



PROBLEMS OF FINANCING OF INVESTMENT PROJECTS IN UZBEKISTAN THROUGH SYNDICATED LOANS

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Abstract

A syndicated loan as a way to raise borrowed capital is not well known to financial managers of Uzbekistan companies, so you should consider the specifics of the process of attracting credit, its advantages and disadvantages compared to other financial instruments, and also analyze the Uzbekistan syndicated loan market. Based on the conducted research, it is necessary to identify the bottlenecks that arise before financial managers when choosing syndicated loans as a means of financing from external sources and suggest ways to solve them. This paper studies the existing problems in the system of syndicated lending in Uzbekistan and describes the principles of lending in the international syndicated market. In the analysis section of the article, the current state of investment lending in the Republic has been evaluated, and conclusions and recommendations on eliminating existing problems and improving the system of syndicated lending are provided.

Keywords: syndicated, syndicated loans, investment projects, credit risk, financing

INTRODUCTION

In the context of globalization of the global economy and the growing competition, the demand for international capital is growing. One of the most common forms of international borrowing for commercial banks is syndicated loan. In recent years, around \$ 5 trillion has been attracted by syndicated loans in the global economy, with over 10.5 thousand transactions on syndicated loans in the world market. These figures testify to the tendency of growth of syndicated loans after the global financial crisis in 2007.

We know that a borrower's need for a loan can exceed the limits set by the bank. In such cases, several banks provide their customers with syndicated loans, combining their funds. The distinction of this loan from other loans is that there are several lenders, and accordingly, the credit risk and the amount are divided into several participant banks.

So, in our opinion, a syndicated loan is a loan that allows two or more banks to diversify their loan portfolios and effectively manage credit risks by placing a large amount of money and long-term cash to the debtor.

Although the use of syndicated loans in investment projects in the world practice is one of the successful financings, the use of this lending method in Uzbekistan is in a very poor state, which is influenced by a number of factors. In particular, there are problems such as shortage of long-term stable resources in banks, lack of experience and participation of banks in the international syndicated market, incompleteness of normative legal documents, weak risk management mechanism.

The findings of the research show that funds raised by the state initiative and influence have played a major role in boosting the volume of investments in Uzbekistan's economy in 2017-2018. Private sector enterprises and the population are still in high demand for foreign direct investment, and the need to attract loans from the international syndicated market, even without government guarantees. It requires further improvement of investment policy through creation of a favorable investment climate in the country, reforming investment legislation, granting more freedom to private businesses, and reducing state interference in the economy. Lack of necessary information on investment potential in the country, as well as less interest of local authorities in attraction of investments also hamper the attraction of international loans.

According to the World Bank, in 2017, the share of gross capital formation in gross national product (GDP) will be 30.9 per cent in low and middle-income countries, 43.6 per cent in China, 33.4 per cent in Indonesia, 31 per cent in Korea, 30.9 percent in Turkey and 30.7 percent in India. In Uzbekistan, the figure was 24.9%.

This indicates that our country does not have sufficient investment resources, which can be proportionate to its size and size, compared to other countries. The World Bank also publishes a report on the share of net inflows of foreign direct investment into gross domestic product (FDI net inflows, % of GDP). This indicator is 3.4 percent in Europe and Asia in 2017, while in individual countries, 19.6 percent in Singapore, 15.4 percent in Ireland, 7.9 percent in Albania, 7 percent in Azerbaijan, 4.3 percent in the Czech Republic, 2.8 percent in Kazakhstan and 0.1% in the Republic of Uzbekistan. This situation testifies to the large need for foreign investment to be actively attracted to the economy of the Republic.

According to the survey data, the total volume of investments utilized in our economy in 2017 increased by 7.1% to 60.7 trillion soums (the US \$ 11.9 billion equivalent), but this growth was largely achieved by means of centralized funds, which are under the control of the state, by 26.6 percent of budgetary funds and 84.8 percent of the Fund for Reconstruction and Development. Enterprise and public investment, the main driving force of the market economy, decreased by 1.1 percent and 15.5 percent during the period. Foreign direct investment, which reflects the ease of the investment climate in the economy and serves innovative development, also decreased by 2.4% in 2017, in terms of foreign currency equivalent. The volume of commercial banks' loans, allocated for production activities, did not increase either.

In the first half of 2018, foreign loans attracted by government guarantees, which were part of investments, increased 2.7 times in national currency - UZS. However, this increase is not a real increase in foreign currency, but on September 4-5, 2017, the rate of US dollar from 4215.35 to 8100 soums represents a nominal increase in the volume of loans as a result of the devaluation of 1.9 times. The volume of direct foreign investments in January-June 2018 decreased by 37.9% in the same period of the previous year.

Inadequate study of the principles used in the syndicated lending system in the international syndicated market negatively affects the development of the lending system in our country.

Therefore, we continue our research on the principles of the international syndicated lending market. As mentioned above, syndicated lending is also subject to certain commitments, such as the bank lending system. The main principles of the syndicated loan are: repayment, maturity, payout requirement, purpose-oriented, differentiation, collateral. The principle of repayment on a syndicated loan means that funds borrowed from the syndicated lender are only available to the borrower as financial resources and are subject to repayment. The economic basis of reimbursement is the availability of funds and their existence on the day of expiry of the loan repayment period.

From the principle of repayment of the syndicated loan based on the principle of its maturity, it means that the loan should be strictly refunded in a certain period of time, ie the term of lending is a necessary norm of the credit repayment. The term of the loan is the period of time during which the borrower is in the process of borrowing, and if the loan expires, the nature of the loan will change and it will lose its actual function. Violation of the deadlines indicates that it is necessary to apply certain sanctions, which are specified in the loan agreement, for example, the amount of fines for every unpaid day.

The principle of differentiation is that the bank-creditors do not need the same approach in decision-making on participation in established syndicates for different borrowers. Accordingly,

bank loans determine the financial condition of the borrower on the basis of creditworthiness indicators.

The principle of repayment of syndicated lending is a description of the refinancing of the services rendered by banks when issuing this loan. This loan is charged in percentage to the interest rate, and the interest rate is determined in the loan agreement and depends on the demand and supply of credit resources on the credit market.

The principle of collateral means that the property available to the borrower guarantees the creditor to return the funds in the due time. Depending on syndicated loans, they are usually issued without proper collateral.

Syndicated loans are strictly for a specific purpose and the use of credit for other purposes contravenes with the principle of credit orientation, and implements certain measures specified in the loan agreement, for example, the contract can be canceled on condition that the principal debt and the amount of accrued interest are paid.

Apart from the general principles outlined above, only those principles that relate to syndicated loans may be separated, but may vary depending on the composition of the lending scheme.

The discrepancies of the creditors' liabilities. Each bank must provide a certain amount of credit in accordance with the loan agreement.

Agent's participation. To simplify management of syndicated loans, one of the banks will appoint an agent responsible for all syndication processes.

Democracy in Syndicate. The most important issues in the syndicate are solved by the majority of banks (eg, early repayment of loans under default). One or two major banks are considered main parts of the syndicated loan, 50% or 66% (2/3). For the syndicate, this principle is most optimal, as several banks may participate in a single syndicate, which may be unanimous in some issues, and any bank-lender offering the largest portion of the loan may hamper other banks from exercising their rights.

The principle of proportionate distribution. The essence of this principle is that any payments made by members of the syndicate on accountancy, court proceedings and other distributions should be proportionately distributed between syndicate participants.

Opportunity to grant a creditor's right. A syndicated loan is formed so that creditors have the opportunity to place their shares on the secondary market. Syndicated loans provide a mechanism for transferring loans to third parties without the consent of the borrower, so the borrower may not know that he has participated in the syndication and has already given his share, and that the new bank participates in the syndicate.

Internationalized syndicated loans show short-term and medium-term loans, usually from 5 to 7 months, with a possibility to prolong their life. For large scale and costly projects, the maximum loan expiration period is 12 years. This is explained by the fact that syndicated loans are issued at the expense of three and six months deposits.

However, if the conditions in the market of eurodeposit are frequently changing, the terms of the loan should also be reconsidered on a regular basis. In developing countries, in these cases, the terms of the loan are 6 or 12 months. These terms are based on the fact that lending banks do not want to increase risks in developing countries and countries with economies in transition. Basic syndicated products are as follows:

- financing of purchase contracts;
- refinancing;
- project financing;
- Purchasing of assets with financial use "LBO".

Moreover, additional capacities for syndicated lending can be summarized as follows:

- bridge-financing;
- granting the loan in accordance with the specific stages of the loan by the borrower;
- creating flexible debt repayment schedule for a loan that includes borrower's financial income;
- possibility of early repayment.

There are various signs of classification of syndicated loans. Syndicated loans are divided into loans temporarily (usually for financing a major transaction) and continuously operating (as a rule, operations in the foreign exchange market and investment market).

It should be noted that the syndicated loan market is divided into the primary and secondary markets. The syndicate's activity on the primary market is carried out before the deal is concluded. Strategic potential investors with huge capital in primary market form a potentially resource-oriented resource required by a particular borrower. The secondary market envisages the entire share of the loan (or part thereof) to small investors (banks, savings, individuals). Small investors will be able to get a certain portion of the loan and access to attractive investment sectors of the economy. The flexibility of these instruments and the similar share of the debt market allows investing in funds, increasing revenue and lending.

The syndicated loan market uses many financial instruments to meet the borrower's requirements:

- 1) Term debt - this is a certain amount of borrowing, which should be fully paid for a certain period. The borrower may repay the loan through a single tranche for a certain period determined by the creditor agreement. The repayment of the principal debt can be made on a pre-agreed amortization loan, either on a bullet loan or in a repayment of progressive payments

(balloon repayment). The timely or early repayment amount is no longer given to the borrower, and it is a major difference of term debt from revolving credit. In addition, term debt can be multi-currency, which allows the borrower to periodically change the currency of the debt.

2) Revolving Debt - this is a specific amount and a loan of a certain amount of time, but in this case, the borrower receives the right to receive, refund, and repay the entire debt amount or part thereof. Each time, the borrower must meet certain initial conditions for the next tranche. Because each tranche is paid at the end of the interest rate. The full repayment of the loan cannot be made after the last repayment period, but occasionally regular breaks are given for the repayment of the loan sum or the amount of funds given will be reduced.

3) A reserve credit line is a kind of revolving debt and the main difference between the revolving and the reserve credit line is that in a reserve credit line not to use the loan to fund it, but to reserve it. Thus, the borrower needs to find alternative sources of money, such as securities, to provide funds. If there is a crisis in one of these alternative equity markets, then funds will be attracted through the reserve credit lines.

4) It should be comprehensive that syndicated credit vary greatly from the set of composition and liabilities agreed between the borrower and the lender on a loan agreement. One of the main specific features of syndicated lending is that the loan is issued by syndicated creditors, representing a group of banks in at least two different countries (for example, credit unions).

Every creditor in the syndicate puts his demand to the borrower. However, this loan will be signed by signing one contract. The reasons for creditors' joining syndicated may vary: some banks simply do not have the required funds or do not want to undertake any risks that may arise in the lending process, and the reasonability of distributing it among other creditors. Finally, due to various circumstances, it is thought that the borrower is not in a position to provide full loans.

Creditors can be divided into two groups: "Leading" members and "small" participants of the syndicate, according to acting as leading organizers, managers or agents. The "leading" members of the syndicate determine the composition of the syndicate, negotiate the loan, and search for "small" participants. "Small" banks form the second group of creditors whose composition and number can be changed depending on the amount, complexity and valuation of the loan. Generally, credit institutions from 2 to 30-40 credit will participate in syndicate from different countries.

After the organizers of the syndicate, there are assistants, who directly assisted the organizer of the loan. They offer banks to participate in crediting and distributes information among them and informs the borrower about the transaction.

The bank-agent plays a special role in the organization of the syndicate, which forms banking group. They coordinate their actions, establish relationships between borrower and loan, provide information support for transactions, oversee performance of obligations by borrower, etc. Bank-agent receives agency premium for this work. As a bank agent, the organizer itself or one of its subsidiaries can participate.

Participation in the syndicate for "small" banks can be beneficial for several reasons: their role in the market is often insufficient to independently finance of some transactions, and their specialization can be limited through the geographical area or the economy. Moreover, they hope that the client will invite them to participate in an agreement that will bring them further benefits.

If creditors lend higher number of sums, then will be higher the extra fee for participation (Participation fee). If borrowers enter first time into syndicated loan and they do not have necessary experience in arranging the transactions, in this case, borrowers can use the Financial Adviser services. Financial advisors provide service and support at all stages of the credit process, helping to reduce the credit rate and improve the quality of legal documents to the benefit of the borrower.

The final loan amount is determined by the amount of the commission, interest margin and loan interest rate. There are several ways to set a loan rate. A group of organizers can put an upper limit on the interest rate on the loan. In the process of preparation of mandates and other documents, the number of certain amounts may be established, and then the average or highest rate will be formed, depending on the re-subscription of creditors directly in the process of forming the application form. In the process of the transaction, the interest can be changed on the loan, but in this case, this fact is recorded in documents. The floating rate can also be used. The borrower agrees to this rate only when the credit rating of the borrower increases, so that the rate of interest is reflected in the ratio of the borrower to the rating: if the rating gets improved, the rate decreases and vice versa. There is another possibility of forming interest rates on loans: the rate may depend on some indicators of the borrower's activity. At the current time floating rate on loans is widespread around the world.

Typically, the LIBOR (London Inter-Bank Offering Rate) rate is taken, and a specific bank is represented in the loan agreement. Typically, the interest rates are traded on a six-month interbank-based LIBOR rate for a specified period of time. The nominal interest rate on the loan is calculated by adding the base rate and margin of the bank. The margin is based on a number of factors: the financial condition of the borrower, the description of the debt, the current market situation, and so on.

For example, the length of the loan is how long that the margin is so high. Because there is uncertainty in the long-term interest rate fluctuation and the profitability of operations for banks. Some borrowers prefer smaller margins to convince their potential lenders, but prefer to pay a large commission. The borrower is entitled in selecting between three and six months of the interest rate adjustment on a loan granted under such pricing conditions. Thus, our research shows that there are a number of problems in our country. Specifically:

1. The issue of Increasing the capacity of commercial banks to provide Investment Loans. The essence of the problem is that the long-term weakness of the commercial banks in the national and foreign currencies, the lack of balance between assets and liabilities and the long-term deposit problems.
2. Low effectiveness of risk management in commercial banks with syndicated crediting system. The syndicated loans of commercial banks are mainly investment loans that are highly risky. The low efficiency of their management affects the financial stability and credit potential of commercial banks. Therefore, it plays an important role in improving the mechanism of commercial banks' use of economic norms regulating high-risk investment transactions.
3. The lack of perfect business plans by the clients on investment projects and lack of analysis by banks, and the lack of credit agreements. Banks need to focus on analyzing the debtor's business plan and continuing the analysis in the process of credit registration and credit usage. However, business plans are treated by both the creditor and the borrower as an official document required for credit practice. However, the business plan is an important document that determines the strategy of using the client's funds. However, banks review business plans only during the credit registration process. In the part of reviewing, the main interest of the bank is just a profit of outcome of business plan.
4. Non-participation of our local banks in investment projects in the internationally-syndicated market and lack of experience in this type of lending and lack of close cooperation with foreign banks prevent their attraction from to large projects in our country. involvement in major projects in our country.
5. Poor legal and regulatory framework to effectively implement the lending, and it limits access to this crediting system. At present, there is only one Central Bank Directive, but it cannot help solving many legal issues.
6. Low effectiveness of investment loans attracted on syndicated loans under Government Guarantee.
7. Not elaborated scientifically-based Strategy of attracting syndicated international loans among the regions of the Republic Uzbekistan.

The solution of these problems will lead to the improvement of organizational and legal framework of the syndicated lending system in the Republic of Uzbekistan.

CONCLUSIONS

In conclusion, it should be noted that the growing role of international loans under the guarantee of government requires the adoption of strong measures to further improve the state regulation of attraction and use of syndicated loans. With the involvement of syndicated loans into new projects, it is possible to achieve dynamic development of the industry through introducing of ecological clean and advanced technologies, introduction of the latest equipment and equipment, rational organization of work. We need to attract them, in our opinion, in accordance with long-term targeted programs to attract and use syndicated loans.

It is necessary to develop a Scientifically-motivated Strategy for attracting international syndicated loans among regions of the Republic Uzbekistan.

Strengthening the involvement of syndicated loans in the regions refers to increasing the effectiveness of the investment policy pursued by the local authorities in the following areas:

- a) development of measures to strengthen foreign investment in the development of the region's investment development strategy;
- b) creating conditions and market infrastructure necessary for attracting syndicated loans in the region;
- c) development of medium and long-term development strategies for each region and clearly reflecting efficiency indicators of investment projects funded by syndicated loans.

The lack of complete, reliable information on the provision of investment projects is uncertainty. The cost of business plans and their repayment, the development of cash flows without scientific reasons, ultimately, leads losses of banks. Therefore, in adopting investment business plans, banks should focus on the analysis of cash flows based on scientific discount rates, and floating interest rates.

When making decisions on financing investment projects, banks are required to introduce discounts at the expense of the full range of risks and uncertainties that they can undertake. Such measures provide that bank loans are more valuable against other sources of financing, and these measures also affect repayment of bank loan on time.

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