

## Methods and Mechanisms of Financing Investment Activities in Industrial Enterprises



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**ABSTRACT:** It is widely known that a myriad of research work has been done on the sources, methods and forms of financing investment activities in industrial enterprises, but opinions and views on the mechanism of financing investment activities in industrial enterprises are different. This article analyzes methods and forms of financing investment activities, financial mechanism and financing of investment activities in industrial enterprises, support for financing investment activities in industrial enterprises and the current condition of the state credit system in Uzbekistan. Having studied the relevant research of various experts, it also draws conclusions and recommendations for improving the methods and mechanisms of financing investment activities in industrial enterprises.

**KEYWORDS:** investment, methods of financing investment activities, financing mechanism, financial mechanism, credit system.

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### INTRODUCTION

The financial system of the government and created investment climate play an important role in the active conduct of investment processes in the country, the effective organization of investment activities and increasing the share of industry in the economy, as their existing elements create a favorable environment for sustainable economic development.

Modernization of production facilities and basic industries in the country, further increasing of their export potential, creating favorable conditions for the competitiveness of products, as well as increasing the investment attractiveness of enterprises are considered to be among today's most important priorities.

Management of funds raised from various sources to finance investment activities of industrial enterprises and the effective use of these funds is determined by the mechanism of financing investment activities used in industrial enterprises, in other words, methods of financing investment activities at a certain stage of economic development take precedence.

Studies show that there are various mechanisms for financing investment activities in industrial enterprises, but there is no well-designed financing mechanism for all industrial enterprises. In this regards, it is important to organize and encourage the placement of available financial resources in the investment activities of industrial enterprises and develop a mechanism for financing investment activities that will allow businesses to use received capital effectively.

### LITERATURE REVIEW ON THE SUBJECT

A number of issues such as development of forms and methods of financing investment activities of industrial enterprises, the creation of financial and financing mechanisms, study of factors influencing the financing of investment activities of industrial enterprises, the state credit system as a mechanism for financing investment activities of industrial enterprises have been illuminated in most of the scholars' research works. In particular, P.Samuelson and V.Nordhaus described investment as "Economic activity that excludes consumption today in order to increase production in the future." According to them, investment is the second main component of post-consumption private spending. Because investments are large and variable component of these costs, they often lead to changes in aggregate demand and affect the business cycle and lead to capital accumulation [1].

According to V.V.Bocharov, "Investment is funding of capital in any business, and for its development and increase afterwards. The increase in capital received as a result of the investment must be sufficient for the investor to cover the benefits of

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consuming the available funds in the current period, to be rewarded for taking the risk, and to cover possible losses from inflation in the future" [2].

According to the Regulation of the Republic of Uzbekistan №598 of December 25, 2019 "On Investments and Investment Activity": "Investments are the social sphere, entrepreneurship for the benefit of the investor, tangible and intangible assets and rights to objects of scientific and other activities on a risk basis, including rights to intellectual property, as well as reinvestments" [3].

H.Wang, P.Liang, H.Li, R.Yang studied methods of interaction between investments in high-tech development of enterprises and their sources of funding, as well as sources of funding for scientific development of enterprises, research, investment and entrepreneurial risk [4], while I.Y.Barabanova studied the mechanisms and methods of financing investment projects of industrial enterprises, the mechanism of financing the operation, renewal and investment activities of fixed assets in enterprises [5], Y.A.Kuznetsova, I.S.Vinnikova evaluated methods in improving the efficiency of investment projects of industrial enterprises by assessing the effectiveness of investment projects of industrial enterprises whilst analyzing the reasons for the lack of innovation [6].

M.B.Pulatova developed the structure of the mechanism of financing of foreign economic activity of industrial enterprises [7]. D.Y.Khojamkulov substantiated scientific approaches to finance investment activities in agricultural enterprises of the Republic of Uzbekistan [8], G.A.Karimova scientifically studied the financial mechanisms of attracting foreign investment on the national economy [9].

### RESEARCH METHODOLOGY

The article draws conclusions and recommendations from various economists based on the analysis, grouping, economic and statistical evaluation of scientific works and views on the methods and forms of financing investment activities in investment, investment projects and industrial enterprises, as well as the mechanism of their financing.

### ANALYSIS AND RESULTS

From a scientific point of view, the study of the process of financing investment activities of industrial enterprises has helped to determine targeted investment of financial resources in effective investment instruments, the formation of a special investment portfolio to finance investment activities by enterprises, the development of investment financing mechanisms are achieved through effective management of their resources. The strategy of financing investment activity of the enterprise is predominantly based on the methods and forms of financing its investment activities.

We know that the financing method is a process of attracting investment resources to finance investment activities, while the form of financing is expressed as a condition of the implementation of the financing method.

The method of financing used to finance the investment activities of industrial enterprises may have specific forms of financing. At the same time, the forms identified within a particular method are combined with their economic nature, which allows them to belong to a specific method of financing investment. For example, an enterprise may take a loan from a commercial bank or use the services of a leasing company to finance its investment activities, which may be an example of debt financing, although we consider them as a method of financing because the use of the services of leasing firms meets the terms of return, payment and disbursement and allows them to be combined under a single financing method (Figure 1).

When we study the process of financing investment activities of industrial enterprises, we find that the methods of financing activities of industrial enterprises are diverse. We can express them as follows:

- financing at the expense of the enterprise's own funds (own funds include the company's profits, depreciation payments, specially organized development funds);
- debt financing (loans, credits, mutual funds, venture funds, leases, bonds). Debt financing is used to invest capital in high-yield and quick-return investment facilities;
- financing from borrowed funds (funds received through the placement of shares on the stock market and participation in the IPO);
- public funding (budget investment expenditures, targeted programs, public external debt). Government funding is used to finance high-performance investment projects, targeted investment programs and government external loans. Financing of high-efficiency investment projects has been one of the main goals of the country's investment policy in recent years. This is a new direction for the economy, and the main task is to direct budget funds to the leading sectors, to attract public external debt;

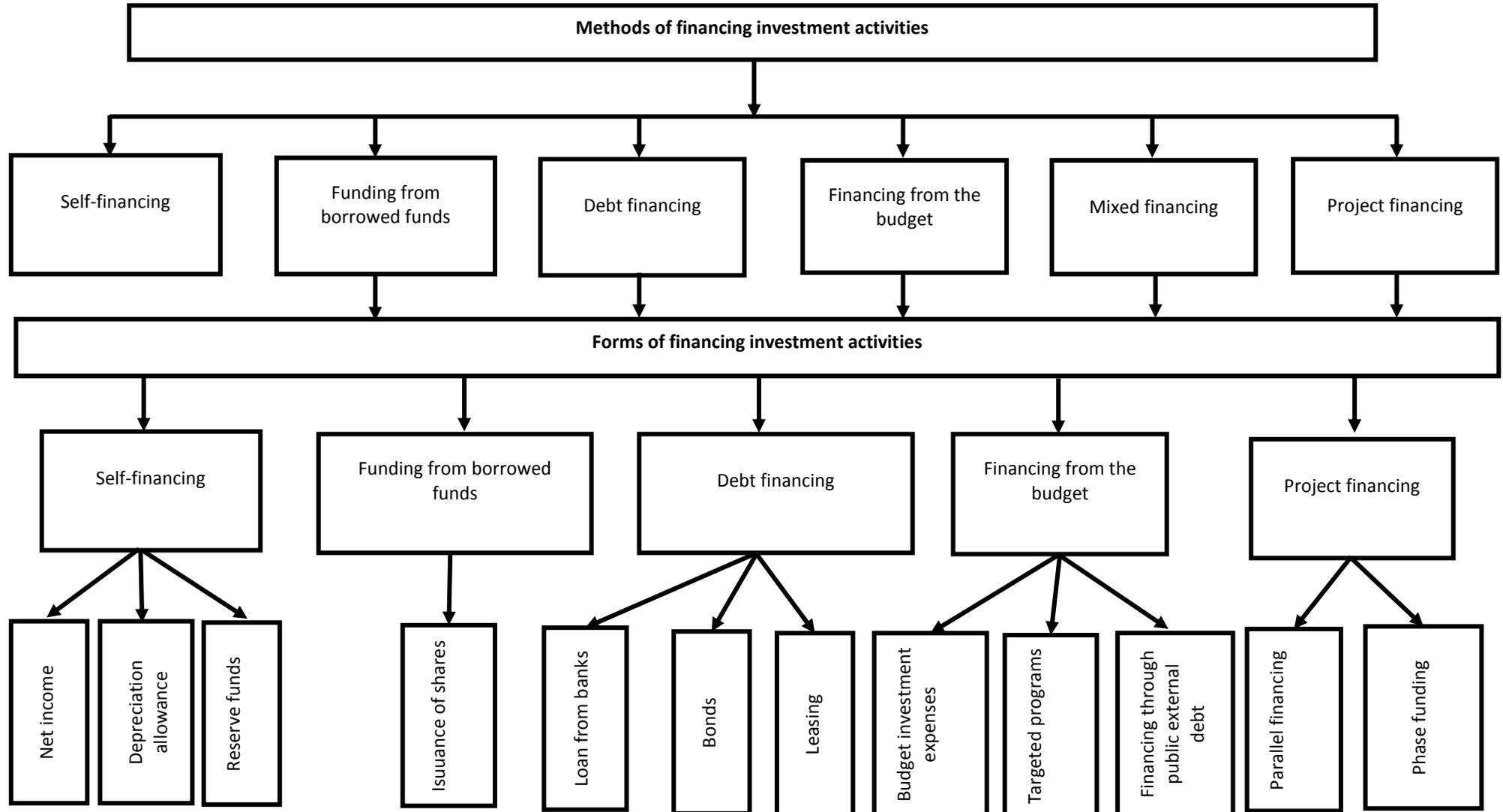


Figure 1. Forms and methods of financing investment activities <sup>1</sup>

<sup>1</sup> Prepared by author according to the results of research

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- mixed financing. Mixed financing provides for the formation of investment resources both from own funds and from borrowed and borrowed funds. In this case, it is necessary to pay attention to the use of several methods of financing;
- project financing (parallel financing, phased financing).

This method of financing is used to ensure the effectiveness of the project by financing large investment projects, conducting a comprehensive expert analysis of them and distributing the risks arising in the financing process among the participants.

The content of financing of investment activities is based on the interaction between the state, regional structures, special funds, including investment funds, on the one hand, and on the other hand, business entities (corporations, organizations, individual entrepreneurs) can be expressed in the form of an effect.

Investment financing management is carried out through financial categories such as financial and budgetary legislation, financial mechanism of investment activities, investment policy. Investment policy is formed by factors that operate objectively in the economy and arise in the process of reproduction of fixed assets. The financial relations that arise in the process of formation and attraction of investment resources constitute the financial mechanism of investment activity, which in turn is expressed in the form of functions of control, distribution and management of financial resources (Figure 2).

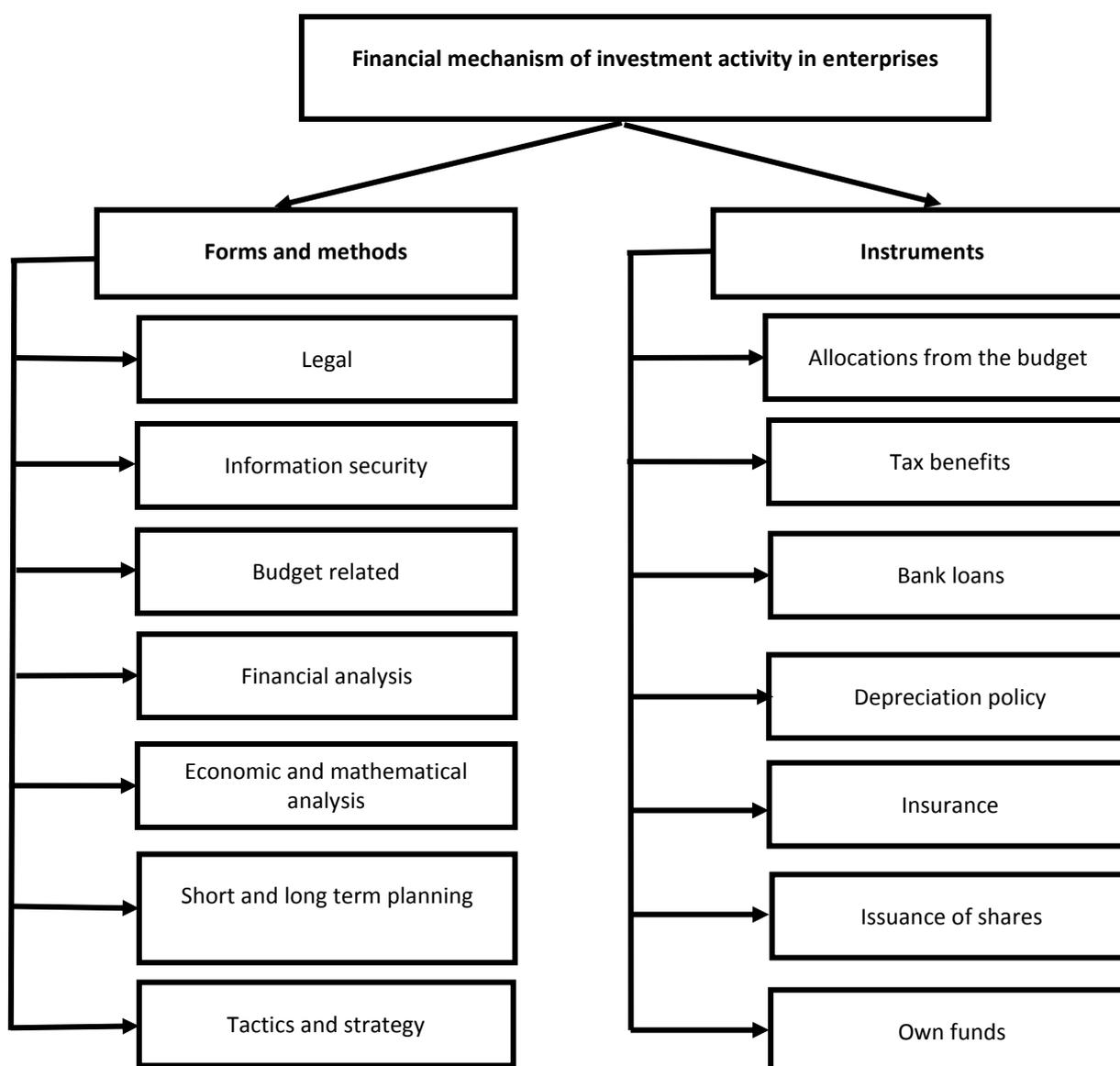


Figure 2. Financial mechanism of investment activities in enterprises<sup>2</sup>

In organizing the system of financing the investment activities of industrial enterprises, first of all, it is necessary to pay attention to the following principles:

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- purposefulness of the system;
- interdependence, consistency, validity and legal security of the methods and mechanisms used in financing;
- abundance of funding sources and their appropriate combination;
- width and complexity of the system;
- flexibility.

As a result of the implementation of these principles, opportunity to form a comprehensive and systematic approach to financing investment activities in industrial enterprises through the development of investment policy as a set of methods, forms, financial, budgetary and tax instruments and benefits that mediate financial and credit relations in the investment process arises.

Reforms that have been implemented in recent years have led to significant progress in the development of the industrial sector, but research and results show that there are still problems with financing the investment activities of industrial enterprises. This leads to a slowdown in the production activity of industrial enterprises. As a result, the need to create a mechanism for financing the investment activities of industrial enterprises to increase the economic activity of industrial enterprises, to finance investment activities has become the main goal. Establishment of a mechanism for financing the investment activities of industrial enterprises to find the sources of funds needed to finance existing projects in the investment process, to create new sources of financing, to attract foreign investments by using new methods of investments, to satisfy investors the creation of an investment climate leads to a solid foundation for achieving high efficiency, which increases the investment attractiveness of enterprises.

As a result of research and scientific study of investment activities of industrial enterprises, a mechanism for financing investment activities in industrial enterprises has been developed (Figure 3).

The development of a mechanism for financing the investment activities of industrial enterprises and its improvement in the light of economic conditions depends primarily on the created investment climate and the functioning of the legal system in the country. This investment environment and legal system are an integral part of the mechanism that leads increase of investor interest, the formation of sources of funding, the activation of funds, the development of investment activities of enterprises, the use of various benefits and improving the financial condition of enterprises.

Currently, ongoing reforms in the industrial sector play an important role in improving the mechanism of financing the investment activities of enterprises in the sector. It is known that the investment activities of industrial enterprises of the country are financed mainly by bank loans and investors' own funds. In particular, the level of financing of investment activities of industrial enterprises through the stock market via borrowings, leasing and foreign investors is very low.

As the share of industry in GDP increases, commercial banks will not be able to meet the demand for credit and financial resources to finance the investment activities of industrial enterprises. Thus, it is difficult for industrial enterprises to find different sources of financing.

Therefore, it is expedient for industrial enterprises to establish cooperation between the state, financial intermediaries and stock markets to finance their investment activities, to implement investment projects, to seek funding sources.

The most important part of the mechanism of financing the investment activities of industrial enterprises is the state credit system. Today, the credit system plays an important role in the development of the industrial economy.

The condition of the credit system in the country depends not only on the banking system of the state, but also associated with credit unions and business entities (industrial enterprises) themselves. The role of the credit system, created and formed in the economy, imposes a great responsibility on it as a center for the accumulation and redistribution of monetary resources. Therefore, all customers, depositors, partners and investors should have full confidence in the stability and reliability of any commercial banks, which is an important part of the credit system.

Since the correctness of the credit system plays an important role in financing the investment activities of industrial enterprises, it should be noted that the credit system operates through a credit mechanism.

The credit mechanism includes all aspects of lending, investment, intermediation, consulting, savings, redistribution. The credit mechanism consists of the following relations:

- 1) a system of relations between credit institutions and various sectors of the economy for the accumulation and mobilization of monetary resources;
- 2) relations related to the redistribution of monetary resources between credit institutions themselves within existing capital market;
- 3) relations between credit institutions and foreign customers.

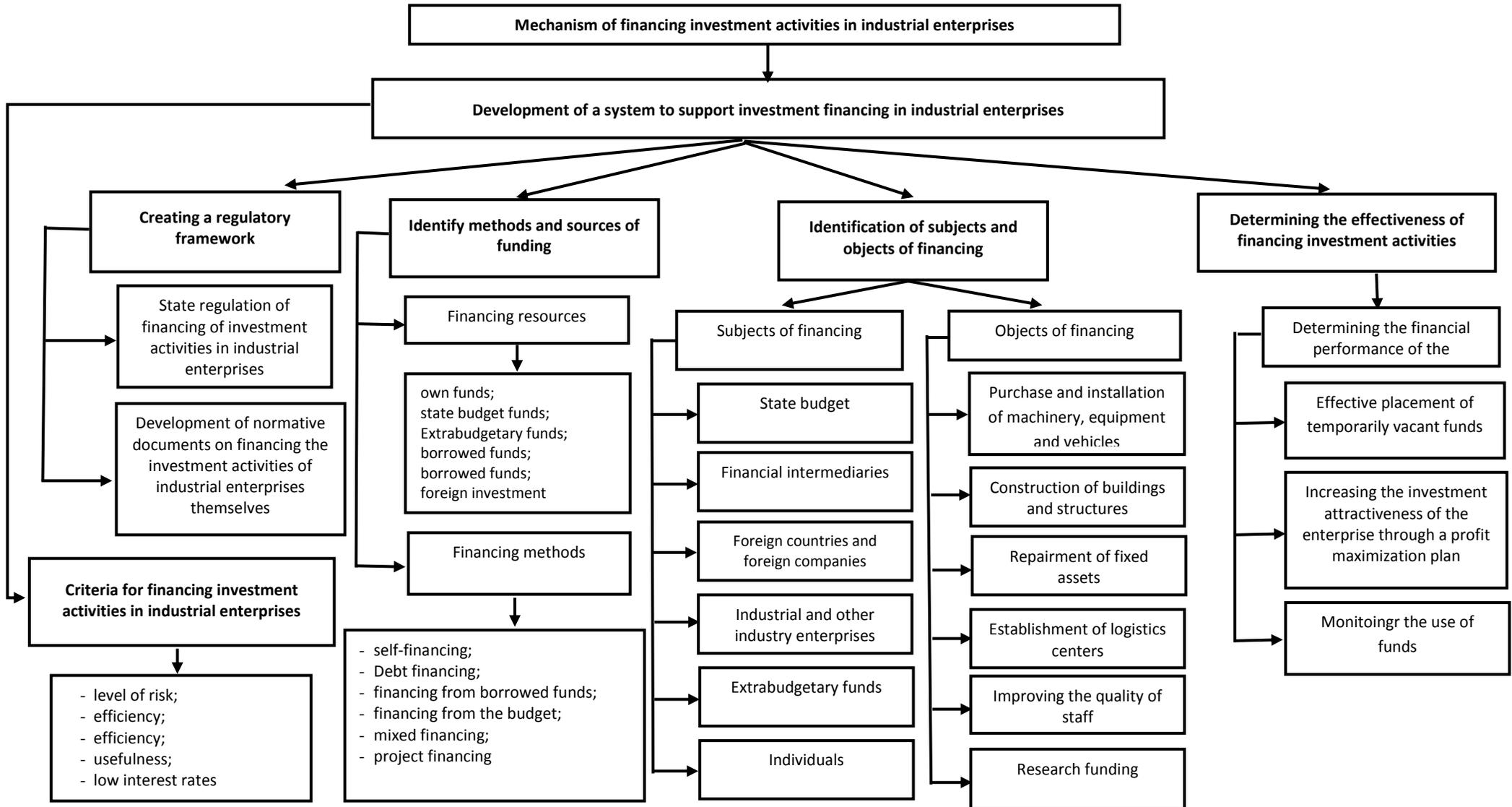


Figure 3. Mechanism of financing investment activities in industrial enterprises<sup>3</sup>

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Some indicators describing the current state of the credit system are given in Table 1.

**Table 1: Indicators characterizing the current state of the credit system of Uzbekistan<sup>4</sup>**

№	Indicators	Years			
		2017	2018	2019	2020
1	<b>Number of credit institutions</b>	<b>104</b>	<b>121</b>	<b>147</b>	<b>159</b>
	<i>Including:</i>				
	commercial banks	28	29	30	32
	non-bank organizations	76	92	117	127
2	<b>Assets of credit institutions, bln. sums</b>	<b>166851</b>	<b>214882.5</b>	<b>273367.7</b>	<b>366984.8</b>
	<i>Including:</i>				
	commercial banks	166632	214420	272727	366121.1
	non-bank organizations	219	462.5	840.7	863.7
3	<b>Attracted deposits, billion sums</b>	<b>59579</b>	<b>70001</b>	<b>91009</b>	<b>114746.9</b>
	<i>Including:</i>				
	commercial banks	59579	70001	91009	114746.9
	non-bank organizations	0	0	0	0
4	<b>Credit investments of credit institutions, bln. sums</b>	<b>110765.2</b>	<b>167802.4</b>	<b>212328.4</b>	<b>277720.2</b>
	<i>Including:</i>				
	commercial banks	110 572	167 391	211581	276974.8
	non-bank organizations	193.2	411.4	747.4	745.4

As we can see, the main indicators of the credit system show that competition between banks and non-bank organizations is low, and despite the fact that lending to the economy is mainly the responsibility of commercial banks, we can see a positive trend in lending to credit institutions.

In general, in financing the activities of industrial enterprises, including investment, the participants of the credit system in the country support them while fulfilling their functions and goals. We know that the credit system supports the process of reproduction and consumption, overcoming the problem of obtaining asymmetric data between the lender and the borrower, as well as the integration of the credit system with the financial system and the study of industrial enterprises play an important role in the formation of sources of financing investment activities.

Therefore, when considering methods of financing the investment activities of industrial enterprises, it is necessary to take into account that a separate study of the credit system is based on the implementation of complex economic relations that have gone through a long historical development. Based on the above considerations, the credit system can be expressed as follows:

- 1) a set of financial and credit relations constituting credit relations provided by central and commercial banks and non-bank credit organizations;
- 2) a set of credit relations characterized by different forms of credit, methods of lending, as well as non-cash forms of settlement.

The first aspect of the definition of a credit system describes the institutional form. The credit system is determined by the sum of banks and other credit institutions, legal forms of organization and approaches to credit operations.

In the current situation, it is important to improve the investment climate for the development of the reproduction function of industrial enterprises, to conduct the investment process effectively and to encourage the introduction of scientific developments in production. This encourages investors to make investment decisions and accelerates the conversion of funds into investments.

### CONCLUSION

In conclusion, it is worth noting that these directions of stimulating investment process in industrial enterprises and the modernization of the system of financing investment activities provide economic stability of real sector enterprises. In addition, for the development of investment activities of industrial enterprises it is important to develop investment programs in

<sup>4</sup> Prepared by the author based on the data from [www.cbu.uz](http://www.cbu.uz)

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economic entities and identify sources of funding for investment projects under the program and create a mechanism for strategic partnership with financial market participants and financial intermediaries.

The system of financing investment activities in industrial enterprises should be modernized in the following areas:

1. Identification of reserves for financing investment activities for their use in the investment process;
2. The project must be of strategic importance to the state economy in order to ensure the participation of state institutions in the financing of investment projects implemented by industrial enterprises;
3. Creation of a regulatory framework that regulates and provides financial and credit relations, tax and investment processes and activities of industrial enterprises;
4. Optimization of interest rates on bank loans, creation of innovations on the volume and term of loans, application of tax incentives, depending on the economic significance of investment projects developed by industrial enterprises for the state.

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