Factors improving investment attractiveness
Of Russia's depressed regions

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Abstract: *Recent development of the Russian economy is largely determined by strengthening of interregional socio-economic differentiation. The uneven development of spatial socio-economic systems, in turn, makes it possible to talk about the so-called "prosperous" and "problem" regions. The problem or depressed regions are, as a rule, characterized by relatively poor adaptation to existing business conditions, lower competitiveness of industries operating in these regions, an increase in unemployment rates, negative social phenomena, and others. It should be noted that the Russian scientists studying the regional economy have already developed a list of indicators that allow one to identify the depressed regions quite accurately. These indicators include the industrial production index, unemployment rate, per capita GRP, and per capita industrial output. In accordance with the indicators and on the basis of the statistical data of recent years, ten constituent territories of the Russian Federation are classified as depressed regions: Ivanovo Region, Oryol Region, Smolensk Region, Pskov Region, Volgograd Region, Chuvash Republic, Kirov Region, Ulyanovsk Region, Kurgan Region, Altai Krai. To maintain the upward trend in the Russian economy, it is necessary to ensure an increase in investment, including investment in the economy of the depressed regions, which requires enhancing their investment attractiveness. The traditional measures of a general spectrum, which should contribute to enhancing the investment attractiveness of any territory, do not usually produce the desired result in these regions. In this respect, there is an urgent need to study the factors of investment attractiveness of the regions in order to identify the most significant ones. This will make it possible to develop and justify the proposals regarding the government investment policy, which can ensure a considerable investment in flow into the economy of the problem territories.*

Keywords: *investment attractiveness, investment risks, Russian Federation, depressed regions, analysis of variance.*

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Introduction

Investment is the key component of the dynamic development of the economy of any state. In this regard, handling the matters in the sphere of attracting investment is of primary importance in governing the state both in the Russian Federation and in any European country. It is the government investment policy that determines the investment attractiveness, investment volume, and rates of attracting investment, and consequently the economic development of a particular region and the state as a whole. It should be noted that solving these problems at the regional level is of special relevance in modern conditions. In the Russian Federation, it is the level of the constituent territories of the Russian Federation.

This article aims at studying the factors of investment attractiveness of the depressed regions. The scientific novelty of the research is that the most significant factors of investment attractiveness of the depressed regions have been revealed, influencing which the state authorities can ensure a considerable investment inflow into these regions.

1. Literature review

The investment attractiveness of any region is undoubtedly the basis of its social and economic development. At the same time, it should be noted that there is no consensus on the definition and understanding the essence of the term "region's investment attractiveness" either in business or among scientists. Nowadays there are a lot of different definitions of this concept. The analysis of the approaches to understanding and defining the essence of investment attractiveness by scientists in the field of regional economy has made it possible to draw the following conclusions. The scientists define investment attractiveness of a region in different ways: as a combination of factors of investment in the enterprises operating in the region (Vologdin, 2017;Matveeva, Chernova, 2017); as a set of indicators reflecting the volume of investment in the region (Pronin,2000; Kuzmin, Chepik, 2014; Roizman, Shakhnazarov, Grishina, 2001); as a combination of distinctive characteristics of the region in regard to favorable investment conditions (Vologdin,2017;Asaul, Pasyada, 2008;Stepanova, 2007; Becerra-Alonso, et al., 2016).

There is also no consensus among scientists regarding what determines the investment attractiveness of a region. The scientists believe that investment attractiveness can be determined by favorable investment conditions in the region (Asaul, Pasyada, 2008); prospective effectual demand for investment in the region (Pronin, 2000); perception of the investment project by a prospective investor (Kotukov, 2008);the rate of investment in the region's fixed capital assets (Roizman, Shakhnazarov, Grishina, 2001;Kuzmin, Chepik, 2014; Kubak et al., 2018); a degree to which the region's economic system meets the investors' interests (Yakupov, Yarullin, 2010); measures taken in the region encouraging investors to make a decision to invest funds (Askinadzi, Maksimova, 2017); the investor's choice regarding opportunities and prospects for business development in

a particular territory (Matveeva, Chernova, 2017; Mura et al. 2017); the overall economic situation in the region (Vidyapina, Stepanova, 2007); the idea of feasibility and effectiveness of investment in the region's investment projects, the idea of the investment yield (Aksenova, 2010;Vologdin, 2017).

Some scholars highlight the mandatory nature of the fixed capital type of the investment attracted into the region (Roizman, Shakhnazarov, Grishina, 2001; Kuzmin, Chepik, 2014; Ohanyan, Androniceanu, 2017).

Foreign scientists also have different views on investment attractiveness(Dorożyński, Kuna-Marszałek, 2016; Michalet,1999;Jáč, Vondráčková, 2017;Stecenko, Buka, 2014;Kharlamova, 2014;Tancosova, 2014;Kersan-Škabić, Tijanić,2014;Popescu, 2013; Slavik, 2013). Thus, Dorożyński and Kuna-Marszałek consider the investment attractiveness of a country or a region to be a combination of the advantages associated with its location and some specific characteristics of a specific area. Some scholars understand investment attractiveness as a permanent capability of a territory to generate and manage the attractiveness and intentions of large transnational companies to invest in other territories (Michalet, 1999).

Considering the above stated, investment attractiveness of a region, in our opinion, can be understood as a combination of indicators reflecting the region's ability to attract various types of investment into investment projects within its territory. In this case, investment attractiveness of a region is determined by its investment potential and the investment risks for prospective investors. This definition and understanding of investment attractiveness can be employed in studying the factors of investment attractiveness of the depressed regions.

2. Methods of Research

Having made a research into the economic environment of the constituent territories of the Russian Federation, Russian scientists have identified a few indicators to identify the depressed regions, namely, the industrial production index, unemployment rate, per capita GRP, and per capita industrial output (Chernyshev, 2017).

To determine and further analyze the factors of investment attractiveness of the depressed regions, a list of the constituent territories of the Russian Federation was used in this research taking into account their position in the rating. The analysis of the factors of investment attractiveness of the regions was carried out on the basis of the data of RAEX rating agency (Expert RA,2016). The data analysis determined one of the research tasks – identifying the components of the investment potential in order to determine the ways of enhancing the investment attractiveness of the regions and improving their socio-economic environment as a whole. At the same time, we adopted the approach of strengthening the strengths which complies with one of the "golden rules of business" and allows for identifying the priority areas to take efforts in terms of the region's development. The central idea of this approach is that only focusing on the strengths of a

particular depressed region will allow it to become an effectively operating entity of the state.

The strengths of the investment attractiveness of the regions were revealed by means of the analysis of variation series taking into account the development of the investment potential and the investment risk level. At the same time, it was taken into consideration that both the investment potential and the investment risk are determined by a whole set of components. To identify the most significant ones, we selected the components according to which the RF territories studied were in the first quartile of the investment potential rating and in the fourth quartile of the investment risk rating. The significant components, according to which the regions were characterized as having high investment potential and high investment risk, were identified in this way. The analysis of the obtained results made it possible to define the main lines of development of the depressed regions, the development of their infrastructural potential being one of the most important ones.

When determining the most significant indicators of the infrastructure potential, it was assumed that the regions of the Russian Federation which are in the upper, middle, and lower lines of the investment attractiveness rating in terms of their investment potential are characterized by a certain value of indicators showing their infrastructural potential. Each sample consisted of 15 regions. For further analysis, more than sixty indicators of infrastructure potential, structured in accordance with different areas, were selected (Palkina, Kislitsyna, 2017; Dorofeeva, 2016). The relative (not absolute) magnitude of the indicators was used to exclude the influence of the size of a particular RF region.

To determine the degree of influence of the variables, the one-way ANOVA test (Analysis of Variation) was carried out using the Statistica 10 RU software package. The purpose of the analysis was to identify the significance of the between-mean differences in the groups by comparing the variances of these groups. If there was no significant difference, the variance associated with the within-group variance was close to the estimate of the between-group variance. In this case, it was concluded that the Ranking Position variable was not highly dependent on the categorical predictor, which is the variable characterizing the infrastructure of the RF constituent territory. The higher the value of dividing the between-group variance by the within-group variance is, the greater the difference between the mean values of the groups is and the greater the statistical significance of this difference is.

Within the framework of the analysis of variance, it was assigned that the significance level was $\alpha = 0.05$ which is equal to the probability of an error of the first kind, and the critical value of F-Fishercriterion was $F_{cr} = 3.219$ for the values of the between-group and within-group variances equal to 2 and 42 respectively (Table values of F-Fishercriterion at a significance level of $p = 0.05$). Further, calculations of the statistical significance level p and the statistical F-FishercriterionF_{emp} were made, comparing them with the assigned values made it possible to determine the significance level of the independent variable. The values

for between-group variance($SS_{between}$) and within-group variance (SS_{within}) were also used, the first reflecting the difference between the region ratings caused by the magnitude of the variables used, and the second reflecting the difference caused by other factors. The formula

$$\eta^2 = \frac{SS_{between}}{SS_{between} + SS_{within}}$$

showed numerically the degree of influence of the independent variable on the dependent one, namely on the position of the regions in the investment potential rating. The mean square MS, calculated for each part of the variance, was used as an auxiliary value to calculate the value of the F-FishercriterionF_{emp}.

To overcome the limitations to the value of the indicators set by the program, they were encoded, wherein the value 1 corresponded to the largest value of the indicators, 2 –to the medium one, and 3 –to the smallest value. As for indicators whose increase in values resulted in an investment potential decrease, the encoding was carried out in a reverse order. The rating of the regions in the list of RF constituent territories was also encoded from 1 to 3.

3. Results

The analysis of the position of the depressed regions in the investment attractiveness rating (RAEX, 2016) of 85 constituent territories of the Russian Federation led to the following conclusions. Almost all the regions had low ratings, with the exception of the Altai Krai, which was classed as a region having a reduced investment potential and moderate risk. This allowed us to define one of the research tasks as determining the components of the investment potential in order to identify the ways of increasing the investment attractiveness of the depressed regions.

Following the principle of strengthening the strengths, we have compiled a list of regions having higher ranks in the investment potential rating (Tables 1, 2).

Table1.The regions having higher ranks in the following components: labour potential, consumer potential, industrial potential, financial potential, institutional capacity

№	RF Constituent Territory	The regions' ranking for the components of the investment potential				
		Labour potential	Consumer potential	Industrial potential	Financial potential	Institutional capacity
1.	Ivanovo Region	-	-	-	-	-
2.	Oryol Region	-	-	-	-	-
3.	Smolensk Region	-	-	-	-	33
4.	Pskov Region	-	-	-	-	-
5.	Volgograd Region	16	20	21	20	20
6.	Chuvash Republic	36	-	-	-	-

№	RF Constituent Territory	The regions' ranking for the components of the investment potential				
		Labour potential	Consumer potential	Industrial potential	Financial potential	Institutional capacity
7.	Kirov Region	-	42	-	-	-
8.	Ulyanovsk Region	42	-	-	-	-
9.	Kurgan Region	-	-	-	-	-
10.	Altai Krai	24	24	32	29	31

(Source: Authors for Rating of the investment attractiveness of regions in 2016*).*

**Table2.The regions having higher ranks in the following components:
innovation potential, infrastructure potential, natural resources potential,
tourist potential**

№	RF Constituent Territory	The regions' ranking for the components of the investment potential			
		Innovation potential	Infrastructure potential	Natural resources potential	Tourist Potential
1.	Ivanovo Region	36	32	-	-
2.	Oryol Region	-	22	-	-
3.	Smolensk Region	-	24	-	41
4.	Pskov Region		20	-	34
5.	Volgograd Region	33	-	35	37
6.	Chuvash Republic	-	21	-	-
7.	Kirov Region	-	-	-	40
8.	Ulyanovsk Region	22	36	-	-
9.	Kurgan Region	-	-	-	-
10.	Altai Krai	12	-	23	24

(Source: Authors for Rating of the investment attractiveness of regions in 2016*).*

The Volgograd, Oryol, Pskov, Ulyanovsk Regions, the Chuvash Republic, and the Altai Krai are in the first quartile of the rating. At the same time, three of them also have a higher level of the investment potential for the infrastructure potential component. A list of regions having higher ranks in the investment risk rating (Table 3) was made in the same way.

**Table 3. The regions having higher ranks for the components
of investment risk**

№	RF Constituent Territory	2016 Ranking for the components of investment risk					
		Social component	Economic component	Financial component	Criminal component	Environmental component	Managerial component
1.	Ivanovo Region	-	71	73	-	31	-
2.	Oryol Region	29	29	64	-	-	78

№	RF Constituent Territory	2016 Ranking for the components of investment risk					
		Social component	Economic component	Financial component	Criminal component	Environmental component	Managerial component
3.	Smolensk Region	42	64	65	-	-	35
4.	Pskov Region	-	-	-		29	67
5.	Volgograd Region	41	-	37	-	39	70
6.	Chuvash Republic	-	38	36		26	-
7.	Kirov Region	23	-	39	-	-	-
8.	Ulyanovsk Region	-	-	-	-	-	36
9.	Kurgan Region	-	72	72	-	30	-
10.	Altai Krai	-	38	36	-	26	-

(Source: Authors for Rating of the investment attractiveness of regions in 2016)

The Ivanovo, Oryol, Smolensk, Pskov, Volgograd, and Kurgan regions are in the fourth quartile of the rating of the investment risk level. These RF regions are characterized by economic, financial, and managerial risks.

Having analyzed the results, we identified the major areas for development of the regions regarding their investment attractiveness. (Table4).

Table 4. The major areas for improvement of the investment attractiveness of the RF depressed regions

№	RF Constituent Territory	Areas for improvement of the investment attractiveness of the region	
		Exploiting the investment potential	Levelling the investment risks
1.	Ivanovo Region	-	Economic Financial
2.	Oryol Region	Infrastructure potential	Financial Managerial
3.	Smolensk Region	-	Economic Financial
4.	Pskov Region	Infrastructure potential	Managerial
5.	Volgograd Region	Labour potential Consumer potential Industrial potential Financial potential Institutional capacity	Managerial
6.	Chuvash Republic	Infrastructure potential	-
7.	Kirov Region	-	-

№	RF Constituent Territory	Areas for improvement of the investment attractiveness of the region	
		Exploiting the investment potential	**Levelling the investment risks**
8.	Ulyanovsk Region	Innovation potential	-
9.	Kurgan Region	-	Economic Financial
10.	Altai Krai	Innovation potential	-

(Source: Palkina, Kislitsyna, 2017*)*

It was concluded that the infrastructure factor of exploiting the investment potential is of the greatest interest as it is characteristic of several depressed regions of the Russian Federation. The results of the variance analysis for one of the categorical predictors "The ratio of roads with improved road surface in relation to the total length of hard-surface public roads" are represented in Table 5.

Table 5. The results of the univariate analysis of variance for the variables: "The investment attractiveness rating" and "The share of roads with improved road surface in relation to the total length of hard-surface public roads" (an example)

	SS	Degree of freedom	MS	F	p
Absolute term	180.0000	1	180.0000	292.2680	0.000000
The share of roads with improved road surface in relation to the total length of hard-surface public roads	4.1333	2	2.0667	3.3557	0.044463
Error	25.8667	42	0.6159		

*(Source:*Palkina, Kislitsyna, 2017*)*

The statistical significance p=0.0000, which is less than the specified power of the test α=0.05, testifies to a significant influence of the parameter under consideration on the independent variable, i.e. the hypothesis of a connection between them is assumed as being true. It is confirmed by the F-Fishercriterion, equal to 3.355, which is greater than the critical value of 3.219.

The formula expressed as a percentage, gives 13.8%, which also indicates the influence of the variable under study on the investment potential rating of the regions.

The results are confirmed by the graph(Figure). The ratings of investment attractiveness differ greatly with the normalized values of the independent variable equal to 1, 2, and 3.
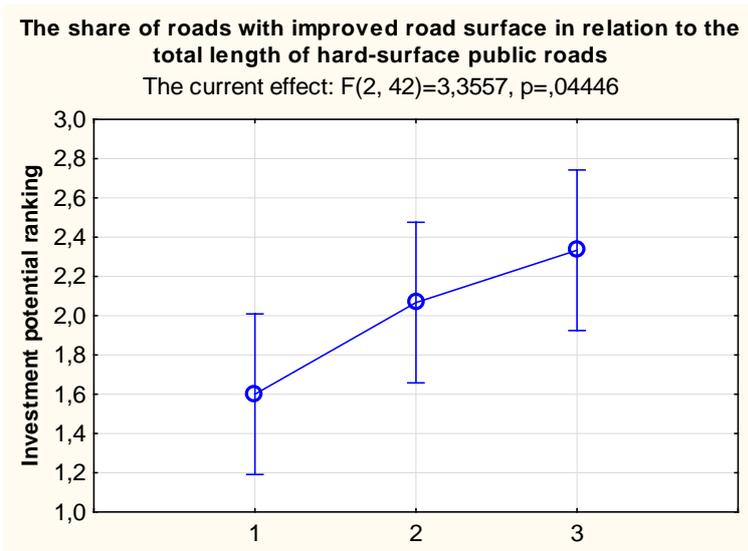
The share of roads with improved road surface in relation to the total length of hard-surface public roads

The current effect: $F_{(2, 42)} = 3.3557$, p=.04446

Figure 1 . The graphic representation of the analysis of variance for the variables: "The investment attractiveness rating" and "The share of roads with improved road surface in relation to the total length of hard-surface public roads"
(Source: Palkina, Kislitsyna, 2017*)*

The results of the analysis of the variables characterizing the infrastructure of the regions are represented in Table 6.

Table 6. Tangible indicators of the infrastructure potential of the Russian Federation territories

Infrastructure Potential Indicators	p
1. Transport Infrastructure	
The share of roads with improved road surface in relation to the total length of hard-surface public roads, in percent	0.044463
Density of public railways (per 1 000 km^2 of the territory), km	0.044463
2. Communication and Information Communications Infrastructure	
The number of connected subscriber's units of mobile radiotelephone communication (per 1 000 people), units	0.000156
Organizations applying special software (of the total number of organizations surveyed), in percent	0.000000
The number of active fixed broadband Internet subscribers, per 100 people	0.005754
3. Trade Infrastructure	
The number of enterprises and companies engaged in the following types of economic activity: wholesaling and retailing; repairing of motor vehicles, motorcycles, household appliances and personal appliances (per 1 000 people)	0.000000
The number of retail facilities (per 1 000 people)	0.000818
The selling area of retail facilities (per 1 000 people),m^2	0.018363

Infrastructure Potential Indicators	p
4. Construction Sector Infrastructure	
The number of enterprises and companies engaged in construction (per 1 000 people)	0.000114
The number of operating construction companies (per 1 000 people)	0,026302
5. Education Infrastructure	
The number of educational institutions (per 1 000 people)	0,005754
The number of general education institutions but not including evening educational schools (per 1 000 people)	0.000085
The number of vocational institutions training for semi-skilled jobs (per 1 000 people)	0.000818
6. Science and Innovation Infrastructure	
The ratio of organizations carrying out technological innovation to the total number of organizations surveyed, in percent	0.044463
7. Finance Sector Infrastructure	
The number of institutional lenders (per 100 people)	0.044463
8. Recreation and Environmental Infrastructure	
The number of collective accommodation facilities (per 100 people)	0.044463
The number of travel agencies (per 100 people)	0.011632
Pollution emissions from stationary sources into the atmospheric air (per 1 000 km^2 of the total land area), thousand tons	0.000001
Capturing pollution emissions from stationary sources into the atmospheric air (to the total amount of pollution emissions), in percent	0.011632
Discharge of sewage waters into surface water bodies (per 1 000 ha of surface water bodies), million cubic meters	0.044463
The volume of circulated and consistently used water (per 1 000 people), million cubic meters	0.022987
Organizations implementing innovations that increase the environmental safety of the production of goods and services (an average of the total number of organizations implementing environmental innovations), in percent	0.001185
9. Public Health Infrastructure and Housing and Utilities Infrastructure	
The number of hospital beds (per 10 000 people)	0.022987
The number of medical care institutions (per 100 people)	0.000000
The capacity of outpatient care institutions (per 10 000 people), visits per shift	0.00000
Putting clinical outpatient facilities into operation (per 100 000 people), visits per shift	0.005754
Putting medical care facilities into operation (per 100 000 people), beds	0.000002
The share of the housing stock provided with all types of improvement in the total area of the housing stock, in percent	0.001009
The share of dilapidated and emergency housing stock in the total area of the entire housing stock	0.000200

(Source: Palkina, Kislitsyna, 2017; Dorofeeva., 2016*)*

The largest number of infrastructure indicators that influence the position of the regions in the investment potential rating refers to the spheres of trade, environment, public health, and housing and utilities. This suggests the necessity to optimize the activities of the depressed regions in these areas in order to develop their infrastructure potential and increase investment attractiveness as a whole.

4. Conclusion

The research has revealed high-priority factors facilitating improvement of the investment attractiveness of the depressed regions. The results suggest that the infrastructure component of the investment potential is of greatest importance for improving the investment attractiveness of the depressed regions. At the same time, the most important factors of the infrastructure potential, in terms of enhancing the investment attractiveness, are trade infrastructure, recreation and environmental infrastructure, public health infrastructure, and housing and utilities infrastructure. Variations in the values of the indicators characterizing these components of the infrastructure potential can lead to the targeted change in the investment attractiveness of the depressed regions. It means the depressed territories should pay special attention to the development of the infrastructure potential in the areas of trade, recreation, environment, public health, housing and utilities. We recommend developing the following areas: retail trade networks; construction of new modern trade facilities; new high-tech forms of trade; storage and retrieval infrastructure of trade; construction and development of tourist recreational complexes; introduction of innovative technologies for cleaning emissions and control of discharges of pollutants into the environment, cleaning carbon dioxide emissions; introduction of green building technologies; construction of new public health facilities; modernization of the existing public health facilities; development of IT-infrastructure of the public health sector; modernization and development of engineering infrastructure facilities; renovation of the housing stock.

Further research can be conducted with respect to other components of investment attractiveness of the regions, including innovative, institutional, consumer, industrial, labor, and financial ones. Moreover, the technique applied in this research can be of interest in studying the investment attractiveness of some territories of foreign countries, including the European ones.

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