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The tutorial reveals the main provisions of investment theory and features of their implementation in practice. It examines the essence and main forms of investment, defines the conceptual principles of investment activities and the specifics of its implementation and financing by various entities. The tutorial considers methods for assessing the effectiveness of real and financial investments effectiveness and substantiates approaches to investment management. Each topic is accompanied by a list of questions for self-examination and tests for self-control. Some paragraphs include practical tasks that should enhance the independent work of students. There is a list of recommended literature for individual reading at the end of the tutorial.
The tutorial is designed for students of economic specialties of higher education institutions, graduate students, teachers, scientists. The tutorial will also be useful for practitioners.

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INTRODUCTION

The main task for today is the development of investment activities, aimed at creating an attractive investment environment and significantly increasing the volume of investments.

However, annual investment volumes still remain at a low level due to an unfavorable investment climate, which is explained by an imperfect legal framework, underdeveloped stock market and financial and credit system, high tax pressure, inefficient use of depreciation deductions, as well as a low level of transformation of population savings to investment, which leads to the outflow of domestic capital abroad and does not contribute to the attraction of foreign investments in the country's economy.

In this regard, the investment activity of business entities requires in-depth knowledge of the theory and practice of decision-making in the field of justifying the investment strategy, choosing the directions and forms of investment, and the search for ways to improve relations in the investment field in the conditions of the market transformation of the economy is not only relevant , but also an important task of theoretical and practical importance.

The main tasks of the discipline "Investment" for the teacher are: to acquaint students with the essence and theoretical foundations of investment activity; teach how to correctly apply methodical investment tools; to form the theoretical and methodological base necessary for further mastering the practice of financial, real, innovative and foreign investment; develop the ability to work out and analyze the feasibility of implementing investment projects in conditions of uncertainty; to correctly determine the methods of financing investment activity and directions of state regulation of investment activity.

The tasks of studying the discipline "Investment" for students are:

1) study of theoretical and methodological foundations of investing;

2) justification of the regularities and mechanism of investment relations of the state, business entities and individuals;

3) familiarization with the functions of the investor and participant in the investment market, the role of financial intermediaries in investing;

4) assimilation of methods of financial support of investment activities;

5) acquiring knowledge about financial and real investments, as well as the specifics of innovative and foreign investments;

6) justification of the investor's feasibility of investing capital in financial and real assets;

7) acquisition of skills to develop investment projects, justify the feasibility of their implementation;

8) studying the mechanism of the investment market and the risks associated with investing;

9) mastering the basics of investment management;

10) acquiring knowledge about the directions of investment use;

11) justification of the stages of formation of the company's investment strategy;

12) study of the practice of regulating the interaction of participants in the investment process in Ukraine.

The author believes that the presented study guide will be useful for those who are interested in investment problems at the micro- and macro-level, and will help find answers to questions encountered in the practical work of enterprises.

Topic 1. THEORETICAL FUNDAMENTALS OF INVESTMENT ACTIVITY

1. **Economic essence and classification of investments**
2. **Basic concepts of investment activity**
3. **Entities of investment activity**
4. **Development of strategic directions of investment activity**

1. Economic essence and classification of investments

Investments play an extremely important role in the economy of any enterprise and the country as a whole, as they are the basis for systematic renewal and expansion of productive capital, accelerating scientific and technological progress and improving product quality, restructuring social production and balanced development of all sectors. Without investment, it is impossible to prepare and launch new types of products (works, services), improve the quality and design of goods, use new types of materials, save energy, etc. Ensuring economic growth is directly related to the qualitative renewal of production, social and market infrastructure, the formation of a competitive environment and more. Investments play a crucial role in the reproduction processes in the enterprise, because they provide an increase in the technical and organizational level of production. The above determines the purpose and objectives of the study of this discipline.

The purpose of studying the discipline "Investing" is to provide theoretical knowledge about the essence of the mechanism of operation of investment processes.

The task of the study - the study of patterns and mechanisms of investment relations of the state, enterprises and individuals; acquiring the ability to use these patterns in the practice of investment, to determine measures to use investment as one of the effective levers of economic policy.

The subject of study of the discipline "Investing" is a set of theoretical approaches, methodological and practical techniques of capital management in order to ensure its constant growth, taking into account changes in external and internal

conditions for the investor. The investment activity of any business entity is multifaceted. It involves the search or development of investment projects, their justification by economic and other (social, environmental, etc.) criteria, the search for investment resources and the actual management of these and other aspects of activity. The development and implementation of scientifically sound investment programs and projects involves finding sources of investment financing, optimizing their structure, justifying the feasibility of investing and ensuring the effective use of all possible investment resources.

Investment plays a key role in the fundamental economic processes taking place in enterprises. The production potential of the enterprise, the efficiency of its functioning, the branch and reproductive structure of social production depend on the qualitative and quantitative characteristics of investment decisions. The solution of many socio-economic problems in modern conditions is associated with the scale of the investment process and its efficiency. Therefore, in modern conditions, one of the most pressing issues in the economy of Ukraine is the intensification of investment activities.

World experience shows that countries are not able to develop the economy without attracting and efficient use of investment. By accumulating entrepreneurial, state and mixed capital, providing access to modern technologies and management, investments not only contribute to the formation of national investment markets, but also revitalize the markets for goods and services. In addition, investments tend to contribute to macroeconomic stabilization measures and address the social challenges of the transformation period. Until the early 1990s, there was no place in Ukraine for the category of "investment" both in theory and in practice. For the first time - this concept began to appear in the domestic economic literature when it was replaced by the concept of "capital investment". Investments were considered, as a rule, as the most important economic instrument, which characterized the activities of the construction complex. In this case, capital investments (sometimes - investments) were analyzed in two aspects: as an economic category and as a process related to the movement of cash (resources).

Gradually, with the formation of the foundations of market relations in Ukraine, scientific worldviews of the essence of investment begin to change, there are purely market approaches to their evaluation and forecasting of forms, methods and principles of investment activity.

In contrast to accounting, which has a history of more than one millennium, investing as an independent science has emerged relatively recently. Some developments in theory were conducted before the Second World War. However, it is believed that the beginning of this process was the first half of the 50's, when M. Markowitz in his works laid the foundations of modern theory of the investment portfolio. Thus, in essence, the methodology of decision-making in the field of investment was set out, and the appropriate scientific tools were proposed.

The theory was further developed in research on securities, the creation of the concept of capital market efficiency, risk and return assessment models and their empirical confirmation, the development of new financial instruments and more.

In the second half of the 1950s, intensive research began on the theory of capital structure and the price of sources of financing, as well as on the choice of investment policy. It is generally accepted that the main contribution to these problems was made by F. Modigliani and M. Miller in 1958, who studied the problems of financial market costs in general, and also questioned the view that debt is cheaper than equity, as well as William Sharpe, who first formulated in 1964 mocapital asset valuation (IOC).

The Nobel Prize emphasizes the importance of these developments for the development of modern theory of economics, finance and investmenton economics, which were awarded to M. Markowitz, F. Modigliani, M. Miller and William Sharp.

It is worth noting that the formation of Western scientific thought about investing was based on the doctrine of finance. It is within the theory of finance formed the applied discipline of investment management as a science, which is devoted to the methodology and techniques of investment management of the company and which includes three interrelated areas that make up the heartof the company's investment management process:

-investment policy (ie actions related to placementinvestment resources);

-management of sources of funds (ie where to get funds and what should be the optimal structure of sources of finance);

- dividend policy (in what amounts and in what form to pay dividends).

In Ukraine, the theoretical knowledge of the category of investments is reflected in the Law of Ukraine of 18.09.91 "On Investment Activity" and the Law of Ukraine "On Amendments to the Law of Ukraine" On Taxation of Profits of Enterprises "(from 22.05.97). However, it should be noted that in these Laws the definition of "investment" has a different meaning. Thus, in the Law "On Investment Activity" - "... investments are all types of property and intellectual values that are invested in objects of entrepreneurial and other activities, as a result of which profit is created or a social effect is achieved.

Such values can be:

cash, target bank deposits, shares, stocks and other securities;

movable and immovable property;

property rights arising from copyright, experience and other intellectual values;

a set of technical, technological, commercial and other knowledge, designed in the form of technical information, skills and production experience necessary for the organization of a production;

land use rights and other values.

This definition is synthetic in nature. First, it takes into account the dynamism of investment, ie reveals the relationship, the process of converting investment resources into investments, costs, and secondly, gives a broad classification of investments.

In the Law of Ukraine "On Amendments to the Law of Ukraine on Corporate Income Tax" - "Investment is an operation that involves the acquisition of basic intangible assets, corporate rights and securities in exchange for funds or property. Investments are divided into capital, financial and reinvestment.

Analyzing the theoretical views on the essence of investment, we conclude that investment is a complex and meaningful concept that integrates various economic processes that affect the production, distribution, exchange and consumption of national product, ie they are the fundamental basishowl of social reproduction.

In order to study the content of investments in more detail, they are classified according to certain characteristics:

1. By objects of investment {property) distinguish between real and financial. Real investments are understood as investments (property) in real assets - tangible and intangible (innovations). Financial investments are investments in financial instruments (assets), mainly securities.

2. By the nature of participation in the affairs of the enterprise cutdirect and portfolio investments. According to the Law of Ukraine "On corporate income taxation" of 22.05. 1997 № 283/97 - VR direct investment - is a business transaction that involves the contribution of funds or property to the authorized capital (fund) of a legal entity in exchange for corporate rights issued by such legal entity. Direct investment includes the direct introduction of any values on the basis of the investment agreement. Direct investments include such investments that form more than 10-25% of the company's capital and give the right to participate in the management of the enterprise. Portfolio investment is a business transaction that involves the purchase of securities, derivatives and other financial assets for cash on the stock market. The main feature of portfolio investment is that the investor has no right to participate in the management of the enterprise,

By investment period investments are divided into short-term, long-term. Short-term investments are investments for a period of up to one year. These include investments in short-term deposits, government and corporate bonds with a maturity of up to 1 year and other financial assets. Long-term investments are investments for a period of more than one year, in particular, they are investments in main production, innovation activities, securities with a maturity of more than 1 year.ku and more.

By forms of ownership of investors investments are divided into private, public, foreign and joint. Private investments are made by individuals, as well as legal entities with private capital, state - state and local authorities, state enterprises from budget funds, foreign - individuals and legal entities of foreign countries, joint - subjects of a certain stateand foreign states.

5. On a regional basis investments are divided into domestic investments made in investment objects within the state, and external - outside it.

The given classification of investments reflects their most essential features, and if necessary it can be deepened depending on the business or research purpose.

In countries with developed market economies, investments are understood as the use of capital mainly intwo directions:

1. Real investments - investments in tangible assets, the main types of which are:

investments in fixed assets with long terms of amortization;

investments in inventories;

total investment in production assets, including zeground area.

2. Financial investments: investments in securities (stocks, bonds, etc.).

2. Basic concepts of investment activity

In accordance with the Law of Ukraine of 18.09.91 "On Investment Activity" № 1560 - XII investment activity is defined as a set of practical actions of citizens, legal entities and the state to implement investments. It is carried out on the basis of: investment made by citizens, non-governmental enterprises, business associations, as well aspublic and religious organizations;

- public investment carried out by the authorities and management of Ukraine, as well as state-owned enterpriseswe and institutions;

- foreign investment carried out by foreign states, legal entities and individuals;

- joint investment carried out by citizens legal entities of Ukraine and other states.

Investment activity is often considered as investment process, stages of which are:

- motivation of investment activity;

- forecasting and programming of investments;

- substantiation of expediency of investments;
- investment insurance;
- state regulation of the investment process;
- investment planning;
- financing of the investment process;
- design and pricing;
- providing investment with material and technical resources;
- investment development;
- preparation for production;
- preliminary commissioning;
- final commissioning of the facility.

Of course, the investment process begins with the motivation of investment activities. The main motive for such activities is the excess of certain funds in business entities or individuals who are not satisfied with interest on bank deposits. The investor who owns these accumulations (savings) seeks to purchase financial assets or investment goods (real assets) on the investment market, ie to make investments.

When choosing an investment object, a number of pre-investment studies are conducted: all investment risks are studied, marketing research is conducted, and investment directions are evaluated. Justification of the feasibility of investment requires consideration of as many investment projects as possible in order to choose the best. Of course, in this case, the investor is assisted by other participants (intermediaries) of the investment process.

To invest, as a rule, the investor's own funds are not enough and therefore he seeks to obtain borrowed or borrowed capital, ie to use other sources of financing than their own. Determining the sources of financing (investment resources), substantiating their structure precedes the investment, it is necessary to persuade and involve other participants in the investment process.

Sources of financing investment activities can be:

- own financial resources of the investor (profit, depreciation deductions, compensation of losses from accidents, natural disasters, monetary accumulations and savings of citizens, legal entities, etc.);

- loan funds of the investor (bond loans, bank and budget loans);

- attracted financial resources of the investor (funds received from the sale of shares, shares and other contributions of citizens and legal entities);

- budget investment allocations;

- gratuitous and charitable contributions, donations of organizations, enterprises and citizens.

Resource provision of the investment object is also carried out with the help of other participants in investment activities,usually on a contractual basis.

Development of investments means their capitalization, ie the creation of financial and real assets. Commissioning does not end the implementation of the investment project. During operation, the project requires new investments to maintain the vortexand the process of pre-investment research begins again.

Objects of investment activity can be any property, including fixed assets and working capital in all sectors and areas of the economy, securities, targeted cash deposits, scientific and technical products, intellectual property, other property, as well as property rights.

It is prohibited to invest in facilities, the creation and use of which does not meet the requirements of sanitary, radiation, environmental, architectural and other norms established by the legislation of Ukraine, as well as violates the rights and interests of citizens, legal entities and the state protected by law.

3. Entities of investment activity

Entities (investors and participants) of investment activitiesmay be citizens and legal entities of Ukraine and foreign countries, as well as states. Investors are subjects of investment activity who make decisions on investing their own, borrowed and

attracted property and intellectual values in investment objects. Investors can act as depositors, creditors, buyers. And also to perform the functions of any participant in investment activities. Participants in investment activities may be citizens and legal entities of Ukraine and other countries that ensure the implementation of investments as executors of orders, or on the basis of an investor's order.

The investor determines the goals, directions and volumes of investments and attracts for their realization on a contractual basis any participants of investment activity, including by organizing competitions and tenders. The state and officials have no right to interfere in the contractual relations of investment participants beyond their competence.

Law of Ukraine "On Investment Activity" of 1809.91 № 1560 -XII the basic rights of subjects of investment activity are defined. In particular, all subjects of investment activity, regardless of ownership and management, have equal rights to carry out investment activity. The investor independently determines the goals, directions, types and volumes of investments, attracts for their realization on a contractual basis any participants of investment activity, including by the organization of courses and trades. Upon the decision of the investor, the rights of possession, use and disposal of investments, as well as the results of their implementation may be transferred to other citizens and legal entities in the manner prescribed by law. The relationship in such a transfer of rights is governed by them independently on the basis of agreements.

Financial resources may be attracted for investment in the form of loans, issued in the manner prescribed by laworder of securities and loans.

The investor has the right to own, use, dispose of objects and results of investments, including reinvestments and trade operations on the territory of Ukraine, in accordance with the legislative acts of Ukraine.

The investor also has the right to purchase the necessary property from citizens and legal entities directly or through intermediaries at prices and on terms determined by agreement of the parties.

The Law also defines the responsibilities of investment entities:

the investor in the cases and in the manner prescribed by the legislation of Ukraine, is obliged to:

- submit to the financial authorities a declaration on the volume and sources of their investments;

- obtain the necessary permission or approval of the relevant state bodies and special services for capital construction;

- to obtain the conclusion of the examination of investment projects on compliance with technological, sanitary, radiation, environmental and architectural requirements.

Investment entities are obliged to:

- comply with state norms and standards:

- comply with the requirements of state bodies and officials presented within their competence:

- submit accounting and statistical reports in the prescribed manner;

- prevent unfair competition and performyou have all the requirements of antitrust regulation.

The subjects of investment activity can be production and economic entities, the state through its institutions, financial institutions, as well as other functional participants.

In particular, the production and economic entities include:

1. Joint-stock society are companies that have a statutory fund divided into a certain number of shares. A joint-stock company is liable for its obligations only with the company's property, and shareholders are liable in proportion to the number of shares they own. The company's charter consists of at least 1250 minimum wages. It can be open or closed. In turn, the closed can be reorganized into the open by re-registering shares.

2. Limited liability companies- these are companies whose statutory fund must be at least 625 minimum wages. The authorized capital is divided into shares, the size of which is determined by the constituent documents. The members of the company are liable within the limits of their contributions or in proportion to them. The change

in the value of the property, as well as additional contributions of participants does not affect the size of their share in the authorized capital.

3. Additional liability companies Are companies whose statutory fund is divided into shares owned by participants. Participants are liable for the debts of the company in proportion to their contributions, and in case of lack of funds - additional property belonging to all members of the company. The maximum amount of liability is determined by the constituent documents.

4. Full partnerships - is a company, all members of which are engaged in joint business activities and are collectively liable for the obligations of the company with all their property, and the participants are liable regardless of the time of occurrence of debts;

5. Limited partnerships- are companies that include, along with one or more members with full responsibility, also one or more members, whose liability is limited to the amount of contributions to the company's property. The former are jointly and severally liable for the company's debts and manage the affairs of the limited partnership. The total amount of contributions of the second participants in the company's property is limited to 50% of the authorized capital and in case of liquidation their contributions are returned first.

The subjects of investment activity can be production and economic groups, which are created in the form of holding companies, industrial and financial groups, concerns in order to combine their capital for joint investment activities.

The Industrial and Financial Group (IFG) is a large group of enterprises, banks, and other legal entities engaged in production, trade, and financial and credit activities. Unlike the holding, IFG does not have a company that specializes in management. These groups are usually created on a cross-sectoral basis, which allows for joint investment in large projects.

In Ukraine, industrial and financial groups are created in two types: on the basis of combining statutory funds (statutory groups) and on the basis of combining all financial resources with a single management (contractual groups in the form of a consortium).

The state participates in the investment process both directly (through the public sector of the economy) and indirectly through its institutions: executive authorities and local governments; National Bank of Ukraine; State Property Fund of Ukraine; extra-budgetary funds; antimonopoly committee, etc.

The direct influence of the state on the investment process is that the state as an investor assumes the functions of financing those industries and industries whose products are national in nature and produced by state enterprises. Gradually, with the strengthening of market relations, the functions of the state as an investor will be reduced to financing only those industries and productions where the state will act as a customer and consumer of products (defense industry, highways, terminals, etc.). In modern conditions, the state retains the functions of an investor in the social sphere; some agricultural production is also financed from the state budget.

With the development of a market economy, the functions of direct influence of the state on the investment process will be narrowed, which will allow to focus more on the methods of indirect influence that the state implements through its institutions as a participant in the investment process.

The indirect influence of the state on the investment process is that the state regulates investment activities. In countries with developed economies, there are a huge number of forms of indirect influence of the state on the investment process, including:

- application of the tax system with differentiation of subjects and objects of taxation, tax rates and benefits;
- conducting credit and depreciation policy, including by accelerating the depreciation of fixed assets;
- providing financial assistance in the form of grants, subsidies, subventions;
- implementation of state norms and standards;
- state licensing, quotas;
- application of antitrust measures;
- use of state credits and state loans;
- privatization and privatization of property;

- pricing policy;

- determination of conditions for the use of water, land and other natural resources;

- conducting state examination of investment projects and construction projects;

- other activities.

The state implements the methods of indirect influence through its institutions. The state also controls the investment activities of all investors and participants.

A special role belongs first of all to the state monetary regulation of investment activity. The monetary policy of the state affects the investment conditions by regulating the money circulation and operation of the banking system, which, in fact, reproduces the increase in funds in the economic system. Monetary regulation of investment activity is carried out by the state through the National Bank of Ukraine by regulating supply and demand for borrowed funds.

The NBU's monetary policy depends on the state of the economy and is conducted either in the form of credit expansion or credit restriction. Credit expansion takes place during a period of economic downturn, when it is necessary to intensify market conditions (expand production, increase employment, etc.).

Credit expansion - the intensive expansion of credit operations for profit. It includes lowering official central bank rates and expanding limits on their accounting and pawnshop operations, changing reserve requirements (or abolishing them) for credit institutions, buying securities on the open market, expanding the purchase of commercial foreign exchange banks, and lowering interest rates on transactions, abolition of quantitative restrictions on loans.

Thus, the policy of credit expansion is carried out during the economic downturn to stimulate economic development through the so-called "cheap money". The policy of credit restriction is carried out in order to curb investment activity - there is an increase in the cost of credit resources, forcing investors to invest only in the most effective profitable projects, promotes public investment, attracting deposits from financial institutions.

The methods of monetary regulation include:

1) regulation of the size of the discount interest rate;

2) stock market operations;

3) establishment of norms of obligatory minimum reserves for commercial banks. By setting and changing the size of the discount rate at which the National Bank sells credit resources to others, there is a regulation (increase or decrease) of the amount of credit sources to finance investments.

The National Bank also conducts operations on the stock market, i.e. sells and buys government securities (bonds, treasury bonds). In world practice, central bank operations with securities are considered the most effective method of monetary regulation. In order to expand credit, central banks buy government securities and, conversely, sell them when they try to limit the expansion of the creditworthiness of commercial banks. By setting favorable conditions (in the form of prices or dividends) for its securities, the state encourages their purchase by legal entities and individuals and thus reduce the amount of free money that can be used to lend to investments through the banking system. Deteriorating price and dividend conditions for the sale of their securities, the state stimulates their redemption from legal entities and individuals. As a result, the latter have additional funds, which through the banking system or directly used to finance investments. Central banks also indirectly influence investment activity by regulating the minimum reserve requirement. This method consists in establishing by commercial banks the norms of obligatory reserves by the central bank in the form of a certain percentage of the amount of their deposits kept in its accounts. With increasing reserve requirements, the amount of credit resources decreases and, conversely, with their reduction, commercial banks have the opportunity to expand lending operations, increase the share of long-term loans, thereby stimulating the investment process.

The State Property Fund of Ukraine, which is tasked with ensuring a significant impact on the expansion of investment activity:

- protection of property rights of Ukraine on its territory and abroad;

- exercise of property rights of state-owned enterprises in the process of their privatization, creation of joint ventures;

- exercise of powers to privatize the property of state-owned enterprises;

- exercising the powers of the lessor of property of state enterprises and organizations and their structural units;

- promoting the process of demonopolization of the economy and creating conditions for competition between producers.

In accordance with these tasks, the State Property Fund of Ukraine is entrusted with the functions of:

- development and control of projects of state privatization programs, changes in the process of privatization of forms of ownership by transformation of state enterprises into open joint-stock companies. At the same time, the Fund owns the part of the shares that was not sold in the privatization process;

- The Fund sells state-owned property, including liquidated enterprises and construction in progress;

- the Fund is empowered to establish privatization commissions, issue licenses to intermediaries, attract foreign investors to the privatization process by concluding relevant agreements with them or their intermediaries;

- The Fund develops regulations on the management of state property, conducts its inventory, conducts audits of the effectiveness of its use, estimates the costs of the extra-budgetary privatization fund and controls the use of these funds. Extra-budgetary funds have a significant impact on investment activities, through which the state forms additional sources of investment financing.

Active entities of investment activity are functional participants, which include: firms - developers - legal entities that take over the functions of full realization of invested capital. Such firms independently search for the most profitable place to invest the investor, develop a project for its financing, implementation and commissioning. Some functions for the implementation of the project as a whole or its individual stage can be assumed by the project manager (manager: project), which is involved specifically for the period of implementation of the investment project.

Real estate companies are real estate agencies. They work not only under agreements with real estate sellers, but also determine the economic feasibility of

investors to purchase certain finished buildings, structures or unfinished construction projects.

Engineering - consulting firms - are firms that are engaged in the development on a contractual basis of various types of documentation - information, scientific and technical, design and estimate and others. At the request of an individual investor, engineering and consulting firms also perform feasibility studies of the project, develop a business plan, monitor the project, author and technical supervision in its implementation, organize and conduct tenders.

Construction companies - perform the full range of works on the investment project (design estimates, construction, installation, commissioning) and hand over to the investor the finished object "turnkey".

Audit firms - perform in the investment process the function of checking the financial and economic activities of both the investor and his partners. Auditors assess the assets and liabilities based on the balance sheets of the firm, calculate liquidity ratios, assess the investment qualities of securities and equity of the investor and its shareholders.

4. Development of strategic directions of investment activity

The investment activity of a company or firm represents a rather long time and therefore should be carried out taking into account a certain perspective. Formation of directions of this activity taking into account perspective represents process of development of investment strategy.

Thus, the investment strategy is a process of forming a system of long-term goals of investment activities and choosing the most effective ways to achieve them based on forecasting the conditions of this activity, the investment market as a whole and in its individual segments.

Fast-changing market conditions, imperfections and variability of the legal framework, inflationary processes and the crisis of defaults require a flexible approach to the formation of investment strategy.

The initial prerequisite for the formation of investment strategy is the overall strategy of economic development of the company. In relation to it, the investment strategy is subordinate and must be consistent with it in terms of goals and stages of development. Thus, the investment strategy should be considered as the most important factor in ensuring the effective development of the company in accordance with its chosen overall economic strategy.

The process of forming the investment strategy of the enterprise goes through certain stages:

1) determining the period of implementation of the investment strategy:

- predictability of economic development in general and the investment market in particular;

- the duration of the period adopted for the relevant basic strategy of the enterprise;

- branch affiliation of the enterprise;

- the size of the enterprise, its capacity, pace of development;

2) determination of strategic goals of investment activity:

- the task of ensuring capital growth;

- increasing the level of return on investment and the amount of income from their investment;

- change of proportions in the structure of real and financial investment;

- improvement of technological and reproductive structure of capital investments;

- improvement of branch and regional orientation of investment programs;

3) development of the most expedient ways of realization of the strategic purposes of investment activity:

development of strategic directions of investment activity;

development of a strategy for the formation of investment resources;

4) specification of the investment strategy for the periods of its implementation provides for the establishment of a sequence and deadlines for achieving certain goals and objectives through:

- investment development;

- external consistency in time, which is achieved by compliance with the investment strategy of enterprise development, taking into account the expected changes in the investment market;

- internal coherence in time is the correspondence of separate directions of investment to each other, and also the corresponding formation of the corresponding resources necessary for this purpose;

5) evaluation of the developed investment strategy:

consistency of goals, directions and stages of investment strategy with the basic strategy of the enterprise;

6) the internal balance of the investment strategy, ie the consistency of individual strategic goals and areas of investment activities among themselves, as well as the sequence of their implementation; coherence of the investment strategy with the external environment, ie compliance of the investment strategy with changes in economic development in the investment climate and the market of the country;

7) the possibility of implementing an investment strategy taking into account the available resource potential. In the process of such assessment, first of all, the potential capabilities of the enterprise in the formation of its own sources of financial resources, as well as the possibility of attracting the necessary financial and material resources from other sources to implement the investment strategy are considered;

8) taking into account the level of risk associated with the implementation of investment projects.

Investment strategy should be considered as a process of strategic management of investment activities, which includes tactical management of investment activities through the formation of the company's investment portfolio; operational management of investment activities through operational management of individual investment projects and programs.

In the process of investment activity, the investor is faced with the situation of choosing investment objects with different investment characteristics to achieve the most complete goals. Modern investment activity is directly related to the so-called portfolio theory. It is based on the fact that most investors choose for their investment activities several objects of real or financial investment, ie form a certain set of them (investment portfolio).

The investment portfolio is a purposefully formed set of objects of real and financial investment, intended for investment activity in accordance with the developed investment strategy of the enterprise.

The main purpose of forming such a portfolio is to ensure the implementation of the developed investment policy by selecting the most effective and reliable investments.

In the process of portfolio formation by combining investment assets, a new investment quality is achieved: the required level of income is provided at a given level of risk. Depending on the direction of the chosen investment policy and the peculiarities of investment activity, a system of specific goals is determined.

When forming any investment portfolio, the investor sets certain goals:

- achieving the required level of profitability;
- capital increase;
- minimization of investment risks;
- maintaining the liquidity of investment funds at a level acceptable to the investor.

Accounting for priority objectives in the formation of the investment portfolio is the basis for determining the relevant regulatory indicators, serving as a criterion in the selection of investments for the investment portfolio and in its evaluation. Depending on the accepted priorities, the investor can set as such a criterion the limit values of capital growth, income, the level of allowable investment risks, liquidity. As part of the investment portfolio can be combined objects with different investment qualities, which allows you to get a sufficient total income while maintaining the risk of individual investment objects.

The main purpose of investment activities at the enterprise, as well as the formation of the investment portfolio is to ensure the implementation of the investment strategy. If the investment strategy of the enterprise is aimed at increasing production and sales, ie to expand activities, the main investments will be invested in investment projects or assets related to production, and the rest - in other objects (securities or banking deposits) and will be in relation to the first subordinate nature, which will affect the timing and volume of placement.

When forming an investment portfolio, as well as when carrying out investment activities, the investor expects a profit, acting within the appropriate risk. Its income can take the form not only of current payments or profits from the implementation of investment projects, obtained with a certain degree of regularity and certainty at regular intervals, but also in the form of an increase in the value of acquired assets.

Achieving a specific level of profitability involves obtaining regular income in the current period, usually with a predetermined frequency. These may be interest payments on bank deposits, planned income from the operation of real investment objects, dividends and interest received on shares and bonds. Receiving current income affects the solvency of the company and is taken into account when planning cash flows. This goal is fundamental in the formation of the portfolio, especially in the situation of short-term placement of funds.

Capital growth is provided by investing funds in facilities that are characterized by an increase in their value over time. This is true for the shares of young issuing companies, especially in the innovation direction, as their activities expand, a significant increase in their share prices is expected, as well as for real estate. It is the increase in value and provides the investor with income. This type of investment involves a longer period of placement of funds and, as a rule, are long-term

Minimizing investment risks, or investment security, means the invulnerability of investments from shocks in the investment capital market and the stability of income. Selection of objects on which the return of the capital and reception of the planned income is most probable, allows to reach the desirable purpose.

However, minimizing risks does not completely eliminate the likelihood of negative consequences, it only helps to achieve their acceptable level while ensuring the profitability required by the investor. It largely depends on the investor's attitude to risk.

Ensuring sufficient liquidity of invested funds implies the possibility of rapid and unprofitable return on investment in cash or the possibility of their rapid implementation. This goal is not necessarily related to the previous ones, it is most achievable when placing funds in financial assets that are in steady demand in the stock market. As a rule, these are shares and bonds of well-known companies, as well as government securities.

However, none of the investment values does not have all these properties in the aggregate, which determines the alternative goals of the formation of investment) portfolio. Yes, security is usually achieved at the expense of high profitability and investment growth. In world practice, government debt obligations are considered safe (low-risk), but their income rarely exceeds the market average and, as a rule, there is no significant increase in investment. Securities of other issuers, real investment projects that can bring the investor more income, but there is an increased risk in terms of return and income. Investment objects that provide an increase in investment, as a rule, are the least liquid - minimal liquidity has real estate.

Given the alternative investment goals, it is impossible to achieve them simultaneously. Therefore, the investor must set the priority of a particular goal over another in the formation of its portfolio

The difference between the goals of investment portfolios, the types of investment objects included in them and other conditions determines the variety of options for the direction and composition of portfolios in different companies. They can be classified according to various criteria.

The classification of investment portfolios by types of investment objects included in them is primarily related to the direction and volume of investment activity of the company.

The portfolio of real investment projects is formed by investors engaged in production activities, and includes objects of real investment of all kinds. The formation and implementation of the portfolio of these projects provide a high rate of development of these enterprises, the creation of additional jobs, the formation of a high image and some government support for investment activities. At the same time, compared to other types of investment portfolios, the portfolio of real investment projects is usually the most capital-intensive, more risky due to the duration of implementation, as well as the most complex and time-consuming to implement. This causes a high level of requirements for its formation, careful selection of each investment project included in it.

The securities portfolio contains a certain set of securities. Compared to the real investment portfolio, it has higher liquidity and is easy to manage. However, this portfolio is distinguished by:

- high level of risk, which applies not only to income but also to all invested capital;

- lower level of profitability;

- lack of opportunities to have a real impact on profitability, in addition to the possibility of reinvestment in other stock market instruments;

- low inflation protection;

- limited options for sets of financial instruments.

The portfolio of other investment objects usually complements the investment portfolio of individual companies. It can be a currency portfolio, a deposit portfolio.

The mixed investment portfolio also includes the heterogeneous investment objects listed above.

The classification of investment portfolios by priority investment objectives is associated primarily with the implementation of the investment strategy of the enterprise and to some extent with the position of its management in investment management.

The growth portfolio is formed from in order to increase the capital value of the portfolio together with the receipt of dividends and consists mainly of investment

objects that ensure the achievement of high rates of capital growth, but in this case a high level of risk. This is due to the fact that high-yield securities of new progressive enterprises are purchased.

The income portfolio is focused on obtaining current income - interest and dividend payments. It consists mainly of investment objects that provide income in the current period. As a rule, these are shares that are characterized by large dividends and a moderate increase in exchange rate value and bonds. This portfolio is usually formed by investment objects that contribute to high growth rates of return on invested capital.

The conservative portfolio mainly includes investment objects with average values of risk levels. Accordingly, the growth rate of income and capital on such investments is much lower. This portfolio is formed due to low-risk investments, providing a correspondingly lower growth rate of income and capital than the portfolio of growth and income.

These types of portfolios have a number of intermediate varieties. Portfolios of growth and income at the maximum values of their targets are called aggressive portfolios.

The classification of investment portfolios according to the achieved compliance with investment goals is primarily related to the process of realization of the goals of their formation.

A balanced portfolio is characterized by the full realization of the investor's goals by selecting investment projects or financial instruments that best meet these goals.

An unbalanced portfolio stands out from other investment portfolios by the inconsistency of its composition with the goals of formation. A type of unbalanced portfolio is an unbalanced portfolio, which is a previously balanced portfolio that no longer satisfies the investor due to a significant change in the external conditions of investment activities or internal factors.

Control questions

1. What is the essence of economic investments?
2. Classification of investments
3. Object and subject of investment activity.
4. The essence of investment activity.
5. Stages of the investment process.
6. Characterize the factors that influence the volume of investment.
7. Characterize basic concepts of investment/
8. The essence of the investment strategy.
9. Formation of an investment portfolio.

Tests

1. In Law of Ukraine "On investment activity" is certain, that investments – it:

a) all of types of property and intellectual values, which are laid in the objects of enterprise and other types of activity which an income (profit) or social effect is created as a result of.

b) all of types of property values, which are laid in the objects of entrepreneurial activity which an income (profit) or social effect is created as a result of.

c) all of types of property and intellectual values which are laid in the objects of enterprise and other types of activity.

d) all of types of intellectual values, which are laid in the objects of entrepreneurial activity which an income is created as a result of.

2. Factors which influence on the volume of investments:

a) distribution of income on a consumption and maintainance, level of the expected norm of net income, pond borrowed, to the percent, level of inflation.

b) distribution of income on a consumption and maintainance, level of the expected norm of net income, pond borrowed, to the percent.

c) distribution of income is on a consumption and maintainance, level of the expected norm of net income, cash flow, level of inflation.

d) budgetary planning, level of the expected norm of net income, pond borrowed, to the percent, level of inflation.

3. For distributed the objects of the inlaid values of investment:

a) on direct and indirect.

b) on private and state.

c) on the real and financial.

d) on riskfree and risk.

4. Two projects are considered alternative, if:

a) they can be realized simultaneously.

b) they can not be realized simultaneously.

c) one acceptance automatically means acceptance second.

d) one acceptance enables growth of profit on other project.

5. Money stream is called ordinary, if:

a) it consists of initial investments, inlaid non-permanent or during a few successive base periods, and the subsequent receipts of money facilities.

b) a receipt of money facilities of alternated is with their outflow.

c) he consists of initial investments, inlaid non-permanent or during a few successive base periods.

d) he consists of initial investments, inlaid non-permanent, and the subsequent receipts of money facilities.

6. Influence of the expected norm of income on an investment such:

a) Than higher norm of net income, the more so investments.

b) Than higher norm of net income, the less investments.

c) Than lower norm of net income, the more so investments.

d) The norm of net income does not influence on an investment.

7. For as participating in investing of investment distributed on:

a) real and financial.

b) direct and indirect.

c) private and state.

d) state and foreign.

8. Primary purpose of investment management –

a) providing of high rates of economic development is due to effective investment activity.

b) providing of maximization of profits is from investment activity.

c) development of investment strategy and providing of the most effective ways of its realization is on the separate stages.

d) providing of financial stability and solvency of enterprise is in the process of realization of investment activity.

Topic 2. INVESTMENT MARKET

1. Characteristics of the investment market. Conjuncture of investment market.

2. Investment climate

3. Investment attractiveness of investment market objects

1. Characteristics of the investment market. Conjuncture of investment market

The market of investment resources in the system of markets is determined by the fact that the product on it are investment resources. It is a complex mechanism consisting of a large number of production, commercial, financial, institutional and information structures that interact in the investment sphere on the basis of an extensive system of investment business rules.

First of all market is the economic system, which has the following main functions: pricing, integrative, incentive, control, information, sanitation, development, regulatory (Fig. 2.1.).

The market of investment resources is one of the types of commodity markets, in which the main product is different types and range of investment resources that are intended to organize the investment process and implement programs and projects.

Investment resources as an economic concept is characterized by a set of financial, tangible, innovative, intellectual and intangible assets that are produced and directed to the implementation of investment activities (implementation of investment programs and projects) in order to achieve economic and social goals.

This interpretation makes it possible to separately study the market of investment resources and develop a system of their involvement in material production precisely to increase capital in all its manifestations (human capital, land capital, fixed capital and financial capital (Fig. 2.2), its enrichment and quality improvement. investment should not be reduced purely to the increase of funds, and the formula of commodity-money circulation should not be violated.

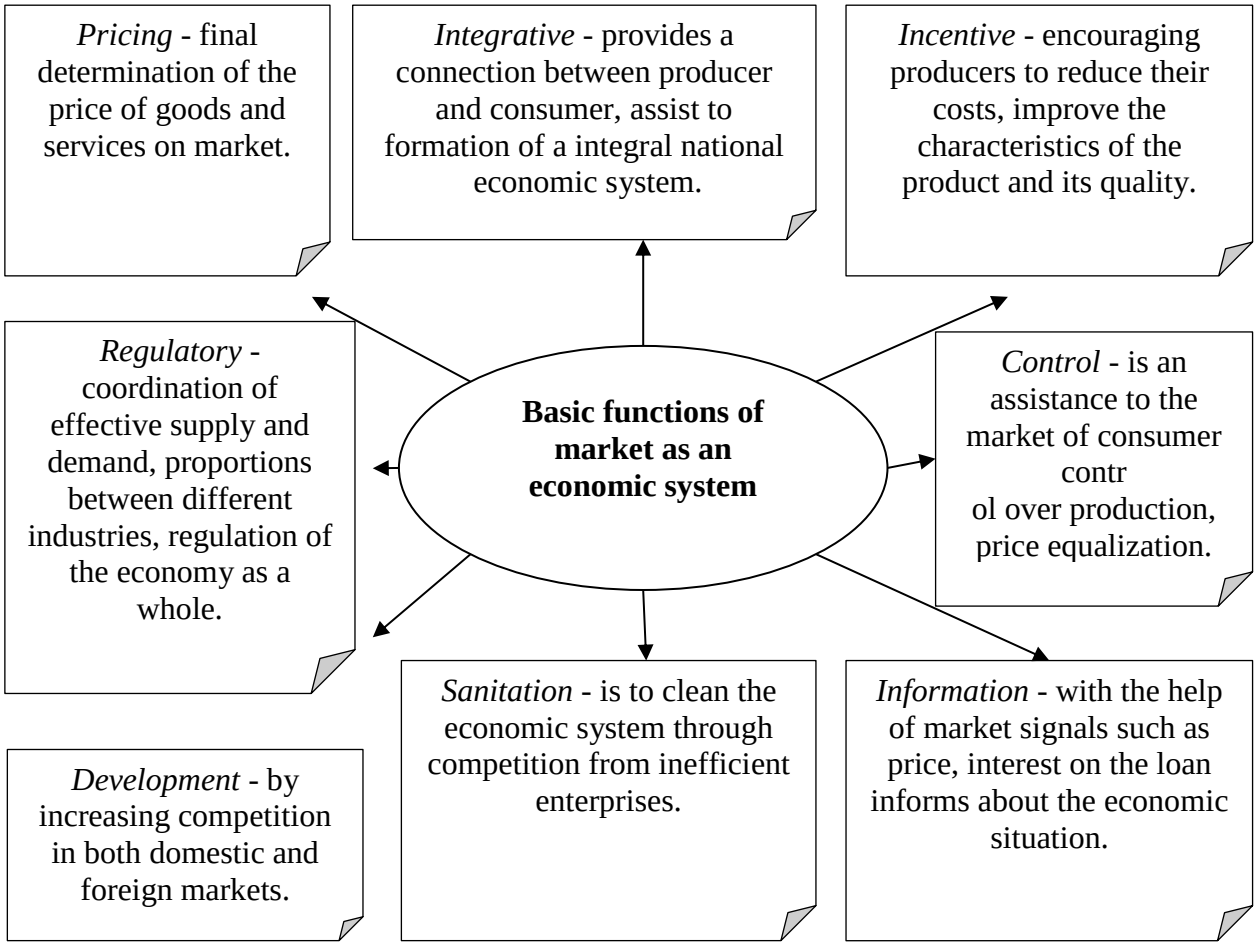


Fig. 2.1. The main functions of the market as an economic system

Mobilization of strategic investment resources on currency and stock exchanges as a way to attract additional investment is acceptable, but provided that the economic system is balanced. At the same stage of its development there is a situation when money produces money outside production, which leads to impoverishment of the population, the decline of the economy and the country as a whole. To get out of this situation, first of all, it is necessary to study ways to attract all possible economic and non-economic resources, which when invested in a particular object will take the form of investment resources, and calculate all possible ways to solve problems.

Effective development of the market of investment resources will be determined by the interaction of all sectors and spheres of the economy, their interaction and compliance with the laws of a market economy, in particular the law of supply and demand.

Investment market (investment market and investment goods market) - it is a set of economic relations that develop between sellers and consumers of investment goods and services, as well as investment objects in all its forms.

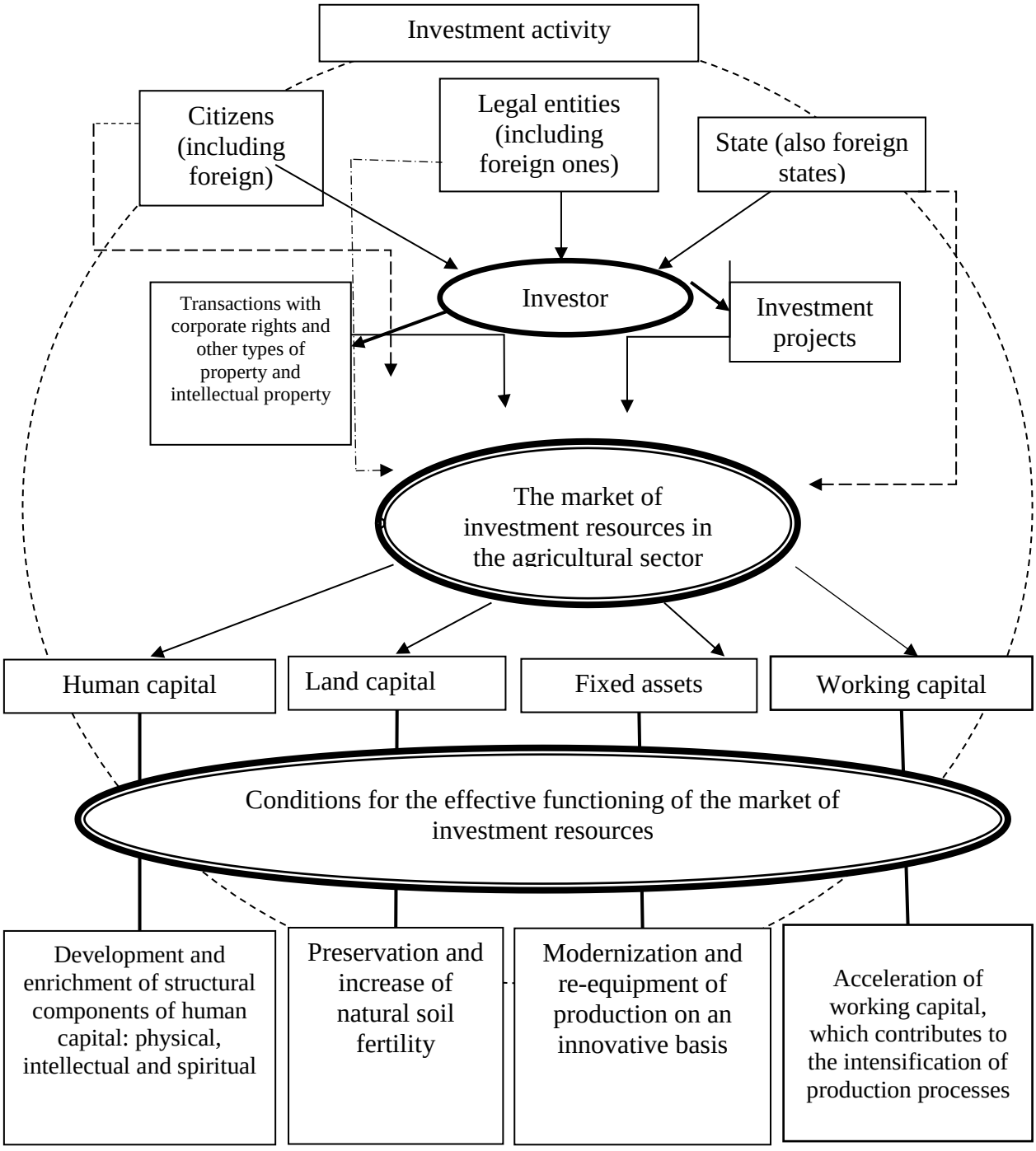


Fig. 2.2. Investment resources market

However, the investment market should be considered in three aspects: from the standpoint of investment movement - investment capital / investment resources

placed by the investor; from the standpoint of the movement of investment goods - objects of investment resources; as a system of interconnected markets. However, we believe that it is inexpedient to identify investment resources and investment capital, because the investment resource can act as capital only when it is involved in the production process. Thus, the market of investment resources is one of the components of the investment market, the product of which is an investment resource.

The investment market (investment exchange) is characterized by the supply of investment (capital) by investors, acting in this case as sellers, and the demand for investment by potential participants in investment activities, acting in the role of buyers of investment (capital).

The development and functioning of the market of investment resources should be guided by the laws of market economy, which are the correspondence of supply and demand, market price, taking into account supply and demand, and competition, based on qualitative characteristics of investment resources as a commodity. The market of investment resources, like any other market needs the development and development of its infrastructure, which meets its purpose, namely to meet the needs of consumers to carry out their investment activities in accordance with the structure of investment resources.

Thus, meeting the needs (demand) of consumers in financial resources requires efficient, profitable operation of economic structures and the use of part of their profits as an investment resource, the formation and development of a banking system that concentrates financial resources to direct them to consumer needs.

Meeting consumer demand for material and investment resources requires the development and development of industrial enterprises for the production of modern intelligent system of machinery and equipment, new energy-saving building materials, modern seed and breeding plants, whose products are aimed at implementing investment programs and projects.

Satisfaction of consumer demand for innovative resources is interrelated with the development of research, research and experimental, breeding organizations and

farms that carry out research and production of new innovative resources for modernization and renewal of technological processes in the field of investment.

Satisfying the demand for intellectual resources requires intensifying the development of human capital at all levels of management of scientific and technical process: educational, scientific, organizational, because the carrier of knowledge, its acquirer, user and transfer is man.

Intellectual resource is associated with such a specific resource as time, due to the rapid development of science and technology, when innovative resources, as well as material are rapidly becoming obsolete.

The peculiarity of the system of attracting investment resources through the market mechanism is that ensuring the implementation of investment projects or transactions with corporate rights and other types of property and intellectual property is simplified by reducing the time to find the necessary resources. Demand - as a solvent need for a particular resource, will determine the structure of its production, which in turn will focus on specific types of resources.

Production of investment resources at enterprises is the primary element of investment, capital in the implementation of investment programs, projects that will intensify the investment activities of economic structures, business, commissioning of property and ensure the continuity of investment processes in the economy.

Investment resources as a commodity are manufactured / acquired at the expense of investments that serve the purpose of the investment program, investment project, which provides for replacement, restoration, qualitative improvement of fixed assets, or realization of qualitatively new technological (production) potential. For the implementation of the investment project and the production of goods involved (purchased) various resources, the totality of which - are investment resources. It follows that investment resources are goods on the market, the purchase of which ensures the implementation of the investment project.

The market of investment resources is formed in the market environment according to the following scheme (fig. 2.3.) According to action of the law of market economy conformity of demand to supply.

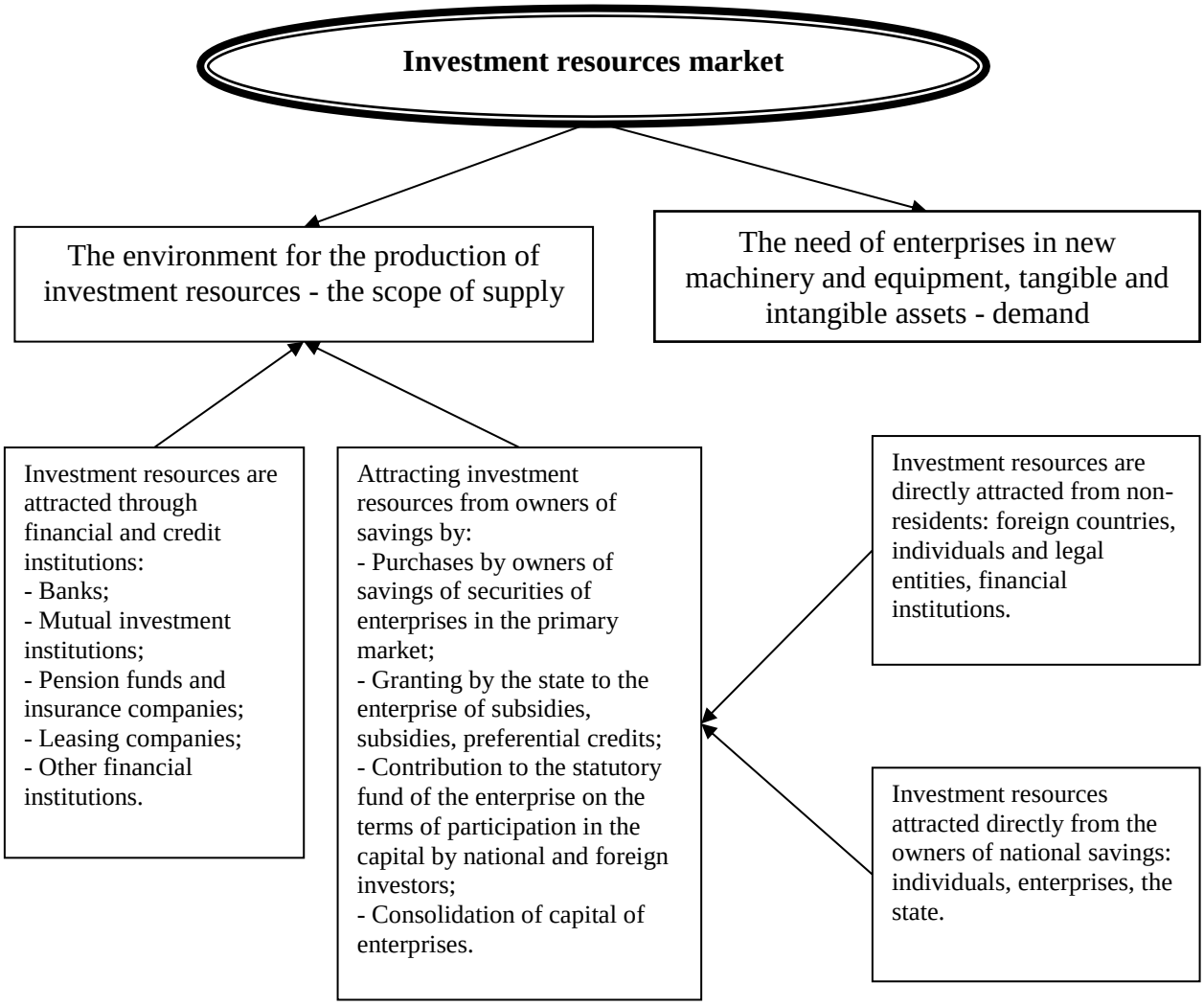


Fig. 2.3. Formation of supply and demand in the market of investment resources

That is, the market of investment resources as an economic category reflects the perfection of economic relations in the system of formation of supply and demand and ensuring their mutual compliance. It should be considered in the context of the investment market as one of its components.

Investment resources market - as an economic concept is a balance of supply and demand for investment resources. However, this is a rather imperfect definition. Since its main elements are the demand for investment resources, supply, competition, price and solvency of consumers of investment resources and market infrastructure.

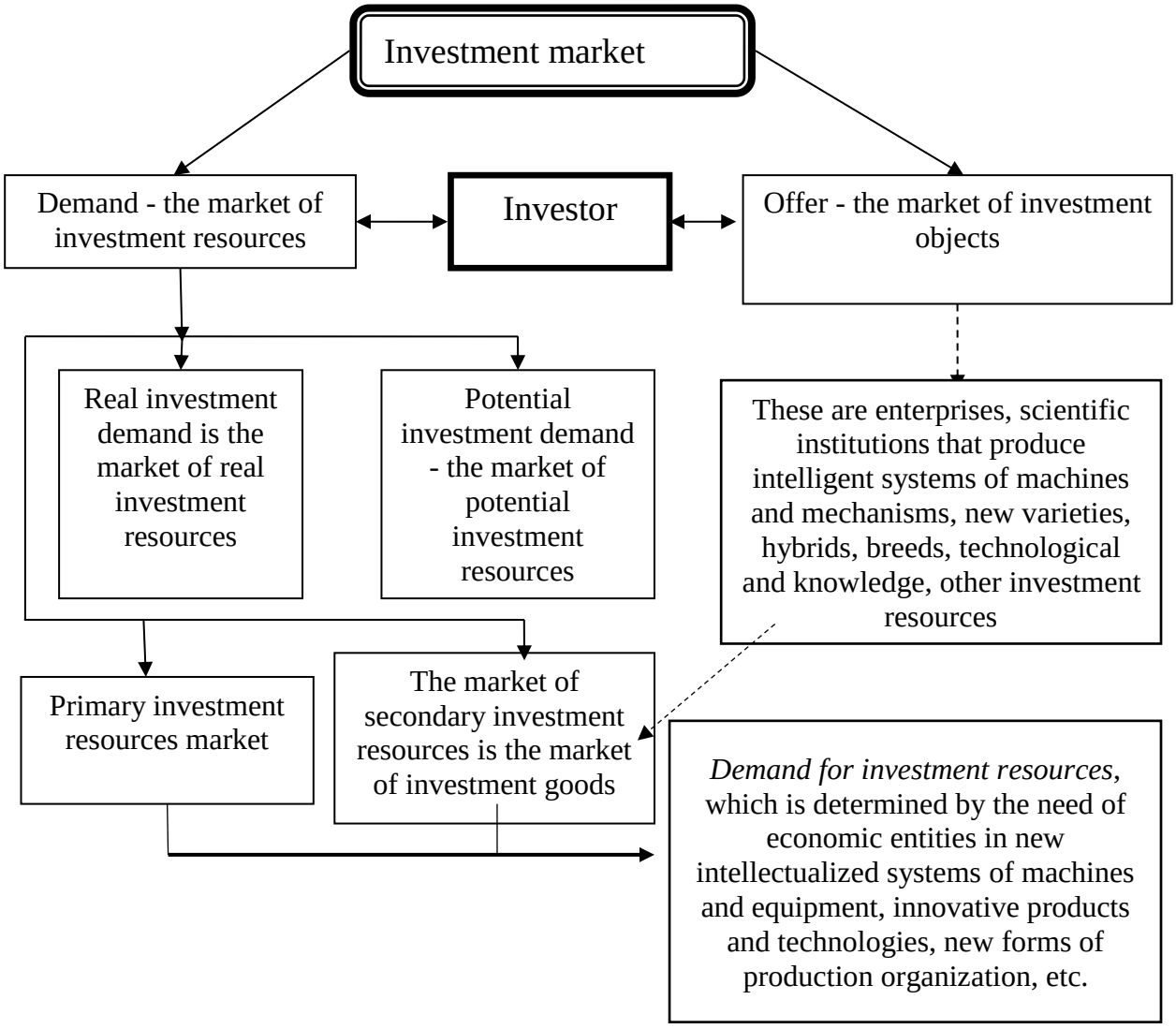


Fig. 2.4. Investment resources market in the investment market system

In our opinion, the market of investment resources is a form of interaction and relationships of investment entities that personify supply and demand for the implementation of investment programs and projects and future growth of capital value. It is here that the transformation of investments into acquired investment resources is carried out, which are directed to the implementation of investment projects and provide capital growth - basic, working capital, intellectual (Fig. 2.4).

Demand in the market of investment resources is potential and real. Potential is a set of income accumulated by economic entities that can be used for investment, real - reflects the real need of economic entities in investment resources that are directly intended for the implementation of investment programs and projects.

Thus, the market of investment resources is one of the components of the investment market, in which the interaction of investment entities, which ensures the formation of supply and demand for investment resources.

The market of investment resources develops under the influence of certain factors and conditions of its functioning (Fig. 2.5).

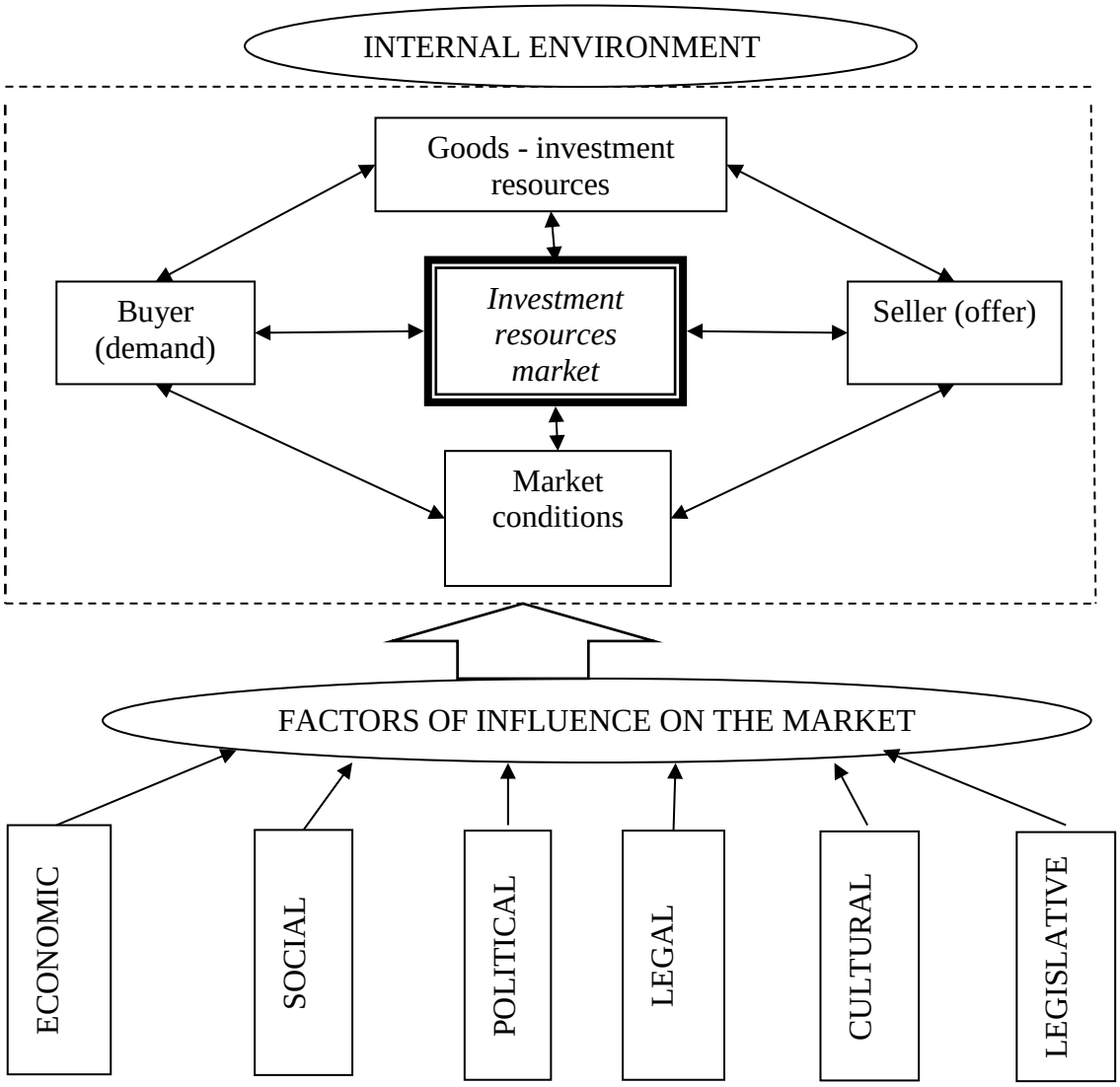


Fig. 2.5. Factors and conditions of functioning of the market of investment resources

The internal market environment is a component of the market mechanism, namely: demand, supply, price, solvency of consumers (enterprises and individuals).

Demand in the market of investment resources is formed under the influence of such main factors as: efficiency of economic entities and their solvency, the level of

logistics of production, solvency of the population, consumers, competitiveness, market conditions. In addition, demand is influenced by the level of development of a particular sector of the economy and the price of goods (investment resources).

The formation of the price of investment resources is influenced by the supply-demand ratio for them, the solvency of enterprises and individuals and the interest rate formed in the capital market, and reflects the economic interests of buyers and sellers in specific conditions of the investment market.

Demand for investment resources shows how much of them will enter the market, taking into account their price. The marginal efficiency curve of an individual business entity is the dependence of the return on investment on the volume and price of investment resources. According to scientists, the return on investment decreases with increasing volume due to the law of diminishing marginal utility of production facilities.

There are two types of demand for investment resources:

- potential, which arises in the absence of the intention of a legal or natural person with the available income or profit to send it to the purpose of accumulation;

- specific or supply of capital - is characterized by specific intentions for their implementation.

The supply of investment resources in the market is formed by enterprises and institutions that produce the latest intellectual means of production and labor, technology, knowledge, innovative goods and products, and those resources that come from foreign economic relations. That is, the proposal can be divided into:

own production of investment resources by industrial enterprises, construction industry and scientific organizations (machines, equipment, new varieties and hybrids of plants, new breeds of animals, intellectualized machine systems, the latest technologies);

production of investment resources by foreign producers entering the market, including leasing;

production of investment resources by joint ventures with foreign capital.

Proposal is all available and potential investment resources, including those of foreign origin, which are attracted or may be attracted in the investment process.

The purchasing power of economic entities is characterized by the level of provision of material and technical resources (they are subject to depreciation, which is one of the internal investment resources of the enterprise), profitability, profitability, liquidity of assets.

The purchasing power of per capita income is formed in accordance with the level of wages, income differentiation by the most and least income groups, the state of development and production structure of personal farms, the structure of income and savings, which is a potential investment resource.

The conditions of functioning and the state of development of the market are reflected by its conjuncture - as a set of specific conditions of socio-economic nature (social, political), which operate at a certain time and affect the ratio of supply and demand.

The situation of the investment market is characterized by the stages inherent in the market of investment resources (as it is one of the components of the investment market):

the rise of the situation is due to increased investment activity and intensification of market processes in connection with the recovery of the economy as a whole;

market boom associated with a sharp increase in demand for all investment goods, which supply, despite the growth, does not meet;

weakening of the situation, which is associated with a decrease in investment activity due to the economic downturn in general, almost complete saturation of demand for investment objects and some excess supply;

recession is the most unfavorable situation on the market from the standpoint of investment activity.

Thus, the demand is represented by all business entities and individuals who need resources to implement investment programs (projects).

The market of investment resources has a large number of participants (investors - individuals or legal entities), which to some extent are competitors. When

determining the price with the focus on competitors, the following methods are used: the method of following market prices, the method of following the prices of the investor-leader in the market, the method of determining prestigious and regular prices and tender pricing.

Thus, the market of investment resources as a form of interaction and relationships of investment entities, sells investment resources, different in type, range, economic and material content, range, quality. Prices for each of them are formed depending on the supply of producers and consumer demand, time factors and risks, the possibility of which is determined by market conditions and specific features of the development of a particular sector of the economy.

Due to the fact that the situation of the investment market is constantly changing, it must be systematically studied to form an effective investment strategy and make economically sound investment decisions. The study of the investment market covers the following stages:

Current monitoring of investment activity and first of all, in those market segments in which it is planned to carry out or investment activity is already underway.

Analysis of the current state of the investment market and identification of current trends in its development.This analysis consists of identifying the characteristics of specific segments of the investment market and the changes that occur in the market at the time of observationcompared to the previous period.

Forecasting the investment market situation for the choice of the main directions of the investment activity strategy and the formation of the investment portfolio.The main task of the forecast is to determine the trends of factors that shape the investment climate and that affect the state of the investment market in the future.

The functioning of the investment market is carried out through the infrastructure, which forms an information and service environment that allows the investor to work with minimal risk. The infrastructure of the investment market can be divided into regulatory, functional and information components.

In particular, the regulatory component of the infrastructure regulates investment relations through established rules, standards and criteria of market behavior, and which includesincludes: state bodies regulating the investment market (Cabinet of Ministers, NBU, Ministry of Economy, Ministry of Finance, State Property Fund, Antimonopoly Committee), which perform legislative, licensing and supervisory functions and procedures in the market. Thus, it is based on the legal framework governing the relations of business entities in the investment market.

Functional components of the investment market infrastructure are financial and credit institutions and service organizations, who carry out specialized activities with:

-attraction of temporarily free funds for financing

-investment projects;

-creation of legal, economic and organizational conditions for sustainable development of private enterprise;

-cooperation with international, foreign and Ukrainian organizations in business development;

-ensuring the conduct of technical and economic examinations of programs and projects of entrepreneurial activity and resolving the issue;

-consulting support for entrepreneurs on legal issues, accounting, taxation and finding effective sources of funding;

-project and credit risk insurance;

-promoting the formation of market relations in Ukraine through the creation, support and development of small and medium-sized private enterprises, etc.

The information component of the investment market infrastructure includes business publications, Internet sites of rating systems of enterprise attractiveness, etc.

2. Investment climate

The investment climate is a set of political, economic, legal factors and conditions for regulating investment activities. The term "climate" is interpreted as:

"the situation, the state that has developed somewhere"; "Position, circumstances, living conditions, work somewhere." Usually the investment climate means the circumstances and conditions in which the investment activity takes place.

Based on the analysis of the category "investment climate", we can identify the most typical approaches to the interpretation of the essence of this concept.

Thus, the investment climate can be considered as:

-a set of factors and conditions of investment (factor approach);

-the ratio of investment attractiveness and investment risk (risk approach);

-investment conditions at the macro, meso, micro level (territorial approach);

-investment conditions for foreign and domestic investors (integrated approach);

-a certain system or structure (system approach);

-conditions for real and financial investments (balanced approach);

-assessment of the investment environment based on ratings (rating approach);

-dynamic environment for investing (dynamic approach);

-cyclical investment conditions (cyclical approach);

-certain active actions of the state to attract investment (public administration approach).

When determining the investment climate, it should be borne in mind that this concept is multifaceted, it should cover the described approaches. Consider in more detail each of these approaches.

Factor approach. Under this approach, the investment climate is considered through the prism of a set of factors or a set of conditions (prerequisites) for investment activities.

Such factors may be: political, legal, economic, social, financial, regulatory, natural, geographical, environmental, cultural, organizational, innovative, etc.

They characterize the feasibility of investing in a particular system. Factors in the investment climate are a complex mosaic. Some of them have a negative, others have a positive effect on the formation of the investment climate, may exist permanently or temporarily.

Risky approach. Under this approach, the investment climate is considered in the format of two planes: investment attractiveness and investment risk. The assessment of the investment climate is based on a comparison of the level of risk and return on investment. This approach uses indicators of payback period, current value, rate of return, as well as political and economic risks.

Territorial approach. There are some differences of opinion in the literature regarding the levels of investment. Representatives of this approach can be divided into two groups. The first group of scientists considers the investment climate at the macro, meso and micro levels - at the level of the state, region, industry, individual enterprise. At each of these levels there are relevant factors, which together assess the favorable investment climate.

At the macro level, the investment climate is assessed through indicators of the political, legal, economic and social environment, in particular, the dynamics and structure of GDP, the state of the balance of payments, financial market, external and domestic debt service, etc. At this level, the question of the possibility of investing in the country as a whole is resolved. After studying the investment climate at the macro level, assess the investment climate at the regional and sectoral levels (meso level), studying a particular industry or region. A characteristic feature of this level is that the investment climate of regions and industries is different. Differentiation of investments between regions, the division of regions into favorable and depressed testifies to the unevenness of production and is characterized by a tendency to increase the gap in their economic development. After assessing the regional and sectoral level, evaluate the selected company, and so on until a separate project. In most works, the investment climate is considered, as a rule, at the macro level, less often - at the meso level, often do not pay much attention to the macro level, which significantly affects the formation of the investment climate of the state.

A comprehensive approach that focuses on creating favorable conditions for both domestic and foreign investors. In the economic literature, scholars also disagree on the subjects of investment. The world experience of investment activity gives an

opportunity to draw a conclusion about the greatest attractiveness for foreign investors of those countries and regions where local investors are significantly active.

System approach. Under this approach, the investment climate is considered as a certain system or structure.

According to this approach, the investment climate is a complex economic system, which is a set of interconnected elements that form a whole, but do not have clear boundaries. The parameters of the system input are climate-forming factors, under the influence of which the investment climate is formed. Output parameters reflect the quality of the investment climate. In the middle, the system is a poorly structured homogeneous space. The investment climate consists of subsystems of various types, most of which are environments - macroeconomic, financial, political, institutional, behavioral, social, cultural and others.

6. Balanced approach. Representatives of this approach, interpreting the concept of investment climate, emphasize the objects of investment - real (investment in tangible and intangible assets) and financial (investment in securities) investments. Most scholars consider the investment climate to create the conditions for attracting real investment. Note that in Ukraine the predominant form of investment is real investment. But it should be borne in mind that in the conditions of unstable tax policy and inflation, the efficiency of real investment is significantly reduced. Financial investments are more effective during these periods. Nowadays, when the securities market is being formed in Ukraine, investors are interested in expanding their types, so it is necessary to create equal conditions for both real and financial investment.

7. Rating approach. Under this approach, the investment climate is associated with its investment image. The country's investment image (perception of its investment climate) is formed on the basis of a rating assessment of the country's creditworthiness made by global expert agencies ("Moody's", "Standard & Poor", "Fitch Ratings"). The better the country's image, the more investment resources it can attract.

8. Dynamic approach. Under this approach, the investment climate is characterized by high dynamism and is constantly changing for the better or worse.

The dynamism of the investment climate can negatively affect investment activity. The investor, first of all, needs legal stability, which is manifested not in the creation of good, but in the presence of stable laws that would allow to plan activities for the period. Constant attempts to improve the legislation mean instability for investors: investing on some conditions, functioning on others, and getting results on others.

9. Cyclical approach. Under this approach, investment activity is associated with cycles of recession and economic recovery. The investment movement and investment policy repeat the economic cycle of the country, but a year later, ie today's macroeconomic situation will affect investment activities next year. Ukraine's economy is developing cyclically. After the best year in terms of macroeconomic indicators, ie after a period of economic growth and macroeconomic stability, the largest inflow of investment is observed. The deterioration of the economic situation, the rapid growth of the budget deficit and public debt, leads to a decrease in investment growth and a deterioration of the investment climate. This approach traces the passive role of the state in shaping the investment climate.

10. Public administration approach. Representatives of this approach emphasize the active participation of the state in shaping the investment climate. Thus, the investment climate is a multifactorial system of targeted measures, which are consciously formed at the state and regional levels in the interests of wider involvement of specific resources in a particular area in monetary and material forms. The role of the state should not be reduced to a passive observer, but to an active participant in the formation of the investment climate. Public administration bodies at all levels are designed to improve the investment climate not only for the successful operation of investors, but also to achieve a number of social goals - economic well-being of society, reducing its social clustering, restoring peace and security.

Thus, the investment climate is understood as a set of factors of economic, political, legal and social nature, which are taken into account by the investor when making investment decisions.

3. Investment attractiveness of investment market objects

A number of scientists understand the investment attractiveness of enterprises as an integral characteristic of individual enterprises - objects of future investment in terms of prospects for development, volume and prospects of sales, efficiency of assets and their liquidity, solvency and financial stability. What unites this group of authors is that most of them propose to determine investment attractiveness based on the analysis of internal and external factors. According to the first, they include the financial side of the enterprise, and the second - the influence of macroeconomic factors.

The main methods of forming investment attractiveness are given in table. 2.1.

Any system of enterprise management, the formation of investment attractiveness is characterized by the implementation of certain functions.

Functions of investment attractiveness of the enterprise:

-planning the activities of an industrial enterprise taking into account the factors of investment attractiveness;

-organization of works to increase investment attractiveness;

-motivation of staff and investors to work together;

-control of achievement of the planned indicators of activity, requirements;

-comprehensive analysis of the enterprise.

The planning function includes a set of works on the development, evaluation and decision-making to achieve investment attractiveness of the enterprise, in order to attract national and foreign investors to the enterprise, the development of technological and production base of the enterprise; stabilization of production, scientific and commercial activities of the enterprise.

Table 2.1

Methods of forming investment attractiveness

Method	Components
Informative	Research Observation Monitoring Prognostication
Economic	Improving product quality and service Development of product promotion systems Formation of market positioning systems Increasing the value of the company's shares
Technical	Improving the safety of technical and economic processes Improvement of industrial processes Production process planning Establish your own technical standards
Engineering	Information and technical support Support and implementation of scientific developments

The organization, as a function of investment attractiveness of the enterprise contains a set of management measures and processes. Such processes are aimed at implementing investment plans of the enterprise. The production process must be financially secured. Much depends on quality marketing support. The availability of qualified personnel and modern technologies is unconditional. The set of such conditions is provided by the organization with the maximum economic efficiency due to rational placement of production, technological processes, use of resources, etc.

Motivation, as a function, provides the creation of favorable internal conditions that will interest potential investors in joint activities and placement of capital for the development and sustainability of the enterprise.

A constant and structured process aimed at accounting and verification of work and processes is a function of control. It is aimed at implementing corrective measures in the field of investment attractiveness of the enterprise.

On the basis of research of factors of internal and external environment the complex analysis of activity of the enterprise is carried out. Areas of analysis are production, innovation and finance. Particular attention is usually paid to staff,

investment, technology. Particular attention is paid to the analysis of established goals and plans, determining the reasons for deviations from the adopted plans.

Functions of investment attractiveness of the enterprise allow to conduct work on formation of the mechanism of the organization of investment attractiveness. Achieving the prevailing level of efficiency is the basis for the formation of investment attractiveness. Therefore, the adoption of any investment decision must be preceded by a comprehensive study of possible performance and evaluation of its contribution to the successful implementation of corporate strategy. Development of the mechanism of the organization of investment attractiveness of the enterprise, realization of its purposes, tasks and functions is based on general scientific principles of management of the enterprises.

Subject to compliance with the principles of consistency, consistency, priority, efficiency and clarity, the formation of investment attractiveness of enterprises. These principles are universal, inherent in production and management systems and mechanisms of different orientations.

The main principles of formation of investment attractiveness of the enterprise are given in table. 2.2.

Principles and functions of investment attractiveness create conditions for the formation of the mechanism of its formation in enterprises.

There is the following approach to assessing the investment attractiveness of enterprises:

1. Analysis of the dynamics over the past few years of the following indicators of the enterprise: sales; total assets; the amount of equity; the amount of profit.

2. Determining the results of the analysis of these indicators stage of the "life cycle", which is the company at the time of evaluation.

3. Preliminary assessment of the investment attractiveness of the enterprise given the stage of its life cycle. In the early stages of their development ("birth", "childhood", "youth", "early maturity"), enterprises are considered investment attractive. At the stage of "final maturity" investment will bring a positive result only when the company's products are characterized by high enough marketing

opportunities, and the amount of investment in technical re-equipment is insignificant and the invested funds can return in the shortest possible time. At the stage of "aging" investing is usually irrational, not taking into account those cases where the company is expected to reorient to new types of goods and services. In this case, some savings of investment resources are possible compared to new construction.

Table 2.2

Principles of formation of investment attractiveness of the enterprise

Principle	Essence
Consistency	Coordination of goals and activities in the field of investor and recipient investment
Consistency	Consistency of goals, methods of terms and conditions of investment
Priorities	Investing in priority areas and areas that require additional funding
Efficiency	Efficient and rational consumption of investment resources
Clarity	Clarity, clarity and transparency of receipt, cost and return on capital
Measurement and evaluation	The process of organizing investment attractiveness should be subject to constant measurement and evaluation.
Integrated automation	Predicts and determines the availability of automated work on systematic work to increase investment attractiveness
Specializations	Means the organization of specialized processes and departments of the enterprise, performing specific tasks in a single enterprise management system
Systematic	Considers the permanent and connected organization of management of investment attractiveness of the enterprise as a set of interdependent elements, the set of which is the system of establishing the interaction of the development system with higher level systems, provides the best implementation of investment attractiveness management.
Commitments and policies	Forms own policy of the enterprise, structure, the program and guarantee of performance of the accepted obligations.
Availability	Free access to information on the activities of the enterprise. Transparency of all systems, activities and structures of the enterprise.

4. Carrying out an in-depth financial analysis of the enterprise in order to assess the profitability and return on investment and investment risks.

The algorithm of investment attractiveness of the enterprise during its life cycle is given in fig. 2.6.

It is known that at certain stages of the life cycle the enterprise is characterized by different stages of development, efficiency and efficiency of management. The indicators of its activity at these stages are also excellent. Accordingly, in the process of assessing investment attractiveness, you must first take into account at what stage is the object of investment at the moment. Defining this feature is extremely important for the investor, because it allows him not only to assess the payback period of the investment, but also the appropriate level of risk and volume of investment.

As for the latter, the company needs the most investments at the stages of birth and aging. In both the first and the second case, the bulk of investment assets will be directed to technological and technical equipment, only at the birth stage it will be the purchase of new, and at the stage of aging - modernization and reconstruction. These two stages, respectively, are characterized by the highest level of risk. At the stages of "early maturity", "childhood" and "youth" the company is characterized by a high level of attractiveness with high prospects for further investment. At the stage of "ultimate maturity" the company loses its attractiveness, so the investment process is impractical.

There is an opinion that the investment attractiveness of the enterprise should be determined in stages, ie in the sequence of consideration of factors that create an attractive characteristic at the macro-, mesoeconomic level and directly at the micro level, ie at the enterprise.

This statement is quite fair, because the functioning of the enterprise itself, which is in the structure of the economy at the micro level, is influenced not only by factors of microeconomic importance, but also broader, ie meso- and macroeconomic.

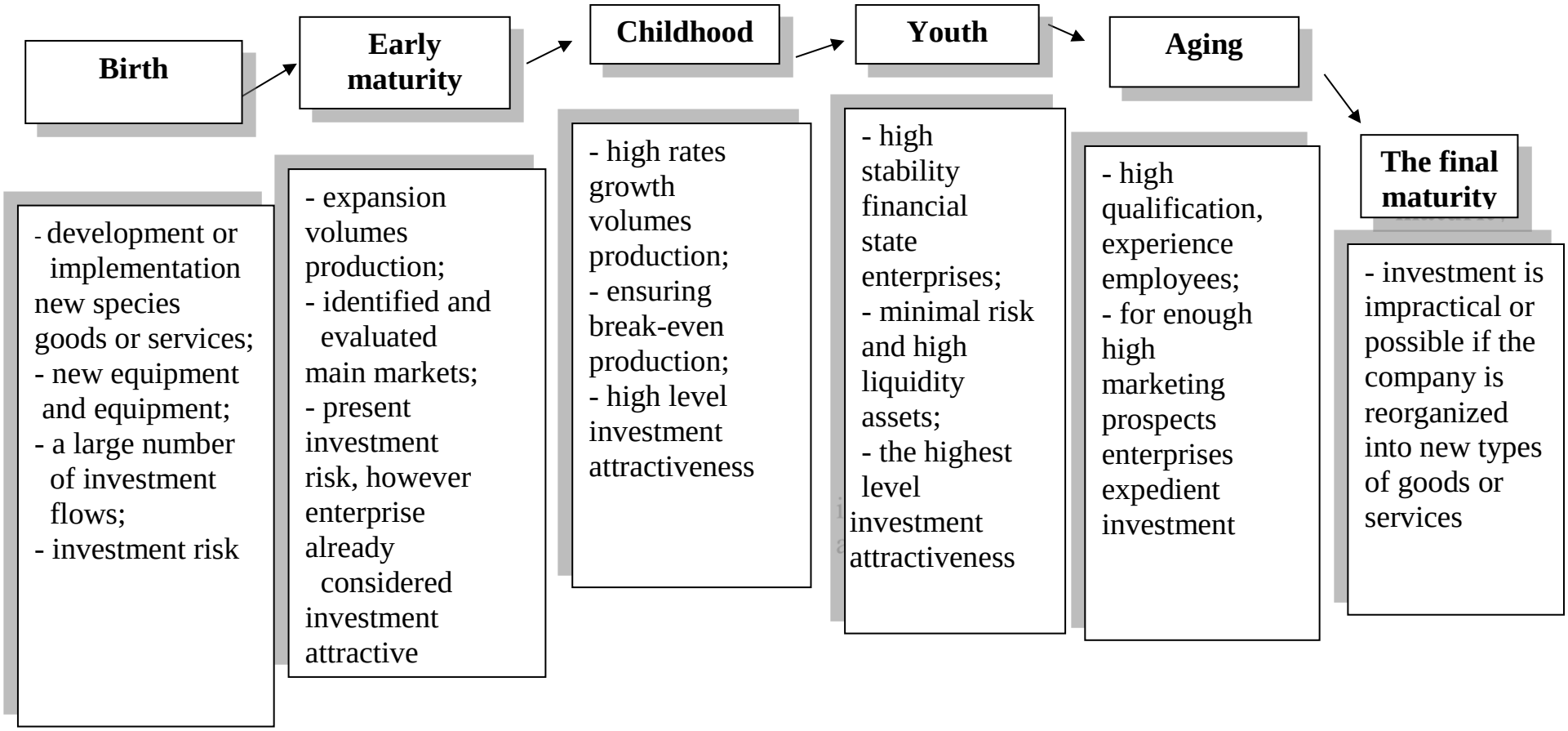


Fig. 2.6. Algorithm investinitial attractiveness during the life cycle of the enterprise

It is proposed to determine the investment status of the enterprise using the data of financial statements, which provides for the calculation of a group of indicators, the choice of which depends on the goals set by the investor:

1. Assessment of the property status of the enterprise - allows you to determine the absolute and relative changes in balance sheet items for a certain period, track trends in their change and determine the structure of financial resources of the enterprise.

2. Analysis of financial results of the enterprise - involves the study of the dynamics and structure of financial results of its activities, allows to determine the factors that influenced the formation of profit (loss) of the enterprise.

3. Liquidity analysis of the enterprise - allows you to determine the ability of the enterprise to pay its current liabilities.

4. Analysis of solvency (financial stability) of the enterprise - characterizes the structure of sources of financing of enterprise resources, the degree of financial stability and independence of the enterprise from external sources of financing.

5. Analysis of business activity - allows you to analyze the effectiveness of the main activities of the enterprise, characterized by the speed of turnover of financial resources of the enterprise.

6. Profitability analysis - allows you to determine the effectiveness of investing in the enterprise and the rationality of their use.

When justifying the decision to invest, it is necessary to take into account the factors that determine the investment attractiveness of the object. They can be divided into two groups:

1) factors of the object:

- the real profitability of the object;
- the possibility of conversion of property, production capacity;
- market value of enterprise property;

2) investor factors:

- the cost of further operation of the investment project;
- the cost of a convertible investment project;

- the cost of liquidation of the object;
- the required return on investment;
- investment risk.

These factors play an important role in determining the investment attractiveness of an object.

B.I. Pshyk singles out four criteria by which it is possible to assess the investment attractiveness of projects:

- competitiveness of products produced within the project;
- project efficiency;
- reliability of the project;
- the level of risk specific to a particular project.

The first criterion characterizes the definition of free niches in domestic and foreign markets, where the proposed products will be in long demand, consumer parameters that determine the level of novelty and competitiveness of products, giving preference to buyers to the proposed price level. Assessment of competitiveness should be formed on forecast marketing research, take into account the duration of the phases of the product life cycle, the possibility of changing conditions at different phases of the cycle.

In the second criterion, namely the efficiency of the investment project, the payback period and the rate of return are crucial in the formation of investment programs, especially for private investors, whose main purpose is to obtain maximum profit. Using this selection criterion, several features must be taken into account:

- the most profitable areas of investment are usually characterized by increased risk and increased competition;
- among investors, in addition to business structures, may be state and regional authorities, environmental, pension and charitable funds, which are guided not only by the level of profitability, but also the social significance of projects to address social problems;

- the concept of efficiency is ambiguous, it means not only the direct economic effect, but also other types of effect, which for certain types of investment activities can be crucial.

The third criterion - the reliability of the project - the real provision of various types of necessary resources: intellectual, labor, fixed capital, material and natural. Also important factors in determining the reliability of investment projects are the assessment of staff competence, the possession of managers with relevant professional knowledge, experience, the ability to lead a complex investment process and bring it to a successful conclusion.

However, to assess the investment situation, it is not enough to analyze not only the results of socio-economic development of the enterprise, among which the most important is the additional income from investment, but also to establish the degree of investor risk. The main components of investment risk are: internal unrest in the country (for example, the period of the Orange Revolution); external conflicts, especially in neighboring countries; imposition of economic sanctions for political reasons (the example of the Republic of Belarus); loss of international trust, etc. The assessment of the country's investment risk is carried out on the basis of monitoring and publications of news agencies and various companies whose employees participate in the study of these issues.

Therefore, improving investment attractiveness involves a significant improvement of the investment climate in the country at the macro- and microeconomic levels with the creation of conditions to minimize investment risk.

The level of risk, which is determined by a favorable or unfavorable environment for a particular investment project, is a criterion that refers not only to the general investment climate, taxation, tax and customs benefits for investors, but also such complex factors as the level of social economic and political tensions and the likelihood of conflict, national, cultural and regional characteristics, etc.

The most important features and factors that determine the investment attractiveness of enterprises are:

- geographical location of the enterprise; the presence of a road network and the proximity of the enterprise to transport communications; development of production and social infrastructure; demographic situation in the region;

- types of products, their volume and competitiveness; domestic demand and export opportunities; availability of raw materials and supplies; cooperation with other enterprises;

- production capacity of the enterprise and the possibility of its diversification; the nature of technology and the availability of modern equipment; environmental safety of production; the place of the enterprise in the industry and in the market; qualitative and quantitative condition of staff; management system and its structure; salary level;

- ownership; enterprise assets; the value of fixed assets and the level of their depreciation; production costs and their structure by main types of products; level of receivables and payables; the amount of profit; financial stability; liquidity and solvency of the enterprise.

Among all this set of factors of investment attractiveness the most important are the production and financial stability and profitability of the enterprise, as all others contribute to, ensure or determine its profitability, and therefore, in the case of a positive assessment of its activities can be considered most of them profitable. The presence of profit is a sign of opportunities for further investment, through which the company creates conditions for the formation of productive and non-productive funds, there is a process of fund formation and it is attractive to investors. These factors are mainly quantifiable and, accordingly, comparative and structural analysis. This gives grounds to identify the level of investment attractiveness of a particular company against others.

Thus, we can conclude that assessing the investment attractiveness of enterprises is a key issue for the investor.

Investment attractiveness at the macroeconomic level is divided into investment potential (objective, mostly quantitative conditions of investment) and investment risk (mainly qualitative political, economic and social characteristics in terms of loss

of investment or income from them). Investment potential can be determined using a set of macroeconomic factors (interest on loans, profit margin, economic growth of gross domestic product, inflation rate and dynamics, consumer demand), the availability and ratio of means of production, infrastructure development.

The investment attractiveness of the regions of Ukraine is assessed on the basis of 5 generalizing indicators, which in turn include the following analytical indicators:

1. The level of general economic development of the region:

1.1. The share of the region in GDP and national income.

12. The volume of industrial output per capita.

The level of self-sufficiency of the region with basic products.

Volume and dynamics of capital investments in the region per capita.

The number of companies and firms of various forms of ownership and more.

2. The level of development of investment infrastructure in the region.

2.1. Number of contracting construction companies of all forms of ownership.

2.2.Volume of local production of basic types of building materials.

Production of energy resources per capital

2.4. Provision of rail and road transport

3. Demographic characteristics of the region.

3.1. The share of the region's population in the total population of Ukraine.

3.2. The ratio of rural and urban residents.

3.3. The share of the population engaged in social production at enterprises of all forms of ownership.

3.4. The level of qualification of employees in the region.

4. The level of development of market relations and commercial infrastructures of the region.

4.1. The share of privatized enterprises in the total number of enterprises.

4.2. The share of non-state-owned companies and firms in the total number of manufacturing enterprises.

4.3. Number of joint ventures.

4.4. Number of banking institutions.

4.5. Number of insurance companies.

4.6. Number of exchanges (stock, commodity, specialized).

5. The level of criminal, environmental and other risks.

The level of economic offenses.

The share of enterprises with harmful industries.

Average radiation background, etc.

Investment attractiveness of a separate sphere of activity (industry)includes:

1. The importance of the industry - - the value of products, its features, the share of exports, dependence on imports, the level of security domestic needs of the country, etc.

Characteristics of consumption of the industry, the level of competition or monopoly, the characteristics of the market, the actual and potential market volumes, etc.

Level of state intervention in the development of the industry (legislation, taxes, amortization and credit policy, etc.).

4 The social role of the industry and the number of jobs, average wages, environmental security of production, etc.

Financial conditions of the industry (average level of profitquality, asset turnover, etc.).

Control questions

1. Name the main functions of the market as an economic system.
2. Define the concept of "investment market".
3. How does the supply-demand forming in the investment resources market take place?
4. What are the factors and conditions of the investment resources market functioning ?
5. Define the concept of "investment climate".
6. What approaches are used in determining the investment climate?
7. What are the main methods of investment attractiveness forming?
8. What are the basic principles of the company investment attractiveness forming?
9. Describe the algorithm of investment attractiveness during the company life cycle.
10. Define the concept of "investment resources market".
11. What are the functions of the company investment attractiveness?

Tests

1. The investment market is:
   a. a set of political, economic, legal factors and conditions for regulating investment activity
   b. all available and potential investment resources, including foreign ones, that are or may be attracted into the investment process
   c. a set of economic relations that exist between sellers and consumers of investment goods and services, as well as objects of investing in all its forms
   d. the supply – demand balance for investment resources

2. The main functions of the market as an economic system are:
   a. controlling ones
   b. economic ones
   c. legislative ones
   d. pricing
   e. legal ones
   f. rehabilitation

3. The investment resources market is:
   a. a supply–demand balance for investment resources.
   b. a set of financial, tangible, innovative, intellectual and intangible assets that are produced and allocated to investment activities.
   c. a set of political, economic, legal factors and conditions for regulating investment activities
   d. all available and potential investment resources, including those of foreign origin, that are or may be attracted into the investment process

4. Factors influencing the investment services market:
   a. regulatory
   b. political
   c. integrated
   d. cultural
   e. informative
   f. economic

5. The investment climate is:
   a. a set of political, economic, legal factors and conditions for regulating investment activities.
   b. a set of economic relations that exist between sellers and consumers of investment goods and services, as well as objects of investment in all its forms.
   c. one of the components of the investment market, where the interaction of investment entities take place, which provides the supply-demand formation for investment resources
   d. all available and potential investment resources, including those of foreign origin, that are or may be attracted into the investment process.

6. Which approach to determining the investment climate is focused on creating favorable conditions for both domestic and foreign investors?
   a. systematic
   b. balanced
   c. complex
   d. dynamic

7. Which method of investment attractiveness forming includes research, monitoring and forecasting?

a. technical
b. informative
c. engineering
d. economic

8. What does not belong to the functions of the company investment attractiveness?

a. complex analysis of the company operation
b. cooperation with international, foreign and Ukrainian organizations in the company development
c. motivating staff and investors to mutual activity
d. organizing activities to increase the investment attractiveness

9. Which of the principles of company's investment attractiveness forming suggests the organization of specialized processes and units of the company that perform specific tasks in a unified company management system?

a. specialization
b. systematic
c. priorities
d. efficiency

10. Which stage of investment attractiveness within the company life cycle implies the high stability of its financial standing, minimal risk and high liquidity of assets as well as the highest level of investment attractiveness?

a. early maturity
b. ageing
c. youth
d. childhood

Topic 3. FINANCIAL INVESTMENTS

1. Essence and featutes of financial investments
2. Composition, structure and classification of financial investments
3. Portfolio and strategic (direct) investments
4. Hesapural investments
5. Venture investments

1. Essence and featutes of financial investments

Financial investing - is an active form of free use capital and one of the means of realizing the strategic goals of economic entities related to the diversification of their activities. In economic conditions, uncertainty of business prospects, cyclical sales and expensive lending, financial investment is a significant internal factor of economic growth.

According to Accounting Regulation (Standard) 2 "Balance Sheet", financial investments are assets held by an enterprise for the purpose of increasing profits (interest, dividends, etc.), increasing the cost of capital or other benefits for the investor.

In the scientific literature, financial investment is a separate independent direction of investment activity, which consists in investing capital in various instruments that are the subject of purchase and sale in the financial market (financial instruments).

According to Regulation (Standard) of Accounting 13 "Financial Instruments", a financial instrument is a contract that simultaneously gives rise to (magnification) a financial asset of one enterprise and a financial liability or equity instrument of another.

UAS 13 recognizes the following types of financial instruments:

− financial assets, which include cash, not restricted for use, and their equivalents; receivables not intended for resale; held-to-maturity financial investments; financial assets held for resale; other financial assets;

− financial liabilities, which include financial liabilities held for resale, and

other financial liabilities;

- equity instruments that contain ordinary shares, stocks and other types of equity;
- derivative financial instruments, which include futures contracts, forward contracts and other derivative financial instruments.

Financial instruments, in addition to financial investments, include such objects as receivables not intended for sale, as well as cash, not limited to their use, ie it is important to understand the difference between financial investments and other elements related to them.

In international practice, financial instruments are conventionally divided by sectors of the investment market in which they operate (Fig. 3.1).

Financial investment is an active form of efficient use of free capital of economic entities, the features of which are that:

- provides an opportunity to invest in the country and abroad;
- carried out at much later stages of development, when the needs of economic entities in real investment are met;
- is an independent type of economic activity for enterprises of the real sector of the economy, as the strategic objectives of their development can be solved only by investing capital in statutory funds and acquiring stakes in other companies (including controlling);
- enables the implementation of certain strategic goals of enterprise development much faster and with some savings of financial resources;
- the company has the opportunity to invest in both risk-free and speculative instruments, and thus implement its investment policy as a conservative or aggressive investor;
- requires a minimum of time to make management decisions compared to real investments (projects);
- provides an opportunity to actively monitor and make operational decisions in accordance with fluctuations in the financial market.

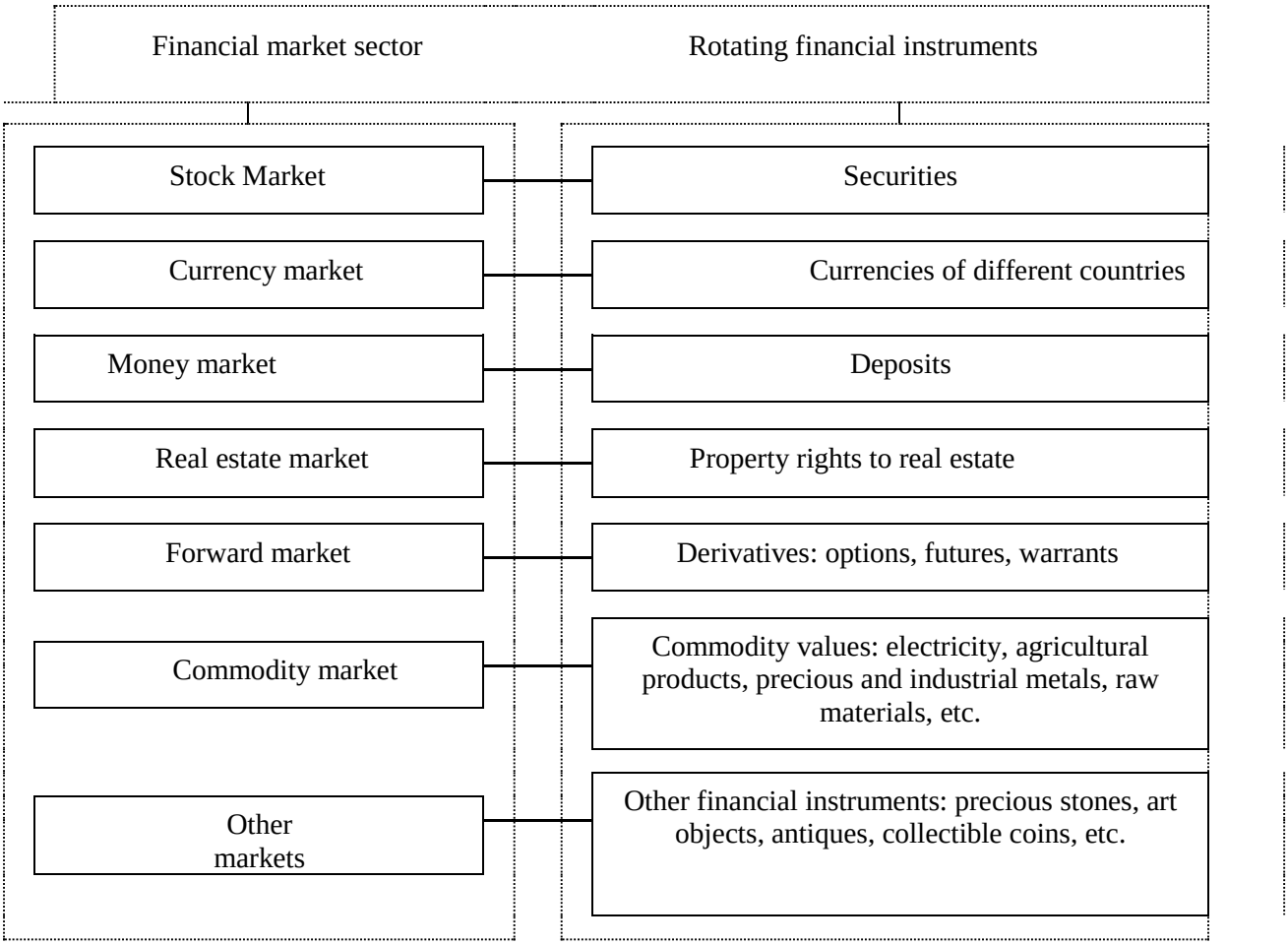


Fig. 3.1. Instruments that can be used for financial investment in terms of financial market segments

A distinctive feature of financial investments compared to real ones is that they are not intended for the mandatory creation of new production facilities, however, involve the transfer of rights to money and the acquisition of rights to future income.

Investments in real assets are a source of national income in the economy, and investments in financial assets are a tool for its distribution among investors. An entity chooses between using funds today or investing them in the future. If you choose to invest, then they can be invested in financial instruments, such as securities. While investors buy securities of enterprises, the latter use the funds obtained in this way to pay for real assets related to the acquisition of fixed assets, technology or inventories. Undoubtedly, the source of income of securities owners is ultimately the profit generated by the use of real assets, the purchase of which was financed through the issuance of securities.

Financial investment speaking relatively independent form of investment, at the same time is also a link in the transformation of capital into real investment. Since the main organizational and legal form of enterprises are joint-stock companies, the development and expansion of production which is carried out using borrowed and borrowed funds (issue of debt and equity securities), financial investments form one from the channels of capital inflow into real production.

When founding and organizing a joint-stock company, in the event of an increase in its authorized capital, new shares are issued first, followed by real investments. Thus, financial investments play an important role in the investment process. Real investment is impossible without financial investment, and financial investment gets its logical conclusion in the implementation of real investment.

2. Composition, structure and classification of financial investments

Financial investments are investments in various financial instruments, including the purchase of securities, opening of deposit accounts, participation in the establishment of new enterprises and the formation of their authorized capital, participation in joint activities, etc.

In the modern scientific literature and legislation, there are many approaches to determining the composition and structure of financial investments, which are summarized and reflected in table. 3.1.

In those shown in table. 3.1. approaches to determining the composition and structure of financial investments are structured mainly by the period of investment and by type of financial instruments.

Table 3.1

Determining the composition and structure of financial investments

№	Author	Characteristic
1.	Blank I.O.	- investments in statutory funds of joint ventures; − investments in profitable types of stock instruments; − investments in profitable types of monetary instruments.
2.	Kovalev V.V., Ivanov V.V., Lyalina V.A.	− speculative investments; − investment-oriented for a long time.
3.	Lakhmetkina N.I.	- investments in securities; − investments in foreign currency; − investments in bank deposits; − investments in the objects of hoarding.
4.	Peresada A.A.	- investments in traditional stock instruments; − investments in derivative securities (derivatives); − investments in deposits; − investments in statutory funds of joint ventures.
5.	Skobelova I.P.	- investments in government and corporate securities; - investments in bank deposits and certificates.

Depending on the nature and instruments of investment, it is advisable to allocate portfolio, strategic (direct), venture and hoarding investments as part of financial investments of enterprises, as shown in Fig. 3.2.

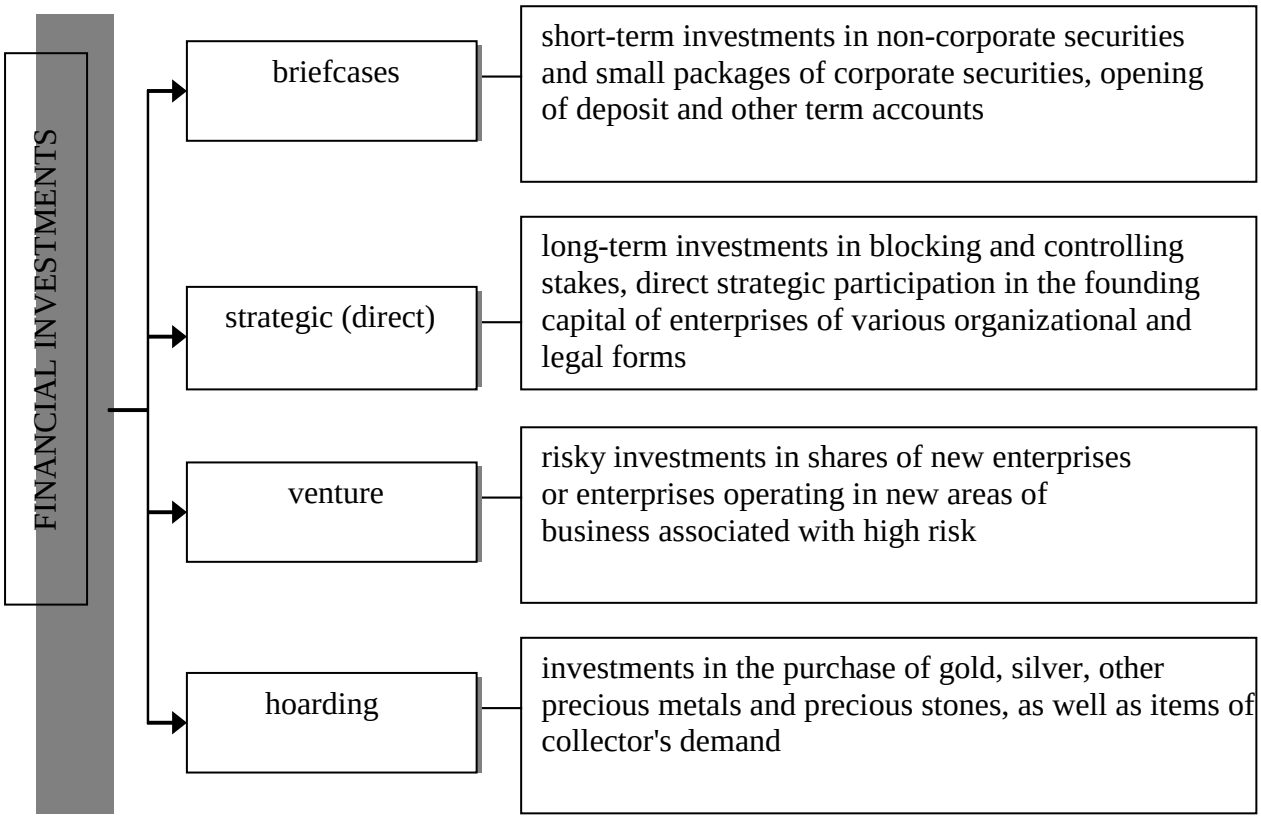


Fig. 3.2. Structure of financial investments

The structure of financial investments in their composition includes portfolio investments (aimed at achieving purely financial benefits in the short term period), strategic (direct) investments (aimed at gaining control over a particular business entity, which helps to increase market share and obtain long-term benefits), venture investments (investments in shares of enterprises accompanied by high risk), hoarding investments (related to the purchase of precious metals and stones, as well as items of collector's demand).

Based on the analysis of the most significant grouping features of financial investments, a generalized scheme of their classification is proposed (Fig. 3.3), which depending on the purpose of the study can be deepened and supplemented.

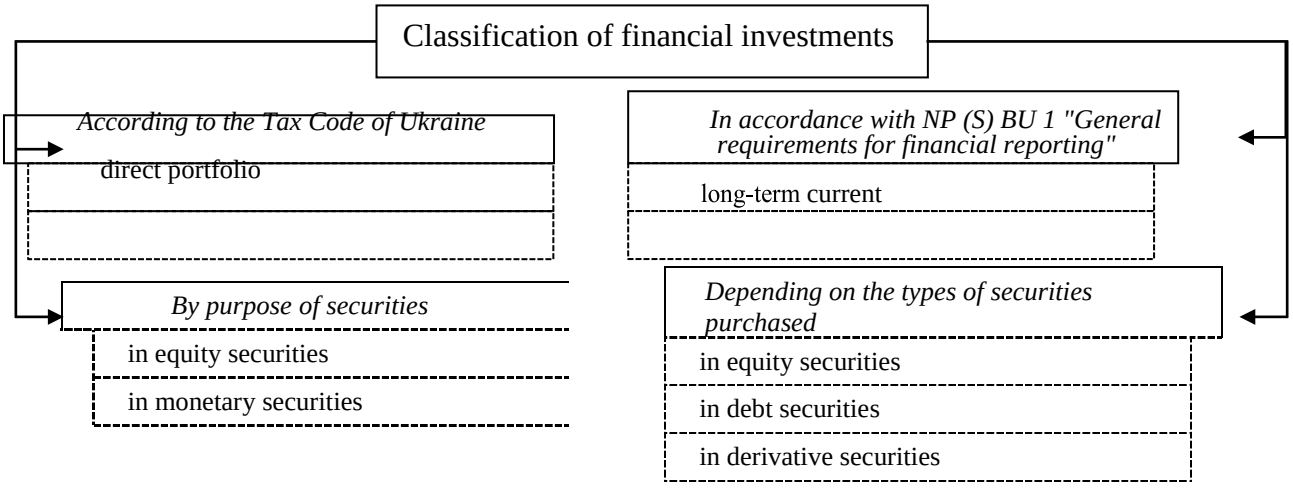


Fig. 3.3. Classification of financial investments

According to the Tax Code of Ukraine financial investments are divided into direct and portfolio. Direct investment is a business transaction that involves the deposit of funds or property in exchange for corporate rights issued by a legal entity when they are placed by such a person. Portfolio investments are business transactions that involve the purchase of securities, derivatives and other financial assets for funds on the stock market or commodity exchange market.

In accordance with the National Regulation (Standard) of Accounting 1 "General requirements for financial reporting" there are current and long-term financial investments. Long-term investments are financial investments for a period

of more than one year, as well as all investments that cannot be freely realized at any time. Current investments are financial investments for a period not exceeding one year that can be freely realized at any time (except for investments that are cash equivalents).

Depending on the types of securities purchased financial investments are divided into investments in equity, debt and derivative securities. Investments in equity securities are investments in equity-backed securities. Equity investments are characterized by the following features: certify the ownership of the enterprise for a share in the authorized capital of the issuer of corporate rights; act in the form of equity securities (shares) or contributions to the authorized capital of other enterprises; have an unlimited circulation period; held by the enterprise for the purpose of receiving income from dividends or acquired for the purpose of resale or receiving income due to the growth of the market value of investments. Investments in debt securities are investments in securities that do not give the right property. Debt financial investments are characterized by the following features: have a debt nature; act as debt securities (bonds); held by the enterprise until they are repaid for the purpose of receiving income in the form of interest or acquired for the purpose of resale and receiving income due to the growth of the market value of investments; have a set circulation period. Investments in derivative securities are investments in securities whose trading mechanism is related to equity debt securities and other financial instruments or rights to them.

By purpose of securities distinguish between financial investments in capital and monetary securities. Investments in capital securities are investments in securities that are a means of raising capital and a source of permanent income of their owners, so they belong to the sector of "long money" (stocks, bonds, investment certificates, mortgages), treasury obligations knitting (long-term, medium-term). Investments in monetary securities are investments in securities (bills, bank acceptances, checks, short-term savings and deposit certificates, treasury bonds), which mainly circulate between enterprises and banks, banks and the treasury, forming one of sectors "short money".

The classification of financial investments reflects their most significant features, and if necessary, it can be deepened depending on the business or research purpose.

3. Portfolio and strategic (direct) investments

Securities are an important object of investment for both institutional and private and corporate investors. As a rule, investments are made not in one security, but in a set of securities, which forms a "portfolio", and this type of investment is called "portfolio".

Portfolio investments - is a short-term investment in various financial assets mainly for the purpose of obtaining income in the form of cash flow or increase their stock.

Portfolio investments - is an investment by an investor who does not expect to receive additional benefits arising from the acquisition of management control over the enterprise and participation in its business activities. The purpose of a portfolio investor is limited to increasing the value of invested capital (for example, shares) and / or receiving current income that this capital can give (for example, in the form of dividends on shares). In this case, the investor does not focus on one investment in a financial asset, but creates a portfolio of any number of assets.

The main subjects of portfolio investment are investors (owners of free money capital) and issuers that issue financial instruments. Portfolio investments can also be made by individuals and the state (in the process of forming reserve funds), as well as socio-political and religious associations, charitable and other funds. The objects of portfolio investment are various financial assets: securities, currency, bank deposits, etc.

You can identify the characteristics of portfolio investment:

- portfolio investments are the most mobile;
- in most cases, portfolio investments are related to standardized ones

(exchange) financial instruments: securities, currency, futures contracts;

- portfolio investments make up a significant part of world investment capital;
- with the help of portfolio investment it is possible to provide a set of securities combined into a portfolio, investment qualities that can not be achieved by investing in the securities of any one issuer;
- portfolio investments require relatively low costs compared to investing in real assets, so they are available to a significant number of individual investors;
- effective portfolio investment management allows to obtain the optimal combination of profitability and risk for each individual investor;
- portfolio investments in practice provide a fairly high return in a relatively short period of time.

In contrast to the portfolio, strategic (direct) investment is called acquisition by the investor of long-term interest in investment objects. Direct investment - the main form of movement of private capital, which ensures the establishment of effective control and gives the right to direct disposal of the enterprise.

Strategic (direct) investments - is the investment of capital in the authorized capital of enterprises, the acquisition of their financial or intellectual assets, the infusion of capital into the production process and sales. Direct investment can be a purposeful acquisition of shares in enterprises. The purpose of direct investment, together with future profits, is to gain investor control over the activities of the enterprise, expand the sphere of influence and ensure financial interests in the future. Thus, in modern international practice, direct investment often involves owning more than 10% of the company's capital.

Acquisition of a controlling stake is carried out by powerful monopolies in cases where the creation of new enterprises in this area does not make sense, because there are already large enough companies, competition with which will be difficult and too costly. Strategic investment can take place in a rather tough confrontation between large competitors.

You can identify the characteristics of strategic (direct) investment:

− enterprise-recipient of investments has the opportunity to get the right amount for business development or production, but practically loses control, which passes to the strategic investor;

− enable the investor to intervene in the management of the enterprise or control it;

− investing in the form of direct investment helps not only to strengthen the investor in the market, but also to eliminate competitors by joining them to their business;

− have their advantages even for the enterprise-recipient of investments, because in this case it receives not only financing, but also the opportunity to introduce new technologies, more efficient management system, the opportunity to attract to its extensive and very successful experience of the investor;

− the strategic investor dictates its rules, forcing the recipient company to produce the products it needs, however, this allows you to very effectively expand the market and range of goods and services;

− most beneficial to both parties to the investment activity only if their goals coincide.

It is necessary to distinguish between the concepts of strategic (direct) and portfolio investments (Table 3.2), as they are alternative approaches to investment activities in financial markets, taking into accountsigns of comparison.

Thus, direct investment is an investment in the capital of the enterprise (usually non-public or illiquid) in order to withdraw income and obtain rights to participate in management. The main difference from portfolio investments is that direct investments allow the management of the recipient company to count on comprehensive assistance from the investor: assistance in strategic management, development financing, increasing transparency, etc. Portfolio investors play a passive supervisory role, buying mainly minority stakes in public enterprises. The lack of clear distinctions between direct and portfolio investments allows Western statisticians to reduce the amount of direct investments by classifying them as portfolio investments.

Table 3.2

Comparative characteristics of direct and portfolio investments

Sign	Direct investment	Portfolio investments
Goal	Achieving control	Profit
Degree of control	10-50% of votes - significant influence; more than 50% of votes - control power)	Up to 10% of votes - minority influence
Investment objects	First of all, tangible and intangible assets	First of all, financial instruments: securities, deposits, derivative financial instruments, etc.
Liquidity level	Lower	Higher
The level of profitability	Lower	Higher
Risk level	Higher	Lower
Payback period and	Long, conditioned long-term nature of projects	Mostly short- and medium-term, long-term for individual institutional investors
Level of implementation	Mostly microeconomic	Mostly macroeconomic
Role for an individual business entity	Creating an initial basis for operation and its further provision	Obtaining additional resources to finance individual projects
Role in the economy	Direct provision of expansion of production and reproduction resources	Indirect provision of production expansion and reproduction of resources

4. Hesapural investments

Hoarding investmentsare called capital investments made for the purpose of accumulation of treasures. They include attachments:

1) in precious metals, precious stones and products from them;
2) in items of collector's demand.

A common specific feature of hoarding investments is the lack of current income for them. The income from such investments can be obtained by the investor only due to the increase in the value of the investment objects themselves, ie due to the difference between the purchase and sale price.

Investing in gold is considered to be the purest type of hoarding investment. Gold is recognized as an international medium of exchange. It is portable, has its

own value, is a commodity whose value increases during crises.

In times of political and economic instability, when virtually all areas of investment are stagnant or in sharp decline, gold is invariably in demand among investors.

Among the reasons for investing in gold are:

1. Independence. Gold builds confidence through its independence. It does not depend on the state, currencies, return on deposits, reliability of loans. Its value may be affected by economic and political factors, however, its value and suitability as a means of payment remain unchanged.

2. Backup tool. States and central banks often choose gold as a means of securing their currencies.

3. High liquidity. Gold, along with most highly liquid assets, is the most attractive. It can be sold within 24 hours in one financial market or in several at once.

4. Asset diversification. Gold can play a crucial role in shaping the investment portfolio.

There are the following main advantages of investing in gold:

- investing in gold is a reliable means of protection against inflation;
- opportunity to make a profit when prices rise on the world market;
- bank metals have the highest standard;
- buying bank metals, in contrast to jewelry, the customer pays only the cost of the metal;
- ingots and coins take up little space and are easy to transport;
- ingots and coins made of precious metals can also act as an original gift.

Investing in gold can take various forms: the purchase of gold bars; gold coins of both ancient and modern minting; finished gold products; shares of gold mining companies; shares of investment companies and funds that invest their capital in shares of gold mining companies; as well as the implementation of futures transactions with gold.

As a type of investment, gold bars are most in demand in Ukraine.

However, there are several disadvantages to this type of investment. For

example, the unstable bank margin, which can sometimes reach 20-25%, as well as the problem of gold storage. Most branches of banks working with precious metals buy ingots with certificates of recognized refiners.

However, not every bank wants to take responsibility for buying gold from the public, even with all the necessary documents. Banks create difficulties for customers of other banks - sellers of gold, setting additional fees.

You can also invest in gold coins. The advantage of this type of investment is that the buyer does not pay value added tax. But despite this, the price of the coin does not get lower. For those who are primarily interested in coinage, the difficulties of selling in Ukraine should always be taken into account. Commercial banks buy coins very reluctantly and at a low price.

One of the promising and convenient, but risky areas of investment in precious metals are metal accounts. Today there are two types of accounts: the account of responsible storage and the impersonal metal account. When opening a responsible custody account, the bank transfers ingots of precious metals, which are returned to the customer at his request, and the bank has no right to replace one ingot with another. Opening a safekeeping account does not involve accrual of interest. On the contrary, the client pays for the bank's storage services. An impersonal metal account is opened to account for ingots without specifying their specific characteristics (numbers, name of the refinery, etc.). It can be replenished by depositing precious metals in ingots, transferring from another metal account, purchase of any amount of metal for money at the rate of the bank in which the impersonal metal account is opened. The metal accumulated in such an account can be obtained in the form of ingots.

However, the depositor is obliged to pay VAT, bank commission and reimburse the cost of manufacturing ingots. Given the relative attractiveness of the impersonal metal account, this tool has its drawbacks. First, the metal accounts are not covered by the state guarantee, and secondly, with a sharp increase in the value of precious metals, there is a significant risk of non-delivery - the bank may not have enough money to buy the required number of ingots. bank commission and

reimburse the cost of making ingots. Given the relative attractiveness of the impersonal metal account, this tool has its drawbacks. First, the metal accounts are not covered by the state guarantee, and secondly, with a sharp increase in the value of precious metals, there is a significant risk of non-delivery - the bank may not have enough money to buy the required number of ingots. bank commission and reimburse the cost of making ingots. Given the relative attractiveness of the impersonal metal account, this tool has its drawbacks. First, metal accounts are not covered by the state guarantee, and secondly, with a sharp increase in the value of precious metals, there is a significant risk of non-supply - the bank may not have enough money to buy the required number of ingots.

There are also other opportunities for such investments in precious metals: the acquisition of shares in gold mining companies, derivatives (futures and options) and securities of foreign metal funds ETFs (Exchange Trade Funds).

In addition, all of the above ways to invest capital in precious metals (by with the exception of an impersonal metal account) deal with physical metal, while the acquisition of securities primarily involves the placement of funds in virtual metal. It should be noted that these methods of investing capital in precious metals have certain limitations, which are associated with the need for investors to have special knowledge and skills when working with securities and derivative financial instruments. Thus, the number of persons with the ability to conduct operations in the securities market is significantly reduced.

Acquisition of shares of extractive companies also requires additional conditions: opening an exchange account or transferring funds to trust management, in addition, such investments in a crisis have a higher level of risk, as there are additional risks associated with the issuer. Acquisition of securities of funds is associated with additional difficulties in the field of taxation, as well as the need to know international rules and procedures, in addition, there are additional risks associated with the effectiveness of the fund itself.

Other items that have a high value and are therefore suitable for hoarding investments are jewelry and gemstones.

For investing precious metals, precious stones and jewels should take into account the high level of costs associated with their possible resale, so hoarding investments are made only for the long term.

The number of areas of investment in collectibles is huge.

Investments in collectible coins are popular. Coins are of two types. The value of some of them is determined primarily by the value of gold and silver from which they are made. Other coins represent an independent value associated with their rarity, or a collection value that far exceeds the value of the metal from which they are minted. Such collectible coins can be purchased in antique shops, at auctions, from collectors.

There are special catalogs describing different types of coins, their rarity and approximate value. Such coins are the subject of hoarding investments.

In general, hoarding investments in collectibles are specific, due to their complexity, the relatively narrow market for each type of collection, the need for special knowledge and skills for proper investment.

5. Venture investments

Venture capital investment is the most risky form of direct private investment, which is fixed in the semantics of the term ("venture" - from the English. Venture - "risky, adventurous business"). In their classical sense, venture capital investment can be characterized as a long-term direct private investment in the embryonic and initial stages of development of a recipient company that implements an innovative project in high-tech sectors of the economy, and which is not a public company.

Venture capital is characterized by a high degree of risk, potentially high profitability, the investor's desire to gain as much control over the recipient company. It is also accompanied by investing in the recipient company not only financial resources but also knowledge, skills and experience of venture investors or, when making venture investments through specific intermediaries - knowledge,

skills and experience of venture professionals in marketing, strategic and financial management and more.

In modern conditions, venture investment is one of the main and most effective sources of financing innovation. This is due to the relatively high selectivity of venture capital in search of the most promising investments, and the possibility of obtaining a higher rate of return if successful. On the other hand, venture capital combines the efforts of enterprising owners of free capital with the high professionalism of entrepreneurs and the enthusiasm of innovators and inventors. This fusion of interests and potential allows you to select many promising ideas and inventions, bring them to the level of innovation and then successfully generate high profits from their use.

In world practice, several ways of investing venture capital are used: bridge financing; buy-out management; management buy-in; turnaround; replacement; replacement capital.

"Bridge financing" is the provision of funds by an investor in exchange for a share in the future capital of a joint-stock company. This method is used for projects of those joint stock companies that want to get quotations on the stock exchange, and they need additional investment to bring their assets in line with the requirements of specific standards. Venture capitalists are interested in these transactions, because as soon as the project in which their share is present, is quoted on the securities market, the opportunities for its implementation with high profits increase significantly.

"Redemption by managers" (Management Buy-out) is a method of financing in which a venture investor provides funds to the company's management in order to consolidate the package of securities of the company, which are held by third-party investors. This is done in order to strengthen the role of management in the enterprise in serious strategic decisions, such as expanding production and abandoning short-term profitability for future profits, etc. In general, when it is necessary to concentrate the entire scope of decision-making powers, the management is given to the redemption of shares.

"Redemption by managers from the outside" (Management Buy-in) is slightly

different from the previous one in that the company is bought out by a team of managers from outside, in the hope that when it comes to management, it will achieve better results. The actions of venture investors here are similar to the previous version.

"Turnaround" - provides financial assistance to the company to achieve financial stability in terms of overcoming the consequences of the wrong actions of past management. The use of venture capital investments will be a necessary measure here, provided that all traditional methods of financing are exhausted. Usually such things happen when the authors of the project underestimate the size of the necessary financial investments, in which case the funds may not be enough at the most crucial moment, when the bank loan will be exhausted as well as the limits of collateral liquidity when applying for a new loan.

"Replacement Capital" is a method of investment, which is a kind of agreement between venture investors, when one of the investors tries to buy from another the right to receive a profit, which the first was to receive after the project.

In the innovation process is generally accepted scheme of development of companies, shown in Fig. 3.4, which includes the stages of venture and direct investment.

Thanks to several waves of the global high-tech boom, knowledge-intensive seed and start-up stages have become the main area of venture investment, as they are characterized by the ratio of "high profit - high risk".

At different stages of development of innovative companies, different investors make either venture or direct investments. At the seed stage, the main investors are business angels - individual investors.

Starting from the start-up stage and further due to the growth of the required investments, individual investment is inferior to the instruments of collective investment - investment funds. Venture funds invest in start-up projects, and direct investment funds invest in late-stage companies.

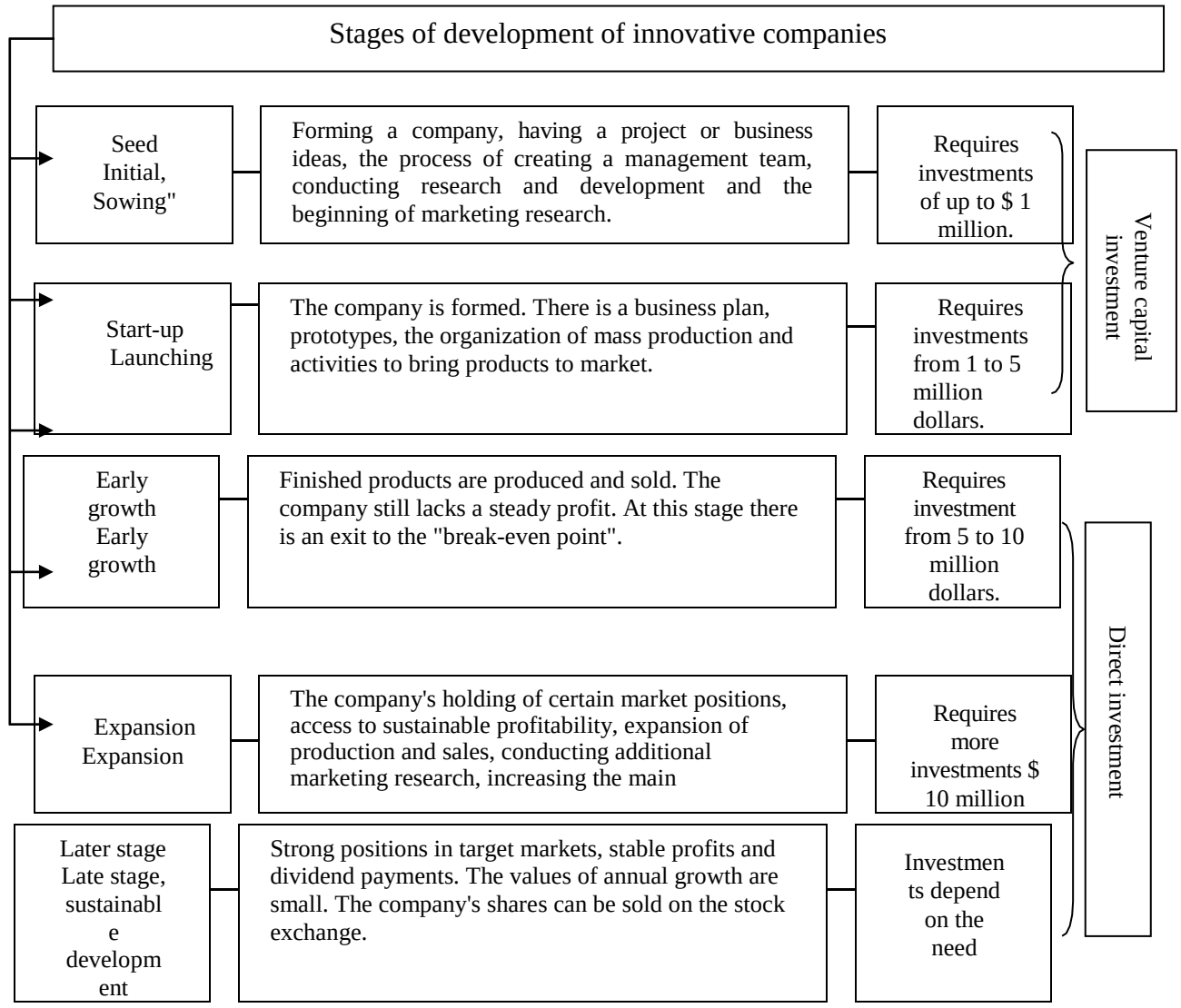


Fig. 3.4. Stages of development of innovative companies

In financial terms, the term "angel" comes from the theatrical Broadway of New York, where it originally meant sponsors who did not give up in the event of commercial success of a spectacular event to make a profit.

Gradually, this process and concepts entered the realm of innovation and high technology, especially in the electronics industry of Silicon Valley. Usually such breakthrough technological projects were financed by the scientists themselves, their friends and patrons with the motivation to help an interesting person in the field of research and development, to organize a new type of business. In modern conditions, a business angel is a person (individual) who invests equity for a long payback period

and without providing in innovative projects of the initial "sowing" stage, with an investment of one project not more than 1 million dollars. (in European countries - no more than 1 million euros).

The specificity of venture investment by business angels is due to the following factors:

- the presence of extremely high risks that are not inherent in other types of investment;
- the main motivation is to receive excess profits (usually above 40-60% per annum);
- the existence of non-economic motivation - helping friends, the desire to take risks;
- the main investors are 3F: family, friends, fools - family, friends, nonsense;
- significant flexibility in decision-making and lower organizational costs;
- the organizational structure is networks and associations of business angels, which give investors the opportunity to share experiences, and potential recipients of investments - the opportunity to find an investor;
- is of the greatest importance for economic development on the basis of long-term projects of radical innovations that revolutionize their target markets, as these risky projects have a vague commercial perspective.

Business angels find projects in three ways.

1. Investors select projects through personal contacts. Initial sources include acquaintances who have connections with company executives, friends, family members or colleagues who believe in the future of venture capital, or relatives or acquaintances who hold senior positions in companies, as well as investors who already participate in projects.

2. Business angels enter into agreements on the advice of lawyers, accountants, investment banks where they are served, brokers or other persons and organizations that provide qualified services, such as formal or informal networks and associations of business angels. As a rule, these professionals are acquainted,

have connections with the founders or leaders of companies seeking capital.

3. Investors receive invitations from people who are not family members of employees of a firm seeking capital for its development. In some cases, the stakeholder simply calls or approaches investors in forums where entrepreneurs seek opportunities to reach out to investors and secure funding.

At the stage start-up development of innovative companies the most active investors are independent venture funds, which attract capital from financial institutions before they invest in small and medium enterprises. Venture funds are commercial financial organizations, the main purpose of which is to accumulate funds in accounts and invest them in the most interesting innovative projects for profit. In world practice (especially in the USA, Great Britain) the average size of the fund makes about 50 million dollars.

Most venture funds are created in the form of limited partnerships. This form has historically been the most convenient for the organization of venture capital. The limited liability company consists of limited and general partners. The former participate in the activities only with their capital, but do not participate in the management and are not responsible for the work of the company. They risk only the money they have invested in the business. The general partner participates in the management of the company and is fully responsible for its activities.

External investors act as limited partners and do not have a direct influence on the fund's activities. They usually transfer part of the funds to the venture fund immediately, and others undertake to transfer as the fund finds a worthy object for financing.

Participants of venture funds (founders and investors) are banks, large corporations, pension funds, insurance companies and private persons. The object of investment of a venture fund, as a rule, is a company that has a certain intangible asset (unique technology, patent, know-how), the material implementation of which in the long run can bring significant profits and allow the company to become a leader in one field or another, to win significant market share. The venture fund acquires a stake in the business, thereby investing cash in it. A venture investor

typically receives convertible preference shares that allow the holder to receive fixed payments and also have a clear redemption value. The venture capitalist does not invest all the funds at once, but each time allocates an amount sufficient only to reach the next stage. Thus, with a periodic reassessment of the prospects of projects implemented by the financed company, he may decide to stop investing.

Thus, the development of the venture capital market has a positive impact on the economic growth of the state, as venture capital promotes the commercialization of new ideas, developments, increases the level of innovation activity. The driving force is the innovative nature of venture investment, based on scientific advances, rapid development of new technologies and effective management. With a gradual, high-quality solution to these problems, strengthening the base for further development, it will be possible to intensively operate the mechanism of venture investment.

Control questions

1. Define the concept of "real investment".
2. What features characterize the real investment?
3. What is the structure of real investment?
4. How are the real investments classified?
5. Define the concept of "fixed capital".
6. What is the role of capital investment?
7. How are the capital investments classified?
8. Define the concept of "working capital".
9. What are the stages of investing working capital at the micro level?
10. What are the approaches to determining the composition and structure of real investment?
11. Define the concept of "revolving funds".

Tests

1. Real investment is:

a. investing in real assets as tangible ones, related to the implementation of operational activities of business entities, and solving their social and economic problems

b. investing capital aimed at establishing enterprises

c. investing capital aimed at expanding already existing companies, increasing their production potential, which involves the expanding of activity scope

d. related to the renewal process of fixed assets at the existing companies

2. The value advanced into the elements of working capital and revolving funds, which is a condition for ensuring a continuous process of production and sales constitutes:

a. fixed assets
b. attracted capital
c. working capital
d. own equity

3. Depending on the purpose of implementation, the real investment does not include:
a. forming
b. complementary
c. current
d. reinvestment

4. Extensive investments are:
a. investing capital aimed at expanding already existing enterprises, increasing their production potential, which involves the expanding of activity scope
b. related to the renewal process of fixed assets at the existing companies
c. investing in real assets as tangible ones, related to the implementation of operational activities of business entities, and solving their social and economic problems
d. investing capital aimed at establishing enterprises

5. In respect of the implementation the capital investments include:
a. the replacement
b. the diversification
c. strategic ones
d. the reconstruction

6. Net investment is:
a. investing capital aimed at establishing enterprises
b. investing in real assets as tangible ones, related to the implementation of operational activities of business entities, and solving their social and economic problems
c. investing capital aimed at expanding already existing enterprises, increasing their production potential, which involves the expanding of activity scope
d. related to the renewal process of fixed assets at the existing companies

7. Investing into the forming, cycle maintenance and increase of the working capital is directed:
a. into the working capital of tangible real investments
b. into the fixed assets of tangible real investments
c. into the intellectual intangible real investments
d. into the innovative intangible real investments

8. Depending on the implementation purpose, the real investments do not include:
a. seed funding
b. forming
c. current
d. complementary

9. Reinvestment is
a. related to the renewal process of fixed assets at the existing companies

b. investing capital aimed at expanding already existing enterprises, increasing their production potential, which involves the expanding of activity scope

c. investing capital aimed at establishing enterprises

d. investing in real assets as tangible ones, related to the implementation of operational activities of business entities, and solving their social and economic problems

10. According to the economic analysis requirements, the capital investments do not include:

a. the replacement

b. the diversification

c. strategic ones

d. the reconstruction

Topic 4. REAL INVESTMENTS

1. **Essence and features of real investments**
2. **Composition, structure and classification of real investments**
3. **Fixed capital investment**
4. **Current capital investment**

1. Essence and features of real investments

In conditions of fierce competition, physical and moral depreciation of fixed assets, real investments become especially important for business entities.

Real investment - is the investment of capital in real assets, both tangible (buildings, structures, equipment, equipment, increase in inventories) and intangible (licenses, patents, rights to use natural resources, other property rights, information and communication technologies, research and development) related to the implementation of operational activities of economic entities, solving their socio-economic and other problems.

Real investment at the present stage is necessary primarily to achieve the following goals: technical re-equipment of enterprises; expansion and development of highly efficient areas of activity; ensuring innovative development of enterprises using modern scientific and technical achievements; conducting marketing operations; improving the quality and competitiveness of products; replenishment of working capital; environmental protection; development of the social sphere and improving the quality of working life of staff.

To determine the advantages and disadvantages of real investment compared to financial, it is necessary to distinguish between financial and physical (real) assets.

The differences between financial and real investments are as follows:

Financial assets are divisible, while real assets are largely indivisible. An asset may be divisible if the investor and / or the entity can divide and sell the asset in parts. In the case of financial assets, the investor may sell a number of, for example, ordinary shares at its discretion.

Usually real assets are illiquid as opposed to financial ones. Liquidity allows the

asset to be converted into cash in the short term without losing value. In general, financial assets can be bought or sold on the financial market.

1. The planned term of ownership of financial assets is usually much shorter than that of real assets. The term "planned term of ownership of assets" means the period of time between the signing of the purchase agreement and the implementation of the sale agreement. Usually real investment assumes that the asset will be used in the long run.

2. Real assets require special attention, because with their use they wear out, age physically or morally: they transfer their value to the cost of products. Accordingly, depreciation must be charged for each reporting period and carry out repairs.

3. Information about financial assets is more common and informative. In addition, the collection, processing and analysis of information on real assets requires much more costs than the previous one.

Thus, investing in physical (real) assets has a number of advantages. In addition, real investment is the most reliable investment of capital, as it is most protected from inflation.

First, as a rule, prices for real investment objects grow much faster than the depreciation of the national currency.

Secondly, real investments always give a more profitable return on capital than investing in financial investments.

Thirdly, the volume of real investments is an indicator of the financial condition of any enterprise, a guarantor of attracting other external (including foreign) investors to investment activities.

Real investment is characterized by a number of features, the main of which at the micro level are:

1. Real investment is the main form of implementation of the economic development strategy of the business entity. The main purpose of this development is provided by the implementation of highly effective real investment projects, and the process of strategic development of the enterprise - is nothing more than a set of

time-implemented investment projects. This form of investment allows the company to successfully penetrate new product markets, to maximize its market value.

2. The real investment is there in close connection with the operating activities of the enterprise. The task of increasing the volume of production and sales, expanding the range of products and improving their quality, reducing current costs are usually solved as a result of real investment. In turn, the parameters of the future operating process and the growth potential of its operating activities largely depend on the real investment projects implemented by the enterprise.

3. Real investments provide a much higher level of profitability compared to financial investments. The ability to generate a higher rate of return is one of the main motives for entrepreneurship in the real sector of the economy.

4. Realized real investments provide the company with a stable net cash flow, which is formed by depreciation of fixed assets and intangible assets, even in periods when the operation of implemented investment projects does not bring profit to the company.

5. Real investments have a high risk of obsolescence. This risk accompanies investment activities both at the stage of implementation of real investment projects and at the stage of their post-investment operation. Rapid technological progress has formed a tendency to increase the level of this risk in the process of real investment.

6. Real investment has a high degree of anti-inflationary protection. Experience shows that in an inflationary economy, the growth rate of prices for many objects of real investment not only meet, but in many cases even outpace the growth rate of inflation, realizing the high inflationary demand of entrepreneurs for materialized objects of entrepreneurial activity.

7. Real investment is the least liquid. This is due to the narrow focus of most forms of these investments, which have virtually no incomplete alternative economic use. In this regard, it is very difficult to compensate in the financial sense of incorrect management decisions associated with the beginning of real investment.

In the course of real investment there are certain investment relations. The main participant in investment relations is a real investor, who makes a real investment,

assuming obligations to investors. Various investment relations of a real investor with other economic entities are divided into three groups. The first group of relations is associated with the acquisition of real assets, the organization on their basis of production and marketing. These relations are manifested through many short-term economic transactions of a real investor with a dynamically changing set of other economic entities in the markets of factors of production and in the market of sold products, as well as with the state to pay taxes, fees, payments. Counterparties of a real investor in these relations realize their interests either immediately or in a short time, moreover, the realization of their interests in each individual interaction with a real investor does not depend on the process of real investment as a whole. For a real investor, this group of investment relations is of paramount importance, since it is in them that real assets are obtained (created) and the production of products is carried out, the sale of which allows obtaining investment income.

The second group of investment relations of a real investor is related to attracting long-term sources of financing for real investments. They arise between a real investor and investors, are long-term and link the risk of investors to the risk of a real investor. Therefore, investors are the main, albeit indirect, participants in real investment, and for them the effectiveness of real investment is as important as for a real investor. Investors do not invest directly in real assets, but in financial assets, which are borne by a real investor. The most common types of such assets are loans, bonds, shares and other forms of equity participation.

The third group of investment relations of a real investor is associated with the reinvestment (financial or real) of those funds that are obtained as new value by the main process of real investment before its completion. Reinvestment may be necessary in situations where, without obtaining additional income from it, the real investor is unable to cover the investment costs of the next stage of the main real investment. More often, reinvestment is ancillary in nature, which allows you to increase the investment return generated by the main real investment.

Thus, real investment should be understood as an investment in the creation, acquisition or improvement of fixed assets, research and development, staff training,

working capital growth, environmental measures, acquisition and creation of intangible assets and marketing activities to getting positive effects.

2. Composition, structure and classification of real investments

In modern conditions, the effective use of real investment becomes the basis of strategic development of the enterprise, increasing its market value, ensuring competitiveness, stable cash flow and sustainable operation of the enterprise in the future.

For most domestic enterprises, real investment is the only direction of their investment activity, which is due not only to the underdevelopment of the stock market of Ukraine, but also a number of advantages provided by real investment.

In the scientific literature there are different approaches to determining the composition and structure of real investment, which are summarized and reflected in table. 4.1.

Taking into account the above approaches to determining the composition and structure of real investments, they can be structured depending on the sphere and specific areas of capital investment, which is shown in Fig. 4.1.

Material investments is advisable to divide into investments in fixed assets (means of production) and investments in working capital (objects of labor).

As part of intangible investments, intellectual (investments in intellectual property) and innovative (investments in the development of new technologies, forms and methods of organizing production, etc.) should be distinguished.

Table 4.1

Determining the composition and structure of real investment of enterprises

№ p / p	Author	Characteristic
1	2	3
1.	Alyoshyn V.O.	− investments in fixed assets; − investments in the acquisition of land plots; − investments in intangible assets; − investments in replenishing inventories of tangible current assets.
2.	Duka A.P.	− investments in increasing production volumes; − investment in technology upgrades; − investment in product quality improvement; − investments aimed at reducing production costs.
3.	Zimin A.I., Skobelova I.P., Fomin O.O.	− investments in increasing efficiency; − investments in the expansion of production; − investments in the creation of new productions; − investments to meet the requirements of government agencies.
4.	Ivasenko A.G., Nikonova Y.I.	− investment in new construction; − investments aimed at maintaining or replacing equipment; − investments with innovation goals; − investments aimed at expanding production.
5.	Troyanovska O.B.	− investment upgrades; − expansion investments; − gross investment.
6.	Peresada A.A.	− investments in tangible assets; − investments in intangible assets; − innovative investments.

This structure of real investments of enterprises not only structures investments in real assets in accordance with their essence, but also allows them to be separated from capital investments.

Thus, "real investments" involve the investment of capital in both tangible and intangible assets, and "capital investments" is one of their elements, which are investments in the accumulation and renovation of fixed assets.

Based on the analysis of the most significant grouping features of real investments, a generalized scheme of their classification is proposed (Fig. 4.2), which, depending on the purpose of the study, can be deepened and supplemented.

Depending on the purpose of implementation real investments are differentiated into formative, current and complementary. The activity of any business entity begins with formative investments. This may be the creation of a new

company or branch of an existing one.

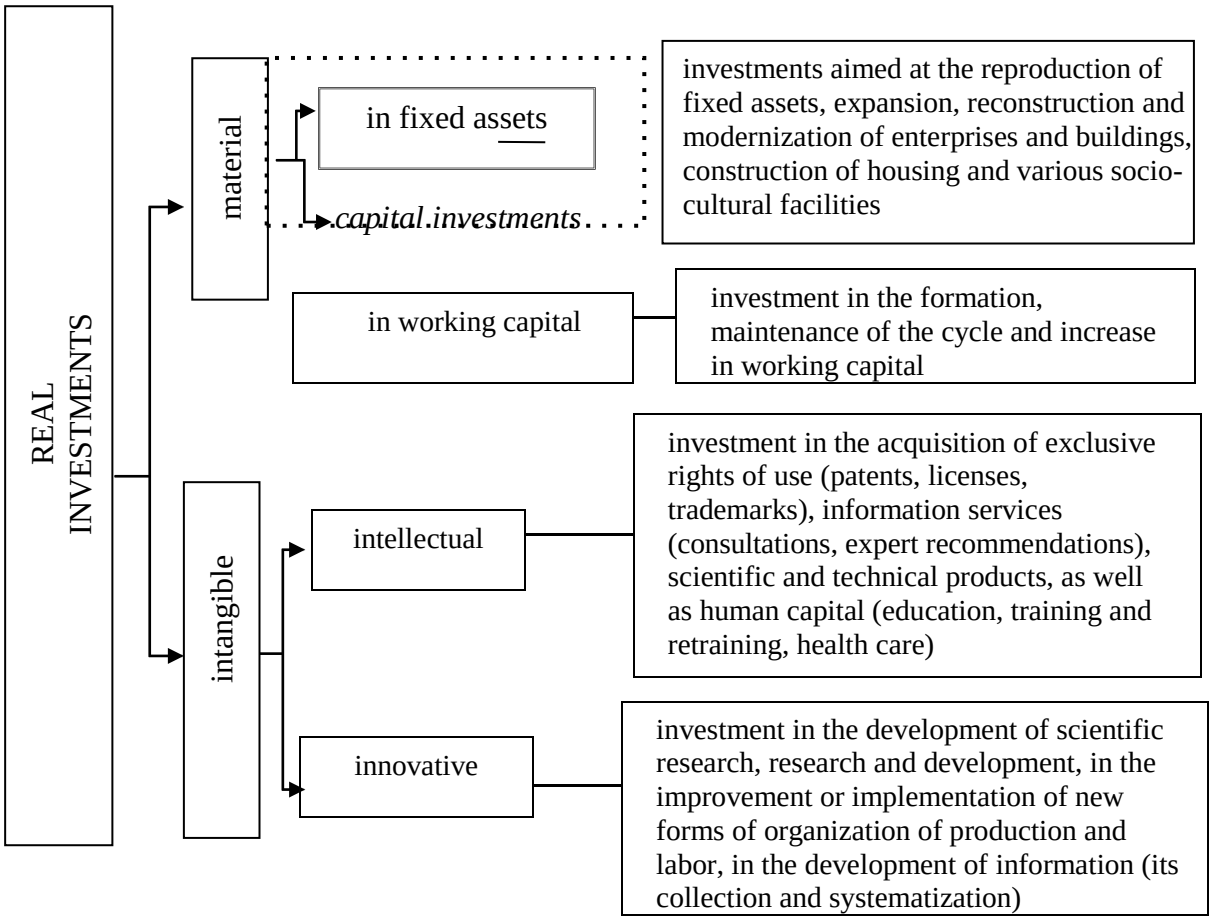


Fig. 4.1. The structure of real investment

Current investments include maintenance and overhaul, as well as investments to replace worn out and obsolete equipment. Replacement investments take place in the classical form, when the existing means of production are replaced with identical objects. Often replacement takes place with improved means of production. In this case, the replacement investment is at the same time an investment to rationalize and / or expand production.

Complementary investments include investments to expand production, make changes to the production program and ensure production safety. Investments in expanding production lead to an increase in enterprise capacity. A characteristic feature of investing in changes to the production program is the modification of the enterprise for any reason. Thus, investment in rationalization helps to reduce costs, investment in the transition to a new program - to bring production in line with

changes in sales of products, and investment in diversification - to prepare for changes in the sales program, which is influenced by the introduction of new products or development of new markets. It is usually difficult to distinguish between investments to expand production and investments to change the production program, because in most cases the expansion of capacity occurs simultaneously with the change of the production program. Safety investments are measures that are designed to eliminate or prepare for hazards to an enterprise. Examples of such activities are: participation in research and development, advertising, training and retraining of personnel.

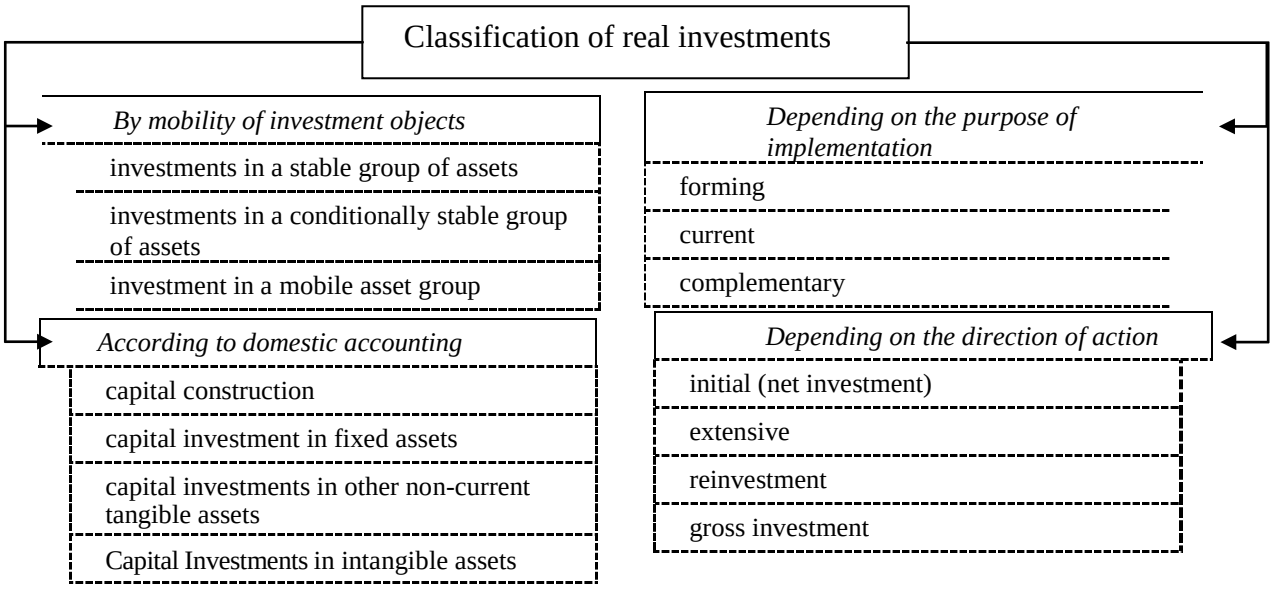


Fig. 4.2. Classification of real investments

Depending on the direction of action real investment is divided into initial (net investment), extensive, reinvestment and gross investment.

Initial investments or net investments are capital investments directed to the establishment of an enterprise. In this case, the capital invested by investors is used for the construction or purchase of buildings, structures, purchase and installation of equipment, the creation of necessary inventories, the formation of working capital.

Extensive investment is an investment of capital aimed at expanding existing enterprises, increasing their production potential, which involves expanding the scope

of activities.

Reinvestment is associated with the process of reproduction of fixed assets in existing enterprises. Enterprises that have free funds (depreciation deductions and profits directed to the development of production), spend them on: replacement of physically worn out and obsolete equipment, obsolete technological processes with new ones; increasing production efficiency, its rationalization; change in the structure of products and services provided; diversification of production, as a result of which change not only the range of products, but sometimes the profile of the enterprise; ensuring the survival of the enterprise in conditions of fierce competition in the market (conducting research and development work, development of effective technologies, advertising, training and retraining, etc.).

Gross investment includes net investment and reinvestment.

In the Ukrainian practice of accounting real investments are accounted for as capital and are divided into the following main types: capital construction; capital investment in fixed assets; capital investments in other non-current tangible assets; capital investments in intangible assets. Capital construction is an investment in the creation of new, as well as expansion, reconstruction, technical re-equipment of existing enterprises, industrial and non-industrial facilities, start-up complexes (including design work, bidding (tenders) in construction, conservation, deconservation of facilities, maintenance of directorates of the enterprises under construction, and also acquisition of the technological equipment which is not included in the estimate of objects). Capital investments in fixed assets are investments in land plots, capital expenditures for land improvement, buildings, structures, machinery and equipment, working and productive livestock, other fixed assets). Capital investments in other non-current tangible assets are investments in library funds, low-value non-current tangible assets, temporary structures, inventory containers, and other non-current tangible assets.

Capital investments in intangible assets - is an investment in rights of use natural resources, property use rights, copyright and related rights, unfinished capital investments in intangible assets, other intangible assets.

3. Fixed capital investment

The most important component of real investment is investment in fixed capital, which in the economic literature is also called real investment in the narrow sense of the word, or capital investment.

Fixed assets - is a part of productive capital, which repeatedly participates in the production process repeatedly, transfers its value to the new product in parts over a long period of time.

There are many definitions of capital investment, but in general they all have some common characteristics:

1. Capital investments usually involve significant financial costs.

2. The return on capital investment can be obtained over a number of years in the future.

3. Elements of risk and uncertainty are necessarily present in predicting the results of capital investments.

4. Those investments, which are usually considered as capital investments, involve the purchase of equipment, expansion of production capacity or any other costs that are directly related to increasing the ability of the entity to achieve its strategic or operational objectives.

The term "capital investment" can be defined as an investment in the creation, expansion, reconstruction and technical re-equipment of fixed assets, which has a direct impact on improving the ability of the entity to achieve its strategic or operational objectives.

In economic terms, capital investment is part of the social product (mainly the accumulation fund), which aims to reproduce the main funds.

In the form of capital investments are in the form of funds spent on capital construction, purchase of equipment and other means of labor that are part of fixed assets.

The role of capital investment is as follows:

1. Capital investments are the main factor in the creation of fixed assets,

reconstruction and expansion of existing enterprises, technical re-equipment of enterprises.

2. With the help of capital investments, the proportions and rates of development of fixed assets of individual industries and sectors of the national economy are regulated.

3. With the help of capital investments, social problems (construction of housing, educational institutions, health care, culture) are solved.

4. With the help of capital investments, the development of all economic regions of the country is regulated.

5. Capital investments cover the costs of design and research work.

Based on the analysis of the most significant grouping features of capital investments in Fig. 3.3 shows a generalized scheme of their classification.

By types of fixed assets capital investments are differentiated into investments in housing; in buildings (except residential) and buildings; in machinery, equipment, vehicles, and other investments. Investment in housing is an investment in the construction of residential buildings, ie buildings intended for temporary residence of people: residential buildings that are part of the housing stock (general purpose, dormitory, dormitories of boarding schools, institutions for orphans and children left without parental care, shelters for the elderly and disabled); residential buildings (premises) that are not part of the housing stock. Investments in buildings (other than residential) and buildings are investments in the construction of buildings and structures, consisting of construction work performed and other capital expenditures allocated to them. In this case, the cost of construction of buildings includes the cost of communication inside the building, necessary for its operation. Investments in machinery, equipment, vehicles - is an investment in the purchase of machinery, vehicles, equipment, production and household equipment, as well as the cost of installation of equipment at the place of its permanent operation, inspection and testing of installation quality. Other investments are investments in operational and deep exploration drilling for oil, gas, thermal waters, costs of planting and growing perennial crops (fruit and berry plantations of all kinds, landscaping and ornamental

plantations, protective and other forest strips, artificial botanical plantations and other research institutions, etc.), the formation of working, productive and breeding cattle.

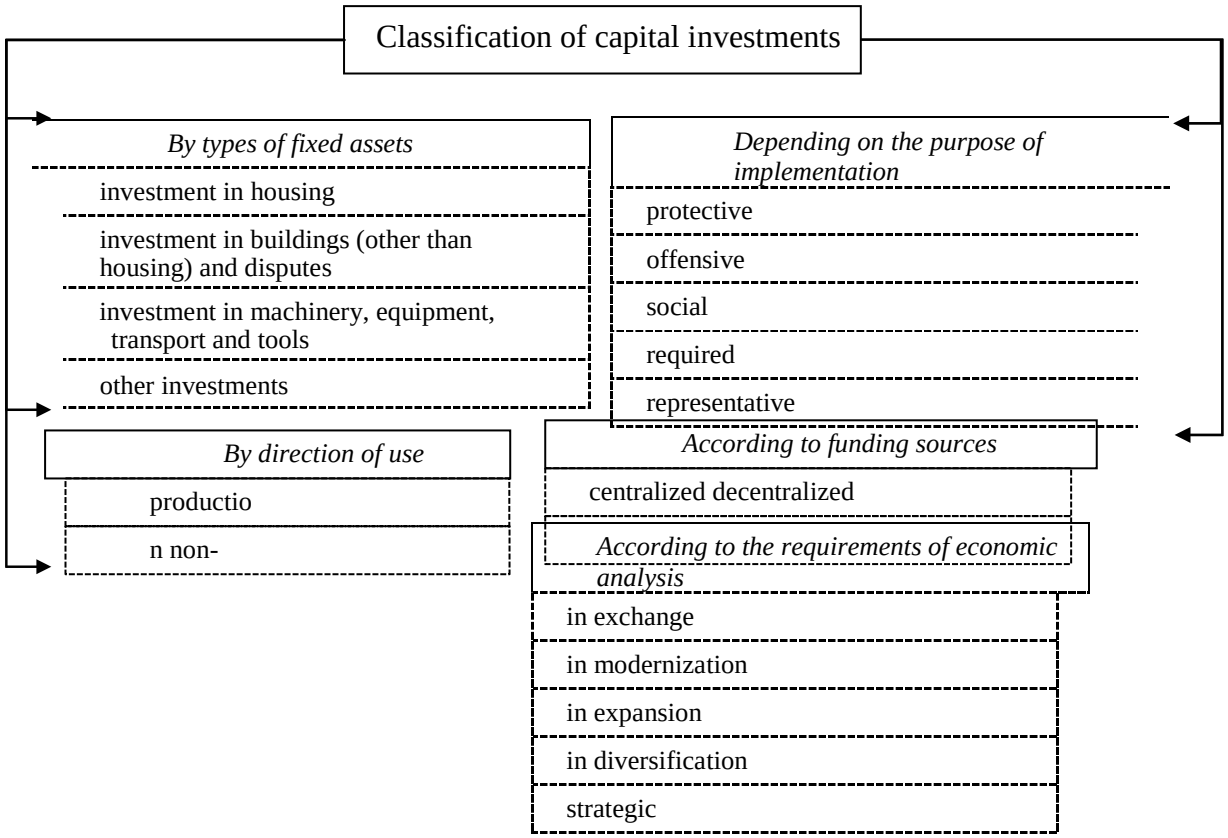


Fig. 3.3. Classification of capital investments

Depending on the purpose of implementation capital investments are divided into defensive, offensive, social, mandatory and representative. Defense capital investments are aimed at reducing the risk of purchasing raw materials, components, maintaining the price level, protection from competitors, etc. Offensive capital investments are due to the search for new technologies and developments in order to maintain a high scientific and technical level of products. Social capital investments are aimed at improving the working conditions of staff. Mandatory capital investments are due to the satisfaction of state requirements in terms of environmental standards, product safety, other operating conditions, which cannot be provided only by improving management. Representative capital investments are aimed at maintaining the prestige of the business entity.

By direction of use capital investments are grouped into productive and non-productive. Productive capital investments are directed to the development of entrepreneurial activity, non-productive - to the development of the social sphere.

According to funding sources capital investments can be centralized and decentralized. Centralized capital investments have the following sources of funding: state budget funds; local budget funds; state trust funds; government loans. Decentralized capital investments are financed at the expense of own funds of enterprises (depreciation deductions and net profit); funds of ministries and departments; loans from commercial banks; share issues, etc.

By direction of implementation capital investments are divided into capital investments in new construction, expansion, reconstruction, technical re-equipment and modernization. Investments in new construction - investment in the construction of newly created fixed assets, buildings, structures, structures. Investments in expansion - capital investment in the construction of additional productions on operating enterprise (building), expansion of existing facilities in order to create additional or new one capacities.

Investments in reconstruction - capital investment in the re-equipment of fixed assets, associated with changes in their parameters (number of premises, height, area, production capacity, volume) and the quality of engineering and technical support. Investments in technical re-equipment - investment in a set of measures to improve the technical and economic level of individual industries, shops, sites based on the introduction of advanced equipment and technology, mechanization and automation of production, replacement of obsolete and physically worn equipment with new, more productive.

Investments in modernization - capital investment caused by technological change or service equipment, buildings, structures or other fixed assets, increased loads and / or other new qualities.

According to with the requirements of economic analysis capital investments are differentiated for capital investment in replacement, modernization, expansion, diversification and strategic investment. Capital investments for replacement are

directed to the replacement of equipment that is physically and / or morally worn out. Capital investments modernization involves reducing production costs or improving the quality of products. Capital investments in the expansion of production are aimed at increasing the opportunities for the release of goods for previously formed markets, within existing industries, while expanding demand for products or the transition to the production of new products. Capital investments in diversification are associated with changes in product range, production of new products, organization of new markets. Strategic capital investments are aimed at implementing the achievements of scientific and technological progress, increasing the degree of product competitiveness, reducing economic risks.

In the economic literature, there are other classifications of capital investments, which usually reflect the details of their main types.

There are the following types of capital investment structures:

1) under the technological structure of capital investments means the composition of costs for the construction of any object by type of costs and their share in the total estimated cost, ie reflects the share of capital investments in their total value, directed to construction and installation work, the purchase of machinery, equipment and their installation, on design and research and other costs;

2) the reproducible structure of capital investments means their distribution and ratio in the total estimated cost by forms of reproduction of fixed assets, ie what is the share of capital investments in their total value, which is directed to equipment, tools, inventory and other capital works and costs;

3) the sectoral structure of capital investments means their distribution and ratio by type of economic activity;

4) the territorial structure of capital investments means their distribution and the ratio of the territory of a particular region and the country (world) as a whole.

Thus, capital investments are considered as investments in new construction, expansion, reconstruction, technical re-equipment and support of existing production. Thus, capital investment is a certain amount of public labor allocated for the reproduction of fixed assets of economic entities, and the types of capital investment

are different.

4. Current capital investment

In modern conditions of investment in working capital of economic entities is an important way to increase competitive advantage by reducing the cost of attracting and servicing investment resources and increase the efficiency of their use in business.

Working capital - is the advanced value in the elements of circulating production assets and circulation funds, is a condition for ensuring a continuous process of production and sales of products. Working capital is a part of working capital that is completely depreciated (consumed) during production, changes (loses) the original form, fully transfers its value to the cost of the finished product (goods, services). In material terms, working capital is an object of labor and some means of labor (the service life of which is less than 6 months or the value of which does not exceed the established standard). Working capital - working capital (working capital), which ensures the continuity of the production process. Circulation funds include: finished products (in stock, shipped, on the road), cash in bank accounts, cash.

Entrepreneurial activity is possible provided that the entrepreneur has a certain capital (which in modern conditions should be presented, usually in the form of money). To organize production, it is necessary to have savings (for example, in the form of cash or fixed assets). Through the investment mechanism, these assets are invested in production. But to start production you need to buy items of labor (materials, raw materials, etc.), as well as purchase labor. Working capital from monetary form passes into production. At the production stage, the above assets (resources) are converted into a finished product (products, services, works). Working capital from production forms to commodity. At the stage of sale is the sale

of the manufactured product, as a result of which the entrepreneur (enterprise) receives cash.

Thus, working capital during production is constantly changing its form. It takes the physical form of current assets, but only at the end of the operating cycle of the final product. Working capital is not spent or worn out, but invested (advanced). The value of working capital has the ability to grow.

There are three stages in working capital investment at the micro level:

1. Initial investment in the establishment of the enterprise.
2. Support of the current enterprise cycle.
3. Investing in the growth of working capital with the expansion of the volume and scale of economic activity.

In the process of determining the required amount of current assets of the enterprise can be implemented various investment strategies, among which the main are the so-called "strong" and "weak" strategies.

With a "strong" investment strategy, the company maintains the required volume of sales due to the minimum amount of current assets. In this case, there are some negative circumstances. The ideal option for maintaining a sufficient amount of inventories is their constant replenishment in the amount of daily production needs. The more often orders are made, the greater the cost of their preparation and execution. In this case, there are additional costs associated with the payment of salaries of employees of the supply department, the cost of computer processing of order information and so on. Also, the low level of current assets increases the risk of loss of liquidity and insolvency of the enterprise, as its production and marketing activities do not have sufficient financial security.

Such a policy of investing current assets can be used and bring significant benefits only in a stable market and in the presence of highly qualified working capital managers.

"Weak" investment strategy is characterized by a high level of working capital, which the company supports a certain amount of sales. The main results of the implementation of such a strategy are the availability of sufficient working

capital for stable production activities and reduced profitability of the production process due to inefficient use of resources. As a rule, financial managers resort to such a policy of investing current assets in case of unstable work of suppliers, rising prices for raw materials, as well as possible unpredictable changes in markets and settlements with other market participants. With a "weak" strategy, too high a level of working capital leads to its conservation in surplus inventories, and, consequently, to a decrease in profits. This incurs costs for the organization of storage, as well as costs associated with the loss of materials due to their damage, and so on. Therefore, inventories should be increased when the benefits outweigh the cost of maintaining additional inventories.

The choice of the appropriate strategy for investing current assets ultimately determines the relationship between the level of efficiency of capital use and the level of risk of financial stability and solvency of the enterprise. Taking into account these factors, an effective policy of current assets financing management is built.

Control questions

1. Define the concept of "financial funding".
2. Define the concept of "financial investment".
3. What instruments can be used for financial funding in terms of financial market segments?
4. Describe the structure of financial investment.
5. Give the classification of financial investment.
6. Define the concept of "direct investment".
7. Define the concept of "portfolio investment".
8. What are the characteristic features of strategic investment?
9. Define the concept of "thesauration investment".
10. What are the ways to invest venture capital?
11. What are the stages of development of innovative companies?

Tests

1. Financial assistance to the company to achieve financial stability under the conditions of overcoming the consequences of the previous administration mismanagement constitutes the:

a. " buyout by outside managers "
b. "building bridges"
c. "takeover"
d. "buyout by managers"

2. Financial investment is:

a. a separate independent area of investment activity, which consists in investing capital in a variety of instruments that are traded in the financial market

b. investing capital with the purpose of treasure accumulating

c. investing in various financial instruments, including the purchase of securities, opening deposit accounts, participating in the establishment of new businesses and their charter capital formation, and participating in joint activities

d. an active form of free capital use and one of the means of realization of the business entities strategic goals related to their activity diversification

3. Risk investing into the new companies shares of or those that operate in new business areas, accompanied by high risk is the:

a. portfolio investment
b. venture investment
c. thesauration investment
d. strategic investment

4. The characteristic features of the strategic investments do not include those which:

a. give the investor an opportunity to intervene in the company management or to control it

b. the investment recipient company has an opportunity to receive the necessary cash for business development or manufacture, but in fact loses management which passes to the strategic investor

c. constitute a significant part of global investment capital

d. are most beneficial to the both parties of the investment activity only if their goals coincide

5. Depending on the securities mission, financial investing is:

a. in debt securities
b. in derivatives
c. in capital securities
d. in equity securities

6. The characteristic features of portfolio investment include:

a. they constitute a significant part of global investment capital

b. the investment recipient company has an opportunity to receive the necessary cash for business development or manufacture, but in fact loses management which passes to the strategic investor

c. they give the investor an opportunity to intervene in the company management or to control it

d. they are most beneficial to the both parties of the investment activity only if their goals coincide

7. Investing in the purchase of gold, silver, other precious metals and precious stones, as well as in collectibles is:

a. portfolio investment
b. venture investment
c. thesauration investment
d. strategic investment

8. Is this statement true: the role of portfolio investment in the economy is to directly ensure expanded production and renewal of resources?

a. Yes
b. No

9. The reasons for investing in gold do not include:

a. low liquidity
b. asset diversification
c. reserve assets
d. independence

10. Providing funds by investor in exchange for a share in the joint-stock company future capital is:

a. " buyout by outside managers "
b. "building bridges"
c. "takeover"
d. "buyout by managers"

Topic 5. INNOVATIVE FORM OF INVESTMENT

1. **Economic the essence of innovation and innovation process**
2. **Features of venture investment**
3. **Intelligent investments and features investment in human capital**
4. **Modern organizational forms of innovation implementation**

1. Economic the essence of innovation and innovation process

Term "Innovation" comes from the English word innovation, which means "introduction of innovations" or "embodiment of scientific discovery". The term "innovation" as a new economic category was introduced into scientific circulation by the Austrian (later American) scientist Josef Alois Schumpeter (1883-1950) in the first decade of the XX century. In his work The Theory of Economic Development (1911), J. Schumpeter first considered the question of new combinations of changes in economic development (ie, the question of innovation) and gave a complete description of the innovation process. He identified five types of new combinations of change or innovation:

- production of a new product or a known product in a new capacity;
- introduction of a new method production;
- attraction of new sources of raw materials for the production process;
- development of a new market;
- implementation new organizational forms.

Article 1 of the Law of Ukraine "On Innovation", where innovation provides a universal definition: innovation - newly created (applied) and (or) improved competitive technologies, products or services, as well as organizational and technical solutions of production, administrative, commercial or other nature, that significantly improve the structure and quality of production and (or) social sphere.

Objects of innovation according to the Law "On Innovation" are:

- innovative programs and projects. (An innovative project is a set of documents that defines the procedure and set of all necessary measures (in so number

investment) of creation and implementation innovative product and (or) innovative products.);

- new knowledge and intellectual products;
- production equipment and processes;
- production infrastructure and entrepreneurship;
- organizational and technical decisions of production, administrative, commercial or other nature, that significantly improve the structure and quality of production and (or) the social sphere;
- raw materials, means of their extraction and processing;
- marketable products;
- mechanisms of consumer market formation and sales of marketable products. Subjects of innovative activitycan be natural and (or) legal entities of Ukraine, natural and (or) legal entities of foreign states, stateless persons, associations of these persons, which carry out innovative activities in Ukraine and (or) attract property and intellectual values, invest own or borrowed funds for the implementation of innovative in Ukraine projects (Article 5 of the Law of Ukraine "On Innovation").

The subjects of innovation can be divided into the following groups:

- state (in person of public authorities);
- innovative enterprises - enterprise (association of enterprises) of any form of ownership, if more than 70 percent of the volume of its products (in monetary terms) for the reporting tax period are innovative products and (or) innovative products (Article 16 of the Law of Ukraine "On innovation).
- financial and creditestablish.

Innovativeprocess is a process of obtaining and commercializing inventions, new technologies, types of products or services, decisions of production, financial nature and other results of intellectual activity.

Simplified model of the innovation process can be presented as several successive stages: science - technology - production.

Science

At this stage, develop the theoretical foundations of a particular problem.

Covers stages of basic and applied research.

Basic research. Directed to study the theoretical foundations of processes or phenomena. The impetus for their implementation is the emergence of a hypothesis that needs confirmation. Discoveries can be the result of basic research.

Discovery - scientific result that makes radical changes to existing knowledge, reveals hitherto unknown patterns, properties and phenomena of the material world, significantly affects the STP and the development of civilization, serves as a source of inventions.

World experience shows that basic research gives a positive result in only 10% of cases; the practical application of this amount will be even less. G. Ford pointed out: “Ideas in themselves are valuable, but every idea is just an idea. The task is to implement it in practice. "

If the research is purposeful, exploratory in the process of which ideas are used on the materiality of existing theoretical knowledge, then there will be more positive results. These studies culminate in the justification and experimental evaluation of new methods of meeting societal needs. Their result is inventions.

Invention - the result of research and development (R&D), which reflects a fundamentally new mechanism that can be the basis for the emergence of a significant part of innovation and innovation processes and significantly affect the development of STP.

Fundamental discoveries and inventions are characterized, as a rule, by a long period of time from the formulation of the hypothesis to the practical application of the invention.

Basic research is carried out in specialized scientific institutions and is funded by the state and corporations. As for Ukraine, it has almost lost its accumulated scientific potential over the last decade, funding for basic research is insufficient and therefore they do not give tangible results.

Applied research. Determine the direction of applied application of knowledge gained in the process of basic research. their result is new technologies, new materials, new systems. These studies also require significant investment, are risky

and are usually performed on a competitive basis by industry research institutes or universities commissioned by the state or at the expense of large industrial companies, joint stock companies, innovation funds, etc.

Machinery

At this stage, the theoretical constructions of phenomena and processes are embodied in the material shell. Covers the stages of research and development and design work, which are aimed at developing, designing, manufacturing and testing prototypes of new equipment, technology or new product. Determine the technical characteristics of new products, develop engineering and technical documentation for it, create prototypes, start experimental production. These works can be carried out by the organizations themselves, provided that there are appropriate laboratories, design bureaus (KB), experimental production.

Production (commercialization of innovation)

This is the stage of introduction into production of a new product, development of a marketing program and promotion of a novelty on the market. Investments at this stage are also risky, but they are fully assumed by the entity, accumulating funds in special funds and using loan capital (bank loans).

This stage covers several stages:

market research: study the market to the perception of innovation; if the new product is not yet known to the market, assess the possibility of forming new consumer needs that it can meet; determine the form of promotion of the novelty on the market, the possibility of its modification for its individual segments;

designing: form a novelty design in compliance with aesthetic, ergonomic, functional requirements and taking into account the preferences of consumers of the selected market segment (modernity, comfort, sophistication, compactness, price characteristics, etc.); develop marketing measures to promote the product on the market;

markets planning: determine the volumes demand for a new product, its range, possible markets; estimate the cost of manufacturing and forecasting future sales revenue;

experimental production: adjustand work out the technological process; make an estimate of costs;

market test: carry out advertising campaign before the product appears on the market; determine the forecast price; produce a trial batch of goods, assess the demand for it; if necessary, make changes in marketing tactics or product design;

commercial production: form portfolio orders for the manufacture parties goods; conclude agreements with suppliers; develop logistics schemes;

choose channels sales;

design and create a production management system;

manufacture and sell products in the planned volumes;

work out the quality management system;

improve pricing policy and sales promotion methods.

The stage of commercialization of innovation is the final in the innovation process. However new product not always remains owned by an enterprise that created it. Rightother companies can obtain a new product by purchasing the appropriate license.

There is a diffusion of innovation - the process of its spread for use in new places, areas or conditions.

Investing in innovations is the least risky, so many companies are involved in the innovation process at this stage. The most typical in terms of diffusion are technological innovations, as they are characterized by the greatest invariance.

Invariance (Latin Invfriantis - unchanged) innovations to keep the qualitative and quantitative characteristics unchanged, despite the transformation and changes in the external environment, which allows you to use the product for a long time and in different areas.

An example of the invariance of the basic innovation is the artificial nylon fiber, invented by Dupon. At first it was used only for the manufacture of parachutes, then in knitwear (stockings) and light industry (nylon shirts, raincoats, jackets with filler, etc.); hence it was used in the automotive industry as a cord for car tires.

Unlike STP, the innovation process does not end with the so-called introduction, ie the first appearance on the market of a new product, service or bringing to design capacity of a new technology. This process is not interrupted even after implementation, because as the spread (diffusion) of the innovation improves, becomes more efficient, acquires previously unknown consumer properties. This opens up new application horizons and markets for it, and therefore new consumers.

2. Features of venture investment

There are companies which create radical innovations, seeing in this a way to make a profit by bringing to market a product that is missing on it. For the propensity to risk, they were called venture.

Venture business is represented by independent small firms specializing in research, development, production of new products. They are created by scientists, engineers, innovators. This business is spread in the USA, Western Europe, Japan.

Venture (venture - risk) firms - mostly small businesses in technologically advanced sectors of the economy, specializing in research, development, creation and implementation of innovations associated with increased risk.

Feature such firms is focused on solving scientific problems and specific production tasks: and a clearly defined end result. They are most common in knowledge-intensive industries that specialize in research and development, ie commercial testing of scientific and technological innovations.

Venture development business as an independent form of entrepreneurship dates back to the 40's of XX century., and the variety of its forms was manifested in the 60-80's in the United States. This was due to the urgent need to restructure the US economy during the crisis of the mid-1970s. Venture has emerged in new knowledge-intensive industries, primarily electronics as a technology industry in the missile business. In particular, with the help of venture capital, the American company "Apple" was created, which is now one of the leaders in the computer industry.

Venture business is developing in various forms, the most common of which are:

Independent venture firms. Are organized as joint-stock companies, advertising in the press their idea of creating an innovation, accumulating under this idea the funds of private and institutional investors.

Implementing firms. Created by one or several corporations on a share basis. Named "external venture". They can be presented in several modifications, organized as research consortia (Latin consortium - complicity, community):

Consortium,created to conduct basic long-term research. It has its own research base (laboratories, research facilities, information and computing centers, other elements of research infrastructure). Its founders may be large military-industrial concerns. It can be partially subsidized by the state.

Consortium, the purpose of which is to intensify the scientific activity of research institutes, universities on their production base using the available research and production potential. It receives donor funding from corporations to develop and test ideas and is cross-sectoral in nature.

Consortium, created by corporations on a share basis in order to develop industry standards, specifications and control their application. It can be created under the auspices of a large holding company, is temporary and often disintegrates due to intra-industry competition. "External ventures", usually small (from three to several hundred people), can be organized on the initiative of scientists and inventors themselves as subsidiaries with their own research and production cycle of new products.

Venture firms financed by investment funds (companies, trusts). They can also use funds large corporations, banks, pension and charitable funds, insurance companies, personal savings of investors, partly government subsidies.

The demand for venture capital of these firms is very high and is not met by commercial banks, which refrain from excessive risk. This led to the emergence of specialized venture capital funds and companies. their purpose is the accumulation of venture capital and venture financing and lending to specialized risk firms (ventures).

Domestic venture. It preceded the above organizational forms of venture entrepreneurship. In the 60s of XX century in the United States, large concerns and corporations began to create in their structures autonomous research and design teams or departments, which were designed to search, substantiate the ideas of prototypes and establish the production of new products, the introduction of advanced technological processes. Such departments (groups) were often formed as temporary creative teams and disbanded immediately after solving the tasks set before them, or existed for a long time by research and development bureaus, research and production associations. Domestic ventures were financed through the company's core business, with large companies creating up to several dozen such temporary venture groups. In some corporations, domestic ventures still exist today. If successful, the domestic venture becomes one of the company's production units, and its products are sold through the corporation's sales channels. According to many Western scholars, this form of venture entrepreneurship has exhausted itself. Its disadvantages include the matrix system of organization of research management, ie the double dependence of the venture under the leadership of the company and the leadership of the department (project); lack of competition as an incentive to intensify work; limited funds to finance venture projects during the downturn in the corporation. Without providing certain conditions, employees with promising ideas will look for other ways to implement their projects. and its products are sold through the corporation's sales channels.

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A venture firm of any of the above types is usually created by a small circle of like-minded people - engineers, inventors, managers - with some experience in the laboratories of large firms. According to the form of responsibility and organizational and legal status, venture firms can be joint-stock companies, companies and private enterprises.

To create a venture company you need:

commercial idea (new product, technology or service);

social need in a specific innovation;

entrepreneur, which finished on basis innovation to create venture firm;

"Risk" capital to finance the activities of a venture firm.

The establishment and operation of a venture firm is carried out in several stages:

Engineers-inventors, developers, scientists together with a venture entrepreneur establish a company to produce a new product. Capital at this stage is formed mainly through own funds and loans. Therefore, the owner of venture capital allocates a certain amount for the project. The design development of the idea of creating one or two products is carried out. The founders of the venture firm are also its leading employees.

The founders determine their economic strategy, study the market, create a board of directors. Begin production and sale of a new product to specific customers. The obtained samples are sold to the first consumers or further tested. At this stage, the firm must gain the trust of consumers in order to obtain new orders.

Expansion of production, industrial production for a wide range of consumers. The firm forms a new organizational structure. At this stage, there is mostly no profit.

Development of additional investments in order to expand production, improve product quality, expand the market and more. The strategy in the field of production and sales is determined by market conditions.

In the case of unprofitable production, a small firm becomes a closed or open corporation, ie has the ability to issue and sell its own shares in the securities market or large corporations.

The practice of developed countries shows that 20% of venture firms become open corporations, 60% - are absorbed by large corporations, and another 20% - go bankrupt.

The problem of income on venture capital is closely related to the nature of the product of innovative venture firms and property relations between venture capital entities. In the venture capital market, added value is realized: venture capitalists receive income from the realization of their monopoly on knowledge.

The creation and commercialization of knowledge is a risky business, due to:

significant term creation of scientific knowledge;

impossibility solution problems appropriation knowledge of economic and legally;

unpreparedness society to practical application of the new knowledge;

unformed market of new knowledge.

The risk fee that a venture investor expects is in fact the rent associated with the venture investor's monopoly on the product of venture innovation firms, ie knowledge.

The activity of venture firms is characterized by certain features:

The company is formed at the expense of individual and institutional investors, and is managed by a venture capital company appointed by investors - highly qualified specialists in the field of innovation and financial management.

The firm invests the accumulated funds in venture capital in carefully selected innovative projects by acquiring a block of shares of innovative enterprises that are not yet listed on the stock exchange. Venture capital financing on a non-debt basis creates the most favorable conditions for the implementation of innovative ideas, giving entrepreneurs the necessary time to develop and enabling them to avoid financial responsibility.

Venture capitalists are active investors, ie they do not leave the company after providing it with financial resources, but take an active part in its management, providing useful business advice and the necessary links with financial and business structures. This makes it possible to constantly monitor market conditions, significantly reducing the risk of loss of income.

Venture capitalists leave the company they have invested through the sale of their shareholding when they reach a value that would indicate the transformation of a start-up company into a company capable of developing independently. That is, the income of a venture firm is the difference between the initial share price of the entrepreneur and its value at the final stage of investment.

This provides personal motivation for the venture investor in the quality growth of the companies he supports.

According to economists, in 15% of cases the capital invested in the project is completely lost; 25% of risky firms incur losses for a longer period of time than expected; 30% - give a small profit; 30% - for several years repeatedly cover the profits of all invested funds.

Depending on the investment prospects, there are three types of venture capital:

low potentialenterprises for venture capital, whose profits for 5 years are $ 50 million. Such enterprises are not very attractive for venture investors, but their number on the market reaches 90% of all innovative enterprises;

middle market ventures, whose profits range from 10 to 50 million dollars annually. They need the participation of venture capital;

high potentialenterprises, which have more than $ 50 million in annual profits over 5 years. They are the most attractive for venture investors. As a rule, they have a corporate form of ownership and make up 1% of the total number of innovative enterprises.

The first venture capital fund in our country was the fund "Ukraine", created in 1992, he invested in more than 30 domestic companies totaling up to $ 10 million. USA. The Western NIS Enterprise Fund (with a capital of USD 150 million) was launched in 1994, and the Black Sea Fund (part of the Global Finance Assets Management Company) with a total capital of approximately USD 60 million in 1998. $ USA. In the same year, Evroventures Ukraine was established (with a capital of USD 30 million). A large share of funding from these funds (with the exception of the Western NIS Enterprise Fund) is provided by the European Bank for Reconstruction and Development.

One One of the most active venture funds operating in Ukraine is the Western NIS Enterprise Fund. Among the companies that have successfully used the Fund's assistance, the well-known confectionery factory "AVK" (after the Fund's investment in 1999 for the purchase of new production equipment sales in 1997 - 2001 increased 2.7 times, and revenues increased by 66%); company for the production of facade bricks "Slobozhanska building ceramics" (sales volumes in 1998-2001 they increased 5.3 times, and revenues from sales - almost 9 times); company for the production of ice cream "Rose-Express" (the growth of these indicators of the company was, respectively - 2.4 times and 33%). According to the State Commission on Securities and Stock Market, the Fund owns, for example, packages of the following Ukrainian

companies: Sokol - 46.1%, AVK - 25.1, Lan-Invest - 58.26, “ Cook "- 87.1," Dawn "- 28," SBK "- 90.5%.

Despite the presence in Ukraine of some favorable conditions for development venture business - a large number of scientists, research schools, educational institutions, laboratories, libraries - in this case there are many more problems, primarily due to:

- economic instability, lack of funds, the threat of inflation;
- lack of a clear state policy to promote the questioning of venture business;
- lack of economic interest of most economic entities in the implementation of fundamentally new developments, innovations of high technical and economic level;
- underdeveloped securities market;
- insufficiently thought-out tax policy in the field of stimulating the activity of innovative enterprises;
- limited legal framework governing small business;
- high interest rates on the loan;
- lack of venture financing infrastructure;
- lack of competition in the domestic market of scientific and technical products;
- low scientific qualification of businessmen.

Market participantsinnovation activities play a significant role in accelerating the economic growth of the country, taking the first step towards the implementation of innovations, taking the main risk of their implementation. The task of the state is to support them in this endeavor, creating, in particular, various organizational structures to support innovative entrepreneurship.

3. Intelligent investments and features investment in human capital

One of the components of the investment market is the market of intellectual goods and services. The object of this market is a special product - the intellectual property of an individual or team. Hence - two forms of intellectual property:

individual and collective. In addition, intellectual property can be divided into several types:

exclusive property - patented or copyrighted;

informational property - in the form of acquired knowledge, ideas, experience, skills, qualifications. It has no legal protection and is implemented in the form of information services on a contractual basis through study, education or publication;

licensed ownership - in the form of property or use rights acquired by the investor, which are fixed by licenses.

It is possible to single out another type of intellectual property that cannot be patented, as its authors may be several individuals or groups. Such property has the ability to quickly transform from exclusive to public property. An example of this are some ideas and proposals that are implemented in laws and regulations, while losing authorship. In order to protect the rights to such property, the authors use the services of special registration firms that fix the priority. Another way to protect such property is to first publish it.

Intellectual investments are made in the form of:

acquisition of exclusive rights of use - purchase of patents, licenses for inventions, industrial designs, trademarks;

purchase of information services through the hiring of various specialists - scientists and practitioners under contract or in the form of a one-time purchase of information services (consulting, expertise, recommendations, etc.);

purchase of scientific and technical products, ie intellectual goods in material form (design and estimate documentation, programs, methods, know-how);

investment in human capital, ie the cost of education, training and retraining, training, etc.

Objects of intellectual investment are classified by types of intellectual property:

objects copyright (literary work,, music,, composition fine arts,, a work of decorative and applied art,, composition architecture,, work of cartography,, photographic work,, composed work,, Database,, computer program,, audio-visual work,, stage work,, composition in the field science,, composition in translation,, composition

in processing). Validity of the certificatethe copyright is valid throughout the life of the author and 70 years after his death;

objects adjacent right (performance of the work,, phonogram,, videogram,, transfer broadcasting organization). The validity of the certificate of related right is valid for 50 years;

objects industrial property

The results of inventive and innovation work:

Invention - technical solution that is new, useful in economic activity and can be practically applied. The invention may be a device, method, substance, application of devices for a new previously unknown purpose,strains of microorganisms, plant cell culture and animals. The term of a patent for an invention is valid for 20 years, without the possibility of renewal. At the same time, it is necessary to pay a state duty annually - in such a way as to extend the validity of the patent. The only exception may be the term of the patent, where the object of the invention is a drug, an animal protection agent, a plant protection agent. In this case, the validity of a patent for an invention in Ukraine may be extended for another 5 years.

Useful model - a new technical solution that does not follow from the existing state of the art and is industrially applicable. In fact, useful models are in sightinventions in intellectual property law, but unlike the latter, they have a shorter term of protection (10 years in Ukraine, 6 to 10 years in other countries) and less stringent conditions patentability. The utility model is considered patentable,if it is new and suitable for industrial use. At the same time, it is necessary to annually extend the validity of a utility model patent by paying a state fee.

Industrial sample - the result of human creativity in the field of artistic design. In Ukraine, industrial designs that meet such a feature asnovelty, may receive legal protection in the form patent on an industrial design. The term of a patent for an industrial design is 10 years and may be renewed for 5 years. The term of an industrial design patent can be applied once. As well as for the previous objects, the corresponding annual state fee is paid for maintenance of action of the patent.

Innovative offer - recognized legal entitya proposal that contains a technological (technical) or organizational solution in any area of its activities. The object of the innovation proposal may be a material object orprocess. Innovation is the most common type of technicalcreativity, which in its own way novelty and the technical level is lower than invention. As a general rule, three necessary requirements are set for an innovation proposal:

it must relate to the profile of the enterprise to which the proposal is submitted;

must be new;

must be useful to the enterprise to which it is submitted.

Topography integrated circuit - microelectronic product of final or intermediate shape, designed to perform the functions of an electronic circuit, the elements and connections of which are inseparably formed in the volume or on the surface of the material that forms the basis of such a product, regardless of its method of manufacture. TIMS is a comprehensive description of the structure, functions and relationships of the components of electronic architecture chips.

Means individualization of goods and participants in economic circulation:

Domain name Is a unique alphanumeric name that identifies a specific Internet site. Domain names usually consist of two or more parts separated by dots. The left side of the domain name corresponds to the end node of the network (identifies the end node of the network). The right part is more general (defines the country, region, region, etc.).

Each domain the name corresponds to one or more IP addresses, and several domain names can correspond to one IP address. If one domain name has more than one IP address, it means that there are several servers at this address, which share the flow of messages; if multiple domain names are assigned to the same IP address, it may mean that the server owner has registered multiple domain names or that multiple clients share the same server.

The domain name can look like this: cki.ipri.kiev.ua. As a rule, the domain name (its left part) coincides with the name of the organization, company ortrademark.

Sign for goods and services - designation, sign for which goods and the services of some persons differ from the goods and services of others. Such symbols can be words, numbers, pictorial elements, color combinations. IN Civil Code of Ukraine regarding the mark for goods and services the term "trademark». In essence, the term "mark for goodsand services "and" trademark "mean the same thing and can therefore be used interchangeably. The validity of the trademark certificate is 10 years. After 10 years, the validity of the trademark certificate for payment of the relevant state duty may be extended again for 10 years. In this way, the validity of the trademark certificate can be extended many times. This term of validity of the trademark certificate depends only on the interest of the Owner in how long he needs to retain the monopoly rights of ownership of this designation.

Commercial name - means of individualization that allows you to distinguish one person between others. "Svitoch", "Slavutych" or "Obolon" all of them are commercial names of enterprises that produce certain products or provide services. Relationship between trade names and trademarks. A trade name can be registered as a verbal one sign for goods and servicesor as an element of a graphic or three-dimensional sign. However, not every mark for goods and services is a commercial name. The company can register an unlimited number of trademarks, but its commercial name will remain the same.

In Ukraine, intellectual property objects are registered with the State Committee of Ukraine for Intellectual Property (State Patent of Ukraine).

Objects of intellectual property can also be scientific theories, mathematical methods, plans, rules, programs for computer technology, works of art and more.

Patent - a document certifying the authorship of the invention and the exclusive right to use it for a certain period. The patent is issued by the state patent office to the inventor or his successor. A patent applies only to the territory of the state in which it is issued.

A patent can be issued in the name of the author or another physical or legal entity.

Patent gives the right holder the exclusive right to prohibit other persons from using the patented decision.

Patentability- a set of features of the technical solution, which are characterized by novelty and are necessary and sufficient for recognition of its invention.

Criteria for patentability:

Inventive step;

Novelty;

Possibility of industrial use.

Depending on type of intellectual property is sold differently in the market of intellectual goods and services. In most cases, intellectual goods and services become the object of investment, but they can also be sold in the consumer market. The investor acquires intellectual goods and services for use in investment (business) activities in order to further generate income. Therefore, investments in intellectual property may be called intellectual investments.

4. Modern organizational forms of innovation implementation

Market transformations in science primarily concern the search for sources of funding, as budget funds are more or less provided only by academic science. Therefore, all changes in organizational structures are almost not related to academic science; it is most remote from the business sphere. Difficulties with budget financing and material interest in contractual receipts of funds lead to the fact that academic institutions, as a result of the search for solvent customers, distinguish between budgetary and contractual topics. However, this does not significantly affect the organizational forms of academic science.

Organizational development mainly concerns the field of applied (branch) science, and accordingly - university science. Moreover, in science there are two main trends in the development of organizational structures: integration and disintegration.

Technoparks and technopolises are effective organizational forms of cooperation of industrial firms with higher educational establishments. Experts attribute their development to significant achievements and technological explosions in recent years.

Technopark is a territorially separate complex based on a leading university, which includes research institutions, industrial enterprises, information, service and exhibition complexes.

Technoparks are created for the purpose commercialization of scientific and technical activities, faster promotion of research in the material sphere. In addition, in a crisis situation in higher education in Ukraine, the creation of technology parks will provide scientists with creative work that is highly paid.

Technoparks solve the following tasks:

-acceleration processes of transfer of scientific and technical knowledge obtained during basic and applied scientific research into production;

-development of innovative entrepreneurship;

-attracting industrial and banking financial resources to the innovation sphere.

A sample of scientific and technological The park is Silicon Valley, based at Stanford University in California. It unites up to 3 thousand small and medium-sized companies working in the field of electronics, with a total of 190 - 200 thousand employees. In the mid-80's of XX century. Silicon Valley firms have released a third of the world's production of microprocessors based on silicon crystals. Currently, a technopolis has been created on the basis of this park.

The most famous from domestic science and technology parks - "Semiconductor technologies and materials, optical electronics and sensor technology", Institute of Electric Welding. E.O. Paton, Institute of Single Crystals, Vuglemash.

There are three main ways to create technology parks:

Creation of small enterprises within the university by its employees seeking to commercialize the results of their own research.

Creation of own specialized small firms by scientific and technical personnel of large industrial associations, who left the firm to start their own business.

Creation of a park as a result of reorganization of existing enterprises that want to take advantage of the preferential conditions that exist for science and technology parks under current legislation.

The most modern forms of integration of science and production are technopolises, which create conditions for technological impetus, the result of which is the emergence of a significant number of innovations that will be quickly mastered by production and ensure strong economic development of the region and the country as a whole.

Technopolises - association of science, innovation, science and technology parks and business incubators in a certain area in order to provide a powerful impetus to the economic development of the region.

Were initiated and became widespread in Japan two decades ago. In 1982, the Japanese government published strict requirements for applicants (prefectures), compliance with which allowed them to create a technopolis ("city of technology"). Each technopolis had to consist of three main components: large enterprises at least 2 - Of the advanced industries (production of optical fibers, integrated circuits, medical equipment, information systems, etc.); a powerful group of public or private universities, research institutes; residential area with modern buildings, a developed network of roads, sports, cultural, shopping centers. In addition, the technopolis must be located near a city with a population of at least 200 thousand inhabitants and with a large airport or railway junction, so that in one day you can go to Tokyo and back.

The main tasks of technopolises are modernization of traditional industries for the region and bringing them to the modern level, the choice of scientific directions determining for the given technopolis which can provide advanced development of a production infrastructure. However, the most important thing is to create the most favorable conditions for employees, professionals and residents of the area on the industrial base of which is formed technopolis, that is orientation technopolis on zmeeting the needs of people, improving their living standards and economic prosperity of the region.

The functioning of technopolises, technoparks, etc. creates a favorable environment for creative work and rapid implementation of scientific results in production, reduces the cycle "science - technology - production", thereby accelerating the economic development of regions and society as a whole.

In order to support the development of business structures at the stage of their formation in many countries create business incubators.

Business incubator - organizational structure, the purpose of which is to create favorable conditions for the initial development of small enterprises through the provision of a certain set of services and resources.

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attracting industrial and banking financial resources to the innovation sphere.

The services of business incubators include:

rent of areas (office, production, laboratory, conference halls);

technical and administrative maintenance (mail, Internet, telephone, fax, photocopier, office secretary, etc.);

consulting (on business planning, legal, tax and other issues);

economic(services of an accountant, financier, economist, marketer, manager);

investment (search investors, attracting loans, start-up financing of newly established companies, creation of credit unions);

scientific and technical (introduction of new technologies, know-how, new products);

training (trainings, retraining courses, training in the program of general management and other economic disciplines necessary for doing business);

presentation (exhibitions, competitions, conferences);

informational (creation databases, transfer of new information technologies that can be used in business, Internet centers and networks);

publishing (publication of booklets, brochures, leaflets, the latest methodological developments, etc.);

employment (search work, inclusion in the database of professions and vacancies, preparation of resumes, preparation for an interview with employers, etc.).

Business incubator partners are:

local authorities, which can facilitate its organization, give it the status of a business incubator, provide the necessary support if bureaucratic obstacles arise;

association of entrepreneurs of the region (unions, guilds, associations, foundations), having authority in business circles, influence the formation of economic policy, determine the priorities and prospects for development of the region;

banks and other credit institutions that can be a source of investment for start-ups through a business incubator;

scientific institutions and higher educational institutionsthat can help attract new staff of entrepreneurs, highly qualified specialists - managers, financiers, economists, engineers, developers of know-how, technical and technological innovations, as well as basic institutions for training and retraining (training) of employees, to establish business contacts, exchange of experience, knowledge, finding market niches, etc.

When creating a business incubator, it is important to carefully select the participants of the business incubator. Selection criteria can be:

innovative nature of the activities of the created firms;

the need for advice on general management;

availability of the necessary development potential of the firm in the region;

availability of necessary resources in the business incubator for realization of the purpose defined by the participant (the area for rent, equipment);

mutual interest in services from the infrastructure of the business incubator and individual business structures;

mutual complementarity and the possibility of a synergy effect.

In addition to newly created. The business incubator may include for a limited period and firms that operate successfully, if they meet at least one of the following requirements:

firm stable works, profitable and may to provide receipt of funds to the business incubator for the services provided to her;

the firm has experience that may be useful to other members of the business incubator;

firm produces cargo (provides services), what can be directly used by participants of this business incubator.

Business incubators as institutions for "growing" small businesses appeared in the late 50's of XX century. in the United States. The first was a project by a sociologist that America once laughed at. The idea didn't seem very serious: a sociologist rented an old station that nobody needed for nothing, divided it into small rooms, hired a qualified lawyer and economist, and rented out offices for small business start-ups very cheaply. The results exceeded expectations. While under normal conditions only 12 out of 100 start-ups were reduced to their feet, in this business incubator almost 30% of them successfully switched from small to medium-sized businesses, and a significant number successfully took over a certain market niche.

The success of the first The business incubator attracted the attention of government agencies, and local governments in many US states began to support such initiatives. The business incubator was perceived as a school for businessmen, a kind of starting point for business development in the region. The provision of permanent employment of its inhabitants depended on the number of small enterprises in the region. This also affected the amount of taxes in local budgets.

Among the well-known American companies that own special incubators for the cultivation of small venture subsidiaries are

General Electric and IBM. Their activities are designed so that the parent company finances a significant share of costs associated with the formation of an innovative firm (up to 80%), which allows it to fully buy a small venture firm and organize on its basis its research, design or production units.

Ukraine has also set up business incubators at some higher education institutions and in the regions (with the support of foreign government programs). Thus, at the initiative of the city state administration, the Kyiv Innovation Business Incubator (KIBIN) was established in the capital to support innovation activities.

Control questions

1. Define the concept of "innovation".
2. What are the objects of innovation activity?
3. Define the concept of "discovery".

4. Define the concept of "invention".
5. Define the concept of "invariance of innovation"
6. In what forms does a venture company evolve?
7. Give a classification of the objects of intellectual investment.
8. Define the concept of "patent".
9. What are the criteria of patentability?
10. What are the ways of the technopark establishment?
11. Define the concept of "business incubator".

Tests

1. Innovations are:

a. the scientific result that makes radical changes in existing knowledge, reveals hitherto unknown patterns, properties and phenomena of the material world, as well as significantly affects the scientific and technological progress and the development of civilization, and serves as a source of inventions

b. newly created or improved competitive technologies, products or services, as well as organizational and technical solutions of industrial, administrative, commercial or other nature

c. the result of research and development activity, which reflects a fundamentally new mechanism that can serve as the emergence basis of a significant part of innovation processes and innovations and significantly affect the development of the scientific and technological progress

d. the novelties that keep the quality and quantity characteristics unchanged, despite the transformations and changes in the external environment, which allow for the use of the product for a long time span and in different areas

2. To the objects of innovation activity belon:

a. the state
b. innovation businesses
c. innovative programs and projects
d. finance and credit institutions

3. The invention is:

a. the result of research and development activity, which reflects a fundamentally new mechanism that can serve as the emergence basis of a significant part of innovation processes and innovations and significantly affect the development of the scientific and technological progress

b. the novelties that keep the quality and quantity characteristics unchanged, despite the transformations and changes in the external environment, which allow for the use of the product for a long time span and in different areas

c. newly created or improved competitive technologies, products or services, as well as organizational and technical solutions of industrial, administrative, commercial or other nature

d. the scientific result that makes radical changes in existing knowledge, reveals hitherto unknown patterns, properties and phenomena of the material world, as well as significantly affects the scientific and technological progress and the development of civilization, and serves as a source of inventions

4. The discovery is:

a. the scientific result that makes radical changes in existing knowledge, reveals hitherto unknown patterns, properties and phenomena of the material world, as well as significantly affects

the scientific and technological progress and the development of civilization, and serves as a source of inventions

b. the result of development activity, which reflects a fundamentally new mechanism that can serve as the emergence basis of a significant part of innovation processes and innovations and significantly affect the development of the scientific and technological progress

c. newly created or improved competitive technologies, products or services, as well as organizational and technical solutions of industrial, administrative, commercial or other nature

d. the novelties that keep the quality and quantity characteristics unchanged, despite the transformations and changes in the external environment, which allow for the use of the product for a long time span and in different areas

5. The commercialization stage of innovation does not include:

a. market testing
b. designing
c. applied researches
d. commercial testing

6. Invariance is:

a. the result of development activity, which reflects a fundamentally new mechanism that can serve as the emergence basis of a significant part of innovation processes and innovations and significantly affect the development of the scientific and technological progress

b. the novelties that keep the quality and quantity characteristics unchanged, despite the transformations and changes in the external environment, which allow for the use of the product for a long time span and in different areas

c. newly created or improved competitive technologies, products or services, as well as organizational and technical solutions of industrial, administrative, commercial or other nature

d. the scientific result that makes radical changes in existing knowledge, reveals hitherto unknown patterns, properties and phenomena of the material world, as well as significantly affects the scientific and technological progress and the development of civilization, and serves as a source of inventions

7. How many stages of the venture company establishment and operation are there:

a. six
b. five
c. four
d. seven

8. The result of a human creativity in the field of artistic design is:

a. an invention
b. a utility model
c. an industrial design
d. an innovation proposal

9. A geografically singled out complex, based on a leading university, which includes research institutions, industrial companies, information, service and exhibition centers constitutes:

a. a technopolis
b. a technopark
c. an incubator bank

10. One of the main tasks of technopolis is:

a. the acceleration of the transfer into production the science and technology knowledge obtained during the fundamental and applied researches

b. the development of innovative companies

c. the modernization of the region traditional industries and taking them to the modern level

d. the engagement of industrial and banking finance resources into the innovation sphere

TOPIC 6. INVESTMENT PROJECT

1. **The essence of the investment project**
2. **The project life cycle**
3. **Classification of investment projects**
4. **Methods for evaluating effectiveness of investment projects**
5. **Environment and participants in the investment project**

1. The essence of the investment project

According to scientists I.I. Mazur, V.D. Shapiro and N.G. Olderogge, the difference between a project and a production system is that a project is a single, non-cyclical activity. That is, the project as a system of activities exists for exactly as long as it takes to get the end result. Please note that this nuance should be taken into consideration while determining the time-frame of the investment project, its payback period and efficiency.

V.P. Popov, V.P. Semenov define an investment project as a set of interrelated activities to invest capital within a limited period of time in order to generate income in the future. The authors further on add that the system of interconnected investment projects, which have common goals, common sources of funding and governing bodies, is called an investment program.

V.G. Fedorenko interprets the investment project as a written document, which sets out the purpose, methods of implementation, description of the object of investment and the financial feasibility of the investment.

While characterizing the investment project, V.P. Popov notes that it is a time-limited purposeful change of a separate system with defined requirements as to the quality of outcomes, the framework for the possible use of funds and resources and a specific organization of development and implementation.

In order to better grasp the multifunctionality of the concept of "investment project", many economists consider the concept of "a project" in two aspects:

1) as a specially prepared documentation with the most complete description and justification of all the features of future investment, i.e. it is a documented investment plan;

2) as specific activities of the investor to realize its investment intentions, bearing in mind the set of actions taken by the investor to implement its capital increase plan.

According to the project management methodology, in a broad sense a project is a set of purposeful, consistently time-oriented, one-time, complex and irregularly repeated actions (activities or works), focused on achieving the final result in terms of limited resources and deadlines for their start and finish.

Considering the most important features and limitations of the project activity, the investment project is a set of interrelated actions designed to achieve the goals within a limited period of time and with limited financial and other resources.

Therefore the project is a set of actions and tasks, which due to their uniqueness and exclusiveness has the following distinguishing marks:

- clear goals to be achieved while meeting certain technical, economic and other requirements;
- internal and external relationships of tasks, works, operations and resources that require clear coordination and control in the project implementation process;
- defined start and finish dates of the project;
- limited resources of various kinds;
- a certain degree of uniqueness of the project implementation, its purpose and conditions of its achievement.

To clarify the features of project management, it is advisable to divide it into hierarchical subsystems and components, i.e. to structure. The structure of the project is the organization of connections and relations between its elements. The structure determines what must be developed or done; it connects the works with each other and with the ultimate goal of the project. In the process of structuring, they

distinguish the components of the project products, stages of its life cycle and elements of the organizational structure.

Structuring is an integral part of the overall process of the project planning, defining its goals, division of responsibilities and obligations.

- division of the project into blocks to be managed;
- distribution of responsibilities by elements of the project and determining the relationship of work with the structure of the organization (resources);
- accurate assessment of necessary costs (funds, time and material resources);
- creation of a single base for planning, budgeting and cost control;
- establishing a link between the work related to the project and the accounting system;
- transition from general, not always specifically stated goals to specific ones performed by the organization's units;
- outlining of work range (contracts).

The division of the project into components aims at the ability to combine three different structures - process, product and organization into a single project structure.

2. The project life cycle

Let's focus on a detailed consideration of the concept of "project life cycle" or "project cycle". After all, this is the initial concept for studying the problems of financing the project and making appropriate decisions.

Note that the statuses through which the project passes are called phases (steps, stages). According to theory and practice, there is no universal approach to the division of the project organization process. The main stages are common to all more

or less full-fledged projects; they logically follow from the current mechanism of the country's economy.

In general, the project life cycle is divided into three main (logical) phases: pre-investment, implementation and operation, each of which has a specific purpose and time limits.

Regardless of the cost and scope of work, each project is managed throughout the project life cycle - the time from conception to the end of its operation. Most commonly the life cycle of an investment project is determined by the cash flow: from generating initial cash flow to the end of the last one. Any investment project has five stages.

First stage: pre-project studies, design and development of investments (the project birth). The stage is characterized by high costs of own funds as well as probably attracted and borrowed. At this stage the project is exposed to various risks. There is no profit yet.

Second stage: the start of the project operation. The investor has a great need in bank loans or venture capital. Generally no dividends are paid. Should there be any profit, it is reinvested. Risks associated with market competition emerge.

Third stage: rapid growth. The company begins to dictate its own prices for products, but competition intensifies. Sales are growing and significantly exceed production costs. A high level of revenue is also common, but high marketing costs are required. There is a great need in investments. The company may issue additional stocks, but pays off small dividends. The bank, even if providing a loan, gives it at high interest rates.

Fourth stage: the stable operation of the company. The company pays off its debts. Though high levels of competition does not allow to dictate prices, but low costs make it possible to obtain average income (by industry). The company becomes already prominent and has a good reputation. It has great opportunities for borrowing and trading stocks, as well as well-diversified large investment portfolio. It pays off solid dividends and needs large investments. At this stage, the company must develop a strategy to prevent decline. Such measures are usually associated with a significant

increase in investment activity. The strategy of "second birth" involves various actions, namely: purchasing other companies in the industry (vertical and horizontal mergers); purchasing companies in other industries; investing in new projects.

Fifth stage: decline or rebirth. There is no more demand for the company's products. The competition is very high. Banks are not interested in cooperation, and even if they do give loans, it is only at much higher interest than the industry medium. There is no demand for the company's stocks. The decrease in revenue leads to a decrease in dividends accrued on shares. If the strategy of revival was not developed at the previous stage and no solid investments were attracted, then the company is doomed to decline and go bankrupt.

As for the further division, it depends significantly on the specificities of the project. Thus, the project life cycle can be divided into 5 phases, which include:

conceptual phase (formulation of goals, analysis of investment opportunities, feasibility study and project planning);

project development phase (structuring of works and contractors, formation of work schedules and project budget, development of design and budget documentation, negotiating and signing of contracts with contractors and suppliers);

project implementation phase, which includes work on its implementation (construction, marketing, staff training);

project completion phase, which mainly includes acceptance tests, pilot operation and commissioning of the project;

operational phase (acceptance and launch, replacement of equipment, expansion, modernization, innovation).

At the same time, it is necessary to take into account the estimated duration of the main phases of the project life cycle, particularly in construction, which requires more time, compared to other investment objects (Table 6.1).

Two major clusters of works should be identified in the project: the basic activity under the project and its maintenance.

The main activities of the project include: pre-investment studies, project planning, development of technical, design and budget documentation, bidding and

contracting, materialization of the project (construction and assembly work), starting-up and adjustment works and commissioning of the project, its operation, production, equipment repair, development of production, dismantling of equipment (project closure).

Table 6.1

Indicative implementation time-frames of main phases of the project life cycle

Type of construction	Duration of phase implementation, years		
	conceptual	contractual and working design	construction
Major business buildings	1-7	1-3	1,5-2,5
Residential (apartment) buildings	1-4	1-3	1-4
Medical institutions	1-5	0,5-4	0,5-5
Educational institutions	1-4	0,5-3	0,5-2,5
Small and medium-sized buildings (telephone exchanges, libraries)	0,5-3	0,5-2	0,5-1,5
Roads and harbors	1,5-10	1-4	0,5-3
Industrial facilities	0,5-2	0,5-2,5	0,5-2

Project support includes organizational, legal, financial, logistic, commercial (marketing), staffing and communication activities. This list is incomplete, so it is not possible to clearly and explicitly divide the work in a logical sequence and in time.

The significance of each phase of the project life cycle is assessed by labor costs: concept development accounts for 2-3%; project planning – 4-5%; design – 10-20%; project materialization (construction) – 60-70%; project closure – 10-12%. These five phases reflect the typical life cycle of a properly executed project. In the first three phases, preliminary developments are carried out, the project is created on paper, and in the fourth and fifth phases, the project is physically implemented.

The decision to continue the project is required at the end of each of the first three phases, and the production and completion permit is required before the start of

each of the last two phases. All these phases are a kind of mini-projects with appropriate goals, constraints and approaches to management. Successful completion of each phase is a kind of milestone of the project, a checkpoint for its implementation.

3. Classification of investment projects

The biggest problem for the Ukrainian economy at the present stage is the intensification of investment activity. Investments provide an increase in the technical level of production, improving the industial structure of the country's economy.

The crucial provision for successful economic activity of companies is effective investment. The main principle of investment decision-making should be "the lowest cost - the greatest benefit". Hence the criterion for the effectiveness of investment decisions must be the minimum resources cost consuming production at the highest level of human needs satisfaction. An error in investment decisions making can lead not only to a loss of profit from the project, but probably to a loss of all the capital invested. Therefore, the company's decision to invest requires most detailed justification.

Investment projects, as plans to invest in long-term real assets, involve major initial costs that affect the profitability of capital owners over a fairly long period of time.

Investment projects are partially or completely irreversible. Thus, if a poorly formed portfolio of securities can be relatively painlessly revised, in most cases it is impossible to change the decision on the adopted investment projects. In some cases, unfortunate investment decisions may lead to bankruptcy. Investment projects are often interlinked, successful implementation of one project expands the investment opportunities of the company for other ones.

Investment project defines the purpose which the company strives to reach, the strategy of investment activity combined with timeframe of the goal achievement.

Careful justification of the investment project provides confidence to future and potential investors in the security of their investments, and gives the company's management a complete picture of the company's condition.

Investment projects, depending on their target, are divided into tactical (related to productivity volume increase, improving quality, modernization of equipment) and strategic (projects that involve a transition in ownership or a fundamental change in the nature of production).

As noted by T.V.Teplova, in world practice investment projects are distinguished by the nature of changes in the activities of the company:

– capital assets replacement in order to sustain operation (replacement of physically worn-out equipment; replacement of obsolete equipment to reduce production costs);

– additional acquisition of capital assets to expand activities (new products manufacturing, market expansion, merger with another company or its purchasing);

– non-profit investments in sewage treatment and environment-related facilities, construction of offices and representative offices, housing, etc. The return on such investment projects will be expressed in cost reduction (pollution fines), expansion of investment opportunities, skimping on attracting expertise.

In modern practice of industrial countries, the whole variety of projects is classified by different types and characteristics:

1. Depending on the amount of investment the projects are divided into small, medium and large. As a rule, the cost of small projects does not exceed USD 300000, average ones – from $300000 up to $ 2000000, and large ones are worth more than $ 2 million.

2. Depending on the implementation period they are divided into short-term (up to one year), medium-term (1 – 2 years) and long-term (3 – 5 years).

3. Depending on the purpose they are divided into development projects (aimed at achieving the strategic goals of the company related to the growth of operating activities and their diversification) and rehabilitation projects (aimed at

company restructuring in order to retain it as an independent unit with the legal entity status).

4. Depending on the envisaged funding scheme the projects are divided into:

– investment projects financed from available internal resources of the company;

– projects financed at the expence of corporatization;

– projects financed from borrowed funds;

– investment projects with mixed forms of financing.

5. Depending on the area of production development, investment projects are divided into investment projects that increase the potential of products (goods, works, services) manufacturing, and investment projects that increase sales potential of products (goods, works, services).

6. Depending on the level of risk they are divided into:

– investment projects with a below-average level of risk;

– investment projects with a medium level of risk;

– investment projects with a high degree of risk.

7. Depending on the grade, projects are divided into megaprojects (special-purpose, national, intersectoral and industry development programs, which contain a large number of interrelated projects, united by a common goal and limited in time); multiprojects (aimed at ensuring and implementing a certain strategy of company development); monoprojects (separate investment, innovation projects that require the creation of a single project team).

When it comes to assessing the effectiveness of capital investments, it is necessary to understand the essence of utilizing the term efficiency of the investment project in economic calculations.

Efficiency characterizes the quantitative ratio of absolute indicators of the final result and the direct costs of its implementation. The effectiveness of the investment project reflects its compliance with the goals and interests of the participants. However, the efficiency of the investment project includes not only the classical interpretation of the ratio of results to costs, as the project affects the internal

environment of the company as well as external, i.e. territory, industry or region as a whole. Therefore, efficiency should be considered as the sum of possible consequences of the implementation of project proposals that may arise in both environments.

When assessing the effectiveness of investment projects it is necessary to adhere to certain principles, specifically:

–benchmarking of investment goals to the general strategy of the company (profitability target level of the investment activities, increase in annual sales volumes and market share of a certain type of products controlled by the company, maintenance of the company image among consumers, growth of labor productivity at the company and manufacturing of new product types);

–investment project studies at each stage of the life cycle (pre-investment, investment and operational);

–forecasting net cash flow from the investment project;

–ensuring alternatives when choosing an investment project (comparing of several projects and selecting the most effective one);

–mainstreaming time factor;

–mainstreaming risk factor;

–mainstreaming the need for working capital for the newly established company.

4. Methods for evaluating effectiveness of investment projects

The idea of any capital investment must be based on calculations of the fundamental task: to what extent future revenues will cover current costs? Therefore, the first stage of developing an investment program should be to assess the effectiveness of the investment project. In the modern projecting practice methods are commonly used that take into account changes in the money value over time, as well

as those that do not take it into account (methods of payback period and average return).

The most commonly used methods for evaluating capital projects shall include:

net present value;

internal rate of return;

profitability;

payback period;

discounted payback period;

profitability of borrowed capital;

yield per share.

The net present value (NPV) method consists in comparing investment costs to the current estimate of all future net cash flows over the years of the project.

Rule of net present value (NPV) method: if the current estimate of future net cash flows exceeds the current estimate of investment costs, the project is feasible to implement.

The net present value (NPV) of a project is calculated as the sum of all future cash flows, discounted at a certain rate of return, without the discounted value of the investment.

The net present value rule is illustrated by the following formula:

$$NPV = \sum_{t=1}^{n} \frac{R_t}{(1+k)^t} - C, \qquad \textbf{(6.1)}$$

where R_t – expected net cash flows;
k – rate of return required from the project;
C –initial cost of capital incurred in the current period (or the present value of all costs).

In other words, *the net present value is the sum of all expected cash flows (R_t) from year 1 (t = 1) to the end of the project life cycle (n), discounted at the project discount rate (k), reduced by the value of funds invested in the project.*
If: NPV> 0, then the project is feasible for implementation;
NPV <0, then the project must be rejected;
NPV = 0, then the project is neither profitable nor unprofitable.

Case 6.1.

The financial manager of the company decides on the feasibility of purchasing new equipment. Its cost is UAH 250000. It is expected to generate an annual income of:

1st year – UAH 30000;
2nd year – UAH 40000;
3rd year – UAH 50000;
4th year – UAH 70000;
5th year – UAH 85000.

Determine whether the project is feasible for implementation if the discount rate is 15%.

$$NPV = \frac{30000}{1{,}15} + \frac{40000}{1{,}15^2} + \frac{50000}{1{,}15^3} + \frac{70000}{1{,}15^4} + \frac{85000}{1{,}15^5} - 250000 = 171491{,}26 - 250000 = -78508.74 UAH$$

Since the indicator of the net present value is negative, therefore this project is unfeasible to implement.

The advantages of the NPV method include the fact that it:

1) takes into account changes in the value of money over time and the risk of a specific investment;

2) takes into account the entire operating period of the project.

The disadvantages and limitations of using this method include:

1) the method allows to assess the effect of project acceptance in absolute terms (as an increase in market valuation), but it does not show how much the real return on the project exceeds the cost of capital. But decisions to invest in projects cannot be compared to portfolio investment options with a known return;

2) in its classical form, the method does not allow to compare mutually exclusive effective projects with different investment costs and with different timeframes of operation.

The alternative approach is to calculate the internal rate of return (IRR), which is a rate of return that equates the expected net cash flows to initial costs.

To calculate the IRR it is necessary to solve the following formula for R:

$$0 = \sum_{t=1}^{n} \frac{R_t}{(1+r)^t} - C, \qquad \textbf{(6.2)}$$

*where **r** is the rate of return, which gives NPV = 0, and the other symbols are identical to the previous formula.*

The point of the internal rate of return calculation in the analysis of investment efficiency is as follows: IRR shows the expected profitability of the project and the corresponding, maximum allowable, relative level of costs that may be associated with this project. You can see an example of financing the project with a bank loan (equity and loan repayment guarantees are missing).

The IRR value indicates the upper limit of the admissable interest rate level. If the project does not pay income tax and the IRR value equals to 20%, then to attract a bank loan above 20% per annum shall not be justified. If the annual bank rate is equal to the IRR value, then the net discounted income on the project will be 0. At a lower interest rate, the capital invested will provide a positive net discounted income into this project.

However, in real life, various sources (elements of equity or borrowed capital) are commonly used to finance the project. The cost of project capital depends on the cost of capital elements and the proportion of involvement of these elements. The company's current and marginal value of capital are defined as the weighted average indicator of the values of capital's various elements. The IRR will determine the maximum admissable value of the project capital cost.

The economic content of internal rate of return (IRR) criterion is as follows: the company can make any investment decisions, the profitability level of which is not lower than the current cost of capital (CC) value, which means either the weighted average cost of capital or target source, if any.

Rule of the internal rate of return method in assessing of investment projects:

If IRR> CC, then the project is feasible for implementation;

IRR <CC, then the project should be rejected;

IRR = CC, then this project will be neither profitable nor negative.

Case 6.2.

The company has cash flow for 5 years in the following amounts:

1st year – UAH 3000;

2nd year – UAH 4500;
3rd year – UAH 5000;
4th year – UAH 6000;
5th year – UAH 7000.

Determine the IRR if the initial investment is 20000 UAH and the CC is 13%?

First of all it will be reasonable to discount the cash flow over the years, starting with, say, 12% in order to determine the present value of cash flows for 5 years and then add up their values:

Year	Cash flow	Interest factor of present value at 12%	Present value of cash flow
1	3000	0,893	2679,0
2	4500	0,797	3586,5
3	5000	0,712	3560,0
4	6000	0,636	3816,0
5	7000	0,567	3969,0
Total present value			17610,5

These calculations show that the sum of the present value indicators of cash flows for 5 years is equal to 17610,5 UAH which is less than the initial investment – 20000 UAH, so you should lower the discount rate to get the indicator of the present value equal to the initial investment. Since it is well known that the present value decreases when the discount rate increases, we will take the bank rate of 9%.

Year	Cash flow	Interest factor of present value at 9%	Present value of cash flow
1	3000	0,917	2751
2	4500	0,841	3784,5
3	5000	0,772	3860
4	6000	0,708	4248
5	7000	0,650	4550
Total present value			19193,5

As you can see, at a discount rate of 9% the present value of future cash flows is close to the sum of initial investment. This indicates that the internal rate of return for the project approval is 13%, while the sound internal rate of return is approximately 8,5%, so it is not feasible to accept the project.

The next method of evaluating investment projects is the profitability index (PI), which is sometimes called the cost-income ratio. The profitability index is a fraction of the division of expected future cash flows by initial costs:

$$PI = \frac{\sum_{t=1}^{n} R_t /(1+k)^t}{C}, \qquad \textbf{(6.3)}$$

As can be seen from the formula, *the only difference between the net present value formula and the profitability index is that when NPV is used, initial costs are deducted from the present value of expected cash flows, and when calculating the PI, the present value of expected cash flows is divided by initial costs.*

Profitability index method rule:

If PI > 1, then the project is feasible for implementation;

PI <1, then the project should be rejected;

PI = 1, special justification is required.

The profitability index is a relative indicator and, unlike the NPV method, it makes possible to quantify the costs and their effect.

Case 6.3.

Investment costs - UAH 1000000, the forecast level of net cash flows by years (thousands of UAH): 345, 400, 395, 325. Calculate the value of the profitability index (PI), if the cost of capital is 10%.

$$PI = \left[\frac{345}{1{,}1} + \frac{400}{1{,}1^2} + \frac{395}{1{,}1^3} + \frac{325}{1{,}1^4}\right] \div 1000 = 1162{,}97 \div 1000 = 1{,}16.$$

Since PI = 1,16> 1, then the project is feasible for implementation.

Other common methods include the payback period of the project and the discounted payback period.

The payback period is the minimum time interval (measured in months or years) from the start of the project, within which the investment costs will be covered by the net cash flow from the project itself.

The payback period is not the most appropriate indicator for assessing the effectiveness and profitability of the capital or financial investments for the following reasons. Firstly, the payback is relatively insensitive to the timing of the project investment cycle, since the rate of return in this case does not indicate the profitability of the project. Secondly, the time payback criterion cannot be applied to projects that have a cash flow distribution by the years. A project with increasing or decreasing cash flows will not be adequately assessed for attractiveness.

Thus, when using the payback criterion, comparable estimates can be obtained only with the alternative investment options that have similar characteristics: equal life cycle and the same structure of cash flows. Without these prerequisites, the use of this criterion should be accompanied by additional analysis and calculations.

However the value of the payback period in practice allows the financial manager to assess how long the funds would be at risk.

The discounted payback period differs from the payback period only in that it is calculated after discounting cash flows and is therefore always longer in time than the payback period, which ignores the discounting.

It is believed that this method characterizes rather liquidity than profitability of the investment. Therefore, it is used to quickly select a project in the face of inflation when liquidity is scarce. Along with the advantages such as: taking into account the possibility of income reinvestment and the time value of money, this method has the disadvantage, in particular, it ignores revenues after the project payback period, which may be of major importancel for choosing an investment option.

Like the payback period, the discounted payback period also suffers from the inability to accurately determine the indicator of the payback period. The discounted payback period does not show whether the investment really brings in money to meet consumer needs in competitive markets.

The algorithm for calculating the payback period (PP) depends on the distribution balancing of predicted investment income. If the income is evenly spread over the years, the payback period is calculated by dividing the concurrent costs by the amount of annual income related to them. Upon receipt of the fractional number, it is rounded up to the nearest integer. If the profit is unevenly distributed, the payback period is found by direct counting the number of years within which the investment will be repaid by cumulative income. The formula for calculating the payback period (PP) of investment is:

$$\textbf{\textit{PP}} = \textit{minn}, \textbf{ whereby } \sum_{k=1}^{n} P_k \geq IC \qquad \textbf{(6.4)}$$

Case 6.4.

The investment project requires an initial investment of UAH 5000. According to forecasts, the project should provide stable cash flow:

1st year – UAH 1500;
2nd year – UAH 2000;
3rd year – UAH 2300;
4th year – UAH 2500;
5th year – UAH 2700.

Determine the payback period of the investment.

5000 – 1500 – 2000 = 1500 UAH.

As one can see, in two years the company will pay back UAH 3500 of those UAH 5000 invested in the project. Then it should be calculated what portion of the third year the company needs to cover the remaining UAH 1500 of the initial investment. For this purpose it is necessary to divide UAH 1500 by the third year cash flow.

$$\frac{1500UAH}{2300UAH} = 0{,}65$$

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0,65 makes around 34 weeks (0,65 * 52 weeks = 34 weeks); therefore it will take two years and 34 weeks to recoup the initial investment.

The major interest for the assessment of investment projects provides a scientific technique, which consists of several stages.

The essence of the technique is as follows.

At the first stage, a comparison of the indicators of the overall profitability of investment projects is made relative to the bank loan average rates. The purpose of such comparing is to find alternative, more profitable areas of capital investment. For example, if the estimated return on an investment project is below the average interest rate of a bank loan, then the project must be rejected whereas it is more profitable to deposit money with the bank.

At the second stage, the profitability of investment projects needs to be compared to the country's average inflation rate. The purpose of such a comparison is to minimize the loss of money from inflation. Indeed, if the inflation rate is higher than the profitability of the project, then the company's capital will be depreciated over time and would be never recovered. The return on the investment project must be higher than the average inflation rate.

At the third stage, the projects are compared by investment volumes. The purpose of such a comparison is to minimize the need for loans, choosing a less capital-intensive investment option. It is obvious that from the two projects with the same characteristics of products volume and quality, the preference will be given to the one that will require less investment resources to achieve the planned effect, other conditions being equal.

At the fourth stage, the comparison of projects by payback period is envisaged, and this indicator is calculated taking into account the time factor by dividing the sum of investment by the amount of annual profit from the project. The purpose of such a comparison is to choose an option with the minimum payback period. It may be assumed that the earlier the investment costs of the company pay off, the more chances it will have to further expand production and to increase the overall efficiency of economic activity.

At the fifth stage, the assessment of the annual revenues stability from the project implementation is carried out. The assessment criterion at this stage is ambiguous. Since the investor may be interested in both the process of return on investment for the project evenly distributed over the years, as well as the accelerated (slowed down) process of receiving investment income before the starting or by the end of the project investment cycle.

At the sixth stage, comparing of the overall profitability of investment projects is done without taking into account the time factor, i.e. income discounting. The purpose of such a comparison is to choose the most cost-effective project without adjusting the results to the time factor. It is acceptable in the following cases: either the project time-frame is short, or the general state of the economy is quite steady and stable.

At the seventh stage, it is necessary to compare the overall profitability of projects while taking into account the time factor. In this case, future revenues and incomes are reduced to the prices of the initial period, i.e. the capital of the future period is expressed in the current (initial) value. In the process of calculations the usual formula of the income capitalization is used:

$$Ffut = Fcur(1+r)t \qquad (6.5)$$

Where:

$Ffut$ - future cost of capital, thousands UAH;

F_{cur} - current (initial) cost of capital, thousands UAH;

r- discount rate (capital increase);

t - number of periods (years, months etc.).

Using the above formula, the future incomes can be assessed at current value, as follows:

$$Fcur = Ffut/(1+R)t \qquad (6.6)$$

In this method of investment projects efficiency assessment it is not obligatory to stick to the suggested step-by-step sequence. In addition, it should be borne in mind that when conducting technological calculations one should take into account many factors that can significantly change the order of the procedure for assessing the effectiveness of investment.

Thus, the economic efficiency of investment can be assessed using a wide variety of static and dynamic methods of calculation according to the classification shown in Fig. 6.1.

Therefore, the assessment of investment projects can be carried out in different ways, but the utilization of one or another method should be based on the knowledge of their pros and cons and provide investors with real information about possible gains and losses from the project.

Let's try to assess the investment project and determine whether it is feasible to implement by the set of such indicators.

Case 6.5.

Cash flows calculation and assessment of the investment project:
Sugar beet seeder – 140 000 EUR (depreciation period 7 years);
Sugar beet harvester – 410 000 EUR (depreciation period 7 years).
Total sum – 550 000 EUR.
Estimated project implementation time – 10 years.
Sown area – 1000 ha;
Sugar beet yield – 550 centner/ha;
Sugar beet sale volume, forecast – 55 000 tons;
Sale price of 1 ton – 180 UAH;
Operating expenses per 1 ton – 40 UAH;

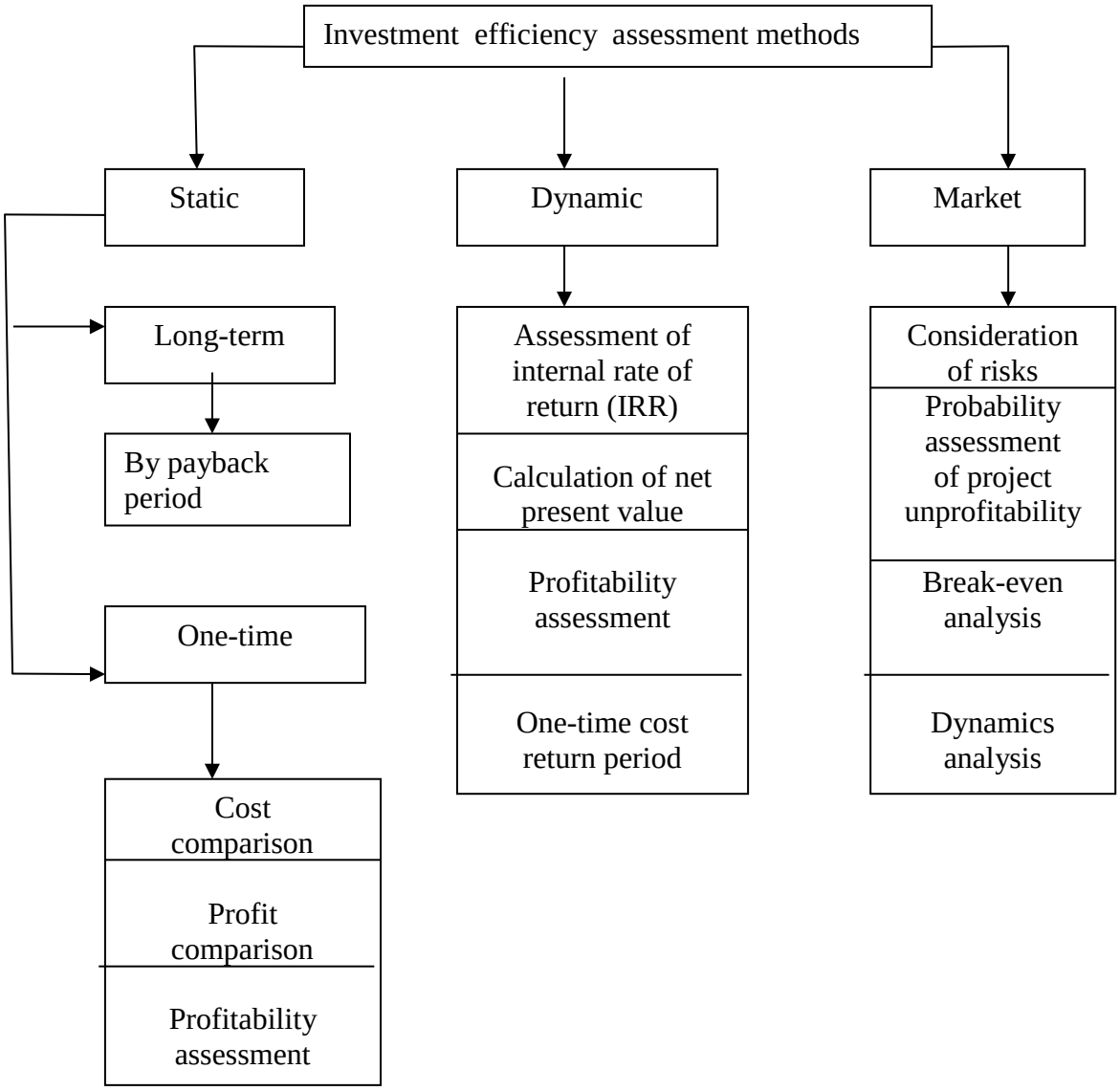


Fig. 6.1. Classification of methods for assessing the effectiveness of investment activities of companies

Tax rate – 25%

Bank interest rate – 18%;

Expected growth in the value of revenues and expenditures – 15% per year;

Discount rate – 11%;

Financing through a bank loan.

Weighted average cost of capital (WACC) – 3,5%.

(0,865 * 0,012 + 0,135 * 0,18 = 0,03468 (3,5%)).

Loan repayment plan

Sum, thousands EUR	Return period	Installments	Interest rate
550	8	8	0,18

Let's determine the sum of annual payments and make a loan repayment plan:

$$CF = 550 * \frac{0,18 * 3,76}{3,19}$$

CF = 134900 EUR.

Table 6.2

Loan repayment plan for JSC "Vesna"

Period	Principal debt, thousands EUR	Payment amount	Interest amount	
0	550			
1	514,1	134,9	99	35,9
2	471,7	134,9	92,5	42,4
3	421,7	134,9	84,9	50,0
4	362,7	134,9	75,9	59,0
5	293,1	134,9	65,3	69,6
6	211,0	134,9	52,8	82,1
7	114,1	134,9	38,0	96,9
8	0	134,9	20,5	114,1

An important task of financial planning is the forecast of cash flows. It allows to determine the future cash flow of the enterprise and its costs. It is necessary to forcast the time of cash flow and its spending. Such a forecast will make it possible future control over cash flows. The company's cash flows provide for its liquidity (to repay loans, to pay dividends).

Cash flows represent all cash inflows and outflows from the investment project during the entire period of the investment project.

Net cash flow is defined as the sum of net income and depreciation, i.e. it is the cash that remains in the company from all receipts after payment of all costs.

Assessment of the investments feasibility

1. To assess the economic efficiency of investment, the one criterion of net profit is insufficient, since it does not take into account all the benefits that the company receives. Therefore, in world practice, when calculating the efficiency of investment the cash flow is used but not the net profit (Table 6.3).

Table 6.3

Forecast of net cash flows from the project, thousands UAH

Indicators	Years										
	0	1	2	3	4	5	6	7	8	9	10
Proceeds from sales		9900	11880	14256	17107,2	20529	24635	29562	35474,4	42569,3	51083
Investment costs	3465										
Operating costs		2200	2500	2875	3306,3	3802,2	4372,5	5028,4	5782,7	6650,1	7647,6
Depreciation		495	495	495	495	495	495	495	495	-	-

1	2	3	4	5	6	7	8	9	10	11	12
Loan rate		624,7	582,8	534,9	478,2	411,4	332,6	239,4	129,2	-	-
Loan repayment amount		226,2	267,1	315,0	371,7	438,5	517,2	610,5	718,8	-	-
Profit before tax		6355	8035	10036	12456	15382	19418	23189	28844	35919	43435
Income tax		1907	2411	3011	3737	4615	5825	6957	8653	10776	13031
Total costs	-3465	4957	5761	6736	7893,2	9267,1	11047,3	12835,3	15284	17426,1	20679
Net cash flow	-3465	4943	6119	7520	9214	11262	13588	16727	20190	25143,2	30404

Let's consider the net present value (Table 6.4).

Hence the net present value (NPV is more than 0), so according to this criterion the project may be accepted.

Table 6.4

Calculation of net present value, thousands UAH

Years	Net cash flows	Discount ratio (11%)	Present value of net cash flows	Discount ratio (20%)	Present value of net cash flows
0	-3465		-3465		-3465
1	4943	0,9009	4453,1	0,833	3709,4
2	6119	0,8116	4966,2	0,694	3446,5
3	7520	0,7312	5498,6	0,579	3183,7
4	9214	0,6587	6069,3	0,482	2925,4
5	11262	0,5935	6684,0	0,402	2686,9
6	13588	0,5346	7264,1	0,335	2433,5
7	16727	0,4817	8057,4	0,279	2248,0
8	20190	0,4339	8760,4	0,233	2041,2
9	25143,2	0,3909	9828,5	0,194	1906,7
10	30404	0,3522	10708,3	0,162	1734,7
NPV			60767,5		22851

Calculation of the payback period of investments.

Table 6.5

Calculation of the investments payback period without taking into account the present value of money, thousands UAH

Years	Net cash flows by years	Cumulative cash flows
0	-3465	
1	4943	4943
2	6119	11062
3	7520	18582
4	9214	27796
5	11262	39058
6	13588	52646
7	16727	69373
8	20190	89563
9	25143,2	114706
10	30404	145110

PP = 0,7.

Thus, the payback period without taking into account the present value of money is 0,7 years. That is, the investments will begin to pay off at the end of the first year

Let's consider the payback period of the investment, taking into account the present value of money (Table 6.6).

Table 6.6

Calculation taking into account the present value of money, thousands UAH

Years	Present value of net cash flows	Accumulated value
0	-3465	
1	4453,1	4453,1
2	4966,2	9419,3
3	5498,6	14917,9
4	6069,3	20987,2
5	6684,0	27671,2
6	7264,1	34935,3
7	8057,4	42992,7
8	8760,4	51753,1
9	9828,5	61581,6
10	10708,3	72289,9

PP = 0,8.

Thus, the payback period while taking into account the present value of money is 0,8 years.

Let's find the profitability index (PI):

PI = 72289,9/3465 = 20,8, i.e. PI is more than 1.

Therefore, let's summarize:

- NPV has a positive value, i.e. NPV is more than 0;
- PP is less than planned;
- PI of the project is more than 1.

Consequently, the proposed project is feasible for implementation.

Along with accounting indicators of efficiency of investments in production, such an indicator as Return on Capital Employed (ROCE), or the discount rate of return, is widely used as the indicator of efficiency. However, while deciding whether or not to accept a project, it makes no sense to use the ROCE indicator, which is just an empirical rule. Return on Capital Employed is just the amount of balance sheet profit as a percentage of the sum of borrowed capital. The ratio itself ignores cash flows, as well as cash flows distribution over time and risks.

Yield per share is calculated by dividing the balance sheet profit by the number of shares in the issue. This method does not take into account cash flows, their distribution over time and risks.

Generally, as it was already mentioned, the choice of analysis methods of investment projects depends on many factors, such as the project complexity, its time-frames, completeness and accessibility of available data, the expertise of analysis specialists and some other factors.

5. Environment and participants in the investment project

The project is implemented in a dynamic external and internal environments. For successful project implementation, it is necessary to identify and take into account any possible activity with respect to the project and its environment. The relationship between the project and the environments does not make it possible to draw a clear line between them. As a rule, the factors of the immediate environment of the project include such areas as finance, sales, production, logistics, infrastructure, as well as the management of the company, since the latter determines the goals and basic requirements as to the project, its implementation and management practices.

Considering that the project is usually implemented in a specific environment, the external factors in which it is implemented should be borne in mind. These factors are:

political — political stability; government support for the project; national realities; trade balance with participating countries; membership in alliances;

economic — the structure of the national economy; liabilities and property rights, including land tenure; tariffs and taxes; insurance guarantees; inflation rate and currency stability; development of the banking system; sources of investment and capital; degree of freedom of entrepreneurship and economic independence;

development of market infrastructure; price level; state of markets concerning: sales, investments, capital goods, raw materials and products, labor etc.;

social — living conditions and standards; educational level; freedom of movement within the country and abroad; conformity of labor legislation to social change; ban on strikes; health care and medicine; recreation; NGOs and public organizations; media; public attitude to the project;

legal — human rights; business rights; property rights; laws and regulations concerning guarantees and benefits;

scientific and technical — the development level of basic and applied sciences, information technology and computerization, industrial and production technologies; state of energy and transport systems; communication; service lines;

cultural — the level of education; history; cultural traditions; religion; cultural livelihood needs; labor; vacations; sports, etc.; the level of requirements for results and working conditions quality;

natural and ecological — nature and climat conditions: temperature, precipitation, humidity, winds, altitude, seismicity, landscape and topography etc .; natural resources; location and connectivity to the transport networks; standards for the quality of air, water sources and soil; environmental health requirements; environmental legislation; characteristics of trends and the state of ecological systems: air, water, soil;

infrastructural — transport facilities, communication and commute, carriage of goods; computer networks and information systems; energy supply; utilities; raw materials and services; sales network, storage and logistics; industrial infrastructure; service systems, etc.

The internal environment of the project is of paramount importance for the successful implementation of the project, just because these factors contribute to or, impede the achievement of the project objectives. Let’s consider the most significant of them:

economic conditions — related to the estimates and budget of the project, prices, taxes and tariffs, risk and insurance, incentives, benefits and other economic factors that operate within the project and determine its main cost characteristics;

social conditions — characterized by the provision of standard living conditions for project participants, wage levels, availability of utilities, social conditions (schools, nursuries, health care, recreation, etc.); working and safety conditions, life insurance and social security, etc.;

project management style — determines the psychological climate and atmosphere within the project team, affects its creativity and efficiency;

project organization — determines the relationship between the main participants of the project, allocation of rights, obligations and responsibilities and affects the successful realization of plans. The project team is the "brain center", its engine and executive body, on which depend the project’s progress and success;

methods and means of communication — determine the completeness, reliability and efficiency of information exchange between the interested project participants. Basically they constitute the nervous system of the project, the success of which depends on the degree of their sophistication.

The financial sphere of the project determines the budget limits, considering the estimates for product manufacturing and coverage of project costs, as well as methods and sources of project funding.

The production sphere is connected with the capital goods market. It makes specific requirements for the project, e.g.: recommendations for the technology and equipment use, requirements to involve the idle production sites, abandonment of certain technological processes, consistency of project requirements with the opportunities of capital goods market, etc.

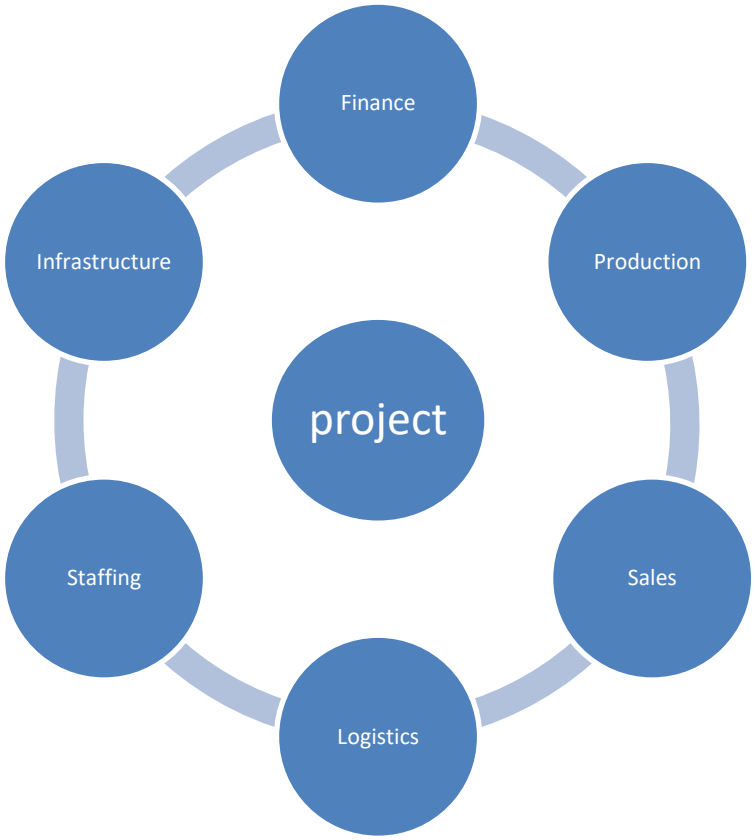


Fig. 6.2. Characteristics of the immediate environment areas of the project

The sales sphere forms important conditions and requirements for the project, related to the sales market and determined by the consumer decisions, the presence and actions of competitors.

The logistics sphere is related to the market of raw materials and semi-finished products and forms the requirements for the project that arise from the ability to provide raw materials and equipment at the reasonable prices.

The staffing sphere determines the requirements for human resources of organizations involved in the project development, implementation and operation, the professionalism level of the managers and team that manage the project.

The infrastructure sphere imposes requirements relating to the project and its provision, as it is connected to the market of various services. These include requirements for advertising, transportation, communications, telecommunications, information and various types of engineering and other support.

Participants of the investment project realize different interests in the process of project implementation, form their own requirements in accordance with the goals and motivations and effect the project depending on their interests, competencies and the degree of involvement in the project (Fig.6.3).

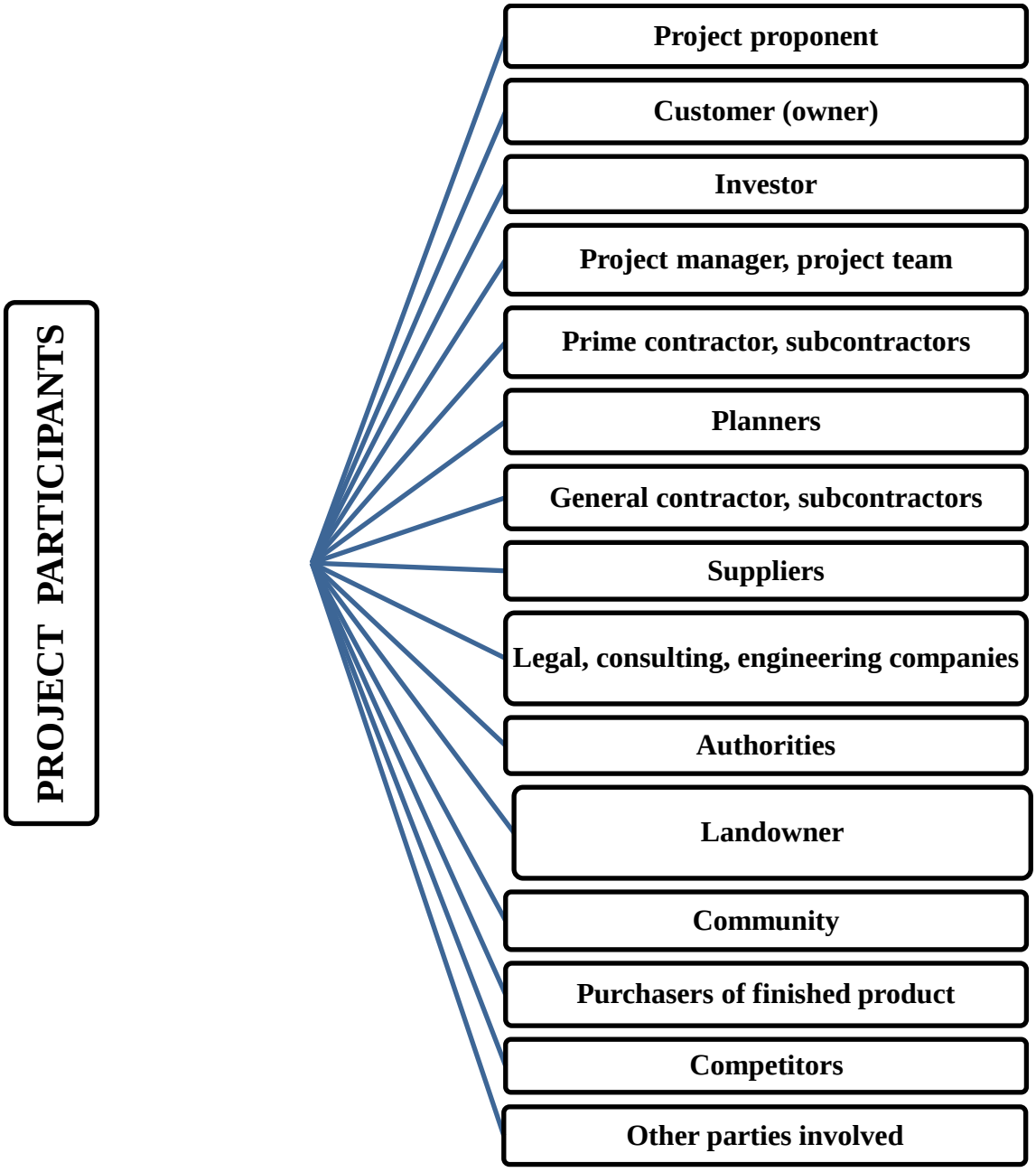


Fig. 6.3. The main participants in the project (indicative list)

The list of project participants, their roles, allocation of functions and responsibilities depend on the type, kind, scale and complexity of the project, as well

as on its life cycle phases. In order to determin particular project participants, as well as to develope operational and organizational structures for every project, at the stage of concept development it is necessary to determine:

target area — goals, objectives, scope of work and main results, i.e. what must be done to implement the project, along with its scale, complexity, acceptable deadlines;

the relation to property involved in the project implementation process (what does it cost and to whom it belongs?);

basic ideas for project implementation (how to do it?);

main active participants of the project (who will do it?);

main passive participants of the project (who does the project deal with?);

what are the motives of the project participants? (possible profits, losses, risk, etc.).

The answers to these questions make it possible to identify project participants, their goals, motivations, determine the relationship between them and on this basis to make well-informed decisions about the organization and management of the project.

Let’s consider the functions of some project participants in more detail.

The proponent is the originator of the project concept, the author of its preliminary justification and proposals for implementation. Actually almost any of the project participants may be the proponent, but the business initiative for the project should ultimately come from the project customer.

The customer is the principal party interested in implementing the project and achieving its successful results. It is the customer, i.e. the future owner and beneficiary of the project results, who determines the main requirements and scope of the project, provides project financing from its own or attracted investors’ funds, enters into contracts with the major project contractors, and is responsible for these contracts, as well as manages the interaction between all project participants.

Investor(s) is the party investing in the project. Should the investor and the customer be not the same person, then the investors are usually banks, investment funds and other organizations. Investors enter into business relations with the

customer, monitor the implementation of contracts and make payments to other parties as the project progresses. Investors are full-fledged partners in the project as well as the co-owners of all property raised through their investments, until all the funds received under the contract with the customer or under the loan agreement are returned to them.

Project manager is a legal entity (a person) to which the customer and the investor delegate the authority to implement the project — planning, control and coordination of work of all project participants. The scope of functions and powers of the project manager is determined by the contract with the customer. However, the project manager and his team usually are in charge of comprehensive management and coordination of work throughout the project life cycle to achieve its defined goals and results while meeting the deadlines, budget and quality.

The project team is a specific organizational structure lead by the project manager and created for the project implementation period. The team's task is to perform project management functions in order to effectively achieve the project goals. The composition and functions of the project team depend on the scale, complexity and other characteristics of the project. Nevertheless, the team in all cases must ensure a high level of competence within all the responsibilities assigned to it.

Contractor (general contractor) is a party or participant in a project that enters into relationships with the customer and undertakes to perform all works under the contract (it may be the whole project or its part). The functions of the general contractor include entering into a contract with the customer (investor), selecting subcontractors and conclusion agreements with them, coordinating their activities and accepting the work volume performed as well as remuneration of subcontractors. The contractor may be the project manager or other active project participants.

Subcontractor — enters into a contract with the contractor or subcontractor of a higher level. It is responsible to fulfill the works or services in accordance with the terms of the contract.

Designer is a legal entity which under the contract carries out the research and development work within the project. It enters into contract relations with the general contractor or directly with the customer of the project.

Prime contractor is a legal entity whose proposal has been accepted by the customer. It is responsible for the execution of works in accordance with the terms of the contract. It selects subcontractors and enters into agreements with them to perform certain works and services. In construction projects, the role of prime contractor is usually performed by construction or developement firms or organizations.

Suppliers are subcontractors who provide various types of supplies on a contract basis (materials, equipment, vehicles, etc.).

Licensors are organizations that grant licenses for land ownership, tendering, performing certain types of work and services, and so on.

Authorities is a party that satisfies its interests by collecting taxes from project participants, puts forward and supports environmental, social and other public and state requirements related to the project.

Land owner is a legal entity or an individual who is the owner of the land plot involved in the project. It enters into a contract relationship with the customer and on the legal basis transfers the right to use or possess the plot.

Manufacturer of the finished product of the project — operates the created capital assets and produces the final products. The main goal is to make a profit from the sale of finished products to consumers. It participates in all phases of the project and interacts with key project participants. Its role and functions depend on the share of ownership in the final results of the project. In many cases, it is both the customer and manufacturer of products under the project.

Consumers of finished product are legal entities and individuals who purcase and use the final products, set requirements for products and services provided and form the demand for them. All the project costs are reimbursed at the expense of consumers as well as the profit of all the project participants is generated.

Other project participants. The project implementation is also influenced by other parties from its environment, which, in fact, may also belong to the project participants. Among others, these could be a competitor of the major participants of the project; public groups and communities whose economic and non-economic interests are affected by the project implementation; the project sponsors along with various consulting, engineering, legal organizations involved in the process of project implementation, etc.

Control questions

1. Define the concept of "project".
2. Define the concept of "project structure".
3. Name the stages of the investment project life cycle.
4. Give a classification of investment projects.
5. What are the methods of the of investment projects effectiveness assessment?
6. Define the concept of "payback period".
7. Give a classification of methods for assessing the company investment activity effectiveness.
8. Define the concept of "net cash flow".
9. What factors make up the project internal environment?
10. Describe the areas of the project immediate environment.
11. Name the participants of the investment project.

Tests

1. The project is:
   a. specially prepared documents containing the most complete description and substantiation of all the future investment features, i.e. it is documented
   b. a set of interdependent tasks and actions that must be implemented to achieve certain economic and financial goals
   c. a document that contains a system of measures and actions linked in time and space and coordinated with the purpose and resources and aimed at maximizing profit through the implementation of a business project

2. How many stages does the investment project consist of:
   a. 3
   b. 4
   c. 5
   d. 6

3. The third stage of the investment project is called:
   a. a stable operation of the company
   b. a decline or rebirth
   c. a start of the project operation
   d. a rapid growth

4. The phases of the project life cycle does not include:
   a. a phase of decline
   b. a project development phase
   c. a project completion phase
   d. an operational phase

5. Depending on the risk level, the investment projects are divided into:
   a. low-risk investments
   b. below-average risk investments
   c. above-average risk investments
   d. high-risk investments

6. The most commonly used methods for capital projects assessment do not include
   a. payback period
   b. profitability
   c. efficiency
   d. return on borrowed capital

7. The comparison of investment costs to the current estimate of all future net cash flows by year of the project operation is:
   a. a net present value method
   b. a profitability index
   c. an internal rate of return method

8. Profitability index is:
   a. a quotient of the expected future cash flows devided by initial costs
   b. the comparison of investment costs to the current estimate of all future net cash flows by year of the project operation
   c. a quotient of the dividing expected future cash flows by initial costs

9. The methods of assessing company investment activity efficiency do not include:
   a. static
   b. market
   c. one-time
   d. efficiency analysis

10. The external factors influencing the investment project include:
   a. economic
   b. political
   c. legislative
   d. informative

Topic 7. INVESTMENT MANAGEMENT

7.1.Essence of investment managment and its functions
7.2. Principles of investment policy development
7.3. Investment strategy at the enterprise
7.4. Investment portfolio

1. Essence of investment managment and its functions

Effective investment activity requires elaboration of a set of recommendations and practical suggestions on acceptance of managerial decision-making in the field of determining the objects of investment, justification of its expediency, providing sufficient sources of financing activities, their rational use, coordination of actions, current monitoring and control for the implementation of investments. Investment management provides adherence of investment projects to specific conditions, where they are realized and most of all to their constant changes, and maintains the current competitiveness of the investment process.

Management mechanisms give to investment activity flexibility and resistance to adverse events in the internal and external environment.

Fundamental concepts of financial management: cash flows concepts, time value of money, efficient value of capital markets, the concept of risk and return in the context of a single investment, asymmetry of information, market efficiency and investment management concepts lie at the heart of current practice of investment management. Each of these concepts are reflected by modern scientist in the definition of the essence of the concept ‘management of investment activity’ or ‘investment management’.

It is necessary to emphasize that foreign scientists combine practice of management of investment activity with the field of securities portfolio management as business environment promotes investments mainly because of the instruments and mechanisms of the stock market. Such experience of investment management is difficult to apply to Ukrainian practice due to the low level of development of the

stock market, a fairly limited range of its instruments, and the lack of reliable indicators that can assess its dynamics.

Analysis of domestic research in the field of investment activities and the acceptance of investment management decisions reveal the fact that investment management is considered very narrowly, and that does not allow to identify all the specific features, which accompany the investment management process that should correspond to the following requirements: to be carried out on the principles of the management paradigm; is an integral part of the overall system of economic management; in the first place should be aimed at solving strategic tasks; to be carried out, taking into account the factor of time, risk and liquidity; have a high degree of dynamism and adaptability.

If we consider the management process as the interaction between the management subject and the management object (fig. 7.1) then it follows from the diagram in the fig. 7.1 that the effectiveness of this process can be ensured through:

1) effective work of management subject;

2) skillful selection and application of certain management decisions;

3) compliance of management technologies with the established purpose of management and characteristics of management object;

4) the influence of signs of the production environment on the process of interaction between management subject and object.

Investment management is the process of managing all aspects of investment activities of the enterprise subject.

The main purpose of investment management is to ensure the most effective implementation of the investment strategy of business entities.

For this purpose it is necessary to solve the following main tasks:

1) to ensure a high rate of economic development of business entities through the implementation of effective investment activities, amplification of its volumes, as well as by sectoral, assortment and regional diversification of this activity;

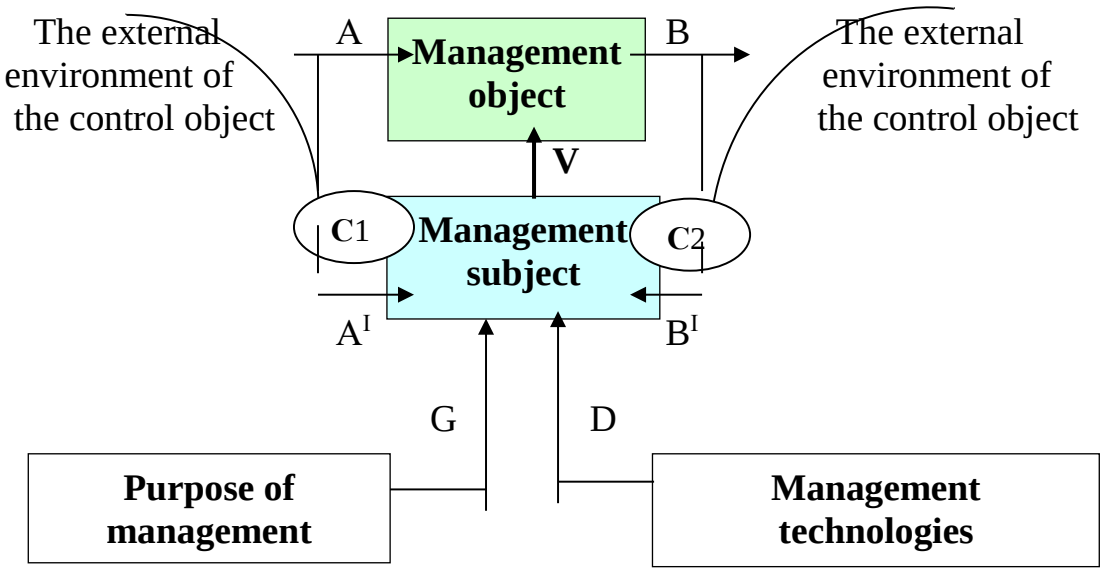


Fig 7.1. Universal scheme of management process

where

A – the channel of influence of the environment on the control object;

B – the channel of influence of the control object on the environment;

A^I – the channel of collecting information about the state of the environment of the control object;

B^I – the channel of collecting information about the state of the control object;

***V* – the channel of influence on the control object;**

G – information about the purpose of management;

D – information about the control algorithm;

***C**1 – information to the control system about the state of the environment of the control object;*

***C**2 - information to the control system about the state of the control object.*

2) to ensure maximization of profits from investment activities, because making a profit is the main goal of business entities;

3) to ensure minimization of investment risks, because under adverse conditions they can cause loss of not only profits but also part of investment capital;

4) to ensure financial stability and solvency of business entities in the process of implementing investment programs. As investment activities related to the investment of significant financial resources, usually for a long period, can reduce the solvency of the investor, late payment of current bills and payment obligations to counterparties, the state budget, etc;

5) identify possible options for accelerating the implementation of investment programs. The latter should be implemented as soon as possible, as it helps to accelerate the economic development of enterptises (organizations), rapid formation of cash flows in the form of return on investment and depreciation deductions,

reduction in terms of use of credit resources, reduction of investment risks associated with adverse changes in the investment climate.

The considered tasks define the basic functions of investment management:

1) research of the external investment environment and forecasting the situation of investment activity;

2) development of strategic directions of investment activity of the subject of business;

3) development of strategy for the formation of investment resources of the subject of investment activity;

4) search and evaluation of investment benefits of real projects and selection of the most effective ones;

5) evaluation of investment qualities of financial instruments and selection of the most effective ones;

6) formation and evaluation of the investment portfolio according to the criteria of profitability, risk and liquidity;

7) current planning and operational management of individual programs and projects;

8) organization of monitoring of investment programs and projects;

9) preparation of decisions on timely withdrawal from inefficient projects (sale of certain financial instruments).

2. Principles of investment policy development

An important component of the investment activity management system of enterprises is investment policy − a set of targets and theoretical solutions formed by enterprises within the framework of their development tasks and a certain investment ideology, ensuring profitable investment of own, attracted and borrowed capital in investment objects in order to maximize the market value of the enterprise and ensure the planned positive effect for all participants in the financial and investment process.

The main goals of investment policy – implementation of the strategic plan for economic and social development of the enterprise and revival of investment activities aimed at improving production efficiency.

The company's investment policy is part of its overall investment strategy, which consists in choosing and implementing the most effective forms of real and financial investments (determining the optimal investment directions) in order to ensure high rates of development of the enterprise and expand the economic potential of its economic activities.

It is advisable to be guided by the following principles during the development of the company's investment policy:

– achieving the maximum economic, technical and scientific, technological, ecological and social effect of the analyzed measures;

– receiving the necessary profit on the invested capital by the enterprise;

– control over the rational use of funds allocated for investment activities;

– using government support to improve investment efficiency;

– obtaining soft loans and borrowings;

– ensuring minimization of investment risks associated with the implementation of specific projects.

As shown in figure 7.2 the five steps outlined above form a closed, cyclical process in which evaluating investment performance can lead to adjustments of goals, policies, strategies and portfolio structure.

From figure 7.2 we can see that the second stage of the investment management process is the formation of the main directions of investment policy to achieve the selected goals. This stage begins with making a decision on the placement of assets. In other words, the investor must decide how to distribute the available funds between the main asset classes. When forming an investment policy, it is necessary to take into account the restrictions imposed by regulatory organizations and clients.

For example, the client can set the level of diversification and security, that is, limit the share of funds placed in certain asset classes or in the assets of certain issuers.

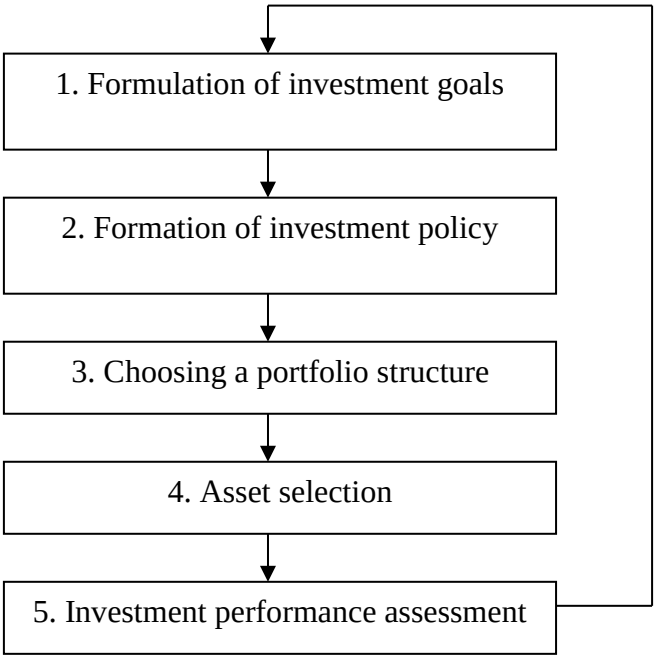


Fig. 7.2. Investment Management Process

The investment management process can be divided into the following five stages:

1. Formulation of investment goals.
2. Formation of investment policy.
3. Choosing a portfolio strategy.
4. Assets selection.
5. Efficiency assessment of investment.

One of the priority tasks of the company's investment policy is acceptance of justified decisions regarding the reproducible structure of capital investments. According to the results of research, the optimal can be considered as such ratio of expenses for simple and extended reproduction of fixed assets, in which they average accordingly 30-35 and 65-70% of total volume gross capital investment.

Thus, the investment policy is formed in certain areas of investment activity of the enterprise. The formation of investment policy on certain aspects of the financial

activity of an enterprise can be multi-leveled. So, for example, within the framework of the real investment management policy, renovation policies, innovative investment policies, etc. can be developed.

The mechanism for implementing the investment policy of enterprises provides for the creation of the necessary organizational structures that will provide measures to initiate, develop and control the process of implementing investment policy, create regulatory instructions, determine the rights, obligations and responsibilities of investors and performers involved in the implementation of investment policy, as well as the formation of rational links between investors and participants in investment activities.

However, even if there is a perfect investment policy and an effective mechanism for its implementation, the investment activity management system of enterprises will not work efficiently without a properly formed system of motivations and incentives, which provides for the formation and use of incentives for effective interaction of subjects of the investment process.

The motive is the internal desire of the subject to meet personal goals and goals of the enterprise, and the incentive is the possibility of obtaining economic or non - economic benefits to meet these needs for the implementation of certain practical actions.

The main directions of the state policy on stimulating investment activity of economic entities include:

- protectionist measures: use of tariff and non-tariff instruments, protection from the supply of morally and physically outdated technologies and equipment, etc.;

- financial and credit incentives: provision of interest-free and soft loans, use of financial leasing, etc.;

- promotion of investment projects: targeted financing of the most effective and socially significant projects, and also projects aimed at improving working conditions and improving the skills of personnel;

- tax incentives: reduction of tax pressure, use of the accelerated depreciation mechanism, use of tax credits, signing of tax agreements with foreign countries, exemption from taxation of reinvestments, etc.;

- infrastructure incentives: provision of benefits for the use of land and other natural resources, transfer of buildings and structures for free use at preferential prices, provision of transportable grants, freight benefits, etc.

The presence of a monitoring and controlling system as an element of the investment activity management system of enterprises is due to the need to improve future investment decisions, to summarize the results of the decision made on a specific investment project or portfolio.

Monitoring and controlling take time and expenses, so a balance must be found between the costs they require and the results they can produce. Of course, not all investment projects are monitored and controlled, but only those that involve significant costs, high risks, or are of strategic importance to the enterprise.

Monitoring and control is related to evaluating the entire process of making and implementing investment decisions, and not to any specific project.

The creation of an investment monitoring system provides for the development and organization of a comprehensive information and analytical system that implement the functions of integrating arrays of heterogeneous information and providing their diverse analytical processing to justify, make and control various management decisions in the field of investment.

Investment monitoring provides for:

- regular monitoring and obtaining objective and reliable information about the progress of investment activities;

- evaluation and systematic analysis of the information received, identification of the reasons leading to deviation of the parameters of investment projects (portfolios) from the planned ones;

- development of forecasts for the implementation of investments and identification of factors that cause threats to their implementation in the future;

- development of recommendations for solving problems and deviations from certain investment parameters identified during monitoring.

Investment controlling involves monitoring the implementation of investments; measuring and diagnosing deviations of actual results from the planned ones; developing management decisions on current investment activities and their goals.

The main goal of investment controlling is to ensure the development of management decisions in the field of investment activity of the enterprise in order to quickly and effectively achieve strategic and tactical goals.

Investment controlling involves:

- generating data on investment decisions;
- coordination of received information;
- development of investment planning tools;
- verification and control of investment applications;
- making settlements on investments;
- control of investment projects by content and timing;
- current investment calculations;
- investment budget control.

Thus, controlling as a management decision-making system in investment activities is an integral part of Modern Investment Management. Investment controlling provides a synthesized, holistic, dynamic view of the investment activity of the enterprise in the past, present and future, an integrated approach to identifying and solving emerging problems is a reliable means of influencing the effectiveness of the investment policy of the enterprise.

A defining role in building an effective investment activity management system for enterprises is played by Personnel Support, which provides for the availability of highly qualified specialist investment managers who perform the following functions:

1) ensure the investment activity of an economic entity;
2) developing an investment policy;
3) reduce risks and increase the return on various capital investments;
4) analyze the financial condition of enterprises for investment purposes;

5) predict the assessment of investment attractiveness and the selection of specific projects;

6) create business plans for investment projects;

7) evaluate the effectiveness of investment projects;

8) determine the quantitative and qualitative characteristics of investment securities;

9) achieve optimization and adjust investment portfolios;

10) provide regulation of the investment process, etc.

The investment manager should be able to organize the collection of necessary information, conduct its analysis and, on this basis, develop management decisions on the implementation of investment activities. The manager is responsible for evaluating the effectiveness of investment projects and portfolios, making adequate investment decisions to achieve maximum results with minimal risk, and bringing them to successful implementation.

3. Investment strategy at the enterprise

The strategy is a detailed and comprehensive plan. It should be developed from the perspective of the entire corporation, rather than from the point of view of a competitive individual. Rarely can the founder of a firm afford to combine personal plans with the organization's strategies. The strategy involves the development of sound measures and plans for achieving the intended goals, which should take into account the scientific and technical potential of the company and its production and sales shortcomings.

The system of investment policy formation on the main aspects of investment activity is shown in figure 7.3.

An investment strategy is a system of long-term goals of an enterprise's investment activity, which are determined by the general objectives of its

development and investment ideology, and also the choice of the most effective ways to achieve them.

The investment strategy is always related to the current state of the economy, its current technical, technological and financial base, which is carried out by financial and economic activities.

The strategy provides answers to the main questions that the company's management always faces:

1. Continue or adjust your activities?
2. If you adjust it, in what directions?
3. What extent should I continue or adjust my activities?
4. What results will this produce in a year, two, or three?
5. What funds are needed for such development and where are their sources?

Even when a decision is made to change nothing at the enterprise, it is also a strategy that must be justified, researched and formed.

It is necessary to take into account the legal and economic prerequisites for investing funds, when developing an investment policy of an enterprise.

The legal prerequisites of investment activity include the right of an investor to independently choose the directions, types and volumes of investment activity, and to form a system of contractual relations with any participants in investment activity at their own choice.

The economic prerequisites for investing should take into account the need to compensate the investor for refusing to use the available funds for current monitoring, providing risk remuneration and mandatory compensation for investment losses.

The formation of an investment strategy is not only a complex creative process that requires taking into account certain conditions for its implementation, it is primarily a long-term plan for the development of the enterprise for the future, the development of which should take into account the conditions that determine the relevance, consistency and necessity of developing an investment strategy at a certain stage of the enterprise's life cycle.

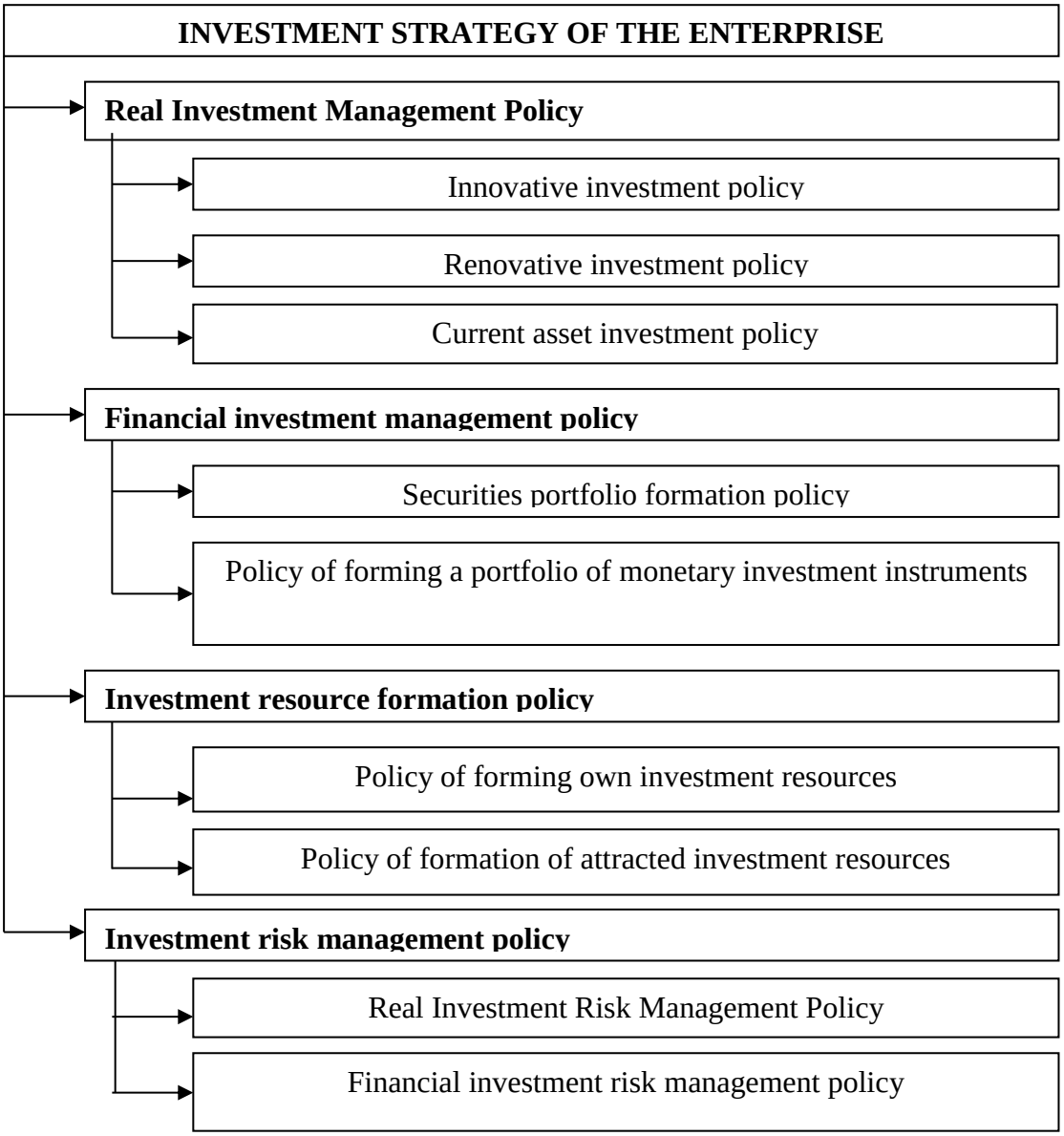


Fig. 7.3. The system of formation of investment policy within the framework of the general investment strategy of the enterprise

We can define among these conditions:

– first, the need to take into account the intensity of changes in the factors of the external investment environment, because if the investment strategy does not take into account the factors of the external environment, then, in turn, the development of investment decisions of individual structural divisions; will not be able to take into account the essence of the overall development strategy of the enterprise, which can

lead to contradictions between a certain goal and the tools used, as well as to a decrease in the effective implementation of investment activities in general;

- secondly, the need to take into account the availability of opportunities for transition and adaptation of the enterprise to a new stage of its life cycle, that is, the developed investment strategy should take into account the features of the functioning of the enterprise at each stage of its life cycle, take into account the level of investment activity and adaptability, the directions and forms of investment activity and the features of the formation of investment resources;

– thirdly, the need to take into account changes in the goals of the company's operating activities related to changes in the production range, the introduction of new production technologies and entering new markets for products, since changes in production activities, as a rule, force enterprises not only to reconsider, but also to change the priorities of their financial policy, and therefore investment (as its component).

It should be remembered that the initial prerequisite for the formation of an investment strategy is the overall strategy of economic development of the enterprise.

In relation to it, the investment strategy is subordinate in nature and should be consistent with it according to the goals and stages of development of the enterprise.
It determines not only the possibilities of improving the results of economic activity of the enterprise through investment, but also ensures the introduction of the latest achievements of scientific and technological progress into production, is a source of increasing production efficiency and economic growth. Such strategy is usually called active, or aggressive, with the maximum focus on profit. The counterweight to an active strategy is a passive strategy, in which the investor strives to ensure that the indicators of his economic activity (at the best way) are not distorted as a result of investment.

The investment strategy is based on the basic strategy of the economic and production development strategy of the enterprise and therefore should be consistent with it regarding the stages of its implementation and the stages of the enterprise's life cycle. The relationship between these strategies is presented in table 7.1.

Table 7.1

Relationship between basic goals and investment strategy of the enterprise

Life cycle stage	**Basic strategy**	**Production strategy**	**Investment strategy**
Birth	Penetration of the market	Development of production system programs	Ensuring sufficient fixed capital and initial working capital
Childhood	Fixing market	Formation and improvement of the production process	Completion of capital formation (fixed and working capital)
Youth	Expanding your segment market	Expanding the product range and production volumes	Expansion of activities by forming an investment portfolio
Early adulthood	Significant segment expansion and regional diversification	Increasing production capacity	Significant expansion through the formation of an investment portfolio
Final adulthood	Industry diversification	Identification of new production directions	Expansion of financial investment, creation of subsidiaries
Senescence	Ensuring a stable volume of activities	Ensuring a stable volume of activities	Investing and maintaining the achieved volume of production and sales
Revival	Significant renewal of business lines and sales markets	Updating the types of products produced, replacing production capacities	Diversification of the investment portfolio, additional investment

The development of an investment strategy is influenced not only by the basic strategy, but also by a number of factors that have a significant impact on determining the required amount of investment resources and implementing the strategy itself. The main ones include: profit distribution, profit, loan interest rate, and inflation rate.

So, in conditions of low incomes, which on average fall on one person, the main part of them is spent on consumption. And the growth of income creates prerequisites for an increase of share allocated to accumulation, which is a source of investment resources.

As profit is the main incentive motive for investment, the higher the expected rate of net profit, the higher the volume of investment will be.

The loan interest rate has a significant impact on the volume of investments. As the investment process also uses loan capital along with equity, an increase in the

interest rate on the loan leads to a decrease in the volume of investment and vice versa.

The volume of investments is also affected by the rate of inflation; the higher it is, the more loan funds allocated for investment will devalue, and accordingly there will be more incentives to increase investment volumes. This factor gets special attention in the case of long-term investment.

The process of developing an investment strategy includes certain components: this is the ratio of the essence of the basic and investment strategy, determining investment goals and their content, taking into account the requirements for their implementation, and most importantly, determining the role of the strategy itself in the company's activities, which is a necessary component of its successful development and functioning in a certain market segment.

The main component of determining the content of an investment strategy is not only a clear formation of goals and principles, but also taking into account certain requirements, which, in turn, determine the accuracy, correctness and effectiveness of the implementation of the overall development strategy of the enterprise, accounting and compliance which will allow the company’s management to implement its action plan for effective implementation of investment activities.

These requirements include the following:

- subordination to the main goal of investment activity;
- focus of investment activity on high results;
- realistic (or achievable) goals set (by each of the company’s divisions);
- availability of specific indicators for evaluating strategic goals;
- clarity and accessibility of perception of the essence and content of goals by all participants in the investment process;
- scientific validity;
- ranking strategic goals by their priority level, dividing them into main and auxiliary ones.

The formation of the overall economic strategy of the enterprise should not take into the background the development of the investment strategy itself, as its

component, because it determines the directions, conditions and funds that the enterprise needs to use to implement the overall program. Therefore, the investment strategy plays a significant role in the development of the enterprise itself, as:

- the investment strategy forms a mechanism for implementing long term common investment goals of economic and social development of the enterprise;

- it allows you to really assess the investment opportunities of the enterprise and maximize the use of investment potential;

- the investment strategy reflects the relative advantages of the enterprise in investment activity in comparison with competitors;

- the investment strategy system defines the main criteria for evaluating the selection of real investment projects and determining the sources of their financing;

- the presence of an investment strategy allows you to ensure a clear relationship between the strategic, current and operational management of the investment activity of the enterprise;

- the developed investment strategy is one of the basic prerequisites for strategic changes in the overall organizational structure management and organizational culture of the enterprise.

4. Investment portfolio

In a broad sense, the term “portfolio” can be applied to both assets and liabilities of an enterprise. M. O. Limitovskyi defines an investment portfolio as a set of securities of a certain structure, which is at the disposal of an investor or manager.

According to S. Maslova's definition, an investment portfolio is a certain set of certain types of securities selected in a certain way. Also, an investment portfolio is understood as a set of securities balanced in terms of risk, profitability and liquidity and other investment qualities.

A similar definition is given by V. M. Sheludko, who notes that a portfolio is a set of different types of securities purchased by an investor in order to generate income that meets certain requirements for acceptable levels of risk and income. This view is also held by I. Yu.Matiushenko and V. P. Bozhko, who determine that the investment portfolio consists of specific securities, each of which can be attributed to a certain group, which is characterized by a set of common features for all its components. A. A. Peresada also believes that in most cases an investor buys not one type of securities, but several, which is why, in his opinion, an investment portfolio is a set of collected securities that are tools for achieving a certain investor's goal. Thus, the above mentioned views are focused on the definition of an investment portfolio through a set of financial instruments (securities), which are characterized by a set of specific features - investment qualities. The disadvantage of this approach is that the investment portfolio is not considered as an object of management.

The development of the above mentioned approach to determining the essence of an investment portfolio is observed in the works of A. I. Rogach, A. S. Filipenko, A. Shapiro and others, which distinguish the investment portfolio as a specific object of management. Also, O. I. Rogach, A. S. Filipenko, T. S. Shemet note that in the modern world practice of the stock market an investment portfolio is understood as a certain set of securities belonging to an individual or legal entity and forming an integral object of management. Similarly the investment portfolio is defined by O. Dehtiarova, who claims that an investment portfolio is a combination of different types of securities, compiled and managed in a special way. Independence in managing an investment portfolio consisting of various financial instruments is emphasized by I. L. Sazonets, O. A. Dzhusov, O. M. Sazonets.

According to A. Shapiro, investment portfolio is on the one hand an integral object of management, despite the diversity of its components, and on the other hand investment portfolio includes a small number of independent portfolios that differ in the types of investment objects and methods of managing them:

– portfolio of real investment projects;

– portfolio of financial investments in securities (so-called portfolio investments);

– portfolio of other financial investments (bank deposits, certificates of deposit, etc.);

– investments in working capital of the enterprise.

Thus, summarizing various approaches to determining the essence of an investment portfolio, we can conclude that an investment portfolio is a purposeful set of various financial instruments (stock assets), which is formed and balanced on the basis of specific investment qualities, is intended for financial investment and is an integral object of Management in accordance with the investment policy and strategy that is being implemented.

A portfolio is a set of investments in securities that are traded on the financial market. In accordance with this, A. S. Shapkin considers, the main attention should be paid to the concepts of the investment environment and the investment process.

Based on nationality, portfolio investments can be domestic or international. The main reason for making international portfolio investments is the investor’s desire to place his capital in the country and in such securities, where he will bring the maximum profit at the permissible level of risk. Unlike direct investment, portfolio investment provides greater liquidity to the investor's capital and in many cases is an excellent protection against inflation and a tool for generating speculative income. International portfolio investments are investments of capital in foreign securities for the purpose of making a profit. Unlike international direct investment, portfolio investment does not give the investor the right to real control over the object of investment. In addition, a feature of portfolio investments is a certain short-term nature, which is associated with the purpose of investing in accordance with the principles of investment portfolio management.

The investment environment is characterized by the types of securities traded on the market, the conditions for their purchase and sale.

The concept of the investment process is related to how the investor makes decisions when choosing securities, volumes and terms of investment.

A.A. Peresada calls an investment portfolio a set that is a tool for achieving a certain goal of an investor.

A. S. Chesnokov defines an investment portfolio as a set of securities owned by an individual or legal entity. Any portfolio is a specific set of stocks, bonds with varying degrees of security and risk, and securities with fixed guaranteed incomes. Theoretically, a portfolio can consist of one type of paper, and it can also change its structure by replacing some with others.

The main goal of forming an investment portfolio is to ensure the implementation of the main directions of the company's financial investment policy by selecting the most profitable and safe financial instruments. Taking into account the formulated main goal, a system of specific local goals for forming an investment portfolio is constructed, the main of which are:

1) ensuring a high level of investment income generation in the current period;

2) ensuring high rates of investment capital growth in the long term;

3) ensuring minimization of the level of investment risks associated with financial investment of capital;

4) ensuring the necessary liquidity of the investment portfolio;

5) ensuring the maximum effect of the “tax shield” in the process of financial investment of capital.

The listed specific goals for forming an investment portfolio are largely alternative. Thus, ensuring high growth rates of invested capital in the long term is achieved to a certain extent by significantly reducing the level of investment income formation in the current period (and vice versa). The growth rate of invested capital and the level of formation of current investment income are directly related to the level of investment risks. Providing the necessary liquidity to the portfolio may prevent the inclusion of both high-yield and low-risk financial investment instruments.

The alternative goals of forming an investment portfolio determine the difference in the policy of financial investment of an enterprise's capital, which in turn determines the specific type of investment portfolio formed.

Let's consider modern approaches to typing investment portfolios of an enterprise that ensure the implementation of specific forms of its capital management policy in the process of financial investment.

According to the goals of generating investment income, there are two main types of investment portfolio - an income portfolio and a growth portfolio.

• An income portfolio is an investment portfolio formed according to the criterion of maximizing the level of investment profit in the current period, regardless of the growth rate of invested capital in the long term. In other words, this portfolio is focused on a high current return on investment costs, despite the fact that in the future period these costs may provide a higher rate of investment return on invested capital.

• A growth portfolio is an investment portfolio formed according to the criterion of maximizing the growth rate of invested capital in the long-term, regardless of the level of investment profit formation in the current period. In other words, this portfolio is focused on ensuring high rates of growth in the market value of the enterprise (due to capital gains in the process of financial investment), because the rate of return for long-term financial investment is always higher than for short-term investment. Only financially stable enterprises can afford to form such an investment portfolio.

In relation to investment risks, there are three main types of investment portfolio - aggressive (speculative) portfolio; moderate (compromise) portfolio and conservative portfolio. This typing of portfolios is based on differentiation of the level of investment risk (and, accordingly, the level of investment profit) that a particular investor agrees to go to in the process of financial investment of capital:

• An aggressive (speculative) portfolio is an investment portfolio formed according to the criterion of maximizing current income or capital gains invested, regardless of the accompanying level of investment risk. It allows you to get the

maximum rate of investment return on the invested capital, but this is accompanied by the highest level of investment risk, at which the invested capital can be lost in whole or in a significant share.

• A moderate (compromise) portfolio is a well-formed set of financial investment instruments, for which the overall level of portfolio risk is close to the average market risk. Of course, for such an investment portfolio, the rate of investment return on invested capital will also be close to the market average.

• A conservative portfolio is an investment portfolio formed according to the criterion of minimizing the level of investment risk. Such a portfolio, formed by the most cautious investors, practically excludes the use of financial instruments, the level of investment risk for which exceeds the market average. A conservative investment portfolio provides the highest level of financial investment security.

Based on these main types of investment portfolios, various variants of them are formed, which are used in the implementation of the company's financial investment policy. These main options for the types of investment portfolios are:

1) aggressive income portfolio;

2) aggressive growth portfolio;

3) moderate income portfolio;

4) moderate growth portfolio;

5) conservative income portfolio;

6) conservative growth portfolio.

The range of types of investment portfolios can be expanded even more due to their variants that have an intermediate value of financial investment goals.

Determining the goals of financial investment of capital and the type of investment portfolio that implements the chosen policy allows you to proceed to the direct formation of an investment portfolio by including appropriate financial instruments in it. The effectiveness of this formation is related to the use of "Modern Portfolio Theory".

"Portfolio theory" is a mechanism based on statistical methods for optimizing the formed investment portfolio according to the specified criteria for the ratio of

its level of profitability and risk. Modern Portfolio Theory is based on the concept of an “effective portfolio”, the formation of which is designed to ensure the highest level of its profitability at a given level of risk or the lowest level of its risk at a given level of return. In other words, with any of the specified target parameters for portfolio formation, the investor should strive to ensure the most effective combination of yield and risk levels for it.

The algorithm for implementing modern portfolio theory consists of the following stages (figure 7.4):

Let's consider the main content of individual stages and methods of portfolio theory that allows to optimize the formed portfolio of financial investments.

1. Assessment of the investment qualities of certain types of financial investment instruments is a preliminary stage of portfolio formation.

It is a process of considering the advantages and disadvantages of various types of financial investment instruments from the perspective of a particular investor based on the goals of the capital management policy formed by him in the financial investment process.

The result of this stage of portfolio formation is to determine the ratio of partial and debt financial instruments of investment in portfolios, and in the context of each of these groups - the shares of certain types of financial instruments (stocks, bonds, etc.).

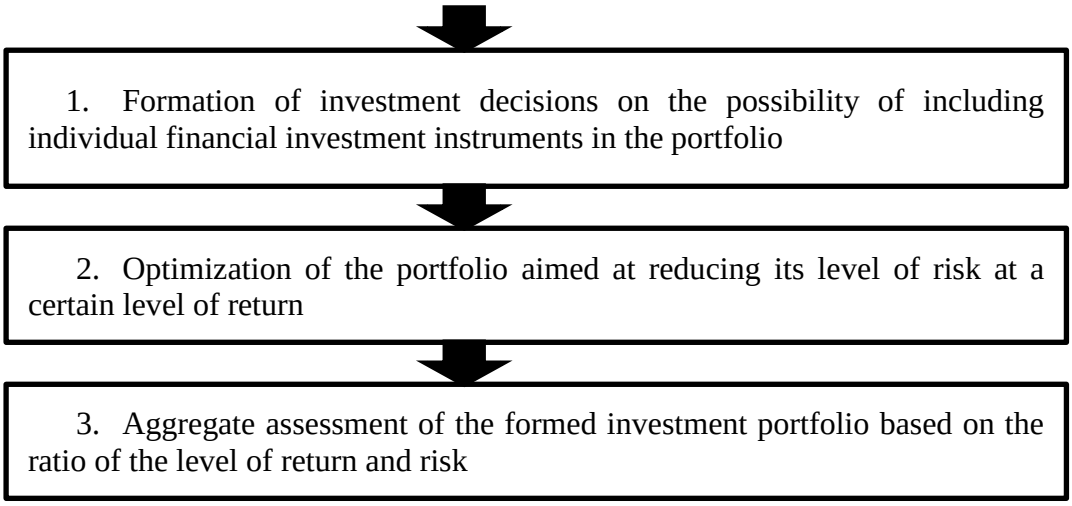


Fig. 7.4. The main stages of forming a portfolio of financial investments for an enterprise in accordance with Modern Portfolio Theory

An example of structuring a portfolio by type of financial investment instruments is shown in table 7.2.

Table 7.2

Alternative portfolio structure by type of financial instruments (in%)

Types of financial instruments	Portfolio type		
	Conservative	Moderate (compromise)	Aggressive (speculative)
Government short-term bonds	45	30	—
Government long-term bonds	35	25	15
Long-term corporate bonds	15	25	35
Shares	5	20	50
Total	100	100	100

2. The formation of investment decisions on the inclusion of individual financial instruments in the portfolio of investment is based on the selected type of portfolio, implements a policy of managing the use of capital in the process of financial investment; the availability of an offer of individual financial instruments on the market; assessing the value and level of profitability of individual financial instruments; assessing the level of systematic (market) risk for each given financial instrument.

The result of this stage of portfolio formation is a list of specific financial instruments selected for inclusion in the portfolio ranked by the ratio of yield and risk levels.

3. Portfolio optimization, aimed at reducing the level of its risk at a given level of return, is based on the assessment of covariance and the corresponding diversification of portfolio instruments.

4. A cumulative assessment of the formed portfolio based on the ratio of the level of profitability and risk allows you to assess the effectiveness of all work on its formation.

The result of this stage of portfolio evaluation is to determine how much the level of portfolio risk has been reduced in relation to its average market level, formed at a given level of return on the investment portfolio. In the context of the functioning

of our stock market, this assessment should be supplemented with an indicator of the level of liquidity of the formed portfolio.

An investment portfolio that fully meets the goals of its formation, both in terms of the type and composition of financial capital investment instruments included in it, is a “balanced investment portfolio”.

A systematization of the directions of forming investment portfolios with an assessment of the advantages and disadvantages of each direction is presented in table. 7.3.

Table 7.3

Directions of forming an investment portfolio with an assessment of the advantages and disadvantages in each direction

Financial instruments that form an investment portfolio	Advantage of the direction of forming an investment portfolio	Disadvantages of the direction of forming an investment portfolio
Securities of national issuers	• the opportunity to get more information about the specifics of the national market development, the main macroeconomic indicators, and the activities of issuers, • no currency risk, • no costs associated with investing abroad.	• lack of conditions for using the opportunities of the global capital market, • lack of diversification of sources of profit at the expense of foreign markets, • insecurity from the influence of foreign markets related to the national market.
Securities of foreign issuers	• using the opportunities of the global capital market (investing in more profitable or less risky securities), • diversification of sources of profit at the expense of foreign markets	• limited information about issuers’ activities, • impact of currency risk, • additional costs associated with investing abroad.
Securities traded on the National Stock Market and denominated in foreign currency	• the possibility of obtaining additional income due to the growth of the national currency exchange rate, • portfolio diversification reduces the overall risk of a fall in the national currency or securities.	• impact of the national currency regulation system (possibility of currency restrictions), • impact of currency risk.
Securities traded on the international market and the European market	• using the opportunities of the global capital market (investing in more profitable or less risky securities), • limited impact of state regulation of stock operations, • portfolio diversification reduces the overall risk of a currency or security falling.	• increased currency risk (multi-currency aspect), • limited information about issuers’ activities, • additional costs associated with investing on the international market (double taxation).

The investment portfolio can be formed exclusively from securities of national issuers (first direction). Using this direction provides investors with the opportunity to get more information about the specifics of the national market development, the main macroeconomic indicators, and the activities of national issuers.

However, the formation of an investment portfolio using securities of only national issuers excludes the use of the opportunities of the global capital market, respectively, the sources of investor profit at the expense of foreign markets are weighed. In addition, in the context of financial integration, there is a risk from the influence of foreign markets associated with the national market.

All these disadvantages will be overcome by using the second direction of investment portfolio formation, if you use securities of foreign issuers, that is, an investor, using more profitable or less risky securities of foreign issuers, can benefit from changes in the global capital market, and, accordingly, diversify sources of profit at the expense of foreign markets.

Among the disadvantages of this area of investment portfolio formation is that there is a certain limitation of information about the activities of issuers, there is a possibility of a negative impact of currency risk, and investing abroad is also associated with additional costs.

The third direction of forming investment portfolios is based on the use of securities traded on the National Stock Market and denominated in foreign currency.

Among the advantages of its use, it should be particularly noted the possibility of obtaining additional income due to the growth of the national currency exchange rate. In addition, portfolio diversification reduces the overall risk of a fall in the exchange rate of a national currency or securities, but there is a possibility of a negative impact of currency risk. In addition, certain restrictions may occur due to the influence of the national currency regulation system (for example, currency restrictions).

The fourth direction of forming a portfolio of financial investments is related to the use of securities traded on the international market and the European market. Among the most significant advantages of using this direction are:

– using the opportunities of the global capital market (investing in more profitable or less risky securities),

– limited impact of state regulation of stock operations,

– portfolio diversification reduces the overall risk of a currency or security falling.

Among the disadvantages and certain limitations of applying the direction of forming a portfolio of investments in securities traded on the international market and the European market, is that there is an increase in currency risk (multi-currency aspect), there is a certain limitation on the activities of issuers of these securities, in addition, there are additional costs associated with investing on the international market (for example, double taxation).

Thus, there are too many combinations of forming an investment portfolio, including a portfolio of international investments, based on the abundance of securities, the use of which affects investment risk, according to which investors, analyzing various securities, choose only those that meet investment criteria and contribute to ensuring the highest income and the lowest risk. Despite the diverse directions of investment portfolio formation, it is possible to define the basic principles of international investment portfolio formation in the context of international economic integration:

– Security of fixed capital, which consists in protecting the purchasing power of funds. In the context of international investment activity, the risk of reducing the purchasing power of funds will be determined by the risk of inflation and currency risk.

– Profit stability, which allows the investor to ensure high-quality planning of international investments.

– Capital gains. There are two ways to implement this principle. First, growth can be achieved by reinvesting profits, and secondly, by acquiring shares of dynamically growing international companies.

– Liquidity of the portfolio as a whole and its components. The implementation of this principle allows you to effectively implement a pricing strategy.

– Asset diversification, which reduces the risk of capital and income losses.

Control questions

1. Define the concept of "investment management".
2. What are the main functions of the investment management?
3. Define the concept of "investment policy goal".
4. What is the investment management process?
5. What is the main objective of the investment management?
6. What are the guiding principles of developing the investment policy?
7. Define the concept of "investment strategy".
8. What components does the investment strategy development process include?
9. Define the concept of "investment portfolio".
10. What are the main stages of building a financial investments portfolio of the company?
11. Name the main types of investment portfolio.

Tests

1. The Investment management is:

a. a process of managing all aspects of investment activity of businesses

b. a system of long-term goals of the company investment activity, which are caused by the general tasks of its development and investment ideology, as well as the choice of the most effective ways to achieve them

c. a set of targeted actions to identify, meet and modify the investment needs depending on the conditions, along with the funding identification

2. The production strategy of the company at the stage of product youth includes:

a. the ensuring a stable activities volume

b. an industry diversification

c. the expanding the product range and production volumes

d. the identification of new production trends

3. The main objective of investment policy is:

a. to ensure the minimization of investment risks associated with the rationalization of specific projects

b. to receive the necessary return by the company on the invested capital

c. to implement the strategic company plan of economic and social development, as well as investment activity acceleration

d. to control the rational use of funds allocated for investment activities

4. The investment strategy is:

a. a process of managing all aspects of investment activity of businesses

b. a system of long-term goals of the company investment activity, which are caused by the general tasks of its development and investment ideology, as well as the choice of the most effective ways to achieve them

c. a set of targeted actions to identify, meet and modify the investment needs depending on the conditions, along with the funding identification

5. The stages of the product life cycle do not include:

a. ageing

b. youth

c. late maturity

d. revival

6. Investment policy is:

a. a process of managing all aspects of investment activity of businesses

b. a system of long-term goals of the company investment activity, which are caused by the general tasks of its development and investment ideology, as well as the choice of the most effective ways to achieve them

c. a set of targeted actions to identify, meet and modify the investment needs depending on the conditions, along with the funding identification

7. The principles of investment policy do not include:

a. ensuring the minimization of investment risks associated with the rationalization of specific projects

b. making the necessary return by the company on the invested capital

c. implementation of the strategic company plan of economic and social development, as well as investment activity acceleration

d. controlling the rational use of funds allocated for investment activities

8. The basic strategy of the company at the stage of product ageing is:

a. the ensuring a stable activities volume

b. an industry diversification

c. the expanding the product range and production volumes

d. the identification of new production trends

9. The types of investment portfolios in relation to investment risks include:

a. an aggressive portfolio

b. an income portfolio

c. a spending portfolio

d. a neutral portfolio

10. The basic principles of building the international investment portfolios do not include:

a. a capital growth

b. a cost reduction
c. an asset diversification
d. a portfolio liquidity

Topic 8. INVESTMENT RISKS: ANALYSIS AND EVALUATION

8.1. The essence and classification of investment risks
8.2. Methods of financial risk assessment
8.3.Investment risk management
8.4.Risk assessment of the investment project

1. The essence and classification of investment risks

The formation of the market and market infrastructure, new mechanisms for establishing economic ties, business development, increasing competition require deepening the theory of business risk, methods of assessing and regulating it at all levels of management: state, regional, local, industry, enterprises, shops, sites regardless of ownership.

Competition forces entrepreneurs to actively study information to avoid possible mistakes in the implementation of risk-bearing industrial, financial, commercial and other operations. External and internal factors that determine business activity in a market economy are dynamic, so often they can be monitored and controlled only with the help of various elements and levers of marketing. In order to use the laws of the market wisely and not be a victim of it, the most advanced forms of analysis of the functioning of the components of the reproduction process should be used. Numerous attempts to formulate theoretical definitions of the concept of risk are known in the economic literature. The most consistent of these is the assertion that risk is at its core uncertainty.

Uncertainty of the situation is characterized by the fact that it depends on many variables - counterparties, whose actions can not be predicted with acceptable accuracy. It is also affected by the lack of clearly defined goals and criteria for their evaluation, changes in societal needs and consumer demand, the unpredictable emergence of new technologies and techniques, changing world market conditions, adjusting the trajectory of economic necessity, unpredictability of natural phenomena and more.

Uncertainty that creates risk is understood as a situation when there is no information about the structure and possible states of the object and the environment.

The concept of risk is associated with awareness of danger, threat, unreliability, uncertainty, uncertainty, accidental damage. According to researchers, the term "risk" comes from the Latin word "resecum" - a rock or danger of collision with it. For a long time, the concept of risk was not only associated with significant negative manifestations of life situations, but was often used as a synonym for them.

Facing a variety of risks is a common threat to any investor in today's market economy. For the most part, investing in the production of certain goods or services, the investor can not have full confidence in the public recognition of the results of this production.

In practice, such recognition depends on a successful combination of different factors, so investors risk a lower-than-expected return or even loss. Thus, the study of investment risks, identifying the factors that cause them and calculating possible losses - these are important issues that must be considered by the modern investor when deciding to invest in a particular area of production or business. That is why the ability to assess investment risks is necessary for a modern manager.

The importance of taking into account investment risks is evidenced by the considerable attention paid to this problem by researchers in highly developed countries. In the conditions of the modern Ukrainian economy the problem of investment risks is especially acute due to the instability of the tax regime, the fall of the national currency, low purchasing power of a large part of the population. Therefore, it is especially important for investors dealing with the domestic market to carefully calculate the possible impact of investment risks.

Risk- is an accidental event that with a certain level of probability can affect the performance of work (process, project) and cause negative, positive or neutral results of the decision.

There are object and subject of risk. The object of risk is an economic system, it is impossible to assess the conditions, results and efficiency of its operation in the

future with a high level of accuracy, and the subject of risk - participants in economic processes who are interested in the results of risk management.

In the classical definition, investment risk is understood as the possibility of unforeseen financial losses in the uncertainty of economic activity in terms of investment. Risk implies a situation in which there is uncertainty about the consequences of investing capital.

Risk in investing- is a quantitatively measured and estimated uncertainty of investment activity associated with the probability of occurrence in the implementation of the investment project adverse events and their consequences in the form of certain financial consequences: reduced income, increased costs, loss of profits and more.

As an economic category, "risk" is characterized by the following components:

uncertainty of external market factors;

the existence of several alternatives;

the possibility of deviations from planned and projected indicators: the probability of asset loss, loss of expected profit or others;

the presence of subjective factors of perception of events and adverse consequences;

the need to anticipate management measures to reduce possible adverse effects of planned actions.

Investment project riskis considered as an accidental event that with a certain degree of probability may affect the progress of the investment project and cause negative, positive or neutral results of the investment decision. The risk of an investment project is the probability of a certain level of loss by the firm of part of its resources or loss of income, or the manifestation of additional losses from the project (willow).

Project risk- is the probability of unforeseen financial consequences that may be characterized by losses or profits from the expected investment project in a situation of uncertainty of its implementation.

The larger the investment project, the higher the risk, and the greater the likelihood of negative (loss of income or profit, loss or additional cost of resources, excess cost of the project, etc.), positive or neutral results of the impact of risk on project performance due to government, government or economy in general.

The classification of investment risks on a number of grounds is as follows:

1. By period of occurrence:

a) short-term (up to 1 year) are risks of outflow of foreign capital from Ukraine; deposits of legal entities in domestic government bonds, which is associated with a constant decline in their yields;

b) medium-term (from 1 to 3 years) - is the lack of well-thought-out fiscal policy at the micro level, hence the growth of budget debt; c) long-term (more than 3 years) - arise from the growth of the share of debt from foreign financing, which is almost entirely spent on current consumption and does not stimulate the economy. There is a problem of repayment of external public credit.

2. By forms of investment:

a) the risks of real investment - associated with poor choice of construction site; with interruptions in the supply of investment goods - building materials and equipment; with a significant increase in prices for investment goods; other factors that delay the implementation and operation of the investment object or reduce profits during its operation;

b) risks of financial investment - related to:

1) imperfect selection of financial instruments for investment;

2) financial difficulties or bankruptcy of certain elements of securities;

3) direct deception of investors and other factors.

3. By sources of origin:

a) systematic (market) arise for all participants in investment activities and are determined by the economic condition of the country (external factors influencing risk);

b) unsystematic (specific) - they are a feature of a particular investment object or activity of a particular investor, ie internal factors that affect the risk (Fig. 8.1).

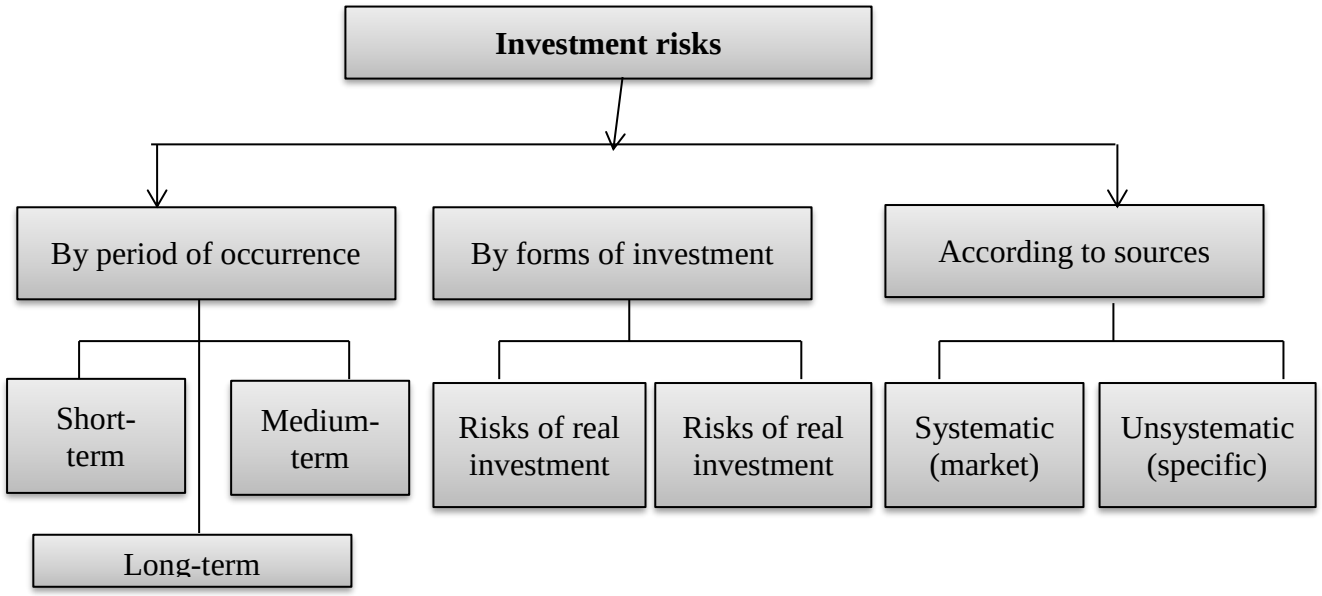


Fig. 8.1. Classification of investment risks

Investment risks are related to the specifics of the investment firm's investment in various projects and are due to:

- unreasonable investment;
- depreciation of the investment and financial portfolio;
- the disappearance of sources of funding for the implementation of a particular project;
- failure of the chosen method of financing;
- increasing the previous cost of the project;
- reduction of the share price on the stock exchange;
- the probability of losses due to compliance with the firm's exchange agreements;
- forced increase of the previously planned amount of dividends on shares or payments on shares of the company;
- investing a large amount of money in one project.

Investment risk analysis provides such a sequence of actions as:

identification of investment project risks;

determining the list of identified internal and external factors of investment risk formation;

assessment of a certain type of risk using two or more approaches of qualitative and quantitative analysis;

determination of financial expediency of volumes and sources of financing;

determination of economic feasibility and efficiency of investments;

identification of factors that increase or decrease the degree of a particular type of risk;

selection of criteria for determining the acceptable level of risk;

developing measures to avoid or reduce the level of risk.

Qualitative risk analysis involves determining risk factors, risk areas. All possible types of risks can then be identified. Qualitative risk analysis has several aspects. The first is related to the need to compare the expected positive results with the possible economic, social and environmental consequences. The other is related to the identification of the impact of decisions made in conditions of uncertainty on the interests of economic actors (suppliers, consumers, competitors, community, etc.). At the stage of qualitative risk analysis it is necessary to distinguish its factors, which can be divided into two groups, objective and subjective.

The procedure of qualitative analysis of risk and behavior of its subjects in making management decisions can be presented as follows (Fig. 8.2).

The following risk classification rules are followed in determining (identifying) the type of risk:

identification of investment risk should be carried out on the basis of characteristic features: sources of risk, objects and subjects of risk;

risk classification should correspond to the specific objectives of the investment project and the basics of a systematic approach;

risk situations of investment risks of the same type must have details of the same order and meet the objectives of the classification;

risky investment situation may contain different types of risks.

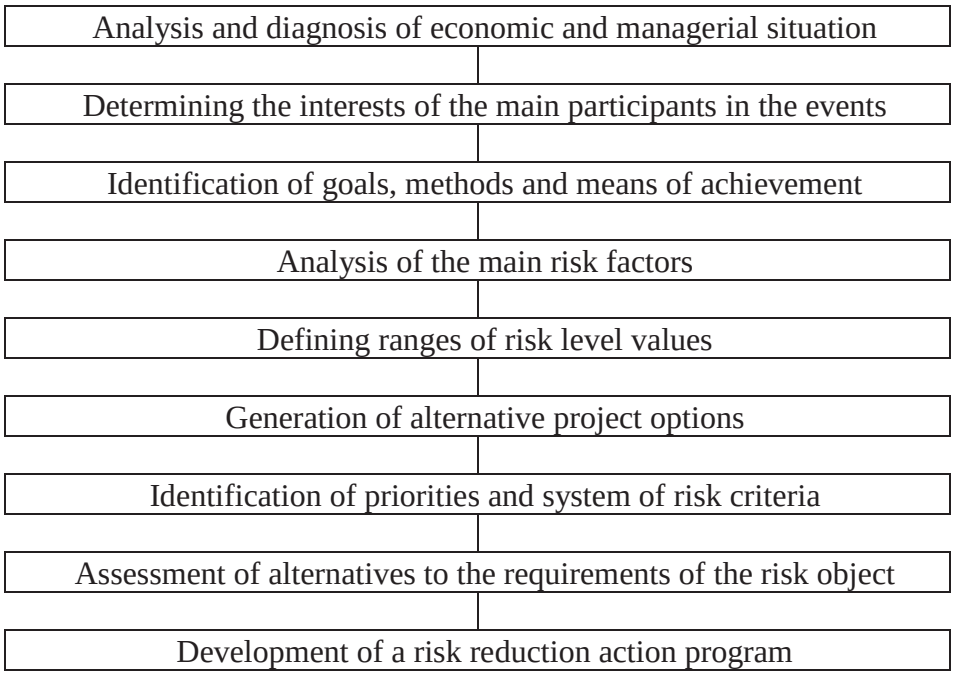


Fig. 8.2. The procedure of qualitative risk analysis is generalized

The technology of identification of risks and opportunities to achieve the selected investment goals allows:

take into account changes in the external macro- and meso-environment;

explore situations with fuzzy factors and relationships;

to predict the future taking into account the available prospects, resources and means of overcoming risks;

to form sound investment strategies for sustainable development.

Such risk identification technologies are used in strategic management at all levels of the management hierarchy. At the same time, qualitative and quantitative aspects of risk analysis are used.

The analysis of investment risk is expediently carried out in the context of its classification groups, which are described in table. 8.1.

Classification of external and internal investment risk factors according to the degree of their impact involves the division into:

objective - those that the company can not influence;

subjective - those that are affected by the enterprise.

Table 8.1

Classification of investment risks

Classification group	Type of investment risk
by scale and size	global,local
by aspects	psychological, social, economic, legal, political, biomedical, combined, socio-economic
according to the degree of objectivity and subjectivity of decisions	with objective probability, subjective probability, with objective-subjective probability
according to the riskiness of decisions	minimum, average, optimal, maximum or permissible, critical, catastrophic
according to the degree of validity	rational (reasonable), irrational (unreasonable), adventurous (gambling)
at the time of making risky decisions	advanced, timely, late
decision-makers	individual, group
by the nature of the situation	in conditions of uncertainty(stochastic risk), in conditions of conflict (competing risk), in conditions of vagueness

Objective factors include those that do not depend directly on the decision-makers: inflation, competition, political and economic crises, the environment, tariffs, the existence of the most-favored-nation treatment, possible work in a free economic enterprise, and so on. Subjective factors include those that characterize the subject of decision-making.

Financial risks- These are commercial risks, which are divided into pure and speculative. Net risks include the possibility of loss or achievement of the intended result. Financial risks are speculative risks, which are expressed in the possibility of obtaining a positive result and a negative one. Financial risks include: credit, interest rate, currency, lost financial profits.

Credit risks - the possibility of non-payment by the debtor of the principal debt and interest due to the creditor.

Interest rate risk - the threat of losses due to rising interest rates paid by them on borrowed funds, above the rate on loans.

Currency risks are a threat to currency losses associated with changes in the exchange rate of one currency against another and the national currency during foreign economic credit and other foreign exchange transactions.

The risk of lost financial gain is the risk of loss of profit due to the occurrence of a certain type of economic situation, under the influence of external or internal

factors of objective or subjective nature. Losses that can be observed in business activities are estimated by their magnitude and probability of occurrence. From the point of view of the general estimation of size of probable losses they divide into defining and minor, and also casual losses. Losses are divided by types of business activities: production, commercial, financial.

Financial risk is characterized by two categories of assessments - level and time. At the same time, low risk is associated with low incomes, high - with high. The level of risk will depend on the scope and field of activity of the enterprise. Depending on the reliability of the investment project, the level of risk can be high, medium or low. The time factor significantly affects the level of risk: the longer the term of the deposit, the higher the risk. The level of risk is divided into a safe rate and a risk premium associated with the time factor. The safe rate is the interest rate paid on non-risky assets or those with a guaranteed income. The risk premium is a necessary rate of return over a safe return on capital. The premium for risk on securities with a long maturity is always higher than the premium on short-term securities issued for one year.

2. Methods of financial risk assessment

Financial risk by nature involves uncertainty, so its assessment involves the use of quantitative and qualitative assessment methods.

Qualitative methodexpert assessment of investment risk is based on the idea of discussing the problem with several experts, theorists and / or practitioners. The divergence of their views can be formalized through the so-called coefficient of divergence. This coefficient is given several practical values to obtain a number of possible probabilities for the development of an accurate estimate. In general, expert assessments have a number of features:

– expert assessment and expert forecasting in any field requires the use of special methods;

– expert method of assessing economic phenomena and processes reflects the generalized opinions of experts;

– the method of expert assessment is effective only at the stages of system evolution (Table 8.2).

Table 8.2

Basic qualitative methods of risk analysis*

Method	The essence of the method	Specificsmethod
Qualitative methods of risk analysis		
Concretizationthese types of risks	It involves the collection and detailed study of information about the future "project" and its inherent risks	Requires time and financial costs to obtain information
Method analogy	Provides comparisons on a number of signs of the future "Project" with previously implemented "projects"	Requires completeness of information to understand the degree of its applicability in a particular situation
Causal analysis	Provides heuristic selection of risk events, formal logical analysis of their possible causes and the development of anti-crisis measures	It is used at the pre-investment stage, stimulates the search for options to increase the reliability of the "project" in general
Method "Byactions-consequences "	Provides for the division of the "project" into elements and the identification of risks for each of them	Used to identify specific risks
Methods that combine quantitative and qualitative analysis		
Method of expert assessments	The central figure of this method is an expert who evaluates using logical and mathematical-statistical methods.	The advantage of this method is the lack of need for accurate source data and expensive software, to take into account the impact of various factors using the experience of experts
Create a risk profile or risk map	Provides risk assessment "Project" on a number of parameters and display them on a group of relevant scales. The resulting "profile" is compared with the "reference"	It is a tool for visualizing the risk structure and assessing the compliance of the project with the organization's risk policy

*Note. We are talking about different types (draft agreement, investment project, cooperation project, etc.).

Statistical method of risk assessmentis based on the analysis of fluctuations of the studied indicator for a certain period of time.

It is assumed that the pattern of changes in the analyzed value will occur in the future. However, for a short-term assessment of the extrapolation of the old laws give significant errors. That is, a simple extrapolation of strategic patterns does not allow a realistic assessment of risk. The main quantitative methods of investment risk

assessment are given in table. 8.3. Comparison of basic methods shows the estimates in table. 8.4.

Table 8.3

Basic quantitative methods of risk analysis

Method	The essence of the method	Specificsmethod
Discount rate adjustmenttioning	Provides for an increase in steeldiscounting according to the set of risks affecting the "project"	Does not take into account changes in the level of risk in the implementation of the "project"
The method of reliable equivalents	Provides expert adjustment of cash flows depending on the subjective assessment of the level of risk associated with obtaining these cash flows	The danger of the method is that there are no reasonable methods for calculating risk-free equivalents, as well as the subjectivity of expert assessment
Analysis of efficiency and cash flow dynamics	Provides consideration of the margin of safety of the project, is relative	Provides only an aggregate assessment of all project risks
Sensitivity analysis	By making alternate individual changes to the technical and economic parameters of the "project", the risks that most affect the project are identified	The method also allows you to estimate the degree of deviation of the parameter at which the "project" becomes unprofitable
Scene methodswarms	With the help of simultaneous changes to a number of technical and economic parameters, alternatives to the baseline scenario of "project" development are formed.	The use of this method, in contrast to sensitivity analysis, eliminates restrictions on the number of factors
Simulation modeling	Providesconstruction of a financial model and multiple calculation of "project" scenarios, calculated taking into account the correlation of relationships between its parameters	The method is difficult to use, requires the use of special software, as well as additional research

Normative method of risk assessmentis convenient and easy to calculate in economic practice. The system of standards can be considered as one of the rating methods for assessing investment risk. The rating scale is pre-formed and covers a minimum of ranking values.

Rating method for evaluating optionsinvolves the selection of coefficients based on the specific purpose of the analysis. The method of rating assessment consists of the following elements: system of assessment coefficients; weight scales of these coefficients; scales for estimating the values of the obtained indicators; formulas for calculating the final rating.

Table 8.4

Advantages and disadvantages of basic risk assessment methods

Basicapproaches	Disadvantages	Benefits
Statistical estimates	Problems of statistical data formation; not all information is statistically processed; high resource intensity	the probability of loss is reliably measured
Expert assessments	high subjectivity	data are analyzed, in particular those that are not processed by statistical tools
Mathematical modeling	complexityprimaryapplication of the method	ranking of assumptions and constants; low time

The rating method of investment risk assessment has a number of advantages. First, the application of this method does not involve the analysis of large data sets. Secondly, when using the rating method, the result is ranked on a certain scale. Third, the rating method uses only basic financial calculations. The problem of using the rating method is the choice of benchmark for comparison. Comparison with a conditional reference company is possible, but requires clarification for each type of risk. You can choose the best among the indicators of a list of companies and form from them the same benchmark for comparison.

The rating is calculated by the method of distances or differences between real and reference values. In determining the final rating, it is not the values that are ranked, but the distances. The traditional rating eliminates the distance ranking operation, which saves time.

A systematic approach to the identification of investment risks takes into account the interaction of different methods of analysis and evaluation of system elements.

3. Investment risk management

A necessary condition for achieving the efficiency of investment activities, which is characterized by increased risk, is the creation and improvement of risk

management systems that allow you to identify, assess, localize and control risk. The decision-making mechanism should identify the risk, assess what risks and to what extent are acceptable, and determine whether the expected return justifies the risk. The risk management process covers a wide range of actions, which can be presented as a sequence of the following stages:

- risk identification, determining the causes of its occurrence and risk areas;
- qualitative and quantitative risk analysis;
- risk assessment: minimizing or limiting risks through appropriate management techniques;
- continuous monitoring of the level of risks. The first stage of the investment risk management process is quite simple, as the fact of having on-balance sheet and (or) off-balance sheet positions that are sensitive to changes in interest rates, exchange rates or stock indices already means risk. Identify risk and analyze its nature is the basis for determining the amount of risk (quantification). The level of risk of economic decisions is assessed by possible losses resulting from this decision. Therefore, risk assessment, which formalizes the process of measuring it, identifies three main components of risk: size (amount of possible losses), the probability of a negative event, the duration of the risk.

This stage of the investment risk management process ends with a comparative analysis of real and acceptable levels of risk. If the actual risk does not exceed the permissible limit, the management may be limited to the control function in order to prevent an increase in the level of risk, ie immediately move to the last stage of the management process. If the level of real risk exceeds the allowable limits, there is a problem associated with finding optimal management methods, the choice of which is largely determined by the type of risk, as well as features and capabilities of a particular enterprise, general economy, level of infrastructure, financial and regulatory environment.

Risk managementis a set of methods and techniques for analyzing, assessing and reducing or neutralizing the negative consequences of risky events. Depending on the type of risk management, it can either be completely avoided or the potential

consequences can be reduced. If internal risks can be reduced and neutralized through quality management, then in relation to external risks we can only talk about minimizing the possible consequences.

The success of the activities and investments of economic entities largely depends on the accepted concept of risk management. To solve the problem of risk - profit, two main management models are used, which formalize the chosen strategy of market behavior. The first management model maximizes profits (P) in limiting the level of risk (P) by setting its maximum allowable value (P ').

This approach to management is called a risk-free hedging strategy, which is implemented through the use of unbalanced methods of asset and liability management, which include the following: maintaining an open currency position; imbalance of assets and liabilities sensitive to changes in market interest rates, terms and amounts; formation of a high-risk portfolio of securities, conducting speculative transactions with financial derivatives. The main task of the management process under this approach is to prevent the situation from escalating the tolerable risk into a catastrophic one, which threatens the existence of the business entity and leads to bankruptcy.

In the second management model, the goal is to minimize risk, and the limitation is the level of profitability, not lower than the specified (P '). This model is used if the amount of net profit is satisfactory in this situation, and the main goal is to stabilize the results. The result is achieved through a balanced approach to asset and liability management. These techniques include: maintaining a closed currency position, forming a balanced portfolio of securities, agreeing on the terms and size of assets and liabilities, conducting risk insurance operations. This approach is called a risk hedging strategy.

The hedging strategy allows you to significantly reduce or eliminate price risks. However, hedging operations require some costs, highly qualified specialists and reduces the opportunities to benefit from favorable market conditions. Therefore, in practice, it is recommended to use more flexible approaches to management that combine elements of both strategies and consist in hedging individual active, passive

or off-balance sheet items - micro-hedging, as opposed to macro-hedging.

Risk can be quantifiedboth in absolute and relative terms. Methods of measuring risk by the level of deviations of possible results of operations from the average expected risks can be determined by the amount of possible losses. Example:

– the risk of loss of profit on the project (the selling price of the project only covers the cost of production);

– the risk of losing revenue on the project (competitors released an analogue, reduced prices, etc.);

– risk of loss of project assets due to natural events, fires, gross errors in equipment operation, criminal events, etc.

It is generally accepted that the method of quantitative assessment of the level of risk by calculating the level of uncertainty of possible changes in the performance of the project in the future in the event of certain adverse events for the project. This indicator can be the standard deviation level or the coefficient of variation. The level of risk will depend on whether the investment is associated with a well-developed field of activity - a factor of uncertainty.

Situational approachadoptionmanagement decisions to solve problems to reduce risk involves the use of the following scheme:

1) selection of signs of classification of situations;

2) identification of typical situations according to the selected features;

3) establishing compliance of standard situations with the relevant standard management decisions;

4) filling typical situations with the values of specific circumstances;

5) transformation of standard solutions into concrete ones.

According to the second stage, there are typical situations, which are presented in table. 8.5.

Table 8.5

Typical risks and causes

Typical risks	Causes of risks	Factors
1	*2*	*3*
Risk of non-sale of enterprise products	1) refusal of traditional suppliers to enter into contracts; 2) unacceptable for the company terms of the contract (in particular, prices); 3) the transition of traditional suppliers to the production of other products; 4)inability to purchase on the world market due to the complexity of customs legislation, lack of currency	1)excessive concentration of incoming material flows to limit the number of suppliers; 2) non-diversification of supplies; 3) instability of the general socio-economic situation; 4) compliance with suppliersmakers of the strategy "maximum profit today - by any means "
Risk of shortage of suppliers' products	1) unforeseen situation with suppliers; 2) technical impossibility of production of products necessary for the enterprise; 3) inability to fulfill the terms of the contract; 4)adoptiondecisions by the supplier on termination of the contract and change of the consumer; decision-making by the supplier to change the terms of the contract	1) general instability of the socio-economic situation; 2) the absence of a tradition of binding general legal and contractual conditions; 3) uneven inflation rates; 4) a sharp rise in prices in some industries and regions; 5) uneven income dynamics of different segments of the population; 6) lack of funds from enterprises to compensate for rising prices by the supplier
The risk is unbelievablepr epayment by the supplier	1) unforeseen situation with suppliers; 2) technical impossibility of return; 3) the decision of the supplier on the temporary or final misappropriation of money received as prepayment, the inability to pay them to the company due to use before the termination of the contract	1) crisis situation during settlements under-enterprises; 2) weakness of commercial arbitration and legal framework, low legal culture of governance; 3) hypertrophied directions of the enterprise to the absolute minimization of risk; 4) lack of developedeconomic and financial insurance systems operations
The risk of not concluding contracts for the sale of products	1) change the structure and reduce the needs for this type of product; 2) replacement of products with products of other enterprises; 3) depreciation of products; 4) demand switching; 5) reduction of demand due to changes in the budget structure or reduction of consumer income; 6) change in the production profile or specialization of traditional consumers of products; 7) lack of enterprises full information about this market segment	1) technical progress, the emergence of new technologies; 2) economic downturn, displacement of highly developed technologies simpler; 3) the dependence of the results of decisions made by the consumer on the characteristics of the contract; 4) change in import conditions that facilitate the import of foreign products; 5) intensification of marketing activitiescompetitors; 6) a sharp increase in production volumes and profitability in the industry
Risk of failurethe buyer from the products received and paid for by him	1) discrepancyproduct requirements for its quality; 2) the inability of consumers to use products of this quality; consumer's decision to switch to another product or choose another supplier	1) instability of the general socio-economic situation; 2) excessive concentration weekendenterprise flows to a small number of consumers; 3) low level of culture and legal awareness leaders

1	2	3
Risk of failure of own production plans or innovative projects	1) unforeseen lack of funds; 2) adverse climatic conditions; 3) non-compliance with technology; 4) technical accidents; 5) strikes; 6) transfer of qualified personnel to another enterprise	1) instability of rates and proportions of change of prices; 2) the level of entrepreneurial activity in the region and the range of social inequality; 3) insufficient costs for the development of sustainable technologies
Risk of incorrect forecasting of the situation and obtaining incorrect source data	1) the lack of the necessary traditions and the system of continuous forecasting of the market environment; 2) inability to carry out market monitoring; 3) lack of effective methods for predicting the behavior of market participants, as well as meso- and macroeconomic factors	1) low level of enterprise management; 2) lack of qualified managers; 3) insufficient costs for research in the field of ensuring and improving management
Risk of non-receipt of foreign investments and loans	1) unfavorable impression of investors or creditors on the prospects and capabilities of the enterprise; 2) unexpected loss of negative information; 3) publication of facts and data compromising the company; 4) a sharp decline in the company's share price as a result of the stock market game; 5) consumer speeches criticizing the company's products	1) loss of image control enterprises; 2) active actions of dishonest competitors in the market; low marketing costs, in particular for advertising and maintaining the company's image

Conducting economic analysis of the enterprise requires the development and reduction of risks (Table 8.6).

Table 8.6

Ways to reduce economic risks associated with internal costs

№ s / n	Economic risks	Ways to reduce them
1	Risks associated with shortcomings in the organization of production and management	Marketing researches
2	Risks associated with violations of technological processes of supply and transmission of electricity, unforeseen stops (interruptions) and failures of technological equipment, force majeure	Insurance, situation monitoring
3	Risks associated with underdeveloped internal (corporate) documents of the company	Development and adoption of internal documents, in particular on compromises concerning the parties to the conflict

The most common methods of neutralizing investment risks are: diversification, insurance, hedging and distribution of investment risks.

Diversification- investment of financial resources in more than one type of assets, ie the process of distribution of investments between different objects of investment, which are not directly related to each other. One of the most common ways to prevent or reduce risks is through insurance.

Risk insurance- is the transfer of financial risks of losses to the insurance company. During the analysis, it is important to identify a group of risks that can be insured. The risks to be insured include:

- direct property losses related to transportation, operation of equipment, supply of materials;
- indirect damages caused by dismantling and relocation of damaged property, re-installation of equipment, non-receipt of rent;
- risks subject to compulsory insurance (against accidents at work, diseases, property damage, theft of vehicles).

These types of risks are present in any project.

In a broad sense, investment insurance is considered as insurance of those facilities, equipment, utilities that have been built, installed or implemented as a result of the investment project. The processes of investment insurance and investment risk management are aimed at the timely completion of work by the contractor at costs that are within the amount specified by the customer. However, this is difficult to achieve, forcing the customer to seek insurance protection against the actual risk of the contractor not completing the installation work in full and on time or possibly exceeding the costs of the contract. Investment risk insurance is an agreement under which an investor buys an insurance policy from an insurer that is not involved in this investment project. The insurance covers only the investment process and does not cover objects created as a result of investments. Such types of insurance include:

- insuranceconstruction;

– insurance in case of disruption of supplies of construction materials during construction;

– credit insuranceto ensure investment, etc. The development of the sphere of insurance of financial risks of enterprises concerns the insurance of profit, price level, stability of raw materials receipts from suppliers, etc. But there are risks that insurance companies cannot cover. These are the risks associated with the instability of the country's domestic political life, possible losses associated with confiscation, civil war, changes in government policy, changes in socio-political system and more. Insurance of such risks involves the creation of state guarantee funds, which should provide certain guarantees of private investment in the economy of a country.

The business plan indicates measures on the types of risk that are not subject to insurance due to the wrong choice of project, fluctuations in market conditions, changes in demand prices, social instability and more. Therefore, the profitability of the case is reviewed taking into account the planned measures.

Hedging- is the process of insuring the risk of possible losses by transferring the risk of price changes from one person to another. Hedging is carried out through the conclusion of a contract, which is designed to insure the risks of price changes - a hedge between the party insuring the risk (hedger) and the party who assumes the risk (speculator). The subject of the contract can be various assets - goods, currency, stocks, bonds and more.

Hedging can be done to increase or decrease prices. Hedger seeks to reduce the risk of market uncertainty by selling forward, futures or options contracts. This allows you to forecast income or expenses, although the risk does not disappear. It is taken over by a speculator who agrees to make a profit by playing on the price difference.

The main disadvantages of risk reduction methods are presented in table. 8.7.

In modern practice, a risk-sharing mechanism is used. Allocation of investment risks is a partial transfer of financial risks to partners on an individual basis operations. In practice, the following areas of risk allocation are used:

Table 8.7

The main disadvantages of risk reduction methods

Risk reduction methods	Disadvantages
Risk allocation	There may be a decrease in income
Risk insurance	Spending money,limited application
Reservation of funds	Low loss coverage
Hedging	Only price risks
Using the method of private risks	Limited application of this method
Diversification	Decrease in income
Limiting	Decrease in income
Avoidance	Loss of income

1) distribution of risks between the participants of the investment project (for example, transfer to contractors of risks associated with non-compliance with the schedule of construction and installation works, their low quality, etc.);

2) distribution of risk between the enterprise and suppliers of raw materials (for example, financial risks associated with the loss or damage of property in the process of their transportation or loading and unloading);

3) distribution of the risk of using the property between the participants in the leasing transaction. For example, under operating leases, the company transfers to the lessor the risk of obsolescence of the used asset, the risk of loss of technical productivity and other risks.

4. Risk assessment of the investment project

Risk in project investment- is the quantified uncertainty of investment activity associated with the probability of occurrence in the implementation of the investment project adverse situations and their consequences in the form of financial losses (reduced income, increased costs, lost profits, etc.). Typical risks by stages of the investment project are shown in table. 8.8.

Complexinvestment risk factors according to the degree of influence are divided into factors of macro-, meso- and microeconomic levels. The factors of the microeconomic level include:

- dishonesty or professional misconduct of management and production staff;
- illegal actions of the company's employees and third parties (theft, fraud, etc.);
- errors in technical and technological processes;
- errors of management and its information-analytical and software.

The complex factors of the macroeconomic level include changes in the investment climate of Ukraine, namely:

- fluctuations in the hryvnia exchange rate;
- inflation rates;
- changes in lending rates;
- changes in prices for raw materials and energy;
- changes in tax rates;
- changes in economic conditions, etc.

Each type of risk must be analyzed in detail, modeled, broken down into elements, which will to some extent reduce the uncertainty of the situation, making the appropriate decision.

In order to assess the sustainability and effectiveness of the investment project in conditions of uncertainty, it is recommended to use the following evaluation methods:

- consolidated sustainability assessment;
- calculation of break-even levels;
- parameter variations and sensitivity analysis;
- estimates of the expected effect of the project taking into account the quantitative characteristics of uncertainty.

All evaluation methods involve the development of project implementation scenarios with the identification of the most likely or most dangerous conditions and the assessment of the financial implications of such scenarios. This makes it possible, if necessary, to envisage in the project measures to prevent or redistribute the

resulting losses (Table 8.9). Currently, in practice, a wide range of techniques and approaches are used to analyze the risks of an investment project.

Table 8.8

Overview of typical risks

for different stages of the investment project

Stage of the project cycle	**Typical risk factors**
Pre-investment	-distance from transport hubs; -availability of alternative sources of raw materials; -level of preparation of documentsregarding the rights and obligations of project participants; -organization of financing and credit insurance; -formation of the administration; -creation of a dealer network, warranty repair and service centers
Investment	-solvency of the customer; _ contingencies, inflation; -shortcomings of design and survey works; -delay in delivery of equipment; -untimely staff training; -low quality of work performed by the contractor.
Operating	*financial and economic:* -instability of demand; -appearance on the market of alternative products; -reduction of prices by competitors; -increase in production of competitors; -rising prices for raw materials and transport services; -dependence on suppliers; -lack of working capital; *social:* -difficulties with recruiting skilled workers; threat of strikes; -the attitude of local authorities; -salary level; -staff qualification level; *technical:* -instability of quality of raw materials; novelty of technology; -insufficient reliability of technology; lack of power reserve; *environmental:* -probability of volley emissions of harmful substances; -harmfulness of production.

Assessing the sustainability of the project in terms of risk involves the use of sustainability criteria. The sustainability of a project is its ability to maintain its effectiveness under various changes in the conditions of implementation.

A project is considered absolutely sustainable if it is solvent in all alternative scenarios of its development, and possible negative consequences can be eliminated

with the help of organizational and economic measures provided in the project (diversification, risk sharing among participants, insurance, provisions, etc.). A project is unstable if it turns out to be inefficient or leads to significant financial losses under the envisaged scenarios.

Table 8.9

Typical methods of risk assessment of an investment project

Assessment methods	Execution process
Statistical	involves the use of mathematical statistics - variance, standard deviation, coefficient of variation.
Analogies	is to analyze the available data on the implementation of similar projects in order to calculate the probability of loss. The method of analogies is most often used in risk assessment of projects that are often repeated. For example, construction.
Interest ratesgiven the risk	allows to take into account risk factors in calculating the effectiveness of the project by increasing the interest rate on the amount of risk premium (risk premium).
Cash flow changes	allows you to estimate using the coefficients of reduction of the probability of cash inflows, taking into account inflation. The adjusted cash flow project with the highest NPV is considered the least risky.
Critical values	It is based on finding such values of variables or parameters of the project, which bring the value of the relevant criterion of efficiency to its limit value.
Break-even analysis	involves determining the relationship between indicators: costs - production (sales) - profit. This method allows you to predict the critical and optimal values of each of these indicators at a given value of others.
Project sensitivity analysis	is to assess how much the effectiveness of the project will change with changes in only one of the initial parameters - factors shaping the effectiveness of investment.
Combined	is to combine severalmethods or their elements.

In the application of the consolidated project sustainability assessment as a basic method of risk determination, it is recommended:

- use moderately pessimistic forecasts of technical and economic parameters of the project, prices, tax rates,

exchange rates and other parameters of the economic environment of the project, production volumes and product prices, deadlines and cost of certain types of work, etc .;

– provide reserves of funds and measures to cover the growth of investment and operating costs for the adjustment of project decisions in the process of its implementation;

– use the discount rate in the evaluation of performance criteria, taking into account the risk adjustment.

Indicators of the internal rate of return and the index of return on discounted investments are used to consolidate the sustainability of the project. The project is considered sustainable if all the conditions given in table. 8.10.

Table 8.10

Conditions of stabilityinvestment project

Indicator	**Value**
IRR values	not less than 25-30%;
the value of the discount rate	does not exceed the level acceptable for small and medium risks - 15%;
interest rates on loans	do not exceed IRR;
profitability index of discounted investments	exceeds 1, 2.
financial reserves	not less than 5% of the amount of net operating and investment expenses of the relevant period

The project is assessed as stable only if there is a certain financial reserve - all free financial resources of the enterprise, which include the total accumulated cash flow balance of the project and cash balances in the assets of the enterprise from other activities (unrelated to this project). At the same time, the amount of such financial reserve at each step of the settlement period must be at least 5% of the amount of net operating and investment costs of the period. In cases where, even after the revision of the financial plan, the project remains unstable according to the results of the consolidated evaluation, its implementation is impractical.

When investing, the risk is quantified by estimating the probable, ie expected return at the maximum and minimum amount of income. To quantify the risk as a measure of uncertainty, it is advisable to establish the nature of the distribution of yield values and calculate the standard deviation from the mean yield and the

coefficient of variation.

The scale of estimation of coefficient of variation accepted in statistics can be used for definition of level of riskiness of investment projects (tab. 8.11).

Of the two projects, the one with higher values of variation indicators is more risky, namely the standard deviation and the coefficient of variation.

Cash flow change methodand assessment of the impact of inflation on cash inflows from investment projects implies the need to address the following tasks:

finding the real interest rate;

Table 8.11

Assessment of the level of riskiness of investments by the coefficient of variation

The value of the coefficient of variation,%	Investment risk assessment
less than 17%	no risk
from 17% to 33%	low risk
from 33% to 40%	medium risk
from 40% to 60%	high risk
over 60%	catastrophic risk

determining the amount of future income taking into account the real interest rate;

determination of the required income taking into account the inflation premium;

comparison of feasibility of alternative projects.

When looking for a real interest rate, you need to consider the impact of inflation.

Stages of solution:

Identifyannual inflation rate using formula 1 (Table 8.12).

Determine the real interest rate using formula 4 (Table 8.12).

Formula 5 (Table 8.12) should be used to determine the amount of future income, taking into account the real interest rate.

In the calculation of the required income it is necessary to apply formula 9 (Table 8.12) for this purpose it is necessary:

determine the actual income using formula 8 (Table 8.12).

calculate the inflation premium using formula 8 (Table 8.12).

Table 8.12

Basic indicators for assessing the inflation risks of the investment project

№ s / n	Indexes	Economic content	Calculation
1	*2*	*3*	*4*
1	Inflation rate	an indicator that characterizes the amount of depreciation of money in a given period, expressed as an increase in the average price level in percentage terms to the face value at the beginning of the period	$THOSE_p = (1 + TI_m)^{12} - 1$, where TI_p- annual inflation rate; $THOSE_m$- average monthly inflation rate.
2	Inflation index	an indicator that characterizes the overall growth of the price level in a given period, determined by summing the baseline at the beginning of the period and the level of inflation	$II = 1 + TI_p = (1 + TI_m)^{12}$, where II is the inflation index
3	Nominal interest rate	this is the interest rate set taking into account changes in the purchase value of money in a given period due to inflation	i_n- nominal interest rate
4	Real interest rate	nominal interest rate adjusted for inflation	$i_r = \frac{i_n - TI_p}{1 + TI_p}$, where i_r- real interest rate; i_n- nominal interest rate
5	The real future value of money	the amount investedat this point in money, which they will become after a certain period of time, taking into account the established interest rate and inflation rate	$FV_r = PV \times (1 + i_r)^m$, where FV_r- the real future value of money; PV - present value; m- number of accrual periods
6	The real present value of money	the amount of future cash transferred according to the real interest rate for the current time period	$PV_r = \frac{FV}{(1 + i_r)}$, of PV_r- the real present value of money
7	Actualincome	(future value of money) the amount of money invested at this time, in which they will be converted over a period of time, taking into account the nominal interest rate	$Df = PV \times (1 + i_n)^m$
8	Inflation premium	additional income accrued for the purpose of recovering financial losses from the depreciation of cash under the influence of inflation. The level of this income is equated to the rate of inflation in a particular period	$SP = PV \times TI_p \times m$
9	Required income	Actual income is adjusted for the expected inflation premium	$D_N = Df + SP$, where D_N- required income; Dr.- real income; SP- inflation premium.

To compare the feasibility of an investment project, it should be borne in mind that if FVr (first project)> FVr (n-th project), the 1st project is more appropriate, if not, then the n-th project.

Initial data are investment volumes (PV), investment term (m), nominal rate (in), inflation rate for the month (TIm) or quarter (TIkv). Estimated: real rate and real future value. After such calculations, a decision is made as to which project is most appropriate.

Control questions

1. Define the concept of "risk".
2. Define the concept of "project risk".
3. Give a classification of investment risks.
4. What is the procedure for qualitative risk analysis?
5. Name the types of financial risks.
6. Name the qualitative and quantitative methods of risk analysis.
7. What are the advantages and disadvantages of the main methods of risk assessment?
8. Define the concept of "risk management".
9. What is the model and methods of risk management?
10. Define the concept of "diversification".
11. Define the concept of "insurance risk".
12. What are the basic indicators for assessing the investment project inflation risks?

TESTS

1. The possibility of unexpected financial loss occurrence under the business activities uncertainty in the context of investment is:

a. an investment risk
b. an investment project risk
c. a project risk
d. a risk in investing

2. Depending on the sources, the investment risks constitute:

a. the risks of real investment
b. the risks of financial investing associated with direct investor fraud and other factors
c. the systematic ones
d. the risks of financial investing associated with the imperfect choice of financial instruments for investment

3. The quantitatively measured and evaluated uncertainty of the investment activity connected to the probable occurrence during the investment project implementation of the adverse events and their consequences in the form of certain financial aftermath: reduced income, increased costs, loss of profit, is:

a. an investment risk

b. an investment project risk
c. a project risk
d. a risk in investing

4. The main qualitative methods of risk analysis do not include:
a. a specification of investment risk types
b. a cause-and-effect analysis
c. an event-effect method
d. an equivalence reliability method

5. The analysis of investment risks does not include:
a. the identifying of investment project risks
b. the assessing of a certain type of risk using two or more approaches of qualitative and quantitative analysis
c. the forming of sound investment strategies for sustainable development
d. the identification of factors that increase or decrease the degree of a particular risk type

6. The probability of unexpected financial consequences, which may be characterized by loss or gains from the future investment project in a situation of uncertain conditions of its implementation is:
a. an investment risk
b. an investment project risk
c. a project risk
d. a risk in investing

7. Depending on the aspects, the investment risks are:
a. rational
b. anticipatory
c. social
d. local
e. legal
f. adventurous
g. optimal

8. The random event that with a certain level of probability may affect the investment project implementation and cause negative, positive or neutral effects of the adopted investment decision is:
a. an investment risk
b. an investment project risk
c. a project risk
d. a risk in investing

9. The quantitative methods of risk analysis do not include:
a. the analogy method
b. the discount rate adjustment
c. the sensitivity analysis
d. the scenario method

10. The diversification is:

a. a transfer of financial risks of loss to the insurance company; during the analysis it is important to identify a group of risks that can be insured

b. an investing of finance resources into more than one type of assets, i.e. the process of distribution of investments between different objects of investment, which are not directly related to each other

c. a process of insuring the risk from possible loss by transfer the risk of price change from one person to another

d. a partial transfer of financial risk to partners in respect of individual transactions

Topic 9. FOREIGN INVESTMENTS

9.1. The essence of foreign investment
9.2. Forms of foreign investment and their functions
9.3. Prerequisites for intensifying foreign investment activity
9.4. Methodological principles for assessing the effectiveness of foreign investment

1. The essence of foreign investment

The growing globalization of the world economy creates a qualitatively new environment for economic growth and determines the importance of studying the free movement of foreign investment. Foreign investment plays an important role in the development of any country, as it consists not only in attracting the necessary amount of capital, but also in the transfer of modern technologies.

All over the world, foreign investment is recognized as one of the most important factors in the economic, technological and social development of the state. Therefore, many countries have created the conditions for the greatest assistance in attracting foreign capital, which are characterized by the provision of material incentives, liberalization of conditions for participation in property, guaranteeing the return of invested capital, weakening state control.

Characterizing the economic essence of "foreign investment", it should be noted that in the economic literature there is no consensus on their definition. Those, according to the Ukrainian economist Blank I.O. foreign investment - is an investment that characterizes the placement of capital by non-residents (legal entities or individuals) in the objects (instruments) of investment in the country.

The most complete definition, which takes into account the variety of forms of foreign investment, is presented in the Law of Ukraine "On Foreign Investment Regime" of March 19, 1996 (as amended), which states that "foreign investment is the value invested by foreign investors in objects of investment activity in accordance with the legislation of Ukraine in order to make a profit or achieve a social effect ".

As investment activity is associated with a certain risk for a foreign investor,

the amount of foreign investment largely depends on the effectiveness of legal guarantees provided by national law. In order to ensure a favorable and stable investment regime, the state establishes state guarantees for investment protection. Law "On investment activities" in art. 19 defines state guarantees of investment protection as a system of legal norms that are aimed at protecting investments and do not relate to issues of financial and economic activities of participants in investment activities and their payment of taxes, fees (mandatory payments). State guarantees of investment protection may not be revoked or restricted in respect of investments made during the period of validity of these guarantees.

Legal guarantees for the protection of foreign investments in accordance with the Law "On the regime of foreign investment" are divided into:

1) guarantees against changes in legislation;

2) guarantees against forced seizures, as well as illegal actions of state bodies and their officials;

3) compensation and indemnification to foreign investors;

4) guarantees in case of termination of investment activity;

5) guarantees of transfer of income, profits and other amounts in connection with foreign investments.

One of the important conditions for attracting foreign investment is to guarantee the stability of the legislation governing the legal regime of foreign investment. A foreign investor wants to have a guarantee that investment conditions will not change. He must be sure that any changes in the legislation will not impair the commercial results of his activities, which he expected to achieve when deciding on his investment in the project he has identified.

Unfortunately, the instability of Ukrainian legislation and its unpredictability often raise doubts among foreign investors. Under the guarantee of stability of the legislation is understood that in case of deterioration of investment conditions to foreign investors will be applied the legislation that was in force at the time of investment. Thus, the instability of Ukrainian legislation is one of the problems in attracting foreign investment into Ukraine's economy.

Compensation and compensation of losses to foreign investors is also a significant problem. According to art. 10 of the Law "On Foreign Investment Regime", foreign investors have the right to compensation for losses, including lost profits and non-pecuniary damage caused to them as a result of actions, omissions or improper performance by state bodies of Ukraine or their officials of their obligations to foreign investors. foreign investment.

We believe that the legislation on foreign investment should provide for specific deadlines for payment of compensation. This would strengthen the effect of the commented state-legal guarantee. The guarantee of transfer abroad of the profits received by the foreign investor in the course of carrying out investment activity in the territory of other state has very important value in legal protection of foreign investments. The procedure for the transfer abroad of profits, income and other funds received as a result of foreign investment is determined by the National Bank of Ukraine. The NBU has developed a Regulation on the procedure for foreign investment in Ukraine, which was approved by the Resolution of the Board of the National Bank of Ukraine of August 10, 2005.

Return of foreign investment, as well as profits, income, other funds received by a foreign investor from investment activities in Ukraine, is carried out by a foreign investor from an investment account in UAH and in foreign currency by direct or portfolio investment to the investment account of another foreign investor.

The problem of free transfer of capital and transfer of income from the territory of one state to the territory of another primarily concerns the unimpeded export of current income of the investor (dividends, interest, royalties), amounts paid to repay loans, export of initial investments; funds arising from the liquidation or termination of investment activities, partial or full sale of investments; compensation received by the investor in case of seizure of his property; any other payments in connection with investments.

Thus, improving the system of legal guarantees for the protection of foreign investment will help attract foreign investment into the economy of Ukraine.

The main factors that negatively affect the process of foreign investment are:

1) unstable legislation, lack of reliable guarantees of protection against its changes for foreign investors;

2) high inflation;

3) low level of infrastructure development, which could ensure rapid operational communication of Ukraine with other countries;

4) lack of a clear state strategy to encourage investment;

5) significant tax and administrative pressure;

6) instability of the financial system of Ukraine;

7) high level of corruption and bureaucracy in public authorities;

8) uneven foreign investment in the country's regions;

9) complexity of registration, licensing, certification and customs procedures. Registration of foreign investments in accordance with established procedures lasts for months;

10) lack of state protection of investments and others.

Review and generalization of literature sources allow a certain way to classify foreign investment. According to the Law of Ukraine "On the regime of foreign investment" (p.2) foreign investment can be made in the form of:

- foreign currency, recognized as convertible by the National Bank of Ukraine;

- currencies of Ukraine - when reinvesting in the object of primary investment or in any other objects of investment in accordance with the legislation of Ukraine subject to payment of income tax (income);

- any movable and immovable property and related property rights;

- shares, bonds, other securities, as well as corporate rights (ownership rights to a share (share) in the statutory fund of a legal entity established in accordance with the legislation of Ukraine or the legislation of other countries), expressed in convertible currency;

- monetary claims and rights to claims of contractual obligations, which are guaranteed by first-class banks and have a value in convertible currency, confirmed in accordance with the laws (procedures) of the investor's country or international trade customs;

– any intellectual property rights, the value of which in convertible currency is confirmed in accordance with the laws (procedures) of the investor's country or international trade customs, as well as confirmed by expert assessment in Ukraine, as well as legalized in Ukraine copyright, invention rights, utility models, industrial designs, marks for goods and services, know-how, etc .;

– rights to conduct economic activities, as well as the right to use subsoil and use natural resources provided in accordance with legislation or agreements, the value of which in convertible currency is confirmed in accordance with the laws (procedures) of the investor's country or international trade customs;

– other values in accordance with the legislation of Ukraine.

Depending on the degree of control over the enterprise, foreign investments are divided into direct and portfolio. According to experts from the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD), investments are considered direct, if carried out outside national borders in order to expand the production of goods and services, the purchase of goods for import into the home country or export to third countries. Their characteristic features is that the investor has management control over enterprises, and they take the form of share capital and short - and long - term intercompany loans. According to this definition for the purpose of direct investment is the production of goods and their movement between countries. That is, the main criterion here is the fact that foreign direct investment involves business activities. According to the legislation of Ukraine direct investments are considered if the foreign investment in the authorized capital of the enterprise (organization) makes not less than 10%.

Foreign direct investment – it is an investment of foreign investors in the forms prescribed by law, in enterprises (organizations) of any organizational and legal form, foreign investment in the statutory fund of which, if any, is not less than 10 percent, in order to make a profit or achieve a useful economic result.

Examining the importance of portfolio foreign investment, we observe that in the literature there are also different interpretations of this category. According to

A.A Peresady, portfolio foreign investments are investments in shares of foreign enterprises (without the acquisition of a controlling stake), bonds and other securities of foreign countries, international monetary and credit organizations in order to obtain increased income from tax benefits, exchange rate changes, etc. Such investments do not require real investor control over the investee.

Foreign investment can be classified according to the following features of (Fig. 9.1).

By source of investment foreign investment is divided into:

– primary, which are invested by a foreign investor in the investment objects of the host country for the first time;

– reinvestment (assets received by a foreign investor as a result of economic activity in the host country in the form of income and aimed at expanding production.

For the purpose of investing the following division is expedient:

1) achieving the financial goal: obtaining interest for the use of credit and other forms of borrowed capital;

2) achieving the business goal: establishing control over the enterprise and obtaining information about its activities;

3) achieving another goal: establishing influence on the sovereign object, rehabilitation of interstate economic ties.

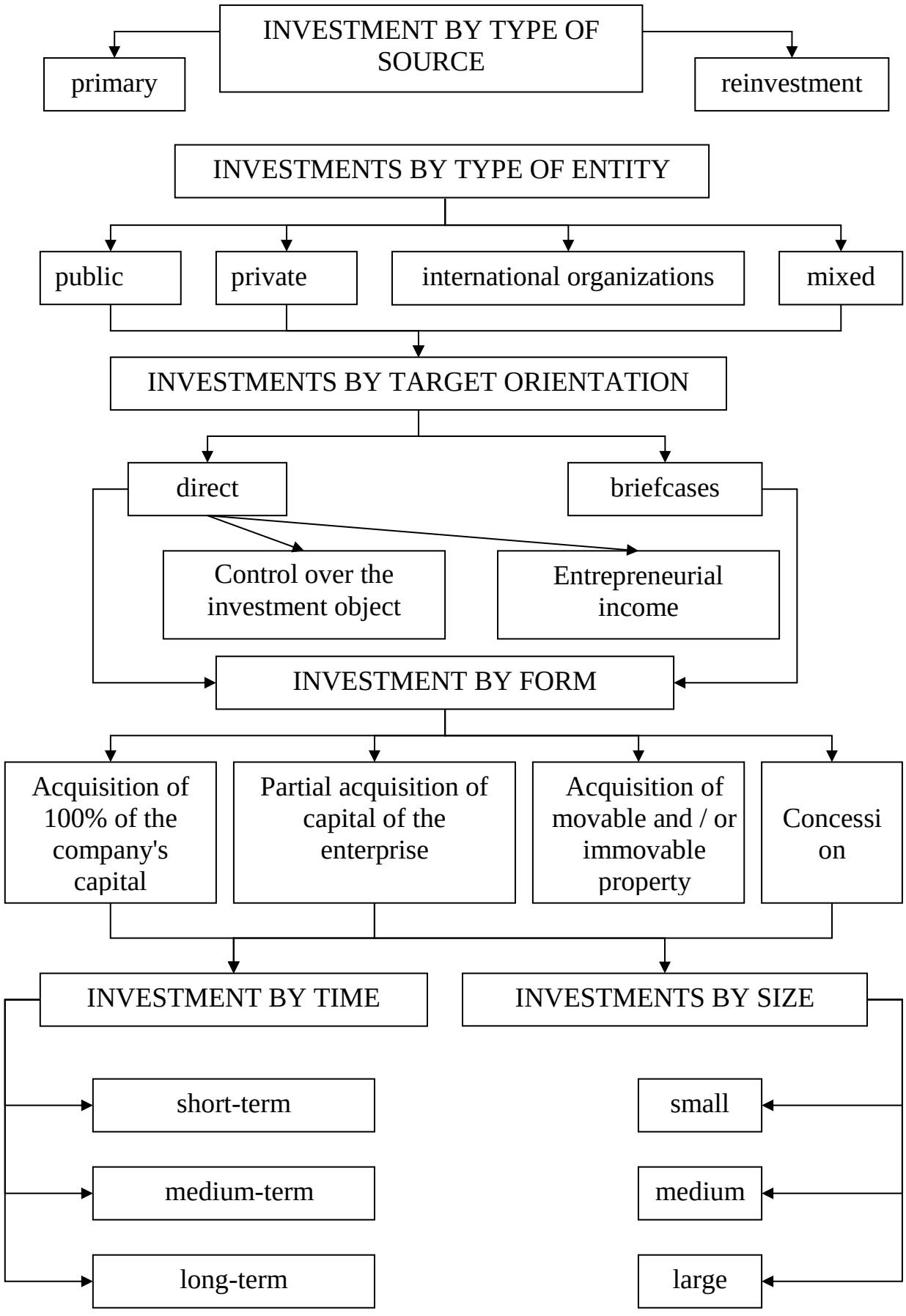


Fig. 9.1. Classification of foreign investment

Analysis of the comparison of direct and portfolio investments are given in table. 9.1.

Table 9.1

Comparative analysis of direct and portfolio foreign investments

Common	Features	
	Foreign direct investment	Portfolio foreign investments
It is based on the motive of making a profit	They provide for gaining control over the enterprise, carrying out business activities	There is only an overflow of financial resources for the purpose of international diversification, the use of interest rate differences or differences in taxation
	Investments in property, fixed and current assets, know-how, securities, etc.	Investments only in securities
	They are long-lasting and less liquid	They are usually short-lived and more liquid
	Together with capital there is a transfer of management technologies, technical and economic knowledge	Only capital sails abroad
	Purpose: to obtain capital gains, business profits, direct and indirect benefits from control of the firm	Purpose: to obtain a return on capital
	Provide, as a rule, higher profitability and lead to a more significant outflow of income from the recipient country	Assume lower profitability
	Have a direct and long-term impact on the economy of the host country	They do not have a significant and long-term impact on the economy of the host country

By form of registration:

1) explicit investments - legally correct capital investment;

2) hidden investments - capital flows issued in the form of investments, for example, capital flows between TNC branches, available capital outflows through securities;

3) black investments - funds obtained illegally, the origin of which is not traceable.

By degree of return: return on investment (loans, borrowings); risky (share in the ownership of capital); non-returnable (technical assistance from international organizations). In our opinion, it will be expedient to supplement the above list of classifications of foreign investments on the following grounds: by sphere of investment, by the form of state guarantees, by the tax regime.

Classification of foreign investment by forms of state guarantees:

- guarantees against changes in legislation;
- guarantees for forced seizures, as well as illegal actions of state bodies and their officials;
- compensation and indemnification of losses to foreign investors caused to them as a result of actions or inaction of state bodies or their officials;
- guarantees in case of termination of investment activity;
- guarantees of transfer of profits received as a result of foreign investments.
- determining the procedure for resolving investment disputes.

According to the tax regime foreign investment can be classified:

1) with the general tax regime;

2) with a preferential tax regime:

- tax holidays;
- investment discounts;
- tax credit;
- accelerated depreciation;
- investment subsidies;
- indirect tax benefits, in particular reduced duty rates.

2. Forms of foreign investment and their functions

Investing can be done in different ways:

- through the development of contractual forms of cooperation;

- mergers and acquisitions;

- creation of own branches, subsidiaries, joint ventures.

Contractual (non-shareholder) forms of investment:

- export-import – trade in goods and services is the simplest form of penetration into international markets.

- licensing – purchase and sale of intangible property rights (patents, copyrights, programs, trademarks, know-how) for a certain period. This way of organizing production abroad, which minimizes capital costs, ensures that in exchange for a license the assets of other firms or income from markets that are not available for export or investment. The license fee can be in the form of: royalties - periodic payments in the form of fixed rates (3-5%) of income related to the commercial use of the license, or lump sum payments - one-time license fees.

- franchising – it is the transfer by the seller (franchisor) of the right to use his trademark to the buyer (franchisee). The brand is the most important asset for the buyer's business, thanks to which the seller provides constant assistance to the buyer in his business. The history of franchising dates back to the 19th century. In the US, 35% of retail turnover is franchising (in Europe - 10%). This system covers almost all types of services, including restaurants and cafes, car service and more.

- management contracts – is a means by which firms can send part of their management staff to provide support to a firm in another country or to provide specialized management functions for a certain period for a fixed fee. Talented managers are the most important asset of the company.

- contract production - connections based on intra-industry specialization. It is based on the deepening of the international division of labor and intra-industry specialization (not by final products, but by parts, assemblies, components, technological processes). In modern engineering, only 15-20% of all parts are original, the rest - interchangeable, their production is distinguished in the development of industrial cooperation.

- «turnkey projects» – it is the conclusion of contracts for the construction of

enterprises, which are transferred to the owner for operation in a state of their full readiness. These can be manufacturers of industrial equipment, construction companies, consulting firms, government agencies for the production of certain products.

Attractiveness of contract forms investing is that they are able to protect the assets of firms. However, they can cause problems:

a) loss of control;

b) inadequate use of licenses is possible;

c) can generate future competitors.

Therefore, gaining experience, firms increase their direct participation in international operations through the expansion of investment activities, mainly through the creation of their own foreign firms and in the form of joint ventures.

Own foreign companies are created abroad in the form of:

- subsidiary – is registered as an independent company and has the status of a legal entity with its own balance sheet. It is controlled by its parent company, which owns part of the shares or all the capital;

- associate – differs from the subsidiary by less influence of the parent company, which owns a significant but not the bulk of the shares. Joint ventures in which a foreign investor owns more than half of the shares are called preferred ownership companies, and if 50% - a foreign investor and 50% - local - companies of equal ownership, if a foreign investor has less than 50% of shares - a joint venture with a foreign capital;

- are not independent companies and legal entities and are 100% owned by the parent company. Branches may take the form of representation of the parent company abroad, partnerships, including with local entrepreneurs, movable property (ships, aircraft, oil rigs) owned by the parent company and operating abroad for at least 1 year.

The country in which the parent company is located is called the home country, and the countries where the subsidiaries are located are called the host countries.

Joint venture – it is an activity based on cooperation with entrepreneurs,

enterprises and organizations of the partner country and their joint distribution of income and risks from the implementation of this activity.

A joint venture- is an organizational and legal form of combining the efforts of partners from different countries in order to carry out joint business activities.

Advantages of joint venture:

- it is a real way of functioning in the markets of the countries in which activity of foreign firms without participation of the local partner is forbidden or limited;

- opportunities to pool capital;

- opportunities to receive certain benefits, advantages of a local partner;

- opportunities for quick adaptation, understanding of the local environment with the help of a local partner;

- opportunities to minimize risk in a changing political and economic situation in different countries;

Disadvantages:

- conflict of interests of partners;

- the combination of two or more corporate cultures does not always make it possible to overcome contradictions.

In developed countries, joint ventures are most often caused by reasons such as fierce competition in world markets and pooling of resources for joint research and development projects.

Increasingly widespread among companies in different countries are gaining strategic alliances – trusting long-term mutually beneficial relationships between firms, allowing each of them to effectively achieve long-term goals, coordinate and optimize the use of shared resources and minimize transaction costs.

Goals of strategic alliances different, but most often it is the pooling of the scientific potential of corporations, industrial cooperation and risk sharing. Distributed in the following industries: automotive, computers, aerospace, pharmacology, defense industry.

The main reasons for the formation of strategic alliances:

- gaining access to partner markets, o use of new technologies,

- reduction of time for innovations.

Alliances usually take place without takeovers. Some types of strategic alliances are designed to expand the range of products and consumers.

Such types include alliances for joint marketing research, the use of common sales channels, sources of information and joint advertising campaigns. In the face of intensifying competition, joint efforts in the field of research and research work, production and marketing reduce costs and expand sales, opening new markets. The number of strategic alliances related to the acquisition of shares in companies has recently increased.

Mergers and acquisitions – forms of concentration of capital, which have become widespread in modern conditions.

The main reasons for mergers and acquisitions are:

- Globalization of the economy and liberalization of world trade. In the struggle for the redistribution of markets, companies seek to strengthen their position.

- Shifted the focus of international competition to the sector of high-tech goods and services, which necessitates increased costs for research and research work.

- The problem of overproduction and the search for markets.

3. Prerequisites for intensifying foreign investment activity

The basis for the formation of the legal framework in any country is, first of all, the choice of foreign economic policy, which in modern conditions, when national economies are deeply and closely intertwined and complement each other, becomes especially important.

Foreign economic policy is a purposeful action of the state to determine the regime of regulation of international economic relations, aimed at creating favorable conditions for the country's participation in the international division of labor. The main components of foreign economic policy are foreign trade policy (regulation of exports and imports), policy in the field of attracting foreign investment and

placement of national capital abroad, currency regulation, etc. Foreign economic policy directly affects the development of economic relations with individual countries and regions, regulates them. The economic security of the country is largely connected with it.

Foreign trade policy includes measures of the state to regulate the volume of foreign trade. There are two main areas of its development: free trade, or free trade policy, which provides for non-interference in economic activity and protectionism, or policy to protect the domestic market by restricting the supply of foreign goods, which aims to promote the national economy.

Admittedly, the idea of free trade has remained popular for a long time: from the time of the classic economics A. Smith, who proved that the restriction of free trade is not economically viable and often due not to economic but primarily military-political motives, to current supporters globalization, which actively promote the expansion of individual freedoms, limiting state intervention in economic activity, focus on market relations.

Modern economists, for the most part, are inclined to believe that the material benefits of free trade far outweigh the losses of the national economy, and that trade liberalization policies benefit both individual countries and the world economy as a whole.

However, despite the fact that the liberalization of trade has significant advantages, as the free exchange of goods provides increased consumption and more efficient use of resources (factors of production - land, labor, capital) and thus contributes to economic growth and welfare, almost each country applies trade restrictions. For the most part, the introduction of protectionist measures is justified by the need to ensure national interests, creating particularly favorable conditions for both individual sectors of the economy and the economy as a whole (maintaining the stability of the national currency, balance of payments, etc.), ignoring the generally accepted fact that any -what restrictions generally slow down economic development. Reducing the competitive pressure on domestic producers leads to a decrease in production efficiency, in addition, complicates the introduction of new technologies,

therefore, inhibits positive processes, both in the economy and society as a whole.

Followers of protectionism, trying to prove the need for state influence on markets for goods and services, tried to modernize neoclassical theories. Arguments in favor of protectionism were widely used by A. Hamilton, a US statesman, economists G. Liszt in Germany and other scientists and public figures.

Among the many arguments in favor of protectionist measures, namely the introduction of restrictions in general and customs and tariff protection in particular, may be interesting the provision on the need to protect young national industry, especially in developing countries. This position sounds pretty convincing. However, in our opinion, a mistake in choosing the industry that needs to be developed and maintained can lead to the improper development of other industries and significant losses for the country and society caused by the support of inefficient industries. It should also be noted that, as experience shows, the protected industry usually stays behind for a long time, delays its development, reduces production efficiency. Therefore, to create a competitive industry, according to many scientists, more effective than protection is the provision of production subsidies.

Protectionist means of regulating international trade can be divided into two categories: those that directly affect the price of goods (tariffs, duties and taxes, excise and other fees) and means that limit the quantity of goods or their value volumes (quantitative restrictions), licenses , “Voluntary restrictions” on exports, etc.).

The traditional and most common measures of state regulation of export-import operations include duties - taxes on goods and other items that move across the customs border. Customs tariffs are currently applied by more than 100 countries. Depending on which goods are subject to duty (import, export, transit), they are respectively called import (import) duty, export (export) or transit (for goods crossing the country in transit). Import and export duties on certain goods may also be seasonal.

More common is the import (import) duty, which is used as one of the main means of national protectionism. Its purpose may be to increase revenues (fiscal

tariff) or protect the interests of domestic producers (protectionist tariff).

Export (export) duties are rarely applied, mainly to replenish the state treasury. An example is the situation when raw materials are exported from a country with monopoly advantages, or when the state tries to limit the export of certain goods. It should be noted that industrialized countries hardly apply this type of duty, and the US Constitution even prohibits it.

In some cases, special duties are used: special, anti-dumping and countervailing duties.

A special duty is applied: to protect domestic producers from foreign competition; in case of violation by participants of foreign economic activity of national interests in this sphere; to stop unfair competition in cases determined by the laws of the country; in response to discriminatory or unfriendly actions by foreign states against the country or in response to actions of countries and their unions that restrict the exercise of legitimate rights and interests of domestic foreign economic entities.

An anti-dumping duty is applied to imports of goods at a price significantly below their competitive price in the exporting country at the time of export, if it causes or may cause harm to domestic producers of similar or directly competing goods or hinders the organization or expansion of similar goods.

Similar to customs tariffs are import and export subsidies, which are one of the means of value regulation of imports and exports.

Direct export subsidies are prohibited by international law and are used very rarely, mainly by developing countries. The only exception is direct subsidies for agricultural exports, which are widely used by Western European EU member states.

Forms of hidden subsidies are the provision of preferential lending conditions, accelerated depreciation rates of equipment, purchase of raw materials and energy resources at reduced prices, hidden subsidies for freight rates.

Imported goods may also be subject to special taxes and duties, which are in fact little different from import duties. For example, in Morocco and Jamaica there is a stamp duty, in Pakistan, Libya, Iran and Turkey there is a municipal levy, and in

Argentina and Nigeria there is a levy on expanding national exports. However, such measures are mainly used by developing countries, while being able to respond quickly to changing circumstances.

Quantitative restrictions on imports (quotas) are used primarily to preserve foreign currency, protect domestic producers and protect employment. An extreme form of import quota is an embargo, when certain types of goods are completely banned for import.

It should be noted that import quotas due to reduced consumption affect the price of goods. However, there is a difference between the increase in prices due to the quantitative restriction of imports and the payment of import duties. When import quotas are used, market levers are replaced by administrative regulation, while when duties are paid, the market mechanism is only adjusted. Foreign exporters often pay higher duties by reducing their own profits, while in other cases, when importing goods with a low level of elasticity (such as oil), changes in tariffs may not affect the level of imports.

Other protectionist measures of the state may be the so-called non-tariff barriers - various barriers (excluding customs duties) created to prevent trade between countries: in addition to import quotas and special licenses - discrimination against offers from a particular country, unreasonable standards for product quality , bureaucratic red tape in the implementation of customs procedures, etc.

In summary, we can say that the most common means of regulating foreign trade transactions in the world are:

- fiscal customs tariffs, the purpose of which is to obtain additional funds (typical of developing countries);

- regulation of foreign trade flows (more typical for developed countries);

- protection of national producers (in order to develop young industries).

The policy of state regulation of foreign economic relations through various protectionist means is the norm for many countries. However, under the influence of globalization, international conditions are changing, public policy in many countries

is becoming more open.

Legal regulation of foreign investment in the national economy is carried out on the basis of a number of laws of Ukraine and other legislative acts.

The Law of Ukraine “On Investment Activity” (1991) defines the legal, economic and social conditions of investment activity in Ukraine. It aims to ensure equal protection of the rights, interests and property of investors regardless of ownership, including foreigners. The purpose of this law is to create conditions for effective investment of the national economy of Ukraine, development of international economic cooperation and integration.

The Law of Ukraine “On Protection of Foreign Investments in Ukraine” (1991) provides for the protection of investments, profits, legal rights and interests of foreign investors in Ukraine at the legislative level. Its provisions guarantee foreign investors the transfer of their profits and other amounts legally obtained.

The main legislative act that defines the features of foreign investment is currently the Law of Ukraine "On Foreign Investment Regime" (1996). This law repealed the Law of Ukraine “On Foreign Investments” (1992), the Decree of the Cabinet of Ministers of Ukraine “On the Foreign Investment Regime” (1993) and the Law of Ukraine “On the State Program for Encouraging Foreign Investments in Ukraine” (1993).

According to the current legislation, all foreign investors in Ukraine have a national regime of investment and other economic activities, ie foreign and domestic investors have created equal conditions for doing business. At the same time, foreign investors are provided with certain guarantees by the state. In particular, foreign investments in Ukraine are not subject to nationalization. State bodies do not have the right to requisition them, except in cases of rescue measures in case of natural disasters, accidents, epidemics, epizootics. However, at the same time the foreign investor is guaranteed adequate and effective compensation. Foreign investors have the right to compensation for losses, including lost profits and non-pecuniary damage caused to them as a result of actions, omissions or improper performance by state bodies of Ukraine or officials of their obligations to foreign investors. If a foreign

investor decides to cease its activities, it is guaranteed a return on investment in kind or in the currency of the investment without payment of duties, as well as income from these investments in cash or in kind. The state also guarantees the unimpeded and immediate transfer abroad of profits and other funds in foreign currency legally received as a result of foreign investment.

The Law "On the Foreign Investment Regime" clearly formulates guarantees in case of changes in the legislation, namely, if in the future special legislation on foreign investments will change the guarantees of foreign investment protection defined by this Law, then within ten years from the date of entry into force of the new legislation. foreign investor, the guarantees of protection of foreign investments provided by the above-mentioned Law may be applied.

In addition, in accordance with the Law of Ukraine "On the Foreign Investment Regime", it is possible to establish special investment activity regimes in certain territories, or, in other words, to create so-called special (free) economic zones.

The creation of free economic zones is one of the main components of investment policy aimed at increasing investment inflows, including foreign ones, to certain regions of Ukraine.

According to The Economic Institute Bay area Council, today there are more than 3.5 thousand special economic zones in 130 countries, which account for $ 200 billion in world exports and employ about 66 million people.

In modern conditions, the importance of international economic integration in the process of regulating external economic relations, especially the creation of free trade zones, customs and economic unions, etc. is growing. Examples of economic integration are the European Economic Community (EEC or EU), the Latin American Free Trade Association, the Central American Common Market, and the American-Canadian Free Trade Agreement.

The European Economic Community (EEC), since November 3, 1993 - the European Union (EU) - a regional grouping of Western European countries, within which there is a gradual integration (unification) of national economic systems into a

single supranational system. At the time of its creation in 1957, the EEC united six countries of Western Europe (Germany, France, Italy, Belgium, the Netherlands and Luxembourg). In 1973, Great Britain, Denmark, and Ireland joined the EEC, in 1981, Greece, and in 1986, Portugal and Spain. Since January 1, 1995, the EU has united 15 countries (Austria, Sweden and Finland have joined the above countries). And since May 1, 2004, 10 more countries have become full members of the European Union - Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Malta and Cyprus.

Both political and economic motives took place during the creation of the European Economic Community. The main economic motive was the desire to use all possible benefits of free trade. In addition, increasing the efficiency of EU production through economies of scale made it possible to reduce production costs, which is impossible in small national markets. In the process of integration, the growth rate of trade between EU countries has accelerated significantly. If in 1957 it accounted for only a third of total foreign trade turnover, now it exceeds half.

Over the years of the EU's existence, the foundations of a customs union and a common market have been laid. Within the framework of the “Common Market” the problems of free movement of goods, services, labor and capital have been solved. The EU Commission has developed almost 300 programs aimed at removing trade barriers. As a result, customs duties and import quotas on all goods traded between EU countries were gradually abolished; a single customs tariff system has been created for the member states of the community. From now on, EU citizens can move freely within the community without passports and visas, but only with national identity cards; mutual recognition of certificates and diplomas of education began. Citizens of 10 of the 15 countries (excluding Spain, Portugal and the countries that joined the EU in 1995) have the right to permanent residence in other countries of the community if they have a job. EU companies can make mutual investments almost without hindrance. A unified agricultural policy has been developed and is being implemented. It is planned to agree on tax and pricing policies. The single currency

(euro) was introduced: from January 1, 1999 - in non-cash circulation and from January 1, 2001 - in cash.

4. Methodological principles for assessing the effectiveness of foreign investment

Improving the efficiency of activities in all spheres of the economy is an important prerequisite for economic growth, improving the material and cultural standard of living of the people. Under efficiency is understood the ratio of the result of human activity to the cost of obtaining it. Efficiency is the main characteristic of the functioning of the entire economy and its individual industries, as well as any enterprise.

The effectiveness of international economic relations can be considered in terms of many aspects or criteria: political, social, economic, environmental, sectoral and others. However, it is obvious that they are all interconnected and the wrong choice of priorities and guidelines, for example, in the field of international politics affects not only foreign relations, but can lead to changes in domestic life - to affect social and economic development, ecological condition, etc.

There are many different approaches to assessing external economic relations and determining their effectiveness. It depends on which criterion is considered the main one. International economic relations are built and developed with a specific purpose - to ensure national, economic and food security of the country, social and economic development, environmental security and more.

The main types of international economic relations are foreign trade, foreign investment, international production cooperation, joint ventures and joint production. Therefore, the effectiveness of foreign economic relations should reflect the results of both commercial and investment and production activities of enterprises.

One of the sources of funding in modern conditions is foreign investment, which, when used effectively, makes it possible in the shortest possible time to

modernize production, transfer it to an industrial basis, increase production.

The economic efficiency of foreign production investment is determined by the ratio of the effect (result) to the amount of investment that caused this effect. Costs and results are calculated taking into account the time factor. In enterprises, the economic effect of investing can be an increase in profit (income). Therefore, the coefficient of economic efficiency of investment is also called the coefficient of profitability.

To determine the role of external factors, including foreign investment, in the development of the national economy, statistics, both domestic and international, widely uses quantitative indicators - generalized and single.

The generalized indicators include: the period (term) of return on investment (an indicator inverse to the coefficient of economic efficiency (profitability) - for what time (number of years or months) reimbursed initial investment and capital intensity - specific capital investment (investment) per unit of production growth capacity or volume of production.

Indicators of economic efficiency of foreign investment involved in production are also: labor productivity, capital efficiency, material consumption, cost of production and its quality. In addition, the effectiveness of foreign investment is determined by indicators of social impact and indicators that characterize the state of the environment, etc.

In the presence of such indicators as the share of employees in enterprises with foreign investment in the total number of employees (n) and, accordingly, the share of these enterprises in total output (works, services) (m) calculate the relative productivity in enterprises with foreign investment (Pf) :

$$P_F = \frac{m}{n} \times 100\,\% \qquad (9.1)$$

Similarly, the relative productivity in the national sector of the economy is calculated (P_D):

$$P_D = \frac{1-m}{1-n} \times 100\,\% \qquad (9.2)$$

Comparison of the obtained results makes it possible to assess the relative gap in labor productivity of enterprises with foreign capital and domestic (*P*):

$$P = \frac{P_F}{P_D} \qquad (9.3)$$

Foreign trade relations of enterprises with foreign capital, their impact on the development of the national economy and the country's position in world markets is characterized by such an indicator as export intensity (E_F), which is determined by the ratio of the share of exports of enterprises with foreign investment in total exports (*e*) to the share of employees in these enterprises in the total number of employees (*n*):

$$E_F = \frac{e}{n} \qquad (9.4)$$

For an integrated assessment of the contribution of enterprises with foreign investment and joint ventures in the development of the national economy, the same scientists propose to use a synthetic indicator (*S*), which is calculated by averaging key indicators, such as the share of enterprises with foreign investment in total output (A), employees (B), investment (C) and foreign trade turnover (D):

$$S = (A + B + C + D) / 4 \qquad (9.5)$$

It is possible to predict the scale of development of the foreign sector in the domestic economy on the basis of extrapolation of the tendency of the past to the future. In particular, the share of employees in enterprises with foreign capital (*n*) by τ years is calculated by the formula:

$$n_{t+\tau} = n_t + \tau \Delta n \ , \qquad (9.6)$$

where Δn – average annual increase in the share of employees in enterprises with foreign investment.

Another important issue in the study of the efficiency of enterprises with foreign capital is the analysis of the impact of foreign direct investment on the investment climate of the recipient country.

The basic balance equation, which describes the process of investing in the country, is as follows:

$$z_t = y_t + x_t, \qquad (9.7)$$

where z – total investment rate;

y– share of domestic investment in GDP;

x – share of foreign direct investment in GDP;

t – time (year);

The coefficient of elasticity (absolute or relative) is used to assess the impact of foreign direct investment on the formation of the country's investment climate. The coefficient of absolute elasticity (E) is calculated by the formula:

$$E = \frac{\Delta y}{\Delta x}. \qquad (9.8)$$

To level differences in values x and y, which is sometimes observed, especially at the initial stage of attracting foreign capital, uses the coefficient of relative elasticity (G) for domestic and foreign investment:

$$G = \frac{\Delta y}{y} / \frac{\Delta x}{x}. \qquad (9.9)$$

The coefficient of elasticity shows how many percent the indicator will change (in our case, domestic investment) if the factor (foreign investment) changes by one percent.

If $E > 0$, then in the economy of the recipient country there is an effect of multiplication of foreign and domestic investments, or “crowding in”, that is, when attracted foreign investment activates domestic capital investment. The "squeeze effect" means that the country has a favorable investment climate.

If $E < 0$, then there is the so-called “crowding in ” one type of investment to another $\Delta x < 0$ i $\Delta y > 0$ domestic investment is absorbed by foreign, and if $\Delta x > 0$ i $\Delta y < 0$, on the contrary, foreign investment displaces domestic. “crowding in ” arises in a situation of competition between domestic and foreign investment.

Equation (9.7) after substitution (9.8) will look like this:

$$\Delta z = (1 + E) \times \Delta x. \qquad (9.10)$$

Equation (9.10) shows that for E> -1 foreign direct investment is generally favorable for the economy of the country that received them.“crowding in” in this case, insignificant and does not cover the overall positive impact of the inflow of foreign investment into the country.

If E <-1, then it is considered that foreign direct investment in general inhibits the investment activity of the recipient country and in the future additional capital inflows of this kind are undesirable.

The presented method of determining the impact of foreign direct investment on the economic development of the recipient country assumes that the values of the coefficients of elasticity E and G are quite constant over time. If E and G constantly change the sign from one to another, then it is impossible to detect a pattern in the formation of the "embossing effect" or "displacement effect". In addition, the coefficient of absolute elasticity of domestic and foreign investment (E) must differ significantly from 1, and the coefficient of relative elasticity (G) - respectively from 0. Otherwise, the value of investment will be uncertain.

If there are sufficiently long retrospective time series, it is advisable to build econometric models based on regressions, which allow to determine the relationships not only between foreign and domestic investment, but also to take into account other

factors influencing investment flows.

In General, the equation of multiple or multifactor linear regression is as follows:

$$Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + \ldots + b_n x_n, \qquad (9.11)$$

where Y – theoretical significance of the productive feature;

a – free term of the regression equation;

b_i – partial regression coefficients;

x_i – factors that are included in the regression equation.

To determine the degree of correlation between the features, various indicators of the density of the connection are used, in particular, the correlation coefficient, partial and multiple correlation coefficients, and so on.

Foreign direct investment flows reflect the economic competitiveness of countries and regions. Thus, it is quite natural that it is the developed powerful countries that receive and place much more foreign capital.

When assessing the attractiveness of a country or region for foreign investors, the relative size of the economy and its capacity are taken into account. An important element of the analysis of the country's investment attractiveness is the index of foreign direct investment - an indicator that allows you to characterize the country's ability to attract foreign direct investment, taking into account the size of the economy and its competitiveness. This index is calculated ($I_{ПІІ}$) as an average of three coefficients - the country's share in world foreign direct investment ($Ч_{ПІІ}$) in relation to their shares in GDP ($Ч_{GDP}$), employment ($Ч_{П}$) and exports ($Ч_{Е}$):

$$I_{ПІІ} = \left(\frac{Ч_{ПІІ}}{Ч_{GDP}} + \frac{Ч_{ПІІ}}{Ч_{П}} + \frac{Ч_{ПІІ}}{Ч_{Е}} \right) / 3 \qquad (9.12)$$

If the value of the index of imports of foreign direct investment is equal to one, it means that the country's share in world capital flows corresponds to its economic position; less than one - the country has not fully realized its economic potential in terms of attracting foreign investment. A foreign direct investment index greater than

one may indicate that the recipient country is economically powerful and uses this factor to attract significant amounts of foreign capital, even higher than that which the country can claim in its potential.

Control questions

1. Define the concept of "direct foreign investment".
2. In what type can foreign investment be implemented?
3. Define the concept of "portfolio foreign investment".
4. Give a classification of foreign investments.
5. Give a comparative analysis of direct and portfolio foreign investment.
6. In what methods can foreign investment be implemented?
7. Define the concept of "joint venture".
8. Name the contract forms of investment.
9. Define the concept of "strategic alliances".
10. What are the main reasons of the strategic alliances formation?
11. Name the main reasons of company mergers and acquisitions.

Tests

1. Foreign investments are:

a. the investments that are characterized by the non-resident capital allocations into the investment objects of the country

b. the investments in business stocks, bonds and other securities of foreign countries, international monetary and credit organizations in order to increase income through tax benefits, changes in exchange rates

c. the allocations of foreign investors in the forms envisaged by law, into businesses of any organization and legal form, foreign share in the statutory fund of which, if any, is not less than 10%, in order to make a profit or achieve a useful effect of economic activity

2. The purchase and sale of intangible property rights for a certain period is:

a. a contract manufacturing
b. a franchising
c. a licensing
d. the export-import

3. The characteristics of direct foreign investment are:

a. they allow for lower profitability
b. they are long-lasting and less liquid
c. they are allocated only in securities
d. they do not have a significant and long-term impact on the recipient country economy

4. Direct foreign investments are:

a. the allocations of foreign investors in the forms envisaged by law, into businesses of any organization and legal form, foreign share in the statutory fund of which, if any, is not less than 10%, in order to make a profit or achieve a useful effect of economic activity

b. the investments that are characterized by the non-resident capital allocations into the investment objects of the country

c. the investments in business stocks, bonds and other securities of foreign countries, international monetary and credit organizations in order to increase income through tax benefits, changes in exchange rates

5. In respect to target orientation the investments do not include:

a. primary
b. portfolio
c. reinvestment
d. mixed

6. The advantages of joint ventures do not include:

a. capital pooling opportunities
b. possibilities of obtaining certain benefits
c. combining two or more corporate cultures
d. possibilities of rapid progress

7. Portfolio foreign investments are:

a. the investments in business stocks, bonds and other securities of foreign countries, international monetary and credit organizations in order to increase income through tax benefits, changes in exchange rates

b. the investments that are characterized by the non-resident capital allocations into the investment objects of the country

c. the allocations of foreign investors in the forms envisaged by law, into businesses of any organization and legal form, foreign share in the statutory fund of which, if any, is not less than 10%, in order to make a profit or achieve a useful effect of economic activity

8. The trade in goods and services - the simplest entry form into international markets - is called:

a. franchising
b. licensing
c. contract manufacturing
d. export-import

9. The transfer from the seller to the buyer the right to use his trademark is:

a. licensing
b. contract manufacturing
c. franchising
d. export-import

10. Joint venture is:

a. the activity based on cooperation with entrepreneurs, businesses and organizations of partner countries and mutual sharing of income and risks from these activities

b. a form of capital concentration, which is widespread in the current context

c. a long term trustworthy win-win relationship between companies that allows each of them to effectively achieve its long-term goals

TOPIC 10. INVESTMENT RESOURCES

10.1. Economic essence of the market of investment resources, its characteristics and components
10.2. Investment resources market
10.3. Features of the formation of the market of investment resources
10.4. Human capital as the main investment resource
10.5. Priority directions and spheres of formation of investment resources in the agricultural sector

1. Economic essence of the market of investment resources, its characteristics and components

The market of investment resources in the system of markets is determined by the fact that the goods on it are investment resources.

The unifying link in the general cycle of goods, namely investment resources, is the market infrastructure, which provides a link between producers and consumers of investment resources, and is a system of industries and services for the production and sale of many types of resources. effective functioning of the market at the micro and macro levels.

The market of investment resources is one of the types of commodity markets, in which the main product is a different type and range of investment resources designed to organize the investment process and implement programs and projects.

Scholars of the "Financial Dictionary" define investment resources as "a set of cash, material and other resources of a natural or legal person that can be used to carry out investment activities in the expected period." An important point in this definition is that "these resources can be used to carry out investment activities in the expected period." That is, investment resources are those that are directed to the implementation of investment programs or projects, ie to carry out investment activities.

V.A. Ossetsky reveals resources as a component of investment, and also considers investment in the unity of two parties: resources (capital values) and investments (costs).

T.V. Mayorova considers investment resources as financial, tangible and intangible resources that are attracted to make investments in investment objects. This definition essentially classifies investment resources. The scientist believes that all investment resources (national and foreign) are directly or indirectly attracted by the company in the capital market that is invested (investment market): directly or through the financial and credit sphere.

M.O. Zmienko specifies investment resources as opportunities, means, values, stocks of the enterprise, sources of its income that can be used during its investment activities.

V.F. Martinenko expands the structure of investment resources, classifying them by characteristics: resource, legal, organizational, production. At the same time, the scientist considers investment resources as a holistic object, covering, on the one hand, stocks, funds, resources, labor resources, on the other - socio-economic, legal, political, humanitarian, information and intellectual, which are resources of support and under appropriate conditions are able to increase or decrease the effectiveness of the former and should be aimed at growth. That is, all resources represented in the market of investment resources can be divided into basic and auxiliary.

A.V. Skull also classifies investment resources by characteristics, namely: by type of ownership; by sources; in kind; involvement period; nationality of capital owners; targeted use; provision of certain stages of the investment process.

Investment resources have the following characteristics:

- target orientation;
- term of use (life cycle of the resource and investment in general);
- payback period of this investment resource and investment decision in general;
- the place of this resource in the overall investment project, the stage of involvement;

- the source of attraction of this particular investment resource and the characteristics of the factors influencing its price.

V.I. Kushlin argues that investment resources should be understood as any source of investment activity. It is from this position that investment and economic resources need to be considered. That is, fixed assets (tangible and other non-current assets), current assets are economic resources.

The main criterion that identifies a resource as an investment is the purpose and end result of its use. That is, only those resources are investment that are aimed at investing in fixed, working capital and land capital and human capital. Therefore, it can be argued that all resources used in the implementation of the investment program / project are investment.

The variety of spheres and directions of investment activity determines the diversity of investment resources, their structuring by types:

- financial - money, capital, credit resources, securities (stocks, bonds), bank deposits, deposits, foreign currency;
- material - intellectualized machines and mechanisms, equipment, building materials, varieties and hybrids of seeds, breeding animals;
- innovative - information technologies, new varieties and hybrids, animal breeds, new forms of organization of production processes, labor organization;
- intellectual - new knowledge, copyrights, patents, know-how, discoveries, research, licenses, experience, utility models, industrial designs, brands;
- intangible - the time factor is also an investment resource, in particular, in the extraction and transfer of knowledge by teachers and scientists.

Thus, investment resources as an economic concept is characterized by a set of financial, tangible, innovative, intellectual and intangible assets that are produced and directed to investment activities (implementation of investment programs and projects) to achieve economic and social goals.

The investment process should not be reduced purely to the increase of funds, and the formula of commodity-money circulation should not be violated (Fig. 10.1).

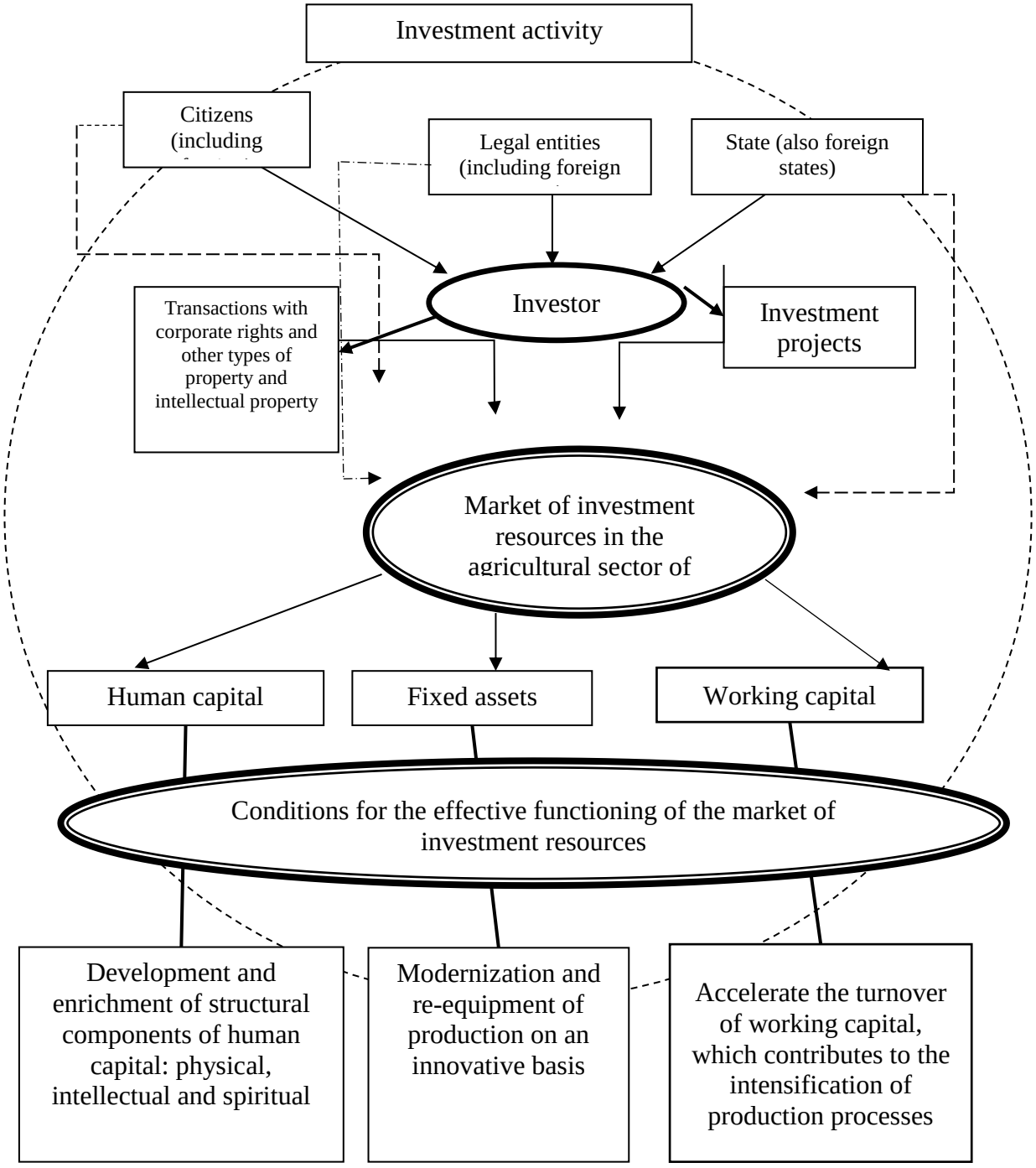


Fig. 10.1. Investment resources market

Mobilization of strategic investment resources on currency and stock exchanges as a way to attract additional investment is acceptable, but while maintaining a balanced economic system. At this stage of its development, there is a situation where money is produced outside of production, which leads to impoverishment, the decline of the economy and the country as a whole. To get out of this situation, first of all, it is necessary to study ways to attract all possible economic and non-economic

resources, which when invested in a particular object will take the form of investment resources, and calculate all possible ways to solve problems.

The effective development of the market of investment resources will be determined by the interaction of all sectors and spheres of the economy, their interaction and compliance with the laws of a market economy, in particular the law of supply and demand.

The investment market should be considered in three aspects: from the standpoint of investment movement - investment capital / investment resources placed by the investor; from the standpoint of the movement of investment goods - objects of investment resources; as a system of interconnected markets. It is inexpedient to equate investment resources and investment capital, because investment resources can act as capital only when it is involved in the production process. Thus, the market of investment resources is one of the components of the investment market, the product of which is the investment resource.

The difference between the investment market and the investment resources market is the following: in the investment market, demand is represented by investors who are willing to invest a certain amount of funds, tangible and intangible assets in investment objects that are supply; in the market of investment resources, demand is the needs of investors in funds, funds and resources for investment activities, and supply is a set of all available resources in the market, both real and potential, which can be attracted by investors to conduct investment activities (Table 10.1).

Given the diversity of investment resources by type and nomenclature, it is advisable to classify them:

1) by the method of attraction: own; involved;

2) in form: materialized; intellectual; innovative;

3) by country of origin: own production; of foreign origin; joint production;

4) by objects of attraction: development of human capital; preservation and improvement of the quality of land resources; improving the efficiency of working capital, optimizing its structure and ratio; modernization and renewal of fixed assets.

Table 10.1

The content of the concepts "investment resources market" and "investment market"

Indicator	Market	
	Investment	Investment resources
1. Cargo	Investments	Investment resources
2. The price of the goods	Defined as an interest rate and calculated on the basis of discounting.	It is determined by the ratio of supply and demand in the market of investment resources.
3. Characteristics of the goods	Investments - all types of property and intellectual property (value of the entire investment object, or the total amount of costs incurred)	Financial resources, material resources, intellectual values (patents, projects, etc.), human capital resource, land
4. Provision	Financial resources are key in the implementation of the investment.	Investment resources are directly involved in the investment process, and then in the production process and form investment capital.
5. Infra-structure of the market	Credit and financial institutions (banks, insurance, leasing companies, etc.), government agencies, government agencies, government and private investment funds.	Mechanical engineering and construction industry; research institutes and centers; universities; business schools, business incubators and business centers, etc.

2. Investment resources market

The development and functioning of the market of investment resources should be guided by the laws of market economy, which are the correspondence of supply and demand, market price, taking into account supply and demand, and competition, based on qualitative characteristics of investment resources as a commodity. The market of investment resources, like any other market needs the development and development of its infrastructure that meets its purpose, namely to meet the needs of consumers to carry out their investment activities in accordance with the structure of investment resources.

Thus, meeting the demand (demand) of consumers for financial resources requires efficient, profitable operation of economic structures and the use of their profits as an investment resource, the formation and development of a banking system that concentrates financial resources to direct them to consumer needs for investment.

Satisfying consumer demand for material and investment resources requires the development and development of industrial enterprises for the production of modern intelligent system of machinery and equipment, new energy-saving building materials, modern seed and breeding plants, whose production is aimed at implementing investment programs and projects.

Satisfaction of consumer demand for innovation resources is interrelated with the development of research, research and experimental, breeding organizations and farms that research and produce new innovative resources for modernization and renewal of technological processes in the field of investment.

Satisfying the demand for intellectual resources requires intensifying the development of human capital at all levels of management of scientific and technical process: educational, scientific, organizational, because the carrier of knowledge, its acquirer, user and transfer is man.

Intellectual resource is associated with such a specific resource as time, due to the rapid development of science and technology, when innovation resources, as well as material are rapidly becoming obsolete.

The peculiarity of the system of attracting investment resources through the market mechanism is that ensuring the implementation of an investment project or transactions with corporate rights and other types of property and intellectual property is simplified by reducing the time to find the necessary resources. Demand - as a solvent need for a particular resource, will determine the structure of its production, which in turn will focus it on specific types of resources.

Production of investment resources at enterprises is the primary link of investment, capital in the implementation of investment programs, projects that will intensify investment activities of economic structures, entrepreneurship,

commissioning of property and ensure the continuity of investment processes in the economy.

Investment resources as a commodity are made / acquired at the expense of investments that serve the purpose of the investment program, investment project, which provides for replacement, restoration, qualitative improvement of fixed assets, or realization of qualitatively new technological (production) potential. For the implementation of the investment project and the production of goods involved (purchased) various resources, all of which - are investment resources. It follows that investment resources are goods on the market, the purchase of which ensures the implementation of the investment project.

The market of investment resources is formed in the market environment according to the following scheme (Fig. 10.2) in accordance with the law of market economy according to supply and demand.

The market of investment resources as an economic category reflects the perfection of economic relations in the system of formation of supply and demand and ensuring their compliance. It should be considered in the context of the investment market as one of its components.

Investment resources market - as an economic concept is a balance of supply and demand for investment resources. Since its main elements are the demand for investment resources, supply, competition, price and solvency of consumers of investment resources and market infrastructure.

The market of investment resources is a form of interaction and relationships of investment entities that personify supply and demand for the implementation of investment programs and projects and future growth in capital value. It is here that investments are transformed into acquired investment resources, which are directed to the implementation of investment projects and provide an increase in capital - fixed, working capital, intellectual.

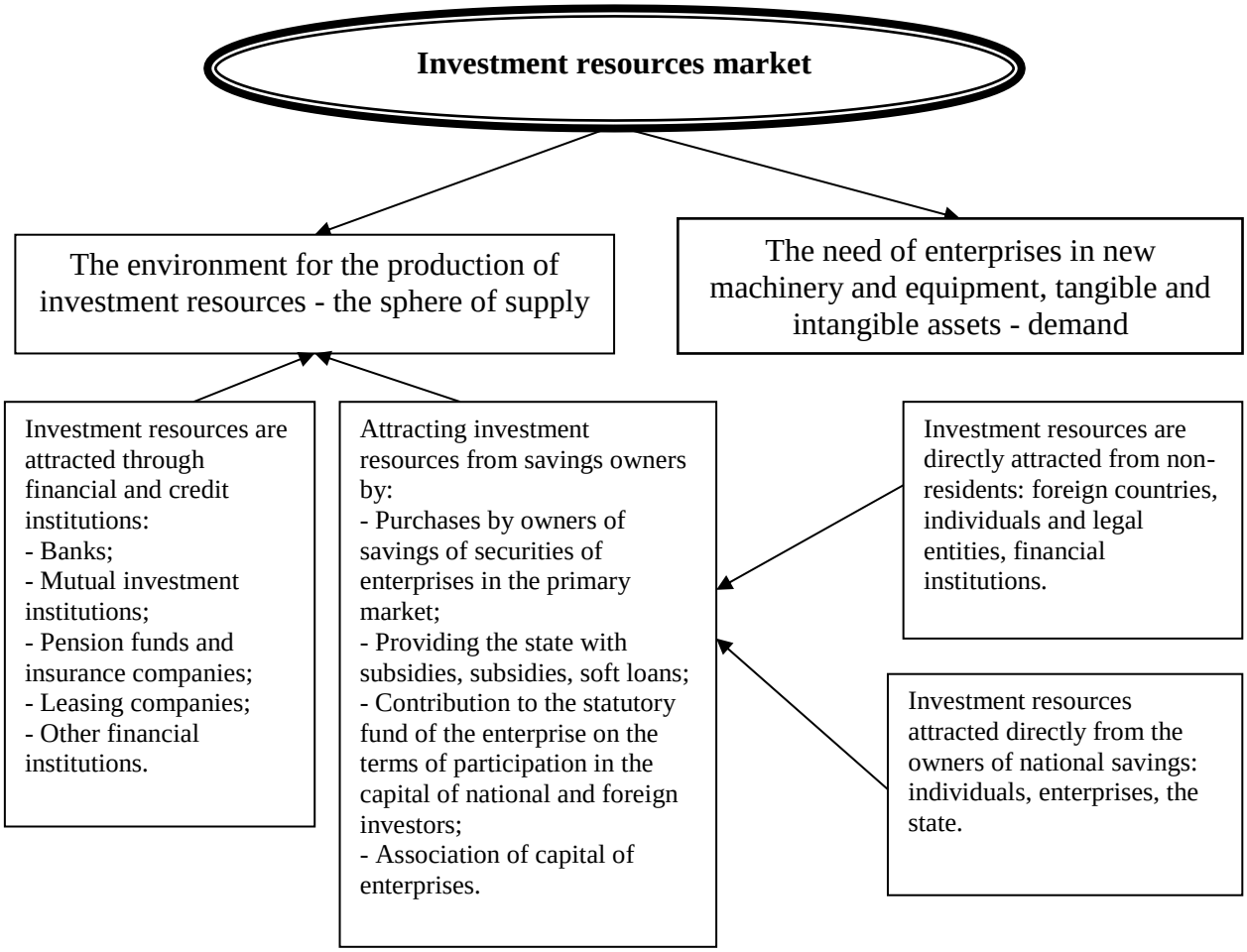


Fig. 10.2. Formation of supply and demand in the market of investment resources

The market of investment resources develops under the influence of certain factors and conditions of its functioning (Fig. 10.3).

The internal environment of the market is a component of the market mechanism, namely: demand, supply, price, solvency of consumers (enterprises and individuals).

Demand in the market of investment resources is formed under the influence of such main factors as: efficiency of economic entities and their solvency, the level of logistics of production, solvency of the population, consumers, competitiveness, market conditions. In addition, demand is affected by the level of development of a particular sector of the economy and the price of goods (investment resources).

The formation of the price of investment resources is influenced by the supply-demand ratio, the solvency of enterprises and individuals and the interest rate formed

in the capital market, and reflects the economic interests of buyers and sellers in specific conditions of the investment market.

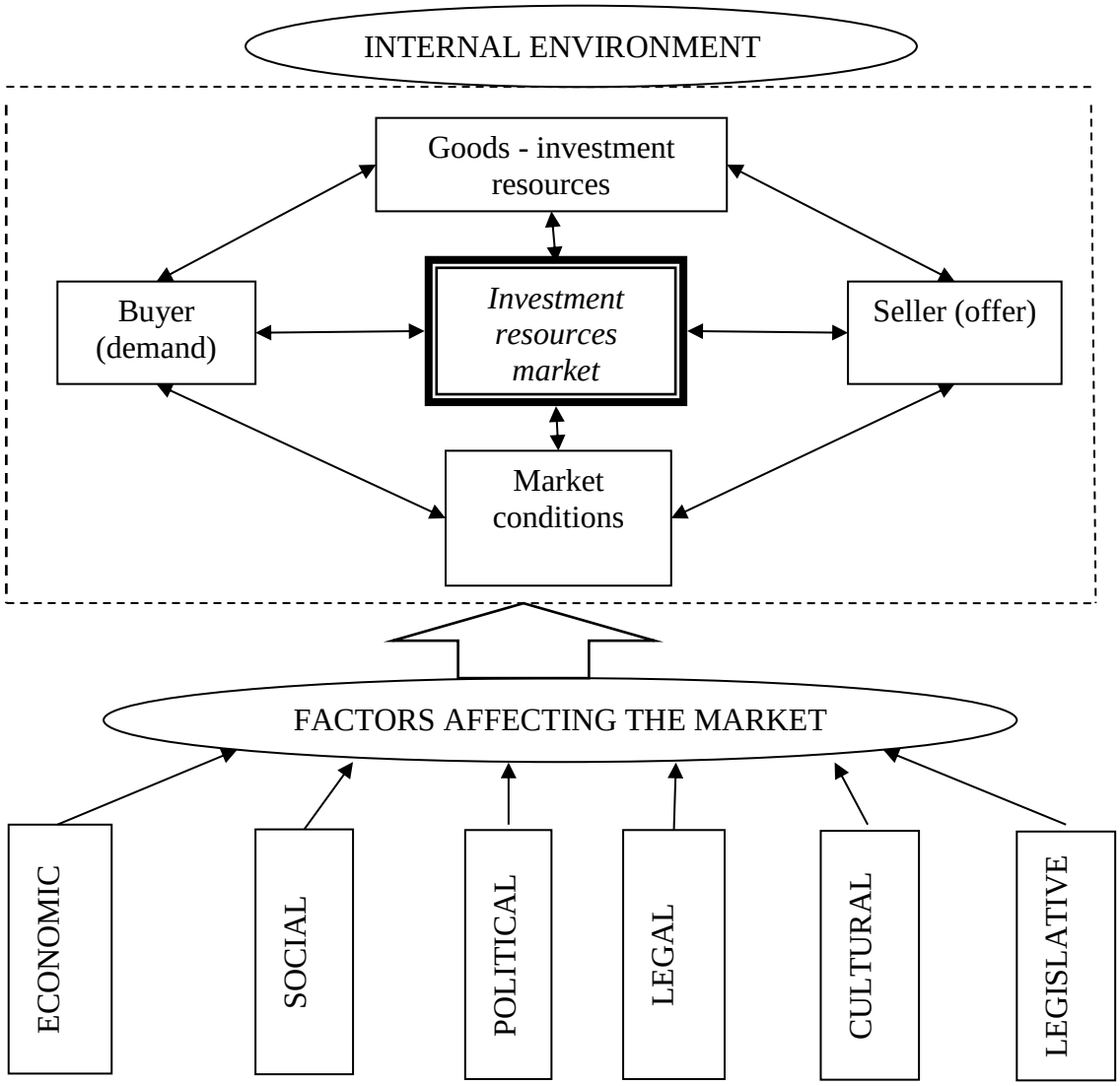


Fig. 10.3. Factors and conditions of functioning of the market of investment resources

Demand for investment resources shows how much of them will enter the market, taking into account their price. The marginal efficiency curve of an individual business entity is the dependence of the return on investment on the volume and price of investment resources. According to scientists, the return on investment decreases with increasing volume due to the law of diminishing marginal utility of production facilities.

The purchasing power of economic entities is characterized by the level of provision of material and technical resources (they are subject to depreciation, which is one of the internal investment resources of the enterprise), profitability, profitability, liquidity of assets.

The purchasing power of the average per capita income is formed in accordance with the level of wages, income differentiation by the most and least income groups, the state of development and production structure of personal farms, the structure of income and savings, which is a potential investment resource.

Conditions of functioning and the state of development of the market is reflected by its conjuncture - as a set of specific conditions of socio-economic nature (social, political), acting at a certain time and affecting the ratio of supply and demand.

The market of investment resources has a large number of participants (investors - individuals or legal entities), which to some extent are competitors. The following methods are used to determine the price with a focus on competitors: the method of following market prices, the method of following the prices of the investor-leader in the market, the method of determining prestigious and regular prices and tender pricing.

Thus, the market of investment resources as a form of interaction and relationships of investment entities, sells investment resources, different in type, nomenclature, economic and material content, range, quality. Prices for each of them are formed depending on the supply of producers and consumer demand, time factors and risks, the possibility of which is determined by market conditions and specific features of the agricultural sector of the economy.

3. Features of the formation of the market of investment resources

The formation of the supply of investment resources is influenced not only by the state of the financial and credit system, but also the availability of the necessary

resources, which in the course of the investment process acquire the quality of investment.

The formation and development of the market of investment resources should help meet the needs of enterprises (demand) not only in a particular period of time, but also in the future.

The peculiarity of the agricultural sector of the economy, which has a significant impact on the development of the market of investment resources, is primarily that its operation is aimed at providing food to the entire population and food security of the state.

The richness of industries, spheres and directions of development of the agricultural sector of the economy requires multifaceted formation of the market of investment resources by their types, purpose, volume, structure.

The agricultural sector of the economy depends on natural and climatic conditions, actively responds to weather variability, cyclical climate change. Therefore, the supply of investment resources must meet the needs of economic structures to ensure timely and high-quality compliance with applied production technologies, perform all technological operations by technical means of appropriate parameters to avoid risks of weather conditions and taking into account natural and climatic zones and subzones. In addition, each of the branches of agricultural production is specific to the reproductive processes of machinery and equipment, their parameters, which determines the structure of the investment market by their types, nomenclature, structure, segments and specific market infrastructure.

It is also necessary to take into account the parameters of enterprises in the agricultural sector of the economy, which differ in area of agricultural land, specialization and level of concentration, production structure and capital, and require an appropriate system of tractors, special combines (grain, corn, beet harvesters). then seeders, plows, cultivators, harrows, etc. And thus - the reproduction on an innovative basis of machinery, machinery and equipment, working and productive livestock, perennials, vehicles, equipment and developed market infrastructure.

The development of supply in the market of investment resources will be facilitated by a developed system of machine-building plants, seed plants, breeding plants, research centers and farms and other scientific institutions.

In the technology of agricultural production, time is the most important investment resource, which allows you to make the most efficient use of weather conditions. Timely sowing within a certain calendar period, timely care of crops, timely control of pests and diseases and the implementation of other technological operations makes time an important and invaluable investment resource to achieve these goals.

The formation of investment resources of the enterprise to address certain investment decisions is reduced mainly to the use of its own and purchased in the domestic market of investment resources.

Own investment resources include: depreciation deductions, profits, advanced contributions of participants and production of various assortment of material resources at own enterprises - construction materials, industrial goods, seeds, breeding animals, organic fertilizers, new knowledge, intellectual developments, etc. A feature of the use of own investment resources in the investment process is their comparative availability. All attracted financial investment resources, both domestic and foreign, enter the company by entering the investment market directly or through the financial and credit system (Fig. 10.4).

Another way to attract investment resources involves the participation of intermediaries - financial institutions and organizations that accumulate temporarily free funds of the population.

Financial investment resources need further transformation into materialized, the list and composition of which are determined by the nature of the investment project and its main purpose. These include: the latest technologies, varieties and hybrids, intelligent systems, machinery and equipment, knowledge, patents, building materials, etc.

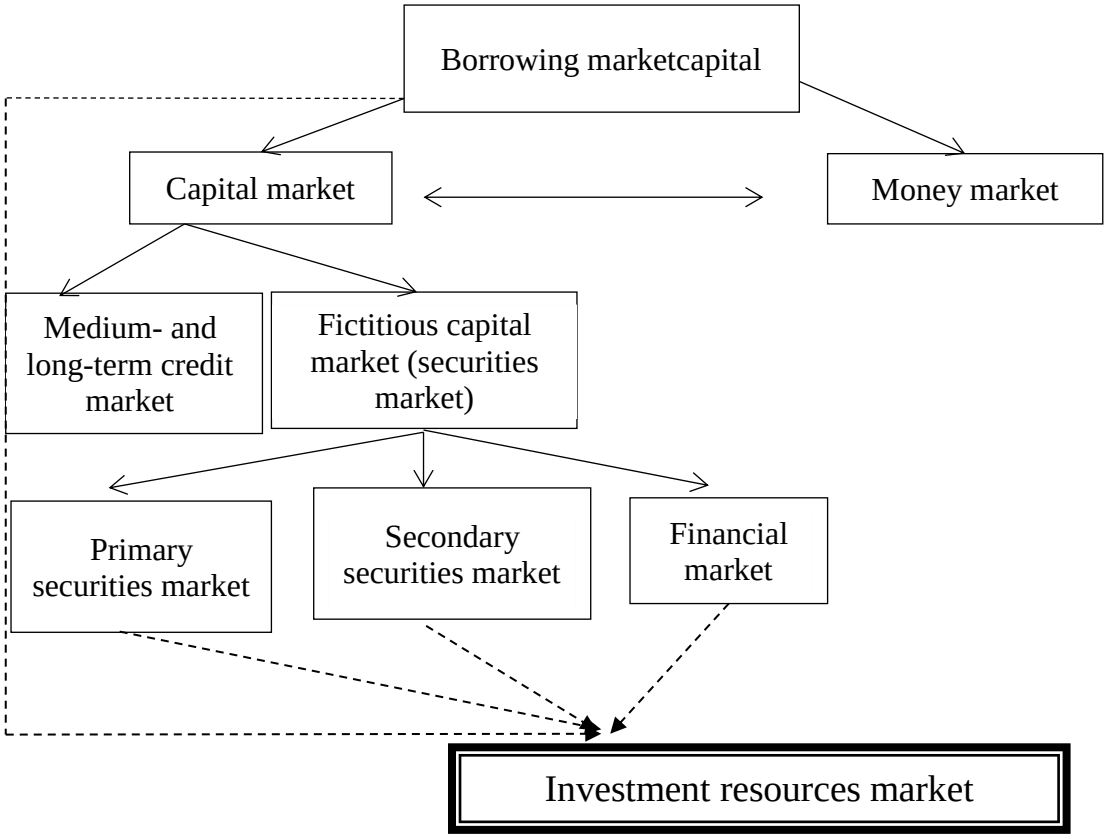


Fig. 10.4. Formation of financial investment resources through the system of interaction with debt capital markets

The main sources of investment support for the formation of material and technical base are investment resources attracted by:

1. preferential long-term government lending at low interest rates for the purchase of agricultural machinery and equipment, construction of livestock complexes, the formation of the main herd of livestock and perennials;

2. interest-free state lending for environmentally friendly agricultural production and introduction of agricultural technologies;

3. tax incentives for the creation of agro-industrial associations of agriculture with industrial, banking and trade spheres;

4. creation of joint ventures to unite the land capital of domestic agricultural formations and the fixed capital of foreign companies;

5. development of a civilized leasing market.

In the process of attracting investment resources in the agricultural sector, it should be borne in mind that each of the factors of production, having its own characteristics, affects both the process of attracting and the mechanism of further use of invested funds. Therefore, when forming an investment portfolio it is necessary to take into account the characteristics of both fixed and current assets and their features, which are as follows:

- are simultaneously at all stages of the cycle;
- have a multifaceted impact on economic activity;
- have not only the financial side of operation.

4. Human capital as the main investment resource

The active component is human capital as a special investment resource, which is determined on the one hand by the level of development of scientific and technological progress, on the other - is its direct motivator in accordance with the quality of its resource components.

Human capital, and its elements in particular, are twofold in relation to investment. First, the elements of human capital are the object of investment (investment in education, health care, professionalism, etc.). Secondly, human capital and its components themselves act as an investment resource in attracting to the modernizing system. The formation of investment resources in the form of human capital, its formation and development is constant throughout life, and its involvement in the form of investment resources ensures the maximum creation of the national product.

"Human capital - as formed or developed as a result of investment and accumulated by people (man) a certain stock of health, knowledge, skills, abilities, motivations, purposefully used in a particular sphere of social production, promotes productivity and thus affects growth of income (earnings) of its owners ".

An interesting approach to the interpretation of investment in human capital was proposed by Podra O.P., namely: "… Under investment in human capital should be considered tangible and intangible costs that contribute to the acquisition, increase, development and preservation of fixed assets - components of human capital knowledge, skills, abilities, professionalism, experience, health, information mobility and innovation, promote productivity, efficient use of fixed assets and increase opportunities for personal income, corporate income and socio-economic development".

It is also worth noting that the mechanism of investing human capital begins to operate from birth. The formation of health and the development of creative and mental abilities at an early stage of development and, accordingly, instilling motivation and appropriate education is a process of human capital formation and the key to success of the whole process of investing - not only profits but also social benefits. guarantees, level of education, etc.

Systematic and complex attraction of investment resources in the process of formation and development of human capital is due to the variety of sources of attraction and direction at different stages of investment, in which the nature and volume of required resources differ. Sources of attraction can be both own and borrowed funds, as well as public funds and funds of companies and organizations (employers) (Fig. 10.5). At the same time, specific investment resources of a person in the form of physical, intellectual, spiritual development are formed, which are used in the process of his work.

Various investors are involved in the process of investing in human capital development. Scholars identify such major investors in human capital as individuals, households, companies (corporations, enterprises, organizations), financial institutions, the state, public and international organizations.

In general, they can be divided into three groups: individuals and households; state and government agencies; for-profit and non-profit organizations and institutions. Some scholars identify education as the most important asset of human capital, which can be considered not only as a means of increasing future income, but

also as the ability to create a regime of self-generation or self-investment of human capital.

The components of the investment resources market are demand, supply, price, market conditions, infrastructure and investment climate.

The most important factor influencing the investment climate is the level of development of the productive forces of the state. The main sources of investment are formed in production and therefore of great importance for assessing the investment climate is the growth of gross domestic product and national income, as they are aimed at accumulating capital.

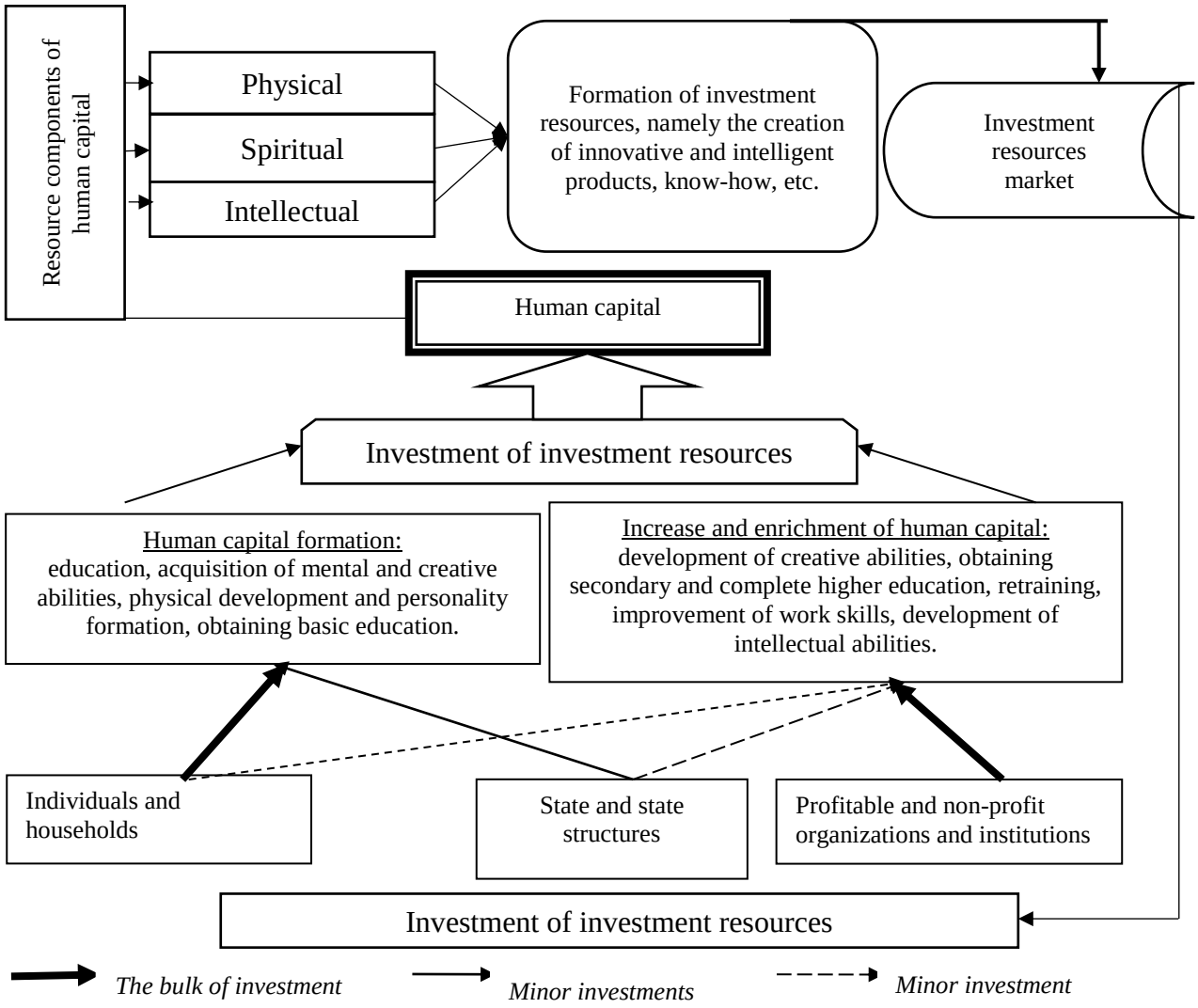


Fig. 10.5. The process of formation and further enrichment of human capital as an investment resource

Any market is viewed from two sides: as a set of relationships and as a set of institutions.

5. Priority directions and spheres of formation of investment resources in the agricultural sector

Ukraine's desire to join the European community involves the formation of a qualitatively new, investment and innovation economy, which necessitates the definition of priority areas and directions of investment resources, the volume and structure of which can meet their demand and socio-economic development of national production. The necessary steps are to find an answer to the question of how we see our country in the future. Within the framework of European integration processes, there are a number of options for further selection of the vector of development offered by our partners. However, when making a decision it is necessary to weigh the pros and cons, namely to take into account the peculiarities and trends of the domestic agricultural economy.

It is necessary to develop a strategy that would cover all areas of socio-economic environment of the agricultural sector, their balanced and systematic development using the experience of leading countries and taking into account national characteristics of socio-economic situation, climatic conditions, geographical location, socio-cultural and other factors.

The main focus should be on reforming and intensifying economic activities of strategically important sectors of the economy, and especially the agricultural sector, which requires renewal and development of material and technical base, formation and enrichment of its resource potential, especially knowledge resources and specific actions of complex and systemic nature. on the innovative path of development.

Particular attention needs to be paid to the formation of the currently depleted state of production resources, including land, the rational use of human capital as a key element of innovative development and specific investment resources; taking into

account natural and climatic conditions and geographical location, which to some extent determines the specialization of regions; providing agricultural producers, namely agricultural enterprises, with innovative resources that will promote their competitiveness.

The diversity of nature, climate and resources, which determines the development of many sectors of the economy, requires active development of the investment market, filling its segments with new innovative products aimed at rational and safe use of natural and economic potential, especially human capital. additional jobs. The process of formation and development of the market of investment resources should be activating.

The creation of new innovative products should ensure the development of breeding and seed farms, which will thus fill the markets with their own investment resources, namely: new varieties and hybrids of plants, breeding animals and others. A promising area is the development of enterprises for the production of plant protection products and organic fertilizers.

One of the factors that must be taken into account is the creation of favorable conditions for human development, its capital, because man is the greatest value and wealth of the country. Therefore, the production of investment resources aimed at the development of enterprises that ensure food security of the country should be a priority.

Increasing the base of production of investment resources, expanding their range and range will improve the investment of resources for the development of agricultural production, and directly contribute to the activation and stable development of the market of investment resources. Factors influencing the macro- and micro-environment must be taken into account. If the factors of the microenvironment can still be regulated (change of suppliers, close environment of the enterprise, markets, etc.), the situation with the macroenvironment (political and legal factors, socio-economic, climatic, etc.) is different. To minimize their impact, it is necessary to constantly analyze changes in the external environment and identify

trends and the strength of their impact on market conditions. the influence of external and internal factors should be taken into account.

Increasing demand in the market of investment resources, represented by the need of agricultural enterprises in intellectualized machines and technologies, new varieties and hybrids of plants, animal breeds, other investment resources, requires in turn the active development and improvement of effective capital of agricultural production. land capital, working capital (including financial) and human capital.

The supply of investment resources in the agricultural sector of the economy, represented by a set of investment resources offered by producers of investment resources, namely institutional investors, government, foreign investors, corporate investors and individuals, also need to intensify investment activities aimed at quality indicators.

Institutional investors, who act in the market of investment resources, ensure the filling of the market with investment resources, namely: banks - provide loans, loan programs and loan portfolios available to consumers at a price taking into account the time factor; leasing companies - provide high-quality high-performance agricultural machinery in affordable languages of financial and operational leasing; insurance companies, investment funds, mutual investment institutions, pension funds, venture funds; IT companies - provide scientific products and scientific and technical information. The population plays a dual role in shaping the market of investment resources: first, attracting investment resources from the population is possible provided they buy shares and bonds of enterprises; second,

In the system of external factors influencing the development of the market of investment resources, which should be taken into account, it is appropriate to distinguish: macro- and micro-environmental factors. Factors of the macroenvironment that contribute to the development and formation of the market of investment resources should include: economic (GDP growth, inflation, income), socio-cultural (social climate, level of social protection, etc.), political and legal (regulatory legal support of investment activity in Ukraine for investors),

technological (scientific and technical progress, the level of development of agricultural science, innovation activity in the country and industry).

Further formation of the market of investment resources in the agricultural sector of the economy involves a certain procedure - the algorithm. First of all, it is necessary to determine the factors and goals of intensifying its development, which are determined at both macro and micro levels. Factors and goals of intensifying the formation and development of the market of investment resources in the agricultural sector are determined within the strategic goal, namely - intensifying the development of the market of investment resources to improve the use and increase capital in the agricultural sector (Fig. 10.6).

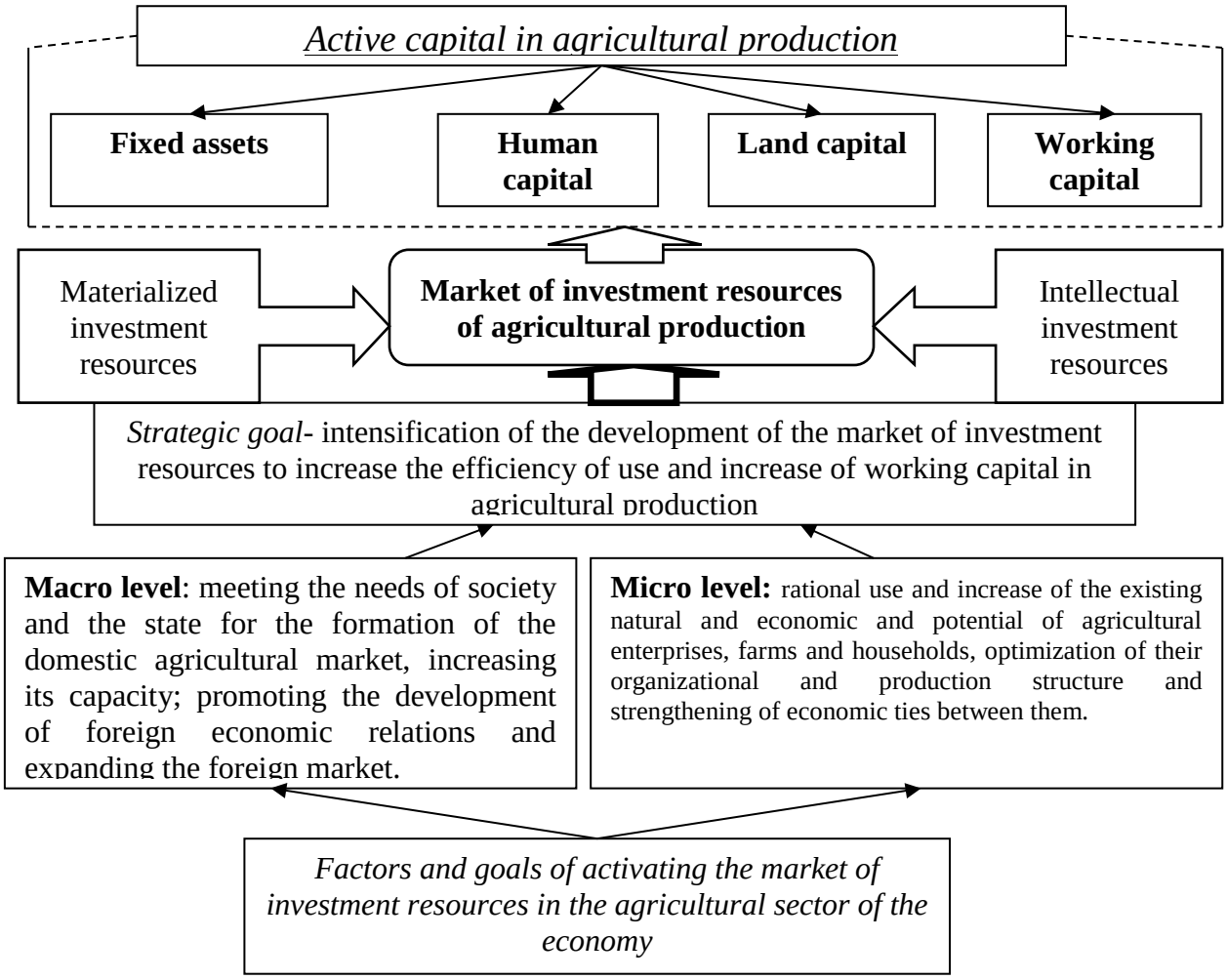


Fig. 10.6. Algorithm for the development of the market of investment resources in the agricultural sector of the economy

The components of working capital in agricultural production we have identified fixed capital, working capital (including financial), land capital and human capital. At the level of each of them it is necessary to be guided at the macro level by the needs of society and the state to ensure the supply of investment resources for the development of the domestic agricultural market according to demand, and at the micro level - to rationally use available natural investment resources.

Particular attention should also be paid to the state of natural and man-made security of the country. For effective and productive development of the market of investment resources it is important to take into account this system of factors (Fig. 10.7).

One of the strategic directions of development of the investment resources market is its focus on ensuring the development of the agricultural sector in a closed production cycle, which is especially relevant for Ukraine in terms of integration into the European economy.

The development of the agricultural sector requires resources not only for the reconstruction of premises, but also for the enrichment of human capital, improvement of land resources, improvement of business culture, as well as for reforming the tax, licensing and protection spheres. There is a need for a systematic approach to attracting investment resources that are the result of human labor - means of production, scientific and technical developments, innovative products, creative and professional potential, etc .; financial resources - bank loans (directly sent for the implementation of the investment project), financial instruments and derivatives, securities, etc.; materialized - objects of labor, patents, licenses, new varieties and hybrids, animal breeds, etc.

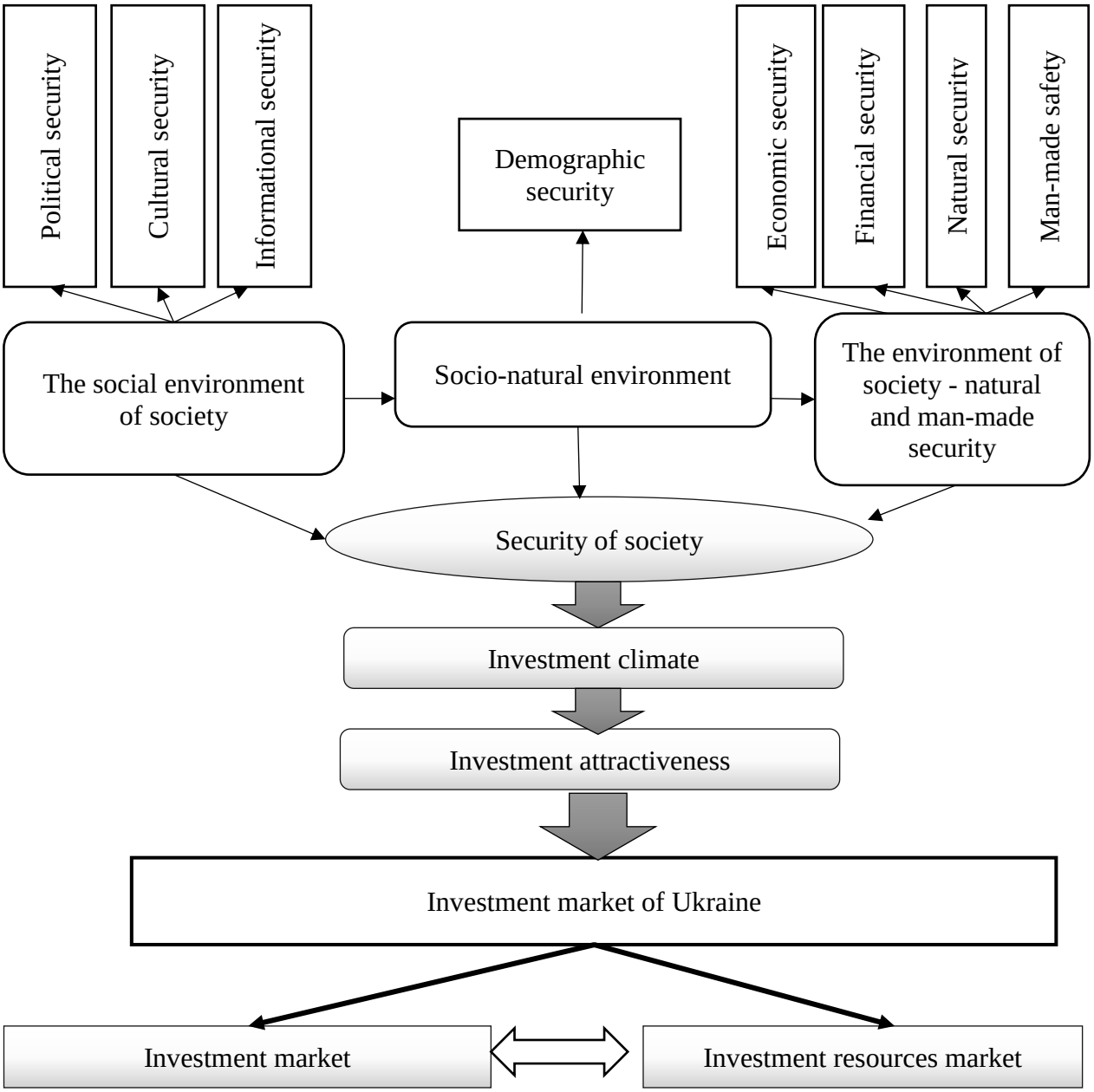


Fig. 10.7. The place of security in the formation of the investment climate of the country

The domestic model of the agricultural sector must meet the values and priorities that determine the historical preconditions of development, climatic conditions and geographical location, cultural and social values inherent in Ukrainian society and take into account the peculiarities of the agricultural sector of European economies.

Control questions

1. Define the concept of "investment resources market".

2. Describe the supply-demand formation process in the investment resources market.
3. What are the factors and conditions of the investment resources market functioning?
4. Define the concept of "human capital".
5. What is the process of building and further enrichment of human capital as an investment resource?
6. What is the algorithm of the investment resources development in the agricultural sector of the economy?
7. What is the place of security in shaping the country's investment climate?
8. What are the characteristic features of investment resources?
9. Give a classification of investment resources by type and nomenclature.
10. What are the sources of investment support for the material and technical basis formation?
11. What are the components of the investment resources market?

Tests

1. Characteristic features of investment resources do not include:
a. the life time
b. the limiting use
c. the target orientation
d. the payback period of the investment resource and the investment solution in general

2. The set of financial, tangible, innovative, intellectual and intangible assets that are produced and allocated into the implementation of innovative activities to achieve economic and social goals constitutes:
a. material resources
b. investment resources
c. financial resourses
d. tangible resourses

3. According to the form the investment resources are classified as:
a. domestic production
b. attracted
c. co-production
d. intellectual

4. Intensifying of human capital development at all levels of scientific and technical progress management defines:
a. the satisfaction consumer demand for innovation resources
b. the satisfaction consumer demand for intellectual resources
c. the satisfaction consumer demand for tangible investment resources

5. The factors influencing the investment resources market do not include:
a. social ones
b. legal ones
c. cultural ones
d. informative ones

6. The money market includes:

a. financial market
b. capital market
c. medium and long-term capital market
d. no answer is correct

7. The resource components of human capital do not include:
a. spiritual ones
b. tangible ones
c. physical ones
d. intellectual ones

8. Factors and goals of activating the investment resources market in the agricultural sector of economy at the micro level constitute:
a. the rational use and increase of the existing natural-economic potential of agricultural companies
b. the promotion of foreign economic relations development
c. the expanding of foreign market
d. the building of the domestic agricultural market

9. The social environment of society does not include:
a. political security
b. demographic security
c. cultural security
d. information security

10. A certain stock of health, knowledge, skills, abilities, and motivations which was formed or developed as a result of investment and accumulated by people and purposefully used in a particular area of social production constitutes:
a. the fixed capital
b. the human capital
c. the land capital
d. the working capital

TOPIC 11. FINANCING OF INVESTMENT ACTIVITIES

11.1. Content of financing investment activities
11.2. Characteristics of sources of financing investment activity
11.3. Characteristics of investment activity inancing methods
11.4. Estimation of value of invested capital

1. Content of financing investment activities

The formation and implementation of investment activities is impossible without its effective financing, which is associated with finding solutions to identify possible sources of investment financing, forms and methods of their implementation, increase the efficiency of their using and so on.

Investment financing involves a set of measures related to the receipt and return of capital. First of all, it is:

- receipt of capital (from a person who provides capital, or as a result of their own business);

- return of capital (first of all, payment of debt from debt capital, but also payments to own depositors);

- transformation of non-monetary property into monetary property (that is necessary for financing purposes);

- redistribution in the balance sheet (for example, the transformation of borrowed capital into equity and vice versa).

In general, the processes of investment and financing are closely interrelated, because investing (using of capital) is impossible without appropriate financing (obtaining capital), and vice versa, obtaining capital (financing) does not make sense without further profitable use (investment).

Financing and investing, as payment-oriented processes, are identical. Also, these two concepts are the same in their purpose – both investment and financing involve obtaining over time a certain benefit – economic, social or otherwise. The difference between investing and financing is the resources that are invested: in investing, in contrast to financing, where investments can be made not only in the

form of funds and other payment documents, but also in the form of tangible and intangible resources.

The nature of the first payment can be a sign of the distinction between financing and investing: financing can be told about when the flow of payments begins with the receipt of resources (revenues) and then continues with investments (expenses); the investment process, on the contrary, begins with investments (costs) in the objects of investment, and then on their basis incomes are created.

Financing of investment activities is the attraction and using of capital in order to invest in investment objects for the purpose of achieving a certain positive effect.

The process of financing investment activities must provide:

- optimization of the structure of sources of investment financing;

- sufficient sources of financial support for the implementation of real and financial investments;

- reduction of costs and risks associated with the investment.

The process of financing the investment activities of economic entities includes a number of stages, that is shown on Fig. 11.1.

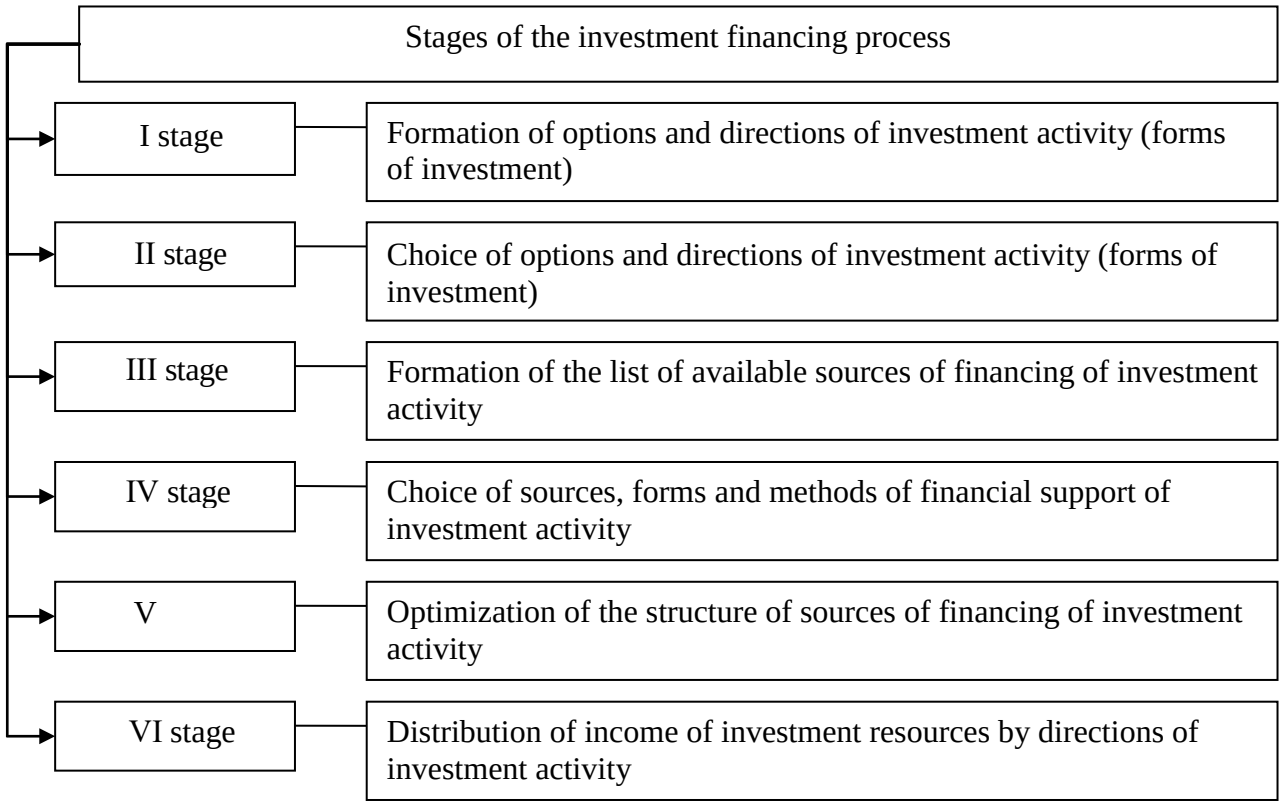


Fig. 11.1. Stages of the investment financing process

Thus, the process of financing investment activities is aimed at meeting the needs of economic entities in attracting the necessary sources of financing and optimizing their structure from the standpoint of achieving the results of their financial and economic activities. Purposeful implementation of this process determines the level of efficiency of investment activities.

The system of financing investment activities consists of an organic combination of sources, forms and methods of financing. The structure of the system of financing the investment activities of economic entities is shown on Fig. 11.2.

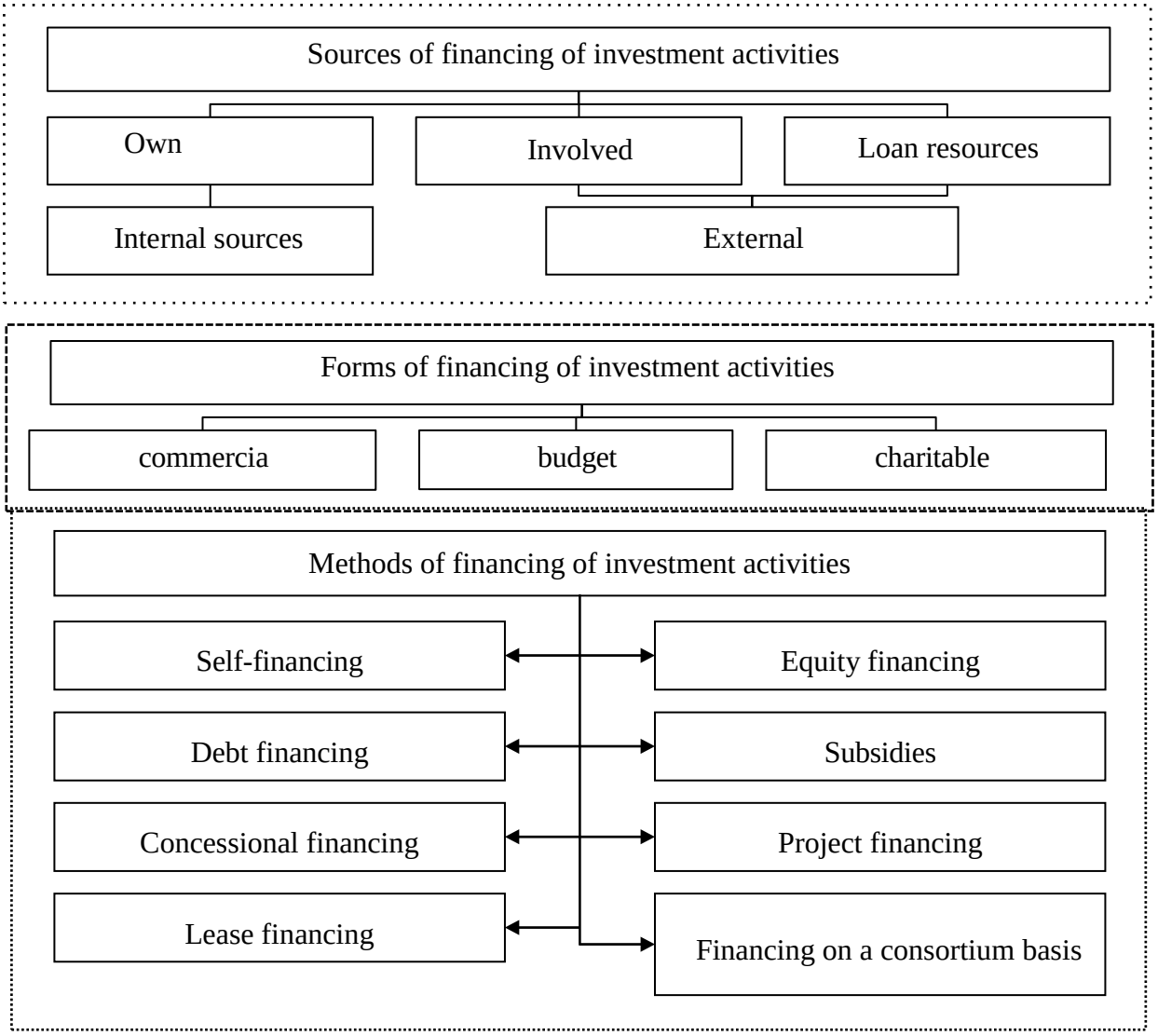


Fig. 11.2. Investment financing system

In general, the forms, methods and sources of funding are interrelated: forms of funding can be considered by sources, which, in turn, belong to a particular method. Form is a way of existence of content that is inseparable from it and serves

as its expression. The method is understood as a way, order, way to achieve a certain goal. Thus, in the context of funding, the form of funding reflects the nature of the resource involved, the method of funding - the method of attracting resources (how?), And the source directly determines the origin of the resource (where?). It is also expedient to single out the concept of a tool, which means a tool used to achieve something (what? With what?).

The investment activities of economic entities are provided by appropriate sources of financing, which are all types of capital (mostly in cash), which are involved in the implementation of investments in investment objects. Sources of financing the investment activities of economic entities should be divided according to the form of ownership into own, borrowed and borrowed, and in the field of attraction - into internal and external.

When determining and assessing the possibilities of using a source of financing the investment activities of economic entities, a number of endogenous and exogenous factors should be taken into account, namely:

1) sectoral features of operating activities of enterprises;

2) the cost of capital raised from various sources;

3) freedom in choosing sources of funding;

4) capital market conditions;

5) the level of income taxation;

6) the level of risk that is acceptable to the founders (owners) of enterprises;

7) a given level of concentration of equity to ensure the required level of financial control.

Taking into account these factors allows you to choose the scheme of financing and the structure of sources of capital purposefully.

The use of specific sources of financing the investment activities of economic entities is associated with certain restrictions and additional requirements which arise in connection with the need to attract and maintain investment resources and which can be divided into internal and external, depending on the scope.

Internal restrictions include:

- parameters of the investment portfolio or project (characteristics of cash flow, internal rate of income, payback period, the need to attract financial intermediaries, risks);

- the financial condition of the entity and access to sources of financing (availability and sufficiency of own sources of financing, profitability of activity, availability of loans, availability of liquid collateral, availability of credit history);

- corporate governance of the enterprise (ownership structure, transparency, the ability and desire to disclose information, make decisions independently or within the policy of the group (corporation).

The external constraints include:

- legislative restrictions (regulatory requirements for capital structure, requirements for the procedure for attracting funding);

- industry features (opportunities for intra-industry cooperation, the life cycle of the industry and products, features of the technological process);

- financing conditions favored by investors (choice of risk, profitability, liquidity, structure of investors and creditors);

- macroeconomic parameters (interest rates on loans, level of inflation, exchange rates, financial market conditions).

Such restrictions can have a significant impact on the current business activities of economic entities, strategic and operational management decisions.

Reasonable choice of sources of financing of investment activity also provides a full and comprehensive assessment of the positive and negative consequences of their using, which the author grouped in table. 11.1.

All sources of financing of investment activities of economic entities have features due to the directions of their use for investment purposes. However, there is a contradiction between their impact on financial and economic strategy and the overall strategy of enterprise development.

Table 11.1

Comparative characteristics of sources of financing investment activities

The source of financing	Advantages	Disadvantages
Own sources	- simplicity, accessibility and speed of involvement; - higher profitability due to the absence of the need to pay interest for raising capital; - ensuring the financial stability of the enterprise and its solvency in the long run; - reducing the risk of insolvency and bankruptcy of the enterprise; - preservation of property and management of the founders (owners) of the enterprise; - the amount of investment depends on the decisions of the enterprise; - absence of additional obligations	- limited amount of funds raised; - diversion of own funds from the economic turnover of the enterprise; - limited independent control over the efficiency of the use of investment resources; - reducing the level of liquidity of the enterprise; - high cost compared to alternative loan sources; - unused the opportunity to increase the return on equity due to borrowed funds
Resources involved	- the ability to mobilize resources is much cheaper than in the credit market; - the ability to accumulate savings of private investors to solve large-scale investment problems; - the possibility of implementing appropriate financial policies related to changes in ownership structure; - availability of independent control over the efficiency of investment resources	- difficulty in attracting and registration; - partial loss of control over the activities of the enterprise; - ensuring the receipt of funds is not required; - reduction of profits due to the need to pay for borrowed capital
Borrowed resources	- the ability to mobilize resources on a large scale; - ensuring the growth of the financial potential of the enterprise in the event of a significant expansion of its assets and increase the volume of activity; - the ability to plan future amounts of service and debt repayment; - the creditor does not claim the future profits of the enterprise, and has the right only to receive the agreed amount of debt and interest thereon; - availability of independent control over the efficiency of investment resources; - ability to generate an increase in financial profitability (return on equity)	- difficulty with involvement and registration; - the need for guarantees of financial stability; - increasing the risk of insolvency and bankruptcy of the enterprise; - reduction of profits due to the need to pay interest for raising capital; - the value of borrowed funds depends on the financial market conditions

Therefore, solving the problems of financial support for investment, it is necessary to consider sources of funding on the following grounds:

- the reality of the use of the source (its availability);
- potential source capacity;
- economic efficiency of using;
- the level of risk of the source (from the standpoint of return of used funds or possible loss of control over the enterprise).

Determining the sources of financial support for investment activities is one of the most important stages in the formation and implementation of investment policy of enterprises, and the results of financial and real investments largely depend on it. Therefore, when choosing the optimal structure of sources of financing the investment activities of economic entities, it is necessary to take into account the whole set of criteria and factors that affect the cost of attracting the necessary resources.

The presence of a set of sources involves the use of various forms of financing, which are an external expression of the content of sources of financing investment activities. The main forms of financing investment activities include:

1) commercial, which is associated with raising capital for economic gain (in the form of profits, income, interest, dividends, etc.);

2) budget, which provides for full or partial funding from state or local budgets;

3) charitable, which is associated with funding on the basis of sponsorship and charity and provides for non-economic benefits (in the form of social, environmental or political effects).

In the process of financing the investment activities of economic entities, various methods are used, that are ways to attract capital from different sources due to a well-organized activities to finance investments. Thus, in world and domestic practice there are eight main methods of financing the investment activities of enterprises:

1. Self-financing provides financial security of investment activity exclusively at the expense of own financial resources which are formed from internal sources and can occur in the form of spontaneous investment of costs in process of their receipt and accumulation, systematic distribution of profit or planned self-financing according to the general strategic line of the enterprise.

2. Shareholder financing is carried out by attracting an investor to participate in the authorized capital of the business entity and is realized in the form of an issue of securities used for large-scale investments in sectoral or regional diversification of investment activities.

3. Debt financing involves the provision of investment resources by financial institutions without the right to provide a share in the ownership structure to the party providing financing, which is carried out in the form of investment lending, factoring, forfeiting, placement of debt securities.

4. Financing on a consortium basis is characterized by attracting sources of financing for investment activities through the creation of joint ventures or the creation of various types of strategic alliances: concerns, syndicates, holdings, industrial and financial groups, etc.

5. Lease financing is based on an agreement on term possession and / or use of tangible and intangible assets under certain conditions or for a fee in the form of rent, leasing, franchising.

6. Concessional financing involves the provision of preferences (mainly by the state) during the investment activities of enterprises in the form of government soft loans, guarantees, investment tax credit, interest-free credit, etc.

7. Project financing is characterized by a special way of ensuring the return on investment, which is based solely or mainly on the income generated by the investment project, as well as the optimal distribution of all risks associated with the project between the parties involved in its implementation. It can be implemented in the form of financing without recourse to the borrower, with partial recourse to the borrower, with full recourse to the borrower, on a consortium basis.

8. Subsidies are non-repayable financing of investment activities of enterprises, ie the provision of cash and other fixed and current assets on a gratuitous and non-refundable basis in the form of grants, subventions, sponsorships, donations, etc.

The above methods of financing investment activities can be conditionally combined into separate groups on the following grounds:

1) by sources of income (centralized and decentralized financing);

2) by terms (short-term and long-term financing);

3) by type of activity (internal and external financing).

Thus, the effectiveness of the process of financing investment activities primarily depends on the chosen method of financing, the choice of which is based on the main criterion - the cost of a particular investment resource. The existence of a variety of methods of financing investments allows management to choose among them the one that best fits the characteristics of the financial situation.

2. Characteristics of sources of financing investment activity

One of the most important problems of activities of business entities is the searching for optimal sources of financing of their investment activities, taking into account the availability of the necessary financial instruments on the market; costs; terms and conditions of financing; time limits of investment; providing needed to raise capital, etc.

Sources of financing of investment activities can be considered both by entities that provide resources and by type of resources (own, involved, borrowed). Based on this, the source of financing investment activities is the direction of capital origin, which is mobilized to ensure the investment process.

Internal sources of investment activity of enterprises are divided depending on their origin into: internal and external. Domestic sources of own origin include net income, depreciation deductions, refunds from deposits, insurance claims, interest on loans and internally mobilized reserves. Internal sources of external origin include

additional invested capital, ie the amount by which the value of shares issued exceeds their nominal value from the initial issue, as well as other additional capital, which is the amount of revaluation of non-current assets of the enterprise, the value of assets received free of charge or individuals and other types of additional capital.

Positive and negative aspects of the use of own sources of financing investment activities are shown in table. 11.2.

Table 11.2

Comparative characteristics of own sources of investment financing

The source of investment financing	Advantages	Disadvantages
Net profit	- short terms of involvement; - free choice of forms, directions and terms of use of means by the enterprise; - ensuring the financial stability of the enterprise.	- dependence on the results of the activities of the enterprise; - the possibility of refusal of owners or shareholders of the company to reinvest profits.
Depreciation deductions	- less dependence on market changes related to the results of the enterprise; - consistency and continuity of income due to the synchronicity between the cycle of fixed assets and the formation of the depreciation fund.	- an increase in the amount of depreciation deductions reduces the amount of net profit of the enterprise; - directing funds exclusively to the implementation of real investments (capital investments); - insignificant amounts and length of income in time.
Term and current deposits	- the possibility of obtaining additional income in order to direct it on investment activities.	- risk of non-refund; - dependence on the macroeconomic situation in the country; - diversion of funds from the cash flow of the enterprise
Interest on loans	- the possibility of obtaining additional income in order to direct it on investment activities.	- risk of non-refund; - dependence on the macroeconomic situation in the country; - diversion of funds from the cash flow of the enterprise
Mobilized internal reserves (immobilization of current assets, reinvestment of non-current assets)	- rapid attraction of resources; - the ability to realize inefficiently used assets.	- diversion of funds from money circulation; - long-term attraction of funds in case of reinvestment of part of non-current assets.

Depreciation deductions in Ukraine are the main source of financing of investment activities. The active using of depreciation is due primarily to the fact that depreciation deductions in contrast to net income and borrowed funds are the most

stable source of resources, as they are much less affected by declines in production, rising interest rates and changes in prices.

Net profit of enterprises is approximately equivalent to depreciation source of financing. It should be noted that there is a dual nature of the mutual influence of profit and investment. On the one hand, profit is an important investment resource, and on the other hand, its increase is associated with lower costs, improved product quality and increased production. Although any of the factors that increase profits can be involved in mobilizing internal reserves to increase production efficiency, the most significant results can be achieved by investing in its recovery, ie, not only profit is a source of investment, but investment itself is a condition for profit growth.

Effective management of the formation of own investment resources and increasing of their share in the total volume provide increased financial stability and solvency of economic entities in the long run and increase their attractiveness to outside investors and creditors. However, re-equipment of material and technical base of industrial enterprises and introduction of modern innovative technologies of production cannot be carried out exclusively at the expense of own resources of economic entities, which significantly reduces investment activity and hinders economic development of the state.

Thus, the technology of using own sources as an internal mechanism for financial support of investment activities is the simplest, but its capabilities are limited by the results of financial and economic activities of enterprises. The size of equity is usually insufficient to make investments. This leads to the using of involved and borrowed investment resources.

Involved sources of investment activity are formed in the process of additional issue of shares and the implementation of additional contributions to the authorized capital.

Quite often the concepts of involved and borrowed sources are mixed, although there are clear criteria for distinguishing them. The involved resources are provided on a permanent basis, ie they may not be returned to their owner. They can be used to pay income to their owner. Borrowed sources include resources received for a certain

period and subject to repayment with interest for their use. Distinctive features of involved and borrowed resources have an impact on the formation of enterprise capital: involved resources together with the company's own resources constitute the company's own capital, and borrowed resources act as liabilities of the enterprise and form its borrowed capital.

Positive and negative aspects of the using of attracted sources of investment financing are shown in table. 11.3.

Basically, the inflow of resources from borrowed sources is provided by the additional issue of common shares. This source of funding is quite attractive, as it does not oblige the company to return the capital and pay dividends over a period of time.

The insignificant share of attracting investment resources from this source in Ukraine is due to the underdevelopment of the stock market and the reluctance of management to become its participants due to the possibility of losing corporate control over the enterprise. However, this source is very promising in terms of attracting investment resources, especially if the shares are acquired by a strategic investor, whose goal will not be to receive quick high dividends, but the successful long-term operation of the enterprise.

Borrowing sources of investment activity of enterprises are formed by attracting bank loans, increasing the current accounts payable and issuing debt securities. Positive and negative aspects of the using of attracted investment resources by the author are shown in table. 11.4.

The using of borrowed resources as a source of investment financing is a normal phenomenon in the activities of economic entities. Practice shows that the efficiency of the using of borrowed funds is usually greater than the efficiency of the using of own investment resources. This is primarily due to the increased responsibility of business entities to creditors for repaying the debt on time.

Table 11.3

Comparative characteristics of the involved sources of financing of investment activity

The source of investment financing	Advantages	Disadvantages
Additional issue of shares	- there is a decrease in the price of involved funds at large volumes of issue; - payments for the use of involved funds are not unconditional, but are made depending on the financial results of the activities of the enterprise; - raising funds is not limited by the repayment period; - no need to pay debts; - no need for additional security (guarantees).	- issue and placement of shares requires significant expenses; - current stock market legislation requires compliance with the requirement of maximum possible transparency of financial information about issuers; - the growing number of shareholders complicates the management of the enterprise, which can lead to loss of control over capital; - the need to distribute profits among the participants of the share capital; - the impossibility of using by non-joint-stock enterprises.
Budget funds intended for targeted investment in the form of grants or equity participation	- inexpensive source of funding; - availability of independent control over the efficiency of investment resources; - implementation of appropriate financial policy related to the change of ownership structure.	- usually a small amount of funding; - lack of an effective mechanism for indexing payments in line with rising inflation; - long-term process of providing funds; - control over the targeted using of funds..
Investment contributions to the authorized capital	- using of the investor's own experience in this area of activity; - the ability to accumulate savings of private investors to solve large-scale investment problems..	- investor control over investment decisions; - dependence on the desire and ability of the investor to invest.
Funds of commercial structures provided for free of charge for the target investment	- free source of funding; - no need to pay debts; - no need for additional security (guarantees).	- usually a small amount of funding; - control over the targeted use of funds.

Attracting borrowed investment resources in reasonable amounts and their effective using helps to improve the financial situation, and vice versa, if the

company attracts borrowed funds to finance investment activities in amounts that are not economically justified, it can lead to financial deterioration.

Table 11.4

Comparative characteristics of loan sources of investment financing

The source of investment financing	Advantages	Disadvantages
Loans from banks and other financial institutions	- a large amount of possible borrowing; - flexibility in borrowing, servicing and repaying debt, in the using of credit; - significant external control over the efficiency of credit using.	- complexity of borrowing and registration; - danger of non-return; - high interest rate; - the need for liquid collateral.
Bond issue	- there is no risk of losing control over the enterprise; - cheaper source of financing compared to loans; - greater the possibility of proliferation due to lower risk for investors through the provision of property; - the possibility of raising capital for a long period of time.	- significant additional costs of the issuer, requiring long-term fundraising; - due to changes in the financial market, the average interest rate may be much lower than the established percentage of bond payments; - the possibility of using mainly by large enterprises.
Leasing	- the possibility of purchasing a modern expensive equipment with minimal one-time costs; - lease payments are included in the cost of production, ie theyreduce the tax base of corporate income tax; - there is a possibility of using accelerated depreciation methods; - smaller amounts of lease payments for longer periods of use; - Softer receipt and warranty requirements.	- at the end of the lease term there may be a need for additional payments; - the need for a significant advance, the mandatory availability of additional collateral and guarantees of another bank; - impossibility of using by newly created enterprises.
Target state investment loan	- small amounts of payments to repay and service the debt for longer periods of using; - the possibility of providing additional services.	- restrictions on the use of funds; - difficulties in obtaining; - usually small amounts of loans; - the provision of funds is subject to certain conditions.
Current accounts payable	- flexibility and accessibility of involvement; - no interest (or minimum interest) is accrued for use; - convenience and possibility of prolongation.	- artificial increase of debt and initiation of bankruptcy processes by creditors in order to further acquire part of the assets of the enterprise.
Franchising	- the possibility of rapid inflow of funds at a low level of risk; - reduction of initial investments in the development of the enterprise; - the possibility of independent activities under a recognized trademark using proven forms of entrepreneurship.	- the need to share profits with the franchisor; - difficulties in the legal registration of the franchise; - the franchisor's constant control over the activities and quality of the franchisee's products.

1	2	3
Forfeiting	- no credit risks, as they are assumed by the forfeiter; - increasing attractiveness due to the refusal of some countries to fixed interest rates, chronic shortage of currency to pay for imports, growing political risks, etc .; - the ability to transfer debts, both accounts payable and receivable in real terms by selling it to the forfeiter; - the existence of primary and secondary markets.	- high cost of involvement; - the likelihood that the exporter may not find a guarantor who would satisfy the forfeiter; - the need to prepare documents in such a way that the exporter has no recourse in the event of bankruptcy of the guarantor, as well as the need to know the laws of the importing country.

For businesses with low financial strengths and high debt ratios, debt financing of investment activities should ensure their maximum efficiency in order to improve operational performance indicators. This, in turn, will have a positive impact on the financial condition of enterprises. Financial and real investments should be aimed at achieving stable profitability of the enterprise in order to ensure the ability to repay long-term loans.

Thus, the process of financial support for investment activities is a complex problem. Virtually all sources of funding have untapped potential, which can give a significant impetus to economic growth in the national economy due to the right economic policy and favorable investment conditions.

3. Characteristics of investment activity inancing methods

The method of financing investment activities is understood as a way to attract investment resources in order to ensure the financial realization of investments.

The methods used in specific conditions should provide the solution of the following tasks:

- reliability of financing of investment activity during all its stages;

- minimization of investment costs within economically reasonable limits and increase in return on equity;

- financial stability of the entity that implements the investment.

There are the most common methods of financing investment activities: self-financing, equity financing, debt financing, subsidies, concessional financing, project financing, rent, financing on a consortium basis.

Self-financing is the management of cash funds in order to accumulate capital sufficient to finance expanded reproduction. Self-financing is based on self-sufficiency, which means that the costs that ensure the functioning of the financing entity (state, enterprise, commercial bank, private investor) are fully covered by its income from the sale of goods and services.

Closely related to the concept of "self-financing" are "self-control", "self-government", "self-regulation", "self-development".

When participating in the system of implementation of methods of financing investment of activities, these concepts reflect the economic content and reveal the ability of the business entity to develop.

"Self-control" is revealed in the system of direct and inverse stable investment relations, ie the relationship of control over the correct choice of sources of financing, their compliance with the stages of investment activities, consistency with investment objectives.

"Self-regulation" is revealed in the ability of economic entities to determine the needs for sources of financial security and their combination independently.

"Self-government" reflects the presence in the economic system of a complex of highly developed structures that ensure the relationship of standards of research, design and technological, organizational and economic structure of the business entity.

"Self-development" characterizes the ability of an economic entity to determine the level of its development in the international, state, local, sectoral segments correctly and the possibility of its improvement.

Depending on the method of reflecting internal sources of financing in the financial statements, there are forms of hidden and open self-financing.

Sources of hidden self-financing are hidden reserves that are part of the company's equity, which is not reflected in its balance sheet. There are two ways to form hidden reserves in the balance sheet:

1) underestimation of assets (premature write-off of certain assets, application of accelerated depreciation, non-application of indexation, use of the LIFO method in the valuation of inventories, etc.). Underestimation of assets becomes a source of self-financing at the time of using of these assets;

2) revaluation of liabilities - the difference between the actual created provision for future expenses and payments and their reasonable estimated value. This difference becomes a source of self-financing in the case when the selling prices of the enterprise increase due to overstatement of collateral and additional profit arises at the moment of using collateral (payments).

Open self-financing (profit hoarding) is the directing of profit on the formation of equity of the enterprise in order to finance investment and operating activities. The amount of hoarding corresponds to the amount of net profit that remained at the disposal of the company after payment of all taxes and dividends.

It is obvious that an enterprise that is able to cover its financial needs fully or significantly through self-financing, receives significant competitive advantages and favorable opportunities for growth by reducing the cost of raising additional capital and reducing risks.

Share financing (as well as equity and other contributions to the authorized capital) provides share financing of investment activities through additional issuance of securities, which provides the investor with participation in the authorized capital of the enterprise. Share financing of investment activities can be carried out using the following methods:

- conducting an additional issue of shares of an existing enterprise, which is an organizational and legal form of a joint stock company, for financial ensuring the implementation of investments;

- attraction of additional funds (investment contributions, deposits, shares) of the founders of the existing enterprise for the implementation of investments;

- creation of a new enterprise designed specifically for the implementation of the investment project.

Additional share issues are used for realization of large-scale investments, sectoral or regional diversification of investment activities. The using of this method for financing of large investment projects is mainly explained by the fact that the costs associated with the issuance are covered only by significant amounts of involved resources.

Attracting investment resources under equity financing can be done through the additional issue of ordinary and preferred shares. The issue of preferred shares as a form of equity financing is considered to be a more expensive source of financing for investment activities than the issue of ordinary shares, as the payment of dividends to shareholders is mandatory for preferred shares. At the same time, ordinary shares, in contrast to preferred shares, give their owners more rights to participate in management, including the ability to control the strictly targeted use of funds to finance investment activities.

For enterprises of other organizational and legal forms, attracting additional funds intended for investment activities is carried out through investment contributions, deposits, shares of founders or involved third-party co-founders in the authorized capital. This method of financing is characterized by lower operating expenses than the additional issue of shares, however, volume of funding in this case is more limited.

The creation of a new enterprise, designed specifically for the implementation of the investment project, acts as one of the ways of targeted equity financing. It can be used by private entrepreneurs who set up a company to implement their investment projects and need to attract partner capital; large diversified enterprises creating a new enterprise, including on the basis of its structural subdivisions, for the implementation of projects to expand production, reconstruction and re-equipment of production, reengineering of business processes, development of fundamentally new products and new technologies; enterprises in a difficult financial situation, which develop anti-crisis investment projects for financial recovery, etc.

Financing of the investment project in these cases is carried out by contributions of external co-founders in the formation of the authorized capital of the new enterprise, allocation or establishment of the parent company specialized project subsidiaries, creation of new enterprises by transferring part of assets of existing enterprises.

Debt financing is a method of financing investment activities by attracting funds on the terms of their further return and payment of interest established by the contract. This method of financing of investment activities includes the following methods: investment loans, bond issues, factoring, forfeiting.

Investment loans of banks are one of the most effective forms of external financing of investment activities in cases where companies can not ensure its implementation through self-financing and corporatization.

Investment loans are usually medium and long-term. In this case, the investment loan may provide for a grace period, ie a period of deferral of repayment of principal. This condition facilitates the servicing of the loan, but increases its value, as interest payments are calculated from the outstanding amount of debt.

One of the types of term loans used to finance investment activities is a loan secured by real estate (mortgage loan).

For financing investment activities the following loans can be used:

- standard mortgage loans (debt repayment and interest payments are made in equal shares);

- mortgage loans, which involve uneven interest payments (for example, at the initial stage, contributions increase at a certain stable rate, and then paid in fixed amounts);

- mortgage loans with the amount of payments that varies (in the grace period, only interest is paid, and the principal amount of debt does not increase);

- mortgage loans with a mortgage account (when issuing a loan, a special account is opened to which the borrower pays a certain amount as a guarantee of payment of contributions at the first stage of investment).

The mortgage lending system provides a mechanism for savings and long-term lending at low interest rates with installments over long periods.

In the case of long-term and close cooperation between the lending bank and the borrower to finance investment activities, the bank may open an investment credit line to the borrower. An investment credit line is a legal form of the creditor's obligation to the borrower to provide loans (tranches) during a certain period as the borrower needs to finance certain areas of investment activities within the agreed limit.

There are framework (target) and revolving investment credit lines. A framework credit line involves the borrower paying a number of individual capital expenditures under a single loan agreement that is implemented over a period of time. Revolving credit line is a series of short-term and medium-term credit contracts extended within the established term; the interest rate is usually higher than the rate on a traditional term loan.

The issue of bonds involves the issuance by the company - the initiator of investment activities - corporate bonds, the proceeds of which are intended for financing a particular investment project.

Raising funds through the issuance of bonds has a number of requirements for the issuing company. First of all, the issuing company must have a stable financial position, a reasonable and rational internal business plan of the investment project, to bear the costs associated with the issuance and placement of bonds. As a rule, to go through a complex procedure of issuing bonds, companies use the services of professional participants in the securities market - investment companies and banks, the cost of which reaches 1-4% of the face value of the issue for large amounts of bond loans.

In addition, for the issue of bonds, which, like shares, are equity securities, issuers pay a fee for state registration of this issue.

Factoring is the purchase by the bank (factoring company) of the supplier's monetary claims against the buyer and their collection for a fee in order to instantly

receive most of the payment, guarantee full repayment of debt and reduce costs of maintaining accounts.

The bank (factoring company) pays the client from 70% to 90% of the money he needs immediately in the form of a loan, and the balance (excluding interest on the loan and commission for factoring services) is transferred after recovery of all debt.

Forfaiting is the purchase of debt, expressed in a negotiable instrument (bill of exchange or promissory note), from the creditor on a non-repayable basis. This means that the buyer of the debt assumes the obligation to waive - forfaiting - his right to exercise a regressive claim against the creditor if it is impossible to obtain satisfaction from the debtor. The purchase of current liabilities is at a discount. The forfaiting mechanism is used in two types of agreements: financial agreements - in order to quickly implement long-term financial obligations; in export agreements - to facilitate the inflow of cash to the exporter who provided credit to a foreign buyer.

Forfaiting usually involves medium-term financing, ie up to five years. When it comes to the implementation of investment projects, the term of funding can be increased to 10 or more years.

Project financing is a method of debt financing of investment activities using various sources and the using of different financial instruments, provided that the sources of debt repayment are project cash flows, and the debt is secured by the assets of financing participants.

Project financing is a method of financing unsecured investment projects, known as "future cash flow financing". Given the aspects of practical application, project financing is a holistic system that covers all aspects of investment project development and contractual relations in the process of its implementation.

Features of project financing compared to debt one are the following:

- more wide using of sources of financing based on raising funds, except for bank loans obtained from the issue of securities (shares, bonds), own funds of enterprises, unit contributions, budget funds, with a predominance of borrowed sources - 70-90% of the investment project;

- much higher risk for investors, as traditional project financing schemes provide for a loan without recourse to the borrower;

- a more complex scheme of interaction of participants in the implementation of the investment project, which is determined by sectoral characteristics, sources of funding, state participation in the realization of the project, etc .;

- the investment project has a limited lifespan, which is determined by such factors as the term of contracts, licenses, the amount of funding sources, and the debt of the project financing must be paid in full before the project is completed.

- as the main source of loan repayment (return on investment) are considered future cash flows from the investment project under which funds are raised;

- the investment project has no pre-fixed value and is created after the start of financing.

The level of risk of the creditor in the implementation of project financing depends primarily on the chosen scheme of participation in the management of the investment project, namely:

1) project financing with full recourse to the borrower - the lender does not assume the risks associated with the effectiveness of the project, limiting its participation by providing funds in exchange for certain guarantees. Under such a scheme, the participation of the creditor (bank) can be considered as a kind of investment lending to the company on the security of its assets or guarantees of third parties (including the state);

2) project financing with limited recourse or without recourse to the borrower - the lender partially or completely assumes the risks of the final results of the project. Under such a project financing scheme, the lender (bank), as a rule, actively intervenes in the project implementation process, indirectly participating in its management. In some cases, the bank may be directly involved in the management, in the case of investments in the capital of the enterprise which implements the investment project.

Depending on the method of construction of project financing schemes, joint and consistent financing are distinguished.

Joint project financing involves the participation of several banks in the project, each of which provides a certain amount of credit, the total of which provides the project company with the necessary resources.

There are two forms of co-financing. The first is the financing of an investment project by several creditors pooled (syndicate, consortium). In this case, there is a division of roles into three levels: the organizing bank, the agent bank and the participating banks. A distinctive feature of this type of project financing is that the project company negotiates with only one bank (organizer) and subsequently concludes one agreement for the entire amount of the proposed loan. In the future, as it is serviced, the project company usually makes payments to one bank (agent bank). Further distribution of payments takes place in the banking group according to their internal documentation.

The second form of joint project financing is parallel financing, which provides for independent relations of the project company with each of the participating commercial banks. The initiators of the project form their own working group, which negotiates with each creditor and serves its payments in the future.

Project financing with consecutive financing involves the presence of a large reputable bank (initiating bank), which first considers the loan application, conducts a full due diligence procedure, agrees on the conditions of participation in the project, concludes a loan agreement and provides the necessary financing. After the loan is issued, the bank transfers its debt claims to another lender or group of creditors. In this case, the initiating bank receives a commission for the work performed on the analysis and evaluation of the investment project, development of basic loan documents and initial issuance of the loan. Further repayment of payments by the project company is carried out directly to the successor bank.

Depending on the country of origin of the sources of funding and the composition of the participating parties, project funding can be divided into:

1) national - occurs at the expense of financial sources within the country where the project is implemented (national investors and commercial banks);

2) international - realized at the expense of foreign investors, international financial organizations, foreign commercial banks and banking consortia, export credit agencies.

The vast majority of large-scale investment projects can be implemented, as a rule, only with the use of international project financing.

Rental financing is a method of financing investment activities by concluding an agreement on the transfer of ownership in temporary possession and / or use for a fee or under certain conditions.

Rental financing is realized by concluding rent, leasing or franchising agreements.

The complex legal nature of renting, leasing and franchising is due to the fact that they are objectively in the field of related, intertwined in different combinations of lease, purchase, sale, commodity lending, power of attorney and other business relationships.

Relationships and distinctive features of renting, leasing and franchising are shown in table. 11.5.

However, despite some similarities between leasing, franchising and renting, there are a number of features inherent in one or another instrument.

First, under the leasing scheme, in contrast to the rental, the leased asset is selected by the lessee. Moreover, new property (that was not previously in operation) is obtained. This factor minimizes the risks of the lessee in terms of quality and technical serviceability of the leased asset. Secondly, the further fate of the leased object after the expiration of the term established by the contract is of interest, as the lessee may repurchase this object. This scenario introduces a certain predictability in the relationship between the lessor and the lessee, which is absent in the rental relationships. After all, there are cases when the owner of the leased object for some reason does not want to extend the lease agreement.

Table 11.5

Comparative characteristics of rent, leasing and franchising

The sign of comparison	Renting	Leasing	Franchising
Subjects of relationships	Tenant and landlord	Lessor, lessee, seller (manufacturer property)	Franchisor and franchisees
Relationship objects	Any property not restricted in circulation, including land and natural objects	Any non-consumable property used for business, except land and other natural objects	Complex of exclusive rights
Legal regulation of relations between the parties	Mostly property relations	Property, credit and commercial legal relations	Non-property and commercial relations
Number of parties in the contract	Bilateral property rental agreement	Tripartite leasing agreement, or three agreements: purchase and sale, leasing and lending	Bilateral agreement
Ownership of the leased property after reimbursement	If it is provided, in the form of a contract of sale	There is usually an option to repurchase the asset or transfer it to the lessees' ownership, unless otherwise provided in the contract, after payment of all leases	Not provided
Source of funding for redemption payments	Tenant's own funds	Lease payments, including amounts that reimburse the value of the leased property	Down payment (lump sum payment), as well as monthly payments (royalties) for the right to use intangible object
Property rights	Using	Using and possession	Using
Term of the contract	It may be uncertain	Always defined	Always defined

When talking about the franchising, the following provisions must be taken into account. When the franchisee pays the franchisor a fee for the right to use the franchise in the form of periodic payments, the franchise agreement becomes similar to the property lease agreement, because in both cases the object of public rights is transferred to temporary use for a fee. But the difference is that the subject of the lease is property, not intellectual property.

In addition, the relationship between landlord and tenant is reduced to a simple scheme - using for a fee. The relationship between the franchisor and the franchisee is much wider.

The franchise agreement in the case of payment to the franchisor in the form of a fixed one-time payment may in fact be perceived as close to the contract of sale, because in both cases the transfer of a similar object of public rights is followed by a cash payment. However, legally the difference between them is great. First, the subject of the contract of sale is property (material), and the subject of the franchise agreement may be property, but, above all, the right to use intellectual property is transferred. Secondly, under the contract of sale there is an alienation of the object of the contract. Under the franchise agreement, the property can also be alienated, but the right to intellectual property, despite the transfer of rights for using it to another entity, remains with the franchisor.

Consortium financing is a method of financing investment activities by creating joint ventures (companies) or creating different types of strategic alliances: concerns, syndicates, holdings, industrial and financial groups, etc. The basis for these entities is an agreement (consortium) on strategic cooperation (interaction) on capital accumulation and investment financing.

Joint ventures are economic business structures that are formed by multinational founders and are characterized by common property, joint management and distribution of profits and risks.

In accordance with the Law of Ukraine "On Foreign Economic Activity" joint ventures are enterprises based on the joint capital of economic entities of Ukraine and foreign economic entities, joint management and distribution of results and risks.

According to the Commercial Code of Ukraine, such an organizational form of enterprises as joint is not used, there are only the definition of an enterprise with foreign investment (in case if in the statutory fund of such enterprise foreign investment is not less than 10%.

The expediency of creating joint ventures is due to the list of advantages: limiting business risk; the only possibility for a foreign company to penetrate the

local market; simplification of the process of organizing the case; ensuring communication with local suppliers, authorities, banking structures; cooperation of financial and material resources of partners, which form an optimally combined material and technical base, which can not be created independently either by domestic or by foreign participants; guarantee of the greatest social efficiency of cooperation.

Attracting foreign capital in business, in turn, involves a number of problems that pose a potential threat to the national security. The danger may be manifested in those parts that involve investing foreign assets in strategically important sectors of the economy, non-compliance with environmental standards, non-transparent rules of conduct in domestic markets, rigid exploitation of local raw materials, unfair competition and suppression of domestic and similar products.

A strategic alliance is a partnership between enterprises in which the resources, capabilities and core competencies of enterprises are combined to achieve the best results.

The motives according to which companies join alliances are:

- achieving savings on an production volumes;

- common using of production facilities;

- combining efforts in the production of components or assembly of final products;

- reducing the level of uncertainty and strengthening the stability of development, as long-term relationships with partner companies combine experience and resources;

- reduction of business risks;

- gaining access to the market, where there are already established market structures and a certain mentality, promotion of each other's products on the market;

- transfer of technology, knowledge and know-how, joint research, staff training;

- joint development and production of technically complex products (communications, computers, aircraft, etc.).

There are different types of strategic alliances depending on the tasks set by their members:

1. Alliances between competing companies:

- integration alliances, in which partners carry out joint research programs and jointly produce individual components, which subsequently complete the own products of partner companies, and often these products enter into direct competition in the market;

- pseudo-concentration alliances, in which the operation of competing companies includes joint development, production and sale of finished products, with the release on the market of a single product owned by all partners;

- complementary alliances, which are usually created for the commercial sale of products of one partner through the trading network of another, thus the production assets of one are supplemented by trade assets of the other.

2. Alliances between non-competitors:

- transnational joint ventures, where partnerships are established between companies located in different countries; one of the partners is trying to distribute its products abroad, and the other already has privileged access to the national market of the selected country;

- vertical partnership alliances, where companies operating in related sectors of the "production chain" enter into a relationship between supplier and customer;

- intersectoral alliances are formed between enterprises that belong to different industries and produce products that are not connected by a single "technological chain", but want to diversify their business.

The formation of strategic alliances requires fundamental changes in doing business. Unlike the usual long-term cooperation, in which the parties are guided by pre-determined agreements, strategic alliances are more flexible structures, they provide the ability to change the initial conditions and share the risk to achieve common strategic goals.

Strategic alliances form a new business strategy, open new opportunities for growth.

Concessional financing is a method of financing investment activities based on the provision of soft loans and guarantees on them. Concessional financing can be carried out in such ways as interest-free loan, soft loan, investment tax credit, guarantee.

Interest-free loan are the funds provided to the borrower at rates below market ones. In Ukraine, an interest-free loan is an opportunity for concessional, interest-free using of credit funds for a period of 30 to 55 days, depending on the lender's bank. At the end of this grace period, during which it is possible to use an interest-free loan, the borrower must pay monthly loan rates from 1.3% to 3%, depending on the lender's bank.

Concessional loan are funds provided to the borrower from the state or local budget in the amount specified in the loan agreement, and subject to repayment to the appropriate budget under certain conditions. In Ukraine, it is envisaged to provide soft loans, usually for special purposes through the system of the Treasury of Ukraine or authorized banks for state support and development of small businesses, farms, etc.

Investment tax credit is deferral of income tax payment provided to a business entity for a specified period in order to increase its financial resources for innovation programs, followed by compensation of deferred amounts in the form of additional tax revenues due to total profit growth implementation of innovative programs.

Guaranteeing is a method of securing obligations confirmed by a bank ("guarantor") or other credit institution in favor of its client ("principal"), from the payment of a certain amount under the contract in favor of the client's creditor ("beneficiary") if the principal fails to fulfill its obligations to the beneficiary (or other event that has occurred or has not occurred) - the warranty case and is a means of ensuring the fulfillment of financial and other obligations under the contract.

Subsidies are non-refundable financing of investment activities, ie the provision of cash and other non-current and current assets on a non-refundable basis. There are the following types of subsidies: grants, subventions, sponsorships, donations.

Dotation is a way of supporting any investment project by public authorities or local governments. As a rule, socially important programs and projects, nature protection and resource-saving technologies are subject to dotation. Dotations are provided to finance only part of the investment project, the share of budget funds usually does not exceed 50%.

Grants are similar in content to dotations. Their differences are that they can be provided to finance the investment project as a whole. Reporting on the using of grants is more stringent and subject to audits. Sometimes managers are appointed to oversee the full implementation of grant terms. Grants often take the form of humanitarian aid.

Subventions, in contrast to donations and grants, are provided by public authorities to local governments and have a specific purpose. In case of violation of these conditions are subject to return. Subventions are initiated by local governments.

Sponsorship and donation are subsidies for investment projects by legal entities and individuals, charitable organizations and foundations, etc. Sponsors and donors usually fund intellectual investments.

4. Estimation of value of invested capital

The choice of sources of financing of investment activities should be decided by business entities taking into account many factors: the cost of borrowed capital, the efficiency of return on it; the ratio of equity and debt capital, which determines the level of financial independence; the risk that arises when using a source of funding, as well as the economic interests of investors.

The notion of an enterprise's investment value is related to the amount of discounted cash flows that an investor expects to receive in the future. Bringing in the flow of benefits that investors expect means recognizing the impossibility of their immediate return on expected income and therefore taking into account their alternative rate of loss of income. For a company that uses borrowed capital for

development, this rate reflects the minimum rates of return required by creditors (*Kd*) and owners (*Ke*). If we take into account the ratio of borrowed funds (*Wd*) and own funds (*We*) in the total amount of sources of financing for investment activities, the aggregate profitability requirements for two types of investors will be reduced to a single weighted average cost of capital (*WACC*):

$$WACC = \sum_{i=1}^{n} We_i * Ke_i + \sum_{j=1}^{m} Wd_j * Kd_j \qquad (11.1)$$

where *i – 1, 2, 3…n* – the amount of own resources; *j – 1, 2, 3…m* – the amount of borrowed resources.

Example. The investment project is financed through the additional issue of ordinary and preferred shares, as well as through attracting borrowed costs. Calculate the weighted average cost of investment capital using the data in the table.

Source of funding	Share in total funding, %	Price of funding source, %
Ordinary shares	50.0	32.0
Preferred shares	5.0	24.5
Borrowed funds	45.0	20.0

WACC = 0,5×32,0+0,05×24,5+0,45×20,0 = 26,23 %

Thus, the entity can implement an investment project, its' profitability will be at least 26.23%. Otherwise, the company will not provide the necessary rates of return neither to owners of ordinary and preferred shares, nor to creditors.

The above equation of the weighted average cost of sources of financing investment activities is widely known, but if we deviate from the arithmetic form and consider it from the standpoint of investment and financial approach, it is necessary, first of all, to highlight the following circumstances. The left part of the equation expresses the expectations of investors for a particular company, and therefore from the point of view of financial analysis is a criterion of investment expectations, ie a criterion of strategic position of investment activities, development prospects,

investment risks: the weighted average amount is equal to the expected or, more precisely, the expected return.

The right-hand side of the equation (*WACC*) should be considered in terms of investment finance management: both interest rates (*Kd* and *Ke*) represent the burden of investor compliance. The aggregate rate (*WACC*) takes the nature of the cost of raising capital, because it must be covered by earned income. Therefore, the right part of the equation expresses the value of the criterion of return on investment, which form the future cash flows and the value of the enterprise.

The weighted average cost of capital (*WACC*) is used:

- for making investment decisions that do not significantly change the risk of capital owners;

- when comparing enterprises and making decisions on mergers;

- for the current assessment of the capital of the enterprise as a rate of discount of cash flows received by all owners of capital;

- when making financial decisions (decision on the exchange of old bonds for bonds of a new issue, justification of the amount of net working capital).

Weighted average cost of capital (*WACC*) is an indicator that characterizes the relative level of total expenditures to maintain a given capital structure.

The WACC indicator reflects both the structure and value of the company's capital and the level of its aggregate risk. Therefore, this indicator is often used as a discount rate for cash flows when determining various cost indicators (*NPV*, *EVA*, etc.), or as a rate of comparison (cut-off) of investment alternatives.

Accordingly, in practice the internal rate of return on investment *IRR* is compared with the weighted average cost of capital of the enterprise. If the *IRR* of the project is less than the average cost of capital of the *WACC*, its implementation will reduce the value of the business. Therefore, in the financial aspect, only those projects must be accepted for which $IRR > WACC$.

It should be noted that the using of *WACC* in the evaluation of investment decisions is correct only for those projects that generally correspond to the profile of

the enterprise, ie the risk of which is approximately equal to the risk of the enterprise itself.

The WACC indicator is also often used in various models of valuation of the enterprise, in the development of management motivation systems, analysis of business efficiency, making other management decisions.

Control questions

1. What does investment financing include?
2. What are the stages of financing investment activities?
3. List the main sources of financial support for investment activities.
4. What are the advantages and disadvantages of own sources of financing of investment activities?
5. What are the advantages and disadvantages of borrowed sources of investment financing?
6. What are the advantages and disadvantages of the involved sources of financing of investment activities?
7. Describe concessional and debt financing as methods of financing of investment activities.
8. Describe the corporatization and financing on a consortium basis as methods of financing of investment activities.
9. Describe rental financing and subsidies as methods of financing of investment activities.
10. What is the weighted average cost of invested capital?

Tests

1. The debt financing is:

a. a set of activities related to the obtaining and return of capital

b. the cash funds management in order to accumulate capital sufficient to finance expanded reproduction

c. the mutual financing of investment activity through additional issue of securities, which provides for the investor a share in the business authorized capital

d. the method of financing investment activity by attracting funds on the terms of their return and payment of interest established by the contract

2. The selecting of sources, forms and methods of financial provision of investment activity is:

a. a second stage of the financing investment activity process

b. a third stage of the financing investment activity process

c. a fourth stage of the financing investment activity process

d. a fifth stage of the financing investment activity process

3. The external sources of financing investment activity do not include:

a. own resources

b. attracted resources

c. loan resources

4. The provision of investment resources by finance and credit institutions without giving them the right to a share in the ownership structure of the party that attracts financing, which is

carried out in the form of loan investing, factoring, forfeiting, placement of debt securities constitutes:

a. the equity financing
b. the debt financing
c. the concessionary financing
d. the project financing

5. Methods of investment activity financing do not include:

a. concessionary financing
b. self-financing
c. grants
d. subsidies

6. A special way of ensuring the return of investment, which is based solely or mainly on the income generated by the investment project, as well as on the optimal distribution of all risks associated with the project between the parties involved in its implementation, constitutes:

a. the equity financing
b. the debt financing
c. the concessionary financing
d. the project financing

7. The self-financing is:

a. a set of activities related to the of capital obtaining and return
b. the cash funds management in order to accumulate capital sufficient to finance expanded reproduction
c. the mutual financing of investment activity through additional issue of securities, which provides for the investor a share in the business authorized capital
d. the method of financing investment activity by attracting funds on the terms of their return and payment of interest established by the contract

8. A purchasing of debt, expressed in a negotiable instrument, on a non-repayable basis from the creditor is:

a. the factoring
b. the project financing
c. the forfeiting
d. the debt financing

9. The equity financing is:

a. a set of activities related to the of capital obtaining and return
b. the cash funds management in order to accumulate capital sufficient to finance expanded reproduction
c. the mutual financing of investment activity through additional issue of securities, which provides for the investor a share in the business authorized capital
d. the method of financing investment activity by attracting funds on the terms of their return and payment of interest established by the contract

10. Non-reimbursable financing of investment activity, i.e. the provision of cash and other non-current and current assets on a non-refundable basis constitutes:

a. the subsidies

b. the subventions
c. the grants
d. the soft loans

Topic 12. INVESTMENT PLANNING

12.1. The economic essence of investment planning
12.2. Micro-level investment planning
12.3. Investment planning at the macro level

1. The economic essence of investment planning

Planning is a universal tool of the manager, which is used at all stages of the investment process.

Investment planning is the process of forming a portfolio of investment programs, which can be considered as one of the alternative and best options for achieving investment goals. Investment planning is based on scientific principles and methods.

Planning principles are the main theoretical provisions that should be followed in the process of investment planning in the enterprise.

The basic principles of planning include: continuity of planning – the company should develop long-term, medium-term and short-term (annual) plans. Medium- and long-term plans should be systematically reviewed and adjusted for changes, and annual plans should follow from medium-term plans. This achieves continuity of planning in the enterprise;

scientificity – planning should be carried out on a scientific basis, ie on reliable information and scientifically proven methods. The plans should use the latest advances in science and technology, as well as advanced methods of individual enterprises that have emerged in the world community of states;

the focus of plans on the rational use of all resources of the enterprise, increase production efficiency and achieve maximum profit;

- the principle of the main elements and the priority of their implementation – at the enterprise it is always necessary to choose the main links on which realization success of business depends, and to aspire to realize them first of all. The choice of the main links should be based on an in-depth analysis of the state of affairs at the enterprise;

- the principle of interconnection and coordination - planning should cover all production units of the enterprise in order to ensure balance in the work between them.

The plan of economic and social development of the enterprise should be based on a well-developed forecast:

1. Strategy for enterprise development for the future.

2. Taking into account and predicting inflation.

3. Knowledge of the prospects for the development of the industry in which the company operates.

4. Taking into account market conditions and price forecasting.

5. Knowledge and consideration of the actions of major competitors.

Taking these principles into account when developing a company plan allows you to avoid many mistakes and make a scientifically sound and reliable plan.

The investment plan is one of the sections of the enterprise plan, so it primarily depends on the planned production program of the enterprise, on its scientific, technical and investment policy. In general, an enterprise investment plan should consist of two sections: a portfolio investment plan and a real investment plan.

Portfolio investment plan - a plan to buy and sell securities on the stock market, as well as investing in the assets of other enterprises.

Real investment plan - an investment plan for productive and non-productive development of the enterprise.

There are the following rules to follow when planning an investment:

Rule 1. The investment plan at the enterprise should follow from long-term strategy of its development.

Rule 2. It makes sense to invest money in production and securities only if the company will benefit more than from saving money in the bank.

Rule 3. It makes sense to invest only in the most profitable, taking into account the time factor, projects.

Rule 4. It makes sense to invest money only if the return on investment exceeds inflation.

Rule 5. Final investment decisions should be made only if the greatest economic benefit with the least degree of risk is provided.

The need to include a specific investment project in the implementation plan must be confirmed by a business plan, ie each investment project must have its own business plan.

The main stages of investment planning are:

1. Search and research of the object that needs investment.

2. Development of quantitative and qualitative characteristics of different investment options.

3. Comparison of investment projects and selection of the most optimal among them.

4. Strategic planning and budgeting of investments.

Any planning involves a certain period during which investments will be made and implemented.

In the investment planning system, the entire planning period is divided into a number of intervals, called periods

. Decisions implemented in one period belong either to the beginning or to the end of the corresponding period. Note that this is not reflected on the substantive side of investment decisions, but only affects the numbering of periods. The starting point of planning is the beginning of the first planning period. The effects of an investment are quantified by payments, which are divided into payments (for example, payments by the investor to other entities) and receipts (for example, receipts to the investor from other entities).

The total amount of payments is the sum of payments and receipts made during a specific period. If the balance of payments and receipts is positive, it means the advantage of receipts over payments, and if negative, then, accordingly, payments prevail over receipts.

The number of periods during which receipts and payments are made is called the service life of the investment (in the case of real investment), or the term (when it comes to financial investment). This period of time is either determined in advance or

considered as a variable in investment decisions. The invested funds released are generally called disinvestments.

Investment planning in the enterprise is based on three main phases, listed in table 12.1.

Table 12.1

Phases of investment planning in the enterprise

Phases of investment planning	Forms of their implementation
1. Forecasting investment activities	Development of investment policy and investment strategy of the enterprise in the main areas of investment activity for up to 3 years
2. Current planning of investment activities	Development of current plans for certain aspects of investment activities for a period of 1 year with a breakdown into quarters
3. Operational planning of investment activities	Development and delivery to executors of budgets, payment calendars and other forms of operative planned tasks on all basic questions of investment activity

All investment planning systems are interconnected and implemented in a certain sequence. The initial initial stage of planning is to forecast the main directions and target parameters of investment activity by developing a general investment strategy of the enterprise, which is necessary in determining the objectives and parameters of the current investment planning. For its part, such investment planning creates a basis for the development and delivery to the direct executors of operational budgets for all major aspects of investment activities of the enterprise.

Investment activity forecasting is the most complex among the considered phases of investment planning and requires highly qualified executors for its implementation. At each specific enterprise, the investment forecasting system is based on a certain investment ideology.

Current planning of investment activities is based on the developed investment strategy and investment policy on certain aspects of investment activity. This planning is to develop specific types of current plans, which allows to determine for

the future all forms of investment activities of the enterprise and its sources of financing, to form the structure of its income and expenses, to ensure financial stability and constant solvency of the enterprise in the process of its investment activities. the structure of its assets at the end of the planned period.

Current investment plans are developed for the coming year, broken down into quarters.

Prerequisites for the development of current investment plans of the enterprise are:

• investment strategy of the enterprise and target strategic standards for the main areas of investment activity for the future;

• investment policy for certain aspects of investment activities of the enterprise;

• system of norms and standards of expenses developed at the enterprise, available system of norms of depreciation deductions;

• average rates of credit and deposit interest in the financial market;

• results of investment analysis for the previous period.

Operational investment planning діяльності is to develop a set of short-term planned tasks for investment support of the main directions of economic activity of the enterprise. The main form of such a planned investment task is the budget.

– A budget is an operational plan of a short-term period, developed within one year (usually within the next quarter or month), which reflects the costs and receipts of investment funds in the process of carrying out specific forms of investment activities.

– Development of planned budgets at the enterprise is characterized by the term

– "Budgeting" and focus on solving two main tasks: a) determining the amount and composition of costs associated with the investment activities of individual structural units and units of the enterprise; b) ensuring the coverage of these costs by investment resources from various sources.

– The budgeting process is continuous. Taking into account the planned indicators set for the year in the process of current investment planning, a system of

quarterly budgets (for the next quarter) is developed in advance (before the planning period), and a system of monthly budgets (for each coming month) is developed within quarterly budgets. The process of such budgeting guarantees the continuity of the system of operational planning of investment activities of the enterprise, lays the foundation for the constant monitoring of the results of these activities.

Types of investment planning:

product-thematic;

program-target;

volume calendar.

The tasks of product-thematic investment planning are:

The taxis of producer-thematic investment planning are:

Establishing the theme of research and development.

Formation of the structure of a promising production program for the production of investment products.

This type of planning is used at the beginning of the investment process, when there are results of market research, identified the needs of the prospective consumer. Then the process of product-thematic planning is periodically repeated, which is associated with the completion of research and investment projects, changes in external and internal environment, the emergence of new ideas. In this way, a portfolio of scientific topics and a portfolio of investment projects are formed.

The number of research topics and projects included in the relevant portfolios in a particular period of time depends largely on their size (estimated cost) and duration. Under this condition, the number of research topics is several times greater than the number of investment projects, as not all topics will be brought to the stage of commercial implementation.

When planning product-thematic plans, three planning systems are used:

- "down" (decomposition scheme), according to which the tasks of the plans are consistently detailed and brought to a separate executor;

- "up" (synthesis scheme), according to which the initiative proposals of

grassroots units are summarized in the consolidated plans of the enterprise as a whole;

- mixed, according to which targeted guidelines and restrictions are formed at the highest level of management, and ways to achieve them are determined by grassroots structures.

The essence of program-target planning is that it allows you to implement the logic of planning from goal setting to the definition of specific practical actions.

Program-target planning is carried out in three stages:

1) defining a system of goals;

2) creation of a software package;

3) documentation.

At the first stage of program-target planning the system of the purposes of investment activity is defined and its graphic image - the graph of the purposes or as it is called, a tree of the purposes-tasks is constructed.

The second stage of program-target planning is the creation of a software package. The software package is a set of organizations, departments, employees that ensure the implementation of goals. At creation of a software complex not only questions of fixing of these or those divisions on the decision of the established problems are solved, but also questions:

• delegation of rights, acceptance of responsibility;

• coordination and communication;

• motivation;

• resource provision;

• formation of a control and reporting system.

At this stage, the selection of several alternatives is the best, given the identified limitations on technology, personnel, resources. Criteria for deciding on the choice of on alternatives can be set terms, costs, technical and economic indicators of the new product.

At the third stage, the management decisions are documented in the form of a program containing sections:

1. Work programs with the allocation of subroutines for different levels and an

indication of the amount of work and resources for each subroutine.

2. Characteristics of the criteria and restrictions designed to assess and select options for programs, subprograms and individual activities in terms of time, cost and parameters of the equipment.

3. Variants of programs and separate subprograms with different indicators of efficiency, and also results of an estimation of variants on the chosen criteria.

4. Organizational structure that implements the program, as well as systems of motivation, coordination, control.

5. Work schedule.

Volume-calendar planning ensures the prompt implementation of tasks defined in the portfolio of research topics, in the portfolio of projects, in the target program.

Execution of calculations according to operational and calendar planning is carried out taking into account a number of requirements:

• unconditional provision of execution of all planned nomenclature of works according to terms of completion of works (established by directive or in coordination with the customer) as a whole or on separate stages of their carrying out;

• ensuring the continuity of work on each planned facility;

• ensuring uniform and full loading of performers and equipment by segments of the planned period.

According to the nature of the calculations, there are 3 stages of volume-calendar planning:

• volume;

• calendar;

• operational regulation of the work process.

In the volume planning the nomenclature (composition) and volumes of performed works of each executor (division or employee) are defined, the resources used by each executor are specified, tasks on executors in relation to the aggregated segments of the planned period - quarters, months are distributed.

The scope of work is determined in cost (cost) and labor (labor intensity) dimensions. Volume planning calculations do not include the establishment of a

calendar sequence of work on individual topics and tasks. Within a single unit, not one, but several projects are usually developed at the same time, which are at different stages of completion. This determines the structure of the volume of work planned for the unit.

In calendar planning the further detailing of works on each task, technological sequence of their performance and calendar terms of carrying out is carried out. The task is to establish an interconnected systems of calendar terms of performance of works on all set of tasks and on all executors. It is important to determine the expected duration of work on each task, time reserves. At calendar planning plans-schedules of works on each task, individual calendar schedules of works of separate executors are made. Calendar planning is done in the form of Gantt charts and network graphs.

The list of actual results of works and regulation of works at their transfer from one executor to another is developed in operative regulation of process of performance of works. At the same time, the assessment of the state of implementation of planned tasks is carried out, the causes and magnitudes of discrepancies between the planned and actual state of work on individual tasks are determined, management decisions are made to eliminate the deviations.

In spatial planning, it is also necessary to coordinate the plans of each project within the company's portfolio. Under this condition, there are "conflicting" projects that require the same resources, have the same cash flow profile over time, which can disrupt the stable flow of the investment process.

2. Micro-level investment planning

The planning of investment activities of any commercial enterprise is aimed at deciding whether to invest in this project and whether it will bring the expected income that will recoup all costs. Recently, the implementation of investment projects is one of the best forms of organization of investment activities. Most often, the

concept of "investment project" is considered from two sides:

- as a matter of fact, activity, measure, which involves the implementation of a set of certain actions that ensure the achievement of goals (obtaining certain results) in a certain period of time;

- as a system of organizational, legal and settlement and financial documents required to perform certain actions or such actions that are described.

Interpretation of the "project" as a set of documents, calculations, drawings required to create certain products or structures was characteristic of the Soviet domestic practice of the enterprise, as the projects then included research, design and architectural activities.

– The first definition meets all the requirements related to the investment project: it should be aimed at achieving a specific goal, defined in quantitative terms, and end with the achievement of planned indicators;
– the investment project must be a set of interdependent measures, the implementation of which ensures the achievement of the goal;
– the time period for project implementation should be clearly limited and structured;

The investment project must be developed in close connection with the conditions of its implementation, ie be individual.

Thus, an investment project is a set of purposeful, consistently time-oriented, one-time, complex and irregularly repeated actions (measures or works), focused on achieving the end result (economic or other effect) in conditions of limited resources and deadlines for their beginning and end.

Management of the implementation of real investment projects is aimed at their implementation in a timely manner in order to ensure the timely return of invested funds in the form of net cash flow (primarily - to obtain the estimated investment return). This management is carried out in the context of each real project available in the investment program of the enterprise. For each investment project planned for implementation, its head is usually appointed, who organizes the preparation of all necessary planning documents and ensures the implementation of the main indicators of plans for its implementation. For large investment projects performed on a contract

basis (involving a contractor and subcontractors), the project manager must distribute management functions by individual project participants.

The successful implementation of each investment project available in the program of real investment of the enterprise, largely depends on the timely and quality development of the plan for its implementation. Such a planning document in the practice of investment management is called a "calendar plan for the implementation of the investment project."

The calendar plan of investment project implementation is one of the forms of the operational plan of investment activity of the enterprise, which reflects the volumes, terms and executors of certain types of work related to its implementation. The development of a calendar plan for the implementation of investment projects is based on certain principles and is carried out in a certain sequence.

Basic principles of calendar implementation plan implementation investment projects are:

The principle of temporal differentiation of the calendar plan. The implementation of this principle involves various levels of detail of the calendar plan of the investment project in time and form of development.

The annual implementation schedule of the investment project is the initial and main document that reflects the results of operational planning. For projects implemented over several years, it covers only the amount of work that is expected to be performed within the planned calendar year. For projects implemented within one year, the schedule characterizes the sequence of project implementation in general.

When developing the annual schedule of investment project implementation, two main methods are used - the method of network planning and the method of critical path.

The network method of planning work is more obvious, but it is difficult to assess the bottlenecks, the actual volume of work performed, possible reasons for delays in the implementation of certain types of work and so on.

The critical path method has a number of advantages over the network method - it provides interconnection and consistency of work; takes into account limitations

and obstacles; identifies bottlenecks; makes it possible to apply optimization methods; builds a model of the investment process schedule by deviations. The main disadvantage of this method is its high complexity.

Quarterly and monthly work plans for project implementation cover their specific volumes within the specified time intervals. The basis of their development is the annual schedule of investment project implementation with the corresponding further detailing.

The quarterly work plan is submitted and approved simultaneously with the provision of the annual schedule. The monthly work plan is made only for the next quarter.

The ten-day task is a form of further detailing of the monthly plan of performance of the works providing realization of the project. In domestic practice, this form of differentiation of the calendar plan is rarely used. However, many foreign contractors, attracted to the implementation of large investment projects, widely use this form of scheduling.

The principle of functional differentiation of the calendar plan. The implementation of this principle implies the need for differentiated planning of certain types of work from different functional blocks, the composition of which depends on the stage of implementation and size of the investment project.

Preparation of the project for implementation takes into account first of all the action plan for the selection of the contractor (subcontractors) and the conclusion of the contract (this is the most common practice of the investment project - on a contract basis). The composition of this functional unit usually includes the following types of work: planning the preparation of the contract; selection of applicants; preparation and sending of inquiries; receipt and review of proposals; conclusion of the contract.

Contract preparation planning includes:

• collection and analysis of informative data related to the investment project that have (or potentially have) the impact on the project;

• creation of variants of potential contractual strategies for the project, including identification of quantitative and qualitative advantages and disadvantages of each of them;

• definition of a contract strategy that allows to best achieve the goal set during the development of the investment project.

When planning this stage of work, it is necessary to anticipate possible changes in the strategy due to external circumstances (for example, when even the high price of the contract will not interest potential partners and will not bring a sufficient number of proposals).

The principle of forming a reserve of the calendar plan. This principle is implemented in the planning process by determining the maximum allowable amount of violation of the terms of individual works included in it and the distribution of this reserve among the participants of the implemented investment project (customer, contractor, subcontractors). The estimated reserve should usually be no more than 10-12% of the total time of the calendar plan. The order of distribution of this time reserve between the project participants must be specified in the contract.

The principle of distribution of responsibility for work performed. The implementation of this principle determines the imposition of responsibilities for the performance of certain stages of work on specific representatives of the customer or contractor in accordance with their functional responsibilities set out in the contract. In this case, entrusting the implementation of certain measures to one of the parties usually automatically imposes on it and specific investment risks.

A calendar plan (in tabular or graphical form) developed taking into account these principles and agreed with the parties is considered and approved by the head of the relevant investment center.

3. Investment planning at the macro level

In a market economy to replace the rigid policy planning, under which the

approved plan of economic development of the country came into force the law, there is an indicative planning. This method is based on the most important national macroeconomic indicators (indicators), which society should strive to achieve. The fundamental difference between indicative planning and the system of its indicators is their recommendatory nature. At the same time, indicative planning remains one of the most important methods of state regulation of the economy.

The main concept of the system of indicative planning is an indicator - an integrated indicator that quantifies the qualitative characteristics of the process. The indicators proposed in the indicative plan are achieved through measures of state influence - regulators.

At the macro level, indicators characterizing the dynamics of regional and sectoral economy development are used as indicators; finance, money circulation, commodity, financial and currency markets; expected price movements, use of labor resources, living standards; foreign economic relations, exports and imports; volume and structure of investments, their efficiency.

Indicators are defined as the parameters of the boundaries within which a system that contains organizational mechanisms, technological connections, material and financial flows, can function stably and develop. Unlike

"Indicator", which gives only a quantitative statement, the indicator has a vector, directional nature. Indicators have marginal (minimum and maximum) levels of profitability, tax rates.

It is important to interpret and use the limit values of indicators designed to signal the approaching critical state of the control object and the need to change the development strategy of the object, ie the inclusion of regulators:

- "alarm" indicator;
- "extreme state" indicator;
- “bankruptcy” indicator, etc.

Within the boundary boundaries, a so-called "corridor" is formed, which is necessary and sufficient for making a management decision, but in this case it is necessary to establish adequate limit values of the "corridor". The reality of the

indicator is determined not only by quantitative characteristics. It is important that the indicator is instrumental, for which there are regulators of direct influence on the object of control.

The formation of indicators is a process based on the time aspect. In this case, the goal is to obtain a single indicator that characterizes the state of the control object. If any regulators are linearly or nonlinearly interdependent, then the system has unnecessary information that distorts the results of analysis, forecasting and, as a consequence, the results of planning. For these purposes, a multiple analysis of the entire set of specified indicators is required.

Classification of forecasts:

by the way of describing the trends of change of the object or process;

by the method of forming parameters that characterize the object or process.

Within the first of the approaches, trend and factor approaches are distinguished.

The trend approach in forecasting involves the extrapolation of aligned values of the dynamic time series of the forecast indicator.

The factor approach in forecasting involves determining a number of factors that affect the forecast indicator (indicator), the process of factors (regulators) and the forms of their relationship.

In the second approach, there are genetic (resource) and normative (target) approaches.

The genetic approach is based on the prediction of stable trends and is reduced to the transfer of dependencies characteristic of the past and present to the future.

The normative approach is to determine the parameters of reproduction to achieve the set goals of economic growth.

Genetic and normative approaches to forecasting are alternative ways to identify the parameters that characterize a forecast object or process. The main task of forecasting is to reconcile the results of forecast calculations obtained on the basis of genetic and regulatory approaches.

Indicative investment planning is closely correlated with the main indicators of national economic development in accordance with the needs of society and

established priorities. The amount of investment is calculated taking into account the expected increase in production capacity and fixed assets of all industries, social facilities, education, science, culture, health care.

The indicative plan is usually developed in conditions when the approved design and estimate documentation is not yet available, and the non-state investor has not yet decided on its costs. In this case, specific real investments are used, justified on the basis of advanced domestic and foreign analogues of investment projects.

Indicative planning of investment sources is necessary for certain reasons:

- formation of the state budget (revenue, expenditure parts, deficit);
- determination of equity participation of various investors in project financing;
- creation of state resource reserves;
- forecasting the activities of financial institutions;
- determination of indicators of investment sphere development: volumes of design and research works, contract construction and installation works, development of enterprises and branches of the construction industry;
- determining the size and periods of government loans (financial investments).

Control questions

1. Define investment planning.
2. Name the basic principles of investment planning.
3. How does a portfolio investment plan differ from a real investment plan?
4. What are the main stages of investment planning? What is the difference between the life of an investment and the life of an investment?
5. What is budgeting?
6. What are the types of investment planning?
7. Define the investment project.
8. Describe the calendar plan for the implementation of the investment project as one of the forms of operational plan of investment activities of the enterprise.
9. To reveal the essence of the system of indicative planning.
10. What is the difference between the trend approach to investment forecasting from the factor approach?

Tests

1. The principle by which the company develops long-term, medium-term and short-term investment plans:

a) continuity;
b) scientificity;

c) interconnection and coordination;
d) leading links.

2. The principle according to which planning of investment activity should cover all production divisions of the enterprise for balance of communication between them:
a) continuity;
b) scientificity;
c) interconnection and coordination;
d) leading links.

3. Portfolio investment plan is a plan:
a) realization of long-term goals of economic development of the enterprise;
b) purchase and sale of securities on the stock market;
c) introduction of investments in production and non-production development of enterprises;
d) expansion of real investment.

4. A real investment plan is a plan:
a) realization of long-term goals of economic development of the enterprise;
b) purchase and sale of securities on the stock market;
c) introduction of investments in production and non-production development of enterprises;
d) expansion of real investment.

5. The beginning of investment planning is:
a) low level of liquidity of the object;
b) a high degree of resilience to economic downturn;
c) the level of saturation of demand for products;
d) the beginning of the planning period.

6. If the cash flow balance from the investment project is positive, it means that:
a) increased the amount of invested funds;
b) receipts exceed payments;
c) payments exceed revenues;
d) the period of operation of the investment project has been reduced.

7. Current investment planning is based on the development of:
a) investment ideology;
b) short-term planned tasks for investment support;
c) investment strategy and investment policy;
d) long-term planned objectives for investment support.

8. The budget as an operational plan of investment activities reflects:
a) costs and revenues from investment activities;
b) net discounted income from investing activities;
c) the amount and optimal structure of invested capital;
d) investment program of the enterprise.

9. The calendar plan of the investment project is:
a) the financial plan of investment activity of the enterprise with reflection of terms, volumes and executors of separate types of works;
b) current plan for certain aspects of investment activities;
c) operational plan of investment activity of the enterprise, with reflection of terms, volumes and executors of separate types of works;

d) forecast plan for certain aspects of investment activities.

10. The principle of temporal differentiation of the calendar plan is:

a) differentiated planning of certain types of work from different functional blocks;

b) detailing the calendar plan of the investment project in time and forms of development;

c) determination of the maximum allowable amount of violation of terms and distribution of the reserve between the project participants;

d) assigning responsibility for the performance of certain stages of work to specific representatives of the customer.

11. The principle of functional differentiation of the calendar plan is:

a) differentiated planning of certain types of work from different functional blocks;

b) detailing the calendar plan of the investment project in time and forms of development;

c) determination of the maximum allowable amount of violation of terms and distribution of the reserve between the project participants;

d) assigning responsibility for the performance of certain stages of work to specific representatives of the customer.

12. Name the methods used during the development of the annual schedule of the investment project:

a) the method of network planning and the method of critical path;

b) the balance method and the method of analogies;

c) the method of specific capital intensity and the method of comparisons;

d) the method of partial premium and the method based on the dividend growth model.

Topic 13. STATE REGULATION OF INVESTMENT ACTIVITIES

13.1.The essence, necessity, forms and methods of the statemanagement of investment activities
13.2. Necessityand forms of state support for investment projects
13.3. The system of state management of investment activities in Ukraine
13.4. Subjects of investment activity management onregional level

1.The essence, necessity, forms and methods of the statemanagement of investment activities

State management of investment activities – a system of measures aimed at creating conditions for investment activity, organizing the economic and legal space for investment activity, forming a system of priorities and directions of development, ensuring competitive advantages of the national economy.

State management of investment activities is carried out by management bodies of all levels, defined by law in forms and administrative and economic methods for the implementation of state investment policy.

According to the Law of Ukraine "On Investment Activities", state management of investment activities includes:

-state investment management – direct participation of state authorities in investment activities in the form of capital investments, formation and financing of investment projects at the expense of the state or local budget; state guarantees for relevant projects, which are competitively financed from the state or local budget;

-regulation of investment activity conditions – protection of the rights and interests of investment activity subjects; formation of favorable economic conditions through the application of tax and depreciation policies for the purpose of investment development; favorable conditions in order to increase the use of public funds and extrabudgetary sources; conditions for creation of investment activity subjects' own monetary funds for development and development of financial leasing;

-control of investment activity by all investors and participants of investment activity - control of compliance with investment legislation, control of compliance with state norms and standards, examination of investment projects, etc.

The state, through its institutions, is a direct participant in the investment process. The goals of state investment management are:

-achieving the maximum possible effect from investing funds;

-creation of appropriate conditions for the development of priority industries and regions.

The main forms of state management of investment activities are:

-direct funding from the budget;

-financing of the state order;

-state guarantees for crediting investment projects;

-tax incentives and subsidies aimed at incentivesresearch and implementation of their results in production.

The state should make investments in those industries, the products of which are of national importance, the development of which is necessary for the accelerated growth of the economy. Also, the investment activity of the state contributes to the inflow of investment funds from other sources, thereby stimulating the development of the economy.

As foreign experience shows, financing from the budget was a key factor in the structural transformations of the economies of the USA, China, and India, and in economically developed European countries, budget funds remain one of the most important levers of structural changes in the economy.

According to the Budget Code of Ukraine an investment program is a set of measures defined on the basis of the national system of values and tasks of innovative development of the economy, aimed at the development of certain industries, sectors of the economy, industries, regions, carried out with the use of funds from the state or local budgets or for the implementation of which state or local guarantees.

State target investment programs are formed by the central body of the executive power on the basis of target projects selected on a competitive basis, and are the main means of implementing priority areas of economic development.

The Verkhovna Rada of Ukraine approves priority directions. For this, the central bodies of the executive power determine the list of such programs by the method of expert evaluations, after which they are considered by the Cabinet of Ministers and submitted to the Verkhovna Rada of Ukraine. On the basis of the approved list, a competition is announced for the development of specific targeted investment programs. Complex targeted investment programs are open for replenishment with new projects. The customer of the program makes the decision to introduce new projects or remove ineffective ones.

One of the determining conditions for achieving program goals is the creation of an effective organizational and economic management mechanism for the formation and implementation of the program. Funding from budget funds is carried out through basic funding in accordance with priority areas and investment programs that have passed competitive selection

The leading role in the formation of the state investment policy is occupied by the Ministry of Economic Development and Trade of Ukraine, which coordinates the work of central and local executive authorities in the field of investment activity and management of strategically important projects that ensure technological renewal and development of basic branches of the real sector of the Ukrainian economy; in the sphere of functioning of special (free) economic zones and priority development territories; during the preparation and implementation of projects involving foreign loans under state guarantees.

State regulation of investment activities is carried out by state authorities.

The goals of regulating the conditions of investment activity are:

- formation of a favorable investment climate;
- promotion of investment activity;
- attraction of non-inflationary investment sources;
- creation of appropriate conditions for attracting foreign investments.

Forms of state regulation of investment activities are defined in laws and other normative acts regulating investment activity, and are one of the most important conditions for the implementation of the state investment policy.

These forms include:

-regulation of spheres and objects of investment;

-regulation of financial investments;

-examination of investment projects;

-ensuring investment protection;

-provision of financial assistance and implementation of the relevant financial policy;

-tax regulation of investment activities;

-regulation of investments in objects located outside the country.

Methods of regulation of investment activities:

Legal methods are implemented through the system of civil and procedural law, legally define subjects and objects of investment, regulate ownership issues, issues of resolving disputes in court; are implemented through the protection of investors' interests, the provision of preferential rights to the use of land and other natural resources that do not contradict the legislation, etc., to subjects of investment activity.

Administrative (direct) methods – direct action on subjects of investment activity; the state has the right and opportunity in relation to other subjects of the economy, using regulations, prohibitions, restrictions, permits, to carry out coercion to certain actions. Legislative and normative acts act as a tool of administrative methods. Administrative methods are implemented through the system of licensing and quotas, antimonopoly measures, standardization, etc. and consist in the establishment of relevant norms, standards, and standards.

Economic methods are methods by which the state influences subjects of investment activity by stimulating the adoption of investment decisions, both for the benefit of the subjects themselves and for the benefit of society as a whole; implemented through a system of subsidies, state lending, state loans, fiscal policy (tax regulation, establishment of special tax regimes, tax benefits and discounts,

differentiation of tax rates, tariffs, etc.), state guarantees, denationalization and privatization, depreciation policy, setting the refinancing rate, expanding the possibilities of using collateral in lending, etc. Economic methods of state regulation of the economy are related to the creation by state administration bodies of financial and material incentives to influence the economic interests of business entities and determine their behavior, preserving the right to free choice. Providing enterprises with the opportunity to implement the policy of accelerated depreciation with the condition of using the funds received from it to update production capacities, investing funds in own production can ensure an increase in the domestic investor's investment opportunities.

Socio-psychological methods are focused on the formation of ideology, the mentality of society as a whole with the help of organizationally formalized institutions. Socio-psychological methods are aimed at creating favorable conditions for the development of investment activities, in particular, by expanding the use of public funds and other non-budgetary sources of financing housing construction and the construction of social and cultural objects; transformation of savings into investments, etc

Usually, the state combines the entire set of methods to achieve goals in the field of investment.

Legal regulation is carried out through laws (aimed at long-term legal regulation of the investment market); decrees of the President; resolutions, decisions of the Cabinet of Ministers of Ukraine; orders of ministries and resolutions of the National Bank of Ukraine (have a short-term and operational nature of regulation; directed at individual industries, departments, productions, etc.), regulatory acts of local self-government bodies (directed at the territory, communally owned enterprises).

In Ukraine, a legal framework has been created for the implementation of investment activities, which includes a significant number of legal and regulatory documents (laws, resolutions, decrees, regulations, instructions). In general, the legislation that regulates investment activities can be divided into general and special.

General legislation regulating investment activity includes legal acts that regulate not only relations in the sphere of investment activity, but also other types of social relations, namely: the Constitution of Ukraine, the Economic Code of Ukraine, the Civil Code of Ukraine, the Budget Code of Ukraine, the law "On general principles of the creation and functioning of special (free) economic zones", the law "On the Unified Customs Tariff", the law "On the protection of economic competition", etc.

Special legislation includes:

the Law of Ukraine "On Investment Activity" (the first regulatory act, which outlines the general legal, economic and social conditions for investment activity in Ukraine);

the Law of Ukraine "On Protection of Foreign Investments";

the Law of Ukraine "On Elimination of Discrimination in Taxation of Business Entities Created Using Property and Funds of Domestic Origin";

separate normative and legal Acts.

The state guarantees to all subjects of investment activities, regardless of the forms of ownership:

-ensuring equal rights in the implementation of investment activities;

-transparency when discussing investment projects;

-the right to appeal in court any decisions, actions (inaction) of state authorities, local self-government bodies and their officials;

-stability of the rights of the subject of investment activity. In cases of the adoption of laws establishing different rules for subjects of investment activity than those that applied when concluding contracts between them, the terms of these contracts remain valid, except for cases when the law establishes that its effect extends to relations that arising from previously concluded contracts;

-protection of capital investments.

The activation of investment activities largely depends on the conduct of financial, credit, depreciation, price, tax, currency, and investment policies.

Depending on the state of the economy, different concepts of state regulation are used:

Protectionism is the protection of the national investment market, carried out with the help of:

-high customs duties on imported goods;

-taxes on foreign investments;

-restriction or prohibition of import of certain goods;

-encouraging the development of the national producer;

-subsidizing national investors.

Ensuring a favorable investment climate, investment attractiveness of certain industries or regions is carried out through:

-tax benefits or holidays;

-preferential loans;

-state subsidies;

-encouraging the creation of enterprises with foreign companiesinvestments, international concerns and consortia, free (offshore) zones.

Such concepts as:

-capital flight – the transfer of significant amounts of capital to countries with a more favorable investment climate (to avoid a high level of taxation, the negative effects of inflation, the risk of expropriation) and a profitable guarantee of its placement in other countries;

-net capital inflow is the difference between the amount of cash inflow from abroad (through loans and the sale of financial assets to foreign investors) and the amount of capital outflow in the form of loans to foreign borrowers or the purchase of financial assets of foreign issuers.

2. Necessityand forms of state support for investment projects

In foreign literature, two terms are used: "government investments" and "public

investments". In domestic legislation, there is no clear distinction between the concepts of "budgetary investment" (investment of funds exclusively from the state or local budgets), "state investment" (investment of funds not only from the state budget, but also from extrabudgetary funds, as well as investment at the expense of state enterprises), "public investment" (both local investments and state investments, including investments from the state budget, extrabudgetary funds, investments of state enterprises, investments of local budgets and investments of communal enterprises).

Implementation of state investment is a necessary condition for the effective development of the developed countries of the world.

Therefore, the state is obliged to create favorable conditions for investments by private investors and actively takeparticipation in this process.

In Ukraine, there are the following types of state support for investment projects:

- directlybudgetary financing(co-financing) development of investment projects;
- taxation features (within 10 years of exemption or partial exemption from paying income tax);
- preferences from import duty and value added tax when importing equipment (equipment) and components
- the right to accelerated depreciationcertain types of fixed assets;
- reimbursement of interest on bank loans;
- state guarantees for attracting foreign credits (loans).

State support for investment projects consists mostly in financing (co-financing) the implementation of projects from the state budget, as well as providing state guarantees to ensure the fulfillment of debt obligations for borrowing.

Ukraine has limited budgetary resources, which are directed to cover current expenses, to support health care, education, social protection and social security, etc. Given this, the amount of funds remaining for capital investments is small, and almost always insufficient for the implementation of projects.

That is why budget funds invested in investment projects should be distributed in the most rational and efficient way. Volumes of public investments in Ukraine are low.

In Ukraine, about 95–97% of state investments are spent on so-called hard infrastructure: major repairs, renewal of roofs and facades, etc. Therefore, there is no mention of investments in soft infrastructure (personnel potential), business capacity and administrative capacity. Meanwhile, in the EU, 20-30% of all funds invested by the state are spent on soft infrastructure, and the same amount is spent on business capacity.

Capital investments in Ukraine are made mainly at the expense of enterprises and organizations - more than 70%. (see table 2.1.)

Table 13.1

Structure of capital investments in Ukraine by sources of financing

Sources financing, %	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
By score funds state budget	5.66	7.20	5.96	2.47	1.25	2.53	2.58	3.5	4.0	2.6
By score fundslocal budgets	3.17	3.21	3.13	2.72	2.70	5.22	7.47	9.2	8.7	6.4
At their own expense funds	61,68	61.16	62,64	66.35	70.47	67.50	69.25	69.9	71.3	73.3
Due to loans banks and other loans	12.68	15.19	14.54	13.90	9.91	7.59	7.55	5.3	6.7	7.7
By score funds foreign investors	2.06	2.09	1.79	1.71	2.57	3.00	2.74	1.4	0.3	0.9
By score funds of the population on housing construction	10.46	7.29	8.26	9.63	10.06	11.71	8.33	7.8	6.4	6.6
By score others sources of funding	4.29	3.86	3.67	3.22	3.05	2.44	2.09	2.9	2.6	2.6
Total:	100	100	100	100	100	100	100	100	100	100

Enterprises and organizations invest, first of all, their own funds for the acquisition or production by their own forces for their own use of tangible and intangible assets, not counting on obtaining loans and other sources of financing.

The largest share of investments was invested in tangible assets - more than

93%, of which 44% of all investments were invested in buildings and structures, 45% in machines, equipment and vehicles. About 7% of total capital investment was invested in intangible assets in 2018, of which 2% was in software and databases.

Depreciation of the main means of production in Ukraine significantly exceeds the rates of their reproduction, which poses a threat to investment security. Investment security is considered as a component of economic security and as such a level of national and foreign investments (provided their optimal ratio) is able to ensure long-term positive economic dynamics with an appropriate level of financing of the scientific and technical sphere, the creation of innovative infrastructure and adequate innovative mechanisms.

A negative trend should be considered a constant decrease in the share of capital investments at the expense of bank loans and other loans. That is, the banking sphere in Ukraine does not create conditions for lending opportunities for investment projects, as well as a significant reduction in investments due to the funds of foreign investors (if in 2016 the funds of foreign investors made up 2.9% of the total volume of capital investments, then in 2018 only 0.3 %). Foreign investors do not risk investing in the economy of Ukraine.

In Ukraine, there is also a decrease in the specific weight of capital expenditures in total expenditures, as well as a decrease in their share in GDP.

State capital investments – capital expenditures of the state budget directed to the creation (acquisition), reconstruction, technical re-equipment of state-owned fixed assets, the expected useful life of which exceeds one year.

According to the economic classification of expenditures, capital expenditures of the budget include:

-acquisition of fixed capital (equipment and items of long-term use, capital construction, capital repair and reconstruction of housing and administrative facilities, restoration of monuments of culture, history and architecture);

-creation of state stocks and reserves;

-acquisition of land and intangible assets;

-capital transfers to enterprises, institutions, organizations, state authorities, and

the population.

Capital expenditures are reflected in development expenditures.

In addition to capital expenditures, development expenditures include:

-financing of economic activities of agriculture, fuel and energy complex (PEK), transport, construction, communications, etc.;

-subsidies and current transfers to enterprises, purchase of special purpose materials and inventory;

-research and development, separate development measures for the implementation of state (regional) programs.

The category of capital expenditures of the budget is closer to investments. According to the approved budget classification, capital expenditures include:

-acquisition of fixed capital (equipment, items of long-term use, non-current assets, including land, intangible assets, etc.),

-construction (acquisition), repair, modernization, reconstruction and restoration (including housing (premises), other objects),

-creation of state stocks and reserves;

-acquisition of capital assets;

-compensation for losses associated with damage to fixed capital.

In the category of "capital expenditures" there are articles that are not consistent with the classical understanding of investment and stimulation of economic growth. According to the budget classification, capital expenditures also include: "the purchase of cars, carpets, curtains, services, equipment for dining rooms, buffets, the purchase of air conditioners, expenses related to providing housing, cars of citizens."

A significant budget deficit and large social obligations exacerbate the problem of reducing capital expenditures in Ukraine. Recently, their specific weight has been decreasing both in consolidated budget expenditures and in GDP.

More than half of capital expenditures of the consolidated budget are capital transfers (subsidies) to enterprises. Ukraine differs from other countries both in the forms of aid provision and in the distribution by economic sectors. If, for example, in the EU countries, a larger share of aid is given to the infrastructure sectors (transport

and communication), then in Ukraine half of all funds (in the form of direct and indirect subsidies) go to industry, energy, construction and agriculture.

The low level of capital expenditures compared to current expenditures indicates low investment activity of the state. In economically developed countries, the share of public investment is from 2 to 5% of GDP; the specific weight of capital expenditures to all state budget expenditures is from 4 to 16%. In the fast-growing countries of Asia, public investment is 5–7% of GDP or more. For example, in China, Thailand and Vietnam, the total amount of public investment exceeds 7% of GDP.

The main reasons for the decline in investment activity in Ukraine are: unfavorable investment climate; imperfect legal framework; improper preparation of investment projects and programs and their ineffectiveness; underdevelopment of investment instruments and the investment market.

3. The system of state management of investment activities in Ukraine

The basic principles of state investment are determined by Art. 13 of the Law "On Investment Activities". Decisions regarding state investments are made on the basis of forecasts of the economic and social development of the state, schemes for the development and deployment of productive forces, state target programs and technical and economic justifications that determine the feasibility of these investments. The Verkhovna Rada of Ukraine approves, as part of the main directions of the economic and social development of the state, the volumes of state investments, which are carried out at the expense of the state budget, according to the proposals of MERT, supported by the Cabinet of Ministers of Ukraine.

Currently, there is no specially authorized central body in the field of investment activity in Ukraine.

State management of investment activities in Ukraine is carried out:

At the national level:

State management bodies of general competence, for which the authority to regulate investment activity is only part of the general authority:

- President of Ukraine
- Verkhovna Rada
- cabinet of Ministers of Ukraine
- Ministry of Economic Development and Trade (MERT)
- Specially authorized central bodies in the field of investment activity (State Agency for Infrastructure Projects of Ukraine)

At the regional level

Regional management bodies of general competence, for which the authority to regulate investment activity is only part of the general authority:

- local bodies of executive power (regional state administrations, district state administrations);
- local governments.

Specially authorized local bodies in the field of investment activity (Regional Development Agency)

President has the right to create consulting and advisory bodies on investment activities.

On the basis of the Consultative Council on Foreign Investment under the President of Ukraine, the Council of Domestic and Foreign Investors was formed, which promotes the attraction and effective use of investments. By Presidential Decree from 2019. The Council of Domestic and Foreign Investors was liquidated and the National Investment Council was formed.

The main tasks of the National Council are:

-development of proposals for the stimulation and development of investment activities in Ukraine, formation of an attractive investment image of Ukraine, including taking into account the best international practice;

-promoting the formation of the main directions of state policy regarding the improvement of the investment climate in Ukraine;

-development of proposals regarding strategic directions for the development of Ukraine's investment potential, stimulation of foreign and national investments in the development of the state's economy;

-study of initiatives and potential proposals regarding investment projects, as well as the practice of interaction of investment activity subjects with state bodies;

-analysis and generalization of problems that prevent investment in the economy of Ukraine, preparation of proposals on ways to solve them, in particular, on measures to promote the protection of investors' rights;

-participation in the development of draft legislative acts on investment activities.

In order to carry out the tasks assigned to it, the National Council has the right to: receive the necessary information, documents and materials from ministries, other central and local executive bodies, enterprises, institutions and organizations of all forms of ownership in accordance with the established procedure; to form advisory, expert committees and commissions, other working bodies; to involve employees of ministries, other central and local executive bodies of Ukraine, enterprises, institutions and organizations, as well as foreign specialists, to participate in the work of the Council.

The Chairman of the Council is the President of Ukraine. The Council consists of: the Prime Minister of Ukraine, the Chairman of the National Bank of Ukraine, the First Deputy Prime Minister of Ukraine - the Minister of Economic Development and Trade of Ukraine, the Minister of Finance of Ukraine, the Minister of Justice of Ukraine, as well as, by agreement, representatives of Ukrainian and foreign organizations and companies, business circles, experts on investment attraction, entrepreneurship development, specialists in economics, finance.

The Verkhovna Rada of Ukraine adopts laws in the field of investment activities.

The National Commission for Securities and Stock Market (NCSCFR) carries out state regulation of the securities market and, accordingly, regulation of financial

investment, which is carried out in the form of the purchase of securities, including direct investment in joint-stock companies, portfolio and joint investment.

The National Commission for the Regulation of Financial Services Markets (NCRRFF) regulates the markets of financial services, including allowing financial institutions other than banks to create FFB.

The National Bank of Ukraine - carries out a unified state policy in the field of monetary circulation, credit, strengthening the monetary unit and thus regulates relations in the sphere of investment in monetary form, in particular, determines the procedure for foreign investment in the form of currency funds, and performs some other functions, in particular, gives permits for creation of FFB by banks.

The Ministry of Justice of Ukraine and, in particular, the State Registration Service of Ukraine subordinate to it, which ensures the functioning of many registers of rights and their encumbrances, in which the rights of investors to investment objects are actually secured.

State management in the sphere of investments is headed by the Cabinet of Ministers of Ukraine as the highest body of executive power, to the main ones tasks whose belongs to software carrying out investmentpoliticians in the country.

The Cabinet of Ministers of Ukraine (CMU) is the highest body in the system of executive power.

For many years, the CMU has had various coordinating, advisory and special bodies on investment activities: the Advisory Council on Foreign Investments in Ukraine; Coordinating group on the activation of investment activities; Interdepartmental Council on Investments and Innovative Development.

Since 2016, the Office for Attracting and Supporting Investments (UkraineInvest – Ukraine Investment Promotion Office) has been operating under the Cabinet of Ministers of Ukraine as an independent temporary advisory body. To coordinate the activities of the Office and report to the Government on issues related to investment support, the Government of Ukraine has also appointed a Government Commissioner for Investments.

The investment attraction office is a project within the framework of the Agreement between the Western NIS Enterprise Fund and the Public Union "Fund for Support of Reforms in Ukraine". WNISEF supports the Government of Ukraine through the development of effective economic policy and leadership, and promotes the strengthening of strategic cooperation between countries and between the private and public sectors, as provided for in the Memorandum of Understanding between WNISEF and the Ministry of Economic Development and Trade of Ukraine. WNISEF provides technical assistance to the Office of Investment Attraction in order to assist the Government of Ukraine in achieving its goals in the field of investment promotion policy.

The work of the Office consists in attracting investments and is aimed at providing investors with relevant information and advice on the peculiarities of doing business in the country, as well as on activities in the main sectors of the economy - agribusiness, production, energy, infrastructure, the field of innovative technologies by holding investment seminars and meetings, participation in specialized exhibitions, activities in the field of direct marketing, organization of visits of potential investors, search of local partners for potential investors, assistance in obtaining necessary permits and approvals, etc.

UkraineInvest promotes the coordination of the activities of executive authorities in the resolution of problematic issues that arise during investment in the Ukrainian economy. Specialists of the Office prepare proposals for the formation, improvement and implementation of Ukraine's investment potential, development of key investment projects, stimulation of the investment environment and protection of investors' rights. The investment attraction office also works on the development of the legal framework for doing business in Ukraine, carries out an expert analysis of the business climate and analyzes the main problems. The office operates on the principle of a "single window" and provides investors with relevant advice, contact information and personalized services that facilitate the investor's entry into the Ukrainian market (support).

The main areas of activity of the Office:

-formation of a favorable investment climate;

-assistance to investors in conducting business in Ukraine;

-generating opportunities to increase investments in the economy of Ukraine.

UkraineInvest investment attraction and support office has developed a program for the promotion and promotion of foreign direct investment in order to assess the capacity in the investment field at the local level, based on a cluster approach.

The Ministry of Economic Development and Trade (MERT) is the central body of the executive power entrusted with the function of ensuring the formation and implementation of state policy in the field of investment activity.

In accordance with its tasks, the MERT carries out the following functions:

-formation of state policy in the field of investment activity and management of national projects;

-coordinates the work of central and local executive bodies on the preparation and implementation of projects involving foreign loans under state guarantees;

-ensuring examination and selection of investment projects that require state support;

-formation and implementation of policies in the field of management of state-owned objects, including state corporate rights; forms a list of state-owned objects that can be transferred to a concession;

-formulates and implements state policy regarding the functioning of special (free) economic zones, priority development territories, provides conclusions regarding the registration of technology park projects;

-formation and implementation of policy in the field of public-private partnership;

-state policy in the sphere of cooperation with international financial organizations and issues involving the involvement of international technical assistance;

The main tasks of the MERT Investment Attraction Department are:

-ensuring the formation and implementation of the state investment policy;

-softwareformation and implementation of state policy in the field of public-private partnership;

-softwareformation and implementation of state policy regarding the creation and operation of industrial parks;

-ensuring the implementation of state policy in the field of innovative activity, as a component of investment activity.

The implementation of the specified tasks involves ensuring:

-development and processing of draft legal acts in the field of public-private partnership, investment, scientific and innovative activities, including special regimes, industrial (industrial) parks, agreements on product distribution, etc.;

-maintaining the Register of industrial (industrial) parks, the State register of investment projects, the State register of investment projects in priority sectors of the economy and the Register of representative offices of foreign economic entities;

-implementation of state registration of investment projects in priority sectors of the economy;

-participation in solving problematic issues related to the activities of foreign investors on the territory of Ukraine, advisory, methodological and informational support of investors;

-carrying out an analysis of the international practice of legal regulation in the sphere of investment, innovation and research activities;

-implementation of the function of the national contact point on issues of facilitating the provision of recommendations (guidelines) for multinational enterprises within the framework of the Declaration of the Organization for Economic Cooperation and Development (OECD) on international investment and multinational enterprises;

-coordination of the activities of central and local executive bodies regarding the formation and implementation of state investment policy and state policy in the field of public-private partnership;

-formation and submission, in accordance with the established procedure, to the Cabinet of Ministers of Ukraine of a draft list of state-owned objects that can be granted a concession;

-conducting monitoring of the effectiveness of the activities of executive authorities and local self-government bodies in the field of public-private partnership;

-organization of inspections of the execution of contracts concluded within the framework of public-private partnership;

-conducting monitoring, summarizing and publicizing in the established manner the results of public-private partnership implementation, including assessment and monitoring of the general level of risks of the public partner in contracts concluded within the framework of public-private partnership;

-monitoring of compliance with the requirements of legislation in the field of public-private partnership, including during tenders to identify a private partner;

-carrying out checks and agreeing conclusions based on the results of the analysis of the effectiveness of public-private partnership in the event that the object of the public-private partnership is state-owned objects or the provision of state support is envisaged for the implementation of such a partnership;

-preparation of conclusions on the expediency of providing state support for the implementation of public-private partnership in relation to state-owned objects, its form and scope, or on the impracticality of providing state support;

-participation in the organization of training and improving the qualifications of specialists in the field of public-private partnership;

-keeping records of contracts concluded within the frameworkpublic-private partnership;

-carrying outanalysis of the effectiveness of implementation of public-private partnership;

-providing explanations on the application of the Methodology for calculating concession payments;

-determination of the minimum rate of the concession payment (at the request of the concessionaire);

-development of draft agreements on the distribution of products and preparation of necessary materials for the meeting of the Interdepartmental Commission on the organization of conclusion and implementation of agreements on the distribution of products;

-participation of MERT in the preparation and holding of tenders for the identification of investors, including a private partner, and the conclusion of relevant contracts with them;

-preparation of proposals for making decisions on inclusion or reasoned refusal to include industrial parks in the Register of Industrial Parks;

-preparation of proposals for approval of the form of a standard agreement on the creation and operation of an industrial park;

-preparation of proposals for appeals to state authorities, enterprises, institutions and organizations regarding the resolution of issues of creation and functioning of industrial parks;

-favorable conditions for the creation and operation of industrial parks;

-carrying out monitoring functioning industrial parks;

-preparation and consideration of proposals for the creation and operation of special (free) economic zones, priority development territories, industrial-type free customs zones, clusters, technological and scientific parks, other tools and mechanisms for promoting investment, innovation and research activities;

-preparation and consideration of proposals for registration of technological parks, as well as projects of technological parks;

-submission of investment projects in priority sectors of the economy for approval by the Cabinet of Ministers of Ukraine for the purpose of providing state support to investment entities implementing such projects;

-implementation of control over the implementation of the Law of Ukraine "On stimulating investment activity in priority sectors of the economy with the aim of creating new jobs";

-implementation of cooperation in the investment sphere with other institutions, institutions, organizations;

-implementation of state policy on international innovation cooperation, including the conclusion of relevant agreements, within the limits of their authority;

-organization of work related to the development of the system of information and analytical support for the implementation of the state investment policy, including innovation policy, and monitoring of the state of investment development of the economy, for the dynamic, balanced development of the country and its regions;

-preparation of analytical and reference materials on investment activities, including in the field of public-private partnership.

The main tasks of the Department of State Investment Projects and MERT Development Support are:

-ensuring the formation and implementation of the state policy on the management of state investments, which includes:

-development of draft regulations and methodological recommendations for each phase of the project cycle: initiation, preparation, economic analysis, examination of investment projects, selection of state investment projects financed from the state budget (state capital investments) or loans raised by the state, internal and external monitoring status of project development and implementation;

-organizational and information provision of meetings of the Interdepartmental Commission on State Investment Projects, elaboration of state investment projects and preparation of information on each project for their participation in the selection, formation of a list of state investment projects selected by this commission and posting on the official website of the Ministry of Economic Development; the annual preparation of proposals for the distribution of the total amount of state capital investments for the development and implementation of projects among the main managers of budget funds based on the results of the selection of state investment projects, as well as on their redistribution based on the results of monitoring;

-monitoring, generalization and publication of information on the state of development and implementation of state investment projects.

-carrying out an assessment of the economic efficiency of investment projects that may require state support for their implementation (state guarantee, co-financing on a revolving basis, partial reimbursement of interest on loans);

-coordination of measures to prepare and support the implementation of investment projects supported by international financial organizations or financed by foreign countries, as well as international technical assistance projects, including EU external aid mechanisms and tools, necessary for the preparation and management of the implementation of investment projects;

-ensuring the formation and implementation of state policy on attracting international technical assistance (ITA) from donor countries, international organizations and the EU, which includes:

-development of draft legal acts, in particular regarding the initiation, registration and monitoring of MTD projects, formation of strategic programs for the involvement of MTD, relevant texts of international agreements with donors;

-coordination of work and activities related to MTD, interaction with OECD, including implementation of organizational and analytical support for the activities of the National Coordinator for Technical Assistance,

-examination and approval of requests for MTD;

-conducting state registration of MTD projects (programs) in Ukraine, which is the basis for accreditation of their executors, as well as exercising the right to receive benefits, privileges and immunities provided for by law, and maintaining the corresponding register, as well as the register of EU sectoral budget support programs;

-accreditation of foreign organizations implementing MTD projects (programs) in Ukraine;

-registration of representative offices of donor institutions in Ukraine;

-conducting monitoring of the implementation of registered projects (programs) of MTD;

-performing the function of the National Management Body of Joint Operational Programs of Border Cooperation of the European Neighborhood Instrument 2014-2020.

The Ministry of Regional Development, Construction and Housing and Communal Services of Ukraine (Ministry of Regional Development) manages the construction, architecture, and urban planning areas through which formative investments in real estate take place. The State Architectural and Construction Inspection is subordinate to the Ministry, which carries out state architectural and construction control over construction and performs permitting and registration functions in construction.

The State Agency for Infrastructure Projects of Ukraine (Ukrinfraproekt) - the National Agency for the preparation and holding of the final part of the 2012 European Football Championship in Ukraine and the implementation of infrastructure projects was renamed the State Agency for Infrastructure Projects of Ukraine [43]. Ukrinfraproekt is the central body of the executive power, the activities of which are directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Infrastructure of Ukraine, which implements state policy in the field of development, construction, reconstruction and modernization of aviation, sea and river transport infrastructure.

The main tasks of the Ukrinfraproject are:

-implementation of state policy in the field of development, construction, reconstruction and modernization of aviation, sea and river transport infrastructure, as well as financial support for measures to ensure road traffic safety in accordance with state programs;

-submission to the Minister of Infrastructure for consideration of proposals to ensure the formation of state policy in the field of development, construction, reconstruction and modernization of aviation, sea and river transport infrastructure, as well as financial support for measures to ensure road traffic safety in accordance with state programs;

-management of state-owned objects.

State support involves state participation in the development and/or implementation of investment projects and is provided after state registration of project investment proposals.

4. Subjects of investment activity management onregional level

Implementation of the state's investment policy at the regional level is entrusted to local executive bodies and local self-government bodies.

Regional state administrations belong to the system of executive authorities in Ukraine and regulate investment activities at the regional level. Regional state administrations directly influence the investment process in the region through:

-attraction of state investments;

-development and implementation of investment activity development programs;

-introductionproposals for the creation of special (free) economic zones;

-selection of investment projects for implementation in the region;

-creating the most favorable conditions for investors;

-consideration of investment projects in priority sectors of the economy;

-assistance in obtaining permits for the implementation of an investment project;

-solving other current issues of implementation of investment projects.

In the vast majority of regions of Ukraine, departments (departments of economy / departments of international cooperation / departments of regional development / departments of external relations), administrations or individual departments of state administrations deal with the issue of regulation of investment activity.

Also, some administrations have established consultative and advisory bodies - separate centers (agencies) that are engaged in attracting investments to the economy of the region; Councils of domestic and foreign investors, etc.

The Regional State Administration can also develop an investment passport of the region and investment maps of the region. The investment passport of the region is a document in which all information about the region is structured: geographical location, human resources, structure of the economy, foreign economic activity, a list of investment projects, as well as reference information for business. The investment map of the region contains information about investment projects and free land plots for investment, land plots for the implementation of investment projects ("green-field" type plots), and land plots and territories where production premises were previously located and objects of unfinished construction ("brown-field" type sites); investment proposals (project questionnaires), etc.

The activity of regional administrations in attracting investments also involves the organization and holding of investment forums (summits) within the respective regions.

Issues of regional investment policy formation at the level of the regions of Ukraine are dealt with by the regional councils, in particular the permanent commissions of the councils on investment activities, as well as structural subdivisions of the executive apparatuses of the regional councils.

The main functions of such permanent commissions are: preliminary consideration of draft decisions, socio-economic, cultural development programs, other targeted programs submitted for consideration by the regional council, the regional budget, reports on the implementation of the budget and regional programs; preparation of conclusions and recommendations on these issues; development of draft decisions of the regional council on issues under the jurisdiction of the regional council.

City, village and village councils and the councils of the OTG also contribute to the attraction of foreign investments and the implementation of investment activities in the relevant territory. However, the capabilities of local councils (especially councils in small towns) are insufficient for qualified monitoring and management not only of investment processes, but also of economic development as a whole. The staff list of village and settlement councils often does not even have the position of an

economist, which is usually explained by limited budget funding. Even with the presence of appropriate staff units in local self-government bodies of the highest level, overloading with a large number of current problems does not give specialists the opportunity to have a real impact on investment processes.

Agencies (agencies) of regional development are a kind of "intermediaries" between entrepreneurs, authorities of various levels and the public. In the developed countries of the world, agencies have defined clear areas of activity. The indicator of the efficiency of their work is the investment multiplier.

In Ukraine, agencies began to be formed in 2001 thanks to the activities of various donor organizations. According to the Regulation on the regional development agency, agencies are non-profit, non-budgetary institutions that help local authorities to implement the regional development strategy.

The founders of Agencies can be regional state administrations, regional councils and non-governmental organizations. The maintenance of the Regional Development Agencies is provided at the expense of the contributions of the founders and the receipt of payment for their own services.

The agencies work as offices for providing consultations and practical assistance regarding the preparation and implementation of regional development programs and projects.

According to the plan, regional development agencies should conduct work on the search for investors, prepare proposals for improving the investment climate, carry out activities for the promotion of the region in Ukraine and beyond, as well as prepare strategies and programs for the development of the territory. The purpose of their activity was to contribute to increasing the investment attractiveness of the regions, attracting investment and credit resources, international technical assistance and creating favorable conditions for the development of the territory.

Regional development agencies offer a wide range of services: strategic planning, development and implementation of plans, projects, programs for the development of the region and territorial communities; development and examination of business plans and investment projects; organization of seminars, conferences,

round tables, educational programs; initiation of business activity regarding the creation of new jobs and productions; assistance to local companies and scientific institutions in finding partners, investors and manufacturers of products and services; conducting presentations, advertising activities and marketing research; development of staff motivation systems; development of regulations and job instructions and optimization of the organizational structure; advertising of the latest technologies and products of foreign partners, etc. However, often the given list is general,

Only one agency can be established in each region. Each agency should have its own name, which would contain the name of the corresponding region. However, in Ukraine, almost not every public organization that declares its intention to study regional processes is considered an agency of regional development. In addition, several agencies may operate on the territory of one region.

Information about the activities of regional development agencies is closed. For the most part, all available information concerns the number of held trainings, round tables and seminars.

The creation of Regional Development Agencies was preceded by the creation of Regional Centers for Investment and Development (liquidated in 2014 in connection with the liquidation of the State Agency for Investments and Management of National Projects).

Control questions

1. Define the concept of "public management for investment activity".
2. What are the main forms of the public management for investment activity?
3. Define the concept of "investment program".
4. What are the methods for regulating the investment activity?
5. What are the forms of state regulation of investment activity?
6. What are the types of state support for investment projects in Ukraine?
7. Define the concept of "state capital investment".
8. At what levels the public management for investment activity is exercised in Ukraine?
9. What are the main tasks of the Ministry of Economy Investment Department?
10. What are the main tasks of the Ukrinfraproekt?
11. What are the ways the regional state administrations influence the investment process in the region?

Tests

1. The public management for investment activity is:

a. a system of actions aimed at creating the conditions necessary for investment activities, organizing economic and legal space for investment activities, forming a system of priorities and directions of development, ensuring the national economy the competitive advantage

b. a set of actions determined on the basis of the national system of values and tasks of innovative economic development, aimed at the development of selected industries, economy sectors, manufactures, regions, and are carried out using state or local budgets or for implementing which state or local guarantees are provided

c. capital expenditures of the state budget aimed at the creation, reconstruction, technical re-equipment of fixed state assets, the expected useful life of which exceeds one year

2. The methods for regulating investment activities include:

a. social ones
b. economic ones
c. informational ones
d. legislative ones

3. The difference between the volume of cash inflow from abroad and that of capital outflow in the form of loans to foreign borrowers or purchase of financial assets of foreign issuers is

a. the net capital inflow
b. the flight of capital
c. the net capital outflow

4. Types of state support for investment projects in Ukraine do not include:

a. the direct budget financing of investment project development
b. the taxation peculiarities
c. the ensuring a favorable investment climate
d. the reimbursement of interest on bank loans

5. The state capital investment is:

a. a system of actions aimed at creating the conditions necessary for investment activities, organizing economic and legal space for investment activities, forming a system of priorities and directions of development, ensuring the national economy the competitive advantage

b. capital expenditures of the state budget aimed at the creation, reconstruction, technical re-equipment of fixed state assets, the expected useful life of which exceeds one year

c. a set of actions determined on the basis of the national system of values and tasks of innovative economic development, aimed at the development of selected industries, economy sectors, manufactures, regions, and are carried out using state or local budgets or for implementing which state or local guarantees are provided

6. The main tasks of the Ministry of Economy Investment Department are:

a. the ensuring the formation and implementation of state investment policy

b. the ensuring the formation and implementation of state policy in public investment management

c. the ensuring the formation and implementation of state policy in attracting foreign technical assistance from donor countries, international organizations and the EU

d. the economic efficiency assessment of investment projects that may require state support for their implementation

7. The main tasks of the of the Ministry of Economy Property Policy Department do not include:

a. the ensuring the formation and implementation of state investment policy

b. the ensuring the formation and implementation of state policy in public investment management

c. the ensuring the formation and implementation of state policy in attracting foreign technical assistance from donor countries, international organizations and the EU

d. the economic efficiency assessment of investment projects that may require state support for their implementation

8. Regional state administrations directly influence the investment process in the region through:

a. the credit policy

b. the grants

c. the attracting public investment

d. the direct budget funding

9. The main forms of the public management for investment activity do not include:

a. direct budget funding

b. state order financing

c. state guarantees for the investment projects crediting

d. attracting public investment

10. A set of actions determined on the basis of the national system of values and tasks of innovative economic development, aimed at the development of selected industries, economy sectors, manufactures, regions, and are carried out using state or local budgets or for implementing which state or local guarantees are provided constitutes:

a. the public management for investment activity

b. the state capital investment

c. the investment program

Educational edition

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INVESTMENT

Tutorial