



Evaluation of The Efficiency of Commercial Banks in Financing Investment Projects

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ABSTRACT

The article examines the theoretical and methodological basis of financing investment projects by commercial banks. The system of financing of investment projects of commercial banks, the possibility of using the funds attracted to commercial banks to expand the financing of investment projects were assessed. The process of financing investment projects of commercial banks in Uzbekistan, sectoral and regional problems of financing investment projects by commercial banks are studied. Scientific proposals and practical recommendations have been developed to form the direction of efficient use of resources of commercial banks in financing investment projects.

CCS CONCEPTS

• investment activity; • investment activity of commercial banks; • securities market; • investment policy of commercial banks; • management of investment activity; • investment attractiveness; • investment risk;

ACM Reference Format:

Nurillayev Jamoliddin Yarashevich, Tursunov, Bekmukhammad Omonovich, and Raimberdiyev Samandar Sherzod ogli. 2021. Evaluation of The Efficiency of Commercial Banks in Financing Investment Projects. In *The 5th International Conference on Future Networks & Distributed Systems (ICFNDs 2021)*, December 15, 16, 2021, Dubai, United Arab Emirates. ACM, New York, NY, USA, 5 pages. <https://doi.org/10.1145/3508072.3508135>

1 INTRODUCTION

In order to maintain its high efficiency, solvency, liquidity in a market economy, a commercial bank has always focused on one of the central problems of investment activity - the satisfaction of conflicting interests between depositors and shareholders. In this relationship, the mismatch of the interests of the parties is reflected in the conflict between the liquidity of the bank and the profitability of banking operations. More precisely, this contradiction is reflected in almost every operation of the bank. On the one hand, shareholders want high returns.

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ICFNDs 2021, December 15, 16, 2021, Dubai, United Arab Emirates

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ACM ISBN 978-1-4503-8734-7/21/12...\$15.00

<https://doi.org/10.1145/3508072.3508135>

The discrepancy between liquidity and profitability determines investment risk, and it can be seen by a commercial bank as the probability of achieving high returns without lowering liquidity levels. The following risk factors can be found in the investment activities of commercial banks. These are: credit, market and interest rate risks.

Credit risk is associated with a decrease in the financial condition, capacity of the issuer, in which it is unable to meet financial obligations. In addition, credit risks are also associated with the ability of governments and public institutions to repay loans from the population. The ability of the government not only to receive loans, but also to repay its obligations is important for the organization of the state securities market and the proper functioning of the entire financial and credit mechanism. The essence of market risk is related to the unexpected changes in the stock market, as a result of which some securities may depreciate as an investment object, and their sale can be carried out only at a large discount. The risk of a commercial bank investing its significant funds in investment activities in order to earn a profit, risking its liquidity, creates a large or small amount of investment risk in the banking business. In this case, the investment activity of commercial banks is associated with the risk of active operations with securities. This, in turn, requires the bank's management to develop clear tactics, strategies and action plans in this area, to pursue an investment policy. In world practice, commercial banks have a high level of experience in the field of investment. Therefore, based on the achievements in world practice, the "golden rule of investment" for the implementation of investment policy of commercial banks has been developed, taking into account the main goals, objectives, factors, strategies and tactics of investment activities. According to it, the return on securities is always "directly proportional" to the level of risk that the investor will face in order to receive this return. Due to the relationship between the principles of investment activity and the main factors of investing in securities - profitability, liquidity and risk - each commercial bank, whether or not understands the impact of the above factors, or implements this investment policy for better or worse. This, in turn, means that the bank's investment policy is subject to a certain level of investment risk by the bank and the need to develop appropriate measures in the investment policy of a commercial bank (Anand DN, Galetovic A., 2001; Davis H, 2005; Breyli R., Mayers S., 1997;).

2 RELATED WORK

Scientific research aimed at highlighting the specifics of the investment activities of commercial banks, the theoretical and methodological aspects of the regulation and management of investment

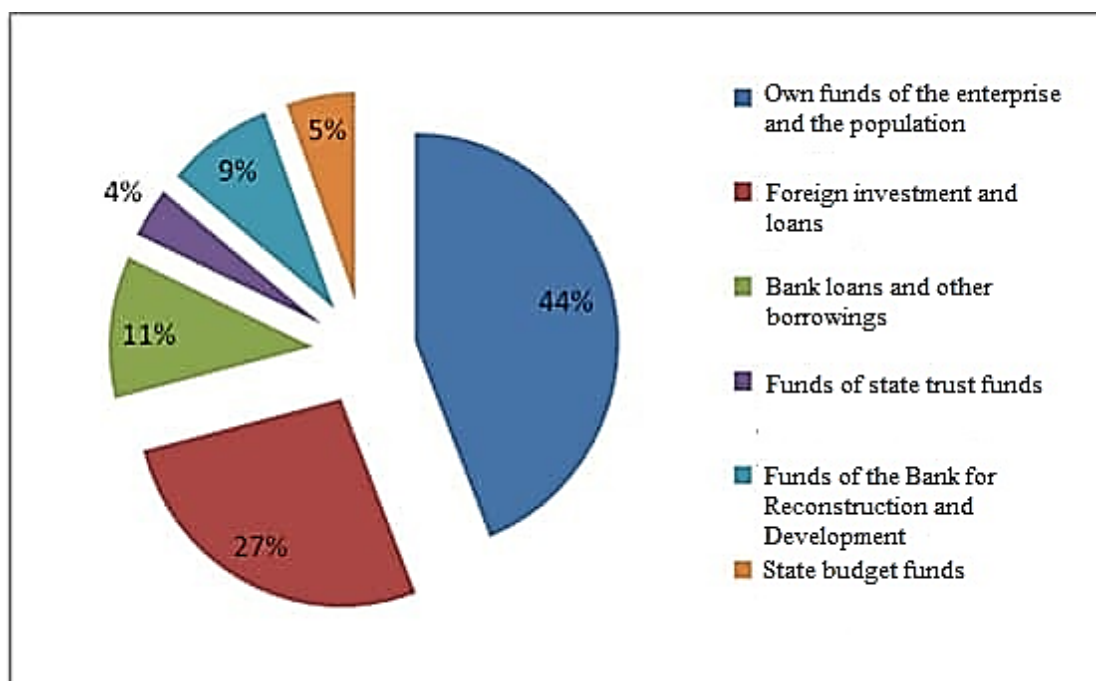


Figure 1: Distribution of fixed capital investments by sources in 2020, in percent [11].

banks was conducted by R. Joshua, P. Joshua [1]. D.N.Anand, A.Galetovic studied the practice of risk management of financing investment activities in commercial banks [2]. In his research, D.Sinki recommends increasing the investment lending capacity of commercial banks as a key challenge in improving the financing mechanism through commercial banks [3]. R. Braley, S. Myers research is based on the feasibility of business plans submitted by clients on investment projects to commercial banks [4]. Dj. Research by Van Horn recommends that commercial banks finance long-term investment loans from equity and long-term deposits when financing investment projects [5]. Through his research, R.U.Kolb seeks to justify the need for banks to improve the quality of expertise of investment projects and open credit lines for real effective projects [6]. In a research study by U.F.Sharp, G.D.Alexander, DJ.V.Bayley, he examines the relationship between loans obtained to finance an unjustified investment project and their interest rates [7]. In his research, S. Jaffer examines the conditions and factors for the development of investment activities in the Islamic banking system. The process of managing investment activities in the financing process is the main object of research [8]. Research conducted by H. Davis notes that the main part of the investment activity of banks in developed countries corresponds to the practice of syndicated lending [9].

3 RESEARCH METHODOLOGY

Scientific research used methods such as statistical grouping, dynamic sequencing, analytical comparison of tables, grouping of logical and comparative analysis data of the study, statistical processing method by comparing them with each other, calculation of financial indicators.

4 ANALYSIS AND RESULTS

In particular, in 2020, the volume of investments in the economy of Uzbekistan from all sources of financing will reach 60.7 trillion soums. soums or 11.9 billion soums. USD. Its share in GDP increased by 0.2 percentage points compared to 2016 and amounted to 24.4%. At the same time, 60.3% of investments in fixed assets were directed to construction and installation works, and 31.5% to the purchase of machinery and equipment. 43.9% of total investments are own funds of enterprises and the population, 26.9% are foreign investments and loans, 11.0% are loans and other borrowings of commercial banks, 8.5% are the Republic of Uzbekistan Reconstruction and Development 5.5% from the state budget and 3.9% from state trust funds. The total volume of foreign investments and loans disbursed in 2019 amounted to 3,184.6 million. USD. Of this, the volume of direct and other foreign investments and loans amounted to 2,420.4 mln. USD, a decrease of 2.4% compared to 2016 [10]. In addition, one of the important factors in the rapid growth of GDP in the reporting year was the increase in labor productivity by 5.6% compared to 2019 as a result of measures taken to modernize production, technical and technological re-equipment.

As a result of measures taken to increase the level of capitalization of banks, the total capital of commercial banks increased by 2.3 times in 2019 and as of January 1, 2020 amounted to 20.7 trillion soums. soums, while the total authorized capital increased 2.8 times to 16.3 trillion soums. soums. At the same time, the capital of state-owned banks amounted to 11.7 trillion soums. soums. In order to ensure the financial stability and liquidity of commercial banks in the context of liberalization of foreign exchange policy and to meet the growing demand for credit in the economy, the Government has allocated 670 million soums to the capital of state-owned

Table 1: Composition and dynamics of total capital of commercial banks (billion soums) [12]

Indicators	Banks without state ownership			Banks without state share in the capital			Total		
	2019 y	2020 y	Percent	2019 y	2020 y	Percent	2019 y	2020 y	Percent
Total capital	6 573	16 672	253.6	2 408	4 005	166.3	8 981	20 676	230.2
Charter capital	4 616	14 195	307.5	1 189	2 111	177.5	5 805	16 307	280.9
Reserve capital	12	14	116.7	29	54	186.2	41	68	165.9
Retained earnings	1,062	1 269	119.5	406	524	129.1	1 468	1 793	122.1

banks. Funds in the amount of USD were transferred. During the reporting year, the total capital of non-state-owned commercial banks amounted to 1.6 trillion soums, of which 1 trillion sum was formed through the placement of additional shares and debt securities. As a result, in 2020, the capital adequacy ratio of banks increased from 14.7% to 18.8% (minimum requirement 12.5%) in relation to risk-adjusted assets. This shows that the measures taken to increase the total capital of commercial banks have had a positive impact on strengthening the financial stability of the banking system. As a result, in 2020, the capital adequacy ratio of banks increased from 14.7% to 18.8% (minimum requirement 12.5%) in relation to risk-adjusted assets. This shows that the measures taken to increase the total capital of commercial banks have had a positive impact on strengthening the financial stability of the banking system. As a result, in 2020, the capital adequacy ratio of banks increased from 14.7% to 18.8% (minimum requirement 12.5%) in relation to risk-adjusted assets. This shows that the measures taken to increase the total capital of commercial banks have had a positive impact on strengthening the financial stability of the banking system.

82% of the total liabilities of commercial banks are domestic liabilities, including 31.7% from the resources of the Fund for Reconstruction and Development of the Republic of Uzbekistan and 18% from foreign banks and credit lines of international financial institutions. At the same time, as a result of the liberalization of monetary policy in the reporting year, the share of foreign loans in total liabilities of banks increased from 36% to 50% in 2019 as a result of a almost 2.5-fold decrease in the exchange rate of the national currency against the US dollar. At the same time, the share of deposits from the population and businesses in total liabilities of banks in 2020 decreased from 48.4% to 40.2%. In 2020, the volume of deposits attracted by commercial banks increased by 61.4% compared to the beginning of the year (24% in 2019) and amounted to 58.7 trillion soums as of the reporting date, soums, of which 51% were deposits in national currency and 49% in foreign currency.

Structure and dynamics of liabilities of commercial banks. In 2020, the total liabilities of commercial banks will reach 70.9 trillion soums, soums or 1.9 times (1.3 times in 2019) and as of January 1, 2018 amounted to 146 trillion soums. At the same time, 71% of the total liabilities growth or 50 trillion. This was due to an increase in the value of loans and deposits in foreign currency in the national currency as a result of a sharp depreciation of the national currency. The volume of deposits in the national currency increased by 13.3% (3.5 trillion soums) compared to the beginning of the year and as of January 1, 2020 amounted to 29.8 trillion soums.

The volume of deposits in foreign currency increased by 88.1% or 18.8 trillion soums, soums and amounted to 28.8 trillion soums. The volume of deposits in foreign currency increased by 80.5% or 15.1 trillion soums, soums due to the sharp depreciation of the national currency, the remaining 3.7 trillion soums. The increase in the amount of soums in foreign currency amounted to about 15% of the real volume or 3.1 billion soums, 3.6 billion US dollars. It is explained by the increase to the US dollar.

As of January 1, 2020, 65.8% of total deposits in commercial banks, including 66.7% of deposits of the population accounted for state-owned banks, and these deposits accounted for 33% of total liabilities of banks with state share. formed. The share of commercial banks without state share in the capital accounted for 34.2% of total deposits in the banking system, including 33.3% of total deposits, while the share of deposits and deposits in total liabilities of these banks was 76.9%. This means that, unlike state-owned banks, deposits and deposits of the population serve as the main resource source for other banks. It is necessary to implement the financing of large investment projects through the issuance of syndicated loans in conjunction with foreign banks. This reduces the level of risk associated with financing projects and allows for the study of foreign experience in their expertise. Banks in the country should actively attract funds from various extra-budgetary funds and insurance companies to finance investment projects in various sectors of the economy. Because most of these funds are long-term, transforming them into financing investment projects does not cause liquidity problems in banks. Also It is expedient to provide the Fund for Reconstruction and Development of Uzbekistan, which accumulates a large amount of foreign currency, in the form of subordinated loans to commercial banks to finance effective investment projects. The majority of economic entities operating in the regions of the country are small enterprises, and one of the main factors preventing them from using bank loans to finance their investment projects is the issue of supply. To address this positively, first of all, commercial banks need to increase the volume of leasing operations in order to finance the investment activities of enterprises. Second, It is necessary to quickly establish a loan guarantee fund in our country, taking into account world experience and national characteristics. In order to protect the population from the devaluation of bank deposits as a result of inflation, it is necessary to use foreign experience. For example, setting a "floating" interest rate higher than real inflation, rather than a fixed deposit rate for Chilean banks. The bulk of credit investments of commercial banks are for the construction of new production facilities and service

Table 2: Composition of total liabilities of commercial banks [12]

Indicator name	01.01.2019 y.		01.01.2020 y.		Change, in percent
	billion soums	percentage	billion soums	percentage	
Total liabilities	75 094	100%	14 956	100%	94.4%
Attracted loans	26 768	36	72 819	50	172
Total deposits	36 341	48	58 668	40	61
Issued securities	1 058	1	1 100	0.8	4
Accrued interest to be paid	375	0.5	1 049	0.7	180
Funds of other banks	395	5	5 763	4	44
Correspondent account of the Central Bank	263	0.4	537	0.4	104
Other obligations	6 250	8	6 019	4.1	-4.1

Table 3: Deposits attracted by commercial banks [12]

Name of indicators	01.01.2019 in the billion soums	01.01.2020 billion soums	Change, in percent
Total deposits, including:	36 341	58 668	61.4
Deposits in national currency	26 334	29 843	13.3
Deposits in foreign currency	10 007	28 825	188.1
million US dollars equivalent	3 097	3 550	14.6

facilities, equipping them with the necessary equipment and technology, modernization of existing enterprises and the provision of working capital to businesses. This is one of the important factors in ensuring high economic growth of the country.

The potential of commercial banks to participate in the investment process is determined primarily by the adequacy of their resource base. The first part of the resource base of commercial banks of the country consists of capital, and the second part consists of deposits. Today, in order to strengthen the resource base of banks, to attract free funds of the population and businesses, special attention is paid to the issuance of long-term bonds and certificates of deposit by commercial banks. In turn, the growth of real incomes of the population, the fact that deposits in banks are fully guaranteed by the state, Ensuring the return of deposits at the first request of customers and the exemption of interest income from bank deposits provides a steady increase in the volume of deposits of the population in commercial banks. It should be noted that despite the general growth trend of deposits in commercial banks of the country, it is necessary to further strengthen their base at the expense of long-term deposits. Otherwise, there will be a shortage of term funds, which will limit the increase in lending capacity of commercial banks. The volume of investment loans of commercial banks of the Republic is also affected by the refinancing rate of the Central Bank.

Due to the reduction and stratification of the required reserve rates set by the Central Bank of the Republic of Uzbekistan on time deposits of commercial banks since September 1, 2009, it has become possible to strengthen the resource base of commercial banks. As a result, there was a multiplicative expansion of credit resources. The investment activity of banks is also affected by inflation. In the context of high inflation, the investment activity of banks slows

down, as interest rates on loans increase and banks become more interested in speculative transactions.

The higher the inflation rate, the lower the real interest rate of banks, which does not encourage banks to invest. Thus, a number of factors affect the participation of banks in investment activities. In order to increase the positive impact of these factors, our government is pursuing a prudent policy and increasing the number of projects and the volume of loans financed by bank loans. In our view, the real sector of the economy has the following problems in financing investment activities:

- Problems of collateral in financing the investment activities of enterprises of the real sector of the economy: appraisal of collateral, sale, collection and confiscation of collateral without the consent of the client, notarization of collateral, storage of collateral, guarantee;
- Insufficient use of foreign experience in financing the investment activities of enterprises in the real sector of the economy;
- Insufficient creation of an effective system of regulation and incentives for the activities of non-bank credit institutions, insufficient collateral for obtaining a loan, the complexity of the loan application process;
- the presence of factors that negatively affect the development of the practice of financing investment activities in enterprises of the real sector of the economy;
- availability of overdue loans by commercial banks in financing investment activities in enterprises of the real sector of the economy, etc.

A positive solution to these problems will improve the financing of investment activities of real sector enterprises.

5 CONCLUSION AND SUGGESTIONS

Among the factors determining the participation of bank credit sources in project financing in Uzbekistan are the competitive environment and the monetary policy pursued by the Central Bank, interest rate policy and the strategy of banking institutions.

Today, the main direction of increasing the efficiency of investment activities of banks is the development of project financing, which allows to calculate the risks and minimize them, to find ways to effectively manage them. The obligation to repay loans and repay the loan on pre-determined terms leads to the rational use of investments in fixed assets and increases the responsibility for the timely commissioning and development of production capacity.

Organizing investment lending on an economic basis helps to ensure that capital expenditures are inextricably linked with the end result, increases interest in choosing the most cost-effective options to increase efficiency, and actively seeks opportunities to increase profits, while profits increase the principal amount of debt and its interest. will be the source of the return.

The credit policy of banks should be focused on the effective investment of funds in the most necessary projects, which requires the attraction of long-term deposits in the form of resources. In our view, the distribution system of centralized credit resource management will have to be abandoned. To better manage them, the use of credit resources should be linked to banks adhering to monetary policy priorities.

The investment process in commercial banks is carried out mainly in the following 3 areas:

- Implementation (accumulation) of funds for investment purposes;
- Provision of loans of investment nature;
- Placement of funds in securities (both from the bank account and on behalf of the client).

In our opinion, strengthening the financial resource base of banks is important in increasing the investment activity of commercial banks. In this regard, special attention should be paid to further increasing the level of capitalization of banks. Given that the rate

of active operations is also determined by the amount of capital, it is advisable to pay special attention to the following:

- increase the volume of long-term funds in the structure of financial resources of banks, the issuance of bonds aimed at attracting free funds of legal entities and individuals in this regard;
- strengthening the resource attractiveness of deposit certificates issued by commercial banks, taking into account inflation and devaluation rates in the payment of interest on certificates using tax benefits;
- development and consistent implementation of a program of mutually coordinated measures, providing for the effective use of investment funds by sector and region;
- development of open market operations aimed at expanding the investment opportunities of commercial banks;
- diversification of assets by commercial banks in order to reduce investment risk, including effective risk management regular implementation of necessary management measures, etc.

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