

# Adoption of Management Decision in the Project Financing System

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**Abstract.** The article describes the basic methodological provisions of the project approach to financing. They are focused on management decisions on the development, evaluation and implementation of investment projects in the infrastructure of production, especially in logistics, and non-production areas. Attention is focused on such functions as planning of project financing. It is the most important sphere of activity of the Manager on decision-making process in the sphere of his competences. The authors used the Standard approved by the Supervisory Board of the industrial development Fund of Russia in 2018 as a methodological support for decision-making on financing investment projects. The Standard defines the basic concepts of project activities. The novelty of the approach to the study of project financing is that the authors propose and implement recommendations for the use of the Standard on a conditional example. The Standard serves as a basis for the development of author's schemes of algorithms for expert evaluation of projects, the process of project development. It has a practical importance for making informed decisions on financing investment projects from certain sources. These sources can serve as the Foundation for the support of development projects, venture capital, special investment contracts (SPICs).

## 1. Introduction

Project financing as a type of financing business projects is characterized by the fact that money is borrowed from a bank. The collateral is future cash flows, that is, revenues from the project, as well as assets that are planned to be acquired as they are realized. Refers to long-term financing, calculated on the long-term return of borrowed money. The scope of such a loan: large-scale investment projects, since the flow of finances is higher, which means there are more guarantees for banking institutions. Assessing the positive and negative aspects of attracting investment for project financing, we note the following.

Positive sides:

1. receiving money from an investor for a long time;

- 2. possible delay in payment;
- 3. lack of collateral, which would be 150-200% of the estimated value of the business project.

Negative sides:

- 1. The risk of default of borrowed funds. Reason: insurance property, which acts as a pledge, is: only equipment for technical support of production, as well as future income from a business project.
- 2. The banking institution that issued the loan may receive ownership of all collateral property. Difficulty in the implementation of this financial transaction: it is quite difficult to make a sale in order to return the money issued on credit.

An investment project is a project whose implementation is carried out at the expense of funds received from investors. Investing is done in various ways. The investment itself is carried out in order to generate income, so it is logical that part of the income from the project will be transferred to investors. Project investment is more beneficial for the owner of the enterprise - he does not need to share the income from his business with investors.

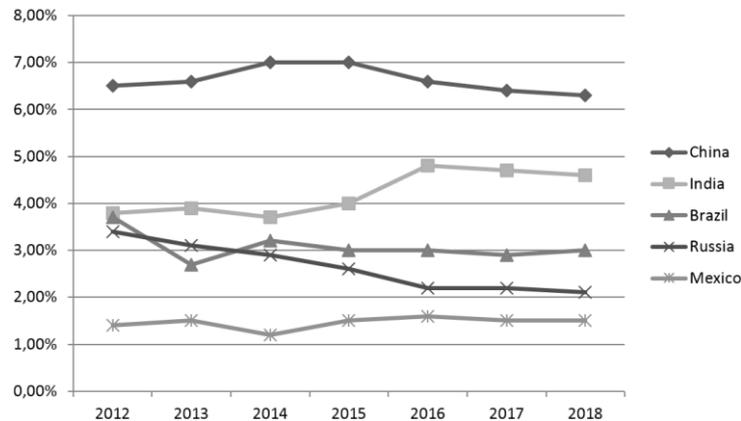
He gives cash without high interest rates. The disadvantage is: some slowdown in the development of its business. A business plan in this case means a reasoned rationale for the investment project, its assessment, a study of income, risk and relevance.

**2. Relevance, the scientific importance of issues with a brief review of the literature**

The share of investment in infrastructure from GDP by country in 2012–2018, presented in Fig. 1, shows a slight decrease. This is due to the problems of financing projects for the development, modernization or creation of new objects. First of all, logistic, ensuring the processes of product flow in the global and domestic markets. This circumstance actualizes the research of issues of financial support of infrastructure projects in both production and non-production areas [21, 22].

Thus, the expenditures of the consolidated budget system for infrastructure in 2018 remained at the same level (2 trillion rubles) in nominal terms and became slightly less in real, while their share in GDP decreased by 1 pp to 2.1% GDP. In nominal terms, the investments of the budget system in infrastructure, made last year, do not reach the level of 2014 by 11.8%, and, taking inflation into account, they have completely decreased by almost a third (see Fig. 1). According to our estimates, based on the parameters budgeted for the next three years, infrastructure spending will grow in nominal terms, but this growth will be so modest that only in 2021 will investments approach the level of 2014, and during the cleaning for inflation lag behind.

The share of spending on infrastructure in GDP is also likely to decrease, as long as the budget parameters include a fairly rapid increase in the latter. It is possible that investments in the industry will nevertheless be higher - at the expense of the funds that the authorities will attract to the Development Fund, but so far this money has not been colored and distributed in the budget.



**Figure 1.** The share of investment in infrastructure from GDP by country in 2012–2018.

Source: Global Infrastructure Outlook, Treasury, Treasury, InfraONE Research calculations.

Project financing is recommended to be used for investment projects characterized by high cost, complexity of implementation and social significance [1]. Project financing in the modern world requires the use of a large number of both financial and non-financial instruments, the legal framework of contracts, the holding of many competitions and tenders [2].

Financing of investment projects is carried out in various ways. The choice of method should be made on the basis of analysis of the scope of future activities, the relevance of the project, its significance in the aspect of the national economy, as well as many other factors. The scientific importance of the chosen topic is determined by the need to justify decisions on the choice of method of financing investment projects. In modern conditions in scientific journals discussed issues on how to finance [17-20].

Summarizing the results of scientific research, we group these methods:

1. Independent financing of the project. In this case, the owner uses only the funds that he receives from his project to implement his idea. We will apply it only to small projects, since it is impossible to implement a large-scale plan only at our own expense — they simply will not be enough at first.

2. Equity financing, that is, the attraction of co-financiers, between whom in the future income will be divided according to the percentage of their contributions.

3. Providing cash through a loan in various banking institutions. The types of this method include not only obtaining an investment loan, but also issuing bonds.

4. Financing from the state budget. Applies mainly to objects of significance to the country. At the same time, funds from the state budget can be allocated in different amounts, fully or partially covering the entire estimated cost of the project.

5. Project financing.

6. Mixed cash raising by combining several methods.

On the territory of Russia, this method of providing the project with finances is only being developed. Due to the instability of the economy, credit operations with a short loan repayment period prevail in the country. The reason: credit institutions do not want to risk losing their money. A high-quality study of a business project is required to convince an investor. The basis of project financing is a special way of crediting, a scheme of real cash flows aimed at paying off debt, a special system for identifying and distributing project, financial, technical, political and other risks between all parties involved in the process [3]

Project financing has the following main features:

large amount of funding; attraction of various financing; long term; high cost of projects; limited regression; a significant number of participants; risk sharing, etc. [4]. Based on a systematic approach, it can be noted that a project arises, exists and develops in a certain environment, that is, a project is always in interaction with the external environment [5].

It matters which organizations are engaged in project investment. In addition, it is necessary to take into account that the adoption of a management decision is in the sphere of responsibility of the head, whence follows the need to have such personal qualities that allow you to cope with emerging problems. To achieve a high assessment of the effectiveness of management, the decision must be reasonable, correct and effective. [6]. It is necessary to show efficiency through a positive trend of growth of economic indicators of the organization's economic activities [7].

In this regard, when making decisions, managers who are focused on internal and external strategies are divided. The peculiarity of internally oriented ones is that they consider their own professional qualities, intellect, creativity, influencing the correctness of the chosen decision, the achievement of its goals to be the priority. External managers consider the external conditions to be a priority, which cannot be influenced, but on which the results of the decisions taken depend. There must be at least two alternatives to identify problems of decision making [8]. The selection of key elements from all identified alternatives occurs at the level of the finished solution [9]. Development of management decisions is one of the most important management processes. The success of the business, and sometimes the very existence of the company, largely depends on the effectiveness of

management decisions [10]. Attention should also be paid to the time taken to make a decision, regardless of the chosen methods used [11]. The assessment of corporate values is carried out on the basis of management decisions [12].

Many banks in our country give money for the future flow of finance for investment projects. Examples of such organizations are: «FC Otkritie», «Gazprombank», «BPS-Sberbank», «Zenit» and others. When choosing a bank for processing a loan, you need to ask about its reputation, as well as its position in the financial market.

### **3. Formulation of the problem**

Financing of investment projects is carried out both in the material sphere and in the sphere of intangible production. It is in the non-material sphere that the structuring of the decision-making process for financing investment projects is actualized. This is due to the following reasons:

- the growing economic and social role of this sphere in the formation of a socially-oriented economy;
- the direct influence of this sphere on a person and the realization of his potential;
- features of financing infrastructure and other projects of the non-material sphere.

The scientific task is to explore the specifics of financing objects of the material and non-material spheres. The purpose of the work is to analyze the existing ways of financing investment projects and on the basis of this to structure the decision-making process on the choice of sources of financing. New management decision-making technologies are complex and require careful preliminary preparation [13]. The management of any business organization must understand that insufficiently fully taking into account the influence of environmental factors can lead to inaccurate assessments of the current situation. And this may lead to errors in the development of plans for the development of the organization [14]. The basis of strategic management is future-oriented strategic management decisions, which lay the foundation for making operational management decisions [15].

The sphere of non-material production is a set of industries and activities that are not involved in the creation of material goods. This is an activity that is directed directly at the person or at the transformation of the social conditions in which he exists, and is expressed by economic relations regarding the provision of various services to meet public (state) and personal needs, as well as to serve the movement of a material product. The branches and organizations that are part of this area can be divided into three groups:

The first group is industries and organizations that are very close to material production. They operate on commercial principles, including self-financing. The services of these industries are paid. The source of covering the costs of their production is the revenue from the sale of services, that is, consumer funds. Finances in them are organized as in the enterprises of material production.

The second group consists of industries and organizations that are on an incomplete cost accounting, that is, having some income and receiving funds from the budget in the form of direct financing or subsidies (mixed financing). Their services are partially paid. The third group includes industries and organizations that are maintained at the expense of the budget. The services they provide are free, the source of their funding is the state budget.

Finance intangible production include financial relations:

- between industry and state budget; between managers of budgetary loans about the allocation of budgetary resources.
- between the parent organization and subordinate institutions (centralization of a part of financial resources and their redistribution).
- between organizations of the industry and their structural divisions (the formation of financial resources, their distribution and use).
- between the organizations of the sphere of intangible and the sphere of material production regarding the payment of acquired material values.

Finances in the sphere of non-material production cover mainly the sphere of secondary distribution of the national product, determine the volume of secondary income, their distribution and

use. Features of finance in the sphere of intangible production: - the source of coverage of the main costs is the national income created by workers in the sphere of material production.

- the main source of funding is the state budget (financial relations arise mainly between the sphere of non-material production and the state);

- in the cost structure, a high proportion is wages (60-80% for some industries).

- the main object of financial relations is the wage fund, its formation, distribution and use.

In the conditions of development of market relations, as well as the state budget deficit, the sphere of paid services in the sphere of non-material production is developing, extra-budgetary sources of financing are attracted. The sphere of non-material production, which was previously called the non-production sphere, includes: management, science, insurance, trade, finance, health care, education, social sphere, various budget institutions, non-profit organizations (consumer cooperatives, trade unions, charitable foundations, parties, faiths and etc.). This is the production sphere, since the main goal of the production activity of a person is the reproduction of a person, and not just the material conditions of his life.

In particular, consumer cooperatives can be attributed to the sphere of non-material production (provision of services). Consumer cooperative - voluntary association of citizens or legal entities on the basis of membership in order to meet the material or other needs of the participants, the implementation by combining its members of property shares. There is a consumer cooperative on the basis of the charter, which reflects the size of the entrance fees. Basic principles: voluntary entry, obligatory payment of entrance and share fees, democratic governance (one shareholder - one vote, the highest body - the general meeting, openness of information, etc.).

Consumer cooperative finance includes financial relations between a consumer cooperative (as a legal entity) and shareholders; commercial organizations; organizations in the supply of harvested products and raw materials; civilian employees; insurance companies; tax authorities; banks; upstream PC; construction, transport and other organizations. The central figure in the consumer cooperative is the shareholder. The organizational and legal forms of a consumer cooperative as a legal entity can be country houses, horticultural, housing, garage, credit and other consumer cooperatives.

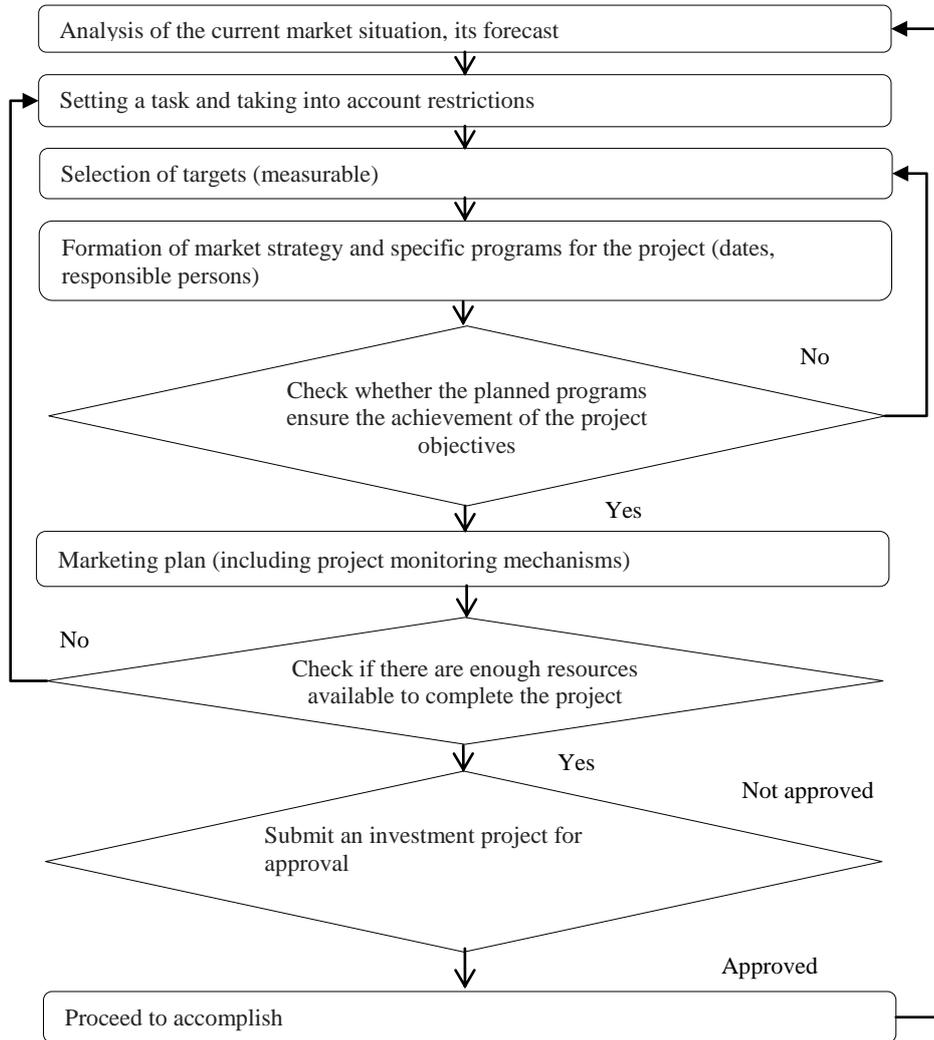
#### **4. Theoretical part**

The project is a set of organizational, technical, financial, personnel measures aimed at creating a new enterprise / production and / or its modernization in the established budget and time frame for the introduction of new technologies and products. The proposed flow chart for the development of the investment project is presented in Fig 2.

In 2018, the Supervisory Board of the Industry Development Fund of Russia approved the Standard of the Fund Terms and conditions for selecting projects for financing under the Development Projects program (Revision 3.1 No. SF-I-51 Moscow 2019 Development Projects). [16]. The Standard defines: - directions of use of the loan; - the size and grounds for liability for failure to perform or improper performance of the obligations specified in the contract. Selecting projects for making investment decisions is key to project implementation.

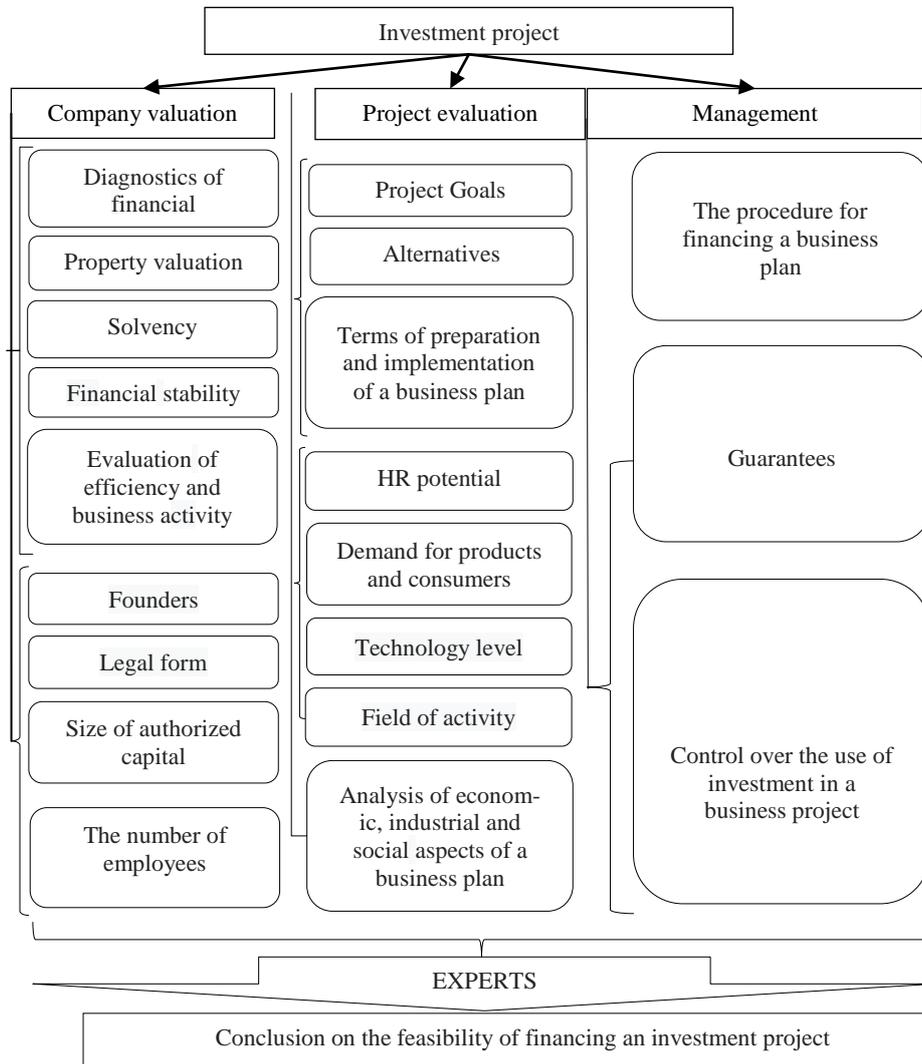
Accepting the application, notifying applicants of the results of passing the stages of examination and selection of projects, requests for information and documents are carried out through the Personal Account.

The applicant, after registering with the State Industry Information System / on the Government Services Portal of the Russian Federation, gets access to the Personal Account, where he fills out the appropriate Application form (project summary).



**Figure 2.** Block diagram of the investment project development process

The general scheme of the investment project examination process is presented in Fig. 3.



**Figure 3.** The general scheme of the process of examination of the investment project.

If the Applicant already has an account on the Government Services Portal of the Russian Federation or in the State Information System of Industry, he can use the available credentials to access the Personal Account. The Foundation places on the Foundation's website and in the Personal Account recommendations for the provision of Applications, developed on the basis of this standard. Until the beginning of the passage of the Express Assessment, the potential Applicant is provided with free consultation, information and methodological support in the preparation of the Application. The applicant has the right to apply to the Fund for clarification regarding the requirements for completing, processing and submitting the Application and the documents provided before submitting the Application and during the examination.

The following information about the project cannot be classified as confidential:

- total investment in the project;
- the amount of funding provided by the Fund;
- the quantity and quality of planned and created jobs;
- the amount of expected tax revenues to the budgets of various levels;
- information on the products produced during the implementation of the project, indicated in the application documentation and project reporting;
- project schedule;

- Target sales of a new product (a product of a new technology) after entering mass production, including for export.

The business plan forms and financial models of the project posted on the Fund's website are of a recommendatory nature. The applicant may submit a business plan, financial model of the project, developed in accordance with other recommendations, provided that they contain all the necessary sections and information specified in the forms recommended by the Fund.

The financial model should correspond to the description, calculations and data contained in the business plan.

The set of documents included in the application must include:

- the title documents of the Applicant;
- documents confirming the authority of a person acting on behalf of the Applicant;
- the applicant's proposal to secure repayment of the loan;
- Consent of the Applicant as a subject of credit history for disclosure of information contained in credit history;
- consent of the subject of personal data to the processing of his personal data.

Until the end of the comprehensive examination, the Applicant has the right to supplement the set of documents with other documents which, in his opinion, are necessary to confirm the compliance of the project he represents with the requirements of the Fund.

If it is necessary to obtain clarifications and additional information on issues that are insufficiently covered in the submitted Application, the Project Manager has the right to request additional information about the project from the Applicant, as well as to meet with him.

Documents included in the application are provided in electronic form and must comply with the following requirements:

- all sums of money indicated in the documents must be expressed in Russian rubles, while individual elements of the financial model may contain amounts expressed in foreign currency, if this is justified by the project;
- copies of documents must match the original documents;
- text and images should be legible, not contain corrections and defects that do not allow to unequivocally interpret the content of documents.

The applicant guarantees the completeness and accuracy of all the information provided and is responsible for its deliberate distortion in accordance with the legislation of the Russian Federation. The application is considered registered and goes to the Fund for consideration after filling and sending (pressing the corresponding "Send" command) by the Applicant's project summary in the personal account.

All notifications and requests (except for cases when this standard specifies a different method of communication) are sent to the applicant through the Personal Account. Examination of projects for the purposes of selection and making a decision on financing the Fund will not be charged to the Applicants, except for the cases specified in clause 9.26 of this standard.

## **5. Practical relevance, suggestions and results of implementations, the results of experimental studies**

The practical significance of the proposals on the results of the study will show the example of the examination of projects. We present the expertise in a phased process. Stage I. Rapid assessment At the rapid assessment stage, a preliminary check of the project and the Applicant's compliance with the financing conditions established by this standard is carried out based on the analysis of the project's summary. The duration of the rapid assessment may not exceed 5 (five) days.

Based on the results of the rapid assessment, a preliminary conclusion is made about the project's compliance with the basic conditions for financing the projects by the Fund, and the authorized officer of the Foundation takes one of the following decisions:

- accept the Application and send to the Applicant a letter on the submission of the Application for entrance examination with indication of the list of documents necessary for further examination. In the Personal Account, the Application is assigned the status «Preparation of a set of documents»;
- reject the Application and send a letter to the Applicant indicating the non-compliance of the project summary with the specific conditions for financing projects established by the Fund. In the Personal Account, the Application is assigned the status «Sent for revision based on the results of rapid assessment».

In case of refusal to accept one or several documents required for a comprehensive examination, the Applicant receives a notification in the Personal Account with an indication of the list of such documents. In the Personal Account, the Project is assigned the status «Sent for revision based on the results of entrance examination».

After receiving an acceptance of all the required documents, the authorized officer of the Fund assigns the status of «Comprehensive Examination» to the Application and sends to the Applicant a notification of successful completion of the entrance examination with an indication of the appointed Project Manager.

Applications for which the Applicant has not resolved the deficiencies, did not submit documents, did not update the information for more than 4 (Four) months, and assign the status «Project work terminated».

#### Stage III. Comprehensive Expertise

In order to determine the possibilities and conditions for financing by the Project Fund, a comprehensive examination of the project and the documents provided by the Applicant is carried out in the following areas:

- production and technological expertise;
- scientific and technical expertise;
- financial and economic expertise;
- legal expertise.

Based on the results of a comprehensive examination, the Fund submits an Application and recommendations on the conditions for the Fund's participation in financing the project for consideration by the Expert Council.

The project manager accompanies the Application and organizes a comprehensive examination of:

- provides a comprehensive examination;
- ensures the analysis of the collateral offered by the Applicant and the proposed mechanisms for controlling the target use of the loan funds;
- creates preconditions for the Fund's participation in financing the project by the Fund, taking into account the amount, term and structure of the project.

The total time period for conducting a comprehensive examination should not exceed 40 (forty) days from the date of the decision on the appointment of a comprehensive examination. In the event that the appointment of a comprehensive project appraisal directly after passing the entrance examination is impossible due to the significant number of projects already in this phase in the Fund, the Project Manager notifies the Applicant within one day.

As projects progress through the Expert Council and release of resources (experts) of the Fund, the project is sent for a comprehensive examination. The project manager makes a decision on the appointment of a comprehensive examination within three days after receiving information about the release of resources (experts) and notifies the Applicant on the day the project is sent for a comprehensive examination by changing the Project status and sending a message in the Personal Account. In case the Project is sent for revision based on the results of a comprehensive examination, the countdown of the due diligence period of the Fund is suspended and resumed after the Applicant has eliminated the comments on the project materials.

Foundation units participating in the project expertise have the right to request from the Applicant comments, explanations, as well as additional documents necessary for carrying out project expertise. If the Applicant did not submit the requested documents within 30 (Thirty) days, the Project Manager

decides on assigning such an application the status «Suspended Project Work» and terminating the comprehensive project expertise.

Comprehensive examination is terminated to its full completion in case of detection of any of the following circumstances:

- non-compliance of the project with the criteria for selecting projects for financing according to any of the parameters defined by this standard;
  - the presence of critical comments on the project, which can't be eliminated in the time provided for a comprehensive examination;
  - the fact of providing false information;
  - non-elimination by the Applicant of deficiencies and comments on the project within 30 (Thirty) days after the corresponding notification was sent by the Project Manager.
- One of the modern instruments of financing investment projects are special investment contracts (SPICs). Since its inception, since 2016, the Ministry of Industry and Trade has signed 27 SPICs with companies for a total of 359.3 billion rubles. And even despite the government's desire to change the SPIC's rules, in 2018, according to the «old» scheme, it was possible to conclude nine more of them for 197.5 billion rubles. At the same time, three contracts were immediately in the top five (table 1).

**Table 1.** Top 5 SPICs in terms of investment.

№	Investor	Volume of investments, billion rubles	Project	Region	Industry	Agreement period
1	2 «Euro-Chem Usolsky Potash Plant»	72,9	Construction of Usolskogo potash plant	Perm region	Production and recycling	11.2016 - 12.2025
2	PJSC «AvtoVAZ»	70	The development of LADA, Renault, Nissan, Datsun and Mitsubishi brands, as well as the modernization of their production capacities	Nizhny Novgorod Region	Auto industry	12.2018 - 12.2028
3	«EuroChem VolgaCaly»	57,2	Creation of mining and processing plant for the extraction of potash salts	Volgograd region	Production and recycling	11.2016 - 12.2025

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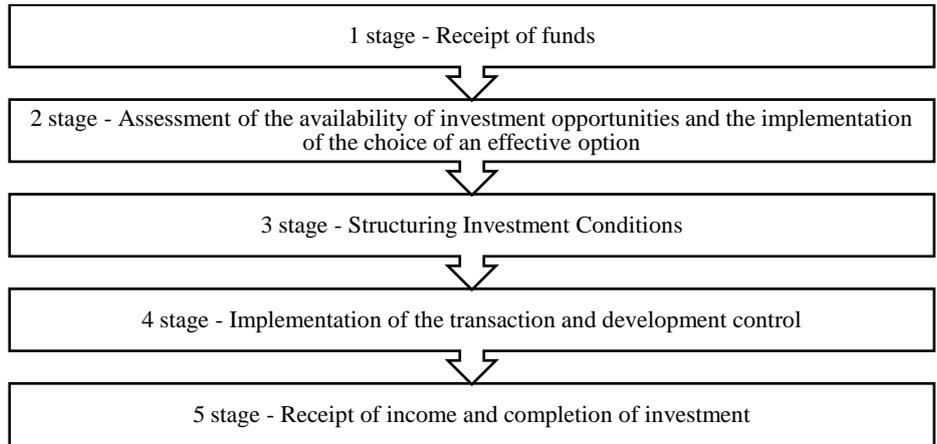
			and the production of potassium chloride			
4	«Daimler KamAZ Rus»	46,4	Development of the model range of KAMAZ and Mercedes Benz and modernization of capacities for their production	Tatarstan	Auto industry	05.2018 - 05.2028
5	«EuroChem North-West»	28,7	Creation of industrial ammonia production	Leningrad region	Chemical production	07.2018 - 12.2025

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Source: data of the Ministry of Industry and Trade, companies

Pharmaceuticals and the automotive industry are arguing for leadership in the number of contracts - industry companies managed to conclude six special investment contracts. In terms of investment volume, the first is the auto industry (160 billion rubles), the chemical industry is slightly behind (159.7 billion rubles). Totally, these two sectors cover 10 out of 27 SPICs and almost 89% of all investments. A state or region can provide SPIC signatories with tax and customs benefits, as well as the status of a sole supplier during public procurement (the latter becomes possible if the investment exceeds 3 billion rubles).

The investor is committed to provide targets for both investment and job creation, and output. The entire year 2018 between the Ministry of Finance and the Ministry of Economic Development and Trade continued discussion of what SPIC 2.0 should look like. Legislatively, it has not yet been adopted, but it is assumed that the minimum investment threshold will increase to 1 billion rubles, and the term of the contract will be increased. In terms of innovation dynamics, the role of venture capital is increasing. The step-by-step process of making a management decision on financing an investment project through venture capital is presented in Figure 4.



**Figure 4.** A step-by-step process of making a managerial decision to finance an investment project through venture capital.

Based on the analysis of the experience of enterprises of material and non-material spheres of production, a grouping of internal sources of financing investment projects was carried out (Table 2).

**Table 2.** Sources of financing investment projects (domestic).

№	Source	Contents
1	Cash flow cycle	Funds are invested in raw materials and products, then the product is sold and, according to the proceeds received from the sale, the efficiency of investment is determined
2	Inventories	Maintain the optimal amount of financial resources invested in inventories in order to minimize total costs. Reduction of time periods between processing and fulfillment of orders for materials supply and maintenance. Sales planning
3	Receivables	The maintenance by enterprises of close ties with their customers; reinforcement of the main agreements with income support programs, the establishment of payment terms and lending limits; stipulating benefits for early debt repayment; drawing up an invoice in time; opening of settlement accounts of clients in the bank servicing the company in order to reduce the settlement time and decrease the receivables, to receive privileges from the bank
4	Lending by suppliers	Establishing the maximum possible late payment or price discounts, opening a line of credit, barter agreements, the share of suppliers in the business
5	Tax planning	Drawing up a tax program, developing a strategy to minimize tax liabilities and related plans for their implementation; competent fulfillment of obligations; good financial reporting, no fines; postponement of taxes to maximize cash flow
6	Cash management	Monitoring the status of funds (for example,

of the company, including: Profit	timely sending bills and paying bills no earlier than necessary) Should be directed to the development of the enterprise in the event that the level of technical development of the enterprise is low, which is a brake on the production of competitive products and a possible reason for the bankruptcy of the enterprise
Depreciation deductions	In any financial position of an enterprise, this source takes place and always remains at the disposal of the enterprise

## 6. Conclusion

1. As a result of the study, it was revealed that the effectiveness of the decision to be taken regarding the financing of investment projects depends on the perception of its subordinates. In addition, it is important to respect the timeliness of each decision in order to obtain the expected effect from the project implementation.

2. An indispensable condition for making a decision is its orientation towards a specific object: infrastructure, surrounding people, a higher manager, or the decision-maker itself. In order for the solution to be effective, the manager must choose one option from some set of alternatives that are considered to be an essential element of the decision-making task, since from the compared options we choose the preferred one.

3. The organization developing the project consists of people with different tasks who perform them to achieve a common goal. For example, the main goal of an investment project is the creation and delivery of goods or services obtained as a result of the implementation of an investment project to meet customer needs.

4. The most important factor in the process of developing a project and making decisions on financing an investment project is motivation, which plays a crucial role in managing intellectual capital in making and implementing management decisions on the choice of financing method. Motivation lies at the heart of how employees make choices (qualitatively or quantitatively), how much effort they put into setting a task, and how quickly they can achieve their goals. Employees who are motivated will work more efficiently and productively and shape the behavior of the organization as a whole. A motivated workforce will have a strong influence on the behavior of other employees.

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