

# EVALUATION OF ECONOMIC EFFICIENCY OF INVESTMENT IN INTERNATIONAL TRANSPORT AND COMMUNICATION ACTIVITIES

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*Investment of funds (capital) is an integral part of the development of production in activities of any entity of economy. Effective investments in the transport sector not only contribute to the progress of the sector entities, but also stimulate the expansion of transport and economic relations between sectors, regions of the country and between countries, and lead to increased mobility of the population and improve their living conditions.*

*Investments in the transport sector mean the totality of the long-term capital investments in its economic targets in order to obtain business income, interest or other benefits.*

Investments differ from current costs, firstly, that they are one-time, and secondly, that from the time of investment of capital by the time of receiving returns there passes a time period which is much longer than that which occurs in the current production as duration of turnover.

Types of investments can be subdivided (depending on destination) on:

*the real investments (capital investments)*, aimed at creating, acquiring new or reconstruction of existing fixed assets and increase in working capital, - the construction and acquisition of buildings, facilities, vehicles, equipment and other inventory materials. Capital investments – is the most common type of investments in the transport sector;

*the financial investments* associated with an investment of capital in equities, bonds and other securities, as well as in the statutory funds of other organizations. The main purpose of financial investments – is the formation of “portfolio” of securities, providing the investor receiving a stable percentage, regardless of the situation in the various sectors of the economy. Investments in securities are often called portfolio investments;

*the intangible investments* related to the acquisition of intellectual property objects by conducting scientific research and development.

The intangible investments include investment of capital in training and educating staff and other types of intellectual investments.

The terms of “capital investments” and “investments” are often understood as synonyms. Let’s compare how Great Dictionary of Economics interprets these two terms (Azrilyan A. N., 2004).

*Investment* - a set of spending realized in the form of long-term investments of capital in industry, agriculture, transportation and other sectors of the economy.

*Capital investments* - totality of expenses of material, labour and financial resources devoted to the expanded reproduction of capital assets of all sectors of the economy. Despite the identity of these two concepts, there has been established a tradition in the domestic economy attributed the term of “capital investments” solely to real investments.

The object of real investments in the transport sector can be a transport-road complex of the country and separate regions, transport communications, infrastructure, individual transport businesses and fixed assets of enterprises. The ratio of real investments in the active part of fixed assets to total capital investment is called the technological structure of real investments. In many automobile - road transport enterprises technological structure of investments is close to 100%, i.e. object of capital investments is mainly vehicles, fixed assets of industrial, administrative and economic purpose are almost not bought, not built and existing buildings, facilities, equipment are used or acquired on terms of leasing. This is particularly true for small and medium-sized enterprises.

The importance of investment in transport can be divided into national, regional, industrial relevance and importance for the business entity.

*The national significance* of investments in transport is related to the solution of problems of national importance and is determined primarily with strategic importance of investment objects, providing a secure and environmentally sustainable operation of the transport system, does not exclude the presence of non-state operator of the object of investments. In particular, national significance has investment projects for construction and reconstruction of automobile roads. The development of automobile roads contributes to the creation of conditions for development of economy and national resources, national security, raising living standards and the business activity of the population.

*The regional importance* defines an influence on the decision of industrial problems that are important to many businesses in a certain area. Investments in transport infrastructure (ports, multitransport terminals, and etc.) will contribute to the creation of conditions for the disclosure of the region's transit potential. However, investments in transport infrastructure are needed for the growth of foreign trade transportation through the territory of the region and creating in it favourable competitive conditions of intensification in the transport process of carriers.

*Investment project* – is a “plan (program) of the economic activities or business project implementation of which requires attracting investments” (Zavlin P. N., Vasilyev A. V., Knoll A. I., 2005).

Investment projects differ in size of capital invested and the size of the results obtained. Any one of them is directed to the future, which is very difficult to predict with reasonable certainty. Therefore, investment projects are associated with the risk of emergence of situations, in which the real results of capital investments will be lower than expected.

In considering options for investment to transport as in communication and infrastructure, as at the enterprise level, it is important to consider the degree of cohesion of projects.

Investment projects on the degree of relatedness are divided into:

- the alternative projects – these are mutually exclusive projects, and they can be evaluated simultaneously, but cannot be performed simultaneously. For example, for the purpose of investment there has been allocated a limited amount of funds and the implementation of one of the projects completely exhausts available resources. So, other projects cannot be implemented together with such investment project;
- the independent projects - these projects do not affect each other. They can be assessed independently and implemented simultaneously. For example, construction of roads across the country, or the acquisition of car by Transport Company and investing funds in the reconstruction of the garage;
- the interconnected projects – these are projects, the adoption of one of which depends on the acceptance of the other one. These projects are estimated simultaneously with each other as a single project, and as a result, it is made one decision that includes both projects, or both decisions are rejected. For example, the construction of the sea port and access roads (automobile and / or rail roads).

The significance of an investment project for a single economic entity (branch) was evaluated in terms of the objectives of activity of this subject in the market.

The objectives of capital investments in the transport sector are as follows:

- the improvement of efficiency of transport industry. In this case the investments are intended to reduce production costs due to the replacement of rolling stock and equipment to newer, more productive means, by moving the auxiliary production or service stations to areas with more favourable conditions of work or due to other events;
- the expansion of transport industry. Investing funds in accordance with this purpose should provide an increase in the volume of transport services in the existing markets. Generally, the object of investments in this case is rolling stock;
- the creation of new transport technologies and industries. Investments in this case can be directed to the creation of new enterprises, development of new markets, and the discovery of new, previously not provided transport services;
- maintaining the capacity of the current transport industry. Invested funds are allocated for capital repairs of facilities, as a rule, the passive part of the main transport funds.

Methods for conversion of investments in fixed assets are as follows:

- new construction. On transport, the term “new construction” can be applied only to objects of infrastructure, traffic routes, and newly established enterprises. A feature of the new construction is the organization of work at new sites and on the originally approved plan. For example, the construction of a new automobile road in the

area where it has been absent; construction of a new terminal in the transport unit; the creation of new transport companies, starting with the construction of industrial and administrative buildings;

- the expansion involves the construction of new facilities in new areas, in addition to existing. Examples of investments in order to increase transport industry can serve as a transport terminal construction to increase capacity of the current terminal complex; the acquisition of rolling stock by transport companies in order to increase the size of the park due to the increasing market share of the enterprise;
- reconstruction and technical re-equipment of entities of transport industry. Complete or partial conversion of production without building new and expansion of existing facilities of main production. This reconstruction can provide construction of facilities of maintenance, auxiliary production. An example of reconstruction may be construction three-line highway instead of two-lane highway; redevelopment of repair area and garage of transport enterprise in order to allocate free spaces. Technical modernization – is carrying out complex of planned measures on improvement of technical level of individual production units by implementation of new equipment, technology, mechanization, automation and replacement of obsolete, worn-out equipment with new, more productive ones. Technical modernization is made without expansion of production spaces. Examples of technical modernization are the replacement of equipment for carrying out diagnostic work with cars, replacement of worn rolling stock without increasing the size of the park.

Capital, as we know, has the property of mobility that allows it to leave quickly and easily enough the areas where the investment processes are excessively risky and unsafe. However, the actual investments are immobilised assets, investment capital largely loses its mobility, and it becomes more vulnerable. This becomes the most important reason that in the field of capital investment is subject to special requirements for the feasibility study, to the degree of reliability of the parameter estimates, efficiency of capital investment projects (investment projects).

Development of investment projects is preceded by the study of the investment climate. This makes it possible to understand and summarize the different characteristics of the test project. The set of political, macro- and micro-economic, social, psychological and other factors that characterize the feasibility and reliability of the investment projects forms the investment climate (environment), which determines the propensity of economic agents to invest in a particular industry.

Investment climate meet the following components:

- general parameters for a number of industries: the political situation, State economic policies, development trend of the economy, the tax system and tax incentives for investment, customs regime, the state and trends of financial and credit sphere and others;
- industry parameters: the level of income and profitability of activities performed, the level of business risk, duration of return on investment, characteristics and market trends (latitude, capacity, competitiveness, prospects of development), the impact of development of the industry to other sectors of the economy and society, and so forth..

Assessment of general economic parameters of investment climate requires special studies.

Evaluation of the investment environment of the transport sector the parameters may be different for different regions of the country, for the areas of services, such as transport in international and domestic communication for businesses of different sizes.

To decide on the capital investment necessary to evaluate the parameters of the investment climate, which allows you to establish the possibility of investing in specific circumstances and the extent of related (investment, business, etc.). However, it should take into account the inevitable subjectivity of evaluating the attractiveness of investment projects.

If we consider the assessment of the investment climate in the industry the first stage of the investment decision, the next step is to form the base of criteria assessing the effectiveness of investment projects.

## References

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