Use of the mechanism of the priority social and economic development areas in order to accelerate the industrialization of Russian regions

Degtyareva Irina
The Department of Economics
Ufa State Aviation Technical University,
Ufa, Russia
idegtjareva57@mail.ru

Shalina Olga
The Department of Economics
Ufa State Aviation Technical University,
Ufa, Russia
olenkash@bk.ru

Tokareva Guzel
The Department of Economics
Ufa State Aviation Technical University,
Ufa, Russia
sapfo79@mail.ru

Abstract – The article deals with the priority social and economic development areas in Russia established in 2015. It states the objectives of PDAs and their competitive advantages, including tax benefits, the regime of free zone, the provision of special services from the state, etc. The analysis has been made on the dynamics of the number of PDAs, the amount of the residents, the volume of attracted investments and the jobs created for the period from 2015 to 2017. The article presents the shortcomings of PDA in Russia, including in the first place excessive centralization of power in the hands of management companies, the lack of unified databases and methods of assessing the results of PDA functioning at the country level, gaps in the legislation allowing the possibility of fraudulent schemes, uncontrolled migration.

Keywords – the priority social and economic development areas, industrialization, investment, tax preferences, efficiency.

I. INTRODUCTION

The Russian Federation is characterized by an uneven level of socio-economic development and the degree of industrialization in the regions. In the traditionally worst affected regions in the Asian part, particularly the Russian Far East. However, there are also areas with serious economic problems and risks in the European part of Russia, which primarily include cities with low-diversified industry, such as Togliatti and Naberezhnye Chelny.

Since 2015, in the Far East, and since 2016 – in the territories of single-industry towns, it has become possible to establish a new legal regime for doing business, called Priority Development Area (PDA). This legal regime of doing business was formed in order to accelerate the development of individual regions by making a favorable environment to attract investment and create new jobs.

In this paper, we study the impact of the priority social and economic development areas on the level of economic health and industrialization of Russian regions, problems and ways to improve their development.

II. LITERATURE REVIEW

The organization and functioning of PDA are paid a lot of attention to in foreign and national research, in particular in the works of Russian authors A. V. Kuchinsky, O. V. Butkevich, S. N. Shevtsova, B. B. Sangini, I. Ivanova, V. Karpunina, L. Larina, S. Maneyeva, V. Morgacheva, Sh., Valiev, M. Neuseway, N. Smorodinskaya, B, Fedorova, A. Shevtsova, K. Fischenko, L. M. Igolkina [1, 2, 3, 4]. Since the PDAs have become the engines of development of Asian countries, the Chinese and Indian authors K. Yu Wong, D. Q Chu [5], R. Chanda, P. J. Nareba [6] and A. Pellet [7] made a distinguished work on this issue among foreign researchers.

The Regional aspects of the development of PDA in Russia are given attention to in the works of N. Kashina [8], N. Ulitskaya, M. Akimova, T. Kokareva [9].

Since the PDA is a new tool of regional development for Russia, during the period of their existence, the researchers have not managed to accumulate and summarize enough information for a clear understanding of the results and problems of their functioning in Russia.

III. RESEARCH METHODOLOGY

The methodological basis of the study involves the systematic approach to solve semi-structured problems, the institutional approach, the principles and methods of statistical analysis, the normative and the specific historical analysis.
The main methodological principle of this study is the principle of practical feasibility of its results. This principle means the development of specific proposals and activities that stimulate investment in competitive technologies and improve the efficiency of the mechanisms of functioning of PDA.

IV. THE EMERGENCE AND COMPETITIVENESS OF PDA IN RUSSIA

The priority social and economic development areas (PSEDA) or, as they are abbreviated, the Priority Development Areas (PDA) appeared in the Russian Federation in 2015 on the basis of the Federal Law No. 473 of 29.12.2014 "on the priority social and economic development areas in the Russian Federation" (hereinafter FL No. 473) [10]. An essential prerequisite for the creation of a new type of special development zones at that time was a series of failures in the functioning and the achievement of planned targets of development of the SEZ in the Russian Far East especially were revealed in the work of Sh. Valiev, M. Neucheva [2].

The PDA is a part of the territory of the Russian Federation, which involves an administrative-territorial formation of a closed type, in which a special legal regime for conducting business activities is established, providing a number of tax benefits and administrative preferences for residents of the territory.

The boundaries of the PDA can not coincide with the special economic or territorial zones of the Russian Federation, and for each individual PDA, a list of permitted economic activities is defined for which an individual legal regime is established and the amount of minimum capital investments of residents is regulated.

The management functions of the PDA are fully entrusted to the management company (hereinafter MC PDA), which, firstly, is the owner of all state and municipal lands and buildings, secondly, creates the necessary infrastructure and ensures the provision of customs, legal and other services to residents (including registration and transfer of land, issuance of construction permits), and thirdly, all functions of local self-government are transferred to it. The company is appointed by the government of the Russian Federation, this status can be obtained by a joint stock company (or its subsidiary), one hundred percent of shares of it being owned by the state.

All tax benefits and preferences apply only to the residents of the PDA, which include entrepreneurs and/or commercial legal entities that have passed state registration and made agreements, in accordance with the rules of laws on the implementation of strictly regulated activities in the established priority development area. The residents of the PDA conclude agreements with the management company, the subject and key terms of which are regulated by article 14 of the Federal law No. 473.

In contrast to the special economic zones, PDAs in Russia are established for up to 70 years, and later under certain conditions, the Government of the Russian Federation can extend their operation. In addition, the territory can be engaged in mining and processing of minerals and the production of excisable goods, which is practically prohibited in the SEZ.

In general, the competitiveness of the priority development areas is determined by a set of the following advantages:

- specifics and benefits of taxation, including income tax rate from 0 to 5 %, zero rate of property tax for the first five years, etc.;
- limited prices for the purchase of property by residents from the management company (the price cannot exceed its cadastral value) and preferential rental rates [11];
- the provision of special services from the state and their shortened terms (the time of obtaining a building permit may not exceed 40 days, environmental assessment 45 days);
- customs procedures similar to free zones;
- exclusive rights to engage personnel from other countries (without special permission and quotas);
- special procedure of municipal supervision and state control (for residents there is a limit on the number and duration of inspections of their activities);
- special procedures for the use of land;
- use of technical and sanitary regulations, following the example of OECD countries where such zones have been successful;
- financing from the state of construction and maintenance of infrastructure and preferential treatment when connecting to the infrastructure of the PDA;
- the ability to create industrial parks within the boundaries of the PDA.

Initially, the priority development areas were created as a tool for the development of the Far Eastern Federal District, aimed at raising its competitiveness and rapprochement in development with the countries of the Asia-Pacific region. Therefore, in the first year from the date of adoption of the Federal Law No. 473 PDAs could be established only in the Far East. The managing company of the PDA in the Far Eastern Federal District is currently the Far East Development Corporation and its subsidiaries operating directly in the priority development areas.

Since 2016 it became possible to create a PDA in single-industry towns, on the basis of the Decree of the government of the Russian Federation No. 614 of 22.06.2015 “on the peculiarities of establishing priority social and economic development areas in single-industry municipalities of the Russian Federation”[12]. Unlike a conventional PDA, the priority development areas in single-industry towns are created for a period of 10 years, with the possibility of extension for 5 years and exclude the production of excisable goods (except for cars and motorcycles), as well as activities such as production, processing, transportation of oil and gas, logging, wholesale and retail trade.

The decree of the government of the Russian Federation No. 614 of 22.06.2015 “on the specifics of establishing priority socio-economic development areas in single-industry municipalities of the Russian Federation” defines the rules (procedure) for the formation of PDAs, additional requirements for investment projects and residents (including the minimum amount of investment and the number of jobs created), as well as the criteria for the creation of PDAs. This resolution also obliges the Ministry of economic development of Russia and the Executive authorities of the Russian
Federation regions and the single-industry towns in the agreement on the formation of the PDA to prescribe the indicators of efficiency for the priority development area and the values, as well as the order and forms of reporting on the activities of the PDA (art. 13 of the Rules).

The criteria for PDA establishing in the territories of single-industry towns include:
- availability of potential residents;
- availability of opportunities to provide residents with land plots, other property and resources (including manpower) that can be used for the implementation of investment projects;
- the presence of a positive balance of additional revenues coming to the budgets of all levels in relation to the falling revenues of the respective budgets for the period of operation of the priority development area;
- availability of information on the creation of PDA in the documents of strategic planning of the RF region;
- successful experience in implementation of major investment projects;
- lack of preferential regimes on the territory of single-industry towns or justification of expediency for creation of PDA in the territory of towns on the basis of existing preferential regimes;
- there being average staff number of the city-forming organization in the single-industry town reached 15 percent and more of the average number of all companies’ employees within 3 years preceding the date of the application filing for creation of the priority development area [13].

V. RESULTS OF THE PDA OPERATION IN RUSSIA

As of April 2018, 18 PDAs with a total number of residents of 251 have been created in the Far East. The website of the Ministry for Development of Russian Far East indicates that due to the implementation of the PDA mechanism it is planned to create about 43 thousand jobs and attract more than 2.2 trillion RUB investment to the region.

The dynamics of the development of the PDA in this region is positive, in 2017 the number of residents almost doubled, the volume of attracted investments increased 4.5 times (table 1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of PDA</th>
<th>Number of residents</th>
<th>Number of jobs created</th>
<th>The volume of investment (billion rubles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>9</td>
<td>21</td>
<td>7666</td>
<td>187</td>
</tr>
<tr>
<td>2016</td>
<td>14</td>
<td>111</td>
<td>22259</td>
<td>450</td>
</tr>
<tr>
<td>2017</td>
<td>18</td>
<td>204</td>
<td>39772</td>
<td>2175</td>
</tr>
</tbody>
</table>

Source: compiled by the authors on [14].

The register of residents of PDA single-industry towns is regularly updated and published on the website of the Ministry of economic development of Russia [14]. The PDA projects are cofinanced by the Fund of development of single-industry towns to 40% of the declared amount. The Industry...
orientation of the PDA is widely diversified. For example, the PDA "Naberezhnye Chelny", established to create jobs outside the city-forming enterprise "KAMAZ", covers almost all activities: from fishing to pharmaceuticals. The establishment of the PDA single-industry towns is initiated by regional authorities and is fixed by the relevant regulations of the government of the Russian Federation, which define the boundaries of the PDA, the list of permitted types of economic activities in the territory and requirements for residents with regard to the minimum amounts of investments and the number of jobs created (table 3).

**TABLE 3. Requirements to PDA in the Territories of Single-Industry Towns**

<table>
<thead>
<tr>
<th>Name of PDA</th>
<th>Number of permitted activities (according to OKVED)</th>
<th>Minimum investment (mln. RUB)</th>
<th>Minimum number of jobs (units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Giukovo</td>
<td>17</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Naberezhnye Chelny</td>
<td>24</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>Kazan</td>
<td>25</td>
<td>2.5</td>
<td>10</td>
</tr>
<tr>
<td>Beleley</td>
<td>26</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Kumertau</td>
<td>22</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Bakal</td>
<td>16</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Tolyatti</td>
<td>33</td>
<td>5</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: compiled by the authors

The number of applications for the status of a resident of PDA being assessed, the benefits of the operation of enterprises in the territory of PDA for business are obvious. However, despite the generally positive three-year results of the functioning of PDAs in terms of the revival of the economic situation in the regions and single-industry towns in connection with the emergence/construction of new types of production and infrastructure, the question of the effectiveness of the establishment and functioning of PDAs within the state as a whole remains open.

**VI. Economic Efficiency and Operational Problems of PDA**

56.1 billion rubles are planned to be allocated from the budget of all levels for the development of PDAs and additional 111.2 billion rubles in 2016-2020. To date, more than 5 billion rubles of Federal funds have already been invested in the creation of the infrastructure of PDAs in 2021-2025, while the budgets of all levels and the State non-budgetary funds have received less income in the form of falling taxes and social contributions. At the same time, the ratio between the volume of state resources invested and the amount invested by private business is not clear. The inefficiency of the state investment in the PDAs with a small number of residents is obvious. In addition, when implementing a point strategy for the recovery of individual territories, it would be advisable to assess the level of their participation in the value chain: to move away from the rental component in favour of more high-tech and/or socially important goods and services.

As a result of the assessment of the current legislation and three-year practice of the functioning of PDAs in Russia, it is possible to identify a number of significant shortcomings, including:

A. Excessive powers of the management company

The management companies of PDAs are entrusted with almost unlimited and excessively centralized power, but the Federal Law No. 473 does not provide the responsibility of management companies for incorrect actions/inaction or abuse of their powers;

B. Exclusion of investors from the decision-making process

The functions of management and regulation of PDA are assigned exclusively to the MC PDA and the Supervisory Board, while it would be advisable to involve the main resident stakeholders in the solution of key issues related to the functioning of the PDA.

C. Lack of methodology for assessing the effectiveness

There is no unified methodology for assessing the feasibility of opening and efficiency of the activities of PDAs, while the budget costs for their creation and maintenance are large.

D. Insufficient information support

There is no single consolidated database containing key information on the directions and results of the activities of the PDAs in Russia. There is insufficient information support for PDAs in the media.

E. Imperfection of the legal framework

The availability of broad opportunities for fraudulent schemes through the mechanism of PDA. Thus, in connection with the gap in the Federal Law No. 473, residents of the PDA have the opportunity, after receiving the property from the MC PDA, to terminate the contract and lose the status of a resident, while keeping the property [15]. Article 16 of the Federal Law No.473 contributes to this in particular: "a person who has lost the status of a resident has the right to dispose of his property at his discretion."

F. Threat of migration

The ability to increase and legalize the flow of migrants through the mechanism of PDA in the Far Eastern Federal district, as residents of PDA on the basis of article 351.5 of the Labor Code have the right to attract foreign workers without obtaining permits and out of the established quotas.

G. Rental component

Since within the framework of traditional PDA residents have the right to engage in mining, there is a high risk of their use by foreign companies for rental purposes.

PDAs in single-industry towns also have a number of characteristic problems, the main of which is administrative: the inability to develop small businesses in them due to excessively high requirements for minimum investment volumes and the number of personnel. In addition, at the moment tax preferences do not apply to the simplified tax system the most often used by small businesses.

To improve the competitiveness of PDAs, the government and regional authorities should make certain adjustments and improvements to the existing regulatory framework:

- the Federal Law No. 473 of 29.12.2014 "on the priority social and economic development areas in the Russian Federation" regarding the introduction of responsibility of management companies for actions/inaction or abuse of their powers, in terms of
reforming the management system of PDA by introducing representatives of major residents into the Supervisory Board;
- the Labor Code of the Russian Federation regarding the establishment of quotas for attracting low-skilled foreign citizens to work in PDA;
- the Tax code of the Russian Federation regarding the establishment of preferential rates under the simplified tax system;
- in the Resolution on the opening of PDA in single-industry towns by reducing the minimum requirements for the volume of attracted investments and the number of jobs.

In addition, it is advisable, based on the accumulated experience in the assessment of efficiency of special economic zones, to develop and approve a reasonable method for performance evaluation of PDAs.

VII. CONCLUSION

The practice in the application of priority development areas in Russia shows that this legal regime of doing business is attractive for domestic and foreign investors. In 2017-2018, the process of industrial growth in a number of PDA in the Far Eastern Federal district began. Some single-industry towns also received an impetus to development.

However, to date, a number of problems have not been solved, including excessive powers of management companies, imperfection of legislation, unavailability of this legal regime for small business, etc.

These problems require further theoretical and applied research in order to make adjustments to the concept of PDA and legislative changes in the practice of its implementation.

The results of this study were discussed at the conferences "Economic Management: methods, models, technologies" (Ufa, 2018) and "Issues of development of modern science in the period of digital economy" (St. Petersburg, 2018).

Acknowledgement

The publication was prepared in the framework of the Russian Foundation for Basic Research grant "Implantation of competitive technologies and financial and economic mechanisms in PDAs as drivers of regional development (on the example of the Republic of Bashkortostan)" (project № 18-410-020024)

References


[11] The Ministry for Development of Russian Far East order of 27.02.2015 N 21 "about the statement of the approximate form of the lease agreement of the property located in borders of the priority social and economic development area signed with the resident of priority social and economic development area and the methodology for computing rental charges" (Registered in the Ministry of Justice of Russia 08.05.2015 No. 37204), [Electronic source]. Retrieved from https://www.consultant.ru/document/cons_doc_LAW_179520/


