



Mechanisms of Financing the Investment Activities of Business Subjects by Commercial Banks

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Abstract: The article analyzes the investment activities of business entities and provides practical suggestions and recommendations regarding the mechanisms of financing their financial problems by commercial bank loans.

Keywords: business entity, investment project, lending practice, GDP, employment, loan portfolio.

Introduction

Currently, social and economic life cannot be improved without the activity of commercial banks and their financial support. The reason is that commercial banks, by providing investment project participants and clients with credit funds, play the role of a key step in the financing of investment projects in the country, thereby contributing to the overall macroeconomic stability in society.

In the context of modernization of the country's economy, the importance of financing investment projects by commercial banks is increasing year by year. With the help of loans from commercial banks, important sectors of the economy are being financed, new investment projects are being established, additional jobs are being created for the population, and the creation of new types of products is being developed.

Regarding the role of commercial banks in the financing of investment projects, Sh. Mirziyoev emphasized that "the Bank should develop measures to attract external sources of financing along with its own funds for investment activities" and that the year 2020 in Uzbekistan will be "Development of science, enlightenment and digital economy". The fact that it was announced and its program includes the wide application of investment projects to production in the country and its comprehensive support, financial support of investment projects at all stages of economic development, shows the relevance of this topic today.

It is certainly gratifying that the volume of lending by commercial banks has increased 35 times in the last 10 years in the path of economic development in Uzbekistan. However, as we know, the process of development and development is characterized by fierce competition, and the problems are perfected as a result. When financing investment projects by banks, their liquidity is assessed as low. This creates problems in allocating bank loans to these enterprises. Scientific-theoretical and methodological in-depth research of ways to solve these problems and management methods is an important task.

Literature review

Many foreign and local economists have dealt with the efficiency of investment projects and their evaluation. Among the foreign economists who conducted scientific research on this issue:

F.W. Mike and W. Rong (2006) suggested that external financial constraints should be established in the effective use of investment projects, and on this basis, internal investment projects should be encouraged. In doing so, scholars conclude that as the cost of external financing increases, the value of cash increases significantly [2].

H.Wang, P.Liang, H.Li, R.Yanglar (2016) studied investment projects directed to technological development and their sources of financing, as well as the interrelation between sources of financing scientific developments, scientific research, and investment risk. [3].

In addition, the famous Russian economist T. Mazurina (2013) justified the existence of the following conditions for the development of crediting of investment projects at the expense of loans from commercial banks:

- the existence of an effective investment and industrial policy of the state (with clear directions for the deployment of financial resources);
- development of investment infrastructure, the main focus of which is to reduce the risks associated with the implementation of investment projects;
- increase the investment attractiveness of enterprises [4].

According to the results of scientific research of I. Yudina (2013), he believes that the necessary condition for the development of investment lending practices of commercial banks in developing countries is the diversification of risks. [5].

In the scientific work of Professor N. Karimov, one of the Uzbek scientists, the main problems in improving the mechanism of financing investment projects through commercial banks are the problem of increasing the investment lending capacity of commercial banks, the low efficiency of managing the risks of financing investment activities in commercial banks, technical problems of business plans submitted to commercial banks by clients for investment projects. - lack of sufficient economic justification. He cited factors such as the fact that they are not analyzed at the level of demand by banks and the existence of shortcomings in the conclusion of credit agreements, the low efficiency of using investment loans obtained on the basis of the government's guarantee. [6].

Today, the credit policy of the country's commercial banks has several shortcomings. Therefore, to identify the existing problems of commercial banks in the lending practice of investment projects, to study the priority aspects of the lending practice of foreign banks on the basis of practical analysis, to present their best practices in this field, to present well-founded scientific proposals for the implementation of the lending practice of commercial banks in Uzbekistan, the main goal of this scientific article counted.

Methodology

In this study, statistical tables and graphs, analytical comparisons, logical and comparative analysis, grouping methods, as well as research work of foreign and domestic scientists on the subject were widely used.

Analysis

According to the data of the World Bank, the demand for bank loans of enterprises operating on the basis of investment projects is somewhat higher in developing countries. In developed countries, on average, 40% of enterprises need a loan, while in the countries of Eastern Europe and Central Asia, this indicator is 45% to 60%. At the same time, it should be shown that the requirement of collateral in the lending process is higher than 60% on average in developed countries, while it is higher than 80% on average in Eastern European and Central Asian countries (Figure 1).

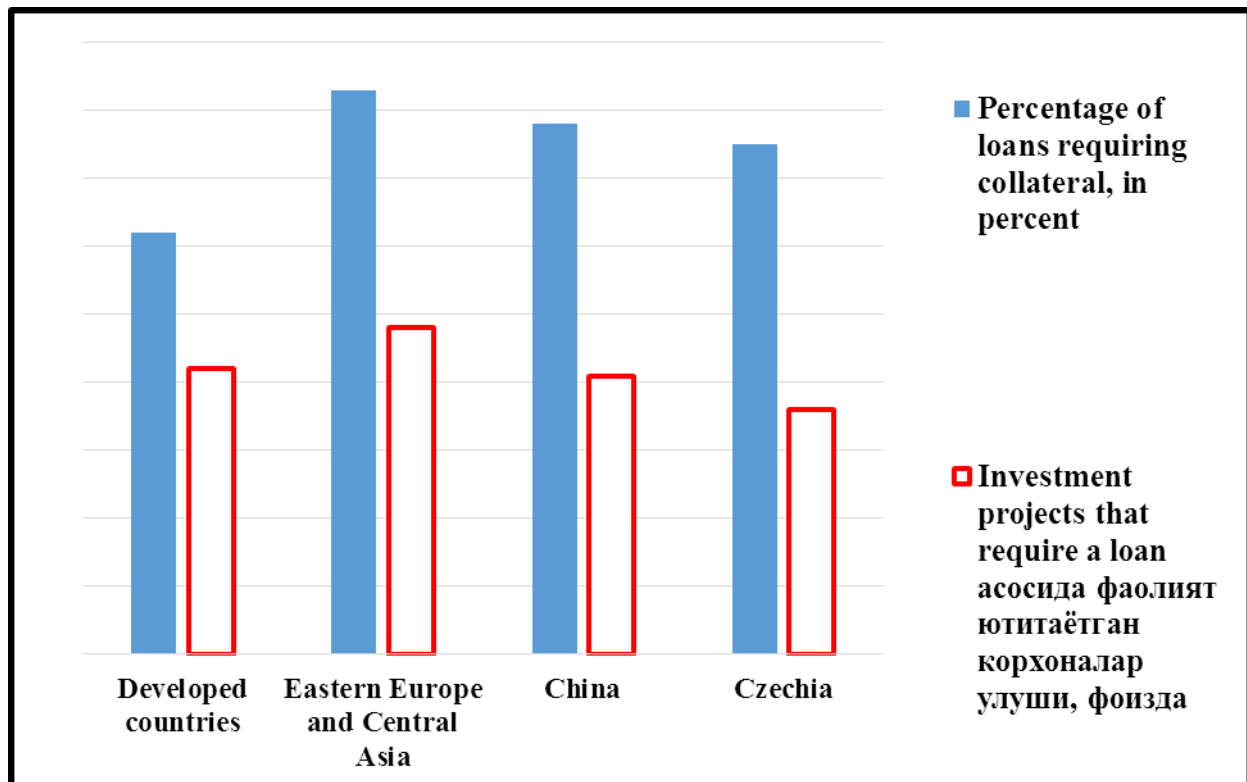


Figure 1. Demand for bank loans of the level of enterprises operating on the basis of investment projects in the world, in percentage [7]

Based on the experience of the above countries, crediting of investment projects should be directed to solving specific social and economic problems, such as raising the standard of living of the population, employment of the population, and increasing their economic activity. Using the experience of investment lending tested in the world practice, in the conditions of the formation of the market in this direction in the Republic of Uzbekistan, using its positive aspects serves as an important theoretical and practical source.

When studying the financing of investment projects of the Russian Federation, which is one of the developed countries, it was found that there is a large imbalance in the demand and supply of investment project loans in the country. 30 billion in Russia in 2013. Loans for investment projects in the amount of US dollars have been allocated, but the demand is 50 bln. equal to the US dollar. According to the data, 60% of the allocated loans are allocated to banks and 40% to credit organizations. The average amount of loans for investment projects in Russia is 45-50 thousand. Denominated in US dollars, the average term is 5-6 years and the average interest rate is 4-5%. The process of lending investment projects in Russia, the amount of these loans is 10,000. A few million US dollars. It should be noted that it is equal to the US dollar, the term is 30-35 years, and the interest rate is 3-15%. In the Russian Federation, as in all countries, preferential loans are allocated to investment projects, and in most cases they are engaged in production activities in agriculture and industry. When it comes to credit efficiency, the risk portfolio of most credit institutions in Russia meets international standards. The overdue debt of every second credit institution did not exceed 2.7%. In addition, credit institutions operate with very good profitability and this indicator is 127% on average [8].

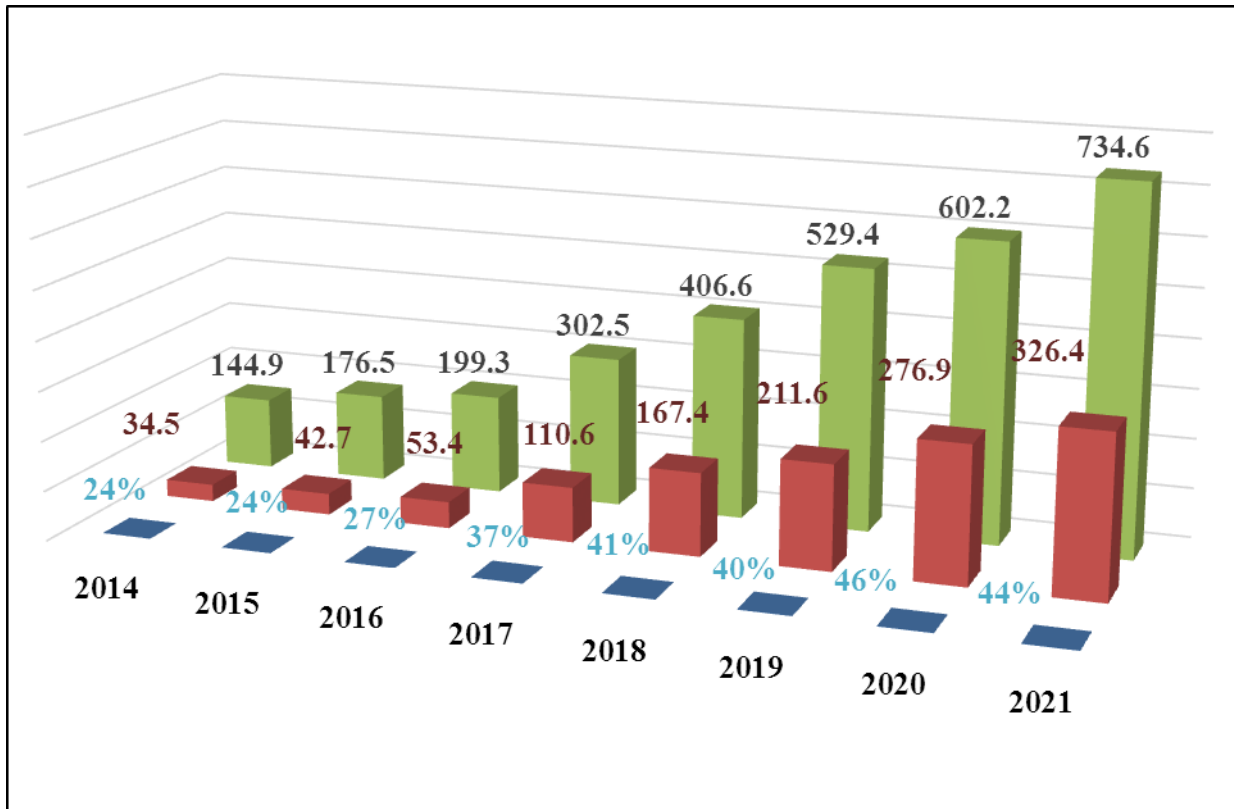


Figure 2. Gross domestic product (GDP), amount and level of commercial bank loans in the Republic of Uzbekistan, trillion soums.

In 2021, the gross domestic product of Uzbekistan will be 734.6 trillion soums, amounted to 21.9 percent compared to 2020. GDP per person is 20.9 million soums. In 2014-2021, the gross domestic product of the Republic of Uzbekistan and the volume of loans of commercial banks had an increasing tendency. The volume of credit investments directed to the real sector of the economy increased by 17% this year compared to the previous year and reached 326.4 trillion soums by 2021, amounted to soums, the ratio of loans to GDP was 44 percent. If we look at the international experience, the share of the country's GDP is more than 190 percent in Australia, 279 percent in the Netherlands, 170 percent in Great Britain, and more than 150 percent in the USA. The following conclusions can be drawn from this, the loans allocated in our country are really widespread and the demand for money is increasing, but according to the analysis of international experiences, it is evidence that today the level of credit provision is not sufficient (Figure 2).

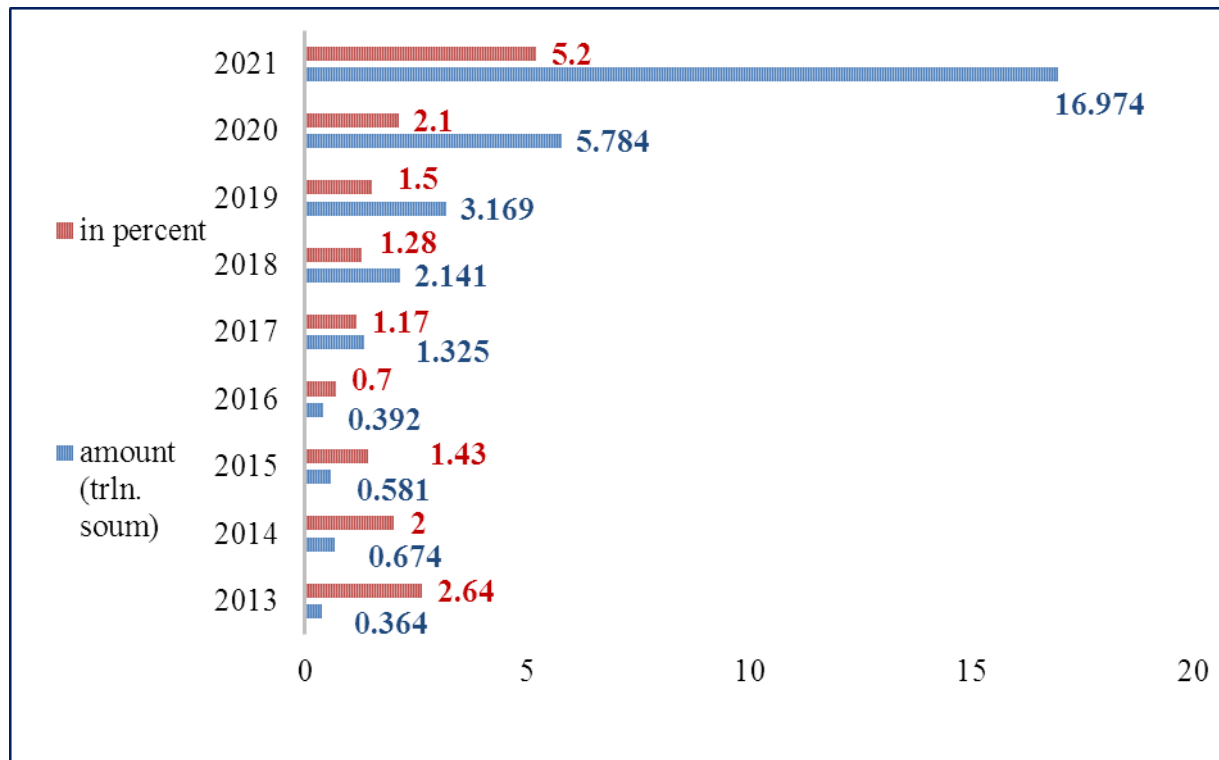


Figure 3. Change dynamics of problematic loans in the republican banking system.

As of 2021, the balance of problem loans has reached 17.0 trillion som, which is 5.2% of the total loan deposits. Also, in 2016-2021, a growth trend can be observed in this indicator. In order to eliminate problematic loans, it is important to determine their causes. It is positive that the percentage of non-performing loans in the loan portfolio of commercial banks decreased to 0.54% from 2013 to 2020, but by 2021 it will be 5.2%. In particular, if we analyze the data of the World Bank, the share of non-performing loans in total loans is more than 50 percent in Ukraine, 40 percent in Greece, 18 percent in Moldova, and more than 8 percent in the Russian Federation. Problem loans in the banking system of Uzbekistan are more than the critical 3% indicator accepted in world practice, therefore reducing problem loans should be considered one of the main tasks of banks today (Figure 3).

Discussions

Positive trends in the banking sector of Uzbekistan were noticed already in 2016. However, today state banks remain the main source of negative results of the national banking system in Uzbekistan. In commercial banks with state assets, the share of funds received from the government is still high. The banking system of the Republic of Uzbekistan is characterized by high concentration. In particular, 84% of all bank assets belong to banks with a state share, and 64% belong to 5 large banks (Milliy Bank, Asaka Bank, Uzsanoatkurilishbank, Ipoteka Bank and Agro Bank). The ratio of state-owned banks' deposits to loans is 32.9 percent. For comparison, in private banks, this figure is about 96 percent.

The above situation, in turn, has a negative impact on bank profitability. Therefore, today there are the following problems in the way of expanding the participation of commercial banks as investors in state investment programs:

- ✓ the rate of growth of bank capital lags behind the development needs of the bank and the needs of bank financing of the real sector of the economy;
- ✓ the lack of noticeable increase in net profit reduces the efficiency of attracting additional resources while carrying out interest expenses;
- ✓ in order to expand the base of long-term credit and investment resources, commercial banks sell their shares at a very low rate.;

- ✓ the bank's emission and investment policies are not interconnected, the increase of the bank's equity capital does not lead to the increase of the bank's share capital in other joint-stock companies;
- ✓ as a result, investment activity in the bank has become an insignificant secondary activity sector.

Conclusion

The following general proposals and recommendations were developed for the financing of investment projects through bank loans and its improvement:

- investment projects - according to the repayment principle of the lending practice, according to the type of loan for each loan, the self-recovery period of the project, the organization of repayment of the loan in several stages depending on the sector of the economy to which the loan is granted, and monitoring the loan and providing consulting services to the client;
- to increase the size of banks' own assets in order to expand the scope of using the project financing method for the modernization of the main industries in the country, in particular, in the financing of investment projects by banks;
- we believe that it is necessary to improve the investment policy of commercial banks, including increasing the share of investment assets in the asset structure, optimizing the structure of the investment portfolio, increasing the level of diversification of bank assets by selling non-profitable assets, and strengthening the organizational structure of investment departments.

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