



# **SPECIAL FEATURES OF ATTRACTING FOREIGN CAPITAL THROUGH EUROBONDS IN CORPORATE FINANCE: EVIDENCE FROM UZBEKISTAN**

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## **Abstract**

*Eurobonds have become a new milestone in the development of the global stock market. As a relatively new tool for attracting funds, Eurobonds allowed the economy to pick up an even faster pace. At present companies are using not only corporate bonds denominated in their national currency, but also Eurobonds i.e. bonds denominated in foreign currencies. From 2019, Uzbekistan also started attracting foreign capital through Eurobonds. This paper studies the current state of Eurobond market in Uzbekistan, some characteristics of issuing them. According to our analysis, we determine that Eurobonds is a reliable and low cost way of attracting long term capital for business. In addition relying on the studies it develops some conclusion on further improvement of this practice.*

*Keywords: Eurobonds, Foreign Capital, Corporate Finance, Bonds, Uzbekistan*

## **INTRODUCTION**

Global economic integration and globalization have put new goals and tasks ahead of corporate structures. At the same time, the issue of attraction of foreign capital has become a priority, along with the organization of production and sale of goods. Taking into account the fact that the existing joint-stock companies operating in the country are already in the process of localization of imported products and production of export-oriented products. At the same time, the issue of introducing a share of foreign investors in the authorized capital of joint-stock companies is one of the pressing issues in order to improve the quality of corporate financial management.

Eurobonds and corporate bonds are considered to be main ways to attract foreign capital in corporate finance management.

In today's day-to-day operation, corporate bonds of national currency, as well as foreign currency denominated securities such as Eurobonds, are traded on international stock exchanges. "Eurobonds are bonds that are traded in hard currency outside the country. At the same time, the use of the word "euro" in bonds is explained by the fact that American companies issue special bonds for sale on European stock exchanges ". But today, Eurobonds can be issued in any country and, in most cases, are traded in Euro or US Dollars. In practice, foreign bonds are also used in the practice of developed countries, which are "bonds in foreign currencies for which the nominal value is in the national currency of the country where the bonds are placed".

Issue of Eurobonds requires certain preparatory work and expense. But on the other hand, relatively low percentages allow attracting a large number of long-term financial resources. Usually, the Eurobonds are issued for at least 3 years, with a maximum period of five years. The eurobonds issued by world-famous companies are valid for a period of 15 to 30 years. As mentioned above, access to the market of eurobonds requires a large amount of costs directly related to the preparation and emission of specific programs, attracting financial advisors and underwriters from abroad, presentations for international investors, fees for legal services and others. Deutsche Bank, ABN Amro, CSFB, UBS, DrKW, Citigroup, J.P.Morgan are the world-renowned organizers of Eurobond issuing.

In spite of the fact that the government of the developed countries has not set any criteria for the regulation of the euro market, issuers are normally governed by the International Monetary Fund's Association, the International Monetary Market Association's standards and requirements. The main trading center of these securities is historically London. Therefore, the behavior of the Eurobonds is regulated by the UK Financial Services Agency, which implements strict control of the requirements for the preparation of relevant documents. At the same time, the three-year positive auditor's report on international standards, the credit rating of S & P, Fitch, Moody's and other leading agencies are defined as compulsory requirements. Also, the information about the owners of the company is fully open. In the process of filing a Eurobank, the costs of lawyers' services make up from \$ 600,000 to \$ 1 million. The average commission fee is usually 0.5 to 0.7 per cent of the total amount of the eurobond issue.

Developing countries also use bonds to attract foreign capital. Despite the fact that they are in demand in this process, the volume, percentage and payment terms of the issued securities show a high level. Eurobonds are usually traded on London or Luxembourg stock exchanges. However, a large part of their trade is part of the overseas markets. For the first time

in the history of independent Uzbekistan, on 13 February 2019, the Government of the Republic of Uzbekistan placed sovereign Eurobonds in the international debt finance market. The Eurobonds placed a 5-year-old 500-million-dollar Eurobonds at 4.75 percent and 10 million 500 million Eurobonds at 5,375 percent. The Ministry of Finance of the Republic of Uzbekistan has the right to close the debt bond by 2024 and February 2029 respectively. According to the State Statistics Committee of Uzbekistan, in 2017, investments in fixed capital in the amount of 60.7 trillion soums or 7 billion US dollars were invested, including 16.3 trillion soums of investments or 2 billion soums. The share of the US dollar (27%) was due to foreign investment and loans. About 15 trillion soums (25 percent) of the investment is due to centralized funding sources, of which about 35 percent are Funds for Reconstruction and Development and 26 percent of foreign investment and loans on the basis of state guarantee. Foreign investment and loans were mainly channeled to the mining industry (57 percent), manufacturing (13 percent) and information and communication (10 percent). It is noteworthy that direct foreign investments are largely included in the mining and processing industry by strategic partners. The bulk of foreign loans are the responsibility of international financial institutions and other government agencies. in particular: Asian Development Bank: 6.8 billion US dollars, based on 67 loan agreements made since 1995; World Bank: 16 projects totaling US \$ 2.74 billion; European Bank for Reconstruction and Development: 853 million euros under 60 projects; Guaranteed loans by the world's leading expert credit agencies. Uzbekistan's economy needs more than US \$ 2 billion in foreign investment and loans. This step for Uzbekistan is a step towards attracting more investment from the private sector in the leading countries of the world, which has made it possible to attract more investments from the private sector in the leading world countries. A road show was held in eurobonds. JP Morgan, Deutsche Bank, Citi and Gazprombank participated in the placement of Eurobonds. Most of the 5-year and 10-year Eurobonds were purchased by British investors. The road-show was held in placement of Eurobonds where negotiations with major investors in the world took place. JP Morgan, Deutsche Bank, Citi and Gazprombank participated in the placement of Eurobonds. Most of the 5-year and 10-year Eurobonds were bought by British investors. Demand for Eurobonds has almost doubled the size of the Eurobonds and it has been reported that about \$ 3.8 billion have been received from approximately 150 institutional investors during closing placements. These applications downgraded the profitability figures at the time of receipt at annual interest rates of 5,625-5,75% and 6% annual interest rates to 4,75% and 5,375%. Geographically, 5-year and 10-year Eurobonds accounted for 6% and 10% for Great Britain - 395 and 32%, USA - 23% and 31%, Continental Europe - 32% and 27%, Asian, Middle East and North African investors. The major buyers of Eurobonds are financial institutions, such as: insurance companies, pension funds,

banks, and private banks. The emission of these Eurobonds in this debut embodies the fact that international investors invest in Uzbekistan's strong economic basis, development, and strategy of debt management. In addition, the largest international rating agency Standard & Poor's has issued a long-term rating for the bonds of this Eurobond. Special attention was paid to placement of these funds on the basis of market mechanisms for the effective use of funds received from the placement of sovereign international bonds. In accordance with the Decree of the President of the Republic of Uzbekistan of April 2, 2019 "On effective use of funds received from the placement of the first sovereign international bonds of the Republic of Uzbekistan", US \$ 889.2 million of proceeds from the sovereign international bond placement through commercial auctions based on market mechanisms. In addition, Agrobank is going to allocate a subordinated loan facility for financing projects worth \$ 20 million and \$ 89.9 million for a loan to finance strategic projects of the State Enterprise "Navoi Mining and Metallurgical Combinat". It should be noted that the bulk of the proceeds from the placement of sovereign international bonds into commercial banks' deposits does not increase the costs of the state budget.

### **Characteristics of various schemes of Eurobond issue**

The EU Commission Directive No. 80/390 / EEC (European Commission Listing Particulars Directive) applies to simplified listing rules for securities that are traded on the European market (including Eurobonds), since only professional participants can act as buyers and sellers. securities market. Consider what are the methods of issuing Eurobonds and what are the features of their issue. The most common method of issuing Eurobonds is the open subscription of a large circle of investors, which is implemented by a syndicate of underwriters - a group of financial institutions that are loan managers, led by one or more lead managers (book-runner). The lead manager selects co-managers and negotiates the terms of placement with the customer-issuer. Also, the lead manager assists in the development of the prospectus and its distribution. A large number of investors (financial institutions) from different countries participate in the placement. Such issues are generally listed directly on the stock exchange, and eurobond certificates must comply with the rules of the particular stock exchange. Another way to place Eurobonds is an auction, when the issuer provides investors with the opportunity to send their bids on bonds with a deadline and coupon rates. Bids are sent by investors (both final and resellers) as a percentage of the nominal with an indication of the required number of bonds. The borrower arranges for a type of Dutch auction. Since you do not need to pay for the services of managers, this type of accommodation is cheaper, but only known borrowers resort to it. The advantages and disadvantages of the various Eurobond issue schemes are presented in Table 1.

Table 1: Characteristics of various schemes of Eurobond issue

| Emission scheme                         | Advantages   | Disadvantages  |
|---|--|--|
| Straight                                | The issuer forms its own international image. The possibility of expanding and cheapening subsequent borrowings in the market.   | Big initial costs. The risk of lengthy bureaucratic procedures.                                      |
| On behalf of a subsidiary               | Avoiding tax issues. No registration of securities in the country of the issuer. Reduction of bureaucratic approvals at the placement stage. Low costs for registration and placement of the issue, its cheaper. | Restrictions on the creation of offshore companies. Small advertising effect.                        |
| Foreign company on behalf of the issuer | Independence from adverse changes in legislation. Universality in relation to legal entities of the country of the issuer.   | Large loan servicing costs (large underwriter's commission). Provision of agents. Short term scheme. |

Source: author's compilation

The issuance of Eurobonds is a rather complicated and laborious process. Table 2 shows the stages of the issue of Eurobonds.

Table 2. The main stages of the issuance of Eurobonds

| Stage                           | Structure of the stage  |
|---------------------------------|---|
| I. Preliminary                  | Analysis of the financial condition of the client and the needs for "injections". Preparation of recommendations on the types of funding. Conducting an international audit, as well as obtaining an international credit rating. Determining the number of issued securities.  |
| II. Registration of the program | Preparing and conducting a competition for organizing the issuance of securities among the leading investment banks. Registration of an employment agreement with issuers. Conducting the inspection mission of the investment bank. Definition of the collateral category (if necessary). Preparation of an information memorandum. Documentation and information materials necessary for the implementation of the Eurobond issue program (prospectus). |
| III. Issuance and maintenance   | Issue and placement of the loan. Conducting operations related to the loan.   |

Source: author's compilation

The approximate period of the Program organization is 4–6 months and includes the following steps: 1. selection of an authorized bank for the issue, dealers, agents, lawyers (1–1.5 months); 2. project preparation, financial analysis and international audit; 3. start working with a rating agency; 4. coordination of conditions, verification procedure (1–1.5 months); 5. obtaining a credit rating and finalizing the terms of the respective agreements (1–1.5 months); 6. approval of the text of the information memorandum; 7. Signing final documents (1–1.5 months).

## CONCLUSIONS

Based on the study, it is possible to draw the following conclusions:

Eurobonds are one of the most interesting and reliable ways to attract foreign capital. The international financial market is constantly evolving, there are new tools for raising capital, which are based on interesting combinations of classic securities (including Eurobonds) with derivatives. These tools open up broad opportunities for financial market participants.

One of the most noticeable factors that strengthen the economic interrelations of national economies, and at the same time an attribute of globalization is the formation of a global financial market;

the globalization of the world economy and financial markets has a synergistic effect and mutually enhances their integration, which has a significant impact on changing structures, tools and institutions; there is an increase in the size and depth of the global (global) financial market;

Eurobonds have special characteristics; issued by governments, municipalities and corporations to attract long-term financial resources;

the low value of the country credit rating limits the possibilities for reducing the cost of attracted foreign resources; the debt burden of residents associated with servicing foreign borrowing is higher than that of a number of other states (*ceteris paribus*) and forcing to use other instruments of the debt capital market;

Further study shall include the estimation of the impact of refinancing rate in the country to the interest rate of the Eurobonds.

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