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FEATURES AND ORGANIZATION OF PROJECT FINANCING

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Abstract. *The article substantiates the importance of project financing for the national economy in the difficult conditions of Ukrainian realities. Advantages, stages of organization of project financing, peculiarities of assessment of the feasibility of project implementation, and its expertise have been studied. Considered the importance of project monitoring, and risk assessment. Directions for the activation of certain types of project financing in Ukraine are proposed.*

Keywords: *project financing, planning, project risks, project expertise, financing, control, monitoring.*

Introduction. In today's conditions, the problem of lack of financial resources is growing, at the same time, the need to implement projects that would solve growing economic and social problems is growing. Considering the difficult financial condition of economic entities, the limited resources of the state and local budgets in the conditions of war, it is important to look for alternative ways of attracting capital. One of these ways is to attract funds on the terms of project financing.

Companies need capital to begin and grow their operations. One of the ways that certain companies can do so is through project financing. This form of funding allows businesses that may not have a strong financial history to raise capital for larger, long-term projects. Sponsors, who invest in these projects, are paid using cash flows from the project. Project finance is a way for companies to raise money to realize growth opportunities. This type of funding is generally meant for large, long-term projects. It relies on the project's cash flows to repay sponsors or investors [1].

The advantages of project financing are the absence of direct financial obligations of the organizers, which does not affect the capital adequacy and ratings of their main activity; the ability to share risks; forming the interest of banks; participation of creditors in the examination of the project during its implementation to promptly prevent possible losses [2].

Analysis of recent research and publications. Features of attracting capital under the terms of project financing are described in the works of foreign and domestic scientists. Thus, Allan B., Hayes A., Grebennyk N., Gernego Y., Dyba M., Karpova V., Kotovenko I., Kovshun N., Levun O., Lyakhova O., Mayorova T., Ryazanova N., Terzi L. in their works explore the peculiarities of project financing. At the same time, research has not covered

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the entire spectrum of features of project financing implementation in modern conditions.

The purpose of the article. The purpose of the article is to systematize the accumulated experience of attracting capital under the terms of project financing and to propose ways of its activation in Ukraine.

Results and discussion. Project financing is an approach to financing large projects by a group of investment partners who are reimbursed based on the cash flow generated by the project.

The period from the start of the project to its completion is called the project life cycle. The main activity of the project includes pre-investment studies, substantiation of the feasibility of the investment project, budgeting, planning, marketing analysis, development of design and estimate and technical documentation, expertise, financial support, analysis of project risks, control over project implementation, project implementation, project closure.

Subjects (participants) of project financing realize various interests in the process of project implementation, form their requirements depending on their goals and motivations and influence the project based on their interests, competencies and degree of involvement in the project. The composition of project participants, their roles, distribution of functions and responsibilities depend on the type, scale and complexity of the project, as well as on the phases of its life cycle. The main group of participants in project financing includes initiators, customers, investors/sponsors, creditors, specialized project company, project managers, and project teams. The relationship between them, especially between investors (sponsors) and the initiator, determines the nature of project financing. The extended group of project financing participants may include banks, leasing companies, insurance companies, joint investment institutions, the government, suppliers, export-import agencies, international financial and other institutions [3].

The process of project preparation and implementation can be divided into several stages (Fig. 1).

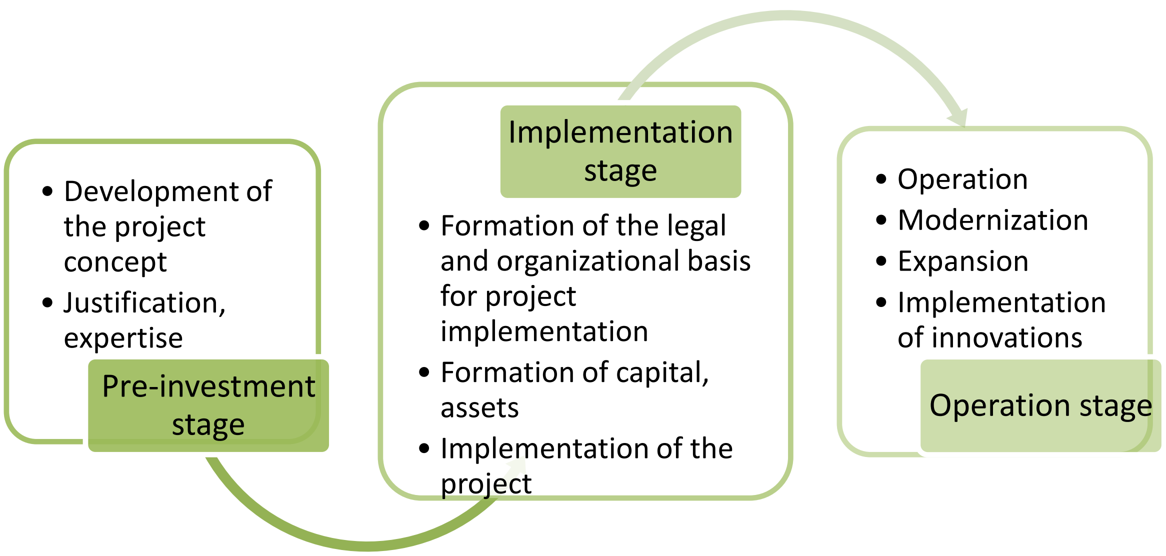

Fig. 1. Stages of project preparation and implementation

Source: [4, 5]

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Features of project financing are the presence of a separate project company that manages the project and is responsible for all project obligations; availability of an experienced management team; the main source of the return of invested funds is the project's cash flows; a clearly defined life cycle of the project, the time of entry and exit of participants; special conditions of interaction between project participants (contractual relations); significant degree of risk; risk distribution among project participants.

At the pre-investment stage, a preliminary examination of project ideas is carried out and unacceptable ones are rejected. The next step is to formulate the goal and objectives of the project, establish the main characteristics of the project (demand for the products (goods, services) of the project, duration of the project, estimation of prices for the products (goods, services) of the project, the possibility of exporting the products of the project, complexity of the project, investment climate, economic project effectiveness). A preliminary analysis of the feasibility of the project is carried out, namely, the factors that can significantly affect the success of the project implementation are established; structure them from the most priority to the least priority; evaluate the importance of each factor; carry out an expert assessment of the influence of each factor; carry out an integral assessment of the priority of the considered project options. For non-rejected projects, a detailed marketing analysis is carried out, the impact on the environment, the availability of the necessary resources are assessed, and engineering and geological studies are carried out.

In the process of forming an investment plan, it is necessary to form the goal and investment object, the main characteristics of the investment object, the volume and characteristics of the project's products, the profitability and payback period of the project, and the sources of its financing. As part of the justification of the investment, the viability of the project is assessed. Such an assessment is carried out by an independent consulting firm or the customer's group. As a result, the most viable project is chosen from among all alternatives, and the most effective financing methods and investment structure are worked out for it.

The following indicators are used to evaluate the investment project:

- Net Present Value, NPV;
- Internal Rate of Return, IRR;
- Profitability Index, PI;
- Internal Rate of Return, IRR.

Project expertise is conducted in the pre-investment phase of the project. The main task of the project examination is a systematic analysis of the financial, economic, environmental, social, technical and other aspects of the project to decide on the implementation of the project or participation in its implementation. Project expertise can be carried out both by persons who conducted pre-investment research and project development and by third-party experts.

The sequence of steps during project examination is shown in fig. 2..

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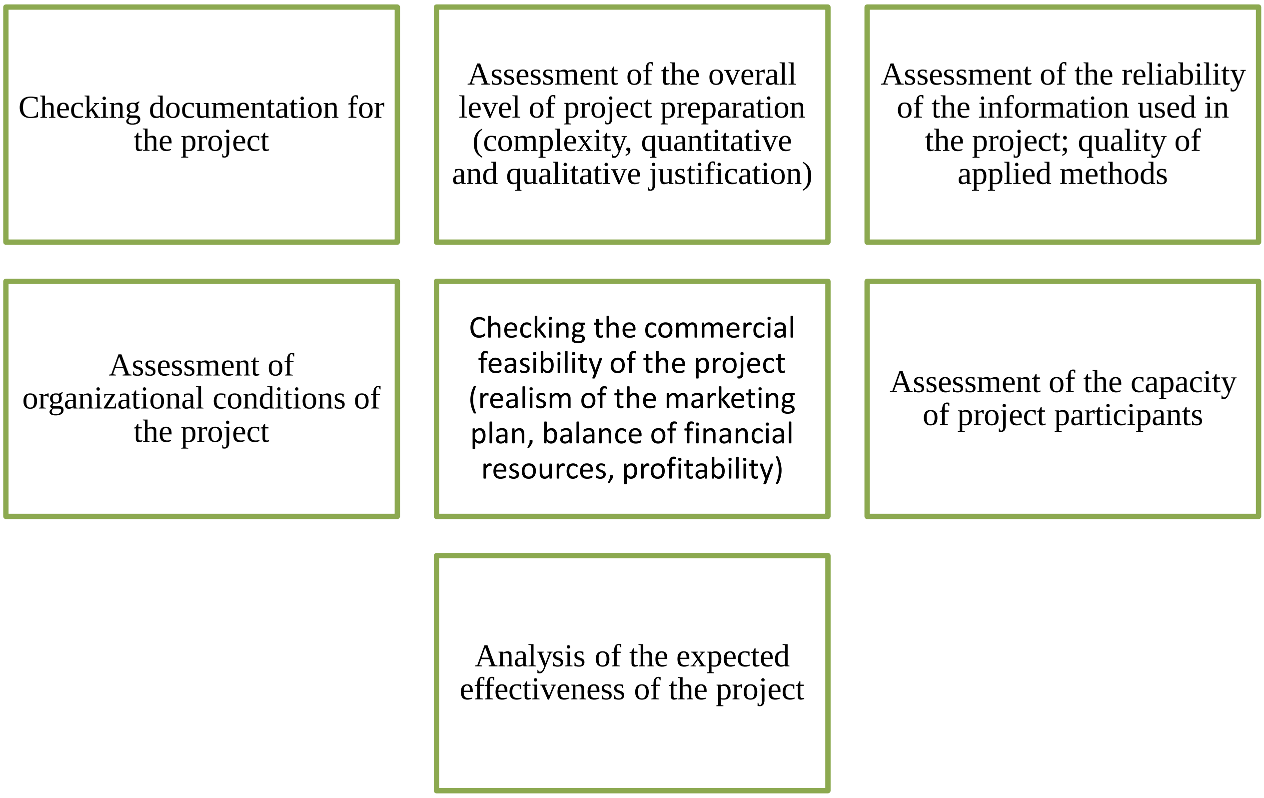

Fig. 2. The sequence of project examination elements
Source: [3, 5]

The main areas of expertise include seven different aspects. In complex large investment projects, a group of experts is formed in each of the directions as part of an expert body that issues an expert opinion.

The commercial direction is to evaluate the project as a commercial activity that generates income. Here, invested funds are compared with income and profit, which allows to assess the commercial effect.

The technical direction of the comprehensive examination considers such issues as the correctness of the choice of production technology, the purchase of the main and auxiliary equipment, the organization of the supply of raw materials, materials and other production aspects included in the project.

The institutional direction of the examination pays attention to the compliance of the project decisions with the current legislation of the country on the territory which the project is planned to be implemented. Here, the correctness of the application of tax features, cost calculation, licensing, etc. in the project is analyzed.

The social direction of the examination examines the project from the point of view of solving social issues in the region (employment of the population, wages of employees, labor protection, and decisions regarding the development of social and household infrastructure).

The ecological direction is designed to consider the project from the point of view of its relations with the environment (issues of nature protection, neutralization of the harmful impact of the project on the environment, and issues of waste disposal).

The financial direction of the complex examination of the project provides an assessment of the project regarding the effectiveness of investments, their formation and use.

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The economic direction of the examination analyzes all aspects and features of the project's effectiveness. Attention is paid to calculation methods, completeness and reasonableness of economic calculations, a conclusion is made about the correctness of the decision regarding the feasibility of project implementation.

Thus, project expertise occupies an important place in project management. It is conducted to establish the compliance of the project goals with the planned project indicators, regulatory and legislative documents, compliance with environmental, industrial and construction safety requirements.

When, as a result of the examinations, the project is accepted for implementation, it is important to find opportunities for its financing. The financing of the project must be carried out subject to the following conditions: the dynamics of investments must ensure the implementation of the project by time and financial constraints; the reduction of costs of financial funds and risks of the project should be ensured due to the appropriate structure and sources of financing and certain organizational measures, including tax benefits, grants, various forms of participation.

The process of capital formation includes the following main stages: preliminary study of the viability of the project (determining the feasibility of the project in terms of costs and planned profit); development of the project implementation plan (risk assessment, resource provision, etc.); organization of financing (estimation of possible forms of financing, determination of organizations that will finance, determination of the structure of sources of financing); control of implementation of the plan and financing conditions (Fig. 3).

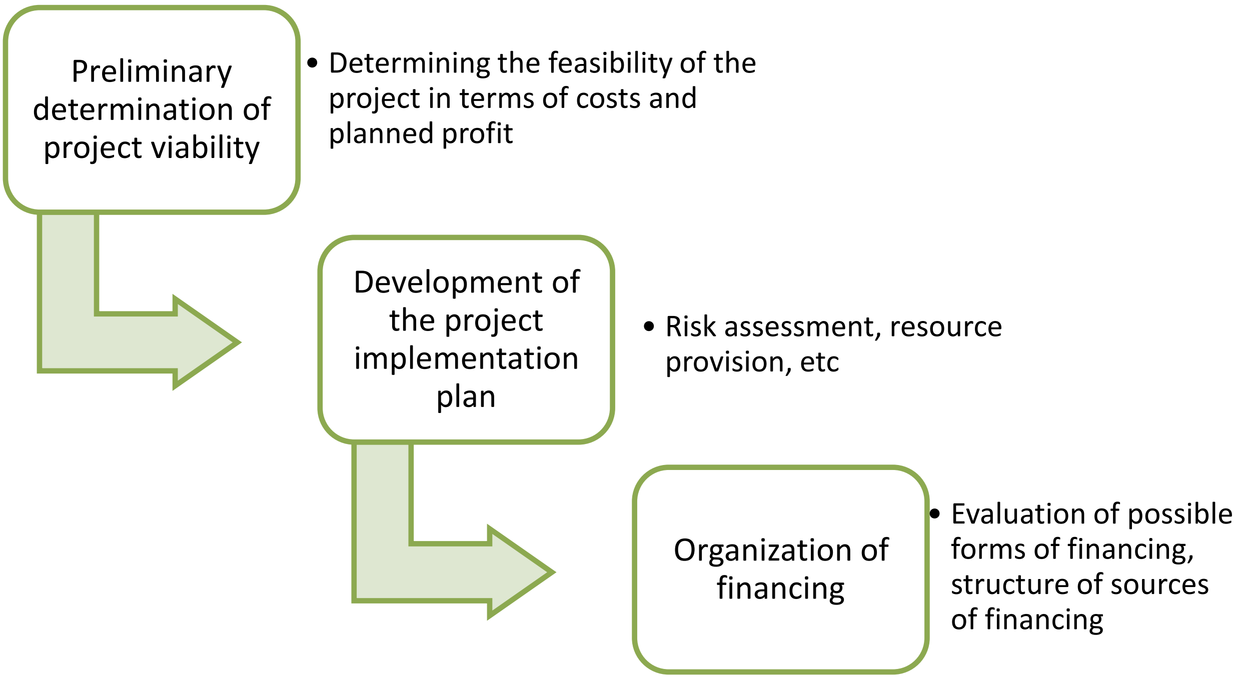

Fig. 3. Stages of project financing preparation

Source: [3, 4]

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Project implementation requires monitoring and control at all stages. The purpose of project control is to provide information necessary for understanding the progress of the project to make the right management decisions. The control process is closely related to the assessment and analysis of project performance, changes and optimization of the project plan.

The project plan is important. Regular measurement of project parameters and detection of deviations is called project execution control. At the same time, the actual indicators are compared with the planned ones; decisions are made to change the plan; and the plan is being adjusted.

The key performance indicators of the process must be determined, such as the number of reviews conducted, the number of corrective actions performed, the number of reports issued, etc. The resulting documents of this stage will be lists of inconsistencies, actions aimed at eliminating deficiencies and the results of these actions.

The main elements to be monitored are presented in Fig. 4.

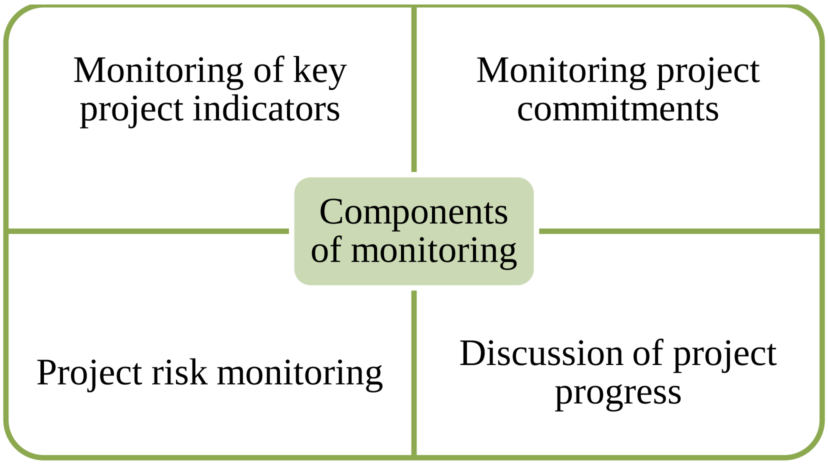

Fig. 4. Main elements of project monitoring
Source:[4, 5]

Project progress is the execution of project activities to achieve its goals. The main purpose of project progress monitoring is to exchange information about project implementation with all interested participants. This type of work may have an informal nature and may not even be included in the project plan, which does not negate the need for its implementation.

It is important to predict and effectively manage project risks. The basis of effective management is an objective and timely analysis of risks.

Risk analysis involves identifying events or situations that may cause the project to fail and then managing them to ensure that the project is successful. There are four main types of risks [6]:

– Technical risks, e.g. new software system doesn't work.

– Financial risks, e.g. sponsor withdraws or reduces support.

– Process risks, e.g. failure of project plan, poor team performance, illness of key members of staff.

– External risks occurring when a change in the external environment affects project outcomes, e.g. takeover of company, major fluctuations in exchange rates, terrorist attacks.

Let's consider the features of certain types of project financing.

The content of venture financing consists in combining the monetary capital of some

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entrepreneurs and the intellectual capabilities of others (original ideas or technologies) in the real sector of the economy to ensure profit for the newly created enterprise. Venture funds are mostly intermediaries between investors who decide to take a risk and pool their capital and the company in which the funds are invested. In addition, in some countries of the world, the term "venture fund" means an association of partners and not a company as such.

The venture is one of the most dynamic and promising areas of innovative development. After all, it was thanks to ventures that Apple, Google, and Microsoft were created and achieved significant success; completely new industries and directions of production appeared (biotechnologies, personal computers, IT industry) [7].

The venture investor takes an active part in the work on the project and assists in matters related not only to finance but also in the areas of law, marketing, HR, project management, etc. Also important is the fact that startups who have achieved success, successfully sold their startup and then invested their money, experience, knowledge and connections in new innovative projects act as venture investors. This is the main difference between ordinary investors and venture [8].

A public-private partnership, as one of the forms of project financing, has successfully proven itself in global practice. Under the modern conditions of the market economy, cooperation between the state and business is a tool that allows attracting significant investments in priority areas of the national economy. As a result, the private sector can count on government support by gaining access to certain resources or infrastructure, and the state can successfully implement really important and urgent projects, saving its limited financial resources and reducing risks. The effectiveness of partnership relations between the state and the private sector of the economy depends not only on the number of concluded agreements but also on several other factors. First of all, it is necessary to improve the legal framework of the public-private partnership mechanism, which would clearly outline the rights and obligations of the parties. An important catalyst for the development of public-private partnerships can be the study of foreign experience and its implementation in Ukrainian realities. This will help to activate not only the public-private partnership market but also investment and innovation activities in the country in general [9].

Conclusions. Project financing is the most effective form of financing in the system of financial support for investment activities. This form of financing is an effective tool for attracting funds in an unstable economy due to its flexibility [10]. Project financing is becoming more and more widespread in Ukraine, as it corresponds to complex Ukrainian realities in today's conditions. In the conditions of the war, the business feels a lack of capital to finance its activities, its modernization, diversification, and relocation. A significant part of business entities in the regions where active hostilities are taking place have lost their assets. Social and economic problems are worsening in the country. At the same time, the budgets of different levels are not able to finance the solution of the entire set of problems. Therefore, it is important to attract funds under the terms of project financing.

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