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Research Article

The Practice Of Evaluating The Efficiency Criteria As A Method Of Involving Financial Resources

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ANNOTATION

This paper outlines the prospects for introducing the practice of evaluating the effectiveness of criterion financing as a method of attracting financial resources. It also reveals the trends and peculiarities of the development of the capital market. In addition, practical recommendations for the effective use of foreign experience in developing capital markets in national practice have been developed. Based on the use of hybrid financing instruments, attracting financial resources from the capital market and the profitability of financing methods through the capital market are analyzed. Thus, the methodological rules for developing attraction of financial resources in the capital market and evaluating their effectiveness are studied, and the author's approach is specified. The criterion also analyzes the corporate conflicts of business owners regarding their financing development strategy.

Keywords: financial resources, financing efficiency, capital market, capital market development, Hybrid financing instruments, profitability indicators, methodological rules of development.

INTRODUCTION

In ensuring the country's economic development, it is necessary to identify existing problems and shortcomings in capital market development and develop comprehensive measures to address them. In addition, it is expedient to develop practical recommendations for the use of foreign market development in national practice, effectively using foreign experience.

In our opinion, the importance of the effective organization and development of the capital market in the economy is reflected in the following.

First, due to the development of the world's countries, globalization and integration between the states are developing accordingly. Second, the global capital market development leads to changes in quality and structure [1].

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The improvement of the international capital market requires the corresponding development of the financial market of individual countries and their key segments. In the practice of foreign countries, the corporate sector is one of the primary sources of state budget revenues and plays a special role in the employment and economic development of the country. In particular, the corporate sector accounts for 5% of all companies in the United States, 80% of sales in the country, 88% of GDP, and 53% of the total employed population. In Canada, the share of the corporate sector in the country's GDP is 81.0%, while 63.6% of the population is employed in this sector. In the Russian Federation, the share of the corporate sector in the formation of the country's GDP is 76%, while the share of employment is 54.8% [2]. In the world practice, ensuring the continuity of production and service processes by attracting financial resources from the national and international capital markets to the corporate sector of the economy, maintaining the financial stability of joint-stock companies, employment, the introduction of new financing instruments, especially in the global pandemic is one of the current issues.

One of the trends and peculiarities of the development of modern capital markets is the further improvement of the relationship between these market segments and the further integration of individual states. We consider it necessary for the capital market to consider these features and, as a result, use a combination of traditional financial instruments and the formation of hybrid methods of raising capital. Of course, it should be noted that this economic term is one of the new concepts in the science and practice of our country. Therefore, we will briefly settle the main factors that led to the emergence of this economic term and explain the importance of attracting financial resources from the capital market to the corporate sector today.

The financial crisis that began in the U.S. in 2008 has led to a sharp decline in the size of the real estate and stock markets and global coverage. At the same time, large-scale financial investments in real estate in global and national markets have almost stopped. First of all, the policies of investors and credit institutions in this area were revised, and the conditions for financing were changed to the order of tightening. In turn, this policy has led to another negative situation, namely the decline in construction volumes. However, the obligations to creditors and competitors have forced other lenders to look for other ways to solve the problem and find new funding sources. As a result, construction companies have the opportunity to continue their activities. One of the sources of financing that has created additional funding opportunities for these companies is the method of financing the criterion [3].

It should be noted that before the crisis, raising additional funds for large construction companies was not considered a serious problem, and the amount of these funds in some cases could be as much as 9/10 of the project cost. Although construction companies also required additional funds to finance the projects, this criterion was not considered a critical factor in project implementation, as such projects would pay for themselves several times over. Therefore, the financial risk of such a project or operation and its negative aspects were not considered. However, given that these are the construction companies in the U.S. today and are the key sectors in triggering this crisis, the investor is reluctant to invest if the project owner's funds are less than 1/3 of the project cost. The lack of such funding among project owners further complicates the situation. It should be noted that although it is possible to obtain loans from commercial banks, they have high-interest rates and require additional collateral [4].

As we continue our research, we consider it expedient to first pay attention to this economic term's lexical meaning. The mezzanine concept is derived from the Italian word "mezzanino", which means "average, intermediate" or means to adjust the middle parts of a residential building. As a logical approach to corporate finance as one of the hybrid instruments, criterion financing can be located between banks and direct investment in the company. The analysis of international practice shows that the concept of financing the criterion has existed for more than 30 years, and in the practice of our country is one of the newly studied areas of research. In the United States, operations related to financing the criterion in the 1980s were initially involved mainly in insurance companies, credit and savings organizations. By the 1990s, however, the situation was somewhat different, with these instruments being used by limited liability companies (LLC). About 20% of start-up projects in European countries were funded using the same criteria. By 2008-2009, the European credit market began to change the purpose of raising funds based on criteria financing, using the criteria financing to conclude borrowing agreements.

Analysis of the relevant literature

Features of developing international and national capital markets and the problems associated with developing these markets and attracting capital from the financial market to the corporate sector. Mirkin, B.Rubtsov, A.Vitchenko, A.Abgaryan, L.Borlakova, V.Ivanova, M.Kasimova have been studied by many scientists and researchers, and the results of these researches are reflected in their works and scientific works [5].

Issues related to the financing of the activities of joint-stock companies and the effective management of financial resources through the development of the capital market, including the securities market in the country, were discussed by I.L Butikov, Sh.Sh. Shokhazami, M.B Khamidulin, R.H Karlibaeva, S.E. Elmirzaev, J.I. Karimkulov, F.T. Muhamedov, X.A.Qurbanov, K.X. Akramov, D.B. Begmatova, B.K. Sattorov, U.R. Khalikov, X.X. Khudoyqulov studied the scientific research works of J.J Kurbanov, N.R Tursunova, Q.R Chinkulov [6].

In the research work of the above scientists and the study of scientific and methodological problems of attracting financial resources by joint-stock companies, the prospects for developing the stock market in our country are studied. However, the scientific and practical aspects of attracting financial resources from the capital market to the corporate sector of the economy and the existing problems in the field have not been studied separately. This situation indicates the relevance of the chosen topic.

RESEARCH METHODOLOGY

Today, hedge funds, pension funds, insurance companies, mutual funds, non-financial companies, and commercial banks can be cited as investors in financing the criteria in the United States. In Russia today, using the criterion as an essential instrument of financing is developing day by day. For example, the first fund in Russia was established in 2009 by New Russia Growth, and its investors are private and institutional investors such as the EBRD and Nomos Bank.

In 2011, HI Capital, another well-known financing company in Russia, was established. This company differed from other companies mainly in its ability to participate in the financing of various types of projects with its services on different hybrid terms. For example, loan repayment periods range from 5 to 7 years, with a grace period that could be extended. The average contract amount of the Fund's projects was 25 million USD and can be up to 59 million USD. The priority areas of the financing were projects that did not meet the traditional lending conditions, mainly projects related to the acquisition of competing companies, the purchase of shares from shareholders, and the modernization of production. These deals were worth billions of dollars and were promising projects.

In Europe, the benchmark capital was mainly engaged by banks specializing in "investment shops". However, in many foreign economic sources, the criterion was defined as the structural structure of capital formed from debt sources and shared capital and expressed as followed (Figure 1) [8].

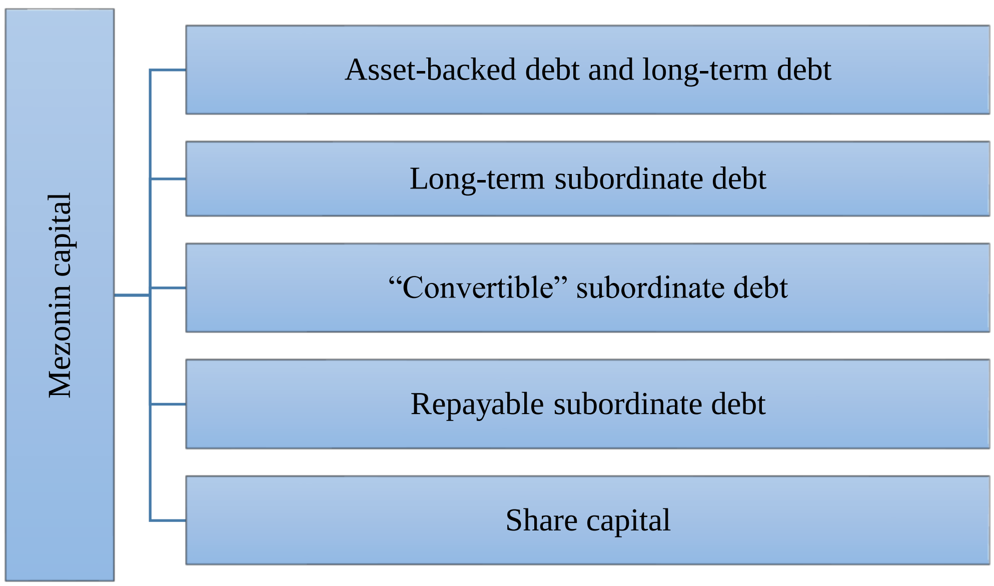

Figure 1. The structural structure of mezzanine capital

As noted above, in the United States, the leading players in the capital market were insurance companies, pension funds, and special-purpose funds. The analysis of international practice showed that commercial banks and insurance companies regulated the supply and demand for the financing instrument of the criterion. In European countries, the criterion was financed by companies in three ways: first, in the form of investments through the stock market, second, direct financing through government agencies, and third, through state funding of private investment companies on favorable terms (American model) [9].

According to most international credit organizations experts, the criterion of financing could be explained as follows: it was for a specific condition of the object, for example, after the commissioning of the object, to become a shareholder or have a shareholding for a particular value of the object. This was not highly profitable for construction companies, so they could only agree to this condition if no other additional options were left. The investor was at high risk in such a case, as the reason for the high-risk assessment was that the project might not be implemented at all, of the costs might not be covered. Nevertheless, the ability to diversify this risk by selling securities allowed companies to engage in such projects. In many cases, the financing of the criterion involved obtaining a large number of funds from a single lender that thoroughly covered the project costs. In essence, this type of fundraising involved transferring a share or a stake in a project. According to this criterion, the criterion was considered financing as both debt obligations and equity financing. By nature, debt obligations were a less valuable resource, while private capital was the most "valuable." Therefore, the criterion was that the funds have an intermediate position [10].

Continuing to analyze the financing instrument based on the criteria financing, it should be noted that this financing mechanism forces not only creditors but also the investor to work strictly with the terms of the contract. This agreement provided for the return of funds on a fixed schedule. In addition, one of the advantages of financing through these instruments was that the investor retained the opportunity to sell shares in the object in the event of default by the borrower on the criteria of financing.

This mechanism allowed the company to receive additional benefits at the shareholder level, depending on the current financial situation. However, in an emergency, it is more beneficial for the company to calculate the investment if the market value of the shares did not cover the amount of financing due to the project not being completed. Given this high risk and the possibility of additional benefits, the criterion was that financing was an "interdependent" investment option.

The level of financial risk was primarily determined by the status of the project budget and sources of funding. International experience showed that the criterion funding was suitable for any share of own funds for the project. However, in most projects, the share of own funds to finance them was 20-25 percent of the budget. In practice, in some projects, companies were 100% funded by investors, in which the investor had a controlling stake in the project as a debt obligation [11].

One of the main advantages of criterion financing was that it was possible to provide the project with the necessary cash flow in the short term. In addition, the criterion line of credit was formalized by the bank without a large number of bureaucratic processes, as it reduced the need for the investor to determine the solvency of the borrower, along with the provision of project shares or stakes. In European countries and the United States, the institution of mezzanine financing had a strong position and was developing rapidly. There were even separate financial institutions that provide criteria financing, which could be distinguished from other financial institutions by the following features [12]:

- Investment volume. Made up a large part of the total budget of the project;
- Low level of liquidity for the construction period. Shares or bonds were not in high demand in the stock market during the construction period;
- Investment procedure. Upon mutual agreement of the parties, it was transferred directly to the company through the open sources of the creditor. An intermediary might also be involved in finding an investor and ensuring that this process takes place;
- Repayment of debt. The criterion might be securities and project shares or other borrower assets as a meant of settlement with the investor for financing.

Criterion financing was a hybrid type of financing based on the relationship between the stock market segments (equity, debt-based, and insurance) and the relationship between the credit market segments (investment lending, lending for current activities). Financial instruments that combined the parameters of bonds (debt financing) and shares (participation in private capital) were widely used in developed capital markets.

RESULTS

The development of benchmark financing could help overcome the contradiction between supply and demand of the private sector in the economy in the context of increased profitability of the banking sector and expand the financing source in the corporate sector. The peculiarity of criterion financing was the flexibility in determining the composition of the supply, the price of the instruments and financial resources used, and the capital involved in financing the criterion was a small part of the company's liabilities (10-20%). The movement of financial flew during the criterion financing agreement's conclusion could be expressed by the following figure data (Figure 2) [13].

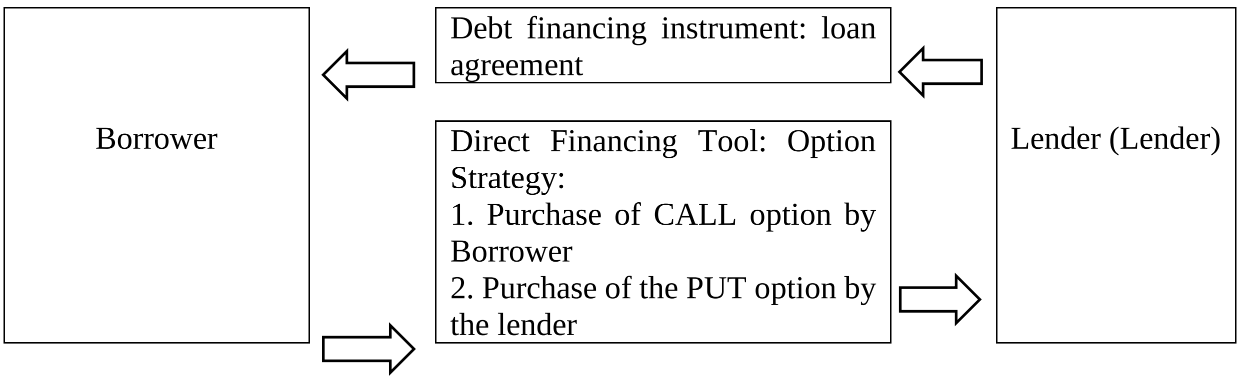

Figure 2 - Direction of cash flows during the conclusion of the criterion financing agreement

One of the advantages of criterion financing over other sources of financing was the involvement of project companies (SPVs), which were considered to have an advantage in property relations on individual projects (Figure 3). The main issue of financing the criterion was its profitability, which was formed by the following three components [14]:

- Interest on the loan;
- Participation in increasing the market value of the company through options and warrants;
- Interest and transaction costs.

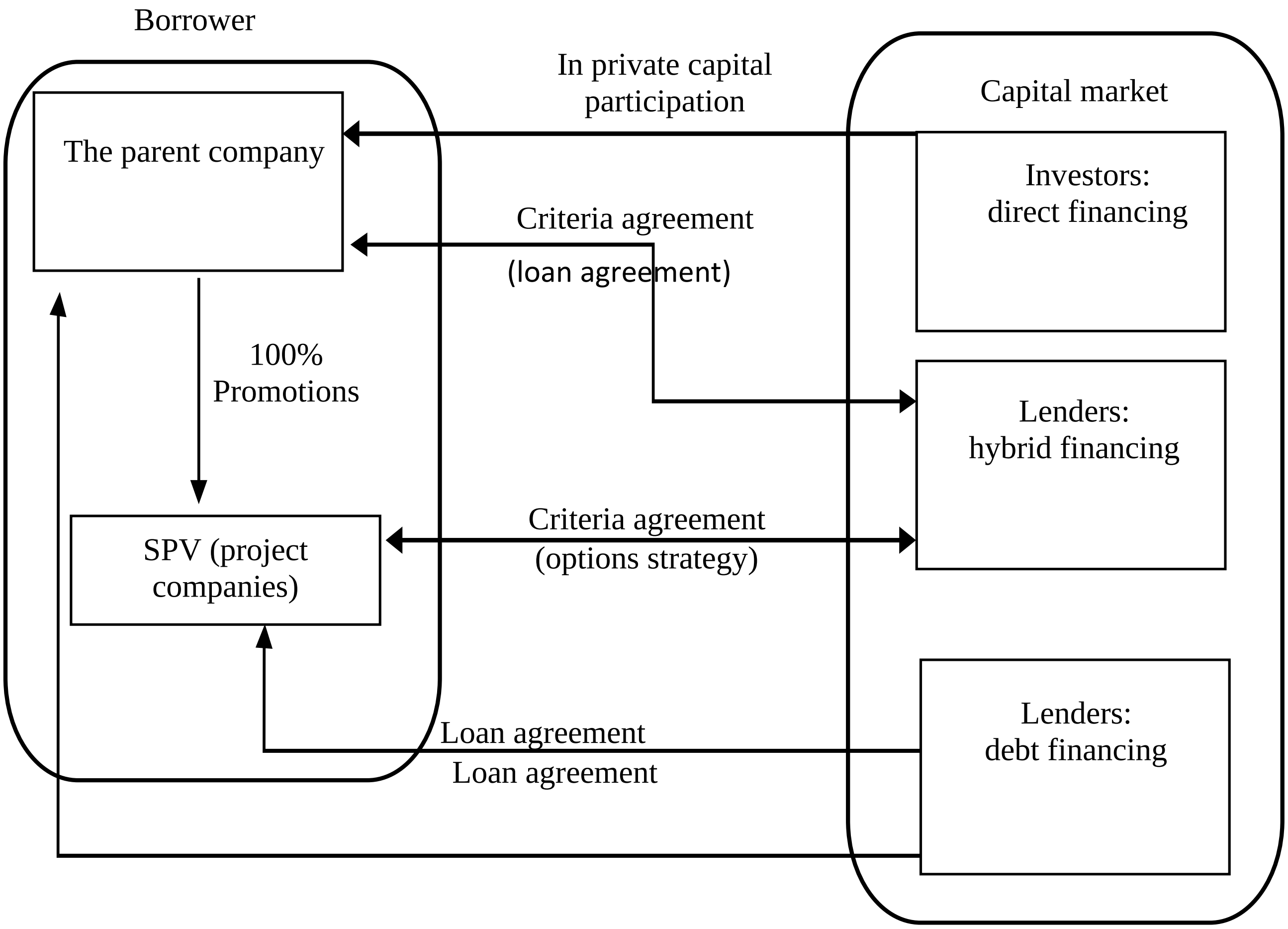

Figure 3 The process of attracting financial resources from the capital market based on the use of hybrid financing instruments

Based on the study of economists' approaches from many countries to determine the effectiveness of methods of attracting financial resources from the capital market, we described the methods of determining these indicators by Russian economists, given that there were many similarities in attracting financial resources in our economy. Furthermore, based on the analysis of scientific approaches by Russian economists to determine the profitability of financing methods through the capital market, it was possible to formulate the following key features (Table 1) [15].

Table 1
Analysis of profitability indicators of financing methods through the capital market

Authors	Debt-based financing effort	Criteria financing	Direct investment	The criterion for debt-based financing is the value of financing
E.A.Petrikova	*x*	*x+(1-13%)*	*x+(13-18%)*	High
Yu.S.Ovanesova	*x*	*x+(3-8%)*	*x+(13-33%)*	High

O.E.Stepanova	*x*	*x+(3-5%)*	*x+(15-20%)*	High
O.A.Jdanova	*x*	*x+(-3,5%+1,5%)*	*no information*	Not high
E.Lure *	*no information*	*25-35%*	*no information*	High

*Note: * Considering the option strategy. "X" is the upper limit of the income of the method of financing based on debt.*

Based on the above, it could be noted that scholars and experts agreed on the idea that the cost of a loan agreement under the criterion lending was 15-20% per annum when the loan interest rates were at 13.8%. According to the option strategy of E. Lure and O. E. Stepanova, the target return/value ratio was 10-15% per annum that caused the criterion financing in terms of capital return closer to direct investment [16]. Thus, based on the above analysis, we formed a comparative description of instruments for attracting financial resources from the capital market, in which we also reflected the strengths and weaknesses of this method for the borrower and lender when using the criterion financing (Table 2)

Table 2 Comparative indicators of instruments for attracting financial resources from the capital market

Indicators	**Debt lending**	**Criteria financing**	**Direct investment**
Banking sector instruments	Credit agreement	Loan agreement	Shares
Financial market instruments	Bonds	Options, Warrants	Promotions, shares
Supply basic type	Assets of the company	Private capital of the company	No
Investor's target return,%	10-15	15-20	28-40
Participation in corporate governance	No	Maybe	Yes
Investor/lender exit strategy	Repayment of debts by the debtor	Debt repayment Participation in the company's equity	Sale of shares in the company
Risks for the borrower	Financial risks	Corporate governance risks. Financial risks Tax risks	Corporate governance risk
Risks for the lender	Credit default risk	Credit default risk Financial risks Tax risks	Financial risks

It should be noted that government agencies played an essential role in using benchmark financing in the capital markets of developed countries. The main target groups of these agencies were a) small and medium enterprises; b) start-ups - priority network enterprises [17].

In order to analyze the effectiveness of the development of criteria financing tools in the financial market of our country, we identified a target group of companies; the application of criteria financing by such groups could have a positive effect on attracting financial resources from the capital market. Therefore, as part of the definition of target groups for using the criterion for financing, we selected the following criteria for separating economic entities: a) the category of business entity and b) profitability (Table 3).

Table 3Criteria determining the choice of financing

Size / Profitability	Start-ups, micro-enterprises	Small and medium business	Large companies
Damage	-	-	V
Low profitability	-	V	V
High profitability	V	V	V

It should be noted that the problem of attracting financial resources for a large business with a financial strategy was special, which was reflected in the formation of capital structure and the tools that served it, which eliminated the possibility of allocating a target group for financing.

Since there were different approaches to determining the criterion of profitability, we would settle such an approach. In this case, the main factor in determining the creditworthiness of the enterprise, in addition to revenue, was its profitability from operating activities, as a positive operating cash flow was a source of increasing interest on debt and reserved to repay the principal. Thus, the indicator that characterizes the enterprise's profitability is the profitability of operating activities. Furthermore, the profitability is determined over 3 years, and the indicators of at least 2 years must meet the specified parameters [18].

Based on the data in Table 3, we distinguished between loss-making (profitability less than 0%), low-profit (profitability 1% to 15%), and high-profit (profitability over 15%) enterprises. Based on the content of this chapter, the parameters of 15% and 0%, which divided the enterprises into separate categories, were based on the following conditions: the enterprise with the profitability of less than 0% did not generate cash flow to meet the current obligations and problem assets should be categorized as an owned enterprise. In identifying high-yielding enterprises to attract financial resources from the capital market, enterprises with funds that could meet their obligations without any problems were singled out.

There were two main scenarios for a borrower to obtain a loan following the objectives of the activity:

a) reduction of the cost of capital by replacing private capital with benchmark financing as a source of cheap financing (Table 3);

b) an increase in the number of funds raised in the context of limited credit limits for financing under borrowed funds and the achievement of additional volumes of borrowings through the lender's participation in private capital.

Thus, to study the methodological rules for the development of methods for attracting financial resources in the capital market and assessing their effectiveness:

-Determine the target parameters of the criteria financing, comparison of specific features of the criteria financing with debt and capital financing;

- Identification of the target group of the use of financing as a source of financing (with the highest profitability of the main activity of small business above "0");

-Analysis of criteria financing options and attraction of new financial resources as part of the exchange of investments based on random and competent samples;

-Financial and economic indicators, the creation of conditions for the application of the criteria financing in domestic practice;

- It was necessary to determine the expediency of considering "debt service costs" when calculating the effectiveness of financial opportunities for small and medium-sized businesses.

We could not apply the model of evaluating the effectiveness of the introduction of criteria financing in the country's capital market for large companies based on generalized information about them because, in this regard, each large enterprise had its industry, financial, operational, legal characteristics required the implementation of separate calculations for a large company. The analysis showed no correlation (dependence) between the enterprise's debt burden and the enterprise's profitability.

CONCLUSION

In particular, the first section of this chapter identified the tasks that companies need to take in the field of financial management in order to effectively attract financial resources from the capital market, including assessing the financial condition of the company based on its goals and objectives; development of investment policy and definition of priority investment programs and development of the plan of attraction of financial resources for this purpose; substantiation of methods of attracting financial resources, the main parameters of borrowing; implementation of the process of attracting financial resources, ensuring the transformation of financial resources of the capital market into financial resources of the company; a number of measures need to be taken, such as analyzing the effectiveness of raising financial resources based on a comparison of the projected values of the projects involved and the actual costs incurred and the results obtained, and forecasting the subsequent impact of the project on the company's financial flows.

In this section, an algorithm for a sequence of actions to attract financial resources and evaluate their effectiveness was developed and presented in the form of a diagram, revealing each stage's characteristics.

In addition, this chapter emphasized that the decision on the choice of method of raising funds should be based on the assessment of the effectiveness of attracting financial resources from the capital market, to determine the cost structure for each method of raising funds; based on the process of attracting and servicing financial resources, as well as the need to assess the factors and risks affecting the level of cost-based risk management methods, taking into account the three main scenarios (pessimistic, realistic, optimistic). At the same time, it was necessary to determine and evaluated the efficiency of attracting financial resources for the company and calculating the efficiency of attracting financial resources for each process as a ratio of efficiency to cost.

One of the reasons for the underdevelopment of the method of financing the criterion as a method of attracting financial resources in national practice was the imperfection of the regulatory framework associated with the accounting of derivative financial instruments. The analysis of the legal framework, case law, and scientific literature shows the need for in-depth analysis and processing of the following issues and problems:

1. Determining the criteria for including transactions in speculative or hedging categories. The inclusion of transactions in the category of hedging transactions allowed the implementation of asset revaluation processes that affected the tax base of the enterprise used derivative financial instruments (part of the financing of the criterion) in its activities.

2. Clarify the content of the reference to the tax inspectorate for derivative financial instruments, as in international practice. A reference should be drawn up for each hedging transaction, and this reference should include:

a) description of hedging operations;

b) date of commencement and completion of hedging operations;

c) volume, date, and price of the transaction with the hedged object.

3. Identify transactions aimed at hedging the risks of attracting financial resources. The lack of uniform criteria for identifying risk-oriented hedging transactions creates tax risks when using derivative financial instruments that reduce the hedge's value.

It should also be noted that business owners can use criterion financing to resolve corporate disputes over their development strategy, with a different approach to credit risk and the existence of legal constraints arising from different legal jurisdictions of property owners.

CONFLICT OF INTERESTS AND CONTRIBUTION OF AUTHORS

The authors declare the absence of apparent and potential conflicts of interest related to the publication of this article and report on each author's contribution.

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