

Investment Development of the NCFD Regions: Current Trends and Challenges

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ABSTRACT

The purpose of this study is the attempt to identify the main problems and directions of investment development in the region, as well as to identify factors and problems that hinder investment development, using the example of the subjects of the North Caucasus Federal District. The paper examines the main trends and directions of development of the investment sphere in the regions of the North Caucasus Federal District, taking into account the analysis of their rating among the regions of the Russian Federation on the main investment and socio-economic indicators. The main problems and trends in the development of the investment sphere of the region are determined based on the study of the activities of the state authority that forms and implements the investment policy of the region, as well as on the analysis of patterns of formation and development of investment legislation in the region. The results of the study can be applied in the formation and implementation of regional investment policy as a whole, and its structural elements separately. Based on the results of the study, the negative trends in the formation and implementation of investment policies of the NCFD subjects that negatively affect the regional investment climate and attractiveness are identified and justified. It is established that the regions of the North Caucasus Federal District need to overcome the negative trends in their investment development by optimizing the activities of state authorities responsible for the formation and implementation of investment policy, and it is also necessary to develop regional investment legislation taking into account its detail and concretization.

Keywords: *Investment, Region, State, Development.*

1. INTRODUCTION

In modern conditions, taking into account the negative impact of the pandemic on the regional economy, the role of the state in establishing investment processes is increasing. Since the revival of the investment activity is one of the main conditions for overcoming economic instability and creating prerequisites for socio-economic development, any regulatory and regulatory impact of state authorities, whether within the framework of administrative and legal or/and socio-economic reforms, should be carried out only on a legal basis, in compliance with all legal principles.

The investment development in the region is directly related to the formation and development of the state investment policy, which is designed to form mechanisms and levers of administrative and legal influence on the investment climate by introducing new and strengthening existing management mechanisms, as well as improving acts of regulatory regulation of investment activities [1,2,3].

The working hypothesis of the study: the improvement of the quality of formation and implementation of investment policy (state-legal regulation of the investment sphere) will increase the

investment attractiveness of the region and will help to improve the investment climate.

2. INVESTMENT CLIMATE AND POLICY OF THE NCFD REGIONS

Considering the socio-economic development of the NCFD regions, it is necessary, first of all, to determine how positive their investment policy is and how viable the investment sphere is [4,5]. For this purpose, we will define the key direction of the state's work in the investment sphere – promoting the growth of the population's standard of living, ensuring employment and developing self-employment, creating favorable conditions for attracting investment, and increasing tax revenues from business and investment entities.

This area of activity of state authorities can be evaluated with the help of the ratings of development of regions of the Russian Federation. Our research is based on the rating data for the indicators "socio-economic situation of regions", "quality of life of the population", "income level", "housing affordability", "unemployment rate", etc. of the rating agencies "RIA rating" [6] and "RA Analytics" [7], since the data of these rating agencies are used as a tool for analyzing and adjusting regional economic policy.

To date, the investment attractiveness of 6 regions of the North Caucasus Federal District (table 1) is at the lowest level. Here, it should be noted that with relatively good indicators of the RD for socio-economic development since 2018 (57-58 place in the rating) its investment rating in 2018 was downgraded.

Considering the investment attractiveness, it is impossible to avoid the investment risks inherent in the regions of the North Caucasus Federal District (table 2). According to "RA Analytics", 6 regions of the North Caucasus Federal District, excluding the NC, have extremely high investment risks. Of the 6 components of investment risk, the regions of the North Caucasus Federal District have positive values only for ecology.

At the same time, social, criminal and managerial risks have almost maximum values, which indicate the

need to strengthen the state's work to reduce investment risks by adjusting the entire state policy of socio-economic development of the region

At the same time, the data on the rating "socio-economic situation of regions" (table 3) show that 5 out of 7 regions of the North Caucasus Federal District are outsiders in the rating, which indicates an unfavorable level of their socio-economic development. The best indicator in this rating has the NC – 30, and the RD – 57 is in the second place.

According to the rating "quality of life of the population" in the regions of the North Caucasus Federal district (table 3) at the end of 2019, only the NC occupies an acceptable 23rd place in the rating, the other 6 regions are again the outsiders, with a slight improvement in the indicator compared to 2018.

Data from the rating "income of population" (table 3) also show that almost all regions have a low indicator of population income, but in this rating the RD is in the lead – the 46th place, while the more "successful" NC in previous ratings takes only the 71st place.

According to the "level of family welfare" (table 3), almost all regions of the North Caucasus Federal District are outsiders in the rating, where the relatively well-off NC is ranked the 52nd place, and the KBR, completing the rating, is ranked the 85th place.

Analyzing the "unemployment rate" in the regions of the North Caucasus Federal District (table 3), it can be noted that almost all regions have a high unemployment rate and occupy the last places in the rating.

With such a negative unemployment rate in the regions, the low level of population involvement in small business is observed (table 3), the best score has the NC – 74, the worst and the last place in the ranking has the RI – 85.

The rating of regions by the number of middle class (table 3.) ends with the assignment of the regions of the NCFD the final (80,82,83,85) places, with the exception of the NC – the 59th place and the RNOA – the 77th place.

Table 1. Rating of investment attractiveness of the NCFD regions

Region	The rating of 2018	Action
The Republic of Dagestan (the RD)	IC9	Reduced
The Republic of Ingushetia (the RI)	IC9	Confirmed
The Kabardino-Balkarian Republic (the KBR)	IC9	Confirmed
The Karachay-Cherkess Republic (the KCR)	IC9	Confirmed
The Republic of North Ossetia-Alania (the RNOA)	IC9	Confirmed
The Chechen Republic (the CR)	IC9	Confirmed

Source: compiled by the author based on the data from "RIA Rating".

Table 2. Investment risk of the NCFD regions in 2019

Risk rank		Region	The ranks of investment risk components in 2019						Change in risk rank of 2019 to 2018
2019	2018		Social	Economic	Financial	Criminal	Environmental	Managerial	
84	83	the RD	80	28	82	85	20	81	-1
83	84	the RI	84	60	83	44	29	84	1
81	79	the KBR	81	71	80	84	21	80	-2
78	75	the KCR	83	8	81	80	5	77	-3
80	80	the RNOA	77	81	78	82	48	76	0
82	82	the CR	78	49	85	74	19	85	0

Source: compiled by the author based on the data from "RA Analytics".

At the same time, there is a high level of creditworthiness of the population of the regions of the North Caucasus Federal District (table 3), so the RI has the 1st place, the RD has the 4th place, the lowest level of creditworthiness is in the RNOA – the 60th place, and almost no opportunity for the population to purchase housing in 6 regions out of 7 (table 3).

Taking into account all the above, we can conclude that today the regions of the North Caucasus Federal District are characterized by a low level of socio-economic development and an equally low standard of living of the population.

The investment attractiveness of the regions of the North Caucasus Federal District has the lowest indicator, which is justified by the presence of high investment risks

combined with the maximum indicators for unemployment and the population's debt burden.

Under the current conditions, the task of creating a favorable investment climate in the region is not just a matter of strategic importance, but becomes a life-supporting social and economic system.

In the context of the negative impact of the pandemic on the regional economy, the stabilizing role of the state in regulating and establishing state-legal regulation of the entire socio-economic system is increasing.

The modern specifics of the investment climate in the region is that key indicators of the investment climate are not only the subject of regular monitoring, but also the

Table 3. Rating indicators of the NCFD regions for 2019

Region	Socio-economic situation	Population life quality	Income of population	Level of family welfare	Unemployment level	Involvement of the population in small	Number of the middle class	The debt load of the population	Availability of housing purchases
the RD	57	64	46	78	83	82	83	4	83
the RI	82	79	82	79	85	85	85	1	72
the KBR	77	75	75	85	78	79	82	11	77
the KCR	81	84	81	81	79	80	81	50	80
the RNOA	78	76	53	69	84	77	77	60	76
the CR	68	71	74	84	82	83	84	5	82
the NC	30	23	71	52	42	74	59	44	22

Source: compiled by the author based on the data from "RIA Rating".

object of state regulation through the implementation of state investment policy.

The state investment policy of the region is designed to form mechanisms and levers of administrative and legal influence on the investment climate by introducing new and strengthening existing management mechanisms, as well as improving acts of legal regulation of investment activities, in order to develop the institution of investor rights protection and optimize investment processes.

The functions of state and legal regulation of the region's investment sphere are reflected in the investment standard, the fundamental elements of which are:

- ✓ investment legislation;
- ✓ a specialized public authority that forms and implements the state investment policy based on its normative declaration in the regional investment legislation.

3. GOVERNANCE AND REGULATION

It is necessary to consider the state-legal regulation of the investment sphere in the subjects of the North Caucasus Federal District, using the example of the RD.

For the RD a specialized public authority in the investment field is the Agency for entrepreneurship and investment (further – the Agency), established by the Decree of the Head of the RD of January 22, 2016. No. 14, subordinate to which there are 9 institutions and organizations.

The study of the Agency's activities was conducted based on the audit data of the Accounting chamber of the RD for 2018-2019.

During the period under review, the Agency did not master a significant amount of budget allocations, which did not allow achieving the target indicators of the state program of the Republic of Dagestan "Economic development and innovative economy for 2018-2020", which may lead to disruption of the implementation of the national project "Small and medium-sized businesses and support for individual entrepreneurship". For this reason alone, the penalties in the amount of 32,517.6 thousand rubles were imposed in 2018.

According to the national project "Small and medium-sized businesses and support for individual entrepreneurial initiative", the Agency planned to hold auctions for work in the amount of 395.0 million rubles in 2019, in fact, the state contracts were not concluded, as a result of which the Agency did not ensure the achievement of performance indicators for the implementation of measures established by the Agreement on the provision of subsidies for co-financing capital investments in state-owned objects of the subjects of the Russian Federation and (or) municipal property.

At the same time, the Agency reported on the subprogram "Creating favorable conditions for attracting investment in the economy of the Republic of Dagestan" indicating the implementation of 1 (one) investment project, although according to the passport of the Program that includes the Subprogram, 10 investment projects were supposed to be implemented for the period 2018-2020, including: in 2018 – 1 project, in 2019 – 2 projects, in 2020 – 7 projects.

The project specified by the Agency was not actually implemented in 2018, but only the implementation of the 1st stage of construction was achieved, so the target indicator "Implementation of investment projects" was not achieved.

As of October 1, 2019 the government of the Republic of Dagestan has concluded 34 investment agreements on assigning priority status, of which 31 were concluded in violation of the established deadlines. However, the investment projects for which investment agreements were not concluded in accordance with the established procedure within a two-month period and investors did not start financing it within 12 months were not deprived of the priority project status.

In total, as of January 1, 2020, the unused balance of budget funds on the account of the Agency and its subordinate institutions amounted to 788,029.1 thousand rubles [8].

All of the above allows us to conclude that the Agency for entrepreneurship and investment of the Republic of Dagestan does not adequately cope with the work aimed at developing budget investments, attracting private investment and improving the investment attractiveness of the Republic.

This situation is typical for other regions of the North Caucasus Federal District, as evidenced by the data of control and audit activities of the Control and accounting chambers of these regions, for example, here are excerpts on some of them:

✓ In the KBR for 2019, 278 violations of budget legislation in the amount of 174 749.7 thousand rubles were revealed. Inefficient use of budget funds in the amount of 133,722.1 thousand rubles was revealed [9].

✓ In the KCR for 2019, taking into account the inefficient use of public funds, 83 facts (units) of violations were revealed, and the total amount of funds used in violation of the current legislation amounted to 170.274 million rubles. [10]

✓ In the RI for 2019, the damage caused to the budget of the Republic amounted to 3,371.3 thousand rubles, as an inefficient use of budget funds, expenses in the amount of 4,301.8 thousand rubles were noted [11].

✓ In the CR for 2019, the value of the indicator "Inefficient use of budget funds and state property" was 60,276.2 thousand rubles [12].

✓ In the NC for 2019, the total amount of financial violations and deficiencies in accordance with the classification of violations detected during the external state audit (control) amounted to 628,855.0 thousand rubles (number - 218) [13].

4. LEGAL CONDITIONS

Next, we will consider the investment-significant legislation of the regions of the North Caucasus Federal District on the example of the RD, as a subject with a high level of rating on the quality of implementation of RIA RLA in the investment sphere among the subjects of the Russian Federation for 2018.

The fundamental to the investment sphere of the Republic of Dagestan is the Law of October 07, 2008 No. 42 "On state support for investment activities in the territory of the Republic of Dagestan", which is aimed at increasing investment attractiveness, creating a favorable investment climate and consolidating forms of state support for investment activities.

The law on support of investment activities in the Republic of Dagestan contains only one definition of "investment platform" and a reference in all terminology to Federal legislation. In fact, the legislator, referring to Federal legislation, introduces at least 2 terms in the law itself, and in article 3, the legislator refers to "investment activity" and lists its forms allowed on the territory of the Republic of Dagestan, the list of which includes "acquisition of shares, bonds and other securities". It is noteworthy that the legislative body of the Republic of Dagestan does not have a law on the turnover of securities in the Republic, but the Ministry of Finance of the Republic of Dagestan has the authority to provide for state policy in the field of the securities market in the Republic of Dagestan.

Article 4 also deserves attention, which equalizes the rights of all investors in the territory of the Republic of Dagestan, paradoxically, parts 2 and 3 of article 4 introduce a new term and distinguish investors who implement a "priority investment project" into a separate category, presenting the possibility of providing them with "other measures of state support".

Next, article 8 introduces the concept of "investment agreement" and what exactly should be included in the agreement, and part 5 of article 8 defines the conditions for the termination of state support under the investment agreement.

Articles 9, 10, and 11 are devoted to forms of state support and tax benefits (credit) for investors implementing a priority investment project. Article 13 also provides for state guarantees for priority projects,

and article 15 deals with the provision of public investment for priority projects, if funds are available for them in the budget of the Republic of Dagestan.

It is also necessary to take into account the fact that the legislator, also in general terms with reference to Federal legislation, lists tax benefits to investors, investment tax credit and non-financial measures of state support for investment activities.

Concluding the review of the main "investment" law of the Republic of Dagestan, it can be noted that most of it is devoted to priority investment projects. However, given that no priority projects are being implemented in the Republic in 2020, we can say with a certain degree of confidence that this law "does not work" this year.

Next, consider the Law of March 11, 2009 No. 9 "On state guarantees of the Republic of Dagestan". The law on state guarantees introduces such concepts as "state guarantee", "beneficiary" and "principal", indicating that the state guarantee can be provided to ensure the fulfillment of the obligations of the principals taken by them in order to implement investment projects and development programs for business entities in the Republic of Dagestan.

According to article 4, the consideration of the issue of granting a state guarantee is carried out on the basis of a written request from the principal to the Government of the Republic of Dagestan, taking into account compliance with the list of requirements that does not include participation in a priority investment project.

According to the Agency's letter No. 47-2301/19 dated August 19, 2019 "... since the Agency's creation (2016), state guarantees of the Republic of Dagestan have not been issued to legal entities implementing investment projects on the territory of the Republic of Dagestan...". According to the data provided, the Institute of state guarantees in the Republic of Dagestan has not shown itself, and the law on state guarantees is idle, being "somewhat inconsistent" with the law on investment support in the Republic of Dagestan.

Next, it is necessary to consider the Law of February 02, 2017 No. 5 "On public-private partnership, municipal-private partnership in the Republic of Dagestan". The law contains six articles, the first three of which are references to the Federal law on PPP (public-private partnership) and MPP (municipal-private partnership), article 4 defines the powers of the RD in the areas of PPP and MPP, and articles 5 and 6 include formal final provisions.

The analysis of the activities of the Agency as authorized body of the executive power of Dagestan, acting under paragraph 3 of article 4 of the Law on PPP, MPP in the RD, shows that work on the basis of existing state (municipal)-private partnerships is not held at the

proper level, that is, we have another law, the validity of which is questionable.

Having considered the legal conditions for the implementation of "investment processes" in the Republic, we can come to the conclusion that:

- ✓ The main "investment" laws have a wide range of goals and objectives to attract investment and create a favorable investment climate in the region, but they do not contain specific mechanisms to implement the contained goals and objectives.

- ✓ There is a lack of legally fixed features and specifics of the socio-economic and investment development of the region, and as a result, there are no directions for the development of investment processes based on such features.

- ✓ The "investment legislation" of the region defines the rights and powers of the Government and authorized state bodies in the field of investment development, without specifying their responsibility in case of improper performance of obligations.

- ✓ The entire array of investment legislation contains a lot of "negative redundancy" and is very inconsistent, which makes it difficult to effectively implement legal mechanisms for the development of the investment sphere.

Analyzing the investment legislation of almost all regions of the North Caucasus Federal District, and the actual level of their investment climate, we can identify problems that are of a regional nature:

- 1) Lack of state accounting of investment projects and their effectiveness.
- 2) A small number of practices of some forms of state support (the complexity of presenting them reduces the demand for them from entrepreneurs).
- 3) Substitution of regulatory and legal regulation of investment activity with the adoption of RLA defining various forms of state support.
- 4) There is practically no regulation of investment activity in the aspect of:

- ✓ identification of investment areas that are most effective in the short and long term;

- ✓ special regulation of investors' access to land resources, as well as to state and municipal property;

- 5) In fact, the regulation has been transferred to the subordinate level, which is characterized by the lack of clear regulations for the implementation of activities and the lack of fixed conditions and procedures for their provision.

5. CONCLUSIONS AND RESULTS

The negative trends in the formation and implementation of the investment policy of the NCFD subjects that negatively affect the regional investment climate and attractiveness are identified and justified, such as:

1. Permanently low level of quality of work of specialized public authorities that implement state-legal regulation of investment activities, which is manifested in:

- ✓ in the absence of accounting for investment projects, their analysis and economic prospects;

- ✓ failure to comply with legal requirements in the process of attracting private investors;

- ✓ in an inefficient organization of state incentives and support for investors;

- ✓ low level of budget discipline and lack of control over the activities of subordinate organizations;

- ✓ in not establishing work on the development of budget allocations for the development of investment activities and, as a result, not achieving the established performance indicators for the use of budget funds.

2. The low level of elaboration of the adopted "investment" laws, which is manifested in the broadest coverage of the goals and objectives for attracting investment and supporting investment activities, with the fatal absence of specifically prescribed mechanisms and measures to implement these goals and objectives. This became possible due to the transfer of state-legal regulation to a subordinate level, which led to the adoption of bylaws regulating various forms of state support.

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