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**INVESTMENT PRIORITIES IN SOCIO-ECONOMIC  
DEVELOPMENT STRATEGIES IN RUSSIAN REGIONS**

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*Abstract*

The transition to a strategic planning system, basing on long-term goals for setting and solving management problems, emphasizes the importance of the investment block of programs and projects for the development of Russian regions' economy. It is the regional level of such management which forms prerequisites for the overcoming of long-term investment recession in Russian economy. Regional investment strategies create necessary conditions for the effective implementation of investment and industrial policy of the regions, for achieving structural changes in their economy- both of sector and spatial nature. In this regard, thorough elaboration of the investment block in all programs and policy measures becomes one of the main conditions for their successful implementation. This applies equally to two main constituent parts of the investment policies and strategies of each region, namely, the effective implementation of budget investments and the measures, aimed at ensuring a favourable investment climate in the regional economy and at forming economic, legal, institutional and other prerequisites for the inflow of both domestic and foreign investments. The necessary conditions for effective investment strategy in the regions of the Russian Federation include the development of public-private partnerships, support for the business activity of small and medium-sized enterprises (SME), the development of regional financial markets.

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## **1. Introduction**

The principal feature of the transition to the strategic planning system is the possibility and even the need to set long-term objectives, not only economic, but also social, environmental, technological, and organizational. It is the long-term goal-setting that determines the particularly close connection of strategic planning with the investment process, its compliance with quantitative and qualitative parameters with the priorities of this planning. This pattern is fully inherent in the regional level of the Russian economy, where the problems of the investment process instability and even the "investment famine" of recent years have proved to be the most significant, which requires the activation of the practice of regional investment strategy and its theoretical and methodological justification.

## **2. Problem Statement**

High-quality investment strategizing is becoming one of the main prerequisites for sustainable socio-economic development of the regions. We can say that it is the investment process and the investment policy that became the first "field" for testing the methods of economic strategizing.

## **3. Research Questions**

Accordingly, theoretical studies on regional investment strategy have a broader base than the works on strategic planning in general. In this block of studies, first of all, the issues of a stable financial base of investments formation in the regional socio-economic development (Slepov & Volkov, 2016); expansion and effective use of available fiscal triggers of the investment process (Lazaryan & Chernotalova, 2017); the use of non-financial components to improve the investment climate in the region (Meshkov, Bondareva, & Kvilinskiy, 2016) and — in recent years — as well as regional "development institutions" revitalization (Abrosimova, Brikota, & Nuskhinova, 2016; Ivanov & Buchwald, 2018; Morkovkin, 2016) are highlighted. Currently, the published studies clearly show an increase in the importance of the investment component both in the newly developed strategies of the subjects of the Russian Federation and in their special documents focused on the investment strategy goals. However, a holistic methodology for integrating the problems and prospects of the regional economy investment sector into a unified system of its socio-economic development stratification has not yet been formed.

## **4. Purpose of the Study**

The purpose of the paper is to reflect the main economic and institutional prerequisites for further improvement of the investment strategy practice.

## **5. Research Methods**

The research methodology is based on a comparative analysis of the investment process trends in the regions of Russia against the background and in connection with the general problems and development patterns of the investment sector of the country's economy. The methods of the study are based on the identification of the reasons for the investment activity differentiation in the regional

economy in comparison with the efforts to create a favorable investment climate. The work is based on a systematic study of the current practice of investment strategy and ways to increase its positive impact on investment processes in the regional economy.

## 6. Findings

The adoption of the Federal law on strategic planning (Federalnyj zakon ot 28 iyunya 2014 goda..., 2014) stimulated not only a radical update of the relevant regional strategies, but also special attention to the development of documents aimed at the long-term configuration of the goals and investment policy instruments. Program-conceptual documents on investment policy were also developed in the regions of the Federation earlier (Gayvoronskaya & Dynnikov, 2015; Ibragimova, 2015; Novoselov, Itsenkov, & Aleksandrova, 2016) however, in the new conditions, such strategies are characterized by a close connection to the priorities of sectoral and spatial socio-economic development of the regions.

In the last few years, the general "background" of the investment situation in the regions of Russia was determined by the following main factors.

First, it is a general decline in investment activity in the Russian economy as a whole. During the crisis of 2014-2016, investment in fixed capital in Russia steadily declined. In 2017, the Russian economy embarked on the path of recovery, which is largely due to the growth of investments, the growth of which in fixed assets amounted to about 4%. According to the forecast of the Ministry of Economic Development of Russia, in the next three years, investments will increase by an average of 5.3%. At this rate of growth, gross fixed capital formation in the Russian economy will reach 23.8% of GDP by 2020 against 20.4% in 2016.

However, now it is really difficult to predict when these investment targets can actually be achieved, although even they do not guarantee the country a faster growth rate compared to the dynamics of the world economy as a whole and, especially, in comparison with the leading countries. For example, gross fixed capital formation in India is at 30% of GDP, while China's is at 40%. The current level of investment in fixed capital does not allow a sustainable renewal of the production base of the country's socio-economic development.

Secondly, the restoration of the pre-crisis level of investment activity in the Russian economy and its subsequent growth will have certain structural priorities. Thus, it is expected that the share of investments in real estate and construction complex, manufacturing, trade, social sphere will increase. At the same time, the share of investments in the fuel and energy sector, transport and agriculture will be reduced. Given the significant differences in the structure of the economy of the constituent entities of the Russian Federation and the Russian economy as a whole, the new economic realities will be projected at the regional level of the investment process with very significant differences; a group of regions-traditional "investment locomotives" can expect significant changes. Yet these changes are expected only in the future.

In the meantime, as Zubarevich (2018) notes, the territorial structure of investments only strengthens the raw material nature of the Russian economy and the predominant position of the country's

capital, whose investments from the super-rich budget are mainly directed to the development of transport infrastructure and the urban environment improvement.

Third, which largely follows from the above, both in the context of the crisis, and in the period of some economic recovery, the investment situation in the regions of the country varies much. Thus, in recent years, a record high rate of decline in fixed investment, exceeding 30%, was characteristic of the Republics of Tuva and Mari El, Chukotka, Magadan and Penza regions. In other 5 regions – in the Republics of Buryatia, Kalmykia and Khakassia, Krasnodar and Samara region – the rate of decline in investment in fixed assets also exceeded 20%.

The decline in investments in fixed assets was observed not only in small, but also in relatively large — in terms of investment — regions of Russia.

The situation of significant gaps in the investment activity of the regions remains stable. Investment activity increased only in 41 subjects of the Russian Federation, while 44 subjects recorded a decline in investment (Itogi V ezhegodnogo rejtinga investicionnoj privlekatelnosti regionov Rossii, 2017).

The analysis of investment activity of subjects of the Russian Federation for the last few years allows drawing a number of important conclusions concerning problems and prospects of investment strategizing at the regional level.

First, even for fairly large regions, the annual instability of the investment process is noticeable, while in the context of the crisis and the investment recession in the country's economy as a whole, this instability and the "scope of variation" of investment dynamics in the regions are significantly increasing. This immediately determines the overcoming of this negative trend as one of the key tasks for the investment strategies for the subjects of the Russian Federation.

Secondly, there is an extraordinary differentiation of regions by sources of financing of investments into fixed capital. Meanwhile, this structure is also directly related to the reliability and effectiveness of investment strategy at the regional level. Traditionally, the main source of investment in fixed assets is the companies' own funds.

Outwardly, this trend looks paradoxical: it would seem that in the conditions of the crisis, the share of budget financing would have to increase as one of the most powerful levers which maintain the investment process stability in the national economy, but this did not happen. The mal-chosen guidelines of the economic and budgetary policy of the Russian Federation, focused mainly on the priorities of relative budgetary stability, rather than on the "acceleration" of the economy due to large budget investments, in particular, in infrastructure and other "mega-projects", played a role here.

As Primakov (2014) stressed, a breakthrough in economic growth can take place only with the implementation of a number of mega-projects. Greenberg (2016) also noted that the only option of survival in this world for us is mega-projects, first of all, the construction of high-speed railways and roads that "connect" the space of Russia. However, the policy of mega-projects should be carried out very carefully, basing on the territorial balance principle, otherwise, as a result of these projects' implementation, we will face even greater economic differentiation of the regions of the country – both in terms of GRP and investment activity. In addition, various mega-projects should become strategic at the Federal level, including through the Strategy of spatial development of the Russian Federation.

Thirdly, the investment situation in the country and its regions is influenced by a powerful abroad-oriented outflow of capital resources from the Russian economy. According to the Bank of Russia, the outflow of capital from the country in 2018 amounted to \$60 billion (Vstrecha D.A. Medvedeva s glavami regionov v ramkax rossijskogo investicionnogo foruma «Sochi-2018», 2018).

The most significant factors in restraining investment activity in almost all regions of the country are the lack of own financial resources (which partially can be filled by the subjects of the Russian Federation themselves, for example, through guarantees on bank loans, the use of regional development institutions resources) and the uncertainty of the economic situation in the country, which to a large extent is outside the "zone of influence" of each particular region taken separately.

Fourthly, there is a clear lack of visible correlation between the dynamics of investments in certain regions and the position they take in different investment ratings. This does not mean that the published ratings are unreliable. At the same time, those components of the investment climate that are under the influence of exogenous factors (for example, differences in the depth and nature of global market trends' impact on the economy of Russian regions due to structural differences) remain outside the consideration. In addition, the importance of budgetary sources of investment was noted above, and the flows of funds to the regional economy are not only sharply differentiated for each of these regions, but also, as a rule, generally do not focus on comparative indicators of investment attractiveness of individual subjects of the Russian Federation, since they are regulated by other circumstances.

As the analysis of the available documents shows, the idea of investment strategy in the subjects of the Russian Federation (within their legally established powers to regulate and directly participate in the investment process) is reduced to two main points.

First, it is the strategy of the dynamics, structure and resource support of centralized investments, that is, investments carried out at the expense of the consolidated budget of the subjects of the Russian Federation and, which is very close, at the expense of regional development institutions' resources. Secondly, it is the long-term planning and implementation of measures on creating a favorable investment climate in the region's economy. This includes not only the operation of traditional investor support tools (tax incentives; property support; guarantees on loans and the like), but also purposeful non-financial (informational, consulting) assistance to investors from regional development institutions (Buchwald & Ivanov, 2015; Ivanov & Buchwald, 2018).

It should be noted that these two key areas of investment strategy in the regions are largely interrelated. For example, the use of the practice of public-private partnership (PPP), on the one hand, can be considered as one of budget investment channels, and on the other – as a part of the overall system of measures creating a favorable investment climate and attracting private investment into the economy of the region. Moreover, the transition of the subjects of the Russian Federation to the practice of investment strategy in itself, unthinkable without coordination with the investment plans of the leading economic entities of the region, forms additional premises for a new PPP stage – the stage of “strategic partnership” (Kosinova, 2015).

In our opinion, within the framework of the two above-mentioned vectors of regional investment strategy in recent years there has been a certain reassessment of their importance. On the one hand, under the influence of objective factors (budget constraints in the regions; the need for priority financing of

large interregional and federal projects), the importance of direct budget investments from the funds of the subjects of the Federation is reduced. On the other hand, there is a clear tendency to intensify the efforts of the constituent entities of the Russian Federation to create a favorable investment climate, to attract and support investors, as well as to significantly expand the range of institutions and instruments used for this purpose.

This trend is in line with the efforts of the Federal center to improve inter-budgetary relations and the practice of project financing in order to create obvious incentives in the regions to pursue an active investment policy, including in the form of investment strategy. Thus, the grant support of the subjects of the Federation implementing effective budget policy, as well as ensuring the growth of the tax base and revenues of the consolidated budget are practiced. Since 2018, the increase in corporate income tax is returned to the regional budgets; an investment benefit on the income tax begins to operate. Taking into account the implemented and planned measures to restructure and reduce the sub-federal public debt, this creates good conditions for the regional finances' stabilization and, accordingly, for the successful establishment of the investment strategy practice in the regions of Russia.

As noted above, the provisions of the Federal law on strategic planning are now of key importance for the development of strategic planning at all levels of government. However, the paradox is that this law on investment, investment planning and strategizing, including at the level of the Russian Federation subjects, isn't mentioned. Of course, this does not make the whole practice of preparing regional investment strategies illegitimate. This is determined by the fact that the provisions of the law on the formation of strategic planning documents set, developed at the level of the subject of the Russian Federation, are "open". This situation does not exclude the possibility of developing other strategic documents that specify the objectives of the "basic" strategy of the region and the mechanisms for their practical achievement, including in the investment sphere.

As it can be assumed, today the following closely interrelated components (documents) that ensure high efficiency of investment policy at the regional level are the most significant.

1. Strategy of social and economic development of the region
2. Investment strategy of the region.
3. Investment passport or declaration of the region, as well as its specialized investment portal.
4. The law of the subject of the Russian Federation on investment activity and its state support.
5. Accession of the Federation subject to the so-called "investment standard" (the Standard of activity of executive authorities of the Russian Federation subject on ensuring a favorable investment climate in the region) (Standart deyatel'nosti organov ispolnitel'noj vlasti subekta Rossijskoj Federacii po obespecheniyu blagopriyatnogo investicionnogo klimata v regione, 2013).

## **7. Conclusion**

According to the study, the search for mechanisms on achieving the goals of sustainable socio-economic development, budget balance and consistent solution of social problems are actively pushing Russian regions to the formation of an integrated system of investment strategy, as well as its regulatory and institutional support. Investment strategies of the constituent entities of the Russian Federation are part of this system. However, the positive function of these documents in the activation of the investment

process in the regional economy can be realized only under certain conditions. First of all, the tasks of the current stage of socio-economic development of the Russian regions (increasing the competitiveness of domestic production, import substitution, transition to the digital economy and other promising areas) require constant updating of these strategies.

In addition, it is necessary to integrate these strategies into a single block of strategic planning documents at the level of the subjects of the Russian Federation, and it would be desirable to position the mandatory nature of such strategies in the Federal law on strategic planning. This will ensure the coordination of the key provisions of the "basic" and investment strategies of the region, reflecting in it both the sectoral problems of the regional economy and the challenges of territorial planning. The latter involves linking the investment strategies of the regions with similar documents developed at the municipal level of management.

Methodically, it is necessary to clarify the range of issues to be covered in regional investment strategies, which are now often seen as a "duplicate" of the basic strategy for the regional development. It is important to overcome the situation in which the existing strategies give a rather vague idea of the components of the investment potential of the region and are almost devoid of any generalized economic assessments of this potential.

In addition, for the investment strategies of the Russian Federation subjects, a scenario model of construction based on various options for the investment situation development in the Russian economy as a whole is very important. In our opinion, it is also time to remake the existing "investment standard" for the regions. All the provisions of the document remain valid and relevant, but a number of positions should be considered to be unreasonably absent. The Standard describes in detail all procedures and requirements for the development and implementation of a regional investment strategy. Today, however, this is not enough; the document should establish the requirement for a clear positioning of the special role or place of such strategies in the system of regional strategic planning on the basis of coordination of all existing documents and on the basis of a single methodology and system of goal-setting.

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