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Investigation of the features of banking risks in the implementation of international investment projects in high-tech-areas

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The article deals with the analysis of theoretical aspects of structure of risk of financing of innovative projects and methods of its minimization.

Key words: *international project, banking risk, innovation, technology.*

Introduction. According to European Commission Directorate-General for Research [6] banks generally are characterized by a conservative profile (credit crunch origins excluded) but they sometimes finance their clients when they supply innovative products responding to public tenders. When a client applies for such a financial agreement the banks reduce risk through internal and external valuations; the valuation cost is carried by the bidder, who usually gets compensation from the state. Expert advice is crucial; best global experts are selected, who do not risk their credibility. Loans include a “stand-by loan” for potential cost overruns (same or marginally higher interest rate). Insurance coverage is mandatory against all events (third party, deferred income). In general banks request as many guarantees of all kinds as they can get.

Materials and Methods. The object of the paper is to article is to analyze the specific risks of international projects in the area of innovation. The survey was conducted on the basis of a systematic approach to the analysis of economic phenomena and processes using basics of modern economic theory, management theory and dialectical methods of scientific knowledge.

Results. Restoring profitability will require banks to work more effectively (to unlock new sources of revenue) and more efficiently (to cut costs). Innovation is a proven path to differentiation and competitiveness, but nearly 70% of banking executives rate their organization's performance in various innovation categories as poor or merely adequate. Moreover, only two banks – HSBC and Banco Santander – are listed among the world's 50 most innovative companies, a clear sign that the industry's approach to innovation lacks the sophistication required to deliver game-changing advancements.

As the economy is dynamically changing and innovation becomes crucially important, a look into the management practices and risks that such projects face should always be welcome.

Credit loans do not play a significant role in the financing of innovation. Is largely due to the presence of multiple risks. For example, when designing and implementing self-sufficiently radical innovation company faces such significant specific risks: innovation, technological, commercial and financial. The presence of such difficult-to-risk analysis does not allow banks to actively finance innovative projects. However, in Western countries, most of the banks are also trying to avoid the funding of such activities. Usually they are also experiencing difficulties in the examination of risk assessment.

Generally the risks of innovation consist of project risk (risk of unique projects within the bank risk, market risk or portfolio), a selective risk (the risk of a wrong choice of innovation), the time at risk (the wrong timing for innovation), risks, lack of funds, the risk of changes in legislation towards abolition of the new bank activity.

Although the internal and foreign operations are applied to the same basic principles of efficiency analysis, there are three fundamental differences between the two:

- 1) assessment of cash flows for foreign investment hampered by the local in-country withholding taxes on profits, restrictions on return (repatriation) capital, the possibility of blocking the international flow of funds.

- 2) foreign cash flows denominated in foreign currency.

3) there is the possibility of tighter government policies in the host country, which reduces distracting or cash flows.

In the implementation of an innovative strategy both through internal and external sources of financing, the company relates his actual one-time costs from problematic future income. In this regard, the international project risk accumulates all of the above types of risk associated with innovation, as well as a set of regular macroeconomic risks (economic, political, country, etc.) is proportional to the time of development and implementation.

Now you can understand the caution of banks in the provision of funds for high-tech projects , because, as a rule, long-term innovation projects with unpredictable results. In considering the possibility of financing banks conduct a more thorough analysis of the risks. Of the ten announced projects may be paying back at the best one. For the state, it is not bad, so it is, first of all, must support the banks of the second level of the risk of default of their assets invested in the high-end technologies, which ultimately will help strengthen the economy. Depending on the degree of completion of studies and the nature of R&D innovation projects are divided into the following categories:

1. Innovative projects related solely to the promotion of the finished product innovation;
2. Innovative projects with an unfinished stage of implementation;
3. Innovative projects with an unfinished stage of research;
4. Innovative projects with an unfinished stage of research;
5. Innovative projects with an unfinished stage of exploratory research.

As a rule, raising funds in innovative projects from commercial sources is possible with R&D output. Projects related to the promotion of the finished product innovation – the most attractive for investment. More risky projects are projects, focused on the promotion of new technology. For such projects to develop a marketing concept is more difficult. The biggest problems arise with the financing of the project with the unfinished stage of research and unfinished stage of exploratory research. When conducting exploratory research possible negative outcome, which

may be the result of misdirection studies erroneous statement of the problem, calculation errors, as well as the situation where the study is not completed on time. In carrying out R&D sometimes observed errors in estimating the timing of their completion; violations of standards and certification requirements, the resulting patentable results.

External factors greatly influenced on innovation. The main partners of the state act with its own system of taxation, suppliers, contractors, lenders and banks. An original source of the foreign market is the market with the implementation of its balance of supply and demand.

Chief among them is the fact that the projects are evaluated in two ways: in terms of parent and subsidiary companies. Duality occurs for the following reasons:

- 1) different economic conditions of countries, in particular the tax system;
- 2) there is the issue of repatriation of profits, either because of direct constraints, or because of taxes on repatriated profits;
- 3) important proportion in which profits are divided on reinvested capital investments in the country and exported.

Another major problem in assessing the international project is the complexity of accounting risks. This is also reflected in the choice of the discount rate, which is different in the country of the parent and the subsidiary, because they have different levels of risk. This problem is particularly acute when the parent company is located in a developed country, and the child – in developing in which case the discount rate may vary significantly.

In the case of financing of international investment projects there are certain characteristics that can be summarized as follows:

- are not the same assessment of optimal capital structure for parent and subsidiary companies. For example, if the country's capital allocation, there are restrictions on the quotation of the shares on the stock exchanges , the use of equity capital is becoming less profitable and optimal capital structure is shifted towards increasing the share of borrowed capital.

- don't match the optimal capital structure for companies with operations only in the domestic market, and those that go to international markets. In this case, for the latter companies added to currency risk, which should shift them to the point of optimality to the left, ie, to increase the proportion of equity capital. However, the final position in this theory is not yet proven.

There are also differences in the optimal capital structure in individual countries. The value of the cost of capital depends on the level of profitability required by investors. If it rises, the cost of equity capital increases, which necessitates a greater shift towards debt funds. Thus, if investors in different countries are content with different minimum level of return on capital, it also causes the differences in the optimal capital structure. Political and currency risks in the evaluation of international investment projects can be taken into account in two ways.

1. Adjustment of the discount rate used to estimate the national investment projects, with the addition of a new component of the discount rate, which takes into account a set of political and currency risks in other countries.

2. Adjustment of cash flow, with commercial and financial risks, as well as in the evaluation of national projects are accounted for in the discount rate. The relationship between these types of risk and the required level of profitability are in line with the known model of pricing in the capital market.

In the context of the promotion of innovative development of the banks should be partially offset by defaults on loans to small and medium-sized businesses. Funds allocated by the state to insure risks of innovation, especially banks providing long-term loans scientific innovators should, by analogy with the Western countries. Innovation state credit bank would take the liability insurance risks of banks when granting loans for the development of high technologies.

The level of credit default on innovative projects high – 8–8,5 %. Western development banks assume the risk of 15–25%.

Bank risk management must meet two basic requirements: firstly, consistent with the overall policy of the bank's risk -oriented assessment of the overall risk and,

secondly, meet the goals of the special risk policy, under which evaluated each type of risk.

Banks reduce risk through internal and external valuations [6, p.8]. When banks are asked to finance risky projects they expect the valuation cost is borne by the bidder; in certain cases national policies are to offer second and third bidders compensation from the State for that cost. Furthermore, banks rely heavily on expert advice; selecting – as needed – best global experts. One way to manage financial risks is offered by banks in the form of “stand by loans” for potential cost overruns (same or marginally higher interest rate). Insurance coverage is mandatory against all events. In order to decide on the interest of a bank to finance a project in the first place, “Go stop scorecard” approaches are used, through which risks are perceived and questions get binary responses.

Authors [5, p. 52] underline that the formation of specialized institutions providing financial-credit support of innovative entrepreneurship at both local and regional levels can be an example of cooperation between state and private investors while forming the specialized innovative investment banking institution. Such specialized financial and credit institution can be created with state as well as private investors being the founders.

Also at the state level should provide for the participation of banks in the spot monitoring of the results of promising experimental productions by some real testing of innovative products in their own activities.

Discussion and Conclusions. Corporate and retail banks are facing competition from new entrants and innovative business models. If that wasn't enough, shrinking margins and tighter regulatory requirements are adding to the pressure. Going forward, innovation is perceived as the key to growth and competitive differentiation. Only those banks that can successfully develop new products, services and channels in response to the changed market environment will survive.

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