Instruments of Investment Attraction in Order to Fulfill the Structural Priorities of Sustainable Regional Development (Study Based on the Rostov Region)

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Abstract
The aim of the study is devoted to defining most effective tools of investment funds attraction. These funds can be used in implementation of strategic priorities for socio-economic regional development requiring, in areas that are in need of economic restructuring.

The authors have selected the Rostov region as the research target, the economy of which is in need of structural change in the direction of increasing innovational, high-tech and scientific production, in order to reduce import dependency and move closer towards the post-industrial model of economic development.

The study considers currently available instruments of attraction of private sector closer to solving the stated problems of Rostov region, analyzing their regulatory, financial and organizational consulting security on both state and federal level. Main directions of economic restructuring of Rostov region are also defined. Authors also outline the main problems that private enterprises come across while doing business in the investigated area. On the basis of the research, investigating federal and regional instruments of private sector involvement authors form a number of proposals and recommendations focusing on regional improvement. As a result of the conducted study, the authors reached the conclusion, that there is a number of strategic measures that should be performed in the Rostov region. These don’t only include the improvement of financial instruments, but also best available technologies, national technology initiative, and clustering.

Key Words: Region (subject of Russian Federation), structural priorities of development, restructuring strategy, instruments for private sector involvement (in order to implement structural priorities).

JEL Classification Codes: R50, R53, R58.

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1. Introduction

In order for Rostov region to ensure it competitiveness and sustainable levels of growth, it requires a transition to a new economic model that complies with criteria used in most developed economies of post-industrial type. Only compliance with such criteria will allow the region to further improve competitiveness on national and international levels, as well as ensure sustained economic growth and ability to attract investment funds and achieve investment projects.

Transition to a new model will require structural changes of the economy of Rostov region. The primary objective is the transition of regional economy to a whole new level of technological development and formation of non-primary model of post-industrial type with developed export-oriented sectors.

In order to achieve these goals, solutions of the following restructuring tasks will be required:

- increasing the share of the innovation sector as part of the regional economy;
- increasing the share of high-tech production in the economy;
- expansion of non-primary sector of the economy;
- double effect of modernization (economic and environmental) and increases in energy efficiency via integration of the most up-to-date technology available;
- reducing import dependency of the region via development of enterprises engaged in import substitution;
- Increasing and developing the tertiary sector including financial and non-financial services.

Attainment of the assigned goals and solution of relevant problems require active attraction of additional investment into the implementation of regional structural priorities. At the moment the Rostov region is one of the more attractive investment hubs amongst other areas of Russian Federation, however the current investment volumes are insufficient to solving the underlying tasks.

This article presents the analysis of all the instruments and types of interaction between the state and private enterprises starting from financial tools (discounts and subsidies) all the way to more complex forms of cooperation including clustering that provide for increased investment flows and improve socio-economic development of the Rostov region.

2. Theoretical, Informational, Empirical and Methodological Grounds of the Research

Theoretical basis of the study used in the article, relies on the fundamental theories of regional economy, governmental management of socio-economic development, state economic regulation policy, that are particularly related to the matters of strategic planning, development of socio-economic priorities, enhancing the
attractiveness of the region for foreign and domestic investors, as well as directing the investment funds towards the solution of regional problems and priorities.

As methods for research, the authors used logical and comparative analysis of regulatory and program targeted documents of federal and regional levels that state the instruments stimulating the support of investors to accomplishing regional targets (Akopova and Przhedetskaya, 2016; Epifanova et al., 2015; 2016; Frank et al., 2016; Kolchanova and Kolchanova, 2016; Liapis et al., 2013; Kormishkin et al., 2016; Thalassinos et al., 2013).

Informational basis of the research relies on official data provided by the Federal Statistics of Russian Federation and its regional subdivision within the Rostov area. Informational basis further includes strategic planning documents of the Rostov area, program-targeting documents of midterm planning, as well as the results of the investors’ survey about the obstacles that increase the difficulties of project accomplishment (all provided by the Administration of the Rostov Region).

3. Results

In order to achieve the assigned goals and solve the problems of economic restructuring of the Rostov region on both federal and regional levels, there exists a whole complex of instruments that are divided into two groups.

1. The first group includes instruments of purely financial character that can be used for general investment attraction into industrial sector (mainly manufacturing and agriculture).

2. The second group consists of relatively new instruments (mostly non-financial), that provide stimulus for investors carrying out modernization projects, greening, development of new technologies, new markets and innovation.

The first group is one of the leading sectors of production in Rostov region is manufacturing that normally accounts for a quarter of regional GDP. January - December 2015 results state that index of industrial production of the was at 154.6 % (104.9 % in 2014) and exceeds the national average index (96.6 %) (The Statistical data in manufacturing have been provided by the website of Rostov region Administration).

It is the manufacturing industry investment that provides for real growth of regional economy region and supplies the regional budget. This allows us to consider manufacturing as one of the most attractive investment destinations, which is promising from the perspective of increasing the volumes of investment and their full utilization. Therefore the structure of private investment into industrial sector can significantly influence the economic structure of the region.
Main aim of attracting private investment into economic restructuring of Rostov’s industrial sector is creating a highly competitive, energy efficient and innovative industrial production. This can improve the standards of living within the region and make it a driving force of Russian economy with export potential. Rostov region should specialize itself and take a stable niche in the system of regional and national division of labor, given the developed industrial sector, that produces high-quality manufacturing goods for the internal consumer market, as well as new innovative products that would be competitive internationally. An important aspect while accomplishing the set targets is the need to implement such reforms that would ensure the improvements in energy efficiency and reduce harmful emissions. This is necessary to preserve the unique ecosystem of the Don region given the planned increases in the volumes of production.

At the moment Rostov has a fairly developed legislative base that supports the complex of financial, organizational and other aspects of investment support. Stimulation of investment activity in Rostov region is carried out with regards to a number of regulatory and legal acts of various levels (Federal Law № 488-FZ from 31.12.2014, regional laws in Rostov region as of 20th October 2015 № 418-3C, as of 1st October 2004 № 151-3C, from 02.07.2008 № 35-3C, as of 10 May 2012 № 843-3C and others). On the regional level, the stimulation in the sphere of manufacturing is carried out via provision of financial and informational support to the subjects (Regional Law of the Rostov Region from 20th October 2015 № 418-3C), as well as support for the scientific and innovative activity, improvement of recruiting and human resources, external economic activity and provision of state preferences.

1. **Financial support of the subjects of industrial activity:**
   - provision of tax breaks (Regional Law of Rostov Region from 20 October 2015 № 418-3C);
   - provision of regional budget subsidies to compensate for parts of bank loan expenses, construction works, technical rearmament;
   - provision of regional budget subsidies to compensate for parts of bank loan expenses and refinancing expenses if the project is in the sphere of priority investment destinations (no more than 5 years), (Regional Law of Rostov Region as of 01.10.2004 № 151-3C).

2. **Information and consultation support for subjects of industrial activity:**
   - financing the directory records, ballots, data base, websites, containing economic, legal, production and technological information needed for production and marketing;
   - organization of exhibitions, fairs, conferences on the territory of the Rostov region and event hosting assistance.

3. **Support of scientific, technical, and innovation activity, while implementing industrial policy is carried out via:**
- provision of subsidies, financing research and development, construction and technical work performed at the course of implementation of investment projects, not related to defense or security;
- creation of conditions for coordination of scientific, technical and innovation activity for cooperation between subjects involved in manufacturing;
- creating incentives by integrating research and development and other intellectual activity into industrial production;
- incentivizing activity by using the best available technology.

4. Providing support at the development of personnel and potential human resources via:
- supporting organizations that are exercising educational activity through professional training for workers, by providing financial support, subsidies and consultation;
- providing educational and methodical support;
- financial support of the subjects engaged in creation of educational organizations involved in providing professional training programs for the industry workers (improving skills and qualification).

However investors face a whole range of problems while implementing some of the investment projects, amongst them:
- financial difficulties caused by sanctions that make it difficult to continue the started projects (depreciation of ruble and inflation, decreasing revenues and purchasing power of investors, as well as complication with obtaining funding);
- lack of collateral basis necessary for borrowing; difficulties with loan volumes; high interest rates; inability to borrow on favorable conditions;
- low territorial infrastructure development (municipal, road transport, logistics and social infrastructure);
- Problems, related to broadband connection (insufficient power, high costs of connection, high cost of network facilities construction, lack of transparent pricing, lack of openly accessible information).
- shortage of qualified specialists;
- lack of initial investment resources (own savings, debt, property, land, specialists and etc.); high cadastral cost of land;
- difficulties finding co-investors;
- complications and ambiguity mechanisms municipal-private and public-private partnerships, caused by new regulatory basis and absence of law-enforcement practices.

The second group includes instruments that allow providing for greening of production and are able to help facilitate the transition to innovative growth and development, which are the following:

a) The best available technologies - are power tools used to prevent and (or) minimize environmental damage; these can be used to modernize production to use clean, energy-efficient technology and offer solutions to environmental issues. Mass
integration of such technologies will allow the enterprises in the Rostov region to reach a completely new level of technological development that will comply with international standards and will significantly improve the ecology of the region.

In the Russian legal field, the best available technology is defined as «the technology of production of goods or services, determined on the basis of current scientific and technological with the best environmental preservation parameters given the fact that the technology can be technically utilized» (Federal Law № 7-FL as of 10.01.2002).

Integrating the best available technology into production suggests the creation of IT directories, composed at state level for certain areas of application (branches) as documents under national standardization. The stimulating component of the best available technologies is implemented as a form of state support in different forms (Federal Law number 7-FL as of 10.01.2002): assistance with investment activities (directed at obtaining the best available technology), tax benefits, benefits regarding environmental pollution, allocation of federal budget in accordance with fiscal legislation.

Therefore at present time, existing legislation supporting the application of the best available technology is sufficiently developed (in foreseeable future). Russian Federation is actively engaged in harmonizing domestic environmental standards to comply with international regulations. The fields of application of the best available technology were approved in 2014 (Executive Order of Russian Federation as of 24th December 2014, № 2674). In 2015-2016 Ministry of Industry and Trade together with Ministry of Agriculture are developing directory database and graphical analysis that should be completed in the mean time, with regular directory renewals happening at least once every 10 years. In 2017 it is preplanned to finance the directories containing information on the best available technology in the context of State Agriculture Development Program 2013-2020 (Order of the Ministry of Agriculture of the Russian Federation as of March 29, 2016, № 115).

However until now the practice of application of the best available technology in the Rostov region has been somewhat restricted, due to the fact that state stimulus has only been applied quite recently. In the period 2014-2016 mass integration of best available technology should guarantee improvements in the innovation sector of the Rostov economy (due to information improvements and release of directories). Implementation of new technology is also an important factor for attracting foreign EU investors. In the EU such instrument has already proven itself as an effective method of solving ecological problems in the most effective way. This adds another factor of reliability to the investment made.

b) Another instrument that can be used for economic restructuring of the Rostov region is the so called «National Technological Initiative». National Technological Initiative (NTI) is «a program formed to create new markets and conditions for Russia to reach global technological leadership by 2035» (National Technological
Initiative. Materials provided by the official website of the Agency for Strategic Initiatives).

NTI includes:

- determining new markets, including main factors affecting demand, key market niches and possible types products and services that could fill those niches;
- defining key technology, that will be crucial in producing goods and services in these new markets;
- support and incentive measures, including institutional, financial and research instruments, that will to form market-champions (NTI. Materials provided by the official website of the Agency for Strategic Initiatives).

On contrast to import substitution targets, NTI proposes the creation of fundamentally new markets. While implementing NTI, main focus is devoted to the future models that rely on the assumption of high demand on network technology and human lifestyle security, substituting hazardous and dangerous activity by technology. Such transition will be accompanied by people switching to non-industrial type of activities (such as the service sector) - activities where human factor adds value (Peskov D.).

Leading factors of the transition to «new economy»:

- «Popularization of new technology and forming new technological view of the economy, that could easily wipe out the existing industries.
- New configuration of global economy. Constructing new regulatory areas, that will cover new technology.
- Massive social shift, entailing fundamentally new society - virtual, that forms a whole new reality, communication facilities and new stratification around itself.
- Changes in the control systems on the basis of Bid Data, cloud and distributed technology, which do not only manage production but also logistics (Peskov D).

These factors can potentially complement fundamental technological shifts in the next decade or so (Peskov D). Regulation of the use of NTI in Russian Federation is carried out with regards to the Law of Russian Federation as of 16th of April 2016, № 317 «About implementation of NTI». Instruments of the NTI are considered new and therefore have not yet been implemented in the Rostov region. Currently there are only 9 markets have been included into the NTI strategy (NTI. Materials provided by the official website of the Agency for Strategic Initiatives).

c) Another instrument that will allow solving the problem of Rostov economy restructuring is clustering. Clustering approach is one of the primary destinations of modernization policy of the Rostov Region. Ministry of Industry and Trade of Russian Federation has defined the basic requirements of industrial clusters, which are described as «collection of subjects, participating in industrial activity (legal
organizations or sole enterprises), that are interconnected due to geographical location and functional dependency, with production based in one or several subjects of the Russian Federation» (On industrial clusters. Materials provided by the official website of the Ministry of Industry and Trade of the Russian Federation).

Legal-regulatory framework, which supports the use of clustering on includes a series of legal documents of federal and regional character. In the Rostov region the Centre of Cluster development has been established. In 2015, the Administration of the Rostov region has agreed to «Conception of cluster development in the Rostov region until 2020». More than 10 clusters and clustering initiatives are currently being developed in the Rostov region. The strategies for top priority clusters in the Rostov region for the period 2016-2020 have been accepted in February 2016 (Executive Order of the Russian Federation as of 18.02.2016 № 104).

In addition to the publicly available instruments of investment support, special instruments have been developed to aid the cluster participants. At the moment, in the context of cluster policy implementation, methods for stimulus, stration and development of clusters are currently being investigated. In January 2016, the Government of the Russian Federation has approved the conditions of subsidizing industrial clusters in order to compensate for expenses that arise throughout collective projects for import substitution (Executive Order of the Russian Federation № 41 as of 28th of January 2016). Subsidies will provide, based on the results of cluster project meeting certain criteria. Including 15% growth of job places within 5 years from the start, as well as reaching the set targets key targets - decreasing costs for machinery purchase from third parties (including foreign companies), increasing share of final products within the cluster, produced by member companies (On industrial clusters. The materials provided by the official website of the Ministry of Industry and Trade of the Russian Federation).

4. Conclusions and recommendations

To solve the problems of restructuring in the Rostov region, it is necessary to implement a number of measures, as part of regional development strategy.

In order to increase the volumes of attracted investment into the production sector it is necessary to fully utilize federal instruments and mechanisms of investment attraction into the industrial sector. This will help attract additional funding from the federal budget, «Bank of development and external economic activity (Vnesheconombank)», Russian Direct Investment Fund (RDIF) that will help the implementation of modernization projects, attraction of the best available technology, development of import substituting enterprises with high export potential and development of high-tech industries. It is also necessary to attract federal funding using the following instruments:
- leasing loans - provided by the Industry Development Fund and are implemented jointly with participating banks, on providing funding on initial payment of those leases. Funds are provided exclusively on making an initial payment for the purchased equipment, specified in the lease agreement. In order to attract banks to participate in this mechanism, Bank of Russia will allow the participating banks access to the specialized loan-restructuring scheme. Leasing loans can be obtained by Russian industrial enterprises, whose projects are directed on technical renewal and/or modernization of the main production Funds (Program of leasing loans. Industry Development Fund).

- targeted loans (5 to 7 years) - provided by the Industry Development Fund development to the enterprises engaged in the real economic sector, implementing import substitution projects, pre-investment projects, projects of consortia and engineering, projects aimed on the introduction of advanced technologies, creation of new products. This also applies to import substitution projects (during the stage of construction work, process of obtaining required certificates, purchase of equipments, and launch of production) (Program of Industry Development Fund).

- special investment contracts - agreement between the investor and the Russian Federation (or its subject), where the obligations of the investor (to master the industry production in an agreed period) and RF or its subject (to ensure the stability of tax and regulatory conditions and provide support and stimulus measures). Timeframe of a special investment contract is equal to the time of project becoming profitable plus 5 years, with the total time not exceeding 10 years. In order to be eligible for the special investment contracts, businesses should be creating and / or modernizing production, implementing the best available technology, collectively investing no less than 750RUB million in the context of one project. The tool is implemented by the Ministry of Industry and Trade of the Russian Federation and Industry Development Fund (Special investment contracts (SIC), Resolution of the Russian Government as of 16th July 2015 № 708).

- owner of the charter capital of the company- offered to investors and to the subjects of the Russian Federation (indirectly) and is carried out by RDIF, taking into account the following criteria: objective size of the transaction: 50 million - 500 million USD (share RDIF); under 50% ownership of equity of the company; expected to leave the investment project in 5-7 years; initial public offering (IPO); sale of the company to the investor. Priority areas are: increasing the effectiveness of industries (including outsourcing); development of infrastructure, including logistics; import substitution and development of export potential (Materials provided by RDIF).

- the use of the mechanism of co-financing - offered to foreign investors and subjects of the Russian Federation (indirectly) by the RDIF, based on the agreement of collective investment that will determine the way the project will be managed. Co-investors’ responsibilities include (one of): more than 1 billion USD Assets Under
Management (AUM); market capitalization exceeding 1 billion USD; turnover exceeding 1 billion USD and EBITDA exceeding 150 million USD (Materials provided by RDIF).

- project financing - the instrument is implemented by the Ministry of Economic Development of the Russian Federation, the Ministry of Finance of the Russian Federation, «Bank of development and external economic activity (Vnesheconombank)» and is provided for support of investment projects implemented on the territory of the Russian Federation (in the priority industries) (Main focus points of the Russian Government before 2018).

An «investment lift» mechanism - a comprehensive program of development targeting medium-size enterprises with export potential in the non-primary (targeted at increasing the dynamic growth of business sector due to increasing export revenues). The mechanism is implemented through the Agency for Strategic Initiatives, Vnesheconombank, the RDIF and the Russian Export Center - on the basis quadripartite agreement to support exporters in the non-primary sector.

Companies with export potential, that are currently planning or already executing an investment project (with export potential) are given the following opportunities: equity funding, financing of the investment plans, financial and insurance support of export contracts, administrative and consulting support, as well as promotion of the company in the targeted global markets. (Materials provided by the Agency for Strategic Initiatives).

It is necessary to ensure active engagement of the Rostov Region in to the process of the best available technology integration into the prioritized sectors of the economy. For full utilization, it is necessary to create the regulatory bloc of legal support for technology integration, forming a regional system to stimulate innovative businesses. It is important to provide financial support (in the form of subsidies), training and qualification improvement for workers for those innovative enterprises. Forming regional, branch specific working groups, consisting of experts (representatives of sectoral ministries, departments of science and production), would also be useful.

Primary strategic value for the Rostov Region is its participation in NTI. Assuming the Russian Federation will be becoming more competitive and influential on the global arena, the Rostov Region should turn into a scientific and logistical center. Projects involved in unmanned aerial and water vehicles and auto-piloting technology will bring the most value to the strategic development of the region (due to Rostov’s transitive role as a subject of the RF). A significant potential is found in the road maps of «Technology» group (in the field of digital modeling and new materials development). In addition, there exists an opportunity to initiate new road maps in the areas considered as promising. For the Rostov Region an optimal direction will be to create road maps in the areas of unmanned «green» river
transport, as well as build networks of food and drink delivery and personal healthcare services.

The participation of the Rostov region design, implementation and exports of such technology will allow the region to complete a transition to a forward-looking model of innovative development. It is necessary however, to provide for co-financing of the projects that determine new markets in the context of NTI program.

Currently active clusters in the Rostov Region have a great potential, and are able to achieve the set criteria in order to obtain federal subsidies, and improve investment attractiveness. In addition, the «Bank of development and external economic activity (Vnesheconombank)» provides a whole complex of instruments for financial support available for companies initiating the investment projects: loans, insurance; participation charter capital; lease operations (Materials provided by the official website of Vnesheconombank).

In order to obtain those, investment projects should comply with the criteria set by the Memorandum of Financial Policy of Vnesheconombank: time to profitability of the project no more than 5 years; overall cost of the project - exceeds 2 billion RUB. This allows attracting substantial resources into large infrastructure projects, that’s why all the operating clusters should carry out research to determine the primary problems that could be solved by such projects.

Thus, the foundation for clustering has been formed in the Rostov region, however in the future it should become more widespread, therefore it is necessary to guarantee extra funding in the framework of available federal programs. In terms of non-financial support it is necessary to ensure the organizational and consulting support for the cluster members and set up projects to involve new members including foreign corporations and institutions. Furthermore organizations involved in educations should be more actively engaged in clusters in order to actively implement the NTI. In addition, it is crucial to provide informational support in terms of educating the cluster members about the available instruments of investment attraction as well as infrastructural support, including help with broadband connection, tariff policy and energy.

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