

Regional Development Institutions in Russia

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Abstract

The purpose of the article is to analyze the creation of development institutions in Russia over the period 2005-2013 and the assessment of the impact of regional development institutions on regional economic space of Russia. Systems approach, analytic method and correlation analysis were used in the study. 83 subjects of the Russian Federation of 8 federal districts are included in the analysis. The article examines the dynamics of creation and features of spatial distribution of regional development institutions in Russia. The subjects of the Russian Federation which are leaders in the quality of development institutions and the volume of attracted funds through them into the economy are identified. The efficiency of regional development institutions is determined through the assessment of their impact on economic growth in the federal districts and in Russia as a whole. The overall impact of all regional development institutions on regional economy in Russia is identified. The role of such regional institutions as regional funds for SME support, regional venture capital funds, development corporations, mortgage funds, special economic zones in the development of regional economies is explored.

Keywords: regional development, development institutions, venture capital fund, development corporation, mortgage fund, special economic zone

1. Introduction

Russian regions are developing unevenly, causing high inter-regional inequality. The most important instruments of regional policy aimed at ensuring sustainable economic growth and reducing interregional differentiation are development institutions (Tatarkin & Kotlyarova, 2013). Firstly, development institutions use the competitive advantages of regions and contribute to the implementation of the concept of "growth points" through the pinpoint investment of regional projects; secondly, they have an effect on the reduction of interregional disparity through regional infrastructure projects and small and medium-sized businesses support in all regions of Russia. Thus, the development institutions should have a positive impact on the dynamics of socio-economic development of regions and interregional disparity.

Development institutions are organizational and economic structures involved in the allocation of resources for projects that form high economic potential by investing in social, industrial and technological infrastructure, in the creation of innovative products and technologies, in the development of high-tech sectors of the economy with the involvement of private capital on the principles of public-private partnerships.

The creation of development institutions in Russia began in the 90s of the 20th century. This process has intensified since 2005: several major development institutions were created at the federal level. According to experts, in Russia there are more than 200 development institutions of all types. The largest federal development institutions include state corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", "Fund of Assistance to Reforming Housing and Communal Services", the Investment Fund of the Russian Federation, JSC "Russian Venture Company", the Foundation for Assistance to Small Innovative Enterprises in Science and Technology, Non-Profit Organization "Foundation for Development of the Center for Elaboration and Commercialization of New Technologies (Skolkovo Foundation)", JSC "Agency for Housing Mortgage Lending", JSC "Special Economic Zones".

Development institutions affect the level of investments in physical and human capital, development of new technologies, provide incentives for the development and growth of economic operators. In this connection, it is advantageous to improve regional development institutions and branches of federal development institutions, which are in the subjects of the Russian Federation and its federal districts: regional investment and venture funds, special economic

zones, technoparks, business incubators, transport and logistics centers, regional funds of small and medium-sized businesses support, regional development corporations and agencies, etc. Regional development institutions provide direct participation of regions and transparency in decision-making on the selection of projects for investment, taking into account regional interests, decrease of transaction costs of investors through effective project support from the regional government. At the present time, there are a lot of regional development institutions, so there is a potential possibility to increase their impact on economic development. However, the lack of the integrated system of development institutions at the sub-national level and the lack of understanding their role by representatives of the regional government led to the fact that there are only few examples of effective regional policy in this area.

2. Theory Review

According to institutional theory, development institutions are founded to regulate social and economic processes by means of formal and informal rules, principles and norms. North (2005) confirms that economic activity is largely determined by the type and quality of economic institutions. The impact of institutions on economic development is quite significant. Williamson (1995), who has conducted the analysis of institutions, states that institutions are important for economic development. Rodrik et al. (2004) point out that the quality of institutions is the main determining factor of economic growth in comparison with geography and trade. Keune (2001) pays great attention to 'regionalization of regional policy', which is based on a differentiated strategy that takes into account local circumstances. He states that successful regional economic development is possible only if there is cooperation and coordination of internal and external actors, institutions and social groups.

3. Data and Research Methods

While identifying peculiarities of the spatial distribution of regional development institutions in Russia, systems approach and analytic method have been used. The research of the effect of regional development institutions on economic space in general and in the context of federal districts was conducted on the basis of correlation analysis.

The study is based on the data of the Federal State Statistics Service of the Russian Federation, the rating agency "Expert RA", JSC "Special Economic Zones", JSC "Agency for Housing Mortgage Lending", the Accounts Chamber of the Russian Federation.

The Russian Federation is divided into 85 subjects of the federation, commonly known as regions. The Russian Federation is also divided into 8 federal districts. Each district includes several subjects of the Russian Federation. The study analyses 83 subjects of the Russian Federation in the context of eight federal districts.

4. Results

In early 2011, the total capital of Russian development institutions was about 1.2 trillion rubles, 7% of which referred to such regional development institutions as regional venture capital funds, regional funds for SME support, regional development corporations, regional mortgage funds and special economic zones. Uneven distribution of resources of regional development institutions among the subjects of the Russian Federation is clearly seen (according to 2011).

Leaders in accumulated funds of more than 5 billion rubles are development institutions in the Republic of Tatarstan, Moscow Region, Lipetsk Region, Kaluga Region and the city of Moscow. Financial resources of regional development funds are mainly concentrated in the Central, Volga and Siberian Federal Districts (Figure 1). The data in Figure 1 show that only in the Volga and Siberian Districts the share of accumulated financial resources of development institutions exceeds the share of district in Gross Domestic Product (GDP), in other districts this figure is less. Inside the federal districts distribution of financial resources of development institutions is also uneven. For example, in the Volga Federal District only the Republic of Tatarstan accounts for 14% of the total amount of attracted funds by development institutions at the regional level, in the Siberian District Krasnoyarsk Territory has 5.4% of financial resources of the total amount of funds of regional development institutions.

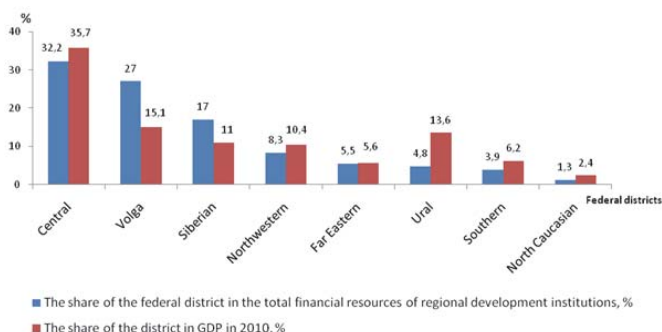


Figure 1: Distribution of financial resources of regional development institutions among federal districts of Russia in 2011
Source: based on the data of the Federal State Statistics Service of the Russian Federation and the rating agency "Expert RA"

The largest share of financial resources of development institutions is in special economic zones. The special economic zone (SEZ) is a part of the territory of the subject or subjects of the Russian Federation with a special legal status, which has tax incentives and customs preferences, that reduce the costs of investors in comparison with the average national costs by one third. In Russia there are special economic zones of four types: industrial and production zones, technology and innovation zones, tourist and recreational zones and logistics zones (Table 1). The amount of private investments in the SEZs was 0.8 rubles per 1 ruble of public investments; it indicates the inefficiency of the SEZs.

Table 1: Special Economic Zones in the Russian Federation

Types of special economic zones	Special Economic Zone	Subject of the Russian Federation
Industrial and production zones	"Alabuga"	The Republic of Tatarstan
	"Lipetsk"	Lipetsk Region
	"Tolatti"	Samara Region
	"Titanium Valley"	Sverdlovsk Region
	"Mogilno"	Pskov Region
	"Lyudinovo"	Kaluga Region
Technology and innovation zones	"Zelenograd"	Moscow Region
	"Dubna"	Moscow Region
	"St. Petersburg"	Saint Petersburg
	"Tomsk"	Tomsk Region
	"Innopolis"	The Republic of Tatarstan
Tourist and recreational zones	"Altai Valley"	The Republic of Altai
	"Baikal Harbor"	The Republic of Buryatia
	"Turquoise Katun"	Altai Territory
	"Gate of Baikal"	Irkutsk Region
Logistics zones	"Ulyanovsk"	Ulyanovsk Region
	"Sovetskaya Harbor"	Khabarovsk Territory

The most successful industrial and production special economic zones are in the Lipetsk Region and the Republic of Tatarstan, which were founded in 2005. 58 billion rubles have been invested in SEZ "Alabuga" since 2006. As a result, in 2013 the profit from produced goods was 30 billion rubles; 23 billion rubles have been invested in SEZ "Lipetsk" since 2006. As a result, the profit from produced goods was 20 billion rubles. Private investments in SEZ "Alabuga" and "Lipetsk" are twice as much as public investments. SEZ "Alabuga" in the Republic of Tatarstan was included in the "Foreign Direct Investment" magazine global rating of "Free Economic Zones 2012/2013", and took 40th place (this rating takes into account more than 600 zones in 120 countries).

The budget has received 8.3 billion rubles from SEZs as taxes, including 6 billion rubles from industrial and production SEZs (mainly from the Republic of Tatarstan and Lipetsk Region) and 2.2 billion rubles were received from technology and innovation SEZs. Tourist and logistics SEZs almost did not work, except SEZs "Turquoise Katun" and "Ulyanovsk". The amount of tax incentives and customs preferences which were given to SEZ residents was 6.5 billion rubles (78% of total tax revenues to the budget from SEZs). The volume of proceeds from sales amounted to 56.8 billion rubles (January 1, 2013), including 80% of total revenue from industrial and production SEZs, 19.6% of total revenue

from technology and innovation SEZs, 0.4% of total revenue from tourist and recreational SEZs.

After conducting an audit of the effectiveness of the use of public financial resources allocated to the creation and development of special economic zones (Performance audit of public funds for creation and development of special economic zones, 2014), the Accounts Chamber of the Russian Federation finds the work of industrial and production SEZs and technology and innovation SEZs for the 2006-2012 period as conditionally effective, and the rest of the special economic zones as ineffective.

While solving social problems of the population of the region, mortgage arouses particular interest. Regional mortgage funds are regional operators to implement the federal mortgage program according to the Standards of the Agency for Housing Mortgage Lending. Regional operators implement special mortgage programs for owners of the maternity capital, public sector employees, young families with a lower rate (up to 7-8.5% per annum) and provide subsidies to privileged categories of citizens. The volume of mortgage loans per year for the period from 2010 to 2013 increased from 376 to 1.354 trillion rubles. 3.5% of mortgage loans are refinanced. There is a strong correlation between the volume of mortgage lending and the introduction of housing to the regions of Russia (the correlation coefficient is 0.78 in 2013). Distribution of the volume of mortgage lending among districts is fairly even, it is similar to the structure of GDP by federal districts (Figure 2).

Twenty-two regional venture capital funds were founded in Russia for the 2006-2013 period. They have invested 8.94 billion rubles in small enterprises in the field of science and technology. They invest in the share or authorized capital of companies which produce high-tech products. The largest regional venture capital funds are in Moscow, Krasnodar Region, the Republic of Tatarstan and the Republic of Mordovia with funds of more than 800 million rubles. In the Republic of Tatarstan there are 2 funds with total amount of financial resources of 1.1 billion rubles.

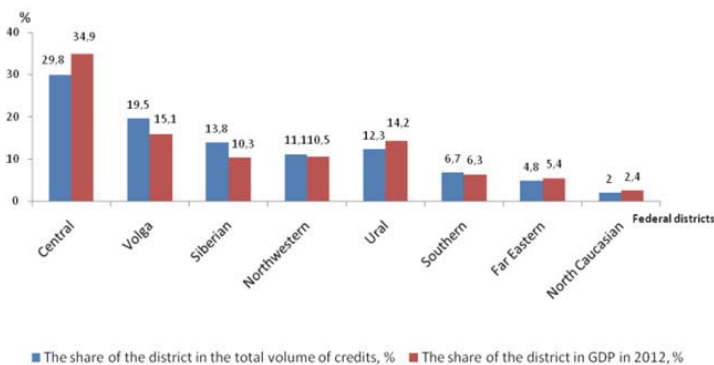


Figure 2. Distribution of the volume of mortgage lending by federal districts in 2013

Source: based on the data of the Federal State Statistics Service of the Russian Federation and JSC "Agency for Housing Mortgage Lending"

Development corporations are the most important regional development institutions, the purpose of which is to attract investment to the region and to increase its attractiveness through the effective interaction of executive authorities with business structures. Development corporations are usually founded in the form of a joint stock company established by the authorities of the region. In Russia, there are development corporations of macro-regions, for example, development corporations of the Middle Urals, the North Caucasus. The most famous development corporation in Russia is in Kaluga Region with the authorized capital of 2.8 billion rubles. This corporation was established in 2007. The corporation has managed to attract to the region such automobile concerns as "Volkswagen AG", "Volvo Truck Corporation", "PSA Peugeot Citroen" and "Mitsubishi Motors Corporation". To succeed in it, the corporation has designed and developed necessary infrastructure: it has prepared lands for construction, provided engineering and transport infrastructure, supplied energy transmission facilities to investors, developed technoparks. As a result, Kaluga region ranks first in the national ranking list of investment climate in regions. In addition to development corporations there are regional development agencies (or the Investment Promotion Agencies), which aim at coordinating the activities of all development institutions to intensify investment activity in the region and to create a favorable business environment (Polterovich, 2011). As at March 1, 2014 there are specialized organizations such as development corporations and (or) investment promotion agencies in 56 regions, in 15 regions the process of their creation is initiated.

An important stage in the development and establishment of regional development institutions is the creation of

Association of Regional Investment Agencies in Russia, partner of which is the World Association of Investment Promotion Agencies (WAIPA). The Association will provide effective interaction and exchange of experience among regional agencies, creation of an attractive image of the region at the international level and the attraction of foreign direct investment in the region through WAIPA as well.

Such development institutions as funds for SME support are established in all regions. They provide financial and credit support to initiatives of small and medium-sized businesses, involve in creating infrastructure, protect the interests of small and medium-sized businesses in the state authorities. Significant activity of these funds aims at financial support of small businesses.

Statistical information on development institutions at the regional level is very fragmented and there are no full statistics data on all subjects of the Russian Federation, therefore a holistic picture of the impact of a particular development institution on the regional economy cannot be given. In this regard, for the study on the basis of correlation analysis some regional development institutions with full available databases on all subjects of the Russian Federation were chosen. While carrying out analysis, the databases of the rating agency "Exper RA" on 5 regional development institutions were used which include regional funds of SME support, regional venture capital funds, development corporations, mortgage funds, special economic zones.

We will estimate the impact of the selected regional development institutions on the regional economy as a whole, rather than individual economic indicators. General characteristic of economic regional development is certainly a gross regional product (GRP). The most developed regions always show the most dynamic growth due to the existing potential and demonstrate strong financial performance with high GRP and GRP per capita. Therefore, it is advantageous to consider GRP growth instead of absolute indicators of regional development, which reflects the change in GRP, depending on the level reached in the previous period.

Analyzed factors include GRP growth, the total capital of regional development institutions, financial resources of regional funds of SME businesses support, financial resources of regional venture capital funds, financial resources of development corporations, financial resources of mortgage funds, investment in special economic zones. It should be taken into account a time lag in the impact of regional development institutions on GRP growth, in this connection the figures of development institutions are taken for 2010, and GRP growth (in percentage points) is taken for 2011.

The results of the correlation analysis on the influence of the factors considered on the economic development of regions are presented in Table 2. In general, the effect of regional development institutions on economic space of Russia is not seen (the correlation coefficient between the total capital of regional development institutions and GRP growth is 0.013). The analysis of the effect of individual development institutions on regional economies of Russia gives more tangible results, in particular, the impact of regional venture funds is revealed (correlation coefficient is 0.165). The impact of regional funds of SME support and development corporations is slight, mortgage funds and special economic zones have negative correlation coefficients.

In some federal districts, the role of regional development institutions is significant. The total impact of all regional development institutions is significant in the Northwestern, Southern, Ural and Far Eastern Federal Districts (correlation coefficients are 0.395, 0.357, 0.712, 0.421, respectively). Moreover, individual development institutions in these districts have a significant impact on regional development. The most effective development institutions are in the Ural Federal District as they have the highest correlation coefficients.

Table 2. The impact of regional development institutions on economic development of regions in Russia

Indicators for 2010	The correlation coefficient between the index of physical volume of GRP in 2011 at constant prices in percentage terms to the previous year and the indicator								
	Russian Federation	Central district	Northwestern district	Southern district	North Caucasian district	Volga district	Ural district	Siberian district	Far Eastern district
The total capital of regional development institutions in 2010	0.013	0.033	0.395	0.357	0.033	-0.236	0.712	0.011	0.421
Financial resources of regional funds of small and medium-sized businesses support	0.004	-0.283	0.396	0.517	0.224	-0.089	0.649	0.456	0.593
Financial resources of regional venture capital funds	0.165	0.380	0.398	0.268	-	0.018	0.765	0.542	-
Financial resources of development corporations	0.015	0.120	-	-	-	-	-	0.162	0.315
Mortgage lending	-0.002	-0.301	0.433	0.412	-0.213	-0.297	0.680	-0.127	0.407
Investments in special economic zones	-0.013	-0.248	0.320	-	0.106	-0.220	-	-0.201	-

Source: based on (Regions of Russia..., 2014; Russian development institutions..., 2010)

In the Central Federal District, regional venture capital funds and development corporations performed well, but mortgages, special economic zones and funds of SME support appeared to be ineffective. In the North Caucasian Federal District, funds of SME support and special economic zones had weak influence, mortgage funds proved to be inefficient. In the Siberian Federal District, funds of SME support, venture capital funds, development corporations had some impact, but there was no effect from mortgage and special economic zones. In the Volga Federal District, except the Republic of Tatarstan development institutions are ineffective.

5. Conclusions

On the whole, the impact of development institutions on the regional economy is rather weak in Russia. Of all the development institutions, only regional venture capital funds significantly influence the regional space of Russia. Expected synergistic effect from the total influence of existing development institutions on the regional economy is likely to be seen only in several years.

The effectiveness of regional development institutions varies in different regions of Russia. Development institutions have significant influence in four federal districts: Northwestern, Southern, Ural and Far Eastern. The role of the development institutions in Central, North Caucasian and Siberian Federal Districts is slightly seen. In the Volga Federal District, development institutions are ineffective, except the Republic of Tatarstan.

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