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INVESTMENT PROJECTS FINANCING THROUGH LOANS OF COMMERCIAL BANKS

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Abstract:
This article depicts the various sources of funding for investment projects, along with defining what an investment project is and outlining its characteristics, processes, and different forms of bank financing. It also details the primary goals of financing and the evaluation methods for investment projects. Additionally, it presents the ultimate outcomes that lenders aim to achieve.

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

INTRODUCTION

An investment project is a series of connected activities designed to achieve specific objectives, serving as the foundation for securing investments in a particular business and the industry at large. A well-prepared investment project is a valuable tool that helps investors make informed decisions about the viability of investing in a specific enterprise. It can be described as a detailed investment plan that justifies its purpose, scope, and timeline, ultimately leading to the completion of an investment initiative.

According to the Law of the Republic of Uzbekistan "On Investments and Investment Activity", an investment project is a set of interrelated activities aimed atimplementing or attracting investments to obtain economic, social and other benefits[1].

From the perspective of executing the economic processes involved in developing and implementing an investment project, the project acts as a blueprint for financial transactions that outline the timing of cash inflows and outflows, or actual cash flows. For an investment project to be financially viable, it is essential to conduct ongoing calculations. The key tasks in financing an investment project include identifying funding sources and creating an investment structure that enables the financial execution of the proposed project while fulfilling the needs of all participants. Additionally, it is important to time the distribution of investments appropriately and allocate resources accurately within the project. This approach can help minimize the required financing and allow for the benefits of delayed investments in the chosen project.

First of all, we must know about bank loan. And a bank loan is a debt which a person, better known as the borrower, owes to a bank. It's basically an agreement between the borrower and the bank about a certain amount of money that the borrower will borrow and then pay back in specific increments at a specific interest rate.

Sources of financing can be categorized as centralized and decentralized investments. Let's focus on decentralized funding sources. These include the investor's own capital, bank loans obtained without government guarantees from the Republic of Uzbekistan, loans from foreign banks, and foreign direct investments. Currently, a significant number of investment projects rely on bank loans, as they provide one of the quickest methods of financing. This type of funding is referred to as an investment loan, which is essentially a loan issued by a bank to support the growth of a company. Companies can utilize this financing to upgrade production, broaden their current operations, or initiate new projects.

The bank conducts thorough oversight on the targeted use of the funds received. Investment loans typically feature relatively low interest rates and extended repayment periods to accommodate the time needed for development and profitability. These loans are also associated with lower risk levels: if a new project fails or if a company loses its competitive edge, the bank can recover its funds by seizing and auctioning the collateral. When reviewing loan applications, the bank primarily assesses the project's competitiveness, making the feasibility study a crucial document in the application process. A solid credit history is certainly an advantage. Banks are not allowed to impose interest rates that exceed the profitability of the project, and the loan duration should be no shorter than the project's payback period. However, due to these stipulations, banks often enforce stricter requirements for feasibility studies. Entrepreneurs

[1] Law of the Republic of Uzbekistan "On Investments and Investment Activity" of 25.12.2019

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benefit from a favorable repayment structure, where they may only need to pay interest until the project is operational.

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.

METHODOLOGY

Loan terms, including the duration of the grace period and interest rates, are typically set on a case-by-case basis. Manufacturing companies are the most frequent borrowers of investment loans, as this funding option is both cost-effective and an efficient way for them to elevate their operations and modernize equipment. Investment lending is particularly significant for new businesses that struggle to access traditional loan types, as well as for long-term projects. Funding for investment initiatives may also come from foreign banks and financial institutions that are backed by the guarantees of export credit agencies in their 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 bankloans are discussed in more detail in the following table.

Table 1

Classification of business loans depending on the purpose[2].

Loan types	Description
Working capital loan	Working capital loans are designed to support a company's day-to-day operations, which include immediate business requirements such as acquiring materials, raw supplies, and goods, settling accounts with partners, covering production expenses, salaries, and more.
Investment loan for business	Investment loans, in a comprehensive sense, are aimed at enhancing fixed assets, specifically for their reconstruction, modernization, expansion, and the acquisition or construction of new facilities. Providing an investment loan entails considerable credit risk since it is usually extended over a long duration, during which market conditions can fluctuate and legal regulations may change.
Special-purpose loan for financing investmentprojects	A loan for financing investment projects is the third category of loan, sharing many similarities with the prior type. This loan is provided specifically for designated projects only.

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 typeof collateral used and the procedure for assessing the creditworthiness of the borrower. Currently, the investment policy pursued by the

[2] https://esfccompany.com/articles/ekonomika-i-finansy/investitsionnye-kredity-dlya-biznesa/

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banking system has its effect in ensuring financial and economic stability through modernization of technical and technological renewal of the economy, sharp increase of its competitiveness, increase of export potential, organization 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.

ANALYSIS AND RESULTS

As per the latest information from the Central Bank, commercial banks have granted investment credits totaling 38.8 billion sums for the modernization and technological renewal of production, as well as for establishing the production of competitive products using advanced technologies.

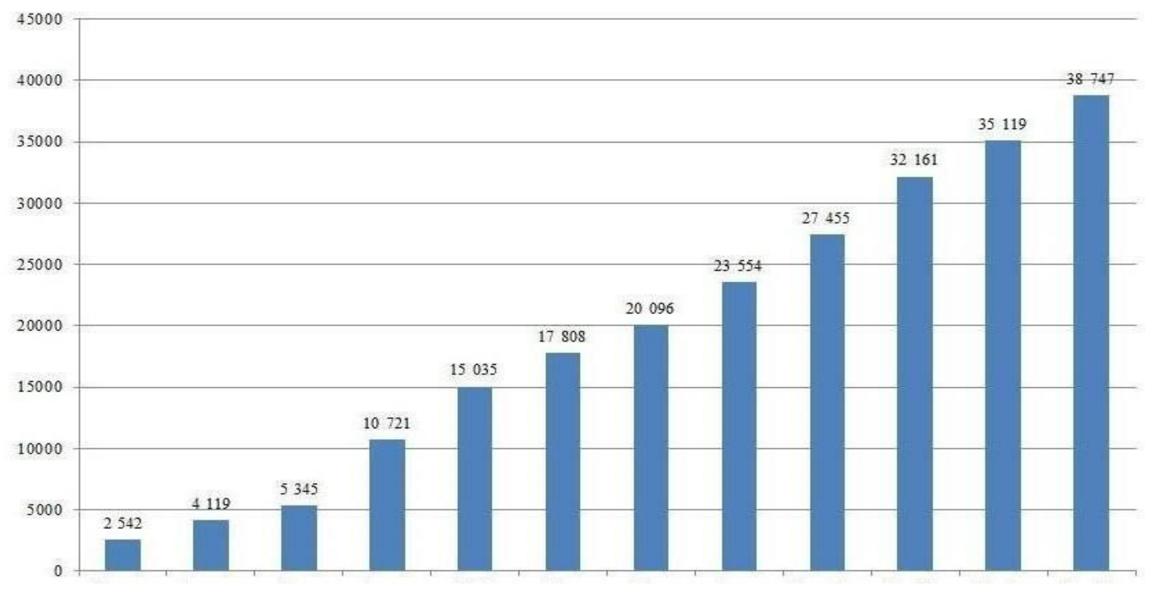

Fig. 1. Allocated credits by commercial banks of the Republic ofUzbekistan during one months period of 2023, billion UZS[3]

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 rateis 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 periodis available. The borrower's own contribution is usually up to 30 per cent. The bank'sshare 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;

In order to decide on a loan application, the bank evaluates the viability of the investment project. This evaluation considers the anticipated return on investment, profitability, payback period, and the financial stability and solvency of the borrowing entity. Having guarantees from third-party legal entities with established solvency provides an added advantage, especially if the borrower has limited assets. Assessing the financial feasibility of the project ultimately involves analyzing the balance between inflows and outflows across all business operations. This assessment should also factor in dividend payments from net profit, which remains after all loan repayments, as well as the creation of reserve funds among cash outflows as a required condition. The social efficiency of an

[3] https://cbu.uz/ru/statistics/financing/71295/

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investment project indicates its overall benefit to society.

CONCLUSION

Experts point out that, financially speaking, an investment loan for businesses is among the most appealing choices available. Numerous companies in the global market have successfully expanded their operations and achieved their current standing largely because of the long-term funding they received from banks.

The primary outcome of executing investment projects should result in job creation, enable individuals to engage in entrepreneurial activities, and ultimately enhance the standard of living.

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