

LENDING ACTIVITY OF COMMERCIAL BANKS OF UZBEKISTAN IN FINANCING OF INVESTMENT PROJECTS OF EXPORT-ORIENTED ENTERPRISES

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This article is devoted to the justification of the economic efficiency of bank investment loans for domestic export-oriented enterprises and necessity of enhancing the role of banks in their further financing. In addition, the article represents assessment of impact of investment loans extended by commercial banks on the export potential of the enterprises of Uzbekistan. The degree of impact of the bank investment lending on raising the volumes of export has been determined on the basis of empirical analysis. To conduct econometric analysis, we used the method of least squares regression analysis of the data.

Key words: commercial bank, investment loan, export, export potential, foreign economic activity.

Introduction

The mechanism of the market provision of projects with investments assumes an active participation of investment loans from commercial banks. In the Republic of Uzbekistan, according to the data of the Central Bank for the first half of 2016, the volume of loans directed to investment purposes (5.8 trillion UZS) accounts for only 12,08% of the total number of allocated loans (48 trillion UZS). In the United States this indicator amounts to 32,5%, in Germany – 41,5%, China - 15,3%, and in Russia it accounts for less than 8% (Aganbegyan, 2014). The absence of the required investment volume does not enable to modernize, technically and technologically upgrade the main fund of export-oriented enterprises in conditions of a high competition. To ensure a rapid development or at least to maintain current levels of foreign trade, it is necessary to raise the share of investment loans in the credit portfolio of commercial banks by 2-3 times. The main feature of the investment loan efficiency is its target orientation, payback and repayment.

Regarding above-mentioned statements, in our opinion, the improvement of enhancing the role of commercial banks in financing of investment processes is considered to be a topical issue. The urgency of this topic has also been highlighted in the books of the First President of the Republic of Uzbekistan I. A. Karimov: “Experience of many developed and dominating in the world economy countries clearly proves that achieving the competitiveness and entry into international markets can be reached primarily through gradual reforms, deepening structural transformations and diversification of the economy, ensuring rapid development of new high-tech enterprises and industries, speeding up processes of modernization and technical renovation of existing capacities” (Karimov, 2012).

Thus the main aim of this study is to determine the role of investment lending in raising the export potential of the enterprise, as well as to develop relevant recommendations on further improvement of the use of bank loans by entrepreneurs to stimulate foreign economic activity. To do empirical research of the data the article uses the method of least squares regression analysis.

Literature review

Loans can be of a short-term and long-term nature (Lavrushin, 2005). In practice of Uzbekistan, investment loans are generally considered to be long-term loans aimed at the extension of the basic fund of enterprises with maturity of 3 years or more (Amonova, 2012). The peculiarities of the process of registration of bank investment loan and relationships between the participants of this process are described in details in the research papers of Tavasiyeva and others (2005).

As far as we know, many enterprises in Uzbekistan have a considerable export potential, but relatively few of them are engaged in foreign economic activities. In recent times export activity has become particularly important among small businesses. Their high flexibility and low commitment to the resources makes is beneficial for internationalization (Leonidou and Katsikeas, 1996).

However, restricting access to cheap financial resources is considered one of the most important factors which prevents investing in production and, in general to the intention of businesses to be engaged in export activities (Yeoh and Jeong, 1995). In the economic literature finance is considered to be an important factor for the participation of enterprises in the export business (Greenaway et al, 2005). Abor and others have empirically confirmed the hypothesis that those enterprises, which access to finance was in better conditions, could easily undergo committed expenditures and costs associated with exports, and thus expanded their influence in the export markets (Abor et al., 2014).

It should be noted that they have referred expenditures on appraising and assessing the company's readiness for export to expenses. The readiness for export is the presence of certain prerequisites and conditions for the initiation of the project on export development in the company (Cortex KZ, 2013). The export potential is the ability to produce and supply competitive products in the required volumes to the foreign market (Cortex KZ, 2013). Export potential of an enterprise depends on its capacity to mobilize and develop the existing financial, human and information resources in appropriate time (Das et al, 2007).

Financial development in the structure of the international trade has been researched in scientific works of Beck (2002), Svaleryd and Vlachos (2005), Do and Levchenko (2007). For example,

using the data on the UK, Greenaway and others (2007) studied the relationship between exports and the measures undertaken by the enterprises on financial recovery and they have revealed that financially sound companies have more tendencies to export than financially unhealthy ones. In addition, they added involvement in the export activities had resulted in the improvement of the financial situation of the enterprises.

Berman and Hericourt (2010) have analyzed firms of developing countries and have found out that the improvement of financial condition through long-term borrowings (via financial markets or loans of commercial banks) contributes to the rapid entry into the export market, but this fact does not make any impact on the volume of foreign sales in perspective. Muuls (2008) has concluded that Belgian firms with lower creditworthiness are less likely to export and, even if they export, they have less overseas sales. In addition, he has found out that firms with outstanding loan in large volumes are less export-oriented than those which do not have any loans or have in smaller amounts. Using the data on China, Manova and others (2009) have shown that foreign companies or joint ventures have higher productivity in the export than privately owned local businesses. This observation has been taken place especially in those sectors that largely depend on external funding sources, but not from internal sources as bank loans.

The literature review illustrates an important role of investment loans of commercial banks in financing of strategic investment projects of enterprises. In this regard, the following key objectives have been set up in Uzbekistan in order to further stimulate investment activities of commercial banks, strengthen their resource base to increase the volume of financing long-term investment projects aimed at modernization and technological re-equipment of enterprises of basic sectors of the economy (PP-1166, 2009):

- Further improvement of the credit and investment policy of the bank and mechanisms of long-term lending of investment projects on creation of new productions, modernization, technical and technological re-equipment of enterprises;

- Ensuring of thorough selection, comprehensive assessment and qualitative appraisal of investment projects on the basis of profound analysis of the project documentation, their financial payback and profitability;
- Mobilization of own funds and their effective use on financing of investment projects, ensuring a constant monitoring over the project realization, timely and full return of placed funds;
- Wide use of reliable mechanisms to ensure timely and full repayment of extended loans with the account of comprehensive assessment of risks, market value of collateral and other types of provision;
- Strengthening of bank divisions implementing investment activity by professionals, high-quality specialists, radical improvement of the quality of professional development and qualification upgrading of bank specialists on the issues of selection, appraisal and implementation of investment projects.

As the literature review demonstrates, the investment loan makes a significant impact on strengthening the export potential of enterprises and accelerates socio-economic development of the country. Analyzing macroeconomic data for Uzbekistan, this article is aimed at testing the hypothesis that investment loans of commercial banks constitute more efficient source of financing for enterprises in enhancing their export potential. With the aim of obtaining the result, the data on investments in manufacturing and non-manufacturing sectors of the economy, as well as the data on foreign direct investments are taken into consideration.

Methodology

Regression analysis has been used to assess the impact of sources of financing of enterprises on enhancing the export potential of enterprises. The method of least squares was the tool of regression analysis. As the main factors influencing the dependent variable (export) have been selected investment loans of commercial banks (bankcred), foreign direct investment (fdi), investment attracted from other sources (otherinv). To carry out tests on unit roots of independent variables before regression analysis, we have used the Dickey-Fuller test as a tool and p-value of all variables which were within limits. Correlation between variables shows no strong dependence. The results of the analysis were obtained with the application of software EVIEWS 8.1.

The statistical data has been obtained from the State statistics committee of the Republic of Uzbekistan. The data has been acquired on the gratuitous basis for conducting research. The data is of a secondary nature and is represented in the annual time series for the period 2000-2015. All variables have been converted into natural logarithms in order to interpret the results in percentage.

The results of analysis

The results of regressive analysis of the impact of the sources of financing enterprises on the export potential of the enterprise, performed in EVIEWS 8.1 software look as it follows.

Dependent variable: log (exportvol)	Coefficients
Log(FORINV)	0.314 (0.128*)
Log(INVCRED)	0.453 (0.262*)
Log(OTHERINV)	0.494 (0.209*)
R-squared	0.779
Adjusted R-squared	0.732
S.D. dependent var	0.608
Akaike info criterion	-1.483
Schwarz criterion	-1.309
Hannan-Quinn criter.	-1.518
Durbin-Watson stat	1.785

* p- value of coefficients < 0.05 (significant)

The determination coefficient of the results obtained accounts for $\approx 0,78$. This fact justifies a significant dependence between variables. In order to be able to compare the models with different numbers of factors so that the number of factors does not influence the statistics R^2 , adjusted coefficient of determination is commonly used. In our case the adjusted coefficient accounts for 0,73. The P-values of all independent variables are within the 95% confidence level and are considered to be significant. The model is linear by both the coefficients and the variances of the errors. In terms of the sum of the squares of the residuals the model with the lowest value of this indicator has been chosen. Moreover, the standard error of the regression, that is, the scatter of observations' data from the modeled values is the most approximately to 0.

The probability of F-statistic is equal to 0. The OLS model with the lowest value has been selected by three important criteria: Akaike info criterion, Schwarz criterion, Hannan-Quinn criterion. The value of the index Durbin-Watson stat criterion is in the normal range. Concluding the description of these indicators it should be noted that the constructed regression line is the best among the possible options.

Proceeding from the results of regression analysis on the macroeconomic data of Uzbekistan it has been revealed that there is a positive interconnection between the volume of export and considered sources of financing investment projects of the enterprise. The results illustrate that investments from other sources are the most efficient source of financing investment projects of enterprises which have the biggest share of the volume of our country's export. These sources represent own funds of enterprises and population, investments under the government guarantee, investments of the state budget and the Fund for reconstruction and development. According to the results obtained, the growth of the investment volume from the stated sources by 1% leads to the increase of the volume of exports of enterprises by average 0,49%. The calculations have demonstrated that investment loans of commercial banks also constitute a significant source for attracting funds to enhance export potential of the enterprises. The growth of volumes of long-term loans of commercial banks by 1% will raise the volume of exports by average 0,45%. In case of increase of the volume of attracted foreign direct investments in the economy of Uzbekistan by 1%, the volume of exports will go up by 0,31%.

Conclusions

The literature review enables to draw the following conclusions. Economists believe that investment loans of commercial banks enhance the export potential of enterprises. However, they note that the burden of the outstanding loan in any amount for the enterprises leads to the reduction of the intention of export orientation in these enterprises.

The results of empirical analysis have illustrated that investments from centralized sources are the most influential source which can enhance the export potential of the enterprises. This means that the main volume of the exported products in Uzbekistan is produced by the large companies owned by the state or companies in which investment projects were carried out on the initiative

of the state. In these companies, in most cases, investments (including foreign investments) have been attracted under the government guarantee. The positive conclusion of this result is that the government actively supports strategic investment projects, and the negative one is that in market economies government sources still prevail over private ones. Investment loans of commercial banks make a positive impact on the growth of volumes of enterprises' export. However, the main part of credit placements refers to short-term loans. The share of investment loans in the total volume of credit placements is still low. Therefore, banks are advised to raise the share of this type of loans in the total share of the credit portfolio at least to 20% in the nearest future. Results on foreign direct investments have also demonstrated a positive effect on strengthening of export potential of enterprises.

We believe that the reason for this is a favourable investment climate for foreign investors. In Uzbekistan investors are offered a variety of tax and tariff benefits under certain conditions. These benefits result in the fact that the cost of production will be low and more competitive in the enterprises with participation of foreign investments.

In conclusion it should be noted that investment lending is of great importance in the financing of investment projects of enterprises, and has certain levers of influence on production efficiency in the future.

While studying literary sources there wasn't any possibility to consider articles that research the negative impact of the bank loans on exports and foreign economic activity of enterprises. In this regard, it is necessary to conduct further research of issues of the impact of average interest rates on investment loans for the export potential of enterprises.

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