Monitoring and Evaluation of the Investment Attractiveness of the Region[1]

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Abstract

The authors have designed a balanced system of criteria to be applied when evaluating the investment attractiveness of Arkhangelsk Region, which enables the analysis of all the aspects of investment attractiveness and determine ways to enhance it. Applied to the investment attractiveness analysis, the balanced evaluation methodology enables identification of the region's key challenges, as well as the priorities of its investment policy that target to enhance investment attractiveness and better balanced economic growth. This may contribute to scientific relevancy of the regulatory actions being undertaken by the government to improve investment climate at all levels – macro-level and meso-level.

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With status of a national project, the economically viable innovations have long been recognized as an inevitable trend and basis for modernization of the Russian economy.The transition from export-oriented to innovation-driven economy is costly, requiring extra investment from local private and public sources, as well as from abroad. However, a major increase in investment flow can only be possible if the country in general and its regions and industries in particular boost their investment opportunities.

For studies into the investment attractiveness to lose their fragmentary nature and become more comprehensive, a set of knowledge-based theoretical assumptions and methodological tools should be developed for investment appeal management to rely on, which, in turn, would offer a more system-wide approach and better insight into the relation between investment appeal, investing activity and the economic effects resulting from investment influx into economic systems.

Addressing the investment-related challenges from the point of view of system approach enables a hierarchy of economic categories being applied when assessing the investment attractiveness and achieving better understanding of how it should be managed.The general outline of the relations between the core structural elements of an investment climate, which are often referred in economic literature, is featured on Fig.1.

On the one hand, investment attractiveness can be viewed as a component (or sub-system) of the investment climate, which, in turn, incorporates an array of objective conditions and opportunities to promote investment to a region's industry and to intensify the investment activity per se, that has shaped under the influence of an array of factors (political, economic, social, natural and environmental).

The term being operated by the economic literature to describe the fluctuations in investment flows to a region is 'investment activity'.Investment climate thus can be defined as a set of interdependent components that relate to the investment attractiveness and the investment activity.

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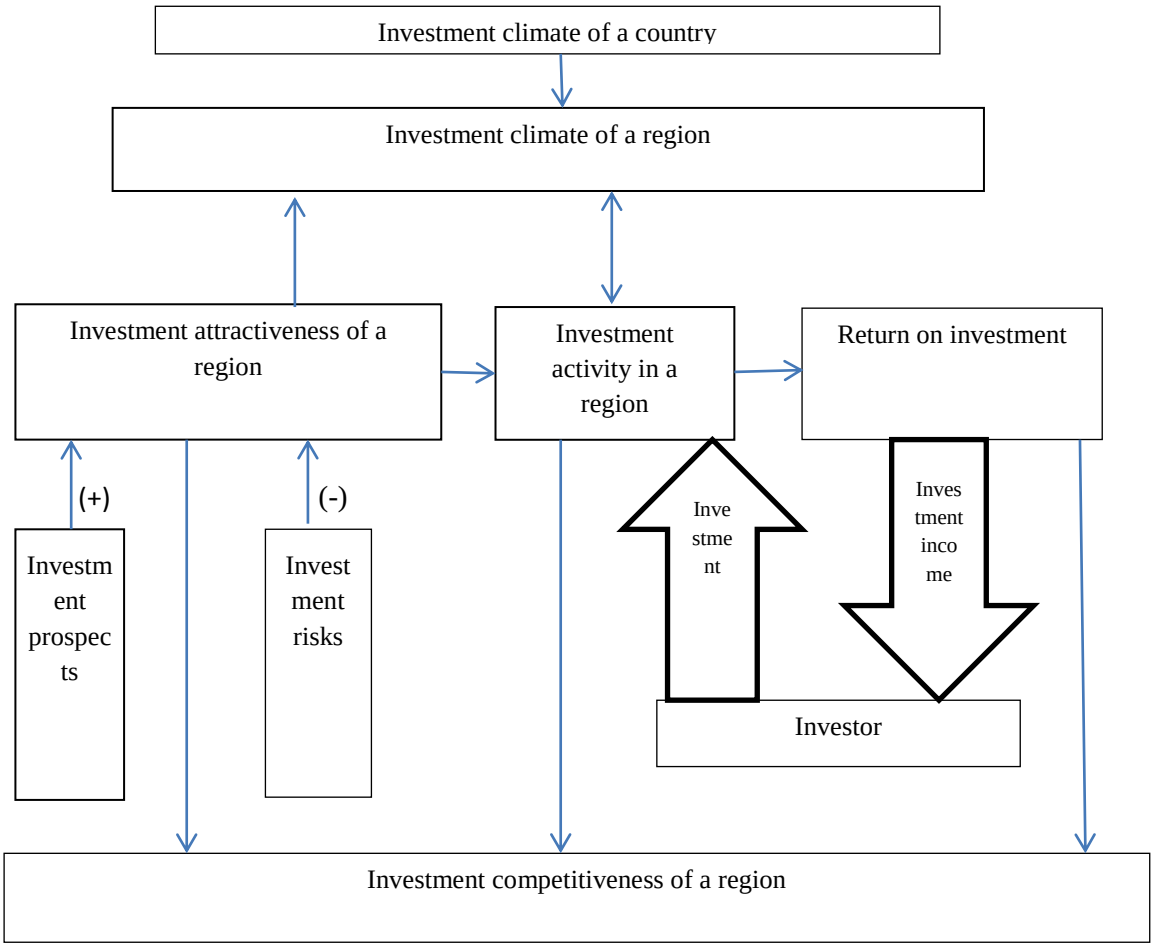

Figure 1: The relation between investment attractiveness and core structural elements of investment process.

On the other hand, the investment attractiveness can be viewed as a product of two interacting factors – investment prospects and non-commercial risks involved in the investment.

Investment prospects are defined as a sum total of investment resources the accrued capital is comprised of, that exists on the investment market in the form of a potential investment demand that is capable of turning into real in order to meet the needs associated with reproduction of the capital in the form of material, financial and intellectual resources [5].Investment risks are understood as non-specific (non-commercial) risks that define the likelihood of underuse by a region of its investment prospects due to local, regional, factors external to the investment activity.

Among these factors are the region's political makeup, social strain, dynamics of the overall economic progress, status of environment, etc.

All things considered, the investment attractiveness of a region can be defined as follows: a sum total of objective features and tools viewed as capable of attracting investment and ensuring maximum (given the limitations) return on investment possible.The above scheme suggests that the investment attractiveness serves a key element contributing to the investment flow and a factor crucial to the investor's decision.Therefore, the management of an economic system's investment appeal serves a major tool to regulate investment activity.

The investment attractiveness management process needs to rely on adequate evaluation techniques, as well as methods to identify the factors one should target in order to boost investment appeal.

Among the basic reasons why regions fail to gain a well-performing mechanism to achieve investment influx is the lack of science-based methodology multifaceted enough to take into account all the factors influencing the regions' investment attractiveness, as well global economic trends and local business conditions.

When analyzing levels of investment attractiveness, one is mainly governed by the 'functional features' classification, with qualitative and quantitative factors changing based on the aim of the analysis.

At the same time, the makeup of the fundamental kernel of the issue remains stable and includes the factors pertaining to the domains of: economy, politics, finance, legal (institutional) framework, social (and cultural) sector, environment (ecology), infrastructure, nature and location, resources (operating, environmental, manpower and know-how).

The components of the above core groups of factors, that different assessment methods rely on, may also vary.

Thus, the institutional and the infrastructure-related factors may either belong to one or separate groups, whereas the

environmental ones are often regarded as pertaining to 'nature and location' or 'resources' domains.

The 'know-how' factors, too, may be considered stand-alone or belonging to 'manpower' ('know-how') or 'operating resources' group. Given the influence that information produces on the present-day economic activities, 'info' factors can be classified as a separate group.

Furthermore, we deem that the recent studies underestimate the importance of discrimination between the factors according to the effect they produce on the public production in general and the investment attractiveness, investment activity and investment processes occurring in a region, in particular. Also, outside the scope of research is the cumulative effect (synergy) the interacting factors are producing on the investment attractiveness, which does not come down to mere summation of factors.

It is therefore advisable that further studies focus more on how to improve the multi-factor approach applicable to the process of investment attractiveness evaluation, and, among other things, to factors crucial to the appeal as such.

The range of the interpretations shared by economists of the term 'investment attractiveness' mainly focuses on the financial side of economic system, or the effect being produced on the investment attractiveness by more extensive sets of factors.

As the interpretation of the term 'investment attractiveness' was evolving, the methods to evaluate its levels were changing too.The analysis of the domestic methods has identified the following four approaches to the investment attractiveness evaluation:The first, narrower, approach relies on criteria such as macroeconomic performance, consumption and accumulation rates, progress on investment markets, legal framework applicable to investment activity.

This approach uses the rate of return on the assets involved as a core parameter to assess a region's investment appeal and defines the latter as a ratio between profit (balance-sheet profit or product/service sale proceeds) and total cost of the assets involved.The second, factor-based, approach involves the analysis of factors influencing the investment appeal.This approach uses the sum total of all weighted means of factors under analysis as an integral investment attractiveness index.

The third approach enables the benchmarking of the regions based on their investment prospects, investment risks and legal framework/incentives applicable to the investment process.

The integral ratings, known to use the points scored by and the expert judgement on a particular factor which is considered crucial to the investment attractiveness, enable classifying the regions, as a result of cluster analysis and based on the investment opportunities and risks involved, into individual groups. Undoubtedly, these ratings are important, but they may not be indicative enough of the extent to which one region differs (outcompetes, underperforms) from another even within one group. More objective evaluations are needed in addition to comparative assessment (rating), which would enable tracking the dynamics of a particular region's investment attractiveness.

The fourth approach is marked by its ability to produce multifaceted judgements about the investment attractiveness level, as it views regions' investment attractiveness and investment activity as interrelated processes [4].

What puts this approach at advantage is that it offers a validity criterion for the assessment method being applied and addresses regions' attractiveness as a derivative of the investment activity outcomes (that appear during a certain time lag).

Despite the numerous publications covering investment climate issues and the array of methods to assess investment attractiveness, the core aspects of investment attractiveness management seem to remain underexplored.

Among the issues pertaining to economic systems' investment attractiveness management, that need more insight into, are the strategic interpretations of the basic terminology; the methods to identify the factors crucial to investment appeal; the methods to select investment attractiveness assessment criteria; adequate methods for investment attractiveness calculation; introduction of the analysis results into the effort to enhance investment attractiveness.

The industrial innovation-based modernization of the economy, the transition economy-driven investment processes, the evolving economic mind and the growing social requirements necessitate a novelty concept-based approach to managing the economic systems' and, specifically, regions' investment attractiveness.

Rooted in the philosophy of systems and process approach, the investment attractiveness management conception can be formulated as follows.

The conception has, as its fundamental assumption, the principle of shifting the investment analysis focus towards balanced interests of all the stakeholders involved – investors, recipients, regional authorities.

The interests of the investment process stakeholders are described as originally disagreeing. While the investor seeks high rates of return on the operating resources he's investing in, the recipient is interested in having as many social and economic challenges as possible tackled with the minimum of the investment flows. Represented by local authorities, the communities (or regions), in their turn, seek that the operation of resources the investment flow is targeting are in line with their needs (i.e. assure the subsequent social effect).

Consequently, the analysis of the investment attractiveness should necessarily be underpinned by the balance of interests being displayed by all the players in investment process – a requirement crucial to producing a balanced

estimate of the regions' investment appeal [3].

The shaping of an investment attractiveness management model should incorporate the objective interests being displayed by the investor and the economic system's need in the investment flow. It is the nature of investors' interests, not the interests per se, that the conception should reveal, focusing on the essential and neglecting the back burners.

The investment attractiveness management enables viewing the investing as not mere contribution, but an active means for the investor to alter the performance of entire economic system [1].

Ensuring the investor-region balance of interest would require a multifaceted analysis of the investment attractiveness level, the investment activity and the investment performance efficiency: a region's investment activity being a derivative of the investment attractiveness level achieved (over a certain time lag), we deem it would be inexpedient to analyze the volumes of attracted flows regardless of the consequences that they are producing on the region's innovative, environmental and social-economic growth rates.

Regions should be analyzed for their investment attractiveness also in terms of economic sectors that the real investor may have a vested interest in. For the investment attractiveness analysis to become conducive to enhanced and streamlined makeup of economy, the existing economic sectors and their physical geography should be broken down according to priority criterion.

To ensure the objective need in innovation-oriented investment, it is necessary that the region's investment attractiveness analysis primarily accounts of the progress and efficiency of R&D and innovation potential.

Another core assumption concluded from the recent studies is that the set of elementary factors, that a region's investment attractiveness is shaped by, is actually a product of each of the stages in the country's economic evolution, meaning that the very system of investment attractiveness management should, from time to time, be altered (enhanced). It is the dialectic approach that the developers of investment attractiveness management system should adopt.

The analysis of spatial relations as characteristic of investment attractiveness enables the next assumption: the economic system's investment attractiveness depends on the investment climate which is characteristic of a higher-level system, and on the other hand influences the investment climate which is characteristic of a lower-level economic system.

The investor's decision to invest in a structural component of a region's economic system, which is a lower-level system, is driven by the investment climate of a higher-level one (national system), whereas the regions' favourable investment climate is bound to produce a positive effect on all its economic sectors.

Once improved, the investment climate of the higher-level economic system is capable of enhancing, evenly, all the lower-level sub-systems that comprise it, thus causing these sub-systems (regions) to compete for the investment flows, with the investor free to decide and the region's investment attractiveness level crucial to his decision.

The mutual relation and the influence existing between the country's investment climate and the regions comprising it are unquestionable. Practice shows that it is the regional economy that, due to favourable industrial potential, market infrastructure, geographical location and active investor-attraction effort that often offers tax incentives, etc., looks more capable of attracting direct investment flows. Even in the absence in the country of a favourable investment climate, a region, if its macroeconomic and political situation is stable, may provide itself with direct investment flows, which are know to produce most tangible effect on real sectors on economy. The competition among regions for investment flows serves the basis for the investment climate to generally improve.

At the same time, the investment attractiveness of the national economy should not be viewed as a mere (technical) sum total of the investment attractiveness levels of its regions. The investment attractiveness should be differentiated with respect to levels of an economic system. The extent to which the entirety of the objective and subjective factors influence the investment attractiveness of a country and its regions may be different, and this should be taken into account as well [2].

The structural analysis of the investment attractiveness enables the following statement: the investment attractiveness is a result and a combined characteristic of the interaction between the two oppositely directed factors – investment potential and investment risks – the former having a positive nature and the latter negative. Therefore, the integral estimation of a region's investment attractiveness depends on the ratio between the investment potential and the investment non-commercial risks levels.

The region's ability to manage its investment attractiveness is defined as a strategy designed to ensure total satisfaction of the region's need in investment flow by achieving a level of investment attractiveness corresponding to the investment demand, and by attracting an investment flow ample enough to meet this demand.

Below are the activities that form the cycle of investment attractiveness management:

1. Evaluation-based analysis of investment attractiveness.
2. Investment activity analysis followed by evaluation of actual investment attractiveness degree.
3. Input-output balance-based identification of a region's need in investment.
4. Analysis of a degree to which the region's investment needs are met, based on the following factors:

1) equilibrium of the investment processes occurring in the region in terms of volume (investment demand vs. absolute investment volume being received by regional economy);

2) structural equilibrium of the investment process (share of a certain economic activity in the total investment volume required vs. share the specific investment flow to an economic activity has in the total volume of investment being received by regional economy);

3) structural equilibrium of the investing activity (investment demand growth rate vs. investment volume growth rate in the regional economy).

5. Determination of the investment attractiveness degree based on the region's need in investment and its actual investment attractiveness (investment activity).

6. Elaboration and implementation of an investment attractiveness enhancement program that ensures satisfaction of the investment demand.

7. The region's economic growth enhanced as a result of better satisfaction of the investment demand.

8. The investment attractiveness level enhanced due to a change in the parameters of region's economic makeup.

This and the subsequent cycles ensure a stepwise improvement of the economic system's investment attractiveness and foster better performance and management.

In real sector of economy, the management of investment attractiveness is actually the management of trends. Provided that the regional authorities target their efforts to enhance security and performance of investment processes (legal framework, structured mechanisms, protectionism towards efficient investors, etc.), there may arise sustainability that is indicative enough for judging that there is a certain trend.

It is only through managing the dynamics of investment attractiveness that regions can achieve sustainable investment flows.

The above considerations only add to the relevance of and the need in further elaboration of the methods, tools and mechanisms for managing the investment attractiveness – the purpose of the "Key Activity Areas to Enhance Investment Attractiveness of Northern Arctic Russia", a project being carried out as part of the Federal Target Programme "Research and Teaching Personnel for Innovative Russia".

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