Ministry of Education Republic of Azerbaijan

FDI AND THE UNEMPLOYMENT - A CAUSALİTY ANALYSİS FOR AZERBAİJAN

Elshan Ahmedov

UNEC SABAH

Azerbaijan State University of Economics

May 2018

Acknowledgements

We would like to thank ...

FDI AND THE UNEMPLOYMENT - A CAUSALİTY ANALYSİS FOR AZERBAİJAN

ABSTRACT

The relevance of researching any of a wide range of issues related to the formation of the labor market in Azerbaijan does not require the bringing of numerous arguments.

The selected topic of the dissertation research is of particular relevance in the context of the specific social and economic situation in modern Azerbaijan and, above all, the situation in the emerging labor market.

The investment factor is the least researched aspect of the labor market formation in the transition period. This moment also determines the relevance of the topic of the dissertation work. When analyzing the investment factor in the labor market, the focus is on foreign investment.

The impact of direct foreign investment on the development of international economic relations, on the state of the world production of the investing country and the recipient country is mixed.

The overall economic effect of foreign direct investment is manifested in the fact that the movement of investment from one country to another increases the volume of aggregate world production through more efficient redistribution and use of factors of production. At the same time, in the country that exports capital, the income of the owners of capital grows, and the incomes of the owners of other factors of production (labor and land) are reduced. In a country that imports capital, the incomes of the owners of capital decrease, and the incomes of the owners of other factors of production increase.

CONTENTS

INTRODUCTION

In recent decades, the term "globalization" has acquired special significance, which is due to the profound interest in this phenomenon of scientists working in virtually all fields of science, politicians, public figures, businessmen and ordinary citizens.

Foreign direct investment is a manifestation of the internationalization and globalization of the economy, the process of shaping the world economy as a single integrated system and at the same time a means of resolving the contradictions of this process. In the context of globalization, foreign direct investment contributes to the emergence of a new institutional structure for a market economy. Strengthen the market-based economic ties between economic actors of different types of countries. In this sense, FDI should be viewed as an effective factor of institutional transformation in the real sector of national economies. The attraction of investments in the economy of the state is the basis for the development of both individual enterprises or industries, and the entire country as a whole. The higher the activity of the investment process, the more opportunities the state has to increase the value of the gross domestic product, increase trade and ensure employment. FDI in the modern economy is a factor in the country's advancement to world markets, and also serve as a confirmation of a favorable investment climate.

Foreign direct investment is a form of participation of foreign capital in any projects in the territory of the recipient. The investment process involves the facilitation of the two sides of financial relations. The source of investments is a foreign investor, and the recipient is a country that accepts foreign capital.

Direct investments mean active participation of the investor in the company's activities. Foreign investments allow not only the receipt of

direct cash resources, but also enable the introduction of the latest production technologies, use the latest developments, focus on new forms of marketing and corporate governance.

Foreign direct investments favorably affect the level of employment, affect the increase in the income of the population, expand the base for taxation.

CHAPTER I
THEORETICAL BACKGROUND OF INCREASING THE ATTRACTIVENESS OF FOREIGN INVESTMENT

1.1. Essence and types of foreign investment

One of the main manifestations of the process of globalization in the late XX - early XXI century was the gradual formation of a global investment space with large-scale cross-border capital flows, including in productive form, as foreign direct investment. The problems of attracting foreign investments to the economy of Azerbaijan are considered against the backdrop of global trends and foreign experience.

The concept of "investment" is multidimensional, in scientific economic literature there are many definitions of investment. The following definition is generally recognized, which defines investments as investments in any economic objects and processes, such as means of production, reserves, reserves, information resources, securities, "human capital" (Sharp, at all, 2007: 252).

Most authors, when determining foreign investments, agree that they are the property of foreign investors, acting in various forms and types, exported from one state and invested in a case in the territory of another state, with investments being considered in the broadest sense. These are not only funds invested in capital construction, in securities of enterprises and governments, but also loans in various forms and even gratuitous transfers of funds aimed at achieving social effect.

In commercial practice, the following types of investments are distinguished:

- investment in physical assets;

- investments in cash;

- investment in intangible (invisible) assets.

Physical assets are industrial buildings and structures, as well as any types of machinery and equipment with a service life of more than one year. Cash is understood as the right to receive money from other individuals and legal entities, for example, deposits in the bank, shares, bonds, etc. Under intangible (invisible) assets are understood the values acquired by the company as a result of the transportation of programs for the retraining or development of personnel, the development of trademarks, purchase of licenses, etc.

By sources of origin, the following types of foreign investment can be identified: public, private and mixed investments (Surkov, 2004: 55-56)

Public investments (in international practice they are called official) are means from the state budget that are sent abroad or taken from there by decision of either governments or intergovernmental organizations. These are state loans, , grants, assistance, the international relocation of which is determined by intergovernmental agreements. This includes loans and other funds from international organizations (for example, IMF loans). In this case, we are talking about relations between states that are governed by international treaties and to which international law applies. Diagonal relations are also possible, when a consortium of private banks provides investment to the state as such. Private investments are investments that are provided by private firms, companies or citizens of one country to the relevant entities of another country. Investment relations are so complex and diverse that often the relations between states are closely related to the relations between private individuals. A more complex relationship is possible, when the

material obligations of the debtor state on the loans received (for example, payment of interest) are satisfied at the cost of full or partial value of the property rights of the private investor in the country of the debtor (for example, representation of the rights to develop own resources).

The list of types of foreign investments given in legislative acts and in international agreements is usually exemplary, and not exhaustive, since the concept of investment covers all types of property values that a foreign investor invests in the territory of the host country. This list includes: real estate and movable property; relevant proprietary rights, including the right to pledge; cash; shares, deposits, bonds or any other forms of participation in partnerships, enterprises, including joint ventures; the right of claim for funds that are invested to create economic values, or services of economic value; rights to the results of intellectual activity, often defined as intellectual property rights; the right to carry out economic activities provided on the basis of law or contract, including, in particular, the right to explore and exploit natural resources. According to the terms of placement, foreign investments are divided into short-term, medium-term and long-term. The latter include investments for more than 15 years. This group includes the most significant capital investments, since all investments of entrepreneurial capital in the form of direct and portfolio investments (mainly private ones), as well as loan capital (state and private loans) are long-term. According to the nature of use, foreign investments are loan and entrepreneurial. Loan investments mean lending money for profit in the form of interest. In this sphere, public capital and private investment are quite active. Entrepreneurial investments are invested directly or indirectly in production and are associated with obtaining a certain amount of rights to receive profit in the form of a dividend. Most often,

we are talking about private capital investments. By objectives, business investment is divided into direct and portfolio
(Sharp, at all, 2007: 212).

Direct investment is the main form of export of private entrepreneurial capital, ensuring the establishment of effective control and giving the right to direct disposal of a foreign company. They are an investment of capital in the name of obtaining long-term interest. As defined by the IMF, foreign direct investment is when the foreign owner owns at least 25% of the authorized capital of the joint-stock company. According to the American legislation - not less than 10%, in the countries of the European Community - 20-25%, and in Canada, Australia and New Zealand - 50%.

Portfolio investments are capital investments whose share in the capital of firms is below the limit designated for direct investment. Portfolio investments do not provide control over foreign companies, limiting the investor's prerogatives by obtaining a share of profits (dividends). In a number of cases, international corporations actually control foreign enterprises with portfolio investments, because of two reasons:

- due to the considerable dispersion of shares among investors;
- due to the presence of additional contractual obligations limiting the operational independence of the foreign firm.

Now, great hopes are placed on foreign capital in the form of investments. There are several reasons for this. First, the inflow of foreign currency in acceptable amounts always has a health-improving effect on the national economy. Secondly, now, in the era of integration, foreign investment is one of the tools for convergence of national states. Thirdly, in the context of the global financial and economic crisis,

foreign investments are needed to support the country's economy ("CIA - The World Factbook". Cia.gov, 2012).

Foreign specialists traditionally pay special attention to foreign direct investment (FDI), considering them to be the most important for countries with transitional economies. Compensating for the deficit of domestic savings, these investments by their very nature involve the creation of new enterprises or the radical restructuring and expansion of existing companies, and thereby contribute to economic growth to the greatest degree. In real life, they often represent investments in shares of export-oriented enterprises, which also brings certain benefits to recipient countries by increasing their foreign exchange earnings. FDI is important as a source of new technologies and management skills.

1.2. Foreign direct investment as an economic category

Foreign direct investment is the investment of capital with a view to acquiring a long-term economic interest in the country of capital application, which ensures the control of the investor over the object of placement of capital.

In order to identify the innovative characteristics of FDI, we specify the definition of FDI as an economic category: financial, property, intellectual investments of foreign investors in the real economy of the host (recipient) state for profit, having a binary impact on both economic and innovative development of the host state.

Direct investments ensure the control of the investor over the firm, whereas portfolio investments do not give the right to control the investee. Investor's rights for portfolio investments are limited to the

receipt of income: dividends, interest, growth in the market value of securities (shares).

Direct investment, unlike portfolio, is not simply the transfer of capital abroad. On the basis of direct foreign investment, there are long-term business connections between the investor and the enterprise-the object of investment: the transferability of modern technology (including management technology), market sectors, the right to use the investor's trademark, etc.

The right to control a resident investor of another country provides a controlling interest in ordinary shares and votes in a joint-stock company or their equivalent in an unincorporated enterprise (Krylov and Juravkova: 2001: 384)

Direct investments are divided into two groups:

- transcontinental capital investments, due to possible better market conditions, that is, when it is possible to supply goods from a new production complex directly to the market of a given country (continent). Costs play a small role here, the main thing is to be in the market. The difference in the cost of production compared with the parent company is the lesser factor of influence on the location of production in this continent. The costs of production are decisive for determining the country of the given continent in which it is necessary to create new production capacities;

- transnational investments are direct investments, often in a neighboring country. The goal is to minimize costs in comparison with the parent company.

Modern features of FDI, unlike other types of foreign investment, are characterized by the following:

a) the volume of FDI should not be less than 10% of shares or stakes in the authorized capital;

b) direct foreign capital has a long-term character;

c) FDI allows foreign investors to implement management (control) over the activity of an economic recipient entity of direct foreign capital;

d) FDI assumes a greater contribution of capital and low volatility in comparison with portfolio and other foreign investments;

e) the main source of FDI is transnational corporations.

f) with direct foreign investment, investors, as a rule, are deprived of the possibility of rapid withdrawal from the market;

g) a greater degree of risk and a greater amount than with portfolio investments;

h) a higher period of investment, they are more preferable for importing countries of foreign capital.

Along with the distinctive features of FDI, we will offer some characteristics that determine the innovative fullness of FDI:

1) they contribute to the improvement of the organization and management of production;

2) are used when creating innovative products in the recipient country, improve the technical and economic characteristics of the products (goods and services) being created and increase their competitiveness both in the domestic and foreign markets;

3) contribute to the development of science and the scientific and technological potential of the host country;

4) can have both more positive direct and indirect, and negative effects for the recipient country.

Direct foreign investments are channeled to host countries in two ways:

- the organization of new enterprises;

- buying or acquiring existing companies

("CIA - The World Factbook". Cia.gov. 2012.).

The main forms of foreign direct investment are the opening abroad of enterprises, including the establishment of subsidiaries or the opening of branches, the creation of joint ventures, the purchase of a controlling stake in the enterprises of the donor country, etc.

An enterprise with foreign investment can take the form:

- a subsidiary company - an enterprise in which a direct non-resident investor owns more than 50% of the capital;

- associated company - an enterprise in which a direct non-resident investor owns less than 50% of the capital;

A branch is an enterprise wholly owned by a direct investor.

The bulk of direct foreign investment falls on transnational corporations (TNCs), which, as a rule, are huge firms in industrially developed countries. Direct foreign investment from the home country in which the main enterprise of the transnational corporation is located, to the host country in which the corporation has its branches or subsidiaries, is the main sign of the nationality of the trance of their activities. Consequently, the main reason for direct foreign investment is the different profitability of investing capital in the production of different countries. The motivation for foreign direct investment lies in both economic and political spheres.

1.3. The impact of foreign investment on the dynamics of the economic development of the host state

Foreign investments play a big role in the economic development of any state, regardless of the level of its economic development - whether it is an industrialized or a least developed country. The main

goal of exporting capital is to maximize profits by investing in countries and industries that provide higher returns than the country of origin of capital.

The importance of foreign direct investment (FDI) increased significantly in the 1980s and 1990s, when investment was seen as one of the main means of integrating the national economy into the world economy through the transfer of productive capacity, capital transfer, technology transfer, managerial experience and skills , innovation in the host country, often in a larger economy (to achieve the so-called "economies of scale") (Surkov, 2004: 55-56)

Foreign investment contributes to the economic growth of the host economy through the more efficient use of national resources. There are two efficiency channels:

- the entry of foreign firms into the national market leads to replacement or displacement of less efficient national companies, which leads to a redistribution of internal resources between more and less profitable companies and contributes to an increase in the average level of labor productivity and per capita income in the host country.

Foreign investors do not receive economic benefits from productivity growth in the form of higher profits, in contrast to residents of the host country, which have a higher average income level due to FDI inflows.

The creation of foreign affiliates and subsidiaries helps to increase the average level of labor productivity. There are two main reasons for this phenomenon.

1. Foreign companies have a higher level of capital investment per unit of labor, which directly affects the growth of labor productivity.

2. As a rule, foreign companies - larger structures (compared to national firms) and contribute to the growth of labor productivity due to the so-called. scale effect.

In addition, foreign companies have a higher average wage level, given that some of the increase in average productivity associated with the influx of FDI passes through local production factors;

- The second channel for the effectiveness of foreign investment is associated with increased competition in local markets at the expense of foreign companies. The activities of the latter encourage national firms to work more efficiently. Similarly, the activities of foreign firms facilitate faster transfer of new and advanced technology and improved management practices to local firms on the basis of vertically integrated links and so-called. demonstration (or demonstration) effect (Krylov and Juravkova: 2001: 384)

TNCs provide the host country with its own international procurement, production and marketing channels, which creates the conditions for access to the global market for national firms and the expansion or, conversely, the reduction of their links with local suppliers.

As a rule, TNCs reinvest most of the profits they receive from subsidiaries and export a smaller portion of their profits abroad. Those. unlike local firms, they have a higher ability to keep their profits for reinvestment in the host country. This also contributes to a higher level of capital formation in the national economy. Even when TNCs use national sources of investment financing, their expansion can be based on the formation of capital, if it does not lead to the displacement of local producers.

Studies on the identification of the effect of foreign investment on the economic development of the host country have been established:

- FDI (foreign direct investment) can increase the volume of aggregate capital, and therefore contribute to economic growth. However, it is necessary that foreign investment does not oust equal amounts of national capital due to increased competition in the markets;

- FDI promotes economic growth if they are more profitable or profitable compared to national investment;

- The contribution of FDI to increasing economic growth is possible only if there is a connection between FDI and the level of labor resources qualification.

FDI is the main channel for the transfer of advanced technology to developing countries and to countries with economies in transition. But some factors may play a negative role. For example, under a protectionist trade policy, FDI can be the only way to access the domestic market, unlike traditional exports of goods to the host country. Similarly, the government can offer incentives to foreign investors to stimulate FDI in order to replenish foreign exchange reserves and develop specific industries that are strategic from an industrial policy point of view. A consequence of such a policy may be an inflow of FDI (Roizman, 1998: 13).

The effect of FDI on economic development depends on the skill level of the labor force in the host country. There is a close relationship between FDI and the level of education of employed persons. FDI, as mentioned above, is the main channel for the transfer of technology, and its implementation requires an appropriate level of training of local cadres who can effectively work with advanced technologies. This, in turn, determines the impact of foreign investment on labor resources - on the level of employment, on the cost of labor, and on the growth of skills.

Along with the positive effects of FDI in particular and capital in general on the economic development and growth of the host economy, there are also potential negative effects:

- the displacement of national capitals and companies (the so-called crowding out effect):

- assistance in the outflow of capital from the country on the basis of transfer pricing.

The deep economic meaning of attracting foreign capital is that together with it new technologies and forms of organization of production and business are introduced into the national economy, and they provide a fundamentally different and more significant economic effect in comparison with the capabilities of domestic entrepreneurship. This is the main fact, which serves as the basis for deciding whether to open national borders for a massive influx of foreign capital (The FDI Report 2014 - Asia Pacific, 2014)

Successfully distributing their operations to foreign markets allows the company to: its ability to lead, the ability to organize activities in foreign markets, conduct market research, implement effective financial management, provide itself with the necessary financial resources and promote the development of human resources.

Thus, investments are an integral part of modern economic relations, which are constantly developing and require further study. At the same time, an important feature of investment activity can be considered the possibility of ensuring with its help the sustainable development of various sectors of the economy, and, ultimately, the whole life of society - both for donor countries and recipient countries.

1.4. Investment policy of the country, methods and means of its implementation

The investment policy is implemented within the framework of the national foreign economic strategy. Its specificity depends both on the content and objectives of the prevailing direction of foreign trade policy - import or export policy, and on the relationship between foreign trade policy trends - between protectionism and liberalization.

FDI (Direct Foreign Investment) positively influences the economic development of the host state, contributing to the growth of the effectiveness of the components of economic development on the basis of economic restructuring, infrastructure development, employment of local labor, transfer of technology, managerial experience, the right to use the trademark of the parent company, The state accepting FDI has no clear reason to limit the inflow of long-term capital in the form of investments. But any state regulates the inflow of foreign investment on the basis of various kinds of measures, including influencing the volume of attracted investments, on their sectoral distribution (The FDI Report 2014 - Asia Pacific, 2014).

When developing a national policy for regulating investment flows, the state takes into account their possible negative impact. According to foreign analysts, three points should be highlighted:

1) the investment of foreign capital into production occurs once, and the export of profit is constant. This leads to equalization of the volume of previously imported (in the form of capital investments) and exported capital (in the form of profit and income). Thus, the "aging" of investments is carried out. However, not always the investor completely takes out the profit. To stimulate reinvestment of the received profit in the host country, a stable and favorable investment climate is needed,

2) it is known that capital (foreign or national) is invested in industries that provide the most rapid and effective return, which can lead to disproportional development of the national economy if the state does not regulate the direction of the capital flows. This also applies to environmentally polluting industries transferred from industrialized countries to developing countries and countries with economies in transition with relatively soft environmental standards;

3) also singled out the psychological moment, namely the negative attitude of the private entrepreneur sector, individual citizens of the host country to the ownership of foreign capital by profitable industries, companies, the influence they have on determining the strategy for the development of one or another branch of the economy,

Any state as an institution of power plays an active role in the development and implementation of a policy of attracting foreign investment for:

- promoting economic growth of the country;

- ensuring economic sovereignty and / or obtaining the maximum possible economic benefits.

The first goal requires the establishment of a higher level of foreign ownership in the authorized capital of the firm and control in the hands of foreign owners, for example, in those industries, the attraction of investment in which positively affects the growth of labor productivity in the host country. On the contrary, the second goal requires a higher level of national ownership and retaining control over local investors.

The state policy of the host country with respect to foreign capital includes:

- a policy of regulation of investments in order to obtain the maximum profit per unit of invested capital. The cornerstone of this policy is the most effective return on foreign capital invested;

- An incentive policy to attract the maximum possible amount of capital. Here it is more important to provide potentially the largest inflow of investments, and not their effectiveness.

As a rule, the state as an institution of power conducts simultaneously both directions - both the policy of regulation and the policy of stimulating foreign capital. But the emphasis is on one of these directions depending on the level of the country's economic development and lobbying the government with the interests of the relevant population groups (Sheremet and Negashev, 2004: 250).

Based on the study of theories and effects of international capital flows, the impact of foreign investment on the economic growth of capital-importing countries, we outlined the following main principles of state investment policy:

1. Imports of foreign direct investment increase with the level of customs protection of the country's domestic commodity market and the introduction of non-tariff barriers.

2. The volume of attracting foreign capital increases in countries with a high capacity of the domestic market and significant economic potential (resource-resource, labor, production, innovation, institutional, infrastructure, financial, consumer).

3. Import of foreign capital increases in countries with a more favorable investment climate and low investment risk (economic, financial, political, social, environmental, criminal, legislative).

4. Transnational corporations make direct investments, relocate new technologies, know-how, management, corporate culture to the recipient country, and therefore change the sectoral structure of the

economy in the recipient country, saving time and resources for the development of new industries. At the same time, the evolution of the industry structure of investment is determined by the transition from simple industries to more complex ones.

5. The dynamics of foreign investment is objectively based on the phases of the product's life cycle in international trade. At the first stage, foreign products are imported into the country, at the second stage of the life cycle, with domestic demand increasing, domestic production is organized. At the third stage, the country becomes a producer and exporter of this commodity, and in the future - an exporter of capital.

6. The greatest efficiency of economic development is ensured by attracting foreign capital to export-oriented sectors of the economy and import-substituting industries and services.

7. The principle of economic security implies legislatively established restrictions on the activities of foreign investors and strict control over the use of national resources. The state is obliged to restrict the activities of foreign companies acquiring shares of domestic enterprises with the sole purpose of exporting profits that do not contribute to the growth of the country's economic potential.

8. An effective state policy of attracting investors is based on the creation of OLI-advantages in the country: a) O-advantages of owning property for foreign investors (Ownership advantages); b) L-advantages of geographical location of foreign production (Location advantages); c) I-advantages - the degree of internalization of the company. The principle of OLI-advantage reflects the motives of foreign investment.

9. The principle of dependence of foreign and domestic investment means that an increase in the inflow of foreign capital occurs, as a rule, in conditions of growth of domestic investment. Creation of a favorable investment climate for domestic enterprises is a priority task of the state

investment policy, which has its indirect result in the growth of foreign investment (Roizman, 1998: 14)

Thus, the stable political and macroeconomic situation in the country, the openness of the national economy, the availability of adequate infrastructure and communications, and the preservation of a predictable and effective legal and institutional environment underpin the country's investment attractiveness.

Attraction of foreign investments into the economy of the country is an important component of the strategy of economic development of the Republic of Azerbaijan. Political stability and economic development of the country in recent years have contributed to the growing interest of foreign countries in investing long-term investments in the economy of Azerbaijan (Bayramov, 2018: 2).

To date, important laws have been adopted in the republic related to the inviolability of property, the protection of the rights and interests of investors, the creation of the same working conditions for local and foreign entrepreneurs, the unhindered use of the profits received, thereby creating a legal framework. At present two laws regulate investment activity in the Republic of Azerbaijan: the Law of the Republic of Azerbaijan on Investment Activity, confirmed by the Decree of the President of the Republic of Azerbaijan No. 952 of January 13, 1995 and confirmed by the Decree of the President of the Republic of Azerbaijan No. 57 of January 15, 1992 "The Law Azerbaijan Republic on protection of foreign investments ". In addition, the government of the Republic of Azerbaijan signed bilateral agreements with a number of countries on the abolition of double taxation, encouragement and bilateral protection of investments. All the responsibility related to the conversion of profits into another currency or with reinvestment was abolished, a single exchange rate was formed on the basis of the principles of a market

economy. These events have increased the interest of foreign investors, international financial institutions and economic organizations to Azerbaijan (The Law of the Republic of Azerbaijan on Investment Activity).

At the moment, measures are being taken in the country to consistently implement economic reforms, improve the business environment, and develop the non-oil sector on an equal footing with the oil sector. In order to attract investments into the economy of the Republic of Azerbaijan, the government pursues an "open window" policy (The Law Azerbaijan Republic on protection of foreign investments, 2016)

Figure 1. FDI flows in Azerbaijan (January 2015 - July 2017).

FDI in Azerbaijan in the third quarter of 2017 increased by $ 1376 million. Foreign direct investment in Azerbaijan in the period from 2006 to 2017 averaged $ 1,326.94 million, reaching a record level of $ 2,231 million in the fourth quarter of 2014 and a record low of $ 586 million in

the third quarter 2009 (Trading Economics. “Azerbaijan Foreign Direct Investment”, 2006-2018).

In order to implement the required measures to accelerate the development of entrepreneurship in the country, increase the rationality of the business environment and simplify the procedures for starting entrepreneurship, the President of the Republic of Azerbaijan signed an order of October 25, 2007 "On measures to ensure the organization of business entities on the principle of" Single Window ". According to this decree, the Ministry of Taxes of the Republic of Azerbaijan was appointed as a single state registration body on the principle of a "single window", and from January 1, 2008, Azerbaijan started using this system. After the introduction of this number of procedures for starting business activities from 15 to 1, and the time spent from 30 days was reduced to 3 days. Entrepreneurs can exchange documentation with tax authorities and banks through the newly established Internet Tax Administration. In addition, for the purpose of receiving, viewing and responding to questions and appeals of businessmen on tax legislation, the telephone information service is functioning 195. According to the "single window" system, all persons engaged in commercial activities must be registered with the Ministry of Taxes of the Republic of Azerbaijan (Heyderov, 2011: 5).

1.5. Current trends in the movement of foreign direct investment in the global economy

Nowadays, the international movement of capital, which is often referred to as the movement of foreign investment, has become an important element of the world economic system. The process of

developing a national investment policy increasingly focuses on new development strategies. Most states seek to attract and encourage foreign investment in order to strengthen productive capacity and sustainable development. At the same time, many countries are currently strengthening the regulation of foreign investment, making greater use of industrial policy in the strategic sectors of the economy.

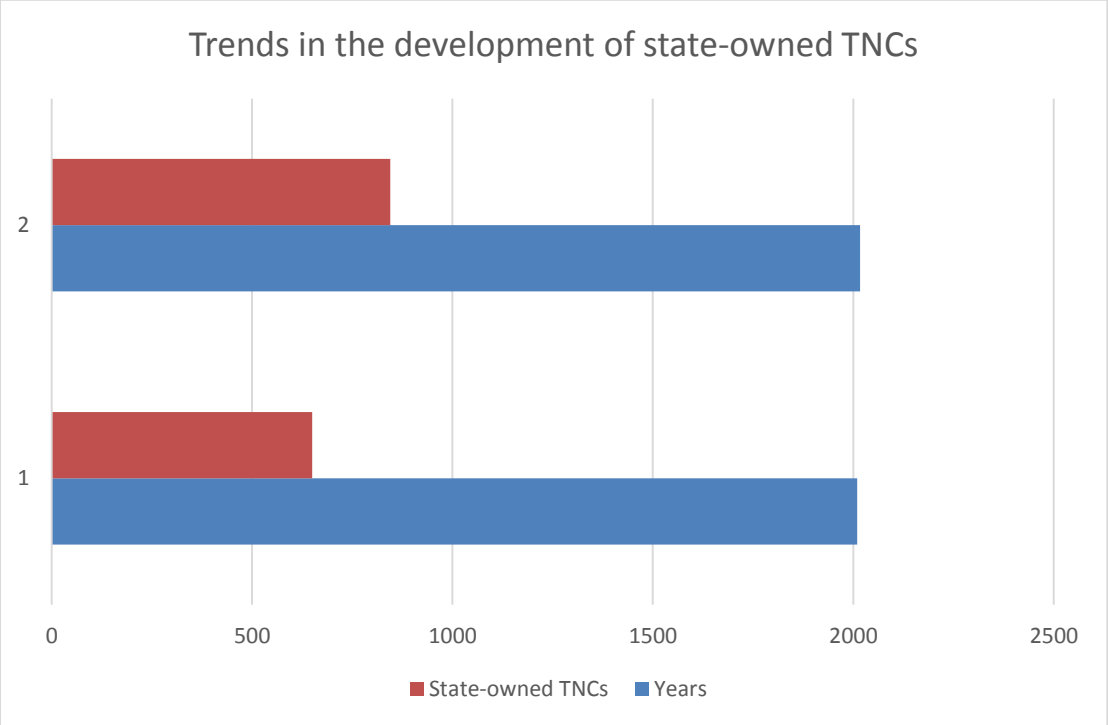
Foreign direct investment plays a special role in the economy of the host country, as they directly affect the real (non-financial) sector of the economy. Considering world investment processes, we will first analyze the most reflecting general trends in the dynamics of FDI and the largest importing countries of FDI (Schwandar and Bogatin, 2000:16).

The United States is leading the import of FDI. The export of FDI from developing countries reached a record level of 31% of the world's total, amounting to 426 billion dollars. Despite the global recession, TNCs from developing countries continued their expansion abroad. Asian countries, which remained the largest source of FDI, accounted for three quarters of all FDI in developing countries. The export of FDI from Africa has tripled, and flows from developing countries in Asia, Latin America and the Caribbean remained at the 2017 level.

Next, consider the countries that export FDI. The BRICS countries (Brazil, Russian Federation, India, China and South Africa) remained the main sources of FDI among investing countries with a growing economy. Flows from these five countries increased from $ 7 billion in 2000 to $ 145 billion in 2012 and accounted for 10% of their global volume. The activity of their TNCs is growing, including in Africa. In the ranking of major investors in 2012, the US became a leader in both import and export of FDI (The FDI Report 2014 - Asia Pacific, 2014).

The inflow of FDI to developed countries fell by 32%, to $ 561 billion - almost a decade ago. The drop in imports was observed in Europe and North America, as well as in Australia and New Zealand. The share of the European Union alone accounted for almost two thirds of the decline in global FDI. However, in Japan, after two consecutive years of net seizure of investments, a positive inflow was noted. The outflow from developed countries, which played a major role in raising FDI in 2010-2011, fell by 23%, to $ 909 billion, close to the 2009 crisis. Both in Europe and North America, there was a significant reduction in the volume of their export, but Japan got out of the general trend, retaining its second place among the world's largest investing countries.

Figure 2. Current trends of FDI flows in the global economy

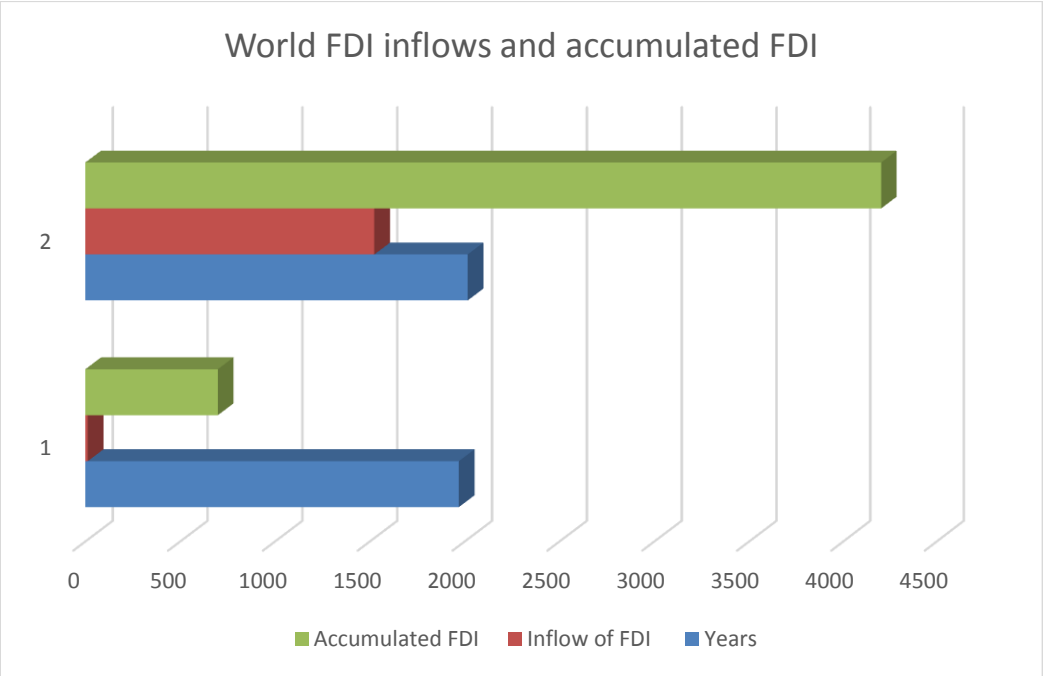


The number of state-owned TNCs increased from 650 in 2010 to 845 in 2017. Their FDI flows amounted to 145 billion dollars, reaching

almost 11% of the world's FDI. Most state-owned enterprises (SOEs) that acquired foreign assets in 2012 were SOEs of developing countries. Many of these acquisitions were motivated by the desire to obtain strategic assets (for example, technology, intellectual property, trademarks) and access to natural resources (Planned investment, 1994: 120).

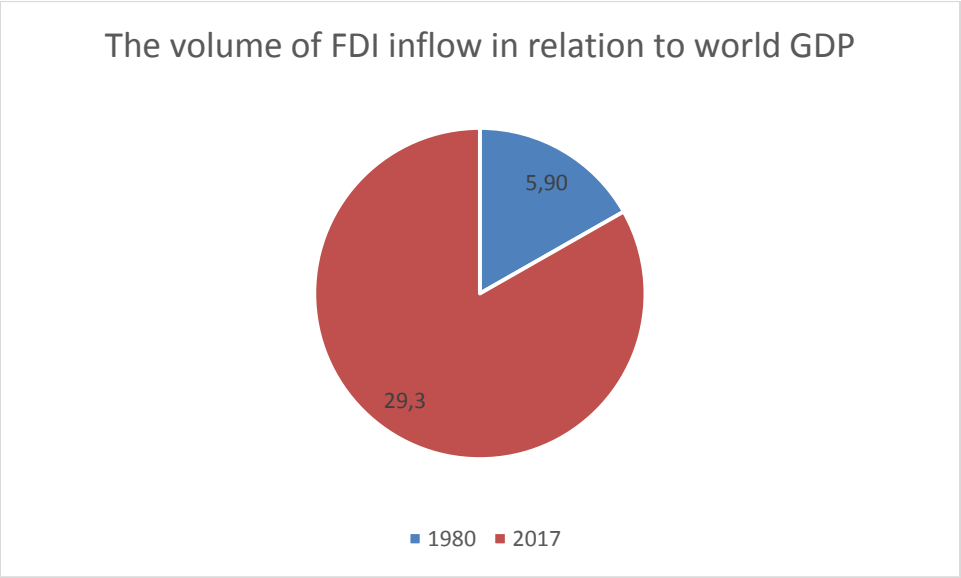
Trends in recent years are due to the integration and cohesion of many countries among themselves, which leads to predictability of their economic policies and transparency of decisions that have become determined by the guidelines and limitations of these organizations, which has raised the level of investor confidence. Based on this, we believe that countries in alliances, alliances with other countries such as CEMAC, CACM, CARICOM, FTAA, NAFTA, ASEAN, ECO, SAARC, EFTA, EU, ACP, APEC, WTO, G8, G20, G77, GSTP, etc., "insure each other" against risk, give certain guarantees, provide development assistance, which entails the growth of FDI, GDP and the development of the entire real sector of the national economy of all types of countries. This development occurs with a large influx of FDI, which helps the development of the production sector and the service sector, which in recent years has significantly increased the volume of incoming and accumulated foreign investment. Thus, the growth of production and services stimulates the economic growth of the world and national economy (Planned investment, 1994: 120).

Figure 3. Trends in world FDI inflows and FDI accumulated in the world



The volume of world inflow of FDI increased from $ 13.3 billion to $ 1524.4 billion (from 1970 to 2017), and the world's accumulated FDI grew from $ 699.0 billion to $ 4,203.2 billion. (from 1980 to 2017). FDI inflows in the real sector of the world economy increased from $ 187.5 billion to $ 1633.5 billion (from 1989 to 2017) and the volume of accumulated FDI in the real sector from $ 1803.7 billion to 17,950, 5 billion dollars (from 1990 to 2017). We see that the volume of FDI is constantly growing, investments are actively participating in world economic activities and processes of globalization. FDI is also an integral part of country and world GDP. The volume of accumulated FDI in relation to world GDP shows a positive dynamics of growth in 1980 - 5.9%, and in 2017 - 29.3% ("Benchmark definition, 4th edition (BMD4): Foreign direct investment: financial flows, 2017).

Figure 4. The volume of FDI inflow in relation to world GDP 1980-2017.



The volume of FDI inflow in relation to world GDP in 1980 was 0.5%, and in 2017 - 2.2%, which indicates a significant strengthening of the world FDI position. GDP is an indicator of the standard of living of the population, the higher the GDP, the higher the standard of living. FDI has a positive impact on economic growth, and hence on the standard of living of the population. This suggests that FDI has been and is the driving force behind globalization and internationalization.

However, so that countries can benefit from FDI, the companies and institutions that are in them must have the necessary "absorptive capacity". Countries in which, along with FDI inflows, significant funds are invested in building internal capacity (eg, Singapore and Ireland), they have made the greatest progress in mobilizing FDI inflows. Conversely, if FDI is caused by significant tax benefits or the result of policy measures that lead to trade imbalances (textile and clothing quotas) and are not accompanied by simultaneous build-up of local capacity and linkages between foreign affiliates and local companies, then the possibility of obtaining long-term benefits from FDI are very limited (“Benchmark definition, 4th edition (BMD4): Foreign direct investment: financial flows, 2017).

Currently, the shares of companies are largely scattered and, as a rule, the controlling stake is less than 50% of the shares of enterprises. It happens that ownership of even 5% gives the owner the right to a decisive vote in management, since the other owners have a smaller shareholding in their hands. For example, in the United States direct investments are considered with a share of 10% or more in the authorized capital of the enterprise. If the share of investment is less than 10%, then they are classified as portfolio. The border for enterprises with foreign capital in 10% is set by international organizations conditionally in order to ensure comparability of accounting for the movement of direct and portfolio investments (APPENDIX I).

CHAPTER II
EMPIRICAL RESEARCH METHODOLOGY TO IMPROVE INVESTMENT ACTIVITIES IN AN INDUSTRIAL ENTERPRISE

2.1. Characteristics of Empirical Research Object: Investment activities in an industrial enterprise of Azerbaijan

The empirical research object of thesis is considered on the example of one of the leading enterprises of the industry of Azerbaijan, the company Agrarco LLC.

Agrarco LLC is an agricultural company, which produces hazelnut and fresh apples in Azerbaijan and exports to all over the world. Agrarco LLC has been formed as a result of amalgamation of three agricultural companies and is acting as their legal successor. The company holds ISO 22000 Food Safety Management Certificate, by SGS. The company makes every effort to become a leading producer of fresh fruits and agriculture products for the export industry.

"Agrarco" LLC has defined three keys that will contribute to its success. First, it is the introduction of strict financial control. Having proper control, production process efficiency will be maximized. The second key is the unceasing desire for the highest levels of concentration in the agricultural products industry in each plant. The third key is the admission and realization of a philosophy that requires 100% customer satisfaction to provide a profitable business. Profit is a product of customer satisfaction, not vice versa. (Interviews and conversations with representatives of the company Agrarco LLC.2015).

Agriculture is one of the most important sectors of the economy in Azerbaijan - a country that is considered one of the first places in human agricultural activities. Today, the agricultural sector employs more than 37% of the country's active labor force. Fertile lands, an abundance of water and climate diversity create favorable conditions for a strong agricultural sector. The presence of nine climatic zones allows the

country to produce a variety of agricultural products and provides new opportunities for the introduction of new types of goods. Azerbaijan is one of the leading producers of agricultural products in the CIS, and Azerbaijan strives for further development of agriculture and food industry for import substitution, as well as for export.

Azerbaijan owns 4.8 million hectares of agricultural land, which is more than 50% of its total territory, of which 39.6% are arable. Crop production accounts for about 46.9% of agricultural products with livestock, which is 53.1%. Meanwhile, the food industry sector is an important component of the national economy and accounts for more than 38% of the total manufacturing industry. In addition, Azerbaijan is actively engaged in trade in agricultural products and food. Traditionally, the main destination and the largest consumer of agricultural and food exports was the CIS market, but in recent years this market has expanded and includes many other countries in Europe, Asia and North and South America. The main export products are fresh vegetables and fruits, vegetable and animal oils, sugar products, tea, processed vegetables and fruits, beverages, tobacco, cotton and others. The years of rapid economic growth in the national economy have led to a rapid increase in consumption and changes in consumer tastes in the food and beverage sector (Hussein, 2017).

As a result of foreign investment flows, the consumption of agricultural goods and food in many categories has increased by more than 50% in the last ten years. In some electoral categories this figure is about 200%. However, domestic production of basic food products did not meet market demand. In order to reduce the dependence of the domestic food market on imported products and create reliable food supplies, the country has taken a number of measures to improve the business and investment climate in this sector by encouraging producers,

providing subsidies and creating the firm an institutional and economic basis for further development.

2.2. Research Goal and Problem

The subject of the dissertation research is the role of FDI in the labor market by the example of attracting and using foreign investments in Azerbaijan.

The aim is to study the place and role of foreign capital in a complex of investment sources, its impact on the labor market and the definition of the main directions of the state economic and social policy that maximize the positive moments of this impact. The subject and purpose of the research predetermine a set of solved scientific problems, such as: revealing the essence and types of foreign investment, analysis of the attractiveness of FDI and the identification of those features that will have a decisive influence on the socio-economic development of the country; justification of the role of the investment factor in solving employment problems; Evaluation of the role of private and public investment; consideration of current trends in the movement of foreign direct investment in the global economy; analysis of policies and practices of attracting and using foreign investment in Azerbaijan; evaluation of the effectiveness of the economic mechanism of management of investment activities in the enterprise of Azerbaijan, analysis of general findings and results of the research and giving recommendations on perfection of methods of management by effective investment activity of the enterprise of Azerbaijan

2.3. The Empirical Research Hypothesis

The first hypothesis consists in the assumption that investment activity and its consequences allow improving the performance indicators of the enterprise and improving its adaptation to the market environment.

The second hypothesis assumes that the result of investment activity in terms of forming the optimal solution will become more effective if you know:

- content and features of professional, managerial activity of the enterprise;

- various performance parameters, as well as evaluation criteria and indicators that determine the optimal level of activity of the enterprise;

- factors determining the effectiveness of the impact of investment activities on the efficiency of the enterprise.

2.4. The Empirical Research Logic, Stages and Methods

In the process of work, the author was based on the methods of system analysis, the patterns of the functioning of economic systems under conditions of transition from one qualitative state to another. Under these conditions, when the old economic ties have already weakened sufficiently, and the new ones have not yet formed or are sufficiently strengthened, the system is in a state of critical equilibrium. It is at this moment that the economic system can be transferred to a new state with minimal effort. Such method can be capital investments in the economy, incl. private foreign investment.

The author also tried to use the method of scientific abstraction, the method of historicism, methods of comparative cross-country analysis and the method of experiment, which was based on the study of the research object.

The subject of the study required the study of a wide range of works on employment issues and foreign investment, as well as generalization and evaluation of world experience.

2.5. The Empirical Research Data Sample

The dissertation research is based on studying first of all numerous works of Azerbaijan scientists on labor market problems. Among them are the works of Bayramov V., Heyderov G., Ramil H. and other authors analyzing the processes of labor market formation in Azerbaijan, examining the main directions of the state employment policy, and evaluating it. Studies of foreign scientists devoted to the modern labor economy, its theoretical aspects and state policy were also studied.

The dissertation research also required the analysis of works devoted to the issues of foreign investment. There are many researchers on various aspects of this problem. Among them one should mention such as scientists Roizman, Sheremet A., Negashev E, Schwandar V., Bailey J., Krylov I., Juravkova V.

When writing the work, the author also relied on the works of scientists studying general transformation processes and macroeconomic problems, and belonging to various scientific fields, including Sharp U., Alexander G., Bailey V., Surkov G. and others.

The materials of various scientific conferences on problems of foreign investments, primarily their regional aspects, analytical work of the World Bank, the United Nations, the International Monetary Fund,

which summarize the world experience on various aspects of development, prepared by teams of qualified experts are used in the work.

As the primary information for the study, statistical materials of the Ministry of Economy of Azerbaijan and investment legislation of Azerbaijan were used. The work also used a large amount of data obtained by the author directly in the regions of Azerbaijan. Many materials are first introduced into scientific circulation.

In the works of well-known scientists, many aspects of the subject of the dissertation research have been touched upon, but the role of the investment factor in the labor market has not yet been adequately studied. It is extremely urgent to study investment methods for reducing and preventing unemployment, the role of private and public investment in solving this problem, incl. Methods for assessing the various forms of public investment in employment. Additional efforts require the study of the interaction of national and regional labor markets and foreign capital; consideration of the motives for the behavior and interests of foreign investors and workers, the scientific justification for government regulation measures that ensure the strengthening of the positive impact of foreign investment on the labor market, on the position of workers and eliminating negative effects.

One of the first attempts in Azerbaijan's economics to conduct a comprehensive analysis of the role of foreign investment in the labor market in Azerbaijan was made. This allowed us to identify certain trends in the behavior of foreign investors and their interaction with national and regional labor markets.

2.6. Limitations of the Empirical Research

Although this research was carefully prepared, multiple limitations were identified and minimized during the research process:

1. Implementation of data collection method. Because of the lack of extensive experience in primary data collection before the investigation there was a great chance that the implementation of data collection method could be flawed.

2. Lack of previous studies in the research area. Literature review is an important part of any research, because it helps to identify the scope of works that have been done so far in research area. Literature review findings are used as the foundation for the researcher to be built upon to achieve her research objectives.

CHAPTER III
EMPIRICAL RESEARCH RESULTS OF EVALUATION OF THE EFFECTIVENESS OF THE ECONOMIC MECHANISM OF MANAGEMENT OF INVESTMENT ACTIVITIES IN THE ENTERPRISE OF AZERBAIJAN

3.1. Economic mechanism of management of investment activities in the enterprise of Azerbaijan

The subjects of investment activity management in the company Agrarco LLC are the persons making decisions related to the management of investments and investment activities in the enterprise.

All subjects of investment activity management are divided into two groups:

- External subjects;
- Internal subjects.

External subjects of management of investment activity are physical and legal persons that are outside the enterprise and affect the effectiveness of investment activity. They include:

Enterprise Investment Management System

1. State subjects:

- Central public authorities;
- Regional public authorities;
- State institutions that affect the investment activity of the enterprise.

2. Non-State subjects:

- Information, consulting, marketing organizations;
- External, including foreign, investors;

- Other non-state enterprises and organizations.

Internal subjects of management of investment activity are the individuals whose activities are directly related to the enterprise.

To internal subjects of management of investment activity concern

- The owner of the enterprise,

"Investment manager - an employee who performs a number of functions to manage the investment activities of the enterprise.

The mechanism for managing investment activity is a theoretical justification for the development and implementation of management decisions in the investment sphere.

The structure of the mechanism in Agrarco LLC includes several elements:

- External mechanism;

- The internal mechanism.

The external mechanism for managing investment activity is a system of instruments that regulate the conditions for the implementation of investment activities. The external mechanism is based on the activities of external entities managing investment activities:

- The market mechanism for managing investment activities, is a self-regulatory and self-adjusting system and is formed in the investment market;

- State mechanism of investment activity management.

The internal mechanism for managing investment activity is a system of management tools that are developed and used directly in the enterprise. These include:

- Methods of managing investment activity;

- Normative documents of the enterprise.

The investment management system of the enterprise performs certain functions. These include:

- General functions;

- Special functions.

General functions of investment management are functions that are implemented by the management system, regardless of the conditions and characteristics of investment activity (Hussein, 2017).

These include:

- Collection, processing and systematization of investment information,

- Planning of investment activities - sets planned targets for investment activities for the long-term and short-term periods;

- Investment analysis - designed to timely assess the continuous, what is changing, the process of investment activity

- Investment control - compares the actual results of investment activity with the planned indicators, identifies the reasons for the deviations of the actual indicators from the planned ones;

- Regulation of the investment activity of the enterprise - organizational and economic measures are proposed to eliminate the reasons for the deviation of the actual indicators of investment activity from those planned;

- Stimulation of investment activity - measures are proposed to increase the investment activity of the enterprise.

Special functions of investment management are functions, the implementation of which depends on the specifics of investment activity. These include

- Management of real investments - is aimed at increasing the efficiency of capital investments, investments in working capital and innovation of the enterprise, as well as optimizing the investment program of real investment of the enterprise;

- Management of financial investments - is aimed at increasing the efficiency of investments in securities and optimizing the investment portfolio of the enterprise;

- Management of investment risks - is aimed at reducing the risks of investment activities.

In order for the investment management system to function effectively, a clear and competent organization of the investment management process at the enterprise is necessary.

The management of investment activity is an important element in building an investment management system at the enterprise.

The management of investment activity is the coordination and optimization in time and in the space of the investment activity of an enterprise with the aim of achieving a major investment effect at a certain time.

The organization of management of investment activities at the enterprise provides, before, the development of the structure and the creation of a system of special internal structural services and business units whose functioning should be aimed at developing and adopting effective management decisions on all matters of investment activity.

Formation of the organizational system of management of the investment activity of the enterprise provides for a number of stages:

1. Research of features of functioning of separate structural divisions of the enterprise and revealing degree of their influence on efficiency of investment activity.

2. Development of the structure of the investment management system, the definition of the types of its elements (divisions).

3. Formation of a system of rights and duties and measures of responsibility of the heads of these departments.

4. Development of planned tasks to these departments and bringing them to the performers.

5. Ensuring control over the implementation of established tasks by these departments by obtaining relevant information (reports), analyzing it and identifying the reasons for the deviations.

The management of investment activities at the enterprise is the basis for making effective management decisions in the field of investment.

3.2. Assessment of the effectiveness of investments in the efficiency of the enterprise and the motivation of labor

Decision-making related to investing funds is an important stage in the operation of any enterprise. To effectively use the funds raised and maximize the return on invested capital, a thorough analysis of future revenues and costs associated with the implementation of the investment project under consideration is necessary.

The task of the financial manager is the selection of such projects and ways of their implementation, which will ensure the flow of funds having the maximum present value in comparison with the cost of the required capital investments.

There are several methods for assessing the attractiveness of an investment project and, accordingly, several key performance indicators in Agrarco LLC. Each method basically has the same principle: as a result of the project, the enterprise must make a profit (the company's own capital must increase), while the various financial indicators characterize the project from different sides and can meet the interests of

various groups of persons related to this enterprise, - creditors, investors, managers.

When evaluating the effectiveness of investment projects, the following key indicators are used:

- Payback Period - PP (Payback Period)
- Net Present Value - NPV (Net Present Value)
- Internal rate of return -IRR (Internal Rate of Return)
- The modified internal rate of return - MIRR (Modified Internal Rate of Return)
- Profitability of investments - P (Profitability)
- The index of profitability - PI (Profitability Index)

Each indicator is at the same time a criterion for making a decision when choosing the most attractive project from several possible ones.

Calculation of these indicators is based on discount methods that take into account the principle of time value of money. As a discount rate, in most cases the value of the weighted average cost of capital WACC is chosen, which, if necessary, can be adjusted for the indicators of possible risk associated with the implementation of a particular project and the expected level of inflation (Interviews and conversations with representatives of the company Agrarco LLC.2015)

If the calculation of the WACC indicator is related to difficulties that raise doubts about the reliability of the result (for example, in the estimation of equity), the average market yield, adjusted for the risk of the analyzed project, can be chosen as the discount rate. Sometimes the rate of refinancing is used as a discount rate.

The main steps in assessing the effectiveness of investments

- Assessment of the financial capabilities of the enterprise.
- Forecasting the future cash flow.
- Selection of the discount rate.

- Calculation of key performance indicators.
- Accounting for risk factors
- Key Performance Indicators (Criteria)
- Payback period

In the general case, the desired value is the value of PP, for which:

PP = min N, for which Σ INVt / (1 + i) t = Σ CFk / (1 + i) k

where i is the selected discount rate

The decision criterion for using the payback period calculation method can be formulated in two ways:

a) the project is accepted, if the payback as a whole takes place;

b) the project is accepted if the value of PP found is within the specified limits. This option is always used in the analysis of projects that have a high degree of risk.

A significant drawback of this indicator, as a criterion of the attractiveness of the project, is the ignoring of positive cash flow values that go beyond the time frame.

Also, this method does not distinguish between projects with the same PP value, but with different income distributions within the time frame. This partially ignores the principle of the time value of money in choosing the most preferable project.

Net Present Income NPV

The difference between the present value of the future cash flow and the cost of the initial investment is called the net present value of the project (net present value).

The NPV index reflects the direct increase in the company's capital, so for the shareholders of the enterprise it is the most significant. Calculation of net present value is carried out according to the following formula:

NPV = Σ CFk / (1 + i) k - Σ INVt / (1 + i) t

The criterion for the adoption of the project is the positive value of NPV. In the case where it is necessary to make a choice from several possible projects, a preference should be given to the project with a larger net present value.

At the same time, a zero or even a negative value of NPV does not indicate the loss of the project as such, but only about its unprofitableness when using this discount rate. The same project implemented when investing cheaper capital or with less required yield, i.e. with a smaller value of i, can give a positive value of the net present value.

It should be borne in mind that PP and NPV indicators can give conflicting estimates when choosing the most preferred investment project.

Calculation of net income in the first case is made using a special form (APPENDIX II).

Net income for own capital (in terms of project owners) is defined as shown in APPENDIX II. It is important to note that the funds invested by the founders of the enterprise or shareholders (increase in equity) and loan payments made at the expense of the project's own funds , are considered as outflows, that is, capital outlays.

The economic meaning of net present value can be represented as a result obtained immediately after making a decision on the implementation of this project - since the time factor is excluded from its calculation.

The positive value of NPV is considered a confirmation of the expediency of investing money in the project, and the negative, on the contrary, indicates inefficiency of their use. Obviously, out of the two project options, the one with the NPV indicator should be selected.

Internal rate of return IRR

A universal tool for comparing the effectiveness of various ways of investing capital, characterizing the profitability of an operation and independent of the discount rate (on the value of the funds invested) is the measure of the internal rate of return of the IRR.

The internal rate of return corresponds to the discount rate at which the present value of the future cash flow coincides with the value of the invested funds, i.e. satisfies the equality:

$$\Sigma \, CFk / (1 + IRR) \, k = \Sigma \, INVt / (1 + IRR) \, t$$

To calculate this indicator, you can use computer tools or the following formula for approximate calculation:

$$IRR = i1 + NPV1 \, (i2 - i1) / (NPV1 - NPV2)$$

Here i1 and i2 are the rates corresponding to some positive (NPV1) and negative (NPV2) values of the net present value. The smaller the interval i1 - i2, the more accurate the result (when solving problems, the difference between rates is not more than 5%).

The criterion for the adoption of an investment project is the excess of the IRR index of the selected discount rate (IRR> i). When comparing several projects, projects with higher IRR values are more preferable.

Undoubted merits of the IRR indicator include its universality as a tool for assessing and comparing the profitability of various financial transactions. Its advantage is also independence from the discount rate - this is purely an internal indicator.

Disadvantages of IRR are the complexity of the calculation, the impossibility of applying this criterion to non-standard cash flows (the problem of IRR multiplicity), as well as the necessity of reinvesting all the revenues received under the yield rate equal to the IRR implied by the calculation rule for this indicator. The disadvantages are the possible

contradiction with the NPV criterion when comparing two or more projects.

The modified internal rate of return of MIRR

For non-standard cash flows, the solution of the equation, corresponding to the definition of the internal rate of return, in the vast majority of cases (non-standard flows with a single IRR value are possible) gives several positive roots, i.e. several possible values of the IRR. At the same time, the IRR> i criterion does not work: the IRR value may exceed the discount rate used, and the project in question is unprofitable (its NPV turns out to be negative).

To solve this problem, in the case of non-standard cash flows, the IRR analog is calculated - the modified internal rate of return of MIRR (it can be calculated for projects generating standard cash flows) (Interviews and conversations with representatives of the company Agrarco LLC.2015).

MIRR is the interest rate for which, during the period of the project, n total sum of all investments discounted at the initial moment is equal to the amount equal to the sum of all inflows of funds increased at the same rate d at the end of the project:

$$(1 + MIRR)\, n\, \Sigma\, INV / (1 + i)\, t = \Sigma\, CFk\, (1 + i)\, n\text{-}k$$

The decision criterion is MIRR> i. The result is always consistent with the NPV criterion and can be used to estimate both standard and non-standard cash flows. In addition, the MIRR indicator has one more important advantage over the IRR: its calculation involves reinvesting the received income at a rate equal to the discount rate (close to or equal to the average market yield rate), which is more in line with the real situation and therefore more accurately reflects the profitability of the project being evaluated.

The rate of return and the profitability index P

Profitability is an important indicator of the effectiveness of investments, because it reflects the ratio of costs and revenues, showing the amount of income received per unit (ruble, dollar, etc.) of invested funds.

$P = NPV / INV \times 100\%$

Profitability index (coefficient of profitability) PI - the ratio of the present value of the project to costs, shows how many times to increase the invested capital during the implementation of the project.

$PI = [\Sigma CFk / (1 + i) k] / INV = P / 100\% + 1$

The criterion for making a positive decision when using profitability indicators is the ratio $P > 0$ or, which is the same thing, $PI > 1$. Of several projects, those with higher profitability are preferred.

This indicator is especially informative when evaluating projects with different initial investments and different implementation periods.

The criterion of profitability can give results that contradict the criterion of pure reduced income, if projects with different volumes of invested capital are considered. When making a decision, it is necessary to take into account the investment opportunities of the enterprise, as well as the consideration that the NPV indicator is more in the interests of shareholders in terms of increasing their capital.

Estimation of investment projects of different duration

In cases where there is a doubt about the correctness of comparison using the considered indicators of projects with different implementation times, one can resort to the chain repeat method

Using this method, we find the least common multiple of n implementation times for n1 and n2 of the evaluated projects. New cash flows are generated as a result of several project implementations, assuming that costs and revenues will remain at the same level (the beginning of the next implementation coincides with the end of the

previous one). The indicators of net present income will change with repeated implementation, but the indicators of the internal rate of return will remain the same regardless of the number of repetitions, although new cash flows may turn out to be non-standard if the initial investment is greater than the revenues in the last period of implementation.

3.3. Perfection of methods of management by effective investment activity of the enterprise of Azerbaijan

Ensuring high efficiency of investment activity depends on the degree of validity of investment policy, which is an integral part of the overall economic and financial strategy of the enterprise and determines.

The formulated strategy should be used to develop investment projects using the search method. The role of the strategy in the search is to focus on certain areas or opportunities and to exclude all other opportunities that are incompatible with the chosen strategy. As part of the overall strategy, the enterprise should develop an investment and innovation strategy. The task that the leadership faces in process of strategic management, is, first of all, to ensure a balance between the objectives and the specific investment program of the enterprise that ensures their achievement. Investment projects developed at the enterprise must comply with its strategy.

When choosing an investment policy, it is necessary to foresee: - the attainment of the maximum possible economic and social effects from the measures in question;

-to achieve such a level of income from the results of implementing investment projects that would allow not only paying I

taxes and paying dividends to shareholders, interest on loans and loans, but also creating conditions for the further development of the enterprise;

-the receipt of the highest rate of return on invested capital;

-Rational management of funds for the implementation of investment projects aimed at achieving a social, environmental effect;

-minimization of investment risks associated with the implementation of the investment project;

-correspondence of the activities carried out within the framework of the investment project implementation to the legislative and other legal acts of the Russian Federation regulating investment activity.

Evaluation of the social outcomes of the project means that it corresponds to social norms, standards and conditions of human rights. A prerequisite for the implementation of the investment project is the creation of normal working and recreational conditions for workers, providing them with a living space and social infrastructure facilities. The social results of the project are characterized by such indicators as: changing the number of jobs in the region, improving the housing and cultural and living conditions of workers, changing the working conditions of employees, changing the structure of personnel, changing the reliability of supplying settlements or regions with basic goods, and the population, an increase in the leisure time of the population.

The social consequences of the implementation of the investment project are calculated on the basis of the joint impact of all project participants (state, local government and enterprise) on the social situation in the region, public health, the retraining of the new occupations of the released workers, the creation of new jobs, the promotion of resettlement of citizens from unpromising cities and settlements.

Management of factors affecting the effectiveness of the investment project in the process of its implementation (construction, production and operation) The process of managing the implementation of investment projects can be more effective if you structure the factors that affect the deviation of the actual performance of the investment project from the calculated values for the business plan. In the economic literature, this question has not received a definitive answer. The main attention was paid to the authors' analysis of the influence of risk factors and uncertainty on the effectiveness of the investment project. In our opinion, many factors need to be taken into account in order to reveal the whole variety of reasons that affect the deviation of the actual project efficiency from their calculated values, as well as to choose the most effective of several options.

We propose to classify the whole set of technical and economic factors according to the types of activity of the enterprise, groups and directions. By types of activities related to the implementation of the investment project, we propose to classify factors related to the investment, operational and financial activities of the enterprise. This classification allows you to assess the impact of negatively and positively acting factors both in the process of construction and technical preparation of the production facilities of the investment project, and in the process of its operation.

Classification of the factors influencing the efficiency of the investment project in the course of its operating activities allows us to draw a general conclusion about the deviation of the actual indicator of net income from its calculated value both for the whole life cycle of the investment project and for each year of its implementation. This information is further used for detailed analysis of the causes "that affected the deviation of actual performance indicators from their

calculated values and the development of management decisions aimed at eliminating negative factors.

Actually, an analogous role is played by analyzing the deviation of the actual performance indicators of the investment project from their calculated values for investment and financial activities, although there are some differences. For example, the deviation of actual performance indicators from projected values for operating activities may be due to the impact of technical, organizational, structural and cross-sectoral factors. While the factors of the organization of production, labor and management are more influenced by the deviation of the actual indicators of the effectiveness of the investment project from the estimated investment activity. These include errors in the design, disruptions in the construction of the facility, failures by the suppliers of the timing of the supply of materials, components of equipment, and the correction of construction defects.

Taking into account all the above, we propose to carry out a classification of technical and economic factors not only by types of activities related to the implementation of the investment project, but also in groups and directions. For this purpose, the following classification of factors could be carried out: • in groups and directions: technical factors, factors in the organization of production, labor and management, factors of structure and volume of production, sectoral and intersectoral factors.

The technological direction in the group of technical factors plays a fundamental role in the implementation of investment projects aimed at a radical change in production technology. Investing in "breakthrough technologies" is very risky from the point of view of guaranteeing the necessary result, i.e. really a new interesting technology or product. Particularly risky are investments in basic science. At the same time, the

most interesting are the investments in original technologies, but only when there is a possibility of their practical application, and when the T market is ready to accept products related to the use of high technologies. Accounting for the technology factor is fundamentally important in analyzing the operational activities of the enterprise and in the process of construction and technical preparation of production, i.e. in the process of investment activity of the enterprise.

Errors in financial management are the most common factors affecting the effectiveness of an investment project. The use of funds intended for the implementation of certain tasks of the investment project, for other purposes, leads to funding interruptions, which, in turn, disrupts the planned work schedule. The discrepancy between the content of the investment project and the planned financial resources for its implementation is often identified at the project implementation stage.

Financial stability of the enterprise, its liquidity and solvency largely depend on the speed of turnover of funds invested in the assets of the enterprise and the profitability of its activities.

Rational management of current assets enables the company to increase its liquidity level. Replenishment of the need for additional working capital due to borrowed sources of financing has limitations (an enterprise can not always get a loan, or the interest rate makes obtaining a loan unprofitable). To replenish the additional need for working capital from own sources, an enterprise can only within the limits of earned profit. Thus, to meet the additional need for working capital, an enterprise can only effectively manage current assets.

For effective management of working capital, own capital, we recommend using the following indicators of turnover: the ratio of turnover of accounts receivable, the ratio of turnover of accounts

payable, the ratio of turnover of production stocks, the ratio of fixed assets, the coefficient of turnover of equity.

3.4. Evaluation of the effectiveness of investment flows in an industrial enterprise

The basis for assessing the effectiveness of the investment project, in our opinion, should be based on the following principles:

-assessment of the public significance of the project, depending on its scale;

- taking into account the features of the evaluation of the effectiveness of the investment project depending on its significance, the purpose of implementation and the financing scheme;

-economic effect from the implementation of the investment project is considered throughout its life cycle (the calculation period) from pre-innovation studies to the termination of its use;

-modeling of cash flows in the context of operational, financial and investment components, including all cash receipts and expenses associated with the implementation of the investment project for its entire life cycle, taking into account the possibility of using different currencies and different types of prices; - comparability of indicators and conditions for the implementation of various investment projects (options);

-Principle of positivity and maximum effect. Preference should be given to investment projects with the greatest effect value; -Taking into account the time factor. When assessing the effectiveness of an investment project, various aspects of the time factor should be taken

into account, including the dynamism (change in time) of the project parameters and its economic environment; breaks in time (logs) between production of goods and receipts of resources and their payment; variability of costs and results, preferences for earlier results and later costs; - accounting for future costs and results;

- Accounting for all the most significant consequences of the implementation of the investment project;

- Accounting for the availability of various participants, ensuring the implementation of the investment project throughout its life cycle; - Accounting for the impact of uncertainty and risks accompanying the implementation of the investment project;

- Accounting for the financial stability of the enterprise when deciding on the financing and implementation of the investment project; - analysis of the impact of the investment project on the results of economic activity and changes in the financial condition of the enterprise;

- Identify the impact of investment projects used on the environment and the rational use of natural resources, including water bodies, forests and agricultural lands;

- Comparison of the results and costs due to the implementation of the investment project with the rate of return required by the investor;

- Accounting for the financial feasibility of the investment project;

- the basis for the discount rate for alternative and large-scale investment projects and the appropriateness of its use when assessing specific types of investment projects.

A set of methods recommended in the economic literature to assess the effectiveness of investment projects and to make management decisions on their implementation can be divided into two groups:

-Methods for assessing the effectiveness of investment, based on discounting cash flows for the entire life cycle of the implementation of investment projects;

- Methods for assessing the effectiveness of investment, not including discounting of cash flows arising in the process of implementing investment projects.

The methods of discounting the time-consuming costs and results reflected by cash flows are appropriate to apply to assess the effectiveness of investment projects at the stage of choosing the most efficient among them among a variety of alternative options.

After making a management decision on • implementing an investment project that has the greatest efficiency, a calculation of the estimated performance indicators that do not include discounting should be carried out.

In our opinion, in order to evaluate the effectiveness of investment projects, it is most expedient to use the method of calculating the accumulated cumulative effect over the entire life cycle of its implementation, as well as the method of calculating the rate of return on capital (investment return index). The advantage of the first method in comparison with others is that with its help it is possible to calculate the absolute value of the excess of total inflows of funds over their outflows both for the entire period of the investment project implementation and for each year (step) of its implementation. It should be especially noted that the method of accumulated total effect for the entire duration of the investment project implementation provides a detailed description of the results and costs in the context of the production, financial and investment components of the cash flow. Thanks to this, it becomes possible to carry out constant monitoring and a detailed analysis of the reasons that led to the deviation of the actual performance indicators of

the investment project from the design values of these indicators. The data of control and economic analysis are used at the stages of implementation of the investment project to develop management decisions aimed at eliminating the reasons for the deviation of actual performance indicators from their design values.

Along with this, the methodology for calculating the accumulated cumulative effect for the entire duration of the investment project is constructed in such a way that its use allows us to simultaneously calculate and payback period of the investment project. Consequently, this method includes, as it were, a method for calculating the payback period of capital investments. In addition, the use of this method makes it possible to calculate at each step the calculation of profit, net profit, the amount of profit and depreciation and, through this, determine the impact of the investment project on the performance of the economic activity of the enterprise.

The method of calculating the rate of return on capital, unlike the previous one, allows us to give a comparative description of the effectiveness of the investment project being implemented with alternative options, as well as with indicators of the efficiency of the economic activity of the enterprise. This advantage of the method of the rate of return on capital makes it possible to determine the degree of influence of the investment projects being implemented on the change in the efficiency of using the company's own capital and assets. Thanks to this, the validity of managerial decisions for the implementation of investment projects is increased.

CONCLUSION

In the dissertation study, a technique for preliminary analysis of the financial condition of a set of enterprises has been developed, the application of which allows the management of enterprises to make more informed management decisions on investing in the aspect of obtaining the planned profit value or achieving a different useful result when implementing investment projects with a minimum level of risk.

At the same time, a technique for preliminary analysis and assessment of the achieved level of the company's economic performance is recommended to prepare comprehensive source information in order to develop a forward-looking business plan. The methodology of the subsequent analysis of the financial condition and efficiency of the economic activity of the enterprise was also developed.

In the thesis, the principles of evaluating the effectiveness of investment projects are systematized. At the same time, the economic content of these principles is revealed and their role in the process of justifying the effectiveness of investment projects is determined.

The recommendations and proposals contained in the dissertation research are considered on the example of one of the leading enterprises of the industry of Azerbaijan, the company Agrarco LLC.

Better methods for assessing the effectiveness of investments have been developed, with the help of which it is possible to give an integral assessment of economic and social efficiency over the whole life cycle of the operation of city-forming enterprises from the beginning of the implementation of the investment project and to its end in connection with the exhaustion of industrially used minerals.

Solving these problems will contribute to the development of the scientific direction of research in the field of management theory of the company's investment activity by improving the methods for assessing the impact of the investment projects being implemented on the efficiency of enterprises in the process of developing a business plan and in monitoring its implementation.

REFERENCES

1. CIA - The World Factbook". Cia.gov. 2012.
2. "The FDI Report 2014 - Asia Pacific". FDI Magazine. 25 June 2014. 2014.
3. Bayramov V (2018). " Azerbaijan successfully implemented the investment policy" Narodnaya gazeta.
4. Benchmark definition, 4th edition (BMD4): Foreign direct investment: financial flows, main aggregates. 2017
5. Heyderov G (2011). “Modern state and development perspectives of economic relations of Azerbaijan”. - Azerbaijan State Economic University // Baku
6. Interviews and conversations with representatives of the company Agrarco LLC.2015
7. Krylov I, Juravkova V (2001). Investigation of investment effectiveness and innovation business. -M.Financial and Statistics, 384c.
8. Planned investment: Per.S. Eng.-M .: Delo Co., 1994.-120s.
9. Ramil Hussein (2016). Agriculture as the strategic sector of the Azerbaijani economy

10. Roizman (1998). Appraisal Effective Investment Projects: Making Regional Risk Investments // №10. - S. 13-21.

11. Schwandar V., Bogatin V (2000). Appraisal Effectiveness Investment and Reconstruction Project // Finance. 2000. - №9. S. 16-20.

12. Sharp U., Alexander G., Bailey V. Investments.-M (2007) .: INFRA-M, 1024c.

13. Sheremet A., Negashev E (2004). Methodology of the financial analysis. -M .: INFRA-M, 250h.

14. Surkov G (2004). Multi-criteria analysis of real investment // Financialist. - No. 3. - pp. 55-56.

15. The Law Azerbaijan Republic on protection of foreign investments, 2016

16. The Law of the Republic of Azerbaijan on Investment Activity, 2015

17. Trading Economics. "Azerbaijan Foreign Direct Investment" 2006-2018

APPENDIX I

Foreign direct investment flows throughout the world

Country	Last		Previous	Highest	Lowest		
Australia	64825.00	Dec/16	29636	64825	-37050	AUD Million	Yearly
Brazil	4742.50	Feb/18	6466	20427	-24.1	USD Million	Monthly
Canada	8333.00	Dec/17	13777	50326	-8640	CAD Million	Quarterly
China	139.40	Feb/18	80.36	1343	18.32	USD HML	Monthly
France	6284.00	Jan/18	3111	20881	-8809	EUR Million	Monthly
Germany	4973.00	Jan/18	-2775	141351	-32189	EUR Million	Monthly
India	1921.00	Jan/18	4323	8579	-1336	USD Million	Monthly
Indonesia	112.00	Dec/17	112	112	35.4	IDR Trillion	Quarterly
Italy	1723.00	Jan/18	518	14203	-10787	EUR Million	Monthly
Japan	18142.00	Jan/18	22663	45202	-3825	JPY Hundreds Million	Monthly
Mexico	5903.80	Dec/17	5522	20855	-63.9	USD Million	Quarterly
Netherlands	57588.90	Sep/17	28777	189388	-75407	EUR Million	Quarterly

Russia	7333.00	Sep/17	13161	40140	-3922	USD Million	Quarterly
South Korea	9361000.00	Dec/17	3991000	9361000	0	USD Thousand	Quarterly
Spain	-5416.00	Dec/17	82	23250	-9566	EUR Million	Monthly
Switzerland	965478.00	Dec/16	842197	965478	20959	CHF Million	Yearly
Turkey	12300.00	Dec/16	16800	22046	1800	USD Million	Yearly
United Kingdom	9488.00	Sep/17	4151	82539	-44536	GBP Million	Quarterly
United States	46429.00	Dec/17	42627	47465	-9988	USD Million	Quarterly

APPENDIX II

An approximate form for calculating net income (for investment costs)

Item name	Planning interval number			
	1	2	3	4
Revenues from sales	0.0	500.0	1000.0	2000.0
TOTAL INFLOW	0.0	500.0	1000.0	2000.0
Investment costs	-1000.0	-169.3	-82.7	-194.2
Operating costs	0.0	-285.0	-420.0	-740.0
Taxes	0.0	-37.4	-153.2	-378.3
TOTAL OUTPUT	-1000.0	-491.8	-655.9	-1312.5
NET CASH FLOW	-1000.0	8.2	344.1	687.5
The same cumulative	-	-	-	39.

result	1000.0	991.8	647.7	8

An approximate form for calculating net income (for equity)

Item name	Planning interval number			
	1	2	3	4
Revenues from sales	0.0	500.0	1000.0	2000.0
TOTAL INFLOW	0.0	500.0	1000.0	2000.0
Investments in the delivered capital:				
increase in equity capital	-400.0	0.0	0.0	0.0
payments on loans	0.0	-48.0	-344.2	-374.8
=== Total	-400.0	-48.0	-344.2	-374.8
Operating costs	0.0	-285.0	-420.0	-740.0
Taxes	0.0	-37.4	-153.2	-378.3

TOTAL OUTPUT	-400.0	-370.4	-917.4	-1493.1
NET CASH FLOW	-400.0	129.6	82.6	506.9
The same cumulative result	319.1	-400.0	-270.4	-187.9