FINANCING OF SMALL ENTERPRISES INVESTMENT PROJECTS: INNOVATIVE ASPECT

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Abstract

In modern conditions, at a time when the volatility of the raw commodities markets does not allow building the long-term forecasts, to ensure a sustainable economic growth and the transition from the raw to innovative way of development is the main benchmark for macroeconomic policy of Russia. Small business presents the most popular form of business in world leading economies, in many ways determining the social-economic and innovative development. However, in Russia the level of development of small business is insufficient for operative creation of work places and revitalization of supply and demand in local commodity markets. In recent years, the sectoral structure of small businesses is almost the same. Nonproductive environment of activity in Russia remains more attractive than productive due to a higher profit rate, and as a result the processes of generating innovations, diversification and technological development are realized with extremely low speed.

In terms of sanctions and restrictions, the foreign partners imposed against Russia, the importance of improving the state policy in the spheres of regulation and support of innovative activity, and the stimulation of technological processes updating, including small business, objectively increases. To agree with the possibility of using the territorial economic levers for encouraging the progressive development of the economy, it is necessary to change radically and simultaneously the state policy in the field of regulation and support the innovative small business.

Keywords: small business, financing of innovations, financial market, innovative security, innovative project.

1 INTRODUCTION

At the present stage the most important social-economic role plays a venture business, as the most effective form of realization the achievements of scientific and technical development of small innovative enterprises. The

practical developments of modern science allow the small firms to reduce the costs of small-scale production, to improve the quality of manufactured products, to create new samples of products, taking into account the needs of consumers, using their key benefit – a low bureaucratic component of entrepreneurial processes. Successful world experience defines the essential role of the state and of the programs of supporting the development of venture entrepreneurship and its financing as a catalyst in creating and developing

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the growth industry of venture business. The mechanisms of venture business in Russia are still poorly developed, particularly in the realization of complex challenging programs, conducive to the development of the venture business at different stages and to the reduction of investment risks. At the present stage, it raises the question of venture development problem that is updated for Russia, and reinforce the innovation processes in the economy. All this requires the effective government policy in the field of regulation and supporting the small innovative business, reflected in special measures of functioning organizing, regulating and financing of venture business. On the basis of theoretical and methodological researches of business foundations^{1,2,3} and economic potential of innovative business we have found that the most efficient form of investment for small innovative businesses is venture capital financing with government participation. At the same time, the main advantages of the systematic cooperation of small innovative enterprises with high-tech systems are defined:

- the level of certainty of orders for small innovation enterprises is increased;
- appears the mechanism of moderating prices for the small enterprises goods, through cooperation with large enterprises;
- raises the possibility of obtaining by small innovative enterprises the significant investments for R&D from the large enterprises and corporations, that improves the conditions of generating small firms innovations.

In our view, the improvement processes of venture financing, as a basic element of modernization of the system of state regulation and supporting the development of small innovative entrepreneurship, should include the following main directions:

- making the legislation competitive regarding the other countries;
- generation of sufficient for the prospective investments, without which the venture capital cannot develop sustainably;

- ensuring wide access to technologies in the forefront of science;
- creating tax incentives and removal of tax barriers;
- organization of training system for potential entrepreneurs, the realization of which will improve the efficiency and competitiveness of innovative - oriented enterprises, creation of favorable economic environment.

Nowadays effective functioning of innovation system is one of the most important Russian national economic problems, as domestic products competitiveness depends on the efficiency of this sphere. Attracting investment and innovation resources has a direct impact in employment of the population, creates the necessary conditions for its decent life.

The analysis of Russian innovation processes showed financing innovation activity mechanism to be ineffective. Statistics says: in developed countries 70-75% of investment in innovation is the private equity, 25-30% of R&D expenses are credit commercial banks, while in Russia the same data are 40% and 5-7%. (Khanbalayev, 2013, p. 141)

2 METHODOLOGY

It should be noted that the investment sphere at enterprise level in the Russian Federation is fragmented and underdeveloped market of investment resources that is not agreed and ineffective. The poor development of market information infrastructure interferes with the interaction of domestic producers and potential investors. In this connection it is necessary to bring to the investment arena new Russian innovation sector players - insurance companies:

1. create insurance pools and corporations (including international insurance companies) to rank insurance risks in large investment projects;
2. significantly expand reinsurance boundaries (Fedorova, 2008, p. 56)

Investment risk is associated with the specific investments by funds in various projects. The risks of these transactions usually takes the investor,

¹ (Law N39-FZ, 1999)

² (Law 4015-1, 1992)

³ (Law No.39-Z, 1996)

and almost the only defense against them are the reputation and the borrower or issuer of securities assurance specified in the release (production) or the loan agreement conditions. Insurance of such risks are increasingly in demand in the market.

In modern conditions the part of the financial market, providing the most rapid overflow of financial resources in the investment is the stock market. It allows companies to get significant amounts of money at almost any time and usually on more favorable terms than a bank loan. Thus, developing and implementing a mechanism of attracting investments in innovative business characterized by its novelty seems to be appropriate. Development process issue and placement of innovative security staging are shown on figure 1. Let us have a more detailed look at each step content.

Step 1. To attract borrowing funds to finance their drafts company-innovator is offered to emission innovative securities, giving investors the opportunity to share in the draft, developed by the issuer's. There is no such a security in practice. In this regard, we consider it necessary to develop the mechanism of emission and circulation of innovative security Single.

Single (from English "single" the only one, separate) – a security, confirming its owner's equity ratio (investor) in company-innovator draft (issuer), issued this security. When the draft generates revenue, issuer obliges to pay out interest due that will depend on this product demand. The firm resorts issuer Single to attract additional investments.

Fig. 1. *Development process, issue and placement of innovative securities staging (authoring)*

Step 2. Emission and placement in the primary market results in investment security finding its

owner (it can be both physical and legal persons). After Single is sold at initial market, it circulates to

a new owner and by that ends the first cycle of its circulation.

In addition, at this stage, the investment risks insurance on issued securities occurs. This element extends through all the remaining stages of the security "life". To cover security insurance, we will start from one of the following objects of Single insurance:

- investor's income (annual);
- Single draft "life" period income;
- the capital loss risk invested in the purchase of Single.

The primary market task is to provide issuers financial resources inflow. When issued Single

moves on stock market it goes to the secondary market.

Step 3. Single placement in the secondary market. We offer to develop a qualitatively new platform to implement the innovative ideas - Innovation Drafts Exchange (IDE) to place Single, investors finding the draft as a result.

The main IPE creation idea is to combine firms-innovators, that want to get financing to develop their innovation drafts by placing Single and investors, that temporary have free resources and want to put them on Single efficient innovation drafts. Let's single out main parts and functional elements IPE (Fig. 2).

Fig. 2. The model of functioning IDE (authoring)

Innovation drafts investors can be:

- legal entity;
- individual entrepreneurs;
- commercial banks.

Besides, bank can perform two functions:

- to invest by buying Single drafts, that are already placed at IDE;
- to be underwriter.

Step 4. The development of Innovation project realization mechanism. The project describes income generating system, a conquer strategy of one market segment and is to solve social problems.

Single income is composed by:

- Interest income, entered and paid monthly out from the moment the draft being recognized on the market;
- Income in the form of a discount, which is the positive difference between the purchase price and the price of repayment of investment securities.

Step 5. Completion of the innovation project lifecycle. After a certain period of time projects come to an end, when reached its goal, or when the project itself is obsolete or the practical use of the product being significantly decreased. At the stage of completion, as a rule, the project is displaced by more elaborate.

Application of the developed tools in practice allows carefully to review the behavioral guidelines of innovative company activity to

innovate and gain economic benefits, expressed in the sustainable development of the company, strengthening its position in the market, improving the efficiency of its operations.

3 CONCLUSIONS

Russia so far has failed to bring to the same level science and the private sector. Moreover, this is a fundamental task for Russian politicians today. Investing in innovation is one of the most advanced directions of wide innovation activity provision in the country.

To develop innovative economy and to stimulate the formation of new markets it is necessary to create a special innovation infrastructure. There

are innovative products created on the Russian Federation territory, that often dwarf Western analogues, both in quality and at low cost. The problem is that in reality the system has not worked out of the scientific and technical analysis, scientific and technological research and the interaction of all of its elements.

The implementation of the proposed methodology enables entrepreneurs-innovators to attract investment for their projects, and investors will get extra income while minimizing risk through insurance, which, in turn, will improve the competitiveness of Russian innovative products in the world market.

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