Change for the year, % | Place in the ranking                       |
| Economic health of the Russian regions | Integral  | 60 / 70                            | 33/4                   | 9/6  |
| Economic health of the population      | The purchasing power of the per capita cash income of the population                                | no data /254                       | 2.2/no data            | 11 $\leq$ 75 / 7                           |
|  | Proportion of the population with cash incomes below the subsistence minimum                        | no data /7.5                       | -0.45/ no data         | 11 $\leq$ 75 / 3                           |
|  | integral estimate for the group   | x/75                               | 21/x                   | 10(din) <sup>a</sup> / 5 (st) <sup>b</sup> |
| Economic health of regional business   | Investments in capital per capita, thousand rubles / person   | 223.7/no data                      | 19/ no data            | 7 /11 $\leq$ 75                            |
|  | Income from taxes on profits in the consolidated budget of the region, thousand rubles / person     | 34.7/ no data                      | 51/ no data            | 9 /11 $\leq$ 75                            |
|  | Integral estimate for the group   | 79/ no data                        | 63/ no data            | 5 /11 $\leq$ 75                            |
| Economic health of consolidated budget | Direct debt of the consolidated budget of the region to the NDI of the region's consolidated budget | 1.9/6.0                            | no data/ 5.0           | 4 / 6 (st )                                |
|  | Consolidated budget expenditures of the region on debt servicing to NDI of the consolidated region  | 0.0/0.2                            | no data/ 0.2           | 1-3/5 (st )                                |
|  | Integral estimate for the group   | 90/90                              | x/ 2                   | 6 /5 (st ) 81(din)                         |

a. Indicators for assessing changes (dynamics) of the regional economy

b. Indicators from the assessment of the current level of development of the region (statistical)

Thus, according to the above indicators, the Leningrad Region fits perfectly into the "portrait of a successful region" proposed by the RA Expert method, which presupposes "the availability of raw or institutional rent, in some cases supplemented with a highly diversified manufacturing sector (including the raw materials extracted in the region) . In this regard, it is possible to predict the need and possibility of greater cooperation between the region and St. Petersburg in terms of attracting foreign investment.

#### IV. CONCLUSION

The Leningrad Region is currently on the path of creating a stable positive investment climate thanks to an adequate regional government policy in terms of goal-setting and the implementation of planned measures, and the region is growing according to the economic law of positive feedback: the higher the availability of the resources needed by the business, including the able-bodied and solvent population , the higher economic and investment activity in the region, which further increases its attractiveness for new investors

As the main problems in this area affecting the decision-making of investors, based on the analysis of the current and future situation of the socio-economic development of the region, we can indicate 1) the state (quantity, quality and mobility) of labor Leningrad region environmental problems accumulated and promising trend. Both of these problems can be successfully solved (if there is political will), including by improving migration policy and regional

education systems, road construction and environmental control, respectively, the possibilities for attracting investors to the region will be further expanded.

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