

Impact of Investment Climate on Formation and Increase of Fixed Capital of Enterprises

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Abstract: The article explains the need for attraction investment in the development of Russian businesses due to the aging of fixed assets, an analysis of the dynamics of investment in fixed assets, the effectiveness of government measures of attraction investment and recommendations on creating the conditions for activation of external and domestic investment in domestic enterprises.

Key words: Businesses • Investments • Capital • Innovation • Investment climate • Funding sources • preferences • Privileges • Special zones

INTRODUCTION

Transition of Russian economy to innovative development, which requires technical and technological renovation, of course, requires additional flow and capital investment, creation of favorable conditions conducive to the expansion of investment activity and attracts investors. The need to increase investment in fixed capital of domestic enterprises caused by high degree of its wearout. Research of data on the wearout, renewal and disposal of fixed capital (Table 1) suggests that, despite the rapid pace of growth of the refresh rate in contrast with the coefficient of disposal of fixed capital, their wearout is increased and remains quite high - about 50%. Wearout of machinery, equipment and vehicles especially increases and share of investment in renewal of it reduces (in 2012 compared to 2005 it decreased by 4.8%) (Table 2).

Analyzing the structure of the main sources of investment in fixed capital (Table 3), it should be noted that under current conditions borrowed funds are the main source of capital investments in the modernization of production facilities with share 54.6%.

A major limiting factor in the formation of enterprises' own funds as a source of investment in fixed capital is the current system of taxation. Since 2002, the tax exemption for taxation of investment income of enterprises engaged in upgrading, modernization of fixed assets and technical re-equipment of production (includes reducing the tax base up to 50%) canceled.

In 2009, as part of economic anti-crisis measures tax legislation reduces the effective rate of income tax from 24% to 20%, the limit of bonus depreciation on fixed assets acquired increased up to 30%, but a year later mandatory insurance contributions were introduced for all employers (instead of UST), the rate at which dramatically increased the tax burden on businesses, cut the profits of enterprises [1], that had a negative impact on the investment opportunities of them.

As for amortization as a domestic source of renewal of fixed assets of an enterprise, linear method of calculation of amortization does not provide return of initial investment to fixed assets, taking into account the time and inflationary factors and the possibility of using accelerated amortization, which allows to speed up the process of renewal of fixed assets, covers only some of their group. Undoubtedly, the increased use of accelerated amortization will have only a positive effect on businesses and the national economy.

It is known that through active amortization policy, the government deliberately reduces its tax on profit, contributes to accumulation of funds in amortization fund of an enterprise and allows it to carry out the modernization and technological renovation of production without paying tax. This leads to an increase in production, improves quality and competitiveness of products on the domestic and global markets. The result is economic growth, healing for the reduction of budget revenues for the current income tax.

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Table 1: Wearout, renewal and disposal of fixed capital in Russia*

Index	2005	2006	2007	2008	2009	2010	2011	2012
Coefficient of wearout (at the end of the year, %)	45,2	46,3	46,2	45,3	48,8	47,1	47,9	48,6
Coefficient of renewal (implementation of fixed assets as % of total fixed assets at the end of the year)	3,0	3,3	4,0	4,4	4,1	3,7	4,6	3,9
Coefficient of disposal	1,1	1,0	1,0	1,0	1,0	0,8	0,8	0,7

(*)Made by the author on the data of annual statistic digest of Rosstat" Russia in figures 2013" National income

Table 2: Structure of investment to the fixed capital by forms of fixed assets*

Investment to the fixed capital	2005	2006	2007	2008	2009	2010	2011	2012
Total	100	100	100	100	100	100	100	100
Oncluding by types of assets:								
Dwellings	12,0	11,8	13,0	13,6	15,3	12,2	12,7	15,2
Buildings (other than residential) and constructions	40,4	40,9	41,7	42,6	45,5	43,3	43,3	42,6
Machinery, equipment and vehicles	41,1	40,5	38,9	37,7	33,1	37,9	37,9	36,3
Other	6,5	6,8	6,4	6,1	6,1	6,6	6,1	5,9

(*) Made by the author on the data of annual statistic digest of Rosstat" Russia in figures 2013" Investment

Table 3: Structure of investment to fixed capital by source of funding

Indexes	2005	2006	2007	2008	2009	2010	2011	2012
Investment to fixed capital - total	100	100	100	100	100	100	100	100
including by source of funding:								
Own funds	44,5	42,1	40,4	39,5	37,1	40,0	41,9	45,4
Borrowed funds	55,5	57,9	59,6	60,5	62,9	59,0	58,1	54,6
From hem:								
Bank loans	8,1	9,5	10,4	11,8	10,3	9,0	8,6	7,9
loans of other organisations	5,9	6,0	7,1	6,2	7,4	6,1	5,8	5,4
Budgetary funds	20,4	20,2	21,5	20,9	21,9	19,5	19,2	17,0

(*) Made by the author on the data of annual statistic digest of Rosstat" Russia in figures 2013" Investment

In addition, only from domestic sources it is impossible for an enterprise to modernize production, it needs for additional financial resources - bank loans, public investment. However, the share of the budget of the total investment in fixed assets reduces (from 21.9% - in 2009 to 17% - in 2012 (Table 3)). Budget investments currently are insufficient to carry out modernization of domestic enterprises.

The reason for reducing the proportion of long-term loans in the financing of investment in fixed capital is the high rate of interest and the need to provide surety for such types of loans that makes banks loans unaffordable for many entrepreneurs.

One of the instruments of financing of fixed assets is leasing. Leasing as a form of investment is widely spread in many countries, where its share is about a quarter of the volume of investment in equipment and vehicles. Leasing is beneficial for companies that do not have sufficient funds for modernization of production and equipment manufacturers, who get additional opportunities to sell their products. In Russia share of leasing is about 10% of the investment (mainly in infrastructure and vehicles) of the total investment in the active part of fixed assets.

Table 4: Dynamics of foreign investment (2011-2012) (in US dollars)

Indexes	2011 r.	2012 r.
Total foreign investment	190643	154570
including direct investment	18415	18666
Portfolio investment	805	1816
Other investment (loans)	171423	134988

(*) Made by the author on the data of annual statistic digest of Rosstat" Russia in figures 2013" Investment

And, in the end, foreign investment can play a significant role in the renewal of fixed assets, but its dynamics are unstable. Foreign investment decrease by 36,073 million or 18.9% in 2012 compared with the previous year (Table 4).

The structure of investment by forms of economic activity (Table 5) shows that the share of foreign investment in manufacturing in 2012 decreased by 1.6% compared with 2005. This is due to the low profitability of these industries and the transition of investment in highly profitable activities.

Growth of social tension due to the precarious financial situation of many people in Russia affects on the decrease in the activity of foreign investors. A number of factors influence the negative impact on the formation of a favorable investment climate in Russia, such as:

Table 5: Structure of foreign investment by forms of economical activity for 2005 and 2012 years

Forms of economical activity	2005 in % to total	2012 in % to total
Total foreign investment	100	100
including by forms of economical activity		
Agriculture, hunting, forestry	0,2	0,4
Fishing	00	00
Mining and quarrying	11,2	11,7
manufacturing	33,5	31,9
Production and distribution of energy	0,6	1,2
Construction	0,4	0,6
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods for personal use	38,2	16,4
Hotels and restaurants	0,1	00
Transport and communications	7,2	3,0
Financial activities	3,4	28,1
Real estate, renting and business activities	4,9	6,5

high taxes, instability and inconsistency of legislation, high inflation, low purchasing power, high tariffs, inadequate insurance guarantees of the state; poor infrastructure, limited services of local banks, etc. The analysis of financial sources of investment shows that the funds of enterprises remain the main source of investment in fixed capital.

In order to attract investment in the economy the government create special conditions - the special economic zones. Now in Russia there are 27 special economic zones (SEZ) of four types: industrial (6) innovation (5) travel (13) and port-logistics (3).

At the beginning of 2013 323 residents registered in the SEZ of all types, with 393 billion rubles of announced total investment, 30% of which are companies with foreign capital. The volume of investments carried out by residents of the SEZ cumulatively since 2006 amounted to about 70 billion rubles (17% of the announced volume) and the number of jobs created by residents reached 8,000 of people. The volume of products (services) produced by residents amounted to 83.6 billion rubles [6].

However, it should be noted that today the establishment of the SEZ has a negligible impact on the socio-economic situation in the regions, due to the fact that the real economic impact on the functioning of the SEZ becomes noticeable after 10 - 15 years since their inception.

Therefore, the positive effect is the additional attraction of foreign and domestic investment to create advanced technologies of production of goods and services, as well as creating jobs for highly qualified personnel will increase as the implementation of investment projects. The economic efficiency of the special zones is 0.74 rubles of funds invested by the

government. At the same time, there is a significant differentiation in the investment security for various types of SEZs [6].

According to the results of the special economic zones for the year 2012 level of investment spent by the residents to the development: of industrial production SEZ was 2.3 times higher than public investment, of techno - SEZ was 23% of the total volume of investments, of tourism and recreation - 6%, of port SEZ - 0%.

The greatest impact on the region was provided by the creation of SEZs of production type. Currently, we can talk about the end of the preparatory stage of the development of SEZs. In industrial zones all the conditions for the construction and production are set up. The infrastructure of technical SEZs allows investors to expand their projects [6].

According to data reported by the Accounts Chamber of the Russian Federation on January 1, 2013 the sum of signed contracts is \$ 75.2 billion an actual cost for the construction of special economic infrastructure in the amount of 58.4 billion rubles. As of July 1, 2012 the amount of unused by JSC "OEZ" and its subsidiaries of the state-owned assets totaled 33.7 billion rubles. The level of development of the state funds allocated for the creation of infrastructure of the SEZ is about 40%.

The main reason of the low level of budget implementation was the failure acceptance of agreements on the establishment of SEZ lists of objects. As a result, the scheduled date of the tender procedures violated and the start of construction of the infrastructure has been postponed to a later date. Nearly 93 million was spent on works in the tourism and recreation SOZ in the Krasnodar region and the Kaliningrad region, whose activity has been recognized unpromising and prematurely terminated in 2010 and 2012, respectively [5].

The reason for this situation is the lack of effective monitoring system in the mechanism of process of formation of special zones and integrated control over budget spending. Determining the role of the Russian state in the formation of fixed capital we should take into account the experience of developed industrial countries in which the state pursued an active policy in the area of reproduction of capital in the long term.

The main leverage of intensification of investment activity in the industrialized countries is decline in income tax rates, investment preferences, allowing stimulate the development of new techniques, technologies, research activity of companies, professional development of staff. Businesses have an opportunity to select the useful life of fixed assets depreciation in calculation of amortization, with fewer groups than in Russia. And in each amortization group nominal period of amortization is less than the real one.

In Russia, in recent years there have been changes in the tax laws of the mechanism of calculation of In Russia, in recent years there have been changes in the tax laws of the mechanism of calculation of depreciation, but many issues remain unresolved., but many issues remain unresolved. In order to promote domestic financial sources of investment in fixed assets of the upgrade process, it is necessary firstly to return the benefit to the taxation of profits for companies producing technical re-equipment of production, reduce the amount of amortization groups and empower companies to choose the useful life of the property.

These measures, along with other measures will increase opportunities for technological renovation of existing production, as well as creating a new one. The market mechanism can not provide a favorable investment climate by itself, hence the need for public exposure to market incentives. Activation of the state investment policy at the present stage is the key to the transition of the economy to sustainable growth.

Foreign and domestic investors can invest in the real economy. Foreign capital can bring in Russian achievements of scientific - technical progress and advanced management experience. Attracting of foreign capital in the production of goods is more profitable than getting credit for buying needed goods, which are still being wasted haphazardly and just multiply the national debt.

According to most foreign investors it is necessary to eliminate these negative factors to create a favorable investment climate in Russia:

- Bureaucracy;
- Corruption;
- Insufficient development of infrastructure [7].

It should be noticed that domestic investment is not less important than foreign ones, because they serve as an indicator of public confidence in government. Russian investors are not only interested in maximizing profits, but also in enhancing the stability of society, to develop its potential. Improving the investment climate will also help to reduce the outflow of capital from the country, which according to the Central Bank of Russia for the first half of 2013 amounted to 38.1 billion dollars. [8].

In general, we can talk about the positive trends in the development of the investment climate in Russia, but the identified problems of attracting investments into the Russian economy require active attention and participation on the part of the government.

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