



THEORETICAL BASES OF FINANCING OF INVESTMENT PROJECTS BY COMMERCIAL BANKS

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Abstract

This article discusses the economic nature of investments, their types and classification, the specifics of the development of financing of investment projects by commercial banks in Uzbekistan, the theoretical basis for financing investment projects. At the same time, an analysis of the current state of financing of investment projects by commercial banks and practical recommendations on the prospects for the development of financing of investment projects by commercial banks are provided.

Keywords: investment, capital, savings, financial resources, income, commercial banks, risk.

Introduction

World practice confirms that today investment loans play an important role in the development of the world economy and international integration. Indeed, investment loans serve as the most important factor in the implementation of long-term strategy of commercial banks in the national and global financial markets, and through it the development of international relations and practices. This is evidenced by the fact that investment loans, incorporating a number of traditional and modern forms of lending, are used to establish and develop cooperation with national, foreign and international financial institutions.





In turn, the developed world has a high level of development and rich experience in investment lending, in particular, the share of investment loans in total capital investment in Germany is 49.5%, in the US - 62%, in the UK - 76.5% (Silantev A.E., 2019). Today, the demand for investment loans in Uzbekistan is growing, which makes it necessary to improve the system of investment lending by commercial banks.

Literature review

The study of modern perspectives on the content and essence of investment shows that they are interpreted differently in different departments and practical activities of economic sciences.

The term "investment" is derived from the Latin word "invest", which means "investment", "mobilization of funds", "capital investment". Broadly speaking, investing means mobilizing capital to increase and recoup capital. In many cases, the concept of "investment" is defined as material and intangible benefits and rights to economic and other objects of activity. Investment means all types of national and intellectual wealth, which must be directed to the objects of entrepreneurial activity to generate income or achieve some positive results. The main purpose of investing is to earn income and achieve a positive social effect.

Until now, the concept of "investment" has been interpreted differently by economists. In particular, the Nobel Laureate in Economics, U. Sharp's most popular textbook, "Investment," describes "investment as the abandonment of a particular value in order to obtain value in the future (possibly indefinitely) (U.Sharp, G.Aleksandr, Dj.Bailey, 2000)." He explains the meaning of the term "investment" as follows: "To make a profit in the future, today is a separation of money, and it is considered possible to invest in either real or financial assets (U.Sharp, G.Aleksandr, Dj.Bailey, 2000)."

According to Swedish economist Klas Eklund, "investment is something that is left for tomorrow to have more consumption conditions in the future. Part of it is consumer goods that are currently being left unused, and the other part is resources that are aimed at expanding production (Klas Eklund, 1991)." This economist has a simpler interpretation of the nature of investment, which is consistent with the definition of "capital inflows".





Also, the founder of the category "Investment Market" J.Keynes describes investment as "the current increase in the value of capital assets as a result of productive activity during this period," "the unused portion of the income earned during this period for consumption." Investments occur as a product of savings, i.e. they accumulate today and can generate income tomorrow. On the contrary, it is profitable today - it would be fair to say that it will emerge as an investment tomorrow (J.Keynes, 1978). Thus, it is almost impossible to clearly define the functions of funds and investments, but our considerations allow us to establish a close link between the concept of "investment" and the organization of capital in the future, that is, investment is a category of return on investment.

In some works, published in Russian, investment is understood as the expenditure of money, the part of income used for the reproduction of total social or individual capital, consisting of earning a higher income or social benefit in the future, rather than consumption (Tumusov F.S., 1999). In other words, "investment" is the exchange of a certain amount of current capital for an expected, uncertain value in the future. Many authors understand investments as money spent on the reproduction, maintenance and expansion of capital (Igoshin N.V., 2002).

A similar concept is supported by Uzbek scientists. According to D.Gozibekov, "Investments are generally made when maintaining the current value of capital and (or) converting this value into capital in order to increase savings. Therefore, they are not consumed during this period of time and are attached to specific objects and processes for a certain period of time, they are occupied with them, in which case they are exposed to explicit and implicit risks (D.Gozibekov, 2002).

Effective property and intellectual resources, investments, can take the following forms:

- cash, trust funds in banks, shares, stocks and other securities;
- movable or immovable property (buildings, structures, equipment);
- copyright, property rights, other intellectual property, including the right to use inventions (know-how);
- land use and other natural resources and property rights;
- other riches (G'ozilbekov D.G'. Qoraliyev T.M., 1993).





In our country, other scientists have also expressed their views on the concept of "investment". According to F.Dodiyev, "Investment is the sum of all types of property, financial and intellectual wealth invested in the objects of entrepreneurial activity in order to obtain future profits or social benefits (F.Dodiyev, 1998)." Another great scientist, Professor A.Olmasov, describes investments as "investments in production to generate income to ensure economic growth."

Data and methodology

Investment means spending material and financial resources on certain objects for future income. Therefore, it can be said that the investment activity of commercial banks means their multifaceted activity, i.e. these activities are financial resources spent on various objects in order to create material wealth. The picture below shows the directions of investment activities of commercial banks.

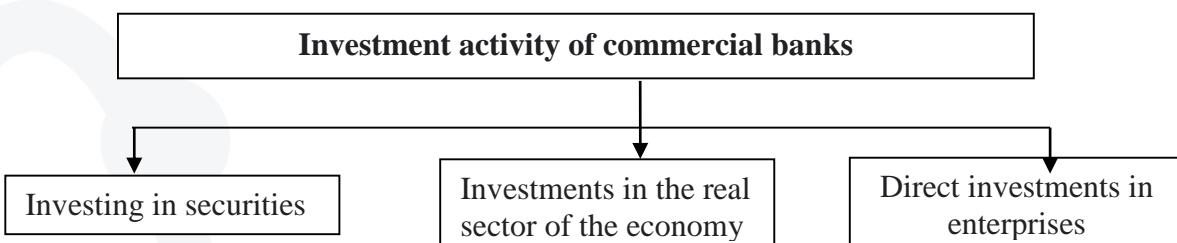


Figure 1. Types of investment activities of commercial banks

The picture above shows that the investment activities of commercial banks are divided into different areas based on their nature. Investments of commercial banks in securities serve to form their investment portfolio.

Currently, one of the most comprehensive fundamental textbooks in the field of investment is the textbook "Investment", written by U.S. economists W. Sharp - Nobel Laureate in Economics in 1990, G. Alexander, J. Bailey. all types of securities and stock markets are described, their operation is described theoretically and practically, with concrete examples, graphs and tables.

Also, the basics of management risk in investment projects, the general theory of risk management are described in the book "Risk management of the investment project", edited by the Russian economist M.V.Gracheva. It describes the main stages of risk management in investment projects, certain approaches to project risk classification, qualitatively described and classified project risk management tools, and the basics of





economic-mathematical models of risk management in investment projects, in particular, sensitivity analysis, simulation modeling scenario approach.

The book "Organization and financing of investments" by Uzbek scientists B.S.Mamatov, D.Yu. Khojamkulov and others, who conducted research in this area, describes the economic significance of the organization and financing of investments, the main stages of investment financing processes, the role of foreign investment in economic development. The role of the investment climate in the organization and development of investment financing, capital construction in investment activities, syndicated lending of investment projects, assessment of financial and economic efficiency of investments were also studied.

Also, the textbook "Investment Risk Management", written by E.I.Nosirov and others, describes the theoretical foundations of risk management in the organization and implementation of investment activities. The types and forms of investment risks are described, and the experience of international financial institutions in risk management is presented. Effective methods, tools and opportunities for investment risk management in Uzbekistan are revealed.

The important role of investment loans of commercial banks in ensuring the sustainable development of the national economy has been scientifically proven by economists. In particular, J.M. Keynes scientifically substantiated the fact that an increase in the money supply leads to a decrease in the interest rate and, as a result, a decrease in the alternative value of investments and an increase in the volume of planned investments of firms and companies (J.M. Keynes, 2012).

Well-known Russian Economist T.Mazurina justified the existence of the following conditions for the development of lending to the real sector of the economy through loans from commercial banks:

- Existence of effective investment and industrial policy of the state (with indication of directions of exact allocation of financial resources);
- development of investment infrastructure, which is the main direction of risk reduction associated with the implementation of investment projects;
- Increasing the investment attractiveness of enterprises (T.Mazurina, 2013).

According to I.Yudina's research, a necessary condition for the development of long-term lending practices of commercial banks in developing countries is the diversification of risks (I.Yudina, 2013).





Professors D.Gozibekov, T.Bobokulov, N.Karimov from Uzbek scientists have also implemented issues related to the improvement of investment lending potential of commercial banks and the mechanism of its implementation, as well as made the following scientific proposals:

- reduction of the requirements for statistical reporting in the investment project, generalization of the required information, i.e ensuring the maximum independence of producers;
- The responsibility of the responsible staff for their decisions in the implementation of the project should be slightly increased, so that their illegal actions will be limited to some extent;
- In the new project, the primary goal is to set a strategy for entering the world market (D.Gozibekov, T.Bobokulov, N.Karimov, 2007).

Many foreign and local economists have been working on the effectiveness of investment projects and their evaluation. Foreign economists F.V. Mike and W.Rong, who conducted research on this issue, suggested the need to establish external financial restrictions on the effective use of investment projects and, on this basis, to encourage domestic investment projects. At the same time, scientists conclude that as the cost of external financing increases, the value of cash will increase significantly (Faulkender, Michael W.W. and WANG, Rong., 2006).

H.Wang, P.Liang, H.Li, R.Yanglar studied the interrelationship between investment projects focused on technological developments and their sources of funding, as well as sources of funding for scientific developments, research, investment risk (Wang H., Liang P., Li H., Yang R., 2016).

Investment lending is a form of bank lending, which focuses on the reconstruction or modernization of production facilities, construction and organization of new production. The basis for granting this type of loan is an investment program aimed at the transition to a more efficient stage of production or service of the existing product in the enterprise.

According to this definition, if we focus on the main features of investment loans of commercial banks, it is appropriate to recognize the following aspects:

- investment lending should be targeted only, for example, to finance projects of socio-economic significance or aimed at increasing the export potential of the country;
- long-term investment loans, ie investment loans can be issued for a period of 3 to 15 years. This is enough time to implement projects under the state investment program;





- the source of return on investment lending is the income from the project. According to Yescomb, attracting long-term investment loans to finance large projects through financial engineering depends on assessing the risks associated with construction, operation, revenue, and the distribution of risks between investors and lenders (Yescomb E.R. (2008)).

Yescomb's conclusion is of great practical importance for Uzbekistan. The high level of inflation and the rate of depreciation of the national currency increase the risks in the process of lending to investment projects.

According to I.Kamilova, the expansion of investment loans by commercial banks will be sharply affected by changes in inflation and interest rates. In particular, interest rates are the price of investment loans of commercial banks. Therefore, an increase in interest rates on investment loans leads to their appreciation (Kamilova I.X., 2019).

Qiu and Wang's research suggests that the form of investment is greenfield or merger and acquisition, mainly due to market size, differences in production costs between multinational companies and local firms, the level of competition in the market determined by the number of local enterprises, and the cost of opening a new business. depends on factors (Qiu D. and Wang Sh. (2011)).

Indeed, the high cost of starting a new business in the country where the investment is planned, the strong competition in this market and the relatively low cost of domestic production compared to the world market encourage foreign investors to take advantage of what is available.

In order to develop investment loans of commercial banks, the types of investments attracted to our economy at the initiative of the state, mainly resource and market-oriented foreign investment, import-substituting and stimulating exports, pursuing long-term strategic goals, producing products from raw materials to consumption enrichment with.

Economist N.Simonyants as an investment activity of commercial banks «universal and specialized commercial banks to finance investment projects on the basis of loans and shares, organization and placement of securities in the primary market, asset management, investment company management, real estate transactions, consulting recognizes activities aimed at analytical and broker-dealer operations.

Also, the research conducted by A.Naryana states that risk management processes in the investment activities of commercial banks are carried out at the following stages:





identification and analysis of the nature of risk; assessment and calculation of risk-related losses; development of risk management recommendations, risk reduction through the authority of risk management officials; control over the preparation of risk management reports in accordance with the established criteria and rules; earnings depending on the level of risk (high risk high profit, low risk low profit); risk-benefit coordination (Ismailov D.A., 2018).

According to O.I.Lavrushin, banks are a kind of "blood vessel" of the economy, without which it is impossible to imagine a modern economic mechanism. In this system, the monetary resources of various economic entities, state-owned enterprises, foreign investors are circulating.

In her research, O.V.Savvina conducted research on the activities of international financial organizations and their role in the economy, V.A.Slepova and E.A.Zvonovoy on international financial markets. Local economists S.S.Gulomov and O.Yu.Rashidov in their research worked on the activities of banks, the order of lending in them, the improvement of its activities (Islomov A., Egamov E., 2003).

Innovation in the context of the formation of modern economic knowledge is a key factor in ensuring economic growth. From this it can be concluded that the more active and dynamic the innovative activity in the region, the higher the level of economic development. It is well known that it is very difficult to ensure this task, especially in the long run, without supporting and implementing innovative changes.

It is necessary to emphasize the need to develop measures to stimulate innovation at all levels, which is the only way to achieve certain results in the field of innovation. According to G.H.Rozikova, "the creation of favorable conditions for the development of innovations will allow to modernize the technological base and radically increase the competitiveness of the national economy."

The situation in the country's investment lending market in recent years shows that a disproportionate segment of banks has been formed (Table 1). This reflects the various levels of participation of banks in the process of financing projects based on the export of finished products, which are able to modernize the economy on the basis of advanced and competitive technologies, create energy-efficient and high value-added.



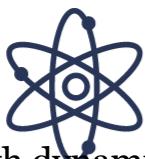


Table 1 Growth dynamics of investment loans provided by commercial banks, (billion in soums)

No	Name of commercial banks	2016	2017	2018	2019	In 2019 compared to 2016, +/-
1	Asakabank	1 381	3 017	10 268	7 077	5 696
2	National Bank	2 539	2 914	9 847	15 862	13 323
3	Uzpromstroybank	1 540	1 842	3 562	13 115	11 575
4	Qishloqqurilishbank	1 191	1 178	1 256	4 624	3 433
5	Ipotekabank	938	1 173	2 801	9 668	8 730
6	Agrobank	831	1 034	2 296	7 925	7 094
7	Xalq Bank	833	978	1 251	5 758	4 925
8	Microcreditbank	448	567	681	3 134	2 686
9	Other banks	2 501	3 381	6 786	21 149	18 648
Total		12 202	16 085	38 748	88 312	76 110

Source: Prepared by the author on the basis of the annual report of the Central Bank of the Republic of Uzbekistan (www.cbu.uz).

According to Table 1, the largest share in investment lending in 2017 (18.8%) and 2018 (26.5%) fell to the share of Asaka Bank, which is the object of research, and compared to 2016 amounted to 8887 billion. soums or more than 7.4 times. In 2019, on the contrary, there was a decrease (7.077 trillion soums). In particular, in the National Bank, this amount increased during the analysis period and in 2016 increased by 6.24 times compared to 2016. In general, the volume of investment lending in the country during the analysis period increased by 7.24 times, mainly the activity of 8 banks, ie their share in the market of investment loans in 2018 was 82.5%, and in 2019 - 76.1%.

Conclusion

At present, it is impossible to imagine socio-economic life without the activity of commercial banks, without their financial support. This is due to the fact that commercial banks play an important role in financing investment projects in the country, providing loans to participants and customers of investment projects. In this way, it contributes to ensuring overall macroeconomic stability in society.

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The importance of financing investment projects by commercial banks in the transformation of the country's economy is growing from year to year. With the help of loans from commercial banks, important sectors of the economy are being financed, new investment projects are being built, additional jobs are being created for the population, and new products are being developed.

Although Uzbekistan has developed a sufficient legal framework for the implementation of syndicated lending of large investment projects by commercial banks and financing of investment projects, in the process of modernization of the digital economy with modern information technologies to improve the country's investment attractiveness, transparency of investment projects requires.

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