



## WAYS TO IMPROVE MORTGAGE LENDING MECHANISM

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### ABSTRACT

*This paper investigates major points of the development through ways to minimize risks in project financing for agriculture. On this case, both theoretical and practical analyses were conducted. Finally, research concludes outcomes and shortcomings of the issue as the whole.*

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### 1. Introduction

In the face of increasing competition between agricultural producers, lending to agrarian sector entities becomes very difficult. For all entities of the agrarian sector, in particular, farms, the improvement of their financial condition largely depends on the minimization of losses, on the costs and creditworthiness of the producer of agricultural products (in particular, cotton, grain). Creating conditions for financing project investment can serve as one of the possible options for improving their financial situation, reduce in the long run the costs of producing socially important agricultural products, and maintain a stable system of financing costs in the broad sense of the word by advancing future crops by repetitive enterprises on the processing and sale of agricultural products (Lal, Suleimenov, Stewart, & Hansen, 2007; Simon & Zhou, 2017).

Although even now advance funds for the future harvest are provided to farms in the amount of up to 50% of the value of raw cotton and grain supplied by them for state needs in accordance with the agreements. Although the allocation of

funds is carried out in stages, taking into account the time limits, limits and norms established by technological cards for the production of each agricultural crop does not solve the problems of more efficient work of the subjects of the agricultural sector, in particular, farms. The latter also need other sources of financing to ensure their competitiveness in the context of a globalized economy, which, in our opinion, is project financing of investments (Kringos, Boerma, & Pellny, 2009; Lawson & Roychoudhury, 2016; Ley, Krumpelt, Kumar, ..., & 1996, n.d.; Schulze, 2009).

### 2. Main part

The mechanism of project financing can become an important tool to stimulate the production of agricultural products and help support production in the context of limited access of the economy to the credit resources of commercial banks and ensure the preservation of the production potential of the entities serving the farm. Undoubtedly, the economy, having obtained access to monetary resources, may not bear the interest expenses on the funds received.

To be fair, it should be noted that the majority of farms can be overloaded with various credit obligations or they do not need such capacity for their own production, which affects the degree of risk.

In agriculture, such risks can be minimized. Project initiators or neighboring farms will either consume these products themselves (for example, a feed mill or meat processing plant, an elevator), or supply them to distribution networks. At the same time, farms are overloaded with credit obligations and do not have significant free monetary resources (Khalmurzaev, 2000; Muhammad et al., 2012).

Therefore, in project financing, project initiators should create an organization for the implementation of this particular project, the so-called project bureau (PB, which could act as a legally and economically independent, having a separate balance, free from any obligations of project initiators). In this project office, in addition to the project initiators, representatives of the lending bank, suppliers of equipment, raw materials and materials, or buyers of future products should also take part (be owners).

Consequently, the main risk will still be on the creditor bank, and given the complexity of the project and to increase the profitability of such a credit transaction, the creditor bank is usually one of the founders of such a PB. Upon completion of the project and after repayment of the loan, banks should be able to exit the project, but already at its new cost, taking into account the increased capitalization of the object.

The share of the creditor bank should not exceed 30% of the share capital created by the project bureau, plus project crediting. Upon leaving the project, after its successful completion, the cost of this share can increase significantly and can no longer be calculated using the cost method, as when investing in a project, but on the amount of revenue and profitability. Thus, the creditor bank can increase the profitability of the loan project. In addition to the profitability of the transaction, the creditor bank, having joined the founders of the PB, will be able to enter its representatives into the board of directors and the executive bodies to ensure control over the use of the loan.

As noted above, project financing facilities are more risky, the share of own capital of the project participants is also slightly higher and can be up to 30%. This share of equity can be determined by the amount of project costs. Such amounts can be collected only by a few households, combining their funds. This is very important for project financing (Holme, L & Watts, 1999; Newswire, 2012).

### 3. Discussions

Let us illustrate this also with the example of the Samarkand region, where it is planned to implement a construction project for the production and processing of agricultural produce in the Samara-Kand region, which annually exports

tens of thousands of tons of tomato paste to Russia. With this plan, the Samarkand region has traditionally been the "garden" of Russia. Climatic conditions, the availability of irrigation canals with cheap water make it possible to grow tomatoes in Samarkand region in large volumes. However, it is impossible to quickly implement this perishable product, therefore its production volumes in the Samarkand region have fallen. Even individual branches of the tomato paste production plant were closed due to a shortage of funds for the modernization and reconstruction of existing plants to produce higher quality products, in particular for export not only to the Russian Federation, but also to European countries and others.

In order to optimize the use of land in the region, to develop profitable production and replace the import, an idea arose to build a modern plant for the production of tomato paste worth over 100 thousand tons per year. At the same time, compared with manufacturers of other countries, we have two main competitive advantages: insignificant transportation costs in Russia (Budnikov, 1974; Sokolov, 1999).

The farms, adapted to serve the necessary agricultural products of similar factories, have tax privileges, which contributes not only to the alignment of high-quality products, but also creates a stable system for selling their own products in order to meet the needs of customers, i.e. potential customers who produce finished products or process them for subsequent sale through the trading networks of fresh agricultural products.

The increase in the capacity of such factories largely depends on the state of the material and technical base of farmers. To ensure the latter, it is necessary for commercial banks to finance investment projects that are capable of ensuring that farmers achieve their goal of being financially sustainable and profitable.

The construction of factories in accordance with investment projects of such a scale will allow increasing the production of finished products and guaranteeing sales. However, as already mentioned, for the further implementation of the project, investments that are not small in volume are required. At the same time, it is impossible to rely on our own resources, we need not only additional subsidies to provide the farms with the necessary equipment, but also attraction of credit resources of commercial banks on preferential terms. At the same time, one should not lose sight of the use of historical foreign experience. With state support, it is necessary to develop a program of measures to stimulate investment by agricultural entities and, moreover, farms (Getz & Carlsen, 2000). In our opinion, a similar regulatory scheme for the lender is aimed at insurance against unanticipated inflation. The main attractive feature for the borrower is a reduction in the interest rate, which in this case represents a function of the lender's share in the

increase in the value of the object and expectations regarding the likelihood of such an increase in value.

Secondly, the mortgage, in which the lender can participate in part of the excess of the sales portion of operating income, it can be used, as a rule, in the case of financing income property.

The project is estimated at more than \$ 10 million, can be financed in two phases: in the first year, investments will amount to \$ 5 million and in a year - another \$ 5 million. At the same time, the project plant can find its own funds and invest 10-15% of its cost into the project, but these funds are not enough. For this reason, the independent implementation of the project is impossible, and its implementation is postponed indefinitely until a circle of additional potential participants is formed.

#### 4. Results

Thus, the agro architecture investment project is a classic example of the possible application in agriculture of a form of project financing, in which farms-producers, transport companies, trading and purchasing companies, banks and territorial development funds, investment funds, foreign companies can take part the participants.

So, project financing should be understood as the union of the capital of the project initiators (own capital) and borrowed funds, and the loan part is much higher than the first.

At the same time, a significant increase in the number of farms as the main link of small business in rural areas and an increase in the share of agricultural products supplied by them for state needs (about 31% of grain and 30% of raw cotton) necessitate not only increase the effectiveness of the existing advance mechanism, but it puts on the agenda the need for project financing at the expense of commercial banks for their financial support. The implementation of project financing of farms requires the creation of a legal basis for reforming agrarian relations in rural areas. In economic terms, not only the growth and stability of the financial condition of farms depend on the project financing of agricultural entities and the efficiency of their development, but also on the pace and efficiency of their development depends on the standard of living of the majority of the population living in rural areas. area and material well-being of the entire population of the republic. From this it follows that project financing of subjects of the agricultural sector, in particular farms, can play an important role in the socio-economic development of the territory.

#### Conclusion

The full-scale introduction of more sophisticated project financing mechanisms will undoubtedly come to the

forefront to ensure the provision of loans with minimal risk, as one of the main instruments for returning loans allocated for projects. Of course, the number of farms with access to highly visible forms of security is not large. In order to simplify the mechanism of project financing, it is very important to ensure access of farms for projects with low risks that can be credited within the existing structure or taking into account the risk of a project that does not exceed the capabilities of the project initiator..

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