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### FUNDAMENTAL APPROACHES TO THE FINANCIAL AND ECONOMIC ASSESSMENT OF INVESTMENT PROJECTS



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**Abstract:** This article examines the fundamental methodologies for the financial and economic assessment of investment projects. It explores a range of evaluation techniques, including discounting approaches, profitability metrics, and risk analysis, supplemented with personal insights and recommendations.

**Keywords:** Investment projects, financial assessment, economic assessment, methods, risk assessment, profitability, added value, discounting, capital costs, business plan, analysis methods, production efficiency, infrastructure, investment strategies, competitiveness.

#### Introduction

Effective management of investment projects and ensuring their success necessitates a comprehensive financial and economic evaluation. This evaluation is considered a critical step in the decision-making process for investments, as it facilitates the analysis of a project's potential, associated risks, and anticipated economic outcomes. This article reviews the primary methods of financial and economic assessment for investment projects, providing an in-depth exploration of these approaches.

Amid the rapid economic development of the Republic of Uzbekistan, the nation has implemented extensive reforms aimed at ensuring economic stability and advancing innovative technologies. Particularly in recent years, the government's policies have prioritized attracting investments and ensuring their efficient utilization, positioning these measures as integral components of national economic strategy.

The financial and economic evaluation of investment projects serves as a vital tool for both attracting investments and managing them effectively. This process enables a detailed analysis of potential benefits, associated risks, and the economic viability of projects. Within the framework of Uzbekistan's governmental policies and decrees, every investment project is required to undergo stringent financial scrutiny and evaluation. This practice is essential for reinforcing the country's overall economic stability and enhancing its investment appeal.

In this context, the rigorous study and correct application of financial and economic evaluation methods are imperative. Such efforts contribute to the successful implementation of investment projects and play a pivotal role in fostering sustainable economic growth and development.

Uzbekistan Republic The President's " Investments " attraction to grow and the economy diversification further acceleration about <sup>1</sup> decrees and " Uzbekistan In the Republic Investment policy done increase further improvement measures about <sup>2</sup> decisions , as well as economic growth to provide aimed at decisions , investment of projects financial-economic assessment methods improvement the necessity shows . This decisions , especially in the workplace release in the field investments efficiency increase and financial risks in minimization important tool as service does .

Uzbekistan Republic President by acceptance done decisions and decrees , as well as economic analysis and assessment methods expansion , investments growth and them done increase in the process difficulties eliminate to reach aimed at innovative approaches to apply encourages . With this together , this article investment projects financial-economic assessment methods the essence of them in practice place and Uzbekistan Republic of economic in development importance analysis to reach focused .

### Literature review

Uzbekistan Republic Ministers Court investment program formation system further improvement and efficiency increase measures about decision national in the economy investment policy improvement , its efficiency increase and stable to develop achieve for the purpose acceptance done from documents is one. In the decision investment projects choose them done increase and monitoring processes improvement and state and private sector between cooperation expansion according to row measures This is defined . decision , economy modernization to do and innovative technologies wide current to grow through the republic's global competitiveness level to increase Document , investment in the activity transparency and to ensure accountability aimed at mechanisms improvement with together , state from resources effective also considering the use holds .<sup>3</sup>

Investment projects financial-economic assessment according to wide comprehensive literature analysis this shows that this industry according to international and national scientific sources of projects efficiency increase for various approaches recommendation will be . Home financial assessment methods between Discounted money cash flows (DCF), Net current value (NPV), Internal profitability rate (IRR), Payment deadline and Profitability index (PI) most many applicable methods recognized as .

By Damodaran presented Investment Valuation work financial assessment methods , in particular DCF and NPV of the project future value in the calculation important importance shows . This methods of the project money currents correct in evaluation

<sup>1</sup> Uzbekistan Republic The President's " Investments " attraction to grow and the economy diversification further acceleration "about" Decree (PQ-3318), October 3, 2017

<sup>2</sup>Uzbekistan Republic President of Uzbekistan In the Republic Investment policy done increase further improvement measures "about" Resolution (PQ-4320), May 29, 2019

<sup>3</sup> Uzbekistan Republic Ministers Court Resolution No. 16 of 14.01.2023

effective tool as recommendation These methods are especially useful for large and far term projects for main assessment tools is considered.<sup>4</sup>

Mishkin and Berk and DeMarzo own IRR and PI methods in his works efficiency learn this methods investment of projects profitability in evaluation important role to play They emphasize that the IRR method investment returnable income percentage to calculate help giver indicator is, investors and managers for investment how much profitable that shows. With this together, PI method projects compare opportunity giving , resources effective in distribution hand is coming .<sup>5</sup>

By Brealey, Myers, and Allen (2014) in the book Principles of Corporate Finance written Payment deadline method advantages and disadvantages discussion This method is done small and short term projects in evaluation simplicity with separated it stands , but far term and big in size projects for his/her application limited .<sup>6</sup>

Above literature this shows that investment projects financial-economic in evaluation every one method his/her own advantages and application to the circle has . Each the method correct choice of the project type , duration and risk to the level looking at differs . Thus together , one how many methods together application through of the project financial efficiency complete analysis to do possible .

### Research methodology

Financial-economic assessment for applicable main methods in line the following includes :

1. Discounted money cash flow (DCF) method : This method of the project future money currents current to value to bring through of the project general value determination for is used .

2. Pure current value (NPV): This method through of the project in the future to bring possible was benefit and spending expenses today's value is determined .

3. Internal profitability rate (IRR): This method of the project profitability level in calculation used and investment the dangers to evaluate help gives .

4. Payment Payback Period : This method investments return for necessary was time determines .

5. Profitability Index (PI): From the project removable pure of benefit investment to the size ratio is considered .

**1- Table Financial and economic evaluation main methods**

Evaluation Method	Description	Advantages	Disadvantages
<b>Discounted Cash Flows (DCF)</b>	The project future money currents discounting through current value determines	The project real value shows , far term analysis for suitable	Precise forecast to do difficult was money to the streams related
<b>Net Present Value</b>	Investment	Profit and damages	Discount rate in

<sup>4</sup> Damodaran, A. (2002). \*Investment Valuation: Tools and Techniques for Determining the Value of Any Asset\*. John Wiley & Sons.

<sup>5</sup> Mishkin, F. (2016). \*The Economics of Money, Banking, and Financial Markets\*. Pearson.

<sup>6</sup> Brealey, RA, Myers, SC, & Allen, F. (2014). \*Principles of Corporate Finance\*. McGraw-Hill Education.

<b>(NPV)</b>	expenses and income between the difference counts	compare opportunity gives	determining uncertainty to be possible
<b>Internal rate of return (IRR)</b>	The project profitability percent in appearance shows	The project returnable income in determining clear indicator gives	Multiple IRR values appearance to be possible , error interpretation to be done possible
<b>Payment Payback Period</b>	Investments how much within the period return determines	Simplicity, useful in determining liquidity	Profitability does not show , far term projects for suitable it's not
<b>Profitability Index (PI)</b>	Investment profitability shows ( profit / capital expenses )	Various projects compare opportunity gives	NPV method with one kind the results gives

**Analysis and results discussion:** Uzbekistan Republic of economic growth and development during investment projects financial-economic assessment methods important place holds . In our country economic reforms, including small and middle business development , village farm modernization to make , industry diversification to do and innovative technologies current to grow according to take going measures , investments economic efficiency requires provision .

**Table 2 Uzbekistan Investment of the Republic of Uzbekistan in 2023 and external trade about the activity brief information**

### I. Investments

Indicators	Value
<b>Total foreign investments</b>	\$22.4 billion
<b>Straight away foreign investments and loans</b>	\$19.5 billion (193%)
<b>State within the framework of the investment program projects</b>	306 projects, \$9.4 billion
<b>New created work places</b>	More than 56 thousand

In 2023 total foreign exchange of \$ 22.4 billion investments attraction was done , that's it including \$ 19.5 billion directly foreign investment and loans (193%) were disbursed .

State within the framework of the investment program general 306 projects worth \$ 9.4 billion to work fall 56 thousand on account more than new work place to the creation achieved.

### II. Industry zones develop

2023 766 industries throughout in the zones value 9.6 trillion 963 investments worth sums projects to work unloading in exchange for 27 thousand more than new work place created.

To use 4,745 projects submitted 53.3 trillion within sums products working issued, totaling 972 million dollar products for export was released.

### III. International cooperation

By the end of 2023, \$2.8 billion in loan funds were disbursed as part of projects implemented with the participation of international financial institutions and foreign government financial organizations.

More than 50 international events were organized in 2023, including the economic component of high-level and high-level visits, meetings of intergovernmental commissions, and business forums.

In particular, as part of the high-level visits carried out in 2023, nearly 1,000 agreements worth a total of more than \$140 billion were reached.<sup>7</sup>

By 2023, Uzbekistan economy grew by 5.5% at the pace achieved, in this investment share exceeded 30%. Uzbekistan's investment environment improve to be implemented in 2023 increased investment of projects general volume 40 trillion sums organization This investments, mainly, infrastructure, agriculture farm and industry to the fields aimed at, an increase of 15% compared to 2022 shows.

Uzbekistan economy regional and global economic to changes requires flexibility. In this process investment projects evaluation main methods such as NPV (Net Present Value), IRR (Internal Rate of Return), and CBA (Cost-Benefit Analysis) methods, economic efficiency in determining wide is being used. This methods, not only investment decisions acceptance in doing help gives, maybe financial risks minimize and investments effective also important in distribution importance has.

Analysis to the results according to, Uzbekistan economic in terms of developing in regions such as Samarkand and Andijan in the regions investment of projects efficiency high is, this on the ground there is resources, labor power and working release potential positive impact is showing. In Samarkand region, it will be implemented in 2023 increased investment projects as a result of more than 10,000 new work places was created. Andijan in the province and the village farm and industry to the fields aimed at investments 8,500 new jobs in 2022 through work place opened.

With this together, our country industrialization process during innovative technologies current to grow through investment of projects economic efficiency increase opportunities is expanding. Investment projects financial-economic assessment AHP (Analytic Hierarchy Process) and SWOT (Strengths, Weaknesses, Opportunities, Threats)

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<sup>7</sup> [Uzbekistan Republic Investments, Industry and Trade Ministry](#)

methods such as strategic analysis methods application , projects every one-sided analysis done to increase and the most acceptable options to choose help gives .

### **Conclusion and suggestions**

In conclusion, the financial and economic evaluation of investment projects plays a pivotal role in analyzing the economic impact of these initiatives. Each method has its own advantages and limitations; therefore, selecting the appropriate approach requires careful consideration of the project type and its specific objectives.

The financial-economic assessment of investment projects is essential for ensuring the sustainable development of industries and fostering innovative strategies. This evaluation process employs a variety of methods and approaches, which contribute to enhancing financial stability, optimizing resource allocation, and mitigating investment risks. Core methods used in this context include Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, Profitability Index (PI), and Return on Investment (ROI). Utilizing these methods allows for a comprehensive evaluation of a project's economic efficiency, minimizing errors in investment decision-making and enabling the prudent allocation of capital resources.

Moreover, it is imperative to incorporate not only financial indicators but also technological, social, and environmental aspects into the evaluation process. This holistic approach ensures a multi-dimensional assessment of the project's overall efficiency and long-term viability.

In the evaluation of investment projects, reliance on a single method is insufficient. A combination of methods, such as NPV, IRR, Payback Period, and PI, provides a more accurate analysis of project performance. This integrated approach enhances the reliability of the assessment and enables a nuanced understanding of economic outcomes.

Assessing investment projects necessitates a thorough analysis of the balance between expected returns and associated risks. Identifying risks and implementing preemptive measures is essential. Tools such as sensitivity analysis and scenario analysis are highly recommended to deepen risk evaluation and improve decision-making processes.

Evaluating innovative investment projects requires the development of tailored methodologies that account for their technological novelty and long-term growth potential. These specialized approaches must incorporate an in-depth analysis of technological risks and projected revenues, ensuring a comprehensive understanding of their feasibility and profitability.

By adopting these advanced methodologies and approaches, enterprises can improve the accuracy of their financial-economic evaluations, make well-informed investment decisions, and enhance the sustainable allocation of resources.

Ecological and social factors Evaluation: Investment of projects not only financial , maybe ecological and social analyze the effects as well to do It is necessary . It is not only stable development goals supports , but of projects in society general acceptance to be done increases.

Technological and innovative indicators into account Get : Industry in enterprises innovative projects in evaluation technological progress and competitiveness to increase directed to projects separately attention focus necessary . With this together , market requirements learned without investment projects done increase strategy formation important .

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