
PROBLEMS OF ATTRACTING FINANCING FROM CORPORATE BONDS

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ABSTRACT

This article reveals the essence of corporate bonds as an alternative tool for attracting financial resources. The author examines the issues of choosing corporate bonds as reliable and cheap project financing. Issues of corporate bonds by national issuers are analyzed, as well as the lack of demand for this type of financing in our country.

KEYWORDS: *Corporate Bonds, Social Infrastructure, National Issues Of Debt Instruments, Coupon Rate, Tax Regime.*

INTRODUCTION

Today, in conditions of active integration of the national economy, innovative development of social infrastructure, the implementation of new breakthrough investment projects, the development of advanced technologies, modernization of equipment, development of new goods, therefore, the need for sources of investment financing is increasing. In modern conditions of a market economy, the financial independence of national enterprises can be ensured, first of all, by expanding domestic sources of investment financing, and with limited budgetary sources, this is done through more active use of borrowed sources of financing. Today, the most popular forms of debt financing are bank loans, including factoring operations, commercial loans, leasing, as well as corporate bonds, more often considered as commercial bond loans. For many reasons, owners rarely consider corporate bonds as a competitive way to attract debt financing. At the same time, when issuing corporate bonds, the borrower company determines the interest rate and the issue period itself. This provides more opportunities for the company, making its debt more flexible.

Analysis of the literature within the framework of the topic under study.

The term corporate bond used to be defined as an obligation to pay a specified amount of money upon the occurrence of a specified date in the future, along with periodic interest payments. However, over the past two decades, this instrument of the securities market has undergone many changes both in its form of circulation and in the mechanism of issue.

Corporate bonds are bonds issued by joint—stock companies, limited and additional liability companies¹.

Research methodology

Within the framework of the topic under consideration, the following research methods were used: monographic, statistical-economic, computational-constructive, economic-mathematical and abstract-logical.

¹ Rules for the issue of securities and state registration of issues of equity securities dated 07/6/2009.

Analysis and results

The purpose of investments may be replenishment of working capital (short-term bonds are suitable for this), modernization of production, refinancing of previously borrowed debt, etc. The role of interest payments in this case is performed by coupon payments. As a repayment of the debt, after the expiration of the issue period, the nominal value is credited to the holder. A bond has an advantage over a stock in that the issuer retains full control over the company, without changing the ownership structure and diluting the share of existing shareholders.

Corporate bonds are issued subject to the following conditions:

- Within the limits of the issuer's equity capital as of the date of the decision on their issue, confirmed by the conclusion of the audit organization;
- issuers that have positive indicators of profitability, solvency, financial stability and liquidity over the past three years, confirmed by the conclusions of an audit organization, as well as received an independent rating assessment in accordance with the procedure established by law;
- With the participation of commercial banks performing the functions of payment agents for the payment by issuers of funds owed to investors.

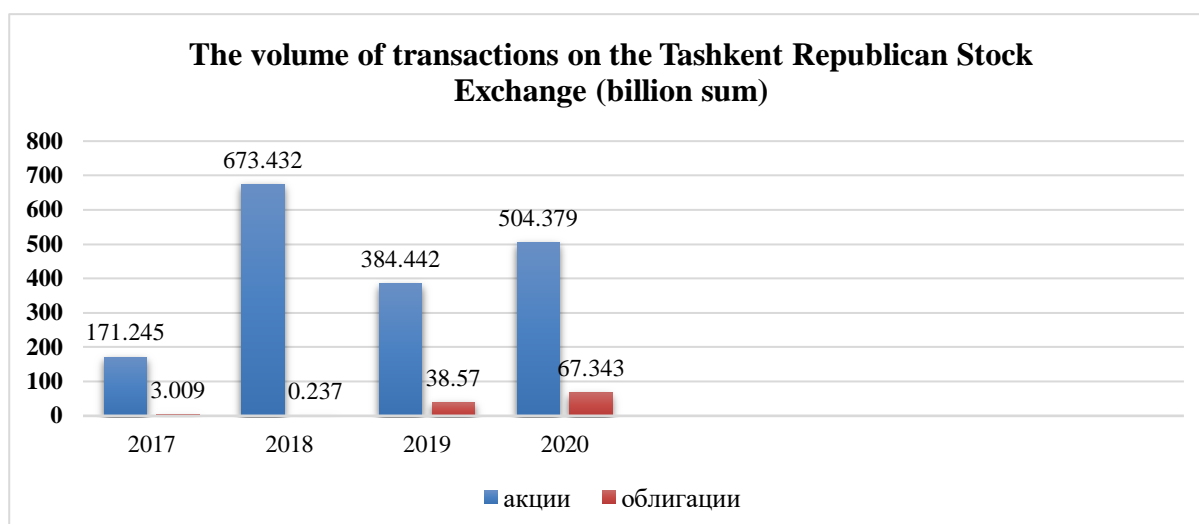


Figure 1. Analysis of the volume of securities sales at the RSE “Toshkent”²

These statistics show that the dynamics of stock sales in our country differs significantly from bond sales. If in 2017 shares were sold in the amount of 171, 245 billion. By 2020, the picture is getting much better: bonds were sold 22 times more than in 2017, when shares were sold almost 2 times. But the overall picture still suggests that stocks are more successful on the national market. And there is an explanation for this. In our opinion, the main reason for the lag in bond sales is the distrust of the population. It so happened that after the issuance of government bonds in 1991, the full repayment of the domestic debt was completed in 2016, although the term of such bonds was 15 years. In addition, the margin of such government financial instruments was not taken into account, which caused even greater resonance. Another global reason is considered to be the financial illiteracy of the young population, who consider obtaining a bank loan more profitable than issuing

² The official sat of the RFB «Toshkent» <http://www.uzse.uz/>

bonds. In addition to these reasons, until recently, the total control of the state over commercial organizations was considered a problem, which also «tied» the hands for issuing such debt securities. Today, the issue of bonds is supported by the state through the improvement of the legislative framework, as well as the benefits provided in the capital structure of organizations. These actions gave a significant impetus to the development of the securities market by such participants as joint-stock companies and limited liability companies.

Table 1 Analysis of corporate bond issuance in Uzbekistan³

Issuer	Issue volume (billion soums)	Coupon rate	Date of placement	Repayment date
Joint venture «Uzbek Leasing» International»	8,00	18%	24.02.2020	05.03.2021
Joint venture «Uzbek Leasing» International»	8,00	19	24.02.2020	04.03.2022
Joint venture «Uzbek Leasing» International»	9,00	20	24.02.2020	03.03.2023
«Uzpromstroybank» JSCB	17,06	2,25	29.12.2010	04.01.2021
«Uzpromstroybank» JSCB	10,00	2	10.08.2012	15.08.2022
«Uzpromstroybank» JSCB	50,00	Central Bank refinancing rate +2%	05.12.2019	03.12.2022
«Uzpromstroybank» JSCB	50,00	Central Bank refinancing rate +3%	05.12.2019	30.11.2024
«Uzpromstroybank» JSCB	50,00	Central Bank refinancing rate +4%	05.12.2019	28.11.2026
«Asia Alliance Bank» JSCB	50,00	Central Bank refinancing rate +4%	16.07.2019	15.07.2026
«Kapitalbank» JSCB	50,00	Central Bank refinancing rate +5%	24.04.2020	21.05.2027

The corporate bond market in our country began its active development in 2000. In the period from 2000 to 2008, the debt market was actively gaining momentum and developing. However, as a result of the onset of the global financial crisis in 2008, the Uzbek corporate bond market also experienced a recession and crisis that lasted for more than 12 years.

Thus, as of December 1, 2020, only 10 bond issues of 4 issuers were registered on the organized market (RSE Tashkent). The total volume amounted to about 302 billion soums. The main issuers of corporate bonds are commercial banks, their share is approximately 91.7% of the total issue

³ The official sat of the RFB «Tashkent» <http://www.uzse.uz/>

volume. The share of the leasing company (joint venture «Uzbek Leasing International») in the total volume of issue is 8.3%.

According to RSE «Toshkent», the volume of trading on the bond market for 9 months of 2020, compared to the same period in 2019, increased by 71% and reached 51.83 billion sums.

It is important to note that «Uzpromstroybank»'s 3-year bonds and Asia Alliance Bank's 7-year bonds were successfully placed. The largest trading volume for 9 months of 2020 was made with 3-year bonds of «Uzpromstroybank», which amounted to 34.4 billion sums. Asia Alliance Bank bonds were fully placed, the trading volume for 9 months amounted to 13.3 billion sums. The bonds of «Kapitalbank», as well as the 5 and 7-year bonds of «Uzpromstroybank» were not put up for auction.

Most of the banking sector's bonds are linked to the Central Bank's refinancing rate. At the same time, Uzbek Leasing International A.O bonds with fixed coupon payments look quite competitive, especially against the background of a drop in the refinancing rate of the Central Bank.

The secondary corporate bond market does not provide liquidity for investors, which is one of the main barriers to the development of the debt market.

Flexible market infrastructure is also an important factor in the development of corporate bond trading. The organization of bond trading depends on established practices, traditions of a particular country and specific financial market instruments. For example, in the United States, both government and corporate bonds are traded exclusively on the over-the-counter market, whereas in England only on the stock exchange. In Russia and Uzbekistan, corporate bonds are traded on stock exchanges.

Corporate bonds can be issued by open or closed subscriptions. A significant difference between them is that with an open subscription, the placement of securities takes place between an unlimited number of investors, while with a closed subscription – among a previously known limited number of investors.

CONCLUSIONS AND PROPOSALS

Thus, the borrower company can pre-select a range of potential investors based on its goals. Choosing a closed subscription can save the bond issuer from having to make a public announcement and conduct an advertising campaign, thereby reducing costs.

The statistics show that in our country today, more and more issuers are turning to bond issuance as a cheap form of financing their activities. This is evidenced by the fact that the laws «On Securities», as well as «On Joint-Stock Companies and protection of shareholders' rights» of the Republic of Uzbekistan have made some changes regarding the issue of corporate bonds by limited liability companies.

This change in the law allows LLC to diversify the structure of debt capital or completely abandon bank lending. It is also worth noting that in some cases, bonds can be issued without collateral, provided that the amount desired to attract is within the company's own capital.

For this reason, it is possible to predict and expect active entry of companies into the debt market. It would be correct to inform the owners and management of the LLC about alternative sources of financing, including through the issuance of corporate bonds. Presumably, the future volume of the corporate bond market will be from 300 to 500 billion sums.

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