FINANCING BUSINESS PROJECTS THROUGH FOREIGN LOANS

Dilrabo Malikova
Samarkand Institute of Economics and Service
Acting Associate Professor of the Department of Investments and Innovations

Abukhan Farkhodov
Samarkand Institute of Economics and Service, Student

Abstract: By its nature, the most flexible and mobile sphere, such as small business and entrepreneurship, can develop for two reasons: thanks to the investment climate and a certain preferential treatment. When starting a business, entrepreneurs need additional financial instruments. The paper presents the procedure for financing business projects through foreign loans, highlights its advantages and lists the disadvantages.

Keywords: small business, entrepreneurship, investments, foreign lines of credit, bank loans.

Financing projects through foreign loans is one of the most common ways to attract investment for the implementation of infrastructure, industrial and innovation projects. It has a number of advantages over other sources of financing, such as own funds, loans from domestic banks or government subsidies.

Advantages of financing projects through foreign loans:

Access to larger amounts of financing. Foreign loans are usually provided for larger amounts than loans from domestic banks. This is because foreign investors have access to wider resources and can offer more favorable financing terms.

Lower interest rates. Foreign loans are generally provided at lower interest rates than loans from domestic banks. This is because foreign investors have a lower level of risk and can offer more favorable financing terms.

Further investments. Foreign investors who provide loans for projects may consider further investment in these projects. This is due to the fact that they are interested in the success of these projects and in making a profit from them.

Despite the advantages, financing projects through foreign loans also has a number of disadvantages:

More complex obtaining procedures. To obtain a foreign loan, you must go through more complex procedures than to obtain a loan from a domestic bank. This is due to the fact that foreign investors must be convinced of the reliability of the borrower and the effectiveness of the project.

Higher requirements for the borrower. Foreign investors, as a rule, have higher requirements for borrowers than domestic banks. This is because they want to reduce the risk of loan default.

Longer application review period. Applications for a foreign loan are considered for a longer period than applications for a loan from a domestic bank. This is due to the fact that foreign investors require more time to evaluate the project.

The process of financing projects using foreign loans usually includes the following stages.

Determination of financing needs. At this stage, it is necessary to estimate the cost of implementing the project and determine how much funding is needed.

Preparation of a business plan. A business plan is the main document that is used to attract foreign investors. It should contain detailed information about the project, its economic feasibility and objectives.

Search for potential investors. At this stage, it is necessary to find potential investors who may be interested in financing the project.

Conducting negotiations with investors. At this stage, it is necessary to agree on financing terms with investors.

Signing a loan agreement. After agreeing on the terms of financing, a loan agreement is concluded, which defines all the obligations of the parties.

Depending on the financing conditions, foreign loans may be provided on the following conditions:

Interest rate. The interest rate on a foreign loan can be floating or fixed. A floating interest rate is tied to a specific index, such as LIBOR or EURIBOR. The fixed interest rate remains unchanged for the entire loan term.

Credit term. The loan term usually ranges from 3 to 10 years.

Loan repayment period. The loan is usually repaid in equal monthly or quarterly payments.

Loan interest. Interest on the loan is usually paid monthly or quarterly.

In addition to private investors, project financing through foreign loans can also be provided by international financial organizations, such as the World Bank, Asian Development Bank, European Bank for Reconstruction and Development, etc. These organizations provide loans on preferential terms, such as lower interest rates and more long return period.

Loans from international financial institutions are usually provided for projects that meet their goals and priorities. For example, the World Bank provides loans for the implementation of projects in the field of infrastructure, healthcare, education, etc.

Taking into account the above, we can conclude that financing projects through foreign loans is an effective way to attract investment for the implementation of large projects. It has a number of advantages over other sources of financing, such as own funds, loans from domestic banks or government subsidies. However, to obtain a foreign loan, you must go through more complex procedures and meet higher requirements.

References:

1. Frederic S.Mishkin. The economics of money, banking and financial markets. Pearson Education Limited. 2013. 695 pages.

2. Togayev S.S. Topical issues of providing the financial stability of commercial banks. // Berlin Studies Transnational Journal of Science and Humanities ISSN 2749-0866. Vol.1 Issue 1.1 Economical sciences. 07.09.2021. http://berlinstudies.de/index.php/berlinstudies /article/view/111.

3. Abdelsalam, O.A. Asset securitizations and bank stability: Evidence from different banking systems / O. Elnahass M., J. Williams // Global Finance Journal Available online 29 June 2020.

4. Albuquerque, P.H. Banking stability, natural disasters, and state fragility: Panel VAR evidence from developing countries / P.H. Albuquerque, W. Rajhi // Research in International Business and Finance. - 2019. - 22 Jun.

5. Muminovna M. D., Akbarzhon N. Organization and planning of small business and entrepreneurship activity //Iqtisodiyot va zamonaviy texnologiya jurnali| journal of economy and modern technology. – 2023. – Т. 2. – №. 7. – С. 26-29.
6. Muminovna M. D., Davronbek E. Socio-economic importance of small business entities //Iqtisodiyot va zamonaviy texnologiya jurnali| Journal of economy and modern technology. – 2023. – Т. 2. – №. 7. – С. 9-12.