

## THE PROBLEMS OF EVALUATING THE EFFECTIVENESS OF INVESTMENT PROJECTS FROM THE STANDPOINT OF THE LENDING BANK

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The relevance of the article is based on the special role of real investment at the present stage of economic development in Russia. The main source of long-term funds required for the implementation of investment projects is long-term commercial bank lending. The article deals with the specifics in using traditional approaches to evaluating investment projects by a bank. The main questions here are: accounting for the effects of inflation, the potential project lifecycle calculation and the specifics in formation of cash flow for the calculation of efficiency indicators.

Investment in real sector of economy in Russia declined five times, because of a decade of deep social and economic crisis at the end of the previous century. Updating the core of existing businesses, creation of new industries, construction of residential and commercial real estate requires significant financial investment.

The diverse infrastructure of investments has been created in the developed countries - financial assets of long-term money, the largest of them being pension funds, foundations of insurance companies and mutual funds. In Russia today there is a significant gap between the financial and real sectors of the economy. In such conditions, the main source of long-term funds in the economy is banks, and the main form of banks' participation in the investment projects is long-term lending.

The long-term diversion of financial resources is always associated with an increased risk, and in bank decisions about lending money for an investment project the evaluation of its effectiveness has become a major issue. Therefore, one of the problems of long-term lending market development in Russia is to assess the effectiveness of investments in the real sector of the economy.

The specificity of approaches to assessing the effectiveness of investment in terms of the lending bank is subject to various objectives of participation in the project of the initiator (borrower) and the bank as a creditor. The ultimate goal of the borrower is to increase the value of the firm. The purpose of the analysis of the creditor is to minimize the risks.

Indicators of real investment efficiency are calculated based on the model of cash flow for

the project. At the stage of constructing an economic model and its analysis the financiers face problems that are impossible to give a clear answer to, as it is impossible to accurately predict the future movement of stock price and exchange rates. At this stage the specificity of assessing the economic efficiency of investment in terms of the bank is most significant.

To clarify the situation for companies initiating investments the following principles are set by the "Methodological recommendations for evaluation of the effectiveness of investment projects", approved by the Ministry of Finance and the Ministry of Economy of Russia:

1. Inflation accounting;
2. Consideration of the project throughout its life cycle;
3. Modeling cash flow, including all receipts and expenditures associated with the project.

At the same time, these principles are of controversial nature. The direct effect of inflation taken into account while evaluating the performance index includes the revenue and expenditure figures for inflation. However, in today's rapidly changing market conditions, the interdependence of all market segments and sectors of the economy, forecasting of future changes in prices of various assets and factors of production becomes very difficult. In this case, first we try to predict the inflation and overstate the margin of the project, then try to exclude its influence with the discount rate.

From the perspective of the lending bank, in the modern Russian conditions, it is advisable to make the calculation model of the project in constant prices, and to use the discount rate purified from the level of inflation. This calcula-

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tion would be consistent with the banks moderately conservative approach to assessing the financial viability and the effectiveness of the project, will reduce the number of probability factors influencing the outcome of the assessment.

As for the principle of consideration of the project throughout its life cycle, there is a problem of determining the duration of the project lifecycle. From the standpoint of the lending bank in order to minimize the level of risk and uncertainty the rational decision is to consider the project within a narrow time frame, with limited-term lending.

Another principle for the evaluation of investment set out in the "Methodological Recommendations" is modeling cash flow. In general, there are two main approaches to the calculations. The first option involves the calculation in abstraction from the sources of project financing, which allows to evaluate the project itself and its ability to generate cash flow that may be the source for the repayment of credit obligations. With such an approach it would be appropriate to compare various performance rates of the project with the rate of the loan. Another approach to the calculation also includes cash flow. Performance indicators for this calculation are more connected with the return on the project and clearly reflect the possibility of debt service due to the generated cash flow. In addition such an assessment reveals the real motives and goals of the initiators of the project, and gives a chance to assess the competence of the borrower's business, its reliability as a financial partner.

In conclusion we can say that, on the one hand, the lending bank, while considering lend-

ing the project, should first calculate the return on the project and the repayment of the loan on time, and is less interested in economic benefits that a borrower will receive as a result of the project. On the other hand, if the project generates cash flow sufficient to service the debt on the loan, but does not increase the value of the firm-borrower the question arises about the real motives of the owners of the company-borrower in the project, increasing the risks of deviation from the planned indicators of the concept of the project and as a consequence of the risks of default by the borrower of the obligations under the loan agreement.

Thus, investment analysis from the perspective of the creditor is a complex concept, which illustrates that banks are forced to balance between the interests of themselves as lenders and the interests of borrowers as an initiator and beneficiary of the project. The problems of evaluation of investment from the standpoint of the lending bank have not been properly studied, their detailed elaboration and development of common approaches to assessing the economic efficiency will more accurately determine the value of this aspect of the complex concept of creditworthiness of the project, so that banks will be able to fix the level of risk of long-term loans at an acceptable level.

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