

Methods for Selecting Innovative Projects for Implementation

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Abstract – At present, the world economy is showing a mismatch between the availability of innovative opportunities and their implementation in practice. this article provides an overview of convenient methods for implementing innovative models.

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I. INTRODUCTION

Expertise should ensure the selection of a high-quality innovative project. It should be noted that the innovative projects presented to investors should be comparable and analyzed using a single scorecard. This means that the information base, accuracy and methods of determination of cost and in-kind indicators by options. The comparability of the submitted projects is determined by:

- * In terms of the volume of work carried out using new methods (technologies, equipment, etc.);
- * Qualitative parameters of innovation;
- * Time factor;
- * Level of prices, tariffs.

Wage terms. Cost indicators for options are determined taking into account inflation factor a . Variants of innovative projects must have the same marketing elaboration, the same approach to assessing the risk of innovative investments and the uncertainty of the source information. Comparability of options calculation based on the source information is provided by reducing to one volume of manufactured

products, as a rule, by new option; to one deadline, level of quality. Ensuring the diversity of activities is one of the most important management principles. Without analysis of foreign experience, direct competitors have nothing to waste investment. It should be recalled the ratio 1: 10: 100: 1000, where one dollar is the “savings” in making a simplified decision at the stage of its formation, and 10, 100, 1000 - losses at subsequent stages of life cycle decisions.

II. SIGNIFICANCE OF THE SYSTEM

In a market economy, an innovation project option is selected with taking into account the interests of the investor. When comparing options, the principles of system approach. Here it is required to take into account the most important property of systems - emergence, which causes the inequality of the cumulative effect of the complex events and the magnitude of the effects of their separate conduct. When comparing innovative options, the principle of integrated approach requiring consideration of the totality of activities that are necessary to implement when implementing this solution option. The same costs incurred at different times, economically distinctly unequal. A significant innovation life cycle leads to economic inequality of different costs and

received results. This contradiction is eliminated using the so-called method of present value or otherwise discounting, i.e. bringing costs and results to one point in time.

III. LITERATURE SURVEY

Discounting is based on the fact that any amount to be received in the future, currently has less value. With the help of discounting, the factor is taken into account in financial calculations over time. The idea of discounting is that it is preferable for the company to get money today, not tomorrow, since being invested in innovation, tomorrow they will bring some additional income. Besides putting off receiving money for the future is risky: in case of adverse circumstances they will bring less income than expected, or even not at all will arrive. The discount coefficient is always less than one, as otherwise. In this case, money today would cost less than money tomorrow. Consider a conditional example. If today you invest in innovation 1 billion rubles, hoping to get 10% of the income, then in a year the value of your investments will amount to 1.1 billion rubles - this is the future value of your investment, and its current present value is 1.0 billion rubles.

The difference between future value and current value is discount. The interest rate at which the discount is made, and the current value is inversely related, i.e. the higher the interest rate, the lower the current value, all other things being equal conditions. Therefore, the compounding method for compound interest is that in the first period the accrual is made on the initial amount loan, then it is added to the accrued interest and in each subsequent period, interest is accrued on the already accrued amount. i.e. The basis for calculating interest is constantly changing. Sometimes this method is called percent by percent. The lower the interest rate and the shorter the time period (t), the higher the discounted amount of future income.

IV. METHODOLOGY

Thus, using discounts, the net current project cost. The project selection mechanism will be considered as an example.

Example 10.1 The initial amount of investment in the project is 480 million rubles. The annual cash inflow for 3 years is 160 million rubles. Interest 10% rate (i). In our example, the discount factors are: for the first year -; for the second year -; for the third year -. Therefore, the net present value for the years of the project is: $(160 * 0.909) + (160 * 0.826) + (160 * 0.751) = 398$ million rubles. To decide on the feasibility of investing in a project, you need to find the difference between the net present value and the initial

amount of investment. The project we are considering is disadvantageous, since the income is less than initial investment in the project: $(398 - 480) = -82$ million rubles. Net present value is also called "net present value" (W). It should be noted that there are standard discount tables factors, which facilitates the discount procedure and the rationale for the choice of project. As already noted, innovative projects should be selected taking into account inflation factor. Inflation as an increase in the price level in the economy is measured either by the index of price changes, or inflation. The price change index is characterized by ratio of prices, and inflation - the percentage of price increases.

Considering the role of interest rates in making decisions about innovation, we implicitly assume the absence of inflation. There are differences between the nominal and real interest rates. Nominal rate is the current market interest rate excluding inflation rate or else it's just the interest rate expressed in rubles (US dollars) at the current rate. The real rate is the nominal rate less expected (estimated) inflation rates. For example, the nominal annual rate is 9%, the expected rate of inflation is 5% per year, from here the real rate will be equal to 4% ($9 - 5$). This difference is important to consider when comparing expected income capital (rate of return) and interest rates: a comparison is advisable with real, not nominal rate. It is the real interest rate, and non-nominal rate is important when deciding on innovation. The general rule is: innovation should be implemented if expected the level of capital income is not lower than or equal to the market interest rate for loans.

Thus, the percentage performs the most important task of effective resource allocation in a market economy, the choice of the most profitable of possible innovative solutions. Comparing the level of capital income with the interest rate is one of ways to justify the effectiveness of innovation. In addition to the net present value for the selection of innovative projects indicators are used: payback period (CTC); payback period (POC); internal rate of return (VD); profitability (R). Payback period - an indicator that answers the question, for how long can pay off investment in an innovative project. This indicator takes into account initial capital investment. In international practice, the payback period is mainly used. Under payback period understand the duration of the period during which the amount of net income discounted at the time the investment is completed, will be equal to the amount of investment. Internal rate of return is the estimated interest rate at which the capitalization of regularly received income gives an amount equal to investment. This means that the investment pays off. It is recommended to select those projects whose internal rate of return is not below

15-20%. Profitability (R) is defined as the ratio of effect and cost on project implementation. In practice, evaluations of innovative projects will calculate the ratio of income to investment expenses (benefit - cost ratio). In Western literature, this indicator is called the profitability index. (profitability index).

When reserving funds for unforeseen expenses, it takes into account the accuracy of the initial project cost estimate and its elements. Contingency estimates minimize overspending funds. The structure of the contingency reserve is determined by two methods:

1. The reserve is divided into general and special.

2. Determination of unforeseen expenses by type of expenses (salary, materials, etc.). The general reserve covers changes in estimates, etc. Special reserve includes premiums to cover price increases, increase expenses on positions, payment of claims under contracts. This is especially important in inflationary conditions. Differentiation of the reserve by type of cost allows to determine the degree of risk associated with each type of costs that can be further spread to individual stages of the project. Further clarify the amount of unforeseen expenses, the relationship with the elements of the structure of the division of work into different levels of this division, including at the level of complexes (packages) works. Such a detailed division of work helps to gain experience and create contingency adjustment database.

V. CONCLUSION AND FUTURE WORK

The contingency reserve is determined only for those types of expenses which are included in the initial estimate and should not be used for compensation for costs resulting from unsatisfactory performance. The project financing plan should take into account:

- * The risk of non-viability of the project;
- * Tax risk;
- * The risk of failure to complete the project.

Investors must be sure that the possible income from the project will be sufficient to cover costs, pay back collateral return on investment. At the micro level, the focus is on commercial effectiveness of project, which is defined as the ratio of financial costs and results.

When considering alternative projects in business practice, apply following areas of analysis:

1. The average annual profitability of projects is compared with the average bank loan rate.

2. Projects are compared in terms of inflation insurance losses.
3. The payback periods of investments are compared.
4. The need for investment is compared.
5. The stability of revenues is taken into account.
6. Compared to the return on investment as a whole for the entire period of project implementation.
7. Compared to the return on investment in general, taking into account discounting.

In doing so, proceed from the following criteria for making investment decisions:

1. The lack of more profitable alternatives.
2. Minimizing the risk of losses from inflation.
3. The brevity of the payback period.
4. The relative cheapness of the project.
5. Ensuring the stability of revenues.
6. High profitability, taking into account discounting.

Thus, the examination of innovative projects allows us to evaluate them with point of view of investment attractiveness.

The task of the examination is to assess the scientific, technical level and investment attractiveness of the project. There are three main methods for examining innovative projects, financed from the budget: Descriptive, comparison of the provisions "before" and "after"; comparative examination.

When selecting innovative projects, the financial condition is taken into account: participants, payback period, net present value, internal rate of profitability and profitability of projects.

Questions to repeat

1. What is the purpose of the examination and innovative projects?
2. What are the rights of experts when evaluating projects?
3. What are the requirements for the scientific content of the project?
4. How is the scientific novelty of a research project evaluated?
5. How is the scientific potential of the team of authors evaluated?
6. What is the essence of the project score?

7. What indicators are taken into account when selecting projects for implementation?
8. What is the difference between the payback period and the periodpayback?
9. How is the net present value calculated?
10. What are the directions and principles of evaluating the effectiveness of innovativeprojects.
11. How to determine the minimum cost?
12. How is the estimated payback period for additional investments determinedin innovation?
13. How is the coefficient of comparative effectiveness calculated?

So, innovative management helps us to explore problems, to flow directly into the process. The answers to the above questions can be found using new methods.

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