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ESSENCE, ROLE AND SIGNIFICANCE OF INVESTMENTS IN THE DEVELOPMENT OF SOCIO-ECONOMIC SYSTEMS

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Abstract

The fundamental course of development of the Russian Federation, in terms of enhancement the level of its economic policy, is modification of the trends of procedural approaches to its modernization along the path of catching up process of economic recovery, which in turn stipulates the raw material model of the country's economy, based on the associations of the largest business representatives of the studied sector, this will obviously allow concentrating the resource base on resolving topical socio-economic problematic issues, and thus working out the circumstances required in the conditions of the development of market institutions. Obviously, in the current circumstances, an economy based on the extraction and processing of resources is largely dependent on the conditions in the world market for raw materials and import purchases, but it should also be noted that only a small number of possible competitors. The presented view of situational development, unfortunately, will lead to a decrease in the growth rate and, in turn, to an increase in production costs, and as a result, it will lead to an increase in the price level and a rapid aggravation of inflationary processes, as well as a decrease in the quality of life of the population. The radii representing the regional map of Russia are extremely diverse and they are represented by different degrees of economic assimilation of the territory, levels of socio-economic development, which unambiguously leads to structural constraints on the rise of the country's competitiveness.

Keywords: Investment, region, regional development, socio-economic system

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1. Introduction

Investments play a significant role in the renewal and expansion of the industrial resources available at the enterprise, which means as well as in the system of reproduction and ensuring specific rates of economic growth (Makhosheva, 2014). Investments are primarily related to production and they form the material basis for its development, as they are directed to the multiplication of the real capital of society, the improvement and expansion of the production apparatus.

Investments have a significant impact on the volume of national income of the region, on the dynamics of which such macroeconomics parameters as gross domestic product, gross national product, national income, and national wealth depend. Investments throughout the country are the determining factor for the process of expanded reproduction. The process of investment or real capital investment is the reason for the emergence of new enterprises, which is the basis for the creation of new jobs, the construction of houses and the development of infrastructure (Chepurin, 2012).

2. Problem Statement

Identify essence, role and significance of investments in the development of socio-economic systems

3. Research Questions

The subject of the study is the theoretical and methodological regularities of the impact of investments on the socio-economic system of the region.

4. Purpose of the Study

The purpose of the work is to analyze the theoretical and methodological provisions of the essence, role and significance of investment activity in the development of the regional economic system.

5. Research Methods

To achieve the goal and substantiate the hypothesis, a general scientific method, which includes the analysis of the literature on the problem of study, comparison, as well as the systematization of theoretical and factual data was used.

6. Findings

High activity in the implementation of investment processes is an extremely important condition for the development of the economy. A high level of investment activity is achieved by increasing the volume of realisable investment resources and more rational use of them in the social sphere and priority areas of material production. Investments constitute the industrial capacity on the new scientific and technical base and stipulate the country's competitive position in the world markets. Attracting foreign capital plays an important role for many countries.

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Investments play a special role not only for the socio-economic development of the country, but also for the functioning of all economic entities. An increase in the volume of investments and an increase in their effectiveness are the most important factors that shape economic growth. The most important thing in the problem of the effectiveness of financial investments is the formation of conditions for intensifying the intake of investments in the most competitive industries, which give a quick capital productivity. Capital investments are necessary for a stable financial condition, for the normal functioning of companies and for the maximum profit-making. All of the above points to the role of investment at the micro-level.

The structure, scale and effectiveness of the use of investments largely determine the results of the activities of economic entities at different levels of the economic system, the state of affairs, the competitiveness of the entire system of social reproduction and the prospects for its development.

Foreign investments as a form of international capital movement have a specific meaning. In the transition of commodity production from the phase of the world market to the phase of the world economy, there is an international movement not only of goods, but also of factors of production, primarily capital in the form of investments.

Investments favorably affect the process of increasing social capital, the introduction of technological progress, which forms the basis for the growth of the production capacity of a country or region and their economic development.

At the present phase, without the revival of investment activity, primarily in industry, the achieved stabilization and subsequent economic development are impossible. State regulation of the investment sphere is of great importance in the process of reviving investment activity (Bocharov, 2010).

A necessary condition for the reproduction process is the replacement of obsolete or worn-out elements of fixed capital, which is made at the expense of depreciation of property, plant and equipment and intangible assets, the main purpose of which is the acquisition of new and technical improvement of means of labor already in use. However, depreciation charges are not enough to recovery of fixed capital and expansion of production. Attracting investment is necessary to solve this problem.

There are many definitions of the concept of investment. Bocharov (2010) defines investments as:

> Investments of capital in any type of business for the purpose of subsequent growth. The capital gain received as a result of investment should be sufficient to compensate the investor for the refusal to consume available funds in the current period, to reward him for the risk and to compensate for the losses from inflation in the future period. (p. 34)

In our opinion, Bocharov pays attention to the increase in invested capital, and also considers this increase as compensation for the risk and losses from inflation.

Here, the concept of investment is a long-term investment in various types of economic activities.

The Collins Dictionary gives two definitions of investment:

1. "Expenses for the purchase of securities".

2. "Investing in the acquisition of physical assets, such as buildings, structures, equipment (investments in fixed assets) and inventories (investments in inventories) – physical, or real, investments." (Vatnik, 2004).

In the first definition, investments are characterized as a means of buying securities, in the second as a means of buying the assets of the facility in which the investment is made.

According to Pozdnyakov and Kazakov (2010), investments represent "all types of property and intellectual values invested in facilities of entrepreneurial activity, as a result of which profit (income) is formed or a positive social effect is achieved".

Pozdnyakov and Kazakov gave an expanded definition of investments, emphasizing the social effect as a result of the investment made.

Schneider (2013) gives the following definition of investment: "investment by an investor of temporarily free capital in a certain facility for the purpose of preserving this capital and obtaining a profit or other positive effect" (p. 23).

In the modern concept "investments" are defined as:

> Investments of capital for the purpose of increasing it in the future. In addition to the above, the increase in capital should compensate the investor for the refusal to consume the funds currently available and the risk. This increase should also cover the inflationary losses. (Kuznetsov, 2010, p. 24)

This is how Kuznetsov defines investments.

Here Kuznetsov defines investment as an investment of capital, the purpose of which is to increase, which is a reward for non-use of these funds and compensation from inflationary losses.

Sharp (2009), Alexander, and Bailey, have defined it as:

> Investments represent the investment of capital for the purpose of increasing it later. In addition to the above, the capital gain should be sufficient to compensate the investor for the refusal to use his own funds for consumption in the current period, to reward him for the risk and to compensate for the losses from inflation in the future. (p. 37)

Krasavin formulated the concept of "investment" as "the process of creating new capital (including both means of production and human capital)" (Krasavin, 2008). Ishchenko understands investment as "the acquisition of real or financial assets, that is, it is today's costs, the purpose of which is to obtain future benefits" (Ishchenko, 2007).

All authors define the concept of "investment" differently, but all definitions have similarities in that the purpose of investment is to increase the invested capital and reimbursement from losses due to inflation. In our opinion, the concept of investments was defined more precisely and in detail by Bocharov, reflecting their essence and the purposes of the received capital gains.

In our opinion, investments are the investment of free cash, the results of scientific research or capital in the organization of all types of business, entering the capital of the organization, in labor resources, in marketing research, with the purpose of obtaining a profit or other positive effect by the investor. The positive effect is represented as the information dissemination about the company, the penetration into new territorial markets, the implementation of such social tasks as the construction of hospitals, stadiums, libraries, etc.

Profit is the difference between revenue and costs in monetary terms. Profit is both the purpose and one of the sources of investment.

Sources of income from financial investments are presented as the amount of money that can be used in the form of investment resources. The right choice of investment sources affects both the viability of investment activities and the distribution of final income. The management mechanism used in the company has a great influence on the composition and structure of the sources of investment income (Reilly, 2008).

It is shared between internal and external sources of investment income at the macroeconomic and microeconomic levels.

Internal sources of financing at the macroeconomic level include (Makhosheva, 2014):

- financing from the state budget;
- personal savings of citizens;
- accumulation of investment funds, commercial banks, non-state pension funds, enterprises, insurance companies, etc.

External investment sources at the macroeconomic level include such types as foreign investment, loans and borrowings Internal sources of investment at the microeconomic level include the company's own funds, which are formed for the purpose of ensuring its development. Depreciation charges, investments of the owners of the enterprise, part of the net profit converted into capital, form the basis of the company's own financial resources available to the enterprise, which are formed from internal sources of investment income.

External sources of investment income at the microeconomic level include:

- loans received for the implementation of investment projects or long-term investment of funds;
- financing from the state budget and others.

Investment resources are shared according to the nationality of the investors:

- investment funds created at the expense of domestic capital, the distinctive characteristics of which are the variety of forms and accessibility for medium and small businesses;
- investment funds created at the expense of foreign capital, the main purpose of which is the realization of plans for major investment projects related to the improvement of the existing equipment of the enterprise, reconstruction.

The sources of funding are divided into two types:

- own funds;
- borrowed funds.

The company's own investment funds represent the total value of the company's assets that are owned by the company and provide the company with investment activities. The company's own funds are formed at the expense of (Gurtuev et al., 2020):

- the chartered capital and shares in business companies and partnerships;

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- revenue received from the sale of shares;
- accumulated and retained earnings;
- realized growth in the value of the company's securities on the market;
- endowed with public funds.

The own funds of investments include:

1) the chartered capital of the enterprise;
2) the profit received;
3) depreciation charges;
4) special funds formed at the expense of profit;
5) available domestic economic reserves;
6) funds paid in the form of compensation for losses by the insurance authorities.

Funds donated to the company for targeted investment are also included in the number of own funds.

The chartered capital is represented as the funds invested by the owners of the organization to start business activities, in the amount equal to the charter of the enterprise. As a rule, it is the main and only investment source at the time of the establishment of the enterprise and it is formed at the initial investment of funds.

Each profit increase is determined by the price factor. By raising the prices of the products produced by the organization, they try to cover the lack of financial resources. An increase in prices leads to problems associated with the sale of manufactured products, leading to a decline in production, which increases the probability of bankruptcy of the enterprise. The main source of formation of the reserve fund is the making of profit. The reserve fund is necessary to cover unforeseen losses and probable losses during the course of business activities. Net income is the main form of revenue and represents a part of the entire profit of the organization, which remains after making mandatory payments to the budget, paying taxes and fees.

Depreciation charges are understood as the value of intangible assets and depreciation of fixed assets in monetary terms. Depreciation charges are part of the cost of production and they are returned to the current account as part of the revenue, becoming an internal source. They are intended to provide both simple and, to a certain extent, extended reproduction. In any financial status of the organization, depreciation charges take place and they are constantly at the disposal of the organization, which, as a source of financing, gives an advantage over others.

Special purpose funds are:

- the organization's accumulation fund: the funds of the accumulation fund are directed to the development of production;
- consumption fund: the funds of the fund are used for the social development of the enterprise and material incentives for employees of the organization, including employees who are not on the staff.

Funds that an enterprise receives gratis for use for strictly defined purposes, such as training, R & D, and others, are designated as targeted financing. The use of funds received from targeted financing for other purposes is prohibited. The sources of such funds are:

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- investments received from physical persons;
- allocation of funds from the budget;
- funding from special purpose funds;
- funds invested by other organizations.

Additional capital, which is formed after an increase in the value of property that was discovered as a result of revaluation, recieving income from the additional emission or sale of shares, receiving property or valuables from other organizations and physical persons on a gratuitous basis, is one of the sources of internal reserves.

The organization's equity capital is formed from its own and borrowed sources of financing. As a rule, funds attracted from outside are not subject to refund. Investors participate in the income from the sale of invested funds on the rights of shared ownership. The borrowed capital of the organization is formed from borrowed sources of financing (Armstrong & Taylor, 2003).

Under the borrowed sources of investments, we mean funds that are not owned by the enterprise, received from other organizations and individuals and are used until they are returned as a source of working capital formation in the economic turnover. The borrowed sources include:

- targeted state funding received on a shared or gratuitous basis;
- funds received as a result of the emission of shares;
- additional contributions made to the chartered capital.

One of the widely used sources of financing is the funds received as a result of the emission of shares. The increase in equity capital from the issuance of shares is possible in the event of a transformation of an organization that needs financial resources or when issuance of new shares is placed among both new and former shareholders.

State funding is formed from the funds that come from the state budget. It is provided to companies that meet certain requirements for conducting financing. A necessary condition is sufficient additional security, also the allocated funds should be directed strictly for the intended purpose.

The subjects of public funding are state development institutions.

The advantages of public funding are low repayment amounts for longer periods of time. Interest is deducted from the amount of taxable profit. Additional services may also be provided.

Public funding has disadvantages in the form of restrictions on the amount of funds allocated and restrictions on the terms of lending. All funds received must be spent exclusively for the intended purpose. There is still a need for additional support when receiving funding from government structures.

Public funding is provided mainly within the framework of state business support programs. Funding from the state budget is divided into four types:

- investment in shared ownership;
- grants and grants-in-aid;
- provision of loan guarantees;
- targeted lending.

The state's equity participation implies the participation of state structures as an equity investor of funds, in which commercial structures invest the remaining part of the necessary investments.

Public funding through the provision of grants-in-aid is understood as the funds allocated gratuitously by state structures for the implementation of a certain investment project.

The provision of guarantees by the state for loans involves obtaining a loan from a commercial structure, at the same time, state bodies, through certain structures, perform the role of a guarantor of repayment by paying the loan amount, in case of non-fulfillment of the organization's obligations.

Targeted loans are granted on a preferential basis to a certain organization or for the implementation of a specific investment project. In the case of a targeted loan, government structures set the terms and procedure for repayment of the loan, the amount of interest rates.

7. Conclusion

Summing up the analysis of theoretical and methodological views on the essence, role and significance of investments in the development of socio-economic systems, it should be noted that investment is the investment of free cash, research results or capital in the organization of all types of business, entering the capital of the organization, in labor resources, in marketing research, for the purpose of obtaining a profit or other positive effect by the investor. The positive effect of investments in the development of the national economy complex is the all-round development of not only economically but also socially significant components of the regional economy, as well as the penetration into new territorial markets, the implementation of such social tasks as the construction of hospitals, stadiums, libraries, etc.

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