

# Financial Aspects of Selection of Investment Projects by Enterprises in Developing Market Conditions

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## Abstract

This article examines the mechanisms for using financial resources taking into account the prospects of enterprise development. Foreign experience and vital problems of the economy show that with the development of market relations, the importance and the role of financial resources of enterprises in ensuring their effective functioning should substantially increase.

**Keywords:** Finance, Investment, Investment Potential, Default of Investment Potential, enterprises.

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## 1. Introduction

The role of enterprises in the formation of the aggregate social product is really great, as it facilitates the market-oriented release of investment and consumer goods, the restoration of technological co-operative "chains", stimulates the spirit of entrepreneurship, innovative activity, and ultimately ensures the growth of GDP, budget revenues and employment, solution of other socio-economic problems. In the regions with favorable conditions for the development of the company's activities have already brought positive results.

The development of enterprises has some peculiarities. Among the latter are usually called forced diversification of activities, the desire for maximum independence (including a passive attitude to participation in unions, associations, unifications, mutual crediting societies and other entrepreneurial self-organization), focus on the production of the final product, management weakness, underdevelopment of infrastructure support, etc. We can not but agree with all this, but the question of who exactly is, or in the near future will be able to act as an initiator, organizer and investor of projects of enterprises, is no less specific. We think, in principle, these categories can be claimed by three main categories of individuals or legal entities that have sufficient financial resources.

We are talking about the carriers of those scientific and technical knowledge that have, first, the prospect of implementation in products of high market demand. As a rule, these are employees of scientific and technical organizations and industrial enterprises (sometimes also collectives of their individual units), who possess "know-how", scientific and technical reserves, etc., acquired in the previous period. Specialists of this kind have, of course, some potential for implementing innovative industrial projects, but in practice it is not always realized due to well-known financial, organizational, marketing, legal and other problems, the overcoming of which involves the opening of enterprises.

Now, a real help for this group of people is the ability to deploy a system of business incubators that provide laboratory production facilities and provide technical, organizational, information and other necessary services to beginning entrepreneurs. However, in the conditions of the sharpest budget deficit of financing the needs of enterprise development, the corresponding hopes are very weak. Now even many of the already established business incubators are idle.

The initiators of the creation of small enterprises, secondly, can be major manufacturing organizations, as well as financial and credit institutions. For many of the first now themselves are experiencing very serious financial difficulties and their interests sometimes forcedly lie in absolutely other spheres. In addition, unlike the situation in countries with developed market economies (especially in Japan, where corporations are known to provide very tangible support to small and medium-sized businesses, not only financial, but also in technology management, marketing, quality control and etc.), domestic large enterprises are inclined to absorb small enterprises into their structures. This situation was typical for the second half of the 1990s, when large enterprises created small "oneself", (often extracting illegal incomes), has now radically changed [2]. Even relatively successful enterprises do not conduct and, apparently, for a long time will not pursue a policy of "spins" their structural units into independent production units (excluding, of course, intermediary organizations or at least a line to encourage such initiatives from the side. The actual support of small enterprises by large enterprises is known to be based on real cooperation links (supplies of components, non-standard technical equipment, etc.); Meanwhile, the long-term orientation of domestic enterprises on their own strengths, rather than on inter-production cooperation, can be assumed to persist for a long time [1].

## 2. LITERATURE REVIEW

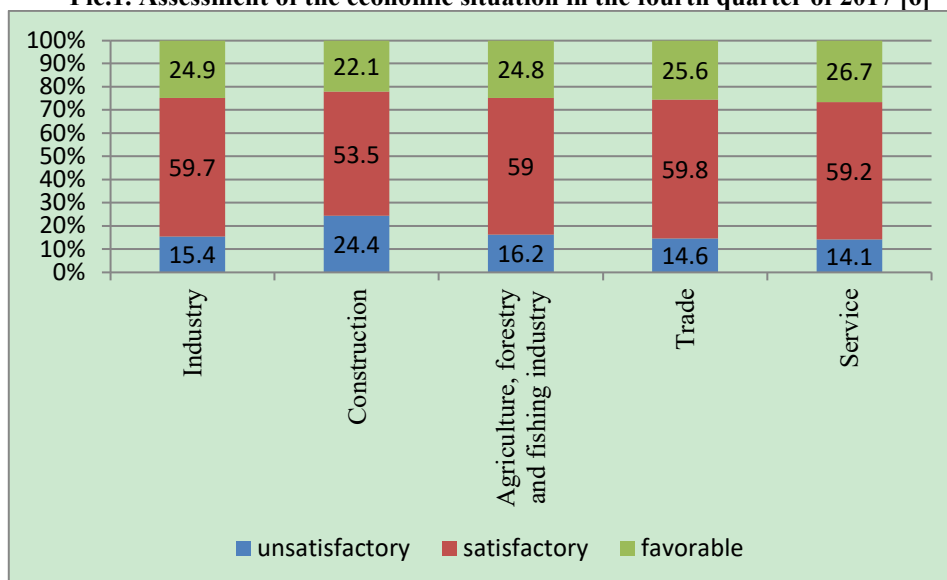
The most important theoretical aspects of assessment of investment potential and analysis of economic reliability

are revealed in the papers of Russian and foreign authors (Brealey, Damodaran, Egorov, Skrypnik, Troshin, Horne, Ferrer, Kinnunen, Valuing, Mabert, Vincent Watts, Charles, Mileris, Orsag, McClure et al.). Analysis of various studies has shown the development of methodological and methodological issues of analysis, the formation of the investment potential of enterprises. However, the above studies do not address the most important issues for the aviation industry in assessing the probability of an investment default, nor have approaches been developed to determine the integral index of economic reliability of the investment potential of aviation industry enterprises, which justifies the need for this work. As limitations of this study, it is possible to single out the specifics of production, financing and control of enterprises in the aviation industry. Prospects for the study are the development of a complex of economic and mathematical models for the formation, building and realization of the investment potential of the developing enterprises of the aviation industry in the current and projected socio-economic conditions of the globalization of the economy.

### 3. Methodology and data

According to the survey, the economic situation is considered favorable 24.9% and a satisfactory 59.7% of industrial enterprises, in construction - 22,1 and 53,5%, respectively, in the sphere of trade - 25,6% and 59,8%, in the sphere of services - 26,7 and - 59,2%, rural, forestry and fishing industry - 24.8 and 59.0%. The number of pessimistic respondents current economic situation in industry - 15.4%, construction - 24.4%, trade - 14.6%, agriculture, forestry and fisheries - 16.2%, services - 14.1%.

**Pic.1. Assessment of the economic situation in the fourth quarter of 2017 [6]**



Thus, the results of the survey of the newly created small enterprises and micro firms lead to the conclusion that in the short term, entrepreneurs in general expect an improvement in the economic situation.

At present, the processes of capital consolidation through mergers, acquisitions, etc. are typical for enterprises. Experience shows that lending to enterprises is not among the interests of powerful commercial and banking structures; they are even less inclined to engage in independent search and selection of investment projects for enterprises (the same can be said for other financial and credit institutions). As for granting loans to enterprises for the implementation of projects under the guarantees of government bodies, such mechanisms are still not fully worked out.

Thirdly, a small contingent of potential organizers and investors of small enterprises is, I think, small enterprises themselves operating both in the spheres of trade and intermediary services, and directly in production. Due to the intensification of competition and the natural tightening of the external conditions of operation, enterprises in these areas find a desire to diversify, expand their profile, and transfer investment flows to new industries [5]. In this regard, a specific area begins to present significant interest to potential investors under consideration.

The grounds for such a conclusion are as follows.

1. Enterprises may be interested in independently producing production-specific products (or directly monitoring production), thereby determining the nomenclature and quality, and in a sense, monopolizing the distribution network of the product.

2. The presence of unloaded or under loaded production capacities at enterprises, often quite modern in terms of their technological capabilities and characteristics, makes it possible to use them advantageously either on a lease basis or by buying back from the owner.

3. The production of a particular product can be provided with the necessary materials and components under very favorable contractual conditions, if the producers of these materials experience difficulties in marketing.

4. Some resources, primarily natural (products of primary industries) directly implemented in domestic or foreign markets, even at a shallow degree of processing may have a significantly higher price.

5. Enterprises, as you know, are especially adapted to the territories where they operate. In this regard, the policy of local authorities has a great influence on its development, which, as it provides for the support and development of enterprises, adapts the given parameters to the conditions of the respective regions. Thus, since 1997, appropriate support funds have been established in the Republic of Uzbekistan, infrastructure is being developed, support mechanisms are being implemented, etc. For many, the activation of industrial production is preferable, allowing first of all to solve the problems of employment of skilled workers released in connection with the shutdown of large enterprises. It should be borne in mind: small businesses are much easier to control than organizations, for example, service enterprises, which simplifies the collection of taxes and other payments.

The third group of potential organizers is also the most wealthy in terms of investment. Entrepreneurial enterprises have real means for creating basic and circulating funds that provide starting conditions for small-scale production. The availability of such financial resources allows the enterprises in question to redistribute the flow of financial resources between the spheres of activity, which contributes to the effectiveness of the sale of products (goods, works, services). The so-called small enterprises have well-established schemes of interaction with financial and credit institutions, as well as property in the form of real estate and inventories, which makes it easier for them to obtain loans necessary for the implementation of investment projects. Finally, the most important advantage of this group of investors who are ready to diversify their entrepreneurial activity is the experience of practical management, which is usually so lacking in the initial period of business activity.

This allows us to state that in the foreseeable future, initiatives to create and invest small enterprises will primarily come from small organizations in the non-production and production spheres. From this statement follows at least two main conclusions regarding the content of actions aimed at supporting such initiatives.

The first is that the state in the person of its authorities and other government bodies should create conditions for the overflow of private capital into the implementation of small projects of enterprises. Here there are a number of opportunities, such as, for example, priority guaranteeing of loans for these programs and introduction of tax holidays for the period of their implementation, reduction or cancellation of taxes on part of the profit directed for investment purposes. The list of measures of such a policy can be continued on the basis of generalization and the first domestic experience and a rich foreign practice of supporting small enterprises by state bodies.

In this case, the second conclusion, of course, concerns the choice of projects, i.e. the question of how the initiators of the creation of small enterprises can determine the optimal areas of application of their entrepreneurial efforts, locations, scale of activities, etc. The solution of this problem can hardly be helped by studying foreign experience, although data on the sectorial specialization of small enterprises are regularly published by relevant national and international organizations. Currently operating enterprises have neither organizational nor financial opportunities to form expert commissions capable (in terms of number and skill level of their members) to assess the priorities of projects on the necessary set of criteria. Worse, the task sometimes is not so much to choose the best project from the available alternatives, but rather in the search for alternative projects themselves.

So, how can there be an algorithm adapted to local realities to search for projects that are feasible for small businesses? In our opinion, the starting point here should be the definition of the main factors that limit the areas of possible solutions: resource potential, priorities, risks, markets. The composition of the factor "financial and resource potential" includes opportunities: using own funds, obtaining credit and benefits, equity participation of other investors. The "priorities" factor is disclosed as follows: availability of effective demand, high profitability, short terms of implementation, high liquidity, entry into the priorities of the financial policies of enterprises. The "risks" factor covers political, economic, competitive and technological risks, and the "markets" factor is the domestic monopoly, regional monopoly and export monopoly markets, import-substituting and free markets. Determination of factors and their composition allows us to construct a two-dimensional matrix of solutions and subjectively evaluate the importance of the values of its rows and columns. The investment priorities identified in this way indicate the search for financial resources.

#### 4. Conclusion

The proposed approach to solving the problem of the formation and use of financial resources is based on a subjective assessment of the factors and their composition. However, this assessment could be significantly objectified with certain organizational efforts of government agencies to support enterprises. They could, first, develop lists of priority problems of an industrial or regional nature. Secondly, the definition of the composition of the factors and the disclosure of the content of their elements, necessary for choosing the scope of activities or projects, could be organized through representative surveys (on a voluntary basis) of enterprise managers and publications of the corresponding averaged values. Thus, potential enterprises would be able to obtain reliable initial data for choosing the location of their activities.

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