

# Ways to Develop Financial Resources in the Innovative Development of the Economy

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**Abstract.** This article examines strategies for amassing financial resources to spur innovative economic development, a pressing global issue, particularly in light of the recent pandemic. Emphasis is placed on maintaining operational continuity in production and services by funnelling funds from national and international capital markets into the corporate sphere, preserving the financial stability of joint-stock companies, ensuring employment, and introducing novel financing mechanisms. The paper also provides a detailed analysis of economic studies on the structure and characteristics of capital markets. The process of garnering financial resources from capital markets, guided by cash flow direction and the deployment of hybrid financial instruments during finance agreement negotiations, is also discussed. Overall, the article seeks to elucidate and address the challenges of driving innovation in economic growth through effective financial resource management.

## 1 Introduction

In this paper, the studies of M. M. Rakhmatulina, A. V. Belousova, and N. V. Kolomiychenko on the criticality of financial resources in propelling innovation-led development are evaluated [4, 5, 6].

The capital market's role in propelling nations' economies is considerable. As noted by Abramova (2021), it fuels economic expansion by granting businesses access to crucial funding, enabling them to invest and expand. It further aids in diversifying production, enhancing existing production capabilities, advancing infrastructure, minimising production expenses via innovative technologies, and offering employee social support [2].

Vasiliev (2022) posits that the capital market can also augment a country's investment climate. A robust capital market has the potential to entice foreign investment, thereby stimulating economic growth. Additionally, it can foster a more efficient distribution of resources, as it allows businesses to acquire the financial resources needed to invest in the most profitable endeavours [1].

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Nevertheless, Kudryavtsev (2023) highlights the capital market's inherent challenges, including its volatility, which complicates business future planning, and its complexity, which can hinder businesses in leveraging it effectively [3].

Despite these challenges, the capital market has the potential to play a significant role in the economic development of countries. By providing businesses with access to the financial resources they need to invest and grow, the capital market can help to boost economic growth and create a more prosperous society.

## **2 Methods**

The capital market is a complex and multifaceted concept that has been studied by economists for many years [7]. It is not a single entity, but rather a system of interrelated markets that allow for the efficient allocation of capital.

The theoretical conceptual foundations of the capital market have been the subject of much debate. [8] Some economists believe that the capital market is a self-regulating system, while others believe that it requires government intervention to function effectively.

The criteria funding method is a relatively new method of financing that has been gaining popularity in recent years. [9] This method allows investors to provide financing to projects that would not otherwise be able to obtain funding from traditional sources.

The criteria funding method has been used to finance a variety of projects, including the acquisition of competing companies, the purchase of shares from shareholders, and the modernization of production. These deals have been worth billions of dollars and have the potential to generate significant returns for investors.

Renowned finance and financial management scholar, V.V Kovalev characterises the capital market as a hub for the accumulation and circulation of long-term capital and debt obligations. He posits it as a primary type of financial market where companies secure funds for their operations. In his research on the capital market's role and significance in driving economic growth, Dvoretzkaya A.E. suggests that the capital market optimally distributes funds and efficiently redirects national funds into investments [10].

Capital market researchers, Lapshina Z.V. and Praxt K.S., note that the capital market is a segment of the financial market where funds with a maturity exceeding a year circulate. According to Kasimova M.I., the capital market gives rise to economic relationships between economic entities, shaping the demand for investment goods on one side and supply on the other [11].

German economists L. Perridon and M. Stein, in their corporate finance research paper, define the capital market as an organised exchange where securities with over a year's maturity are traded.

In her scientific monograph on contemporary perspectives on the financial market and its structural segments, Ivanova V.V. describes the financial market as the realm of financial transactions utilising financial instruments.

Finally, F. Mishkin, who has contributed extensively to international financial market and institutions literature, refers to the financial market as a mechanism for transferring money from those with excess funds to those in deficit [12].

## **3 Results and discussion**

Benchmark financing, utilised mainly for infrastructural developments, encompasses a blend of debt and equity, predominantly sourced from government agencies, pension funds, and insurance corporations. This financing form offers several advantages over conventional debt financing, as follows:

Enhanced term length: Unlike the typical 10-15 year period associated with traditional debt financing, benchmark financing can offer extended terms. An infrastructural project such as a highway might avail a 30-year term under a benchmark finance agreement, crucial given the lengthy duration of such projects.

Risk distribution: Benchmark finance structures allow risk-sharing with the investors via the inclusion of performance-based terms in the agreement. Higher returns for investors contingent on successful, on-time, and budgeted project completion can boost private investment, as risk-sharing projects are more attractive to investors.

Private investment attraction: The capacity to attract private investment is another asset of benchmark finance. Its attractive risk-return profile, often offering higher returns at lower risks compared to conventional debt financing, incentivises investor participation [13]. The following table provides an in-depth, numerical representation of the global market trends, anticipated growth, and key aspects related to benchmark financing (Table 1) [14].

**Table 1.** Benchmark Finance: A Statistical Overview

Key Statistic	Value
Global benchmark finance market valuation (2021)	\$1 trillion
CAGR of benchmark finance market (2022-2027)	7%
Top markets for benchmark finance	North America, Europe, and Asia-Pacific
Typical cost of benchmark lending agreements	15-20% per annum with a 13.8% interest rate
Profitability/cost ratio of benchmark financing	10-15% per annum
Role of government agencies in benchmark financing	Instrumental in developed countries' capital markets

The following table elucidates on the distinct facets of benchmark finance, shedding light on its primary stakeholders, mechanisms in different regions, and inherent advantages (Table 2) [15].

**Table 2.** Additional Considerations for Benchmark Finance

Benchmark Financing	Description
European benchmark finance	Mainly held by specialist banks, creating a capital structure from borrowed and equity capital.
US benchmark finance	Insurance companies, pension funds, and special purpose funds are key players in the capital market. Commercial banks and insurance firms largely regulate the supply and demand of this financing form.
European benchmark capital funding	Through stock market investments, direct government agency financing, and concessional term public financing for private investment firms.
Benchmark financing advantages	Inclusion of project companies (SPVs), flexibility in dictating offer composition and price, the financial resources applied, and the capital involved.

Determining the appropriate target groups for benchmark financing involves careful consideration of several key factors. Chief among these are the nature of the business entity and the profitability of the organisation.

Specifically, the business entity type can influence the appropriateness and applicability of benchmark financing. For instance, larger corporations may be more suitable for this type of financing due to their capability to handle long-term debt and their access to diverse funding sources. Conversely, smaller businesses or start-ups may not be ideal candidates due to their limited financial capabilities and potentially unstable cash flows.

In terms of profitability, this factor serves as a measure of an organisation's financial health and its ability to repay the debt. Organisations with a strong track record of profitability may be seen as lower risk and hence more attractive for benchmark financing. Moreover, businesses with higher profitability may also be able to offer better returns to investors, thereby making the financing agreement more appealing.

Overall, understanding the type of business entity and assessing its profitability are pivotal for ensuring the effectiveness and viability of benchmark financing strategies [16].

Additionally, Government agencies play a key role in providing benchmark finance. In many countries, government agencies are the main providers of benchmark finance for infrastructure projects. This is because government agencies have the resources and expertise to structure and arrange benchmark finance projects.

There are different types of benchmark finance structures. The most common type of benchmark finance structure is a project finance structure. In a project finance structure, the project sponsors raise funds from investors to finance the project. The investors then share the risks and rewards of the project.

Benchmark finance projects can be challenging to implement. This is because benchmark finance projects often involve a number of different parties, including the project sponsors, the investors, and the government. These parties must work together to ensure that the project is successful.

The future of benchmark finance is promising. As the demand for infrastructure investment increases, benchmark finance is likely to become a more popular tool for financing infrastructure projects. This is because benchmark finance offers a number of advantages over traditional debt financing, including its longer-term nature and its ability to share risks with investors.

## **4 Conclusion**

To conclude, this study has illuminated salient facets surrounding the implementation of criterion financing, along with its current standing within domestic operations. A central point of focus has been the influence of the regulatory framework and its role in shaping the application of this funding method. Based on the insights drawn from this study, there are pressing needs for significant enhancements within this framework, particularly as it pertains to the treatment and accounting of derivative financial instruments.

As elucidated by V. V. Kudryavtsev (2023), one of the barriers to a more prolific use of criterion financing as a means to garner financial resources in the domestic context lies in the imperfection of the related regulatory landscape, particularly as it concerns the handling of derivative financial instruments. Kudryavtsev posits that this regulatory landscape needs refining, specifically with the inclusion of clear criteria that enable the differentiation between speculative and hedging transactions. Furthermore, it necessitates the detailing of processes for appeals to tax authorities on issues pertaining to derivative financial instruments.

Essential areas for improvement encompass establishing clear demarcation criteria for identifying whether transactions lean towards speculation or hedging, alongside furnishing

well-structured guidelines for tax-related appeals concerning derivative financial instruments. These refinements would go a long way in eliminating prevailing ambiguities, thereby encouraging a wider adoption of criterion financing.

The implications of this study underline the necessity for a more comprehensive, detailed, and transparent regulatory environment that promotes trust and bolsters the broader adoption of criterion financing. As we continue to witness an evolving financial landscape, it becomes pivotal for regulatory mechanisms to keep pace and offer robust support to innovative financing approaches, such as criterion financing. Future explorations in this realm may need to concentrate on the practical pathways to affect these proposed amendments, and assess their efficacy within real-world contexts.

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