

Investment Processes and Bases of the Investment Project

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Abstract—The need for a correct assessment of investments taking into account all particularities and risks of investments is described and grounded in this article. The objective of this research is to carry out an analysis of investment management tools and existing assessment methods of an investment project and to find optimal paths of useful effect obtaining from investment activity. In spite of a significant quantity of works on investment problem, investment activity and investment prospects, many aspects have not been studied yet extensively. Because of this, the irrational and inefficient solutions when developing and implementation of investment projects are made in regions frequently. Works of the leading academic economists are studied and theoretical and methodological foundations of investment project assessment are generalized in this research. And also management methods of real investments are considered that allow being receptive to changing factors with more profits for yourself and a company considering Russian specifics of macroeconomic processes.

Keywords—*investments; investment project; risks; effectiveness; real options*

I. INTRODUCTION

“The problem of attracting investments is one of the central problems of modern society. Investment resources are limited so it is almost impossible to satisfy all the existing need for them. This thesis is especially of current interest in circumstances where the financial and economic crisis when investors are even more carefully assessing potential investment facilities taking into account sharply increased risks” [3].

“The investment climate is a fundamental characteristic of the investment sphere, the effectiveness and location of investment unsafeness. It characterizes the degree of situation profitability developing in a particular country (region) for investments that can be made there. “The investment climate you can consider as a combination of certain conditions and factors those assisting investment activities, on the one hand, and impeding it, on the other hand” [11].

“The investment climate includes objective capabilities of the region (investment potential) and conditions of the investor’s activities (investment risk) and allows to compare these indicators” [10].

Investments play a central role in ensuring the effective functioning of the economic system and social reprocessing since they directly affect the economic growth possibility on a long-term horizon. Investment activity is one of the most important components in economic performance. The state of the economy is determined by its intensity.

“It is necessary to know how to evaluate investments correctly taking into account all the features and risks of investments” [12]. Moreover, this presupposes the development of an effective mechanism for assessing and forming the investment attractiveness of the economy and improving the management of the investment process at the regional and federal levels.

“For each business entity it is necessary to have investment skills” [7]. Each of those should know how to solve the problem of the optimal choice between current and future consumption. That is why it is necessary to know how to evaluate investments correctly bearing in mind all the features and risks of investments” [4]. A rational manager would choose projects based not only on returns but also on risks. “The best projects tend to be those with the best bang for the buck or the best returns subject to some specified risks”. “Companies that invest in projects in these countries take significant risks that the governments and leaders with whom they have signed contracts will no longer be in power when earned revenue streams should be shared contractually. As a result, they are left without an income” [4].

It should be pointed out the significant differences in investment activities from other activities.

To begin with, it is the potential ability to bring property income owned by the investor, and that is, he can get a significant result in the form of increasing his capital. However, the investor is not always driven by the desire to receive only income from his activities, he can be guided by other fruitful goals. Therefore, they often talk about the ability to get any beneficial effect from investment activities.

Secondly, it is the presence of capital investment risk without a doubt. Moreover, of course, the “greater the risk associated with investment activity, the more income investor expects to receive” [8].

Thirdly, it is a purposeful investment of capital. As real production objects so financial instruments can serve as facilities.

Fourth, it should be remembered that the goals of the investor do not always coincide with the general economic benefits.

II. METHODS

Today, the classification of investment types is quite diverse. Many authors identify many criteria for the separation of different investment types. This will ensure that the investor can thoroughly be understood what investments he needs and where to invest in obtaining a useful result.

The raw-materials export model of reproduction established in Russia and its functioning determine shifts in the investment structure to the fixed capital and to the production-branch parameters of capacities and value added produced by them. "This determines the peculiarities of the national economy of the country in the present and the future" [6]. Real investment plays a huge role in maintaining the reproduction process, as well as in expanding production. They epitomize the production process, participate in real goods production, works, services consumed by the population. That is why the state pays special attention to this type of investment, legally securing the real investment activity foundations in the form of capital investments.

Real investments differ in a set of features that allow separating them from financial investments. These features should be taken into account when managing real investments in an enterprise. Therefore, "for effective management, it is necessary to form an investment project properly and evaluate it" [2].

The real investment management is inevitably based on forecasts. It is difficult to make forecasts that do not accept risks in Russia with an unstable economic and political situation. Over the last decade, there have been several crises in Russia, and since 2014, Western states have imposed sanctions, depriving foreign investors of the opportunity to invest in Russian enterprises, which makes the investment attractiveness of organizations even more reduced. For these purposes, it can be said that methods for evaluating real investment projects based on discounting not always can give accurate results.

It should be noted that "the crossing of different knowledge branches within the economic research happens within a system approach and system analysis, serves as an example of self-organization of science and leads to the most diverse methodological entities" [5].

Another problem affecting the evaluation of investment projects is the discrepancy between the stated inflation rate and the real one. "In terms of inflation, inflation indexes are not predicted for each step of financial flow, since this presents difficulties, and therefore indicators are calculated on financial flows computed in constant base prices" [11].

It also should be noted that "some of the indicators suggested by the methodological recommendations for evaluating investment projects have significant drawbacks. At the same time, the developed modified measures eliminating these shortcomings and risk-reducing assessments, are not included in the guidelines, and investors have to search for information about their calculations on their own often using for this foreign literature" [15].

The law stipulates that the state is obliged to take measures to maintain a stable investment climate in the country, but practically it is almost impossible. The state is trying to invest in large projects, while small and medium businesses remain without adequate support in the field of investment. "The state direct participation in investment activities performing as capital investments by developing, approving and financing investment projects carried out by the Russian Federation jointly with foreign countries, as well as investment projects financed by the federal budget" [1].

In addition, when managing real investments, enterprises rarely use such a mechanism as real options that reduce uncertainty and risks generated by an unstable situation. Using real options when evaluating a project the company

protects itself from future risks and lost profits. In the current time of crisis, companies pay increasingly greater attention to risk management trying to tighten the conditions for loan issues and attract as many deposits as possible.

III. RESULTS

"The key advantage of project evaluation using real options is risk assessment, as well as the degree of uncertainty and the preservation period of investment attractiveness.

The management option is a right not an obligation, to perform any managerial action (postpone, expand, reduce, eliminate, etc.) of an investment nature at an earlier determined price ("execution rate") for a certain period (option period). It gives the right and not the obligation to the owner to perform the specified operation in the future.

This tool allows managing investment decisions flexibly under the external condition changes. In other words, if there is a cash flow deviation, the investor decides what actions to take if the cash flow deviates from the predicted. "This is precisely the lack of evaluation of investment projects using the method of calculating discounted flows: ignoring the investor's ability to adapt to changing conditions" [14].

The idea of using real options belongs to Myers S. He noted that the riskiness of investment projects is associated with the risk of different outcomes when making an investment decision. Therefore, as with financial options, the real options should be used that can even the losses under the project if any unfavorable events. The difference between real options and financial is only in the facility. For real options, the facility is tangible assets (equipment, buildings and cars), while for financial ones are financial instruments (stocks, bonds and other securities).

It is worth remembering that comparing projects of different categories is not allowed. "Projects are ranked and compared only within one class of projects, from which the most optimal one for the company is chosen" [9].

The most useful method of real investment management is indicative planning. It consists of forecasting and planning of separate indexes essential for project implementation. "The main investment plan indicator is the production capacity commissioning, which is defined in natural units of measurement (for example, 15 machines by the end of the year or the commissioning of the site in a month)" [6]. When establishing this indicator, it is necessary to consider three factors:

- The commissioning of new equipment or technology
- production increase
- the necessity for replacement of old and worn-out equipment that is going to withdraw in the planning period.

In addition, the commissioning indicators of the main production and non-production assets are used. Such indicators have already defined in terms of value. "It is advisable to select unidirectional indicators with increasing or straight conversely decreasing dynamics for integrated assessment including. However, this requirement is not strict and the analyst can form a rating of companies based on multidirectional indicators. In this case, it is necessary to operate with inverse values of indicators the desired dynamics of which contradict the general direction" [2].

For example, it may be the costs for temporary buildings and facilities, the alienation or lease of a building plot, technical supervision and control of the investment project progress.

However, in Russian practice, such a tool for real investment management is completely undeveloped. Investors try to use the indicative planning method with the discounted valuation method, calculating the result only after the calculation step end of the investment project and comparing it with the predicted indicator, not thinking about the operational management of investment decisions and insuring themselves against risks using various tools. It is paid little attention to the problem of ensuring financial feasibility considering a significant number of specific factors affecting the economic efficiency of the investment project and allowing to reduce the required initial capital by the project implementing in parts, choosing available borrowed funds using the own funds generated by the project, etc.

Another difficulty in the investment project evaluation is the emergence of the need for additional work handling not originally provided by the investment project. This problem often turns up in the construction industry. If the contractor sees the need for such works, he must inform the customer about it and wait 10 days (unless otherwise provided by the contract) and after he must suspend all works. When a similar situation arises, there are losses associated with downtime, from which the cost of an investment project can increase substantially, as well as the project implementation timeframes. Such unforeseen situations not only complicate the investment project assessment, but also do not allow objectively selecting the most acceptable project from several alternative ones.

IV. CONCLUSION

1. In our opinion, for evaluating an investment project it is necessary first to carry out a basic analysis of the net present value, which would entail the need for strategic choice at any stage of the project. Secondly, to carry out a real options analysis where the future project profitability is taken as the base variable, considering the uncertainty. Management has the right to make adjustments when new information is received. Thus, in order to manage the project in a timely manner and without loss, it is necessary to take bold decisions and look for alternative ways, while managing the risks that appear on the market.

2. There are many problems impeding the accurate evaluation of investment projects. "Ideal forecasts" do not happen. The unstable economic situation and the complexity of the forecast in these conditions not only interfere with the assessment of investments but also its proper management. This is precisely why we understand that it is necessary:

- to improve the ways of evaluating investment projects and methods of managing real investments, allowing them to respond flexibly to changing factors with the greatest benefits for themselves and the company;
- to take into account the Russian specifics of macroeconomic processes in the methodology and evaluation of investment projects,
- to ensure financial feasibility and consideration of a significant number of specific factors affecting the economic efficiency of the investment project and allowing to reduce the required initial capital by

project implementing in parts, choosing available borrowed funds, using the own funds generated by the project,

- to use real options that can even the losses on the project if any unfavorable events.

3. The research results can be used at both the regional and country level and may be effective in management decisions.

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