

## THE ROLE AND IMPORTANCE OF FINANCING INVESTMENT PROJECTS

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### Abstract:

This article examines the concept and essence of investment projects, investment lending and project financing, the role and importance of investment projects in the development of the country's economy, the donation of international financial institutions and foreign banks in the formation of investment resources of commercial banks. Moreover, the possibilities of applying international experience in financing investment projects, the cooperation of commercial banks with the International Finance Corporation (IFC), the International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), as well as other development institutions were considered.

**Keywords:** investment project, donation, credit resources, international financial institution, loan agreement, banking product.

The investment project serves as the basis for the development of the country's economy in general and industrial enterprises in particular. Any financing is associated with insufficient own funds, the need to find credit resources from commercial banks. The effectiveness of the investment project directly depends on the price of credit funds.

Financing of investment projects is associated with a high risk of losing the resources of both the initiator of the project and the lender. In this regard, bank lending often acts as an additional source to existing financial resources. "The shortage of investment resources, the unfavorable investment climate, and the lack of an active innovation policy of the state affect the investment activities of organizations. The



availability of financial resources is necessary for the effective implementation of any investment project"<sup>1</sup>.

Loans for investment projects are always associated with high risk and many banks are cautious about the development of financing investment projects, considering it the most risky and preferring lending to small and medium-sized businesses, as well as retail lending, which is more statistically calculable.

The targeted placement of attracted funds by financing investment projects, increasing income and the number of corporate clients is a measure of the bank's success. The irony is that "it was the pursuit of maximizing the rate of return, the desire to get the maximum possible income from lending to corporate clients, that led many well-known banks to financial success"<sup>2</sup>.

There are some difficulties in the development of investment lending due to the lack of professionals in the labor market in the field of financing large projects, the high demand for specialists in the field of project financing, as well as problems of standardization and ways to solve them, building the next job on the conveyor at the scale of bank branches. Foreign experience shows that if there is a desire of the bank's Board and the allocation of appropriate resources, it is possible to build a system for financing investment projects in 5-6 years of hard work, and in a fairly short period to develop this area in all branches of the bank.

Any investment is the main factor in the innovative development of the country's economy. The lack of investment resources, an undeveloped investment climate, and the lack of a developed innovation policy of the state affect the investment activities of industrial enterprises. For the successful implementation of each investment project, first of all, it is necessary to have sufficient financial resources.

Financing of an investment project is a complex process that includes a variety of tasks to determine the necessary sources for the implementation of the project in appropriate amounts, as well as to ensure favorable conditions for the development of accumulated funds.

In accordance with regulatory legal acts, the financing of investment projects is carried out by the initiators of the projects at the expense of their own and borrowed funds. Thus, the main sources of financing are divided into internal and external.

<sup>1</sup> Z.V. Chebotareva, "Sources of financing for investment projects", Eurasian Union of Scientists (EUU) No. 3 (48), 2018| Economic Sciences.

<sup>2</sup> L.F. Muradova, "Ways to increase the profitability of commercial banks' assets in the context of modernization of the economy of Uzbekistan", PhD thesis – Vol.: 2018.



Today, the reform of the banking system is one of the important factors in the development of the banking system of Uzbekistan. International financial institutions such as the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB) are involved in the process of transforming state-owned banks. Therefore, it would be advisable to link the results of the study with the role and importance of technical support from international financial organizations in financing investment projects. In the course of the consistent reform of the financial sector, a number of measures have been implemented, as a result of which the necessary legal conditions have been created for conducting a progressive banking business and strengthening the competitive environment in the sector<sup>3</sup>.

In order to improve opportunities for the implementation of investment projects, work has intensified to attract credit funds from international financial institutions, including the International Bank for Reconstruction and Development (IBRD). The IBRD, as the largest development bank in the world, offers financial products and advice to countries on policy development, economics and investment climate development in order to reduce poverty and extend the benefits of sustainable economic growth to the entire population.

The activity of banks in the timely disbursement of borrowed funds has increased, and the investment climate in the country has begun to develop rapidly due to the development of financing of investment projects. International financial institutions have a peculiar scheme for the circulation of investment resources, which is strictly observed by authorized banks in the field of development of a particular sector of the economy.

If, as an example, we consider a certain project of the international Financial Institute, the IBRD, the World Bank Group, then a loan agreement is concluded between the World Bank and the Ministry of Economy and Finance of the Republic of Uzbekistan within the framework of the project "Improving the energy efficiency of industrial enterprises". The aim of the project is to finance energy efficiency projects, both in the public sector and in the private sector. Each commercial bank forms a list of promising energy-efficient (this criterion is important) projects and

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<sup>3</sup> Decree of the President of the Republic of Uzbekistan, dated 05/12/2020 No. DP-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan."



provides them to the project implementation (coordination) group under the Ministry of Economy and Finance of the Republic of Uzbekistan.

The implementation of investment projects is a key factor in the development of the economic activity of the enterprise, improving product quality, reducing production costs, as well as ensuring competitiveness in the market of products and services. Financing investment projects on a large scale has a significant impact on the GDP of countries, poverty reduction, unemployment, as well as on macroeconomic equilibrium.

Due to the investment of funds in the investment project, its successful implementation, economic growth is achieved in general. The direction of investments in the green economy is a requirement of the time, as well as a new trend in the world of innovation. New financing facilities, such as renewable energy sources, waste recycling plants, energy-efficient equipment, provide the investor with a large income and profit growth for a long time.

A characteristic feature of financing investment projects is their payback, return of funds to the investor with an increase, and the potential return on invested funds should correspond to the risk of the investment project. The created economic conditions, the efficiency of markets, access to capital and the availability of investment experience affect the successful implementation of investment projects. Considering the above, it can be concluded that the competent organization of financing investment projects is a necessary element of economic development and has a positive effect on the economic growth of the country. In order to improve the investment climate and the importance of implementing investment projects, it is necessary:

- analysis of the technical, financial and operational aspects of the technology being acquired within the framework of the investment project, which helps enterprises minimize technological risks in the project;
- obtaining consulting assistance in the evaluation of investment projects and their further financing;
- Enhanced capacity building for entrepreneurs and key stakeholders such as investors, project initiators, suppliers;
- expanding the reach of investors, lenders and project initiators interested in adapting or installing effective production technologies;



- receiving technical support from IFC, EBRD and ADB on climate change management and applying it in project evaluation practice;
- implementation of investment projects developed within the framework of government programs that contribute to the economic growth of the country;
- development of roadmaps for the targeted attraction of investment resources from international development institutions;
- building the capacity of employees in assessing and minimizing the risks of investment projects, at all its stages.

Based on the above, it should be noted that the implementation of financing investment projects is extremely necessary in the economic development of the country.

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