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Importance of Investment Banks in Project Financing

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Abstract: In this article, the main focus is on the development of proposals and recommendations based on scientific and theoretical views on the financing of investment activities by commercial banks. Mechanisms and strategies used by banks to support investment activities were studied and an analytical perspective on their effectiveness was proposed. The article explores the various strategies and methods used by investment banks to secure capital for various projects. The importance of investment banks in the financial ecosystem is highlighted by helping to finance large projects, including infrastructure, industrial, technological and other important initiatives. Investment banks are also considered structured financing methods to create complex financial products tailored to specific project needs.

Keywords: National economy, banking activity, banking system, financial system, investment, investment activity, investment project, stability, investment program, liquidity, financing.

INTRODUCTION.

These days, to further support commercial banks' efforts to expand their investment activities, fortify their resource base, and modernize economic sectors, raise the amount of funding allocated to long-term projects aimed at technical and technological re-equipment and draw investors for the potential sale of businesses listed on commercial banks' balance sheets. Many projects are being worked on.

Consequently, in recent years, important institutional changes aimed at expanding the activity of banks, especially their participation in investment processes, have been implemented. A long-term strategy for the development of the banking and financial system is being developed by the head of state with the support of international financial institutions of the government and the Central Bank.

By offering financial advice services, setting up loans, and taking part in project implementation, investment banks play a critical role in project financing, particularly in large-scale initiatives like Public-Private Partnerships [1,2,3,4]. By assisting in the mobilization of financial resources, the evaluation of borrower solvency, project efficiency, and risk, they lessen information asymmetry and improve borrower access to credit [5,6,7]. Bank-provided project funding gives developers more control over how their funds are spent, which lowers the possibility of abuse and long-term building problems [8,9]. Investment banks also play a role in improving the attractiveness of investments, efficiently managing loans, and integrating different financial systems to draw resources and reduce risks by developing financial support models for business ventures [10,11,12]. The growth of project financing in Ukraine has considerable promise

despite obstacles such legal anomalies, underscoring the necessity of legislative adjustments to safeguard creditors and investors and streamline financing procedures.

The influx of foreign and private capital into the banking system can lead to a gradual reduction in the percentage of state-owned banks, ultimately improving the competitive environment, operational efficiency of commercial banks, lending standards, and investment activities [13,14,15,16]. Privatization efforts have shown that private and foreign banks outperform state-owned banks in various performance indicators, indicating the benefits of reducing state ownership in the banking sector [17,18]. Despite repeated attempts to privatize underperforming state-owned firms through auctions and discussions with potential investors, the expected outcomes have not been achieved, highlighting the pressing need for urgent action to address the inefficiencies in the system [19,20].

Literature Review.

Many scientific researches have been carried out and researched by local and foreign scientists regarding the financing of investment activities by commercial banks. In particular, L.P. Krolivetskaya and G.N. Beloglazovas [21] referred to investment banks and stated that, according to it, "promoting profitability, constant innovation in the field of investment services and expansion of these services to new segments, as well as gaining a competitive advantage for the bank." O. Yu. Dadashev [22] "considers the system of economic relations that arise in the process of.

P.F. Kolesov [23] defined "Investment banking as investments in securities to generate income, diversify assets and reduce risks and maintain liquidity." In the monograph 6 entitled "Strategicheskoe razvitie malogo biznesa i formy podderjki individualogo predprinimatelstva" authored by M.V. Alikaeva, L.O. Aslanova and others [24] the practical aspects of financing through investment bank loans of commercial banks in the development of small business are studied.

N.G'.Karimov [25] in the monograph entitled "Issues of introducing the market mechanism of financing investment activities in the conditions of economic integration", the importance of commercial banks in the migration of investment capital from the financial sector to the production sector, the problematic interest rates set by them for loans, which are an obstacle to the activation of this process issues such as aspects have been deeply researched, and suggestions and recommendations of scientific and practical importance for solving these problems have been reflected.

A.B. Emelyanov [26] noted that "...bank operations related to investments are involved in the process of liquidity management, because they have speed characteristics and depend on the duration and volume of resources attracted by the bank. Taking into account the opinions of a number of economists, today it is necessary to further encourage the expansion of investment activities of commercial banks, to strengthen their resource base in order to increase the volume of financing of long-term investment projects aimed at modernization of economic sectors, technical and technological re-equipment.

Research methodology.

In the preparation of this article, the formality of regulatory and legal documents, used literature and Internet information, the comparative and critical analysis of the scientific and theoretical views of economists on the subject, the results of studying and summarizing the advanced foreign experience and the data of banks from financial reports, and the introduction of suggestions and recommendations into practice marked. During the study of the subject, in addition to general economic methods, methods such as systematic analysis, generalization, abstract-logical thinking, statistical methods, correlation-regression and empirical analysis were used.

ANALYSIS AND RESULTS.

World experience shows that the system of investment capital formation should be improved in accordance with the form of ownership and sources of financing. In addition, the change of the organizational structures of investment entities in accordance with the requirements of the market economy helps to develop investment activities and diversify the economy. Market mechanisms for attracting investment resources of the financial sector are gradually being implemented. However, despite the fact that the financial resources of private sector enterprises, banks and people tend to increase, several problems regarding their involvement in investment activities have not been resolved.

The financial sector is pivotal in mobilizing resources and channeling them into productive investments, which in turn drive economic growth and development. The gradual implementation of market mechanisms for attracting investment resources in the financial sector is a transformative process that enhances efficiency, fosters innovation, and ensures a more robust and dynamic economy. This essay explores the various market mechanisms being adopted, their implications, and their contributions to the financial sector's evolution.

Market mechanisms refer to the structures and processes that enable the efficient allocation of resources through the interplay of supply and demand. In the context of the financial sector, these mechanisms facilitate the attraction of investment resources from various stakeholders, including individuals, corporations, and institutional investors. Key market mechanisms include stock exchanges, bond markets, mutual funds, private equity, venture capital, and innovative financial technologies.

Market mechanisms are the basis of the modern economy and play a crucial role in stimulating competition and stimulating innovation. These mechanisms, including the laws of supply and demand, price signals, and competitive pressures, create an environment in which financial institutions must constantly evolve to meet the needs of consumers and investors. Market mechanisms are the process by which the dynamism of the financial sector is driven by the development of new financial products and services, the availability of investment capital, and the subsequent growth of entrepreneurship and technological progress.

Market mechanisms are essential to promote competition, innovation and dynamism in the banking sector. Competitive pressures and price signals inherent in the market economy force financial institutions to constantly develop and innovate, which leads to the development of new financial products and services. The availability of investment capital supports entrepreneurship and technological development, helping to create economic growth and new industries. As market mechanisms continue to shape the financial sector, their impact on innovation and dynamism will be critical to the continued evolution of the global economy.

Investment banking services are crucial for economic growth, as they facilitate capital raising, mergers and acquisitions, market making, and financial advisory services. However, despite banks' efforts to diversify their services, the development of investment banking in some regions remains constrained by an underdeveloped financial market. This essay explores the challenges hindering the growth of investment banking services and discusses potential strategies to overcome these barriers.

Despite the banks' measures to diversify their services, the financial market is not sufficiently developed, limiting the possibilities of offering investment banking services. Interest income has consistently made up a large portion of banks' income, and the share of interest income and expenses has increased over the past four years (Figure 1).

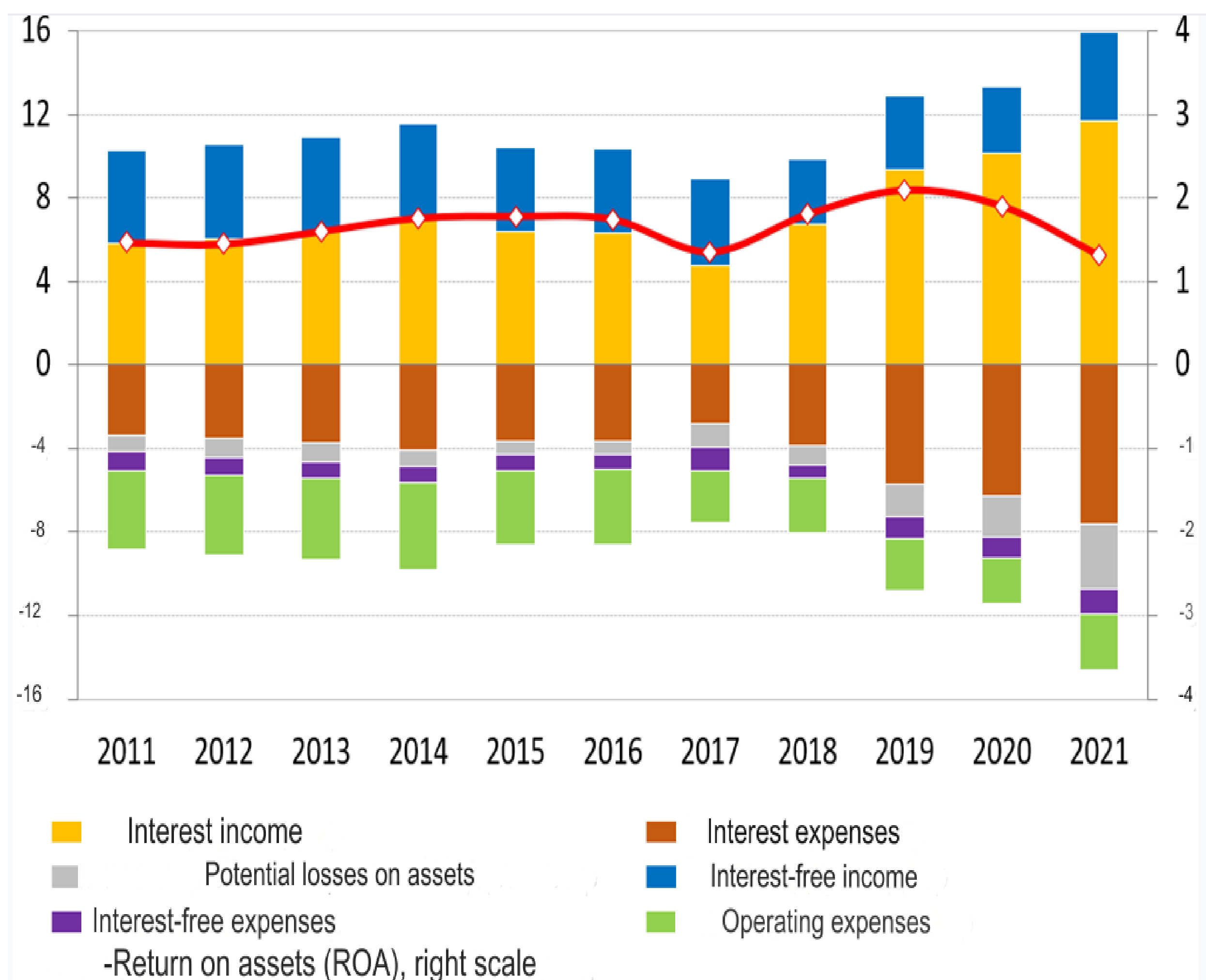

Figure 1. Decomposition of the indicator of return on assets (ROA) in the banking system, in percent[1]

Today, the specialization of banks as investment banks can be carried out on the basis of completely independent and voluntary decision of the owners and management. An investment bank is a credit institution specializing in stock exchange operations. Investment banks were first established in the United States in 1933 as a separate category of financial institutions. Investment activity of commercial banks is an activity in which the bank acts as an investor, invests its funds for a certain period of time to create and purchase financial assets for direct or indirect profit.

[1] https://cbu.uz/oz was prepared based on information from the Central Bank website

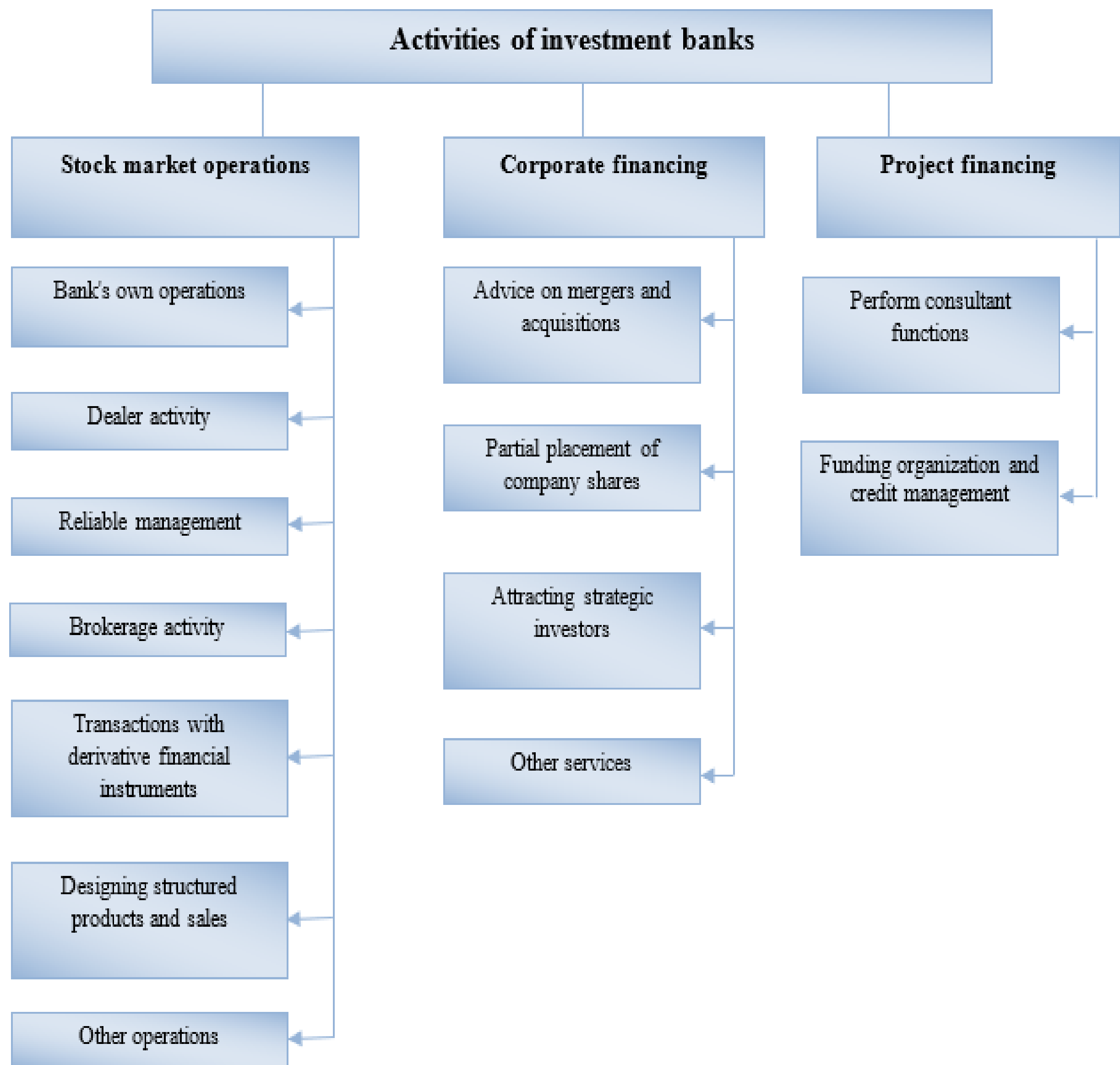

Figure 2. Areas of investment banking activity[2]

In accordance with the above-mentioned concept, the main areas of investment activity of the bank are as follows:

- attracting (collecting) funds for investments by banks;
- providing investment loans;
- investments in securities, stocks, shares.

The main purpose of the investment bank is to determine the value of the company and the optimal price of the offer and to ensure that the shares are sold to investors.

There are several main stages in the process of forming a direct investment portfolio. In general, when forming a portfolio, it is necessary to determine the investment goals, the estimated duration of investments, the level of acceptable risk and the amount of invested funds. The generality of these conditions guarantees the rational use of bank assets in investment activities.

There are four main stages in the formation of the bank's investment portfolio (Table 1).

[2] developed by the author

Table 1 Stages of formation of the bank's investment portfolio

Stage name	The essence of the stage
Macroeconomic studies	Forecasting the dynamics of key indicators. Market analysis is carried out based on the collection of information about the economic situation of the region or the country as a whole.
Analysis of segments and networks	The most favorable market segments for investment are identified. A comparative analysis of sectors and segments is carried out based on various criteria of investment attractiveness.
Analysis of issuers	The financial status and investment attractiveness of the selected issuer is determined. In the process of analysis, specific instruments are selected in which the investment will be made and the portfolio structure will be formed.
Formation stage	A bank portfolio is created directly, various instruments are purchased.
Return Objectives:	Determining the desired rate of return on investments, which can be influenced by factors such as income requirements, capital appreciation goals, and overall growth targets.
Time Horizon:	Establishing the time frame over which the investments are expected to perform. This can vary from short-term to long-term based on the bank's strategic goals.
Liquidity Needs:	Identifying the liquidity requirements to ensure that the bank can meet its short-term obligations while still achieving its long-term investment objectives.
Regulatory and Policy Constraints:	Considering any legal, regulatory, or policy constraints that could impact investment decisions, such as capital adequacy requirements and permissible investment types.
Economic Indicators	Analyzing key economic indicators such as GDP growth rates, inflation, interest rates, and employment figures to forecast economic trends.
Market Conditions:	Assessing current market conditions, including stock and bond market performance, to identify potential investment opportunities and risks.
Industry Analysis:	Evaluating different sectors and industries to determine which are expected to perform well based on economic forecasts and market trends.

The formation of a bank's investment portfolio is a dynamic and iterative process that requires careful planning, thorough analysis, and continuous monitoring. By following these stages, banks can build and maintain investment portfolios that meet their financial goals, manage risks effectively, and adapt to changing market conditions.

Asset allocation is the process of distributing investments among different asset classes, such as equities, bonds, real estate, and cash. This is considered the most critical decision in portfolio construction, as it determines the overall risk and return profile.

The bank includes three main stages in the process of investment activity. First, making investment decisions, determining investment goals, forming investment directions, and choosing investment objects. Second, conclusion of various contracts aimed at implementation of the investment process, performance of works or provision of services. The completion of this stage is the creation of an object of investment activity. Third, the stage of operation of the created investment activity object. At this stage, the process of product production, performance of work, provision of services is organized, the system of selling the created product is created.

Portfolio construction is a complex but essential process that requires a strategic approach to asset allocation, diversification, security selection, and risk management. By understanding and implementing these principles, investors can build portfolios that align with their financial goals, risk tolerance, and time horizon. Continuous monitoring and evaluation ensure that the portfolio remains effective and adaptable to changing market conditions, ultimately contributing to successful investment outcomes.

Portfolio construction is a fundamental process in investment management that involves selecting a mix of assets to achieve specific financial goals while managing risk. It requires a thorough understanding of financial markets, asset classes, risk management, and the investor's objectives. This essay explores the key principles and steps involved in constructing a robust investment portfolio.

Investing in financial markets inevitably involves taking on risk, and understanding how well investments perform in relation to the risk taken is crucial. Risk-adjusted performance metrics such as the Sharpe ratio, Treynor ratio, and Jensen's alpha are essential tools that provide deeper insights into the efficiency and effectiveness of investment strategies. These metrics help investors make more informed decisions by evaluating not just the returns, but how those returns compare to the risk assumed.

Performance measurement is a critical aspect of investment management that involves regularly evaluating the performance of a portfolio to ensure it meets its objectives. This process helps investors and portfolio managers understand whether their investment strategies are effective and identify areas for improvement. Measuring portfolio performance against benchmarks and performance targets is essential for maintaining accountability, making informed decisions, and achieving financial goals.

As mentioned above, the investment services of commercial banks can be divided into several types, including the bank can act as a broker, consultant and intermediary.

The investment activity of banks is indeed a very controversial, but at the same time important and controversial research topic. The approach to this activity is different in different countries, and two main approaches are considered in this work. A central concept in the investment activity of almost any organization, including a bank, is the formation of an optimal investment portfolio that matches the investment objectives. This is a time-consuming process that can be organized in a completely different way depending on what goals the investor wants to achieve.

Based on the above-mentioned points, we came to the conclusion that the investment bank is not only a sector of the financial market, but also a comprehensive institution necessary for the development of the direction of financial services.

CONCLUSION.

In the process of scientific research carried out by investment banks in financing projects and ensuring the financial stability of their banks, the following conclusions were formed:

1. Using the method of studying the relationship between the consumers of investment banking services and the enterprises of the real sector of the economy, the provision of services to the banks of our country on the financing of enterprises using stock market instruments will stimulate the development of credit relations with them and ultimately lead to the development of strategic partnership relations.
2. The investment activity of commercial banks is considered as a business of providing two types of services: raising cash by issuing securities or placing them on the primary market; bringing together buyers and sellers of securities in the secondary market acting as brokers and/or dealers.
3. By developing cooperation relations with developed countries, investment banking provides an opportunity to introduce their experience to our national economy and build the industry on a solid foundation from the beginning.

4. Implementation of financing mechanisms of investment banking allows to offer alternative financing mechanisms to residents and entrepreneurs, which leads to the development of their economic and financial activities.
5. The conclusion drawn from the experience of countries with a dualistic system that introduced investment banking products is that the products of investment banks bring economic growth and efficiency to the society, competing equally with the traditional financial system.
6. Further improvement of the bank's credit and investment policy and mechanisms of long-term crediting of investment projects on the organization of new productions, modernization of enterprises, technical and technological re-equipment by investment banks, on the basis of which will be the basis for strengthening the long-term resource base of the bank.
7. It is expedient to continuously strengthen the bank units responsible for the investment activities of Investitsya banks with highly qualified specialists.

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