Management of the Investment Process at the Regional Level
(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

Abstract: Problems, associated with the management of the investment process at the regional level, are discussed in the article, also as the problems of increasing of regional level of the foreign investments. The authors substantiate the necessity of concentration of efforts on several priority areas, first of all on infrastructure and housing, because the development of these industries creates a multiplier effect.

Key words: Investment activity • Investment policy • Investment attractiveness • Foreign investments • Investment process • Subject of the Russian Federation (RF subject)

INTRODUCTION

Despite of the relatively strong growth of investments in fixed assets during the last years, the rates of renewal of fixed assets in most sectors of the economy are still very minor. This fact requires state participation in the investment process.

Investment sphere is the main tool for economic development both for entities (different businesses) and for the region as a whole. Authorities are the only kind of participants of the investment process, which can act as a player in the investment market and also as the regulatory body.

The current Russian legislation, defining the legal regime of the investment process, is one of the most important factors in investment activity. The state determines the rights and ownership, rules for investing activities, terms of contracting, warns the abuses in the investment market, protects investors.

According to the Art. 1 of the Federal Law “On Investment Activity in the Russian Federation in the form of capital investment”, investments consist of money, securities and other property, including property rights, other rights having monetary value, invested in the business objects and (or) other activities for profit and (or) achieving another useful effect [1].

Professionally designed investment policy of the region promotes the formation of a favorable investment climate, provides resources for reproductive system, contributes improving of production efficiency. So, we can declare that the key to effective development of the region is in the effective management of its investment process (investment process at the level of the RF subject see on the Figure 1).

Investment management as a process consists of the following stages:

- Definition of investment objectives;
- Analysis of the external environment (market, investment climate, etc.);
- Studying of the resource’s requirements;
- Formation of the resource base;
- Evaluation of the effectiveness of the investment process.

State, non-state corporate actors and individual subjects are allocated as control subjects in the modern scientific literature [6, p. 18]. If we consider the region as a control object, we can specify the general structure of the control subjects and describe the resources that they manage (Table 1).
Fig. 1: Investment process in RF subject

Table 1: Sources of investment and investment management entities

<table>
<thead>
<tr>
<th>Subject of management</th>
<th>Source of Investment</th>
<th>Type of the subject of management</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>Budget</td>
<td>Federal Government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Regional public authorities</td>
</tr>
<tr>
<td>Non-state corporate actors</td>
<td>Savings of organizations (depreciation, income, intangible assets)</td>
<td>Enterprise of different industries</td>
</tr>
<tr>
<td></td>
<td>Credits</td>
<td>Commercial banks</td>
</tr>
<tr>
<td></td>
<td>Foreign investment funds, credits from international financial organizations</td>
<td>International and foreign organizations</td>
</tr>
<tr>
<td>Individual subjects</td>
<td>Public savings (current savings, bank deposits and securities)</td>
<td>Population</td>
</tr>
</tbody>
</table>

Development of the investment process in the region is the aim of the given species management [4]. This goal can be achieved by a variety of methods. Task of the subject of management is in the selection of best of all (optimality is the criterion) for implementation of the goal within it’s competence.

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

- Concerning the object of management: direct (acting directly on the object) and indirect (acting indirectly);
- Concerning instruments of impact: financial and administrative;
- Concerning the character of impact: economic, organizational, legal and socio-psychological [3].

It is expedient to distinguish the methods of management by main stages of the project’s realization: planning, implementation, monitoring, control (planning methods, methods of organization, research methods, methods of regulation and incentives, monitoring and control methods).

Level of investment attractiveness is the determinative condition of dynamical investment activity and, therefore, effective socio-economic development of the economy both of on the state and on the regional levels.

Evaluation of investment attractiveness of the region includes two main aspects:

- Investment attractiveness of the region. 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. are analyzed on this stage.

- Investment attractiveness of specific investment objects. Economic condition of industries, enterprises and other economic entities is analyzed on the given stage.

Stimulating investment process at the regional level requires using the integrated approach.

Program-oriented planning in the scientific literature is characterized as a type of administrative activity, in the base of which - focusing on the achieving outcomes. Program-oriented planning is based on logic scheme “goals - ways - methods - means”. Basis of the program management is not in the consideration of the current organizational structure, but in the management (control) of the program’s elements, program activities.

In a generalized representation program-target method of forming a system of planned outcomes of major problems of the national economic system of the country. It is characterized by the following:

- Selection of the main goals of social, economic and scientific and technological development;
- Development of related activities to achieve these goals on the actual schedule with balanced supplying resources and effective development of social production;

This method involves the development of planning documents with a preliminary estimation of the finite public needs, proceeding from national goals while further defining effective ways, means and organizational measures for their achievement and resource provision.

In the fundamental scientific work of B.A. Raizberg and A.G. Lobko, devoted to the problems of program-oriented planning and management, there is the following detailed wording: “generally, target-oriented program is the totality of planned to systematic conduction, agreed on the content, adjusted in space and time, provided by the resources different events (actions), aimed at solutions to pressing problem, which can not be achieved without concentrating efforts and resources for achieving this goal” [7, p. 29].

The Program of creation favorable conditions for attracting investments into the economy of the Volgograd region for 2012-2014 years [2], approved by the Resolution of the Government of the Volgograd region from 31.10.2012 # 463-p, is realized in the Volgograd region. But on our opinion it is necessary to adjust it’s indicators and to clarify the directions of solving problems concerning the development of priority sectors of the economy.

Investment in fixed capital from all sources of financing is one of the target indicators of program activities implementation. In 2014 value of this indicator is planned on the level of 154,8 billions rubles. Growth of investment in 2013 and 2014 years is planned on the level of 10.4% in comparison with each previous year (2011 year is basis for calculation of this target indicator). Meanwhile from 2007 to 2012 average growth rate is more than 121% per year (despite of the failure of investment in 2009) – Table 2.

It is necessary to maintain investments at a sufficient for the development level. In the conditions of limited budgetary resources we offer to set for this indicator two values: the minimal and maximal, calculated from the average growth rate. For example, the minimal value for 2013 year will be 140,3 bln. rubles, maximal – 148,3 bln. rubles, for 2014 year: minimal – 154,8 bln. rubles, maximal – 179,9 bln. rubles.

<p>| Table 2: The growth rate of investment in fixed assets in Volgograd region, from all sources, bln. rubles (compiled by the authors according to the program data) |</p>
<table>
<thead>
<tr>
<th>Indicator / year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012 Mean value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate of investment in fixed assets in Volgograd region, bln. rubles</td>
<td>64,9</td>
<td>88,4</td>
<td>75,6</td>
<td>78,4</td>
<td>104,08</td>
<td>126,1 89,58</td>
</tr>
<tr>
<td>The nominal growth rate, %</td>
<td>164,89</td>
<td>136,21</td>
<td>85,52</td>
<td>103,70</td>
<td>132,76</td>
<td>121,16 121,29</td>
</tr>
</tbody>
</table>

<p>| Table 3: Thresholds of “investment in fixed capital of Volgograd region” indicator in comparable prices, bln. rubles |</p>
<table>
<thead>
<tr>
<th>Indicator / year</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>The real volume of investment in fixed assets in the Volgograd region, bln. rubles</td>
<td>123,7</td>
<td>130,7</td>
</tr>
<tr>
<td>min</td>
<td>max</td>
<td>min</td>
</tr>
<tr>
<td>128,2</td>
<td>148,9</td>
<td></td>
</tr>
</tbody>
</table>
More of that, the indicators should be supplemented with actual volume of investment in fixed assets in the Volgograd region (let’s also put 2011 year in the basis as in the program). We define deflator index at the level of consumer price index for 2012 year, according to data of Federal State Statistics Service. Thresholds for investment in fixed assets of the Volgograd region, adjusted for inflation, are presented in Table 3.

The using of two values will allow to evaluate the effectiveness of the activity of authorities responsible for implementing the program. The program provides such an indicator as investment in fixed capital per capita (Figure 2).

As we can see on Figure 2, investments in fixed assets are growing more faster than investments in fixed assets per capita, that can not be true, because the population of Volgograd region reduced in average, even since 2008, by 6350 people or on 0,37% per year [8, p. 312]. Respectively, with the decline of population, investment per capita will grow more faster, than the actual amount of investments. We offer to correct the given target indicators. Indicators, calculated on the basis of the volume of investment in fixed assets in the Volgograd region in the comparable prices are shown in Table 4.

The next target indicator of the program is the “foreign investments”. Despite the fact that foreign investments are concentrated mainly in the metropolitan agglomeration and direct, furthermore, in regions with developed or developing oil and gas industry, high enough rates of influx of foreign investments in

![Fig. 2: The growth rate of investment in fixed capital and fixed capital investment per capita](image)

**Table 4: Values of the objective indicators of investment in fixed assets in Volgograd region**

<table>
<thead>
<tr>
<th>Indicator / year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>The real volume of investment in fixed assets in the Volgograd region, bln. rubles</td>
<td>100,8</td>
<td>118,4</td>
<td>123,7</td>
<td>128,2</td>
</tr>
<tr>
<td>Growth rate</td>
<td>-</td>
<td>117,46%</td>
<td>104,47%</td>
<td>103,64%</td>
</tr>
<tr>
<td>Investments in fixed capital per capita, millions rubles</td>
<td>38,63</td>
<td>45,55</td>
<td>47,94</td>
<td>50,22</td>
</tr>
<tr>
<td>Growth rate</td>
<td>-</td>
<td>117,91%</td>
<td>105,25%</td>
<td>104,76%</td>
</tr>
</tbody>
</table>

**Table 5: Foreign investment in regions of Southern Federal District and Moscow in 2009-2011, millions USD**

<table>
<thead>
<tr>
<th>Subject / region</th>
<th>Years</th>
<th>Growth rate</th>
</tr>
</thead>
</table>
Volgograd Region are planned in program (7.27% per year). Volume of foreign investments in regions of Southern Federal District and, for comparison, in Moscow, are shown in Table 5.

As we can see in Table 5, there is a significant increasing of foreign investments in practically all the regions of Southern Federal District, often exceeding the growth rate of foreign investments in Moscow city. There was a significant increasing in foreign investments in the economy of Volgograd region in 2011, but share of Volgograd region in total volume of foreign investment in Southern Federal District is quite small (Figure 3).

Having considered the situation with the influx of foreign investments, we offer to develop subprogram to attract the foreign investments in the Volgograd region.

The given subprogram must solve problems in the following areas:

- Optimization of rates of economic development of the Volgograd region based on well-formed strategy investment activity for the foreseeable future;
- Stabilization of the political situation in the region. The experience of many countries shows that the stability of the political situation is one of the determining factors, increasing its investment rating;
- Significant improvement in the investment climate of Volgograd region;
- Identification of strategic economic and technological development priorities of the region;
- Improvement of legislation in order to protect economic and social interests of foreign investors, increasing their interest in development and improvement of production in the Volgograd region;
- Consistent increasing of welfare in Volgograd region and, on this base, creation new potential market for goods, works, services.

The number of existing investment agreements depends not only on the investment climate, but also on the level of the development of the regional infrastructure. Since the release from the “Great Depression”, infrastructure became the leading locomotive of economic development, first of all in the sphere of road communications. Constructions in this field, as a rule, are carried out on the base of state and local investments (on the base of the state order). It is more important for the countries with developing economies, differing weak level of development of transport communications, because the level of roads development affects sustainable economic growth, improved quality of life.

The role of transport for the development of the Russian Federation can be divided into the following components:

- Economic role. Advanced transportation system stimulates economy;
- Political significance. Transport system integrates RF subjects, forms developed international relations;
- Social value. Developed transportation system provides a higher level of accessibility for citizens the economic and social benefits.

Road transport provides 77% of the total freight transportation in the country (6,7 bln. tons) and 60% of passenger traffic (26,8 bln. passengers). This fact demonstrates the importance of road communication. Entrepreneurial component is also very important.
There are more than 450,000 business entities in the sphere of automotive industry and services, annual income from the carriage of goods by roads is about 127,5 bln. rubles [5].

Developed transport infrastructure promotes economic growth, however, during the construction and maintenance of roads is necessary to focus on the needs of consumers with the optimization of budget expenditures.

Other priority sector, identified in the program, is the building complex. There is a sufficient number of construction companies in Volgograd region, but there are problems associated with wear and tear of production capacity, rising costs of construction enterprises. In this case we offer, first of all, stimulate demand for housing.

The following variants of the new housing are offered:

- Region (municipality) buys being under construction or built housing from the companies-developers. In this case, most likely, the cost of housing will be the highest.
- Region (municipality) on a competitive basis places an order for engineering infrastructure area allocated for housing. As a next step, on a competitive basis the municipality fully or partly passes the plot to developer (developers) with the proviso that part of the built housing stock, for example, 35% (percentage may be different, depending of the cost on the arrangement, actual cost of housing construction and other factors of price nature) transmitted from the developers to municipality. This is a social housing and then it will be distributed to the applicants according to the waiting list.
- Region (municipality) sells on a competitive basis not engineering equipped plot for building with the proviso that, for example, 15% of housing built from the developer will be donated to the municipality for needy citizens according to the lists for social housing (this method is well known from the Soviet era).

It is necessary not to forget about equipping the infrastructure of the area (such a “saving” is very attractive for building companies, because cost reduction leads to lower prices. The structure of the cost of housing is shown in Figure 4.

A significant proportion of the cost falls on the exterior work and connection to networks – 17%. In some cases, problems of outdoor infrastructure make up 30% of the cost per square meter. To reduce the cost of housing, therefore, special attention must be paid to the development of infrastructure, primarily engineering-networks, boilers, substations, etc.

It should be noted that the cost structure, shown in the diagrams above, the cost of the land is not shown, meanwhile it is one of the important component of the price per square meter.

For example, the price for well-equipped land for building of one block of flats in Volgograd may be more, than 40 millions rubles–quite significant component in the price of housing. If on this land will be building a house with a total area of apartments at the level of 10000 square meters, in the price of 1 square meter of the flat 4000 rubles would account for payment of the value of land.

Thus, the most important objective of the investment policy in Volgograd region are stimulating economic activity of the population, promoting more jobs, increase welfare, infrastructure development. At the same time, it is necessary to avoid spreading resources too thinly, that is an integrated approach is required. This approach can be expressed as the special target program. Resources should be focused on the support of two or three priorities, which will be the engine of economic growth. Housing and infrastructure traditionally are the growing points of this process. Development of the

![Fig. 4: The structure of the construction cost of 1 sq. m of housing [9]](image)
building sector leads to a multiplier effect: production of building materials and traffic volume are increased, branch of engineering develop more effective. From the standpoint of budget efficiency, tax and non-tax revenues to the budgets of all levels are increased.

REFERENCES


