

Analysis of the investment attractiveness of the South of Russia

*Elena Nikolaevna Karpova*¹, *Marina Viktorovna Charaeva*^{1,*}, *Yuliya Sergeevna Zharkova*²,
*Namsa Aleksandrovich Sharinov*¹, and *Tatyana Valerievna Gaponenko*³

¹ Southern Federal University, Faculty of Management, Rostov-on-Don, Russian Federation

² Rostov State University of Economics, Faculty of Economics and Finance, Rostov-on-Don, Russian Federation

³ Don State Technical University, Faculty of Innovative Business and Management, Rostov-on-Don, Russian Federation

Abstract. The article examines the factors of investment attractiveness in the regions of Southern Russia and evaluates their impact on the dynamics of investment in fixed capital. It has been established that the analyzed regions have a sufficiently high level of investment attractiveness and a favorable investment climate. In general, there are positive trends in the dynamics of investments in fixed assets in the regions of the South of Russia. The authors also consider the most common rating methodologies for assessing the investment attractiveness of Russian regions, presented by the Agency for Strategic Initiatives and the National Rating Agency. In general, the ratings assigned according to these methodologies show a consistent trend, except for the values related to the Republic of Kalmykia and Rostov Oblast. This may be due to differences in the set of evaluated factors and expert assessments. The obtained results led to the conclusion that despite the complex geopolitical situation and the influence of external crisis factors, the regions of Southern Russia have maintained their investment attractiveness due to a flexible regulatory framework in the field of investments and existing measures to support business.

Keywords: Factors of investment attractiveness · Investment in fixed capital · Rating evaluation.

1 Introduction

In the face of the modern challenges and threats encountered by the Russian economy, the question of increasing investment activity by both state and private investors becomes particularly acute. In turn, investors make decisions on capital investment in specific objects based on rating assessments of the investment attractiveness of Russian regions. The issues related to the content and evaluation of regional investment attractiveness are addressed in the works of L.G. Akhtarjeva [1], N.I. Yashina, S.P. Borisova, V.S. Novikova [14], M.B. Trachenko, V.A. Dzioev [11], V.V. Litvinova [5], I.S. Glebova, S.S. Berman, R.R. Galiakhmetov [16], V. Chobanyan [15], where the authors provide their own

* Corresponding author: mvcharaeva@mail.ru

viewpoint on the essential characteristics and justify the integral indicators used to evaluate the investment attractiveness of regions. By summarizing the approaches presented in these works, we come to the conclusion that the investment attractiveness of a region is a comprehensive characteristic of the region in terms of its profitability, risk minimization, prospects, and the efficiency of investment.

2 Materials and Methods

The aim of the conducted research is to analyze the investment attractiveness of the regions in Southern Russia during the period of 2019-2022, identify the main trends in the dynamics of investment in fixed capital, and summarize the results of rating evaluations obtained using various methodologies.

The methodological framework is based on the use of general scientific and specific methods of scientific cognition, including abstraction, structural-functional and economic-statistical analysis, and graphical interpretation. The research employed theoretical methods such as studying and analyzing contemporary works on the research problem, as well as empirical methods such as statistical methods of data processing and a scenario-based approach. This allowed for the substantiation of conclusions and the argumentation of the work's positions.

3 Results

The term "Southern Russia" is not a precisely defined geographic concept. The following constituent entities of the Russian Federation are territorially considered part of Southern Russia: the Republic of Adygea, the Republic of Kalmykia, Krasnodar Krai, Rostov Oblast, the Republic of Crimea, and the federal city of Sevastopol.

In our opinion, it is necessary to conduct a comparative analysis of the investment attractiveness separately among the republics that are territorially part of Southern Russia and separately between Rostov Oblast and Krasnodar Krai.

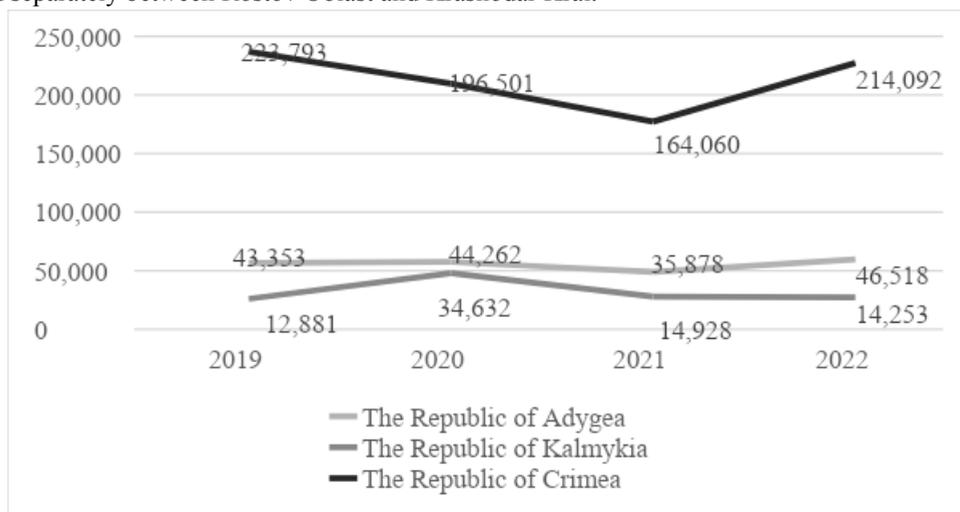


Fig. 1. Dynamics of investment in fixed capital in the Republics of Adygea, Kalmykia, and Crimea for the period of 2019-2022, million rubles. Sources: [3, 9, 12, 13]

As can be seen from the data presented in Figure 1, the Republic of Crimea had the highest volume of investment in fixed capital among the Republics of Adygea, Kalmykia, and Crimea throughout the analyzed period.

By the end of 2022, investments in the Republic of Crimea increased by 30.5% compared to the previous year, which is one of the highest indicators among the regions in

Southern Russia. However, the overall trend shows a negative dynamic, with a decrease in investment volumes from 2019 to 2022 by 9,701.6 million rubles or 95.66%.

The Republic of Adygea ranks second among the analyzed regions in terms of investment in fixed capital (Figure 1). From 2019 to 2022, the volume of investments in the Republic of Adygea increased by 3,165 million rubles or 7.3%. In 2022, the main share of investments was directed towards construction of buildings and structures - 24.7 billion rubles (53.2%), acquisition of machinery, equipment, and vehicles - 18.6 billion rubles (39.9%), and housing construction - 2.5 billion rubles (5.3%) [4].

The Republic of Kalmykia occupies the third place among the considered regions of the Russian Federation in terms of investment volume in fixed capital, where the volume of investments increased by 1,372 million rubles or 10.7% from 2019 to 2022 (Figure 1). The main areas of investment are the food industry, the service sector, and healthcare. Some projects are financed by the Development Fund of the Republic of Kalmykia.

Next, let's conduct a comparative analysis of the dynamics of investment in fixed capital in the most economically significant regions of Southern Russia - Krasnodar Krai and Rostov Oblast (Figure 2).

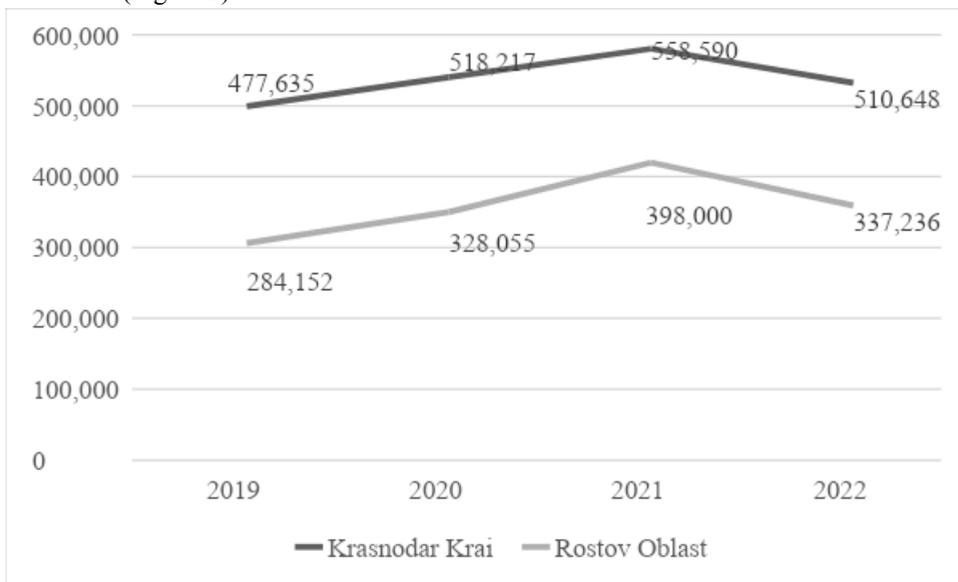


Fig. 2. Dynamics of investments in fixed assets in the Krasnodar Territory and the Rostov Region in 2019-2022, million rubles Sources: [10, 12]

In 2022, for the second consecutive year, the Krasnodar Krai became the leader in the Southern Federal District (SFD) in terms of the total amount of investments. The region accounted for 41.5% of the investment portfolio of the district. In 2022, the region had 125 large-scale investment projects (over 300 million rubles) in the implementation stage. Their total value was estimated at 2.1 trillion rubles, which is 11.9% higher compared to 2021. There were 483 large-scale investment projects (with a value exceeding 100 million rubles) in the active implementation stage, with a total amount of approximately 2.6 trillion rubles [6].

Despite the impact of negative factors associated with the imposition of restrictive measures due to sanction pressures, the economy of the Rostov Oblast remained stable by the end of 2022. The volume of private investments in fixed capital in 2022 amounted to 337,235.8 million rubles. Thirty-seven organizations took advantage of tax benefits on property and corporate profit tax within the framework of 44 investment agreements [8].

4 Discussion

The southern region of Russia is a vast territory with significant investment potential. However, it is not among the leading investment-attractive regions of Russia. The factors contributing to the investment attractiveness of the southern region of Russia are not only relevant in the short term but also in the long-term perspective. The natural and climatic conditions play a direct role in attracting investments in the recreational and agricultural sectors of the economy. Additional factors contributing to the investment attractiveness of the southern region of Russia include industrial, transportation, energy, and infrastructure sectors, as well as the construction industry and labor resources.

By analyzing the investment attractiveness of the aforementioned regions, it is possible to identify common factors among the republics.

Table 1. Factors of investment attractiveness of the regions of the South of Russia

Factors of investment attractiveness of the Republics of Adygea, Kalmykia, Crimea	Factors of investment attractiveness of the Krasnodar Territory and the Rostov Region
favorable climatic conditions	favorable geographical and geopolitical location
fertile land	agroclimatic potential
industrial reserves of a number of minerals	recreational potential
favorable tourist and recreational resources	good transport infrastructure
availability of a regulatory framework that ensures investment attractiveness	high availability of labor resources availability of a regulatory framework that ensures investment attractiveness

Source: Compiled by the authors

Currently, there are several methodologies used by Russian rating agencies to assess the investment attractiveness of regions: the ratings of the National Rating Agency, the Agency for Strategic Initiatives, and the rating agency Expert RA.

The Agency for Strategic Initiatives (ASI) evaluates ratings based on 70 indicators across four dimensions: regulatory environment, institutions for business, infrastructure and resources, and support for small and medium-sized enterprises. ASI assigns ratings annually (since 2019) to the best-performing regions. The absence of a region in the rating table indicates that it did not make it to the top 20 in terms of investment attractiveness. The results of the investment attractiveness assessment of the southern region of Russia for 2020-2022, according to the methodology of the Agency for Strategic Initiatives (ASI), are presented in Table 2.

Table 2. Rating of investment attractiveness of the regions of the South of Russia according to the methodology of the Agency for Strategic Initiatives

Region	2020 year	2021 year	2022 year
Republic of Adygea	Not in the ranking	11th place	13th place
Republic of Kalmykia	Not in the ranking	12th place	Not in the ranking
Krasnodar Territory	6th place	7th place	8th place
Rostov region	Not in the ranking	12th place	Not in the ranking
Republic of Crimea	Not in the ranking	11th place	7th place

Source: [1]

As can be seen from the presented data, only the Krasnodar Krai remained in the ranking throughout the examined period. However, every year it has been descending one place in the ranking. In 2022, the Republic of Crimea surpassed it, taking the 7th position and rising by 4 positions. In 2021, the 12th place was shared by the Republic of Kalmykia and the Rostov Oblast, but they couldn't make it to the ranking in 2022. The Republic of Adygea lost 2 positions in 2022, shifting to the 13th place.

The investment attractiveness of a region is determined in the study conducted by the National Rating Agency (NRA) as a combination of factors that affect the feasibility, efficiency, and level of investment risks in the region. These factors serve as the active background for all investment projects implemented in the region and influence the risk and profitability of these projects. The investment attractiveness of a region is composed of several factors, each of which can be assessed using a specific set of indicators. The NRA methodology considers a set of 57 indicators that make up 7 factors of regional investment attractiveness: geographical location and natural resources, labor resources of the region, regional infrastructure, the regional market (potential regional demand), production potential of the regional economy, institutional environment and socio-political stability, financial sustainability of the regional budget and regional enterprises.

The results of applying the methodology of the National Rating Agency for assessing the investment attractiveness of regions are presented in Table 3.

Table 3. Rating of investment attractiveness of the regions of the South of Russia according to the methodology of the National Rating Agency

Region	2020	2021	2022
Republic of Adygea	IC5 (enhanced)	IC5 (confirmed)	IC5 (confirmed)
Republic of Kalmykia	IC9 (confirmed)	IC9 (confirmed)	IC9 (confirmed)
Krasnodar Territory	IC4 (downgraded)	IC3 (enhanced)	IC4 (downgraded)
Rostov region	IC4 (confirmed)	IC4 (confirmed)	IC4 (confirmed)
Republic of Crimea	IC8 (confirmed)	IC7 (enhanced)	IC6 (enhanced)

Source:[7]

Throughout the entire period under investigation, the Krasnodar Krai was the only region with high investment attractiveness in 2021. In 2022, its attractiveness decreased to a moderate level. The Republic of Adygea and the Rostov Oblast maintained their investment attractiveness at an average level from 2020 to 2022. The Republic of Crimea has been increasing its investment attractiveness during the examined period, rising by 2 positions in 2022 and transitioning from a moderate level to an average level. The Republic of Kalmykia shows low attractiveness.

Summarizing the results of the rating assessments, it can be concluded that consistent trends are confirmed for the Republic of Adygea, Crimea, and the Krasnodar Krai. The disparities in the assessment of Kalmykia and the Rostov Oblast, despite being in the same direction, may be attributed to the different weights assigned to individual indicators in the overall assessment, diverse expert evaluations of factors, and the use of different source data within the same direction.

5 Conclusion

Thus, we come to the conclusion that the complex geopolitical and external economic situation had little impact on the investment attractiveness of the Southern region of Russia. The limited amount of available statistical and survey data for 2022 does not allow for a complete picture of the interrelation between the investment attractiveness of regions and their vulnerability to crisis phenomena. However, preliminary analysis indicates that regions with varying levels of investment attractiveness can be affected by turbulence: high

investment attractiveness does not guarantee stability, while low attractiveness does not necessarily mean an inevitable deep decline. Although the causes of the crisis for regions are external and beyond the control of regional administrations, they will have to find unconventional solutions to support investors.

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