

ANALYSIS AND ESTIMATION OF EFFECTIVENESS OF INVESTMENT PROJECTS

Egamnazarova Lobar Alisher qizi

University of world economy and Diplomacy, Tashkent Uzbekistan

International economy and management faculty

Abstract: *An analysis of the state of development of investment projects in Uzbekistan was carried out. General presented characteristics of the international practice of existing methods of evaluating the effectiveness of investment projects/programs. The justification of the feasibility of making investment decisions is presented regarding selected projects/programs. The stages of development and implementation of the investment project/program are presented, namely: organizational and preparatory stage; the stage of direct project/program development; stage of coordination and approval of the project/program; the stage of project/program promotion and monitoring of its implementation.*

Keywords: *investment projects, methods of evaluating the effectiveness of investment projects, stages of development investment projects/programs.*

1. Introduction

The relevance of research is due to existing political and socio-economic problems in Uzbekistan, a significant drop in production in certain sectors of the national economy and, as a consequence, a decrease in investment activity both among many enterprises and among individual investors. At the same time, the imperfect legal field and the ineffectiveness of the existing investment mechanisms also predetermine the creation of an unfavorable investment climate in all sectors of the domestic economy, in turn, does not encourage domestic and foreign investor to further conduct investment activities. Increased competition in the world and domestic markets, rapid development and change of production technologies, diversification of production, and new criteria for assessing the effectiveness of business projects – all this led to new requirements for the financial analysis of investment projects/programs in building sector. In this regard, the role of an effective analysis of financial and economic activities and the calculation of investment efficiency in the work of building companies is constantly growing. With the help of the analysis, the trends in the development of building are studied, the implementation of investment decisions is monitored, the reserves for increasing the efficiency of building production are revealed, the results of the activity of building companies are estimated, and an economic strategy for their further development is planned. Calculations for various long-term building projects are carried out taking into account the international practice of effectiveness evaluation of investments (investment projects/programs).

2. The aim and objectives of research

The aim of research is to determine the main methods for evaluation of effectiveness and stages of developing investment projects. A systematic approach to the realization of

the aim of research determines the solution of the main objectives: 1. Development of methodological and theoretical bases of investment. 2. Analysis of the main financial criteria for making investment decisions. 3. Definition of the basic directions of investment decisions on the basis of development of the investment project/program.

3. Research of existing solutions of the problem

Let's address to definitions. Investments are the costs of restoring depreciated fixed capital and increasing fixed capital. Since investments are one of the main components of GDP, the fluctuations in investment flows reflect the patterns of the cyclical development of the economy in the country. The definition of the concept of «investment» did not exist before; it was replaced by the concept of «capital investments». Modern world experience has many theoretical and practical improvements in the development and analysis of investment projects, which are of great importance for the study and development of investment processes in Uzbekistan. The most famous foreign and domestic authors in this direction are a wide range of issues on financial management and investments, including financial management and investment attraction in transition countries, problems of financial diagnosis of investment projects, problems of managing financial flows and costs, budgeting problems and investment planning. Many theoretical and practical developments are devoted to the general characteristics of methods for assessing efficiency, the main criteria for the effectiveness of investment projects, the analysis and evaluation of risks of investment projects, the technology of compiling a business plan for investment projects. A lot of scientific developments are also devoted to the development of complex tasks in the field of investment design and forecasting financial reports on the calculation of investment efficiency. However, scientific research of certain aspects of investment activity does not take into account the specifics of the development of the domestic market for investment services. There is also an urgent need for a scientific justification and detailed development of technology for the preparation and practical implementation of investment projects/programs in Uzbekistan. Insufficient state of the research of the scientific problem as a whole, the urgent need to develop practical recommendations for enhancing the investment of the Uzbek economy cause the relevance of the research topic.

4. Methods of research

The methodological basis of research is the general scientific methods of financial research and calculations, the provisions of foreign and domestic economic thought on the problems of investment at macro- and micro-levels. The information base of research is the normative documents of the ministries of economy and regional development of Uzbekistan, analytical reviews of foreign experts, scientific and financial and educational literature of leading international universities.

5. Research results

Investigating the international practice of investment effectiveness evaluation, based on the concept of the time value of money, it can be summarized that it is based on such principles

1. Effectiveness evaluation of the use of invested capital is carried out by comparing the cash flow, which is formed in the process of implementing the investment project and the

initial investment. The project is considered effective if it provides a return of the initial investment amount and the required return for investors who have provided this capital.

2. The capital raised to investments, as well as the cash flows generated by this capital, is reduced to the present time or to a certain calculation year (which usually occurs at the beginning of the project). 3. The process of discounting capital investments and cash flows is made at different discount rates, which are determined depending on the specifics of investment projects. When determining the discount rate, the structure of investments and the value of individual components of capital are taken into account. The essence of all evaluation methods is based on the following simple scheme: the output investment in the implementation of a project generates cash flow $CF_1, CF_2, CF_3 \dots CF_n$. Investments are recognized as effective if this flow is sufficient to return the initial amount of capital investments and ensure return of invested capital. When calculating efficiency, the following indicators of the effectiveness of capital investments are most common, namely:

- Discount payback (DPB);
- Net present value rule (NPV);
- Internal rate of return (IRR).

These indicators, as well as the corresponding methods, are used, mainly in two versions, namely:

- to determine the effectiveness of independent investment projects/programs (so-called absolute efficiency), when it is concluded whether to accept the project or reject it;
- to determine the effectiveness of mutually exclusive projects (comparative effectiveness), when it is concluded which project to adopt from several alternative ones.

In conclusion of consideration of the general provisions of the technology for effectiveness evaluation of investment projects, two main assumptions can be noted that are taken into account in calculating performance indicators and, accordingly, making investment decisions, namely:

1. Cash flows are given at the end of the estimated period of time. In fact, they can appear at any time during the considered investment period.

2. Cash flows generated by investments are immediately invested in any other project to provide additional profit from these investments. Among the most significant investment indicators used in the world – a criterion for investment, which leads to respect for the welfare of shareholders – is net present value rule. NPV is a value which increases the welfare of the shareholders of the company. Formulated as a major criterion for investment decision of managers, this rule dictates – invest in the proposed project if its NPV is positive. In relation to large projects with long payback periods, it is unlikely that the application of the commercial efficiency criterion will bring accurate results. In addition, in large projects, Uzbek investors are not interested today, and therefore support from the state is needed here. Criteria for effectiveness evaluation of such projects should be indicators of general economic (national) efficiency, that is, direct, side and full effects from implementation should be assessed. The most important results of financial and investment analysis should also be conclusions on the investment attractiveness of investment objects and the possibilities of using the investment market. At the stage of the project idea, it is very

important to know how effective the project management's actions will be in attracting finance for its implementation. Therefore, it is necessary to conduct a preliminary analysis of all proposed variants of the investment project in order to obtain a response to three main questions:

1. How what the specified objectives of the investment campaign correspond to the existing objective requirements (the effectiveness of certain goals).
2. How what the obtained results correspond to the outlined tasks (the effectiveness of the campaign).
3. How what effective the costs (financial, human, temporary) of obtaining the planned result. To evaluate the effectiveness of the final results of the investment campaign, the cost recovery ratio (Cr) and the profitability ratio (Rf) are used .

The cost recovery ratio shows, how many times for the chosen period expenses pay off at the expense of raised funds in the investment project:

$$C_r = \frac{\text{Raised funds}}{\text{Project costs}} \quad (1)$$

The investment profitability ratio shows how much the profit (the difference between the raised funds and the project costs) is per unit of funds raised for the investment project (from the investment company).

$$R_f = \frac{\text{Profit}}{\text{Raised funds}} * 100 \% \quad (2)$$

Analysis of the effectiveness of investment companies in Uzbekistan is possible only if the system of financial and audit accounting is well-organized. The effectiveness of cooperation with various donors can be displayed in: the number of requests for project/program support; the number of positive answers; the total profit amount; average amount of project/program support; received profit in comparison with the forecasted, etc. After the analysis it is possible to draw a conclusion about the prospects of further work on this or that project. Investigating the problems of search and search for investment programs, we came to a conclusion about the main issue of the investment planning process and the investment decision. This is, in our opinion, the investment project itself . The analysis of the investment project presents a rather complex sequence of decisions regarding possible events in time, from the first idea of the project, the collection of information on the assessment of possible revenues and expenses for project implementation, and the development of a step-by-step strategy for its implementation. At the same time, it is rather difficult to forecast all possible costs and revenues from the project. They will depend on decisions and actions that can be controlled, and on the logic of events developing spontaneously. At the same time, it should be noted that it is difficult not only to forecast cash flows, but also to give the most correct assessment of their possible impact on the final value of the raised investment capital.

6. SWOT analysis of research results Strengths.

The strength of research is the possibility of preliminary analysis of the investment project in order to get an answer to the question: how many of these goals of the investment campaign correspond to the existing objective requirements and outlined objectives of the investment project. Weaknesses. The weak side is that the obtained data regarding the

development of stages and the calculation of the effectiveness of investment projects are related to the time value of money. Opportunities. Opportunities for further research is the borrowing of international investment experience of developed countries to improve the analysis of the methodology for calculating the efficiency and profitability of investment projects. Threats. Threats to research results are that it is impossible to finally answer the question: how effective will the costs (financial, human, temporary) to obtain the final result.

7. Conclusions.

1. Analysis and processing of the state of development of investment projects in Uzbekistan requires selection and improvement of methods for effectiveness evaluation of investment projects used in world practice. It is also necessary to continue studying international experience in planning investment projects, that is: mechanisms for optimizing investment projects; assessment of financial provision of investment projects; marketing and implementation work on certain investment projects, forecasting of financial reports and calculation of indicators of investment projects. There is a need to develop standard problems of investment mathematics, etc.

2. Making any investment decisions regarding a certain investment project/program, as well as the stages of its development, are related to the analysis of the financial criteria for the evaluation of the project/program. When calculating the effectiveness of an investment project, it is necessary to apply such indicators of the effectiveness of capital investments, namely:

- Discount payback (DPB);
- Net present value rule (NPV);
- Internal rate of return (IRR).

These indicators, as well as the corresponding methods, are used, mainly in two versions, namely:

- to determine the effectiveness of independent investment projects/programs (so-called absolute efficiency);
- to determine the effectiveness of mutually exclusive projects (comparative effectiveness).

3. In order to make an optimal investment decision, the project organizers must do a great deal of analytical and financial work, which includes, in particular, all calculations for implementation the investment project, as well as effectiveness evaluation of investment projects based on the concept of the time value of money. Determination of the main directions for investment decisions based on the development of the investment project/program is related to the coordination of the system of general monitoring and control over the implementation of the investment project in accordance with the intended purpose. Almost all types and means of financial calculations and financial control can be used for this, which, in turn, are accompanied by corresponding expected forecasts.

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