

## FINANCING OF INVESTMENT PROJECTS THROUGH COMMERCIAL BANK LOANS

*Nayimova Charos*

*Student of Master's degree Tashkent institute of finance*

*ch.nayimova@gmail.com*

**Abstract:** This article deals with the sources of financing of investment projects, the definition of an investment project, characterisation, process and types of bank financing. The main objectives of financing and how an investment project is evaluated are described. The overall outcome sought by lenders is given.

**Keywords:** credit, investment project, investment loan, investor, bank.

**Introduction.** An investment project, representing a set of interrelated activities aimed at achieving any specifically designated goals, is the basis for attracting investment in a particular enterprise and in the industry as a whole. Competently drawn up investment project is the best tool to accelerate the investor's decision-making regarding the expediency of investing in a particular enterprise. An investment project can be defined as a plan of investment, justification of its expediency, volume, terms, which implies obtaining a completed object of investment activity.

According to the Law of the Republic of Uzbekistan "On Investments and Investment Activity", an investment project is a set of interrelated activities aimed at implementing or attracting investments to obtain economic, social and other benefits.<sup>1</sup>

From the point of view of performing economic procedures related to the creation and realisation of an investment project, the project "is a model of financial transactions relating to the distribution over time of receipts and expenditures of money, i.e. real cash flows". In order for an investment project to be realised financially it is necessary to make calculations on a continuous basis. The main tasks in the financing of an investment project are: identification of sources of financing, as well as the formation of the structure of investments, which will allow financially realise the conceived project and satisfy each participant of the given project; proper distribution of investments in time; correct distribution of investments in the project. This will give the opportunity to reduce the amount of financing and take advantage of later investment in the selected project.

The source of financing can be centralised and non-centralised investments. Let us consider non-centralised sources of financing. They include investor's own funds, bank loans obtained without a guarantee of the Republic of Uzbekistan, including from foreign banks and foreign direct investment. Nowadays, most investment projects are

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<sup>1</sup> Law of the Republic of Uzbekistan "On Investments and Investment Activity" of 25.12.2019

financed by bank loans, as this is one of the fastest ways of financing. This type of financing can be called an investment loan. An investment loan is a loan provided by a bank for the development of some company. A company can use this service to modernise production, expand an existing business or launch new projects. At the same time, the targeted use of the received funds is thoroughly checked by the bank. As a rule, investment loans are characterised by relatively low interest rates and a long repayment period, as it takes time to develop and reach profitability. The deal is also characterised by low risk levels: if the new project fails or the company becomes uncompetitive, the bank can take the property and sell it at auction to recover the borrowed funds. When considering an application, the main thing for the bank is the competitiveness of the project. That is why the feasibility study (feasibility study of the project) is the key document in the package of documents. But having a good credit history will, of course, be a plus. Banks cannot demand an interest rate that exceeds the profitability of the project, and the term of the loan should not be less than the payback period of the project. On the other hand, because of these restrictions, banks have even more stringent requirements for feasibility studies. Entrepreneurs have a favourable repayment period: only interest can be paid until the project is put into operation.

It is extremely important for any bank to have a methodology for assessing potential customers. The starting point in assessing the capabilities of a potential client wishing to receive a loan is the bank's determination of the borrower's ability to repay the principal amount of the loan within the time stipulated by the agreement and pay interest for using it. One of the main ways to avoid loan default is to carefully and qualifiedly select potential borrowers. The main means of such selection is an economic analysis of the client's activities from the perspective of his creditworthiness. Creditworthiness is understood as the financial condition of the borrower's enterprise, which gives confidence in the effective use of borrowed funds, the ability and willingness of the borrower to repay the loan in accordance with the terms of the loan agreement.

Loan terms, the length of the grace period and interest rates are usually determined on an individual basis. Most often investment loans are taken by manufacturing companies - it is the most affordable and cheapest way for them to reach a new level, increase efficiency by modernising equipment. Investment lending is especially relevant for new companies that find it difficult to take advantage of standard types of loans, as well as for long-term projects. The sources of lending for investment projects can be funds from foreign banks and other financial institutions under the guarantees of export credit agencies of the respective countries. Investment projects of small business entities financed by credit resources of banks are subject to expertise of commercial banks on the expediency of implementation of these investment projects. Borrowed funds may be used by a business to pay for various current expenses,

investments in fixed assets or to implement specific investment projects. Types of bank loans are discussed in more detail in the following table.

**Table 1**

**Classification of business loans depending on the purpose.<sup>2</sup>**

<b>Type of loan</b>	<b>Brief description</b>
Working capital loan	Working capital loans are intended to finance a company's operating activities, i.e. current business-related needs such as purchase of materials, raw materials and goods, settlements with counterparties, production costs, salaries, etc.
Investment loan for business	Investment loans in a broad sense are intended for the development of fixed assets, in particular for their reconstruction, modernisation, expansion, acquisition and construction of new facilities. The granting of an investment loan involves a high credit risk as it is granted for a long period of time, during which time fluctuations in market conditions and changes in legal regulations may occur.
Special-purpose loan for financing investment projects	A loan to finance investment projects is the third type of loan, which has much in common with the previous type. It is issued exclusively for targeted projects.

The differences between these types of loans may include, among other things, the maturity of the loan, the method of disbursement, the degree of credit risk, the type of collateral used and the procedure for assessing the creditworthiness of the borrower. Currently, the investment policy pursued by the banking system has its effect in ensuring financial and economic stability through modernisation of technical and technological renewal of the economy, sharp increase of its competitiveness, increase of export potential, organisation of new productions on the basis of innovative and energy-saving technologies, development of production of new types of products in demand in the world market. According to the latest data of the Central Bank, commercial banks allocated investment credits in the amount of 38.8 billion sums for modernisation, technical and technological renewal of production, organisation of production of competitive products on the basis of modern technologies.

<sup>2</sup> <https://esfccompany.com/articles/ekonomika-i-finansy/investitsionnye-kredity-dlya-biznesa/>

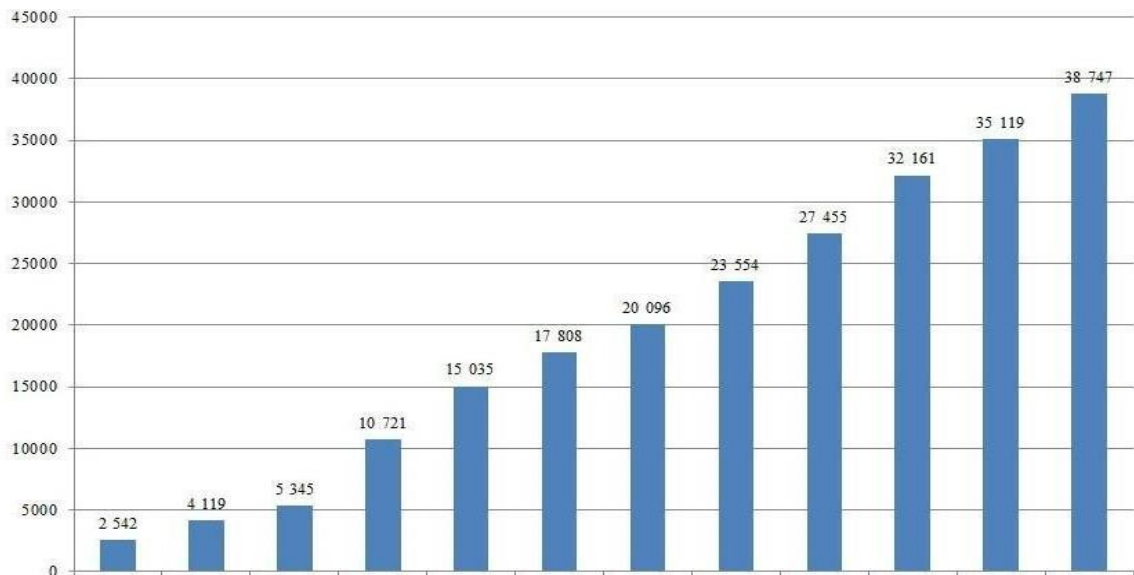


Fig. 1. Information on allocated credits by commercial banks of the Republic of Uzbekistan during months of 2023, billion UZS<sup>3</sup>

The banks' investment activities focus on ensuring timely and full financing of projects included in industry development, localisation and regional development programmes.

JSCB Tenge Bank provides loans for investment purposes to small, medium and large businesses. Borrowers can be individual entrepreneurs (IE), limited liability companies (LLC), joint stock companies (JSC). The purpose of lending is the acquisition of fixed assets and financing of investment projects. The interest rate is set on the basis of risks, sources of financing and other factors of project implementation. The loan is issued in national and foreign currency. A grace period is available. The borrower's own contribution is usually up to 30 per cent. The bank's share in financing can be up to 70%. There are also certain requirements for the borrower such as:

- sustainable operation of the business for at least 2 years;
- absence of current overdue debts on financial liabilities to banks;
- Lack of information on pending lawsuits;

To make a decision on an application, the bank assesses the efficiency of the investment project. It takes into account the expected return on investment, profitability and payback period, solvency and stability of the borrowing company. The guarantee of third legal entities with proven solvency will be an advantage, especially if the own assets are insignificant. Checking the financial feasibility of the project ultimately comes down to determining the balance of inflows and outflows in all areas of activity. Here it is necessary to include dividend payments from net profit, which remains after all loan repayments, creation of reserve funds in

<sup>3</sup> <https://cbu.uz/ru/statistics/financing/71295/>

cash outflows as a mandatory condition. The social efficiency of an investment project reflects its efficiency for society.

**Conclusion.** Experts emphasise that from a financial point of view, an investment loan for companies is one of the most attractive options. There are many companies in the global market that were able to expand their operations and gain their current status largely due to the long-term financing received from the bank.

The main result of the implementation of investment projects should lead to an increase in jobs, the possibility of free entrepreneurial activity of people, and, ultimately, to an improvement in the standard of living.

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