

Main Directions of Improvement of Investment Processes in the Chechen Republic

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Abstract—The topic of attracting investment is especially relevant for our country, taking into account the diversity of regions, the different rates of their economic development, the state of production, financial, and business infrastructure. Timely and proper use of investments ensures the socio-economic development of the region, contributes to the creation of new jobs and, as a result, improves the welfare of its population. The volume and effectiveness of attracting investment in the country's economy directly depends on the investment attractiveness of its regions. Despite the large number of works on the issue of investment, investment activity and investment attractiveness, many aspects of this topic have not yet been adequately studied. For this reason, irrational and ineffective decisions are often made in the regions in the formation and implementation of investment projects. The scientific article is devoted to the analysis of the main issues regarding the direction of improving investment processes and activities in the economy of the Chechen Republic. The key trends that occur in the investment market of the Russian Federation, including the fundamental factors that affect them, are analyzed. An economic analysis of investment activity in the Chechen Republic is carried out. The main benefits and drawbacks of the process of attracting investments in the development of the economy of the Chechen Republic are identified. The key indicators characterizing the growth opportunities of the investment potential are analyzed. The ways of forming and improving the mechanism for attracting investment in the economy are proposed.

Keywords: *investment processes, investments, investment activities, investment activity, investment market, economy of the Chechen Republic, economy of the Russian Federation*

I. INTRODUCTION

When considering the development of the digital economy, researching investments and investment processes is one of the most important tasks in order to increase the rate of economic growth. The progressive development of the Russian economy and the ensurance of its sustainable and dynamic growth directly depend on the availability of large investments in the sector of the real economy, which are evenly distributed in all regions of our country.

"Investments play a central role in ensuring the effective functioning of the economic system and social reproduction, as they directly affect the possibility of economic growth in the long term" [15].

The socio-economic development of regions in the Russian Federation – a crucial issue, regulated by many governmental bodies. The differentiation of development and the level of investment potential of a regional subject, on which its future development prospects depend, is of particular interest. Undertakings within foreign economic and investment activities specifically determine the ranking in the eyes of the federal government of Russia. "At the same time, it is necessary to recognize that only the most economically developed entities of the Russian Federation have their own income for the fulfillment of the expendable powers assigned to the subjects of the Russian Federation"[2].

"The best subjects of the Russian Federation continue to increase their investment attractiveness (and therefore, the basis for economic development), and the outsiders - "fail"

more strongly, the gap between successful and lagging regions becomes even greater" [11].

In the analysis of the investment potential of the regions, the region of the Chechen Republic will be considered as an example, as it is one of the most prioritized regional subjects of the North Caucasus.

After the 2000s, the economy of the Chechen Republic entered a period of recovery and further development. The structure of the economy did not allow development through the use of intra- and intersectional ties, leading to an increase in the economy's dependence on imports. But without an update in the materially-technical production base, expanding the size of production to ensure the pace of economic growth is impossible. Therefore, the republic needed investments. Investors, sensing risks, carefully evaluated investment objects. "It is necessary to be able to correctly assess investments, taking into account all the features and risks of an investment"[17]. But thanks to the right investment policy of the Chechen Republic, the region has evolved from an underdeveloped regional subject of the Russian Federation into a progressive republic of the North Caucasus. "However, the need for continuous development and the search for alternative ways to effectively implement regional investment policies forces a constant search for methods and mechanisms to attract investment resources to the economies of the regions"[3]. "The investor, investing in the economy, should evaluate all the specifics and features of the region and only then make the right decision"[13]. The investment decision is a central element of the investment process and "in the decision-making process, the stock market acts as a mechanism for attracting investment resources". Investment decisions are a must-have step in the investment process and constitute a "choice of alternative actions"[11].

Investment activity is one of the most important components in economic dynamics. The state of the economy is determined by its intensity.

The goal of this research paper is to analyze the major issues regarding the improvement of investment processes and activities in the economy of the Chechen Republic.

In the context of scientific research, it is necessary to solve the following tasks:

- analyze the key trends that appear in the investment market of the Russian Federation, including the fundamental factors that affect them;
- conduct an economic analysis of the investment activity in the territory of the Chechen Republic;
- identify the main disadvantages and advantages of the process of attracting investments for the purpose of economic development of the Chechen Republic;
- analyze the key indicators characterizing the possible growth of the investment potential;
- suggest ways of forming and improving the mechanism for attracting investments in the economy.

II. METHODOLOGY

Foreign and domestic authors, as well as legislative acts and standards, offer various interpretations of the term "investment activity". Theoretical aspects of investments and investment activities were highlighted in the works of such domestic scientists as V.V. Kovalev, V.V. Bocharov, I.D. Kuznetsova, N.V. Kiseleva, V.V. Sheremet et al. In foreign sources, the issues under study were reflected in the writings of W. Sharpe, J. Bailey, C. McConnell, S. Brue and others. Currently, numerous scientific studies are actively searching for such mechanisms, covering a whole range of interrelated economic, social, infrastructural, institutional and other aspects of regional investment policy. The investment attractiveness of the region is considered as a generalized characteristic of the totality of social, economic, organizational, legal, political and socio-cultural prerequisites that determine the attractiveness and feasibility of investing in its economic system.

J. Dolan and D. E. Lindsey define investments at the macro level as "an increase in the volume of capital functioning in the economic system, i.e. an increase in the supply of productive resources carried out by people"[24].

The main attention in the works of domestic and foreign economists, especially in Western Europe and the USA, is given to the consideration of financial investments. According to Sharpe, this is due to their greatest importance in countries with developed economies, while in countries with a "primitive economy" (insufficiently high level of economic development) real investments are most actualized [25].

In the foreign scientific literature, investment is defined as "capital investment for its growth or the formation of an additional source of income" [26]

"The investment process is usually associated with activities in the investment market, the balance of which is determined like an individual case of equilibrium in macroeconomics" [27]. "For example, in the model of F. Hayek "investments - savings - liquidity - money" the dependence of the investment process on both commodity markets and investments and savings is presented. " [28]. The investment process is defined by leading economists as the combined movement of investments of various forms and levels within the framework of a market type economy.

Our study of the investment process forms a set of methods of modern economic science, tools of the general theory and socio-economic statistics, as well as methods of economic, logical and comparative analysis

At the present time, the assessment of the national investment policy in the Russian Federation is ambivalent. On the one hand, its growth can be observed, on the other hand, there are problems that tend to reduce investment activity in certain sectors of the economy and regions of our country.

It is worth noting that offshore centers, known for their tax and financial policy conditions, provide the key direction for the outflow of foreign direct investments from Russia. At the same time, examining the issue of the rising offshore popularity for Russian investments, it has to be noted that the

most significant problem is the tax policy of the Russian Federation and the absence of economically effective reforms. "Without being able to take out funds abroad (except for personal income after taxes), entrepreneurs would have to invest them in projects in Russia: to modernize the industry, to increase the production of all kinds to compete with each other, to conquer foreign markets. In addition to economic damage, offshore, i.e. the transfer of Russia's economic assets to the jurisdiction of foreigners, is a threat to Russia's national security"[21].

"In addition to the highly developed tax evasion mechanisms and the export of domestic capital to foreign offshore companies, there are other problems known to impede the growth of investment activity among subjects of the economy of the Russian Federation" [8]:

- deficiencies formed in the framework of the legislative foundation of the country in regards to the regulation of tax, financial and investment policies;
- instability of the Russian economy, market conditions and stagnation of economic growth;
- "Dutch disease" or the dependence of the country and the national budget on the commodity sector and the sale of primary commodities to international markets;
- foreign policy tension between Russia and countries of the West, in connection with which economic and political sanctions have been introduced;
- Economic competition in the Russian investment climate with countries of a similar economic structure (China, India, Brazil, South Africa, Australia and others);
- internal political "stability", forming myths and stereotypes about the socio-political life of Russia as an administrative command market;
- instability of the Russian ruble to the trends of its devaluation;
- tightening of monetary policy, a high level of interest rates in the Russian banking market;
- lack of trust in Russia as a reliable borrower, which is reflected in the interest rates of governmental securities (for example, OFZ and GKO);
- difficulties of socio-political nature, among other things this includes the prevalence of corruption in the public sector of the country;
- a high degree of depreciation of fixed assets in the manufacturing sector of the Russian economy;
- a low degree of competitive ability of companies and the absence of a considerable capacity of production with high added value;
- underdevelopment and obsolescence of the market infrastructure;

- low efficiency of tax and financial mechanisms in inciting investment activity within the country.

From the aforesaid list, the following types of problems can be classified: financial, economic, administrative and market conditions. Besides the inclination towards an offshore economy and the practice of sanctions, factors such as the stability of the country's monetary and credit market pose the greatest threat. In particular, the devaluation of the Russian ruble brings about risks that depreciate the investments of investors. Looking at the same stock market, its development stands in complete opposition to the stability of the Russian ruble. In this case, currency risks undergo hedging mechanisms. However, the high interest rates of the monetary market do not help to attract foreign investments, since they present a more difficult process for the procurement of borrowed funds from national banking groups.

Regarding the issue of the Russian economy's inferior competitive ability - its causes are a high degree of depreciation of fixed assets, as well as the departure of public investments towards the sector of primary assets, where the leading positions are held by companies with state assisted capital. "For investors, this position can be deemed to not only be negative, but also advantageous, since this kind of market environment contributes to the creation of new forms of entrepreneurial structures, which will be more capable of competing than local companies"[22]. "Restricting the freedom of business and expanding government intervention can have a negative impact on the process of creating a business and its development" [7]. "However, the underdeveloped market and financial infrastructure slows down this process of attracting investments so that it is not able to reach its maximum growth potential"[20].

"It is important to note that the financial stability of the constituent entities of the Russian Federation directly depends on investment activity in the region, on its investment attractiveness for both Russian and foreign investors" [4].

Turning to the analysis of investment processes in the regional subjects, "it is worth noting that at the present time the investment policy of the Chechen Republic is built on a developed normative legal and institutional foundation. The investment strategy of the Chechen Republic until 2025 is of great importance here. The legislation stipulates that the state is obliged to take measures to maintain a stable investment climate in the country, but in practice this virtually never works out. The state tries to invest in large projects, while small and medium-sized businesses are left without proper support in terms of investments"[23].

"Direct participation of the state in investment activities carried out in the form of capital investments, through the development, approval and financing of investment projects, executed by the Russian Federation in conjunction with foreign countries, as well as investment projects financed by the federal budget" [1].

III. RESULTS

It is possible to bring the economy to the necessary quantitative and qualitative growth only as a result of the

activation of the investment process. Improving the investment policy and investment strategy of South Korea allowed this country to quickly cope with the poor economic situation and become one of the leading countries in the world based on its experience in developing innovation, a science that has opened its markets to foreign investors. When forming regions of the use of foreign investment, reduction or complete removal of the tax burden is compensated by the treasury; increased deadlines for tax payments on foreign investment; - investments could be made in the form of cash, investment goods (means of production), industrial property rights, real estate, shares. The law of this country "On investment financial services and the capital market" (FSCMA19 formulated and defined the concept of "enterprise of financial investment business."). Such an enterprise has the right to carry out a wide range of financial transactions - from trading securities at its own expense to brokerage services, from trust management to investment advice: In accordance with FSCMA, an enterprise carrying out one (or several) of these activities is a "financial investment company" (financial investment company). For this reason, all the operating businesses engaged in business related to purchase and sale of securities or derivative financial instruments, as well as the management of assets or the provision of trust and advisory services referred to financial and investment companies

"It is possible to achieve the goals and objectives of the investment strategy by improving the system of attracting investment resources, the mechanism of state support for investment and entrepreneurial activity, ensuring the effective use of the existing potential of the Chechen Republic, as well as ensuring stability in regional legislation " [5].

Firstly, the dynamic of investments in fixed capital of organizations, which demonstrates the business activity of the region and its commercial entities, needs to be explored (Figure 1).

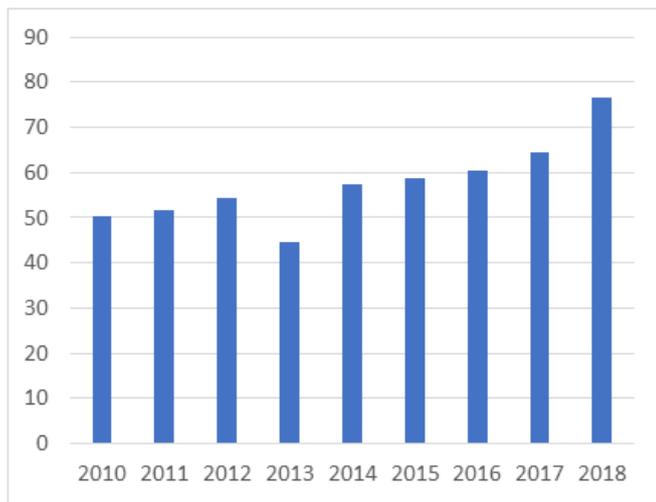


Fig. 1. Dynamic of investments in fixed capital of businesses of the Chechen Republic between 2010 - 2018, in billion rubles [6]

Thus, the dynamic of investments in fixed capital of businesses reveals a steady increase of indicators, especially throughout the year 2018. This confirms the argument that the

Chechen Republic possesses a high potential for entrepreneurial activity, which promotes the attraction of investors to the region.

Secondly, the dynamic of the scope of the regional GDP, both by value added and per capita, needs to be examined (table I).

TABLE I. DYNAMIC OF THE GROSS REGIONAL PRODUCT OF THE CHECHEN REPUBLIC BETWEEN 2011 - 2017. [19].

	2011	2012	2013	2014	2015	2016	2017
Of GDP million rubles	86623	102289	122403	148942	154401	169380	178912
Per capita, rubles	67221	77877	91646	109649	111705	120597	125471

Based on the data in table 1, the following conclusions can be drawn:

- The region’s economy demonstrates both quantitative and qualitative growth;
- the investment potential of the region is improving due to the growth of the regional GDP.
- "Similarly, the Chechen Republic has the following characteristic advantages that are capable of increasing the degree of the region’s investment potential "[18]:
- large reserves of natural resources, which particularly contribute to the development of the oil industry, energy industry, agriculture;
- the presence of a high labor force potential;
- the potential for the development of the recreation and tourism sector due to the presence of a variety of scenic areas and natural landscapes, as well as due to a high degree of environmental quality. [7].

IV. DISCUSSION

The experience of South Korea was mentioned above. Taking into account national specifics the main legal conditions for attracting foreign investment to South Korea differ from traditional and practiced by other countries. The scientific novelty of the study lies in the substantiation of theoretical principles and the development of practical recommendations for the formation and implementation of the investment policy of the region. The author proposes a number of measures to form an incentive mechanism and substantiates the modern concept of investment activity development

"In order to improve investment processes in the Chechen Republic, it is necessary to propose the following series of measures to form an investment stimulating mechanism" [9]:

- redistribution of budgetary funds to support small and medium-sized businesses to stimulate the development of high-tech production, the development of innovative technologies and digital activities (at present, the Russian economy is becoming more digitalized, which in turn creates new industries, products and needs of society. In this regard, the stimulation of digital activities of regional companies, their integration with foreign business partners and the attraction of new technologies appears rational);
- establishment of a new phase of public-private partnership. Cash infusions into the industry are necessary, since it promotes long-term benefits. Consequently, the creation of PPP projects in the field of market infrastructure is advisable. For example, a program for creating an electronic registration program to issue licenses and report to regional businesses. Also, it is necessary to involve entrepreneurial structures of the agro-industrial complex and the construction industry, where problems within the process of interaction on the land cadastre are visible. The use of the digital technologies of "smart contracts" will eliminate the old model of the accounting system, unnecessary intermediaries and reduce the speed and cost of these processes;
- registration of a tax subsidy program for foreign companies engaged in direct foreign investment in the sphere of high-tech production in the region. It is possible to introduce a separate program of tax privileges for domestic regional companies, that take part in self-financing of budgetary institutions in the sphere of education and in the creation of business accelerators and business incubators.

The experience of South Korea was mentioned above. Taking into account national specifics the main legal conditions for attracting foreign investment to South Korea differ from traditional and practiced by other countries. Most of the capital investments by foreign investors are made in the joint-stock form of companies, the legislation of the Republic of Korea offers a wide range of business forms applicable for investment.

The following principle must be followed: only we can help the region, and not a centralized state power. The dependence of the region on the cash receipts of Moscow is not the best investment development strategy for the Chechen Republic. Because of this, the above recommendations are proposed, with the goal to create an independent market infrastructure, financial self-sufficiency, as well as a reduction of administrative barriers.

Thus, the current degree of investment potential is at an adequately high level, contributing to the attraction of investments in the industry and production of companies in the region. Given the stable growth dynamics of key indicators, it is inevitable to expect a continuation of the current trend, which will increase the importance of the Chechen Republic in the context of the socio-economic development of the regions of the Russian Federation. However, despite this, it is necessary to facilitate an independent market infrastructure,

financial self-sufficiency, as well as a reduction of administrative barriers.

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