

Priority Financial Instruments for Regional Industrial Development in the Russian Federation

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Abstract: In the study, the object of study is the trends in indicators related to key parameters in industrial production. In order to determine the financial and management priorities, assesses the distribution of organizations of industrial sector of economy according to the criteria of the factors limiting investment activity, the size of the basic rates of central banks, inflation and the levels of monetization of the economies. The use of project finance as organizational and economic instrument for the implementation of industrial policy.

Key words: Industry, industrial production indices, gross value added, industry structure, project financing

INTRODUCTION

Aggravated in the current year problems of development of industrial production in Russia require priority attention, particularly given the role of industry in post-industrial reproduction. First of all it is necessary to analyze the most relevant factors constraining the process of domestic industrial development.

MATERIALS AND METHODS

This study used methods of construction of time series data with graphical visualization, statistical grouping of the distribution organizations of industrial sector of economy on the assessment of investment and factors limiting investment activity, carried out comparisons of a number of indicators for different countries.

The main part

Dynamics of indexes of industrial production, the profitability and assets of the organizations industry: The specificity of the post-industrial stage of society development is largely due to the nature of social and economic relations that define the new relationship of tangible and intangible production. In this context, enhanced the functional role of high technologies and infrastructure in industrial production and the industrial sector in the economies of countries with post-industrial way of life is the basis of reproduction to meet the needs of society and defines the vectors of development of the intangible sectors of the economy (Kukarin *et al.*, 2016).

New socio-economic relations are implemented in such organizational forms as the integration of education in the industry (clusters, industrial parks), the relationship between the subjects of integration (partnership, outsourcing, etc). There is a strengthening of the

influence of integration structures on the competitive advantages (infrastructure, innovation, integration, complete cycles of production with high added value).

In terms of ongoing structural change in industry in developed and developing countries as well as against the background of intensified competition within the processes of globalization and specialization in the scientific community an important role for the formation of certain organizational structures in the economy, allowing to raise competitiveness of domestic industries and the economic complex as a whole (Zahmatov, 2012; Kuropatchik, 2012; Lenkovets and Sin'kov, 2014). Naturally with this much attention paid to the issues of innovative development of the industry, especially in the context of the ongoing transformational socio-economic processes and formation of innovative potential of the country (Tatuev *et al.*, 2015a, b; Ribakov, 2011; Dokukina, 2014).

In addition, actively examines issues associated with ensuring national economic security in the conditions of deepening of globalization processes (Arkin and Vlasenko, 2012; Tatuev and Tatuev, 2015).

But overall, especially given the requirements of a systematic approach, in our opinion, the problematic aspect of this issue is the investment (Nerovnya and Hachirov, 2013; Kolmikova *et al.*, 2015). In this context, the most commonly considered are tax incentives available for investors (Popov, 2012) as well as institutional factors (Shkrebel, 2012).

The observed structural changes in the system of organization of production processes in the domestic industry require not only support but also accelerated the further development, aimed at increasing the competitiveness of national industries and running a successful competitive struggle in the context of globalization processes. Meanwhile, the sustainability of these processes recently exposed to various threats some of which are particularly relevant.

So, from the graphs in Fig. 1 shows that almost throughout the period under review, the slowdown in the annual growth rate of industrial production. While, there are many factors that have a negative impact on the dynamics of industrial growth. The main ones include the decrease in the profitability (Belov, 2014). From the graphs in Fig. 2 shows that almost all sectors of the industrial sector of the domestic economy is reducing the profitability of the sold goods and then by return on assets.

Moreover, if in the first two thirds of the reporting period (2003-2015) was observed combined dynamics of profitability indicators by industry, 2011-2013 clearly demonstrated the resumption of the trend to further decrease profitability (Anonymous, 2012).

The most likely consequence of a further decline in the profitability of industrial production will be the

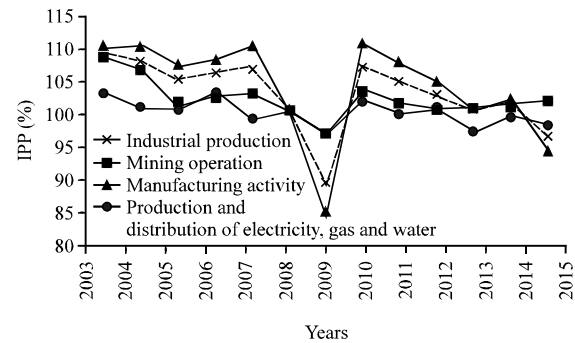


Fig. 1: Dynamics of industrial production indices in the period from 2003-2015 in percentage to the previous year (chart constructed by researcher based on the data: Russia in Figures//Federal state statistics service. URL: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc-1135075100641) (FSSS, 2014)

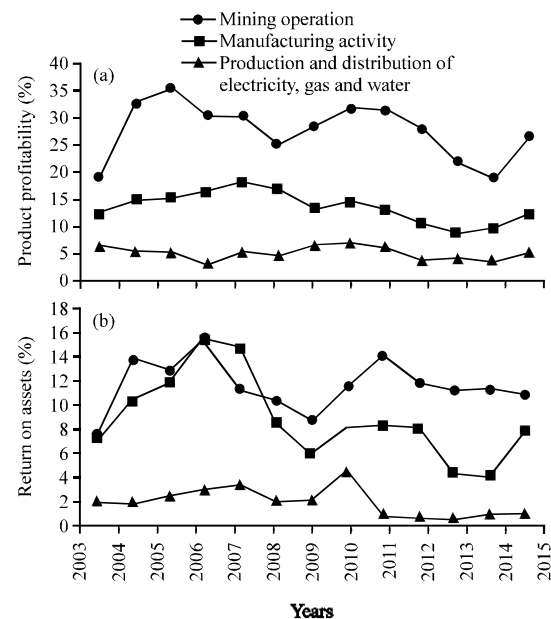


Fig. 2: Dynamics of profitability of sold goods, products (works and services) and assets of organizations industry in the period from 2003-2015 (graphs constructed by the researcher based on the data: Russia in figures. 2015: a statistical compendium. Moscow: Rosstat, 2016)

decrease in production in the sphere of economic activity. In turn given the depth of the relationship of the industrial sector of the economy with all economic complex, we can predict that these trends will lead to a chain slowing production in other sectors of the economy including in the sphere of immaterial production.

RESULTS

Identifying problems, stagnating the development of industrial production: It seems that the problematic aspect of this issue is the investment (Tatuev, 2015). Figure 3 presents graphs illustrating the dynamics of investments in fixed capital in Russia by sectors of industry and the economy as a whole in the period from 2005-2014. Data in the graphs is given in comparable prices. Considering a graph illustrating a baseline growth rate of investment, it can be noted that in the whole economy during the years the volume of investments in fixed capital increased by 70.4%. Slightly more the volume of investments increased in the mining industry -88.4%.

In the field of manufacturing industries the growth rate of investment was somewhat lower than in the whole economy the growth amounted to 60.7%. At the same time, the volume of investments in the production and distribution of electricity, gas and water increased by more than twice the growth rate was 224.5%.

If we analyze charts showing the chain growth of physical volume of investments into fixed capital we can note that the dynamics of growth of physical volume of investments in the whole economy and separately for the sectors of industry, in recent years has slowed. As can be seen from the graphs, the peak deceleration occurred in the crisis years of 2008-2009.

Thus, if in 2006-2007 the annual growth rates of physical volume of investments into fixed capital in the economy and in particular sectors of the industry were at the level of 10-30% in the 2010-2013 annual rate of growth of physical volume of investments was reduced to 0-10%. In 2014 in the economy and in particular industry with the exception of the mining sector, it has shown a negative growth of physical volumes of investments (decrease) compared to the 2013 level.

Also, essential is the availability of money. A comparison of the sizes of base rates of Central Banks and inflation in the countries-leaders on volume of production gross value added in industry show that Russia retains a positive real interest rate exceeding the base rate of the central bank inflation. At the same time, from the manufacturers in Russia is almost no alternative to expensive bank loans because the original domestic market borrowing is scarce. This is evidenced by the level of monetization of the economies, the size of the money supply in the economy of Russia is almost two times lower than in the Eurozone countries, three times lower than in the UK and 5 times lower than in Japan.

These circumstances also limit the recourse of companies to the securities market-bond market. In particular, the current requirements to the issuer and the

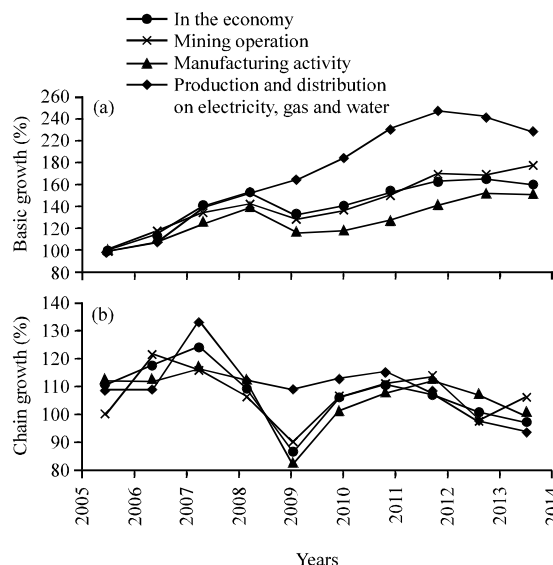


Fig. 3: Dynamics of investments into fixed capital in the Russian Federation by sectors of industry and the economy as a whole over the period from 2005-2014, in comparable prices (charts designed and built by the researcher based on the data: Official statistics: investments in non-financial assets//Federal state statistics service. URL: http://www.gks.ru/free_doc/new_site/business/invest/Din-invOKVED.xls)

listing almost close to this way of borrowing for small and medium enterprises. In addition, the involvement of borrowing of this kind remains expensive (Rodionov and Pashkova, 2012). The level of real interest rates on such loans in the domestic market significantly more expensive than in USA or Europe (Heifets, 2012).

Assessment of factors limiting investment activity in industrial organizations: In large measure, the processes associated with the evaluation of the factors limiting investment activity. So, according to the results of the survey around 2/3 of respondents (65%) as the main limiting factor noted the lack of own financial resources. A much smaller number of respondents mentioned such factors as a high percentage of commercial credit (31%) and investment risks (25%). The remaining factors-lack of demand for products, the uncertainty of the economic situation in the country, a complicated mechanism for obtaining loans for the implementation of investment projects, the imperfect legal base regulating investment processes, noted from 21-17% of respondents, respectively.

On average, enterprises of all sectors of the industry as the most negative factors were named: the lack of

financial resources; high level of taxation, insufficient demand for the company's products in the domestic market; deterioration and lack of equipment; uncertainty of the economic situation. They noted 28.3-42.5% of respondents, respectively.

Of them in the mining industry the most pressing factor limiting the growth of production was the high level of taxation who noted that 39.3% of respondents. Moreover, the relevance of this factor over the last 2-3 years has slightly declined. In the field of manufacturing as the most critical factors were also high levels of taxation and lack of demand for products in the domestic market is 41.5 and 49.3% of respondents, respectively. Moreover, if the effect of the first factor over the last 2-3 years has slightly declined, the impact of the second factor remained practically unchanged. In the field of power generation processes as the most critical factors cited was the lack of financial resources and deterioration and lack of equipment and 60.0, 48.5% of respondents, respectively. The relevance of these factors over the last 2-3 years has slightly declined.

In general it can be noted that as for medium and large enterprises of industrial sector of economy and small enterprises are the most negative are the same factors that prevent the expansion of production. Among them, again, the most relevant are: the lack of financial resources; high level of taxation, insufficient demand for the company's products in the domestic market as well as the deterioration and lack of equipment; uncertainty of the economic situation. Most of the limiting factors lies in underdevelopment of financial market in Russia and the lack of access to credit.

Thus summing up the conducted research we can say that the dynamics of the development of the domestic industry as well as on the level of entrepreneurial mobility and initiatives, including production of new products, the negative impact low availability of long-term money. On the one hand, this is a consequence of the weak development of the domestic financial system and a shortage of money and the fiscal burden which has considerably amplified in recent years.

Combined, these factors hinder the strengthening of the competitiveness of the national industry. Moreover, they are particularly acute impact on the creation of new industries and increasing the range of products, the introduction of new production technologies, lowering the cost of production. These are the elements that have directed what is happening in the domestic economy structural changes the emergence of new forms of organizational structures and integration which unites small, medium and large enterprises in the framework of specific scientific-production chains.

DISCUSSION

That is in fact, identified in the course of the analysis the factors are the main constraints of the process to achieve certain synergistic effects, expressed in the increase of economic effectiveness and efficiency of the activities of each enterprise or organization arising in the framework of such integration structures as the innovative territorial clusters and industrial parks as the scarcity of long-term funds and high fiscal burden hinder the formation of the demand from both small and medium with large enterprises on effects emerging in the data integration structures. Together, both the process of development of clusters and industrial parks allow to form a new production organizational structure that provides a high level of competitiveness of the industries operating within it.

Because of this we should expect an increase of the multiplier synergistic effects mediated by cooperation and internal competition, accelerated innovation in production process and increase production efficiency and competitiveness of enterprises that is caused by the development and increase of competitiveness of Russian industry in the development of industrial clusters. In turn, this will contribute to the formation of a business environment based on the use of innovation that is the key to successful socio-economic development in modern conditions-conditions of globalization and global competition. Particular attention should be paid to the increased use of project finance as organizational and economic instrument for the implementation of cluster initiatives in the framework of the implementation of industrial policy the competitiveness of national production on the basis of state-private partnership.

Summary: In this connection, it is necessary to use project funding as the organizational and economic instrument for the implementation of industrial policy the competitiveness of national production on the basis of state-private partnership. So, it is a specialized organization created for the implementation of cluster initiatives, can fulfill the functions of the project organization. The interdepartmental commission for the assessment of investment projects implemented on the basis of project financing, it can carry out its activities within the framework of the expert commission on the evaluation of the project public-private partnership. At the same time, if private partners for the realization of the object of the PPP agreement attract loans from commercial banks, commercial attractiveness and risks of a PPP project, these banks will in any case have to be analyzed and calculated. Therefore, the state may carry out

financing of these projects through the commercial banks for a small fee not including the need for a new full-fledged analysis of commercial prospects and risks of the project. This purpose can be raised and state funds for the development of industry referred to in study 11 of the Federal law dated 31 December 2014 No. 488-FZ "On industrial policy in the Russian Federation".

In general, the implementation of the proposed scheme for the application of project Finance as organizational and economic instrument for the implementation of cluster initiatives in the framework of the implementation of industrial policy the competitiveness of national industries on the basis of public-private partnerships will help reduce the final cost of the project. On the one hand, this is due to the fact that the financial participation of the state in the project makes it more attractive for private investors and lenders. On the other hand, reducing the ultimate cost will contribute to reducing costs associated with the involvement of public funds in implementation of the project. Taken together, this will increase the probability of socio-economic success of the project.

CONCLUSION

At present, the use of mechanism of project financing is characterized by efficiency and wide distribution in global scale. This mechanism may be used to implement investment projects in various sectors of the economy, primarily in projects for the extraction, processing and transportation of natural resources (especially oil and gas) as well as in the areas of electricity, telecommunications, the implementation of infrastructure projects.

Strong support for the practice of project Finance should have approved in late 2014 by the Government of the Russian Federation "the Program of support of investment projects implemented on the territory of the Russian Federation on the basis of project financing". The purpose of this program is to create a mechanism of support of investment projects implemented on the territory of the Russian Federation on the basis of project financing, contributing to the increase in lending to the real sector of the economy on a long-term and concessional terms.

But in fact it turns out that the program of support of investment projects implemented on the basis of project financing the instrument is concessional public funding key for the economy, including industry, investment projects has become an instrument of concessional financing are crucial for the country banks under the implementation of those projects. In addition, the state gives support in the form of a guarantee on 25% of the

amount of credit granted. The banks are getting cheap money is not burdened with special obligations to issue as cheap credit, causing the cost of credit for the final borrower is very high. Thus, the use of project Finance as organizational and economic instrument for the implementation of cluster initiatives in the framework of the implementation of industrial policy the competitiveness of national production on the basis of state-private partnership is in doubt because of the low commercial attractiveness and sustainability of these projects.

Of course, the involvement of commercial banks for development project financing as a separate instrument of economic policy is necessary due to the nature of this instrument including high risks and costs that accompany it. However, the use of this tool in the previously proposed scheme of public-private partnerships as organizational and economic instrument for the implementation of cluster initiatives in the framework of the implementation of industrial policy the competitiveness of national industries, leads to duplication of functions of various structures provided in the Federal law "On industrial policy in the Russian Federation", Federal law "On public-private partnership, municipal-private partnership in the Russian Federation" and approved by the Government of the Russian Federation "The program of support of investment projects implemented on the territory of the Russian Federation on the basis of project financing".

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