

## **Regional Aspects of the Investment Process (On the Sample of the Volgograd Region of Russia)**

*Julia Brehova and Vadim Yakovenko*

Volgograd Branch of the Russian Presidential Academy of  
National Economy and Public Administration,  
8 Gagarin Street, Volgograd, 400131, Russia

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**Abstract:** Problems of investment appeal of region need to be considered with factors of the influencing. The current situation in the investment sphere of the Volgograd region is analyzed. The main measures of the state support of investment activity carried out in the Volgograd region which can be applied in any region are considered.

**Key words:** Investment • Investment attractiveness • Government support • Economic growth  
• Capital expenditures • Investments

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### **INTRODUCTION**

Economic growth is the most important task of the authorities at all levels. As the practice of many countries, it is necessary to increase the investment was based, which in this case would be capable of reproducing itself.

According to Article first of the Federal Law No 39 “On Investment Activity in the Russian Federation in the form of capital investment” investments include cash, securities, other property, including property rights, other rights having monetary valuation, invested in the business objects or other activities for profit and achieving another useful effect [1].

Investment policy in the region, designed to meet all of the competitive advantages of the subject of the Russian Federation, promotes the formation of a favorable investment climate, increase efficiency production because of the need to ensure payback of investment projects in the form of high profitability or obtain the necessary social effects [2].

Accordingly, the management of the investment process in the region is directly related to its effective development [3].

If you imagine the investment management process of the region in the form of a sequence of steps, then we obtain the following:

- Defining the purpose of investing;
- An analysis of the external environment (market, investment climate, etc.);
- Studying the resource requirements;
- The formation of the resource base;
- Evaluation of the effectiveness of the investment process.

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**Corresponding Author:** Julia Brehova, Volgograd branch of the Russian Presidential Academy of National Economy and Public Administration, 8 Gagarin Street, Volgograd, 400131, Russia.

The objective of the investment process is the development of the region. Achieving this goal can be achieved by applying various methods.

All methods of investment management in the region can be divided into different types:

- For the project management methods are divided into direct (acting directly on the object) and indirect (acting indirectly).
- Instrument of influence - on the financial and administrative.
- The nature of the impact - on the economic, organizational, legal, social and psychological.

Levels of investment is a prerequisite for investment and hence the effective socio-economic development of the economy [4], both for the state as a whole and for the regions in particular. Evaluation of investment attractiveness of the region includes two main aspects:

- The investment attractiveness of the region

At this stage the analysis of the existing legal and regulatory framework, legal aspects, the political situation, the degree of investor protection, the level of taxation, the degree of industrialization of the region's economy, the state of the employment market, the development of communications, demographics, etc.

- Investment attractiveness of specific investment targets. At this stage the analysis of the economic state of the industries, companies and other economic entities.

We analyze the factors of investment attractiveness of the region Volgograd region:

- The Business Climate in the Region

Volgograd region is characterized by relatively favorable conditions for business activity in terms of comparative costs and efficiency of business transactions. However, the conditions for doing business in the Volgograd region has recently deteriorated. Thus, according to the study of business climate, which is annually held Volgograd Regional Branch Public Organization of Small and Medium Enterprises "Support of Russia", the Volgograd region in 2013 in terms of characterizing the entrepreneurial climate of the 39 regions takes 27th place.

For example, in 2011 the region was on the 15th position out of 40 regions where the study was conducted.

**Mineral Resources:** The competitive advantages of the Volgograd region is the presence of hydrocarbons in the region - oil with low content of hydrogen sulfide and other mineral resources, favorable external market conditions and high export.

**Ttransport Infrastructure:** Volgograd region has a well -developed transportation network.

The potential of the Volgograd region, designed to support the infrastructure and the ever-changing needs of the industry in the region, has for long been a positive factor in its competitiveness.

With a network of roads, railways, waterways, passing through Volgograd and the surrounding area, the region opens the way to the north, south, east and west and is a major transportation hub of the bustling southern highway.

Volgograd pipeline network connects to the oil and gas fields in the area. In addition, through its territory been laid oil pipelines.

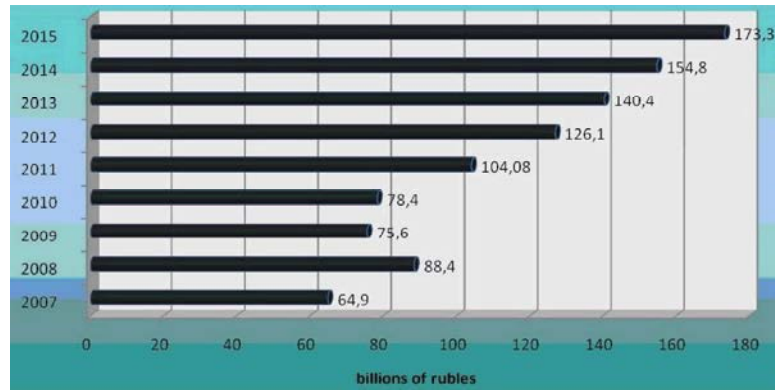


Fig. 1: Dynamics of capital investments in the economy of the Volgograd region on the full range of organizations (actual - forecast)

**Advanced Information Infrastructure:** Volgograd Region is actively developing in the field of advanced information technology infrastructure. We are talking about systems that allow businesses, citizens and governments of the region have at their disposal a fast and reliable connection.

**Financial Resources:** Volgograd region has sufficient potential revenue of the budget system, extra-budgetary sources.

**A Unique Tourist and Recreational Potential:** Volgograd region has unique natural complexes Elton lake, various sources of mineral water, therapeutic mud reserves, forests, hydrographic network, numerous monuments of history, archeology and culture, beautiful landscapes, diverse species of animals and fishes, as well as areas with favorable and relatively favorable climatic conditions for recreational development.

Over recent years there has been a trend towards increased investment in the Volgograd region.

Thus, the volume of investment in fixed assets in 2012 amounted to 126.1 billion rubles, which is above the level of 2011 in comparable terms - by 11.4 % in current prices - by 21 %.

Foreign investment in 2012 amounted to 456.6 million dollars, which is 8% more than in 2011 [5].

Investment performances of the Volgograd region in 2012 are shown on the Figure 1 below.

Thus, in the Southern Federal District, Volgograd region in terms of investment in fixed assets and the receipt of foreign investment in third place after the Krasnodar Territory and Rostov Region. The positive dynamics of investment observed against the formation and improvement of regional legal framework governing investment matters.

In accordance with the Law of the Volgograd region from March 2, 2010 <sup>1</sup> 2010-OD "On state support of investment activity on the territory of the Volgograd region" support is provided by projects in priority areas:

- Introduction of resource-saving technologies;
- Introduction of environmental technologies;
- Production and processing of agricultural products;
- Introduction of energy-saving technologies;
- Development and implementation of innovative technologies;
- Manufacture of pharmaceutical products;
- The development of transport infrastructure;
- Development of industrial, energy, agriculture, building complexes;
- Construction of new exploitation of mineral deposits, their mining and processing;

- Construction of health, recreation, culture, physical culture and sports, social service agencies, housing, public infrastructure and utilities in subsidized municipalities;
- construction of hotels category "three stars" and above and reconstruction of objects of capital construction [6].

Consider the basic measures of the state support of investment activity within the territory of the Volgograd region:

- Providing tax incentives for business property tax at a rate of 2.2% of the average annual value of the property created in the course of implementation of the investment project.

The bottom line benefits - full exemption from payment of tax. The right to have the privilege Investors in respect of the property created in the course of implementation of the investment project. Exemption applies for a period of not more than five years within the project's payback period starting from the tax period following the tax period in which the established procedure object (works that increase the value of fixed assets) was adopted for accounting purposes as a fixed asset. For example, the Rostov region set a tax rate of 1.1% the Astrakhan region - set a tax rate of 1.1%, the Stavropol region - the tax rate 2.0% during the first two years from the day of the balance of the property.

- Provision of a reduced tax rate on corporate income tax to the level of 13.5%.

The reduction of the rate was due to the Law of the Volgograd region from 17.12.1999 No 352-OD "On the rate of tax on profits". The tax rate on corporate income tax can be reduced to the level of 13.5% in part paid to the regional budget, depending on the growth of the tax base. The tax base is calculated for each reporting (tax) period of the current year to the tax calculated on the basis of income tax for the reporting (tax) period of the previous year.

For example, the growth of the tax base to 15% tax rate is 16%, with an increase from 15 to 20% tax rate is 15.5%, with an increase from 20 to 30% tax rate is 15%, with an increase from 30 to 40 % tax rate 14.5%, with an increase from 40 to 50 % tax rate is 14%, with growth of 50 % and higher tax rate 13.5%.

- Investment tax credit.

The investment tax credit is a change in the tax period in which the organization if the grounds specified in Article 67 of the Tax Code of the Russian Federation, the opportunity for a certain period of time and to a certain extent reduce their tax payments, followed by gradual payment of the loan and accrued interest. The investment tax credit can be given organization, which is the relevant taxpayer of the tax, if at least one of the following grounds:

- Conduct by the organization of research or development activities or modernization of its own production, including aimed at creating jobs for people with disabilities or protect the environment from pollution by industrial waste and (or) energy efficiency of production of goods, works and provision of services;
- The implementation of this innovative organization and innovation, including the creation of new or improvement of existing technologies, the creation of new types of materials or supplies;
- The performance of the organization particularly important order for socio-economic development of the region or the provision of its critical services to the public;
- The implementation of the state defense order;
- The implementation of this organization investment in the creation of objects that have the highest energy efficiency class, including apartment buildings and (or) related to renewable energy and (or) related to the production facilities of thermal energy, electrical energy efficiency have actions of more than 57 percent and (or) other objects, technologies with high energy efficiency, according to the list approved by the Government of the Russian Federation;

- Including the organization's roster of area residents territorial development in accordance with the Federal Law "On the territorial development zones in the Russian Federation".
- Reduction of rent for the lease of land owned by the Volgograd region.

Investors implementing investment projects and entered into an investment agreement with the Government of the Volgograd region, during the term of the investment agreement concessionary rents for the land owned by the Volgograd region and used for the purposes of investment, in the order determined by the Government of the Volgograd region.

The order is determined by the Administration of the Volgograd region on August 22, 2011 N 469- p "On approval of the procedure for calculating the rent for the land, public property is not delimited and land owned by the Volgograd region: the annual rent for plots of land owned by the Volgograd Region, provided the investor agreement with the Government of the Volgograd region and using such land for the implementation of investment projects, the signed investment agreements, the duration of such agreements shall be calculated in accordance with Section 2 of the Order and is set in amount not exceeding the amount of land tax for this land.

- Government guarantees the Volgograd region, in the case of borrowing for the investment project.

The state guarantees the Volgograd region to investors in accordance with the legislation of the Russian Federation.

The order of this state support is defined by the Law of the Volgograd region from 28.04.2007 N 1455 -OD "On State Guarantees of the Volgograd region" and the Resolution of the Volgograd region from 09.06.2008 N 6-p "On state guarantees of the Volgograd region" (with the "Regulations on the organization and conduct of tenders for the provision of state guarantees of the Volgograd region").

State guarantee on the investment project - the state guarantee provided to secure the loan, to attract investors for the investment project in the Volgograd region, recipients of government guarantees are legal entities, regardless of their organizational-legal form and ownership, duly registered in the Volgograd region and the municipalities of the Volgograd region.

- To fulfill credit obligations of investors, attracting credit resources for the implementation of investment projects on the territory of the Volgograd region, the key objects of pledge fund the Volgograd region.

The order of this state support is defined by the Law of the Volgograd region of 17.10.2012 No 121 -OD "On Pledge Fund Volgograd region". Investors, attracting credit funds for investment projects in the Volgograd region, may, in the competitive selection process to claim state support in the form of the security of their credit obligations to the credit institution collateral objects pledge fund the Volgograd region [7].

- Non-financial measures of state support of investment activity.

These measures are provided by the Law of the Volgograd region of 02.03.2010 N 2010 -OD "On state support of investment activity on the territory of the Volgograd region" and are as follows:

- Support (direction) of petitions and appeals to the federal bodies of state power of the Russian Federation to assist investors in investment projects;
- Assistance in the development of business infrastructure (certification services, consulting, training and re-training and other services);
- Assistance in the selection of production space and land in accordance with the parameters of the project;
- Creating and maintaining a database of investment and innovative projects being implemented or planned for implementation in the Volgograd region;

- Creating and maintaining a database of vacant production premises, land in the Volgograd region, including accompanying technical infrastructure in the manner prescribed by the Government of the Volgograd region;
  - Organization of exhibitions and fairs of investment projects planned for implementation and implemented in the Volgograd region;
  - Publication of the information and analytical materials about the investment.
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- Compensation from the regional budget difference between interest rates on loans granted by credit institutions under the Russian projects.

This form of government support provides for compensation for the investor the difference in interest rates on loans in the amount of one third of the refinancing rate (discount rate) of the Central Bank of the Russian Federation effective on the date of the loan.

- Engineering communications.

This measure is to organize on the basis of these areas of investment areas for industrial development, housing and social infrastructure.

The order of engineering communications, as well as the amount and sources of funding for the costs associated with their creation, defined by the corresponding long-term target program.

- Direct participation in investment activities.

This measure is shown to participate in investment activities, including through public investment entities that are not state unitary enterprises, providing rise to the right of the Volgograd region in the equivalent portion of the authorized (share) capital and property of the user object of investment.

- Other forms provided by the legislation of the Russian Federation and the Volgograd region.

Consider the forms of state support provided to investors in the Volgograd region in 2010 - I quarter of 2013 (Figure 2):

It should be noted that the investor has the right to claim some form of public support, with the aggregate amount of all forms of government support provided by investing activities in monetary terms can not exceed the value of the investment project.

In the Volgograd region sold more than 150 investment projects, which can be classified into three major groups. The first group - the projects included in the list of priority projects in the Southern Federal District, the second group - projects of socio- economic importance to the development of Volgograd region and the third group - the projects of social and economic importance for the development of municipalities of the Volgograd region.

Among the priority projects in the Southern Federal District should include four projects:

- Construction of Mining and Processing Plant for the extraction and enrichment of potash capacity of 2.3 million tons per year of 95 per cent KCL Greymyachy field Kotel'nikov area of Volgograd region.
- Construction and development of small buses with a complete production cycle in Volzsky city of Volgograd region.
- Creation of chemical-pharmaceutical cluster in the Volgograd region.
- Formation of the textile cluster "Volga" in the Volgograd region on the basis of "Kamyshinsky textile" enterprise.

The total volume of investments in priority projects in the Southern Federal District is 83.4 billion rubles.

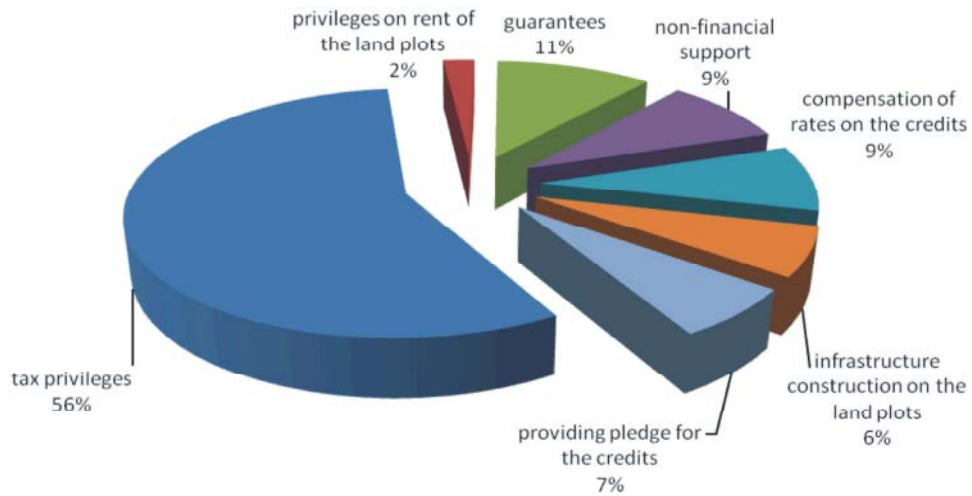


Fig. 2: Forms of government support provided to investors in the Volgograd region in 2010 - I quarter of 2013

Table 1: Sectoral structure of projects of social and economic importance to the development of Volgograd region

Branch	Amount of projects	Total volume of investment, billions of rubles
Industry	8	23,7
Agriculture	22	38,7
Extraction and processing of minerals	5	87,0
Energetics	1	0,2
Transport infrastructure	4	51,3
Building complex	2	11,8
Housing	5	100,5
Construction of hotels	5	4,6
Health and recreation	1	0,8
Others	53	318,6

Table 2: Fields of projects of social and economic importance for the development of municipalities of the Volgograd region

Branch	Amount of projects	Total volume of investment, billions of rubles
Agriculture	43	6419,3
Industries	7	1596,6
Construction of houses	7	876,5
Processing waste	3	766,6
Construction of shops	14	135,3
Construction of objects of road service	5	59,0
Construction of domestic services	10	42,9
Others	6	185,1

Among the projects of socio-economic importance to the development of Volgograd region include 53 projects, total investment in which amounted to 318.6 billion rubles. Projects of social and economic importance for the development of Volgograd region, implemented in the following areas (Table 1):

Among the projects of social and economic importance for the development of municipalities of the Volgograd region include 95 projects, total investment in which amounted to 10.1 billion rubles. Projects of social and economic importance for the development of municipalities of the Volgograd region, implemented the following areas: agriculture, industry, housing, recycling and solid waste, construction shops, etc. (Table 2).

Thus, the volume of investments in investment projects implemented in the Volgograd region of 412.1 billion rubles. These projects account for about 11.7 thousand new jobs. It should be noted that there are difficulties in determining the social efficiency of investment projects, the significance of this problem increases in government involvement in the investment process.

In determining priority investment projects, including for the provision of government support, it is necessary to consider not only the fiscal and economic efficiency, as well as social innovation and efficiency. It is believed that socially efficient projects will lead to an increase in welfare of the Volgograd region.

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