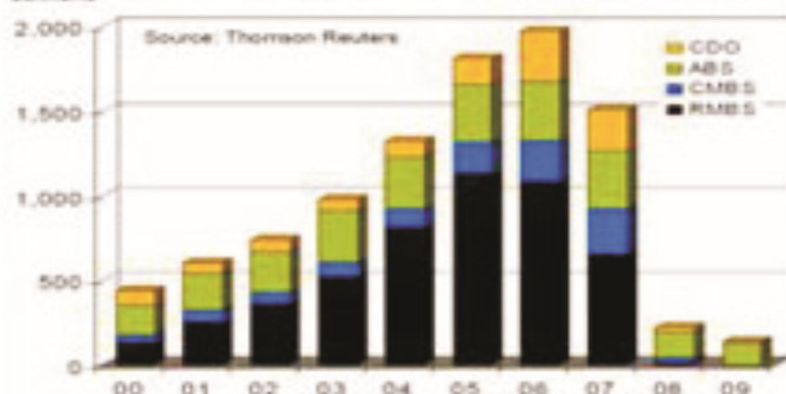


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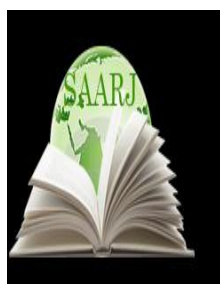
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BUSINESS CONSOLIDATION AND HUMAN RESOURCES MANAGEMENT IN NIGERIAN BANKING INDUSTRY

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ABSTRACT

Business consolidation has become a global phenomenon to achieve economies of scale and higher productivity. The need for financial institutions to merge becomes even more imperative in the face of the onslaught of greater competition arising from globalization and the pressure under the World Trade Organization (WTO) for countries to open up their financial market to further entry of foreign banks. For this reason, many countries are moving toward consolidating their banking systems and Nigeria cannot be an exemption. This paper is designed to examine whether Business consolidation of banks caused mass retrenchment of staff during and after consolidation exercise Secondly, to determine whether increase in size of consolidated banks creates more employment in the banking industry. The study uses Correlation Research Design. The findings of this study showed that Business consolidation had contributed positively to the employment of Nigerian Banking Industry - The sector employed 30, 846 staffs between 2005-2009. Banks should endeavor to increase the number of their domestic branches in order to increase employment in the Nigerian economy as it is only the number of domestic branches of banks that was a significant variable in explaining the variation in employment in Nigerian banks.

KEYWORDS: *Business, Consolidation, Human Resource Management, Retrenchment, staff strength.*

INTRODUCTION

The Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation reported that, of the 115 banks in operation in 1997, 47 were in varying states of distress, with an average ratio of non-performing assets of around 82 per cent. The restructuring of distressed banks started with their being put under joint control through "acquisitions-in-trust" by the NDIC and the CBN for eventual sale to private operators. Six mergers between 1996 and 1998 resulted in 88 net job losses out of a total workforce of 1,860. Without the mergers, many of the banks would have been closed by regulators with the loss of all the jobs involved. Bankers warn that, although the worst of the crisis may be over, only 30 of the 82 remaining banks are serious operators. Recovery does not mean an end to restructuring as the industry is expected to shrink in both the number of institutions and active branches, although the latter already declined from nearly 2,500 to 2,200 between 1997 and 1999. Employment in the sector dropped from 78,514 workers in 1990-91 to 54,292 in 1999-2000, though this can be attributed to bankruptcies and closures and not wholly to merger and acquisitions (Gunu and Olabisi, 2011). The Central Bank of Nigeria's resolve to carry out reforms in the banking sector was borne out of the past of the nation's banking industry. Between 1994 and 2003 a space of nine years, no fewer than 36 banks in the country closed shops due to insolvency. In 1995 four banks were closed down. But 1998 may go down well in history as the saddest year for the banking industry as 26 banks closed shops that year. Three terminally ill banks also closed shops in 2000. In 2002 and 2003 at least a bank collapsed. The failed banks had two things in common - small size and unethical practices. Of the 89 banks that were in existence as at July 2004, when the banking sector reforms were announced, no fewer than 11 banks were in distress. According to the CBN, between 69 and 79 of the banks were marginal or fringe players (Gunu and Olabisi, 2011).

Statement of Problem

This paper intends to look at the problems that led to Bank Consolidation in Nigerian Banking Industry and its impact on the staff strength. The decade 1995 and 2005 were particularly traumatic for the Nigerian banking industry; with the magnitude of distress reaching an unprecedented level, thereby making it an issue of concern not only to the regulatory institutions but also to the policy analysts and the general public. Thus the need for a drastic overhaul of the industry was quite apparent. In furtherance of this general overhauling of the financial system, the Central Bank of Nigeria introduced major reform that changed the banking landscape of the country in 2004. The main thrust of the 13-point reforms agenda was the prescription of minimum shareholders' funds of 25 billion for Nigerian Deposit money bank not later than December 31, 2005. In view of the low financial base of these banks, they were encouraged to merge. Out of the 89 banks that were in operation before the reform, more than 80 percent (75) of them merged into 24 banks while 15 that could not finalized their consolidation before the expiration of deadline were liquidated (Elumilade, 2010; Afolabi, 2004).

In the process of consolidation many bank CEOs and chairmen of boards lost their positions as a result of Merger and Acquisition. But more devastating has been the job losses across cadres in the industry. In many banks this has been done quietly, while in other banks, workers have been encouraged to resign with benefits. The governor of CBN had, at the beginning of the process admitted that "there will be job losses but the question then is whether, on a net basis, there will be more job losses after the consolidation than would have occurred" (Manukas 2006). However, the characteristics of the kind of reforms induced mergers and acquisition of the banking industry creates doubts about its potentials of creating more employment of staff. While this consolidation no doubt has benefits, what is less clear is the effect of this consolidation on increase in employment of staff for the banks. In view of this observation certain issues arise on the desirability or otherwise of this imposed

'one fit all consolidation' exercises: will the increase in size of consolidated banks create more employment in the banking industry?

Human resources management within Business Consolidation environment is problematic due to changes in the general procedures and in the practices followed by the acquired companies to carry out various tasks, and also due to the growing competition between the employees of the merged parties. Most employees regard Business Consolidation as a threat to their jobs, since shareholders often demand limitations in the number of employed staff. Today's facts verify these fears as, during mergers, the number of employees working in the engaged companies is actually less than before.

Objectives of the Study

The two objectives of this study are:

1. To access whether Business Consolidation of banks caused massretrenchment of staff during and after consolidation exercise
2. To access whether increase in size of Consolidated banks creates moreemployment in the banking industry

Research Questions

The following questions were drawn to guide the writer of this paper to keep focus. The questions are:

1. To what extent has Business Consolidation of Banks lead to mass retrenchment?
2. Has increase in banks branches lead to increase in staff strength after the Consolidation?

Research Hypotheses

Hypothesis 1:

H₀: There is no significant relationship between consolidation of banks and mass retrenchment of staff.

H₁: There is significant relationship between consolidation of banks and mass retrenchment of staff.

Hypothesis 2:

H₀: There is no significant relationship between increase in banks' branches and increase in staff strength

H₁: There is significant relationship between' increase in banks' branches and increase in staff strength

LITERATURE REVIEW

Theoretical Framework

A growing body of literature indicates that Business Combination can be a traumatic event in the lives of individuals and organizations (e.g., Bellou, 2007; Lipponen, Olkkonen, & Moilanen, 2004; Mylonakis, 2006). Mergers and acquisitions are extreme forms of organizational change, and employees perceive change as threatening because of feelings of vulnerability and the fear of losing security. According to Beilou (2007), employees can experience merger syndrome characterized by increased self-interest as they became preoccupied with what the integration actually means for them, their incomes, and their careers. In fact, Bellou noted that employees seemed to react as they would to the loss of a loved one and often treated the merger as a personal crisis. Among

the subjects in Bellou's study, this sense of loss manifested itself as listlessness, apathy, a preoccupation with the past, lack of commitment to the new culture, fear, and/or active resistance to the new system. Several negative attitudes and behaviors emerged, including decreased job satisfaction, lack of organizational commitment, disloyalty, non productivity, an increase in defective products, mistakes on the job, and withdrawal behaviors (Bellou, 2007).

Individuals may have as many social identities as they have group memberships. People who are working in an organization may derive their social identity not only from the organizations to which they belong but also from their work groups, departments, unions, lunch groups, and age cohorts.

In addition to age, such demographic groups as gender, organizational level, and educational level have also been described as primary sources of identity for people in organizations. Social identities have been used in past studies as key indicators in determining job satisfaction, and several researchers having studied demographic variables and the relationship between employee job satisfaction and the M&A process (Chambers, 2008; Clinebell & Shadwick, 2004; Paviglione, 2007; Rhea, 2004).

Business Combination

What is the *raison d'être* for the proliferation of mergers and acquisitions? In a nutshell, the intention is to increase the shareholder value over and above that of the sum of two companies. The main objective of any firm is to grow profitably (Miguel, 2008). The term used to denote the process by which this is accomplished is 'synergy'. Most analysts come up with a list of synergies like, economies of scale, eliminating duplicate functions, in this case often resulting in staff reductions, acquiring new technology, extending market reach, greater industry visibility, and an enhanced capacity to raise capital. Others have stressed, even more ambitiously, the importance of Merger & Acquisition as being "indispensable...for expanding product portfolios, entering new markets, acquiring new technologies and building a new generation organization, with power and resources to compete on a global basis.

A corporation can grow internally by expanding its operation both globally and domestically or it can it can grow externally through mergers and acquisitions, strategic alliances and joint venture (Thomas and Hunger, 2010). Merger is the joining of two separate companies to form a single company while Acquisition is the purchase of a controlling interest in another company. In both situations the result is sudden increase in growth which can clearly cause corporate indigestion typified by problems of communication, blurring of policy decisions and decline in the staffs identity with company's product. Mergers and acquisition differ from a consolidation, which is a business combination where two or more companies join to form an entirely new company. All of the combining companies are dissolved and only the new entity continues to operate,

Gangan (2007) also defines merger as a combination of two or more corporations in which only one corporate survives. There are three major types of mergers. Horizontal merger; This is a combination of two or more of two firms in similar type of production, distribution or any other area of business. Combination of two book publishers to gain dominant market shares is good example of horizontal merger. (ii) Vertical merger: This is a combination of two or more firms involved in different stages of production or distribution for example, joining of a TV manufacturing company and a TV marketing company. Vertical merger may take the form of forward or backward merger. When a company combines with the supplier of material, it is called backward merger and when it combines with customer, it is known as forward merger. (iii) Conglomerate merger: This is a combination of firms engaged in unrelated lines of business activity (Pandey, 2005). A typical

example is merging of different businesses like manufacturing of cement products, fertilizers products, electronic products, insurance, investments and advertising agencies. (Berger, Demselz and Strahan 1999). For a financial institution, the decision to proceed to Merger and Acquisition is strategic rather than financial., and is taken in conditions of a bandwagon effect. The beginning of Merger and Acquisition series increases the odds for an individual bank to become an acquisition target. Given that a bank's relative size constitutes a greater acquisition deterrent than its profitability or efficiency, an individual bank may decide to proceed to an acquisition only to protect itself from takeovers. The wave of Merger and Acquisition is thus rising without there being any reasons of economic performance to justify such action (Schenk, 2000).

Human Resources Management

Business combination facilitates the streamlining of the cream of the crop. When companies merge, major changes occur in corporate culture, management styles, business direction, and key operating procedures. Only those who are flexible and adaptable to changes would be elected to stay on in the new company. This gives opportunity for human capital to be streamlined and for top management to keep those who are most competent and valuable to the company. Unfortunately, power struggles and political clans also exist; this hinders the streamlining process. These simple human factors can misrepresent the selection of candidates that should be retained in the new company. There are other factors that curb the synergistic effects of streamlining human capital. It is not surprising to see a fair amount of de-motivation amongst retained employees. This can be due to them losing their displaced colleagues. Blending in two different corporate families with different corporate cultures can also be a stressful phase, especially when new alliances are formed and acclimatisation takes a longer time. New hierarchical structures can also cause resentment, especially if certain personnel are sidelined from long-awaited promotions. Reporting lines can change drastically leaving new working teams with newer learning curves altogether.

Human resources management within Business Combination's environment is problematic due to changes in the general procedures and in the practices followed by the acquired companies to carry out various tasks, and also due to the growing competition between the employees of the merged parties. Most employees regard Merger and Acquisition as a threat to their jobs, since shareholders often demand limitations in the number of employed staff. Today's facts verify these fears as, during mergers, the number of employees working in the engaged companies is actually less than before. (Archontakis and Georgakopoulou, 1998, Georgakopoulou, 2000).

The restructuring process of European and global banking has brought substantial changes in the nature and quality of employment. This restructuring process is a result of not only the Business Combination wave observed in the last 15 years, but also of the massive introduction of new technologies into banking. The introduction of new technologies in banking preceded the Business Combination wave, whereas the latter has accelerated the restructuring process. This is because a bigger Business Combination wave may exploit new technologies in a more efficient manner and, most of all, it may also undertake to a great extent the cost for the application of these technologies (De Boyer et. al., 2000). Briefly, international experience and research detects the important quantitative and qualitative consequences of Business Combination in employment, such as the following:

1. Decrease in the employment of less specialised categories.
2. Important changes in the role of enterprise senior staff towards more complex and more flexible duties.

3. A relative increase in the employment of specialised and younger staff. Companies are relieved of less specialised or/and older excess staff through early or voluntary retirement programs.

4 Serious incorporation and compatibility problems among the various management systems, industrial relations and organization of work. These factors require careful preparation and may become crucial for a successful merger when deriving from different negotiation systems, collective regulation and definition of payment and labour terms (Georgakopoulou, 2000). Staff employed in the financial sector is expected to increase production and productivity, and become more qualified and flexible during work. The demand for more skills mainly involves a very good knowledge and use of computers as well as general professional knowledge, which allow for multi-tasking (engagement of employed staff in various tasks). However, increased requirements on staff skills are not always combined with the necessary training courses or flexibility in working hours. The lack of investments in staff training is a very common practice in case of mergers, when the pressure to cut-down costs leads to staff replacement instead of the training of the existing staff. Victims of this restructuring process are back office, central office and, most of all, low- and also due to the growing competition between the employees of the merged parties. Most employees regard Business Combination as a threat to their jobs, since shareholders often demand limitations in the number of employed staff. Today's facts verify these fears as, during mergers, the number of employees working in the engaged companies is actually less than before. (Archontakis et.al., 1998, Georgakopoulou, 2000). These factors require careful preparation and may become crucial for a successful merger when deriving from different negotiation systems, collective regulation and definition of payment and labour terms (Georgakopoulou, 2000).

However, increased requirements on staff skills are not always combined with the necessary training courses or flexibility in working hours. The lack of investments in staff training is a very common practice in case of mergers, when the pressure to cut-down costs leads to staff replacement instead of the training of the existing staff. Victims of this restructuring process are back office, central office and, most of all, low- skilled tasks. These tasks are more and more electronically performed and the corresponding staff is limited or replaced with high-skilled employees, who may also respond to other duties. It has been observed that older people (in terms of age) and women are more susceptible to work changes of this type (De Boyer et. al., 2000, Nautemporiki, 1995).

The impact of this restructuring process on the older staff is of significant importance, due to the extent of the phenomenon, without of course underestimating the impact on the employment of women. The most common personnel reduction strategy that has been followed in European banking mergers is the preparation and implementation of early retirement programs. This procedure is often followed by banks and leads to a remarkable reduction in the-number of employees over 55 years old. It is also often believed that the spread of early retirement programs constitutes a type of discrimination against older employees, who are considered to be incapable of adjusting to today's job requirements and to the new tools and techniques used (Uni - Europa Finance, 2001). Older employees are rarely given the opportunity by a banking institution to be trained in newly required aspects of their work. This fact contradicts the notion of lifelong learning supported by the E.U., as a measure to improve the competitiveness of the European economy and to fight unemployment. (Charalampidis, 1999).

Another fresh and common by now technique to reduce production costs in the banking sector is outsourcing, i.e. the decision to assign/ transfer duties such as maintenance, security, cleaning, movement of titles, transfer of material or money etc. to an outside firm, as well as the

development of different distance banking services, like telebanking, phone banking etc. (Kanellopoulos et. al.,1998). The transfer of duties is one of the most important developments not only within the banking sector but also in the economy as a whole. Transfer of services in the banking sector initially involved non-core functions, such as cleaning, catering, maintenance and IT services. In the latest years, however, it is also used for providing core functions, such as customer service. Customer service and various sales functions are performed today by call centres, where a great number of tasks are carried out by low skilled and poorly remunerated personnel and with almost no trade union activity (Weber, 2008).

Materials and methods

This research paper was based on Correlational Research Design. Correlational studies examine the relationship between two or more variables at a single point in time. Data is collected on both independent and dependent variables from the same time period in order to determine if there is a relationship between them.

Population and Sample Size:

The entire banking industry had 89 banks as at end of 2005. After the consolidation exercises the number of banks in Nigeria came to 25 in January 2006. For the purpose of this paper, the entire Nigerian Banking Industry would be used as population of this study, sample frame was deposits taking commercial banks and sample size was (25) twenty five consolidated banks.(Gunu and Olabisi 2011).

Stratified Sampling technique was adopted for this paper. Asika, (2010) describes the techniques as applied random sampling. Population is grouped into strata. Nigerian Banking Industry was grouped into deposit taking Banks and non deposit taking Banks.

Data Collection Method:

This study is designed to investigate the relationship between Human Resource Management and Banks consolidation in Nigeria. The sources of data for the study are secondary sources obtained from the banking supervision department of Central Bank of Nigeria. The data related to the number of employees and total number of branches of all commercial banks in Nigeria as at the end of December 2009. The data on employment and number of branches is longitudinal which were for period between 1999-2009. The study covered all the twenty-five commercial banks that emerged after Central Bank of Nigeria's directive on consolidation through mergers and acquisition. Others sources include internet, journals, and textbooks.

Data Analysis Procedure:

In this research, the independent and dependent variable are fit to an equation called a regression equation which the data would express the relationship between variables. The simple linear regression analysis is used to analyze the stated hypothesis. In hypothesis one, the functional relationship was postulated between Banks' Branches (X) and Staff Strength (Y). To express the model of simple linear regression in equation form is: $Y = a + bx$

Where Y = dependent variable

a = intercept parameter (where the regression surface crosses they axis)

b = slope of the regression line (it is the rate of change in Y with respect to X)

x = Independent variable

Testing of Hypotheses**Hypothesis 1:**

H_0 : There is no significant relationship between consolidation of banks and mass retrenchment of staff.

H_1 : There is significant relationship between consolidation of banks and mass retrenchment of staff.

To express the model of simple linear regression in equation form is:

$$Y = 44010.869 + 3.508576 * \text{Banks' branches}$$

Correlation analysis:

Correlation of Number of Branches to Number of Staff was positive. Correlation is $r=0.788051$

Test Analysis

$$r^2=0.621024378, t\text{-test}=0.788051/0.1894878, t \text{ calculated}=4.1599, t \text{ table}=2.920$$

Decision Rule: t calculated value is greater than t table value therefore reject Null hypothesis and accept alternative hypothesis.

H_1 : There is significant relationship between consolidation of banks and mass retrenchment of staff.

Implication: There was significant relationship between consolidation of banks and mass retrenchment of staff during and after reform was carried out. Secondly, the more banks merged together, the more staffs were retrenched.

Hypothesis 2;

H_0 : There is no significant relationship between increase in banks'branches and increase in staff strength

H_1 : There is significant relationship between increase in banks'branches and increase in staff strength

To express the model of simple linear regression in equation form is:

$$Y = 30153.6887144 + 8.28161467878 * \text{Banks-branches}$$

From the result above the regression model $Y = 30153.6887144 + 8.28161467878 * \text{Banks-branches}$

Banks' branches indicate significant relationship between the dependent (Number of Staff) and independent (Banks' branches) variables. Thus the b coefficient of 8.28161467878 indicates that for every one unit change in the dependent variable, the independent is predicted to increase by 8.28161467878.

Correlation Analysis: Correlation of Number of Branches to Number of Staff is strong.

Correlation is $r=0.935005$

T-Test Analysis

$$r^2= 0.87423435, t \text{ test}=0.935005/0.013973961, t \text{ calculated}= 66.91, t \text{ table}=1.833$$

Decision Rule: t calculated value is greater than t table value therefore reject Null hypothesis and accept alternative hypothesis.

H_1 : There is significant relationship between increase in banks' branches and increase in staff strength

Implication: There was significant relationship between increase banks 'branches and increase in staff strength. Secondly, the more banks' branches were opened as result of increase in shareholders' funds, the more staffs were employed.

Results

Employment in Nigeria banks has been fluctuating for the last 20 years, a course that reflects not only dynamics of the banking sector within Nigerian economy but also the unsteady growth of its products and services.

Year 2005 was the year in which more than 8641 jobs were lost in the banking industry, this is attributed to the fact that the year was the deadline given to banks to recapitalize or their operating licenses will be withdrawn. More than ten (10) banks were closed by the central bank of Nigeria because they could not meet up with the new minimum share capital of 25 billion naira. This corresponding reduction in the number of staff equally reflected in the reduction of branches. As from year 2006, there was a steady increase in employment up until 2009 when there was a decline in employment because more than 2000 jobs were lost as a result of an audit carried out by CBN which indicated a very high rate of non-performing loans and weak corporate governance. The rise in the number of branches after recapitalization is relatively confirmed. However the employment growth rate seems to be declining, exhibiting negative result for year 2009, this decline is rather typical of the particular restructuring period.

The objectives of the paper is to identify the extent of impact on employment of recapitalized banks after the banking consolidation exercise, this was achieved through regression analysis, using number of branches as a variable representing merger and acquisition as an independent variable while number of staff represents employment which is the dependent variable. From the result of regression analysis carried out it was shown that number of branches had significant impact on employment in Nigerian banks as shown in data analysis sections.

In an earlier study conducted by Mylonakis (2006), on the impact of banks merger and acquisition on their staff employment and effectiveness, it was observed that after merger and acquisition in Greek banks, there was an appreciable increase in the number of bank branches with an increase in the number of staff. In another study conducted by Gunu (2009), it was equally observed through a multiple regression analysis that shareholders fund, total assets and number of domestic branches predict number of staff in Nigerian banks, but shareholders fund and total assets were not significant, it was only number of branches that was significant in predicting employment in Nigerian banks after the banking consolidation exercise in which there were mergers and acquisition. It is mainly accepted that, through M&A, banks manage to better utilize their total human and operational resources, aimed at maintaining and expanding their market share, efficiently promoting new products, achieving better customer service, improving their staff operations and achieving capital reformation. Banks can also easier utilize new information technology which favours and make restructuring, integration and networking necessary within an international environment. By growing their size, banks can benefit from utilizing synergies that are necessary to develop within modern institutions (Mylonakis, 2006). Merger and acquisition results in Nigerian Banking Market have been positive in terms of employment, since 30, 846 jobs were created during 2005-2009 period. These jobs belonged to banks after M&A. Changes in the nature and the structure of employment internationally observed also apply slightly but steadily in Nigerian banking market. The transfer of duties to external parties is already a fact and is further motivated by the practice of making production cost more elastic. There *was* increase in employment from 2006 to 2008. Five

banks - Intercontinental Bank plc, First Bank of Nigeria Plc, Zenith Bank Plc, Union Bank of Nigeria Plc, and Oceanic Bank International Plc account for 46.56% of total employment in the banking industry. Equally six banks -UBA, First Bank of Nigeria Plc, Union Bank of Nigeria, Oceanic Bank International Plc Zenith Bank Plc, and Intercontinental Bank Plc account for 47.65% of total number of branches in the banking industry with UBA leading the park.

CONCLUSION

In conclusion, Banks should endeavor to increase the number of their domestic branches in order to increase employment in the Nigerian economy as it is only the number of domestic branches of banks that was a significant variable in explaining the variation in employment in Nigerian banks.

Recommendation

The banks should establish new work cultures that promote self-directed work teams. It is an excellent way of creating effective productivity for HRM. The banks can do this by taking advantage in the post-consolidation era in bringing out creative products and service that pull in the cash and produce uniqueness. Stewart & Manz, (1995) observed that the basic philosophy behind work teams is the identification and solving of work related problems among colleagues for improved performance. In banks where old employees have new boss and new co-workers employed from an acquired bank, work relations may suffer if attitude of old employees is negative towards the new employees. This is also expected to inhibit the expression of formal authority and power relations if the new workers express any personal arrogance in the course of duty. The banks should adopt peculiar adjustment strategies to improve its human resource development programmes especially in the areas of staff redeployment, transfers, reassignments, and retrenchment. The banks should set up official instruments that recognize the unions as partners in progress instead of antagonist. This would help ensure job security in enterprise unions that would monitor the interests of employees of all categories.

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ADVANTAGES AND DISTINCTIVE FEATURES OF VENTURE CAPITAL

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ABSTRACT

This article discusses the advantages, functions and features of venture capital as a factor in the innovative modernization of the economy.

KEYWORDS: *Venture, Venture Capital, Innovation, Entrepreneurship.*

INTRODUCTION

Venture capital is the main source of funding for innovation, which is able to provide capital inflows for the development of innovative activities in modern conditions. Developed countries achieved effective results in using venture capital as a means of financing innovation. The existence of a number of systemic problems in the country that hinder the further improvement of conditions for the development of active entrepreneurship and innovation led to the development of a number of decisions and decrees by the government to address them.

The following were the important steps in this direction.

No. DP-5308 of the President of the Republic of Uzbekistan dated January 22, 2018 "On the State Program for the implementation of the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 in the Year of Active Entrepreneurship, Innovative Ideas and Technologies" decree.

Resolution No. RP-3697 of May 5, 2018 "On additional measures to create conditions for the development of active entrepreneurship and innovative activities."

the Decree No. DP-5544 of September 21, 2018, the Strategy for Innovative Development of the Republic of Uzbekistan for 2019-2021.

The formation of the Fund for Support of Innovative Development and Innovative Ideas

The purpose of this research is to study and analyze the advantages of the use of venture capital in the development of innovative economy of Uzbekistan.

LITERATURE REVIEW

A clear approach to venture capital, the definition of the growth of the monetary value of venture capital used in entrepreneurial activities to make a profit, is reflected in the work of the famous 20th century economists J. M. Keynes and J. R. Hicks [1,2].

In their work, foreign scholars P. Gompers and J. Lerner [3] analyzed the importance of venture capital, its role in the financial market, and the many mechanisms developed by venture capitalists to address the challenges that arise at each stage of innovation processes.

In his book, the Russian scientist Yu.P.Ammosov [4] examined the history of the emergence and development of venture capitalism, its role in the development of high technology and the creation of new fast-growing technology companies. His work analyzes the economic, legal, political, technological and cultural aspects of venture capital.

In his work, M.A. Fedotov [5] described venture financing as a key factor in innovative development.

Uzbek scientists OM Abdullayev, AA Fattakhov, K. Akhmedov [6] in their work considered venture capital as one of the sources of commercial financing of the firm's innovative activities.

In his research, D.G. Gozibekov [7] interpreted venture capital as the issuance of new shares in new areas of activity, associated with great risks.

RESEARCH METHODOLOGY

This paper uses the methods of analysis, comparison, induction and deduction of the concept of venture capital.

ANALYSIS AND RESULTS

A distinctive feature of the development of the modern economy is the further enhancement of the role of small and medium-sized enterprises producing innovative products. In order to actively increase the number of successful enterprises in this category, it is important to finance them in the early stages of emergence and development. Innovative is a high-risk instrument for financing in the early stages of active enterprise development. Therefore, traditional forms of financing are not applied to such enterprises.

Restrictions inherent in traditional forms of financing innovative enterprises are removed using an innovative form, such as venture capital. [8, p.25]

An analysis of the economic concept of "venture capital" has shown that it is interrelated with the specific concept of financial capital. At the time of its emergence, financial capital could be divided into industrial and banking capital. Historically, financial capital has been realized only in the form of money under certain conditions. The peculiarity of financial capital as a major economic category is that its transformation is associated with the emergence of new forms of capital, for example, fictitious capital, which is becoming more and more important for the economy due to the rapid development of the stock market. At present, the transformation of financial capital is taking place, within this concept there is a combination of different types of capital. [9, p.85]

In an economy with high risk in financial markets and uncertainty, the financial capital system also includes human capital in the form of management skills and doing business. This occurs under conditions of high uncertainty and the risk of losing money. Human capital is a combination of

abilities, knowledge and skills to be directed to one or another innovative project. Human capital and financial capital combine to form a unique concept of venture capital, which in turn provides the innovative transformation of the economy.

The European Venture Capital and Direct Investment Association defines this concept as follows: "Venture capital is a share capital provided by professional firms that invest in private enterprises that simultaneously manage these enterprises, demonstrating significant growth potential in the early stages of expansion and transformation."

The study of theoretical and methodological approaches in the definition of the concept of capital, the separation of its main characteristics, consideration of the relationship of forms of capital showed the versatility and complexity of the concept of "venture capital". Based on the descriptive analysis of the concept of "venture capital", two main approaches can be distinguished: the American approach and the European approach.

The American approach to defining this concept seems much narrower than the European approach. The National Venture Capital Association (NVCA) defines "venture capital" as capital provided by professionals in their field who support young, fast-growing companies with significant competitive development potential in the field of management. In the American interpretation, venture capital is understood as one of the forms of direct investment.

The European interpretation is much broader and more complete. In the European interpretation, this concept encompasses all forms and manifestations of equity investments at all stages of formation and development of small and medium-sized innovative companies that are not quoted in the stock market. Venture capital in Europe also includes unconventional deals in the form of acquisition of shares using credit resources, investments in companies with unsatisfactory financial conditions, and initial public offering of securities. [11, p.70]

According to the description in the Venture Entrepreneurship Glossary published by the Russian Direct and Venture Investment Association, the venture is used for research, development, acquisition of new companies, increase of working capital, improvement of the balance sheet structure.

The category of venture capital is widely used in modern literature, but there is no uniform approach to its interpretation: along with changes in the economic environment, the content and specifics of venture capital also change. [4, p.372]

Summarizing research in the field of venture capital, the following definitions can be made: Venture capital is a long-term, high-risk capital that combines a symbiosis of financial and intellectual capital directed to small high-tech companies with high growth potential, whose shares are not listed on the stock exchange. Based on this definition, the main features of venture capital are identified:

1.Risk. [12] Many economists emphasize this is the main feature of venture capital. Venture capital is primarily associated with investment risk, i.e. the likelihood of financial losses in the course of carrying out investment activities. Venture capitalists apply the principle of diversification by dividing their funds between several projects in order to minimize investment risk. A syndicated approach where multiple investors support a single project also helps reduce risk.

2. Longevity. Venture capitalists who invest in high-tech enterprises plan to increase their capital by about 5-10 times in 5-7 years. It is obvious that the capital invested during this period will be liquid or "frozen", and the real amount of profit will be known only after the process of "exit" from the invested enterprise.

3. Orientation to innovative projects. The connection of venture capital with scientific and technological progress is reflected in the fact that funds are directed to the innovative sector of the economy.

4. Distribution of funding. [13] Venture capitalists carry out a phased introduction of resources based on the life cycle of the enterprise in order to minimize risk. Each stage of the enterprise's development uses the "drip principle", which is financed based on the success of the previous stage.

5. High rate of expected return on investment. In this case, the postulate of the risk theory on the relationship between income and risk levels is followed: the high rate of return on high risk. [14]

In our study, we approach the European interpretation of venture capital, because in the specific political, socio-economic situation in Uzbekistan, it is risky to finance not only enterprises in the early stages of development, but also in the process of restructuring, transformation, diversification and others.

Given the specific nature of venture capital, as well as the different approaches to the definition of this concept, we can give our own definition.

Venture capital is a traditional-innovative form of long-term investment in charter capital, participating in the management of different innovative companies at different stages of development. These companies will be high-risk but potentially high-yielding companies.

In our opinion, this definition can clearly explain all the complex content and essence of venture capital.

The main functions of venture capital are described by its specific features:

- Accumulation function. Funds of the state, other investors, banks, industrial enterprises and individuals are accumulated not only for the creation of innovative technologies that accelerate the scientific and technological process, but also for high returns;
- Innovative function. Venture capital is seen as a factor in the innovative transformation of the economy, helps to accelerate innovation and business activity, as well as provides economic growth through innovative transformation;
- Integration function. Venture capital is a factor in combining financial and intellectual resources to achieve economic efficiency;
- Investment function. Venture capital is designed to finance the activities of new high-tech innovative companies. Venture capital as a form of high-risk investment promotes the active development, growth and formation of such companies. The ultimate goal of a venture investment is to make a profit if the project is successful;
- Stability function. Venture capital is designed to finance the activities of innovative companies that are unable to obtain other forms of investment due to high risk. Venture capital is therefore seen as a factor in stabilizing the economic position of an innovative company;

- The transformational function is related to the ability and capability of venture capital to contribute to the innovative modernization of the economy through the processing and production of knowledge-intensive products and services.
- Motivational function is that venture capital stimulates enterprises to accelerate their scientific and technical activities in order to increase their competitiveness and the likelihood of high returns.
- Social function. First, venture capital helps increase the number of innovative companies and in turn creates new jobs. Second, innovative technologies help to increase the quality of goods and services, which in turn improves people's living standards.

An integral component of the concept of venture capital is risk. The risk is directly related to the expected return on venture capital. The more risk a venture capitalist takes on financing an innovative project, the more he expects to make a profit as a result of its successful implementation.

A distinctive feature of venture capital in the implementation of an investment project is the principle of "high risk - high return." This distinguishes it from bank financing and strategic financing.

The main differences between venture capital and other types of financing:

1. In venture financing, capitalists anticipate the possibility of a loss of investment and a high rate of return if the project is successful.
2. Venture financing provides long-term financing of capital for an average of three to five years and more.
3. Unlike the credit form of financing, venture capital is invested in the project in the form of a contribution to the authorized capital.
4. Unlike a strategic partner, a venture capitalist does not intend to own a controlling stake in a company.
5. The venture capitalist is personally interested in the successful implementation of the project. Therefore, it often provides various consulting, management and other services to increase the efficiency of project development.

CONCLUSION

Thus, by studying the concept and economic nature of venture capital, we can conclude that venture capital plays a key role in the formation of an economy designed for an innovative path of development. This is achieved due to the fact that venture capital is directed to high-risk objects, such as innovative enterprises in the early stages of development and formation - a special feature compared to other alternative sources of investment. At the same time, venture capital contributes to the innovative modernization of the economy through the development and production of advanced products and services, if their ideas and initiatives are successfully implemented and properly funded.

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FINANCIAL STATEMENTS ANALYSIS AND INVESTMENT DECISIONS IN NIGERIAN BANKS (A STUDY OF DIAMOND BANK PLC)

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ABSTRACT

The annual financial report provided by the accounting system is considered the main source of information for investment decision making. It is therefore important for the banking sector to fully disclose matters concerning their operations. Hence, the validity and accuracy of the decisions depend on the proper analysis of financial statements. Investment decision makers rely on information obtained from financial statements to predict profit margins, Return on capital employed, return on investments, etc. Without financial statements, it will be difficult to determine the profit and evaluation of the performance of the banking sector and companies. It is necessary that Accountants take further steps in ensuring that the true and fair view of the actual worth of business are also incorporated in the financial statements published by them. This study aimed at ascertaining the relevance of financial statement analysis on investment decisions in the Nigerian banking sector with emphasis on Diamond Bank Pic. The target population of the study was 150 respondents from Diamond bank main branch and sample size of 110 respondents was determined using Taro Yamane's formula. Stratified random sampling was used to determine the respondents. The study used both primary and secondary data, including interview and annual reports of Diamond Bank Pic. Data collected was analysed using SPSS version 21. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. The study established that financial statement analysis is very important for investment decision making. It is recommended that commercial banks devise a self-assessment form with benchmarks on the key areas of assessments to be codified within a document for clients to read and use it for self-assessment.

From such assessment, banks can develop categories for customers, based on the investment decision making, the security expected and term of the investment. This would serve to minimize on the time taken in investment decision analysis.

KEYWORDS: *Financial Statement Analysis, Investments Decision Making, Trend Analysis Ratio Analysis and Cost Volume Analysis.*

INTRODUCTION

Investment decision making is a critical situation at any given time. Since good decisions will culminate into success and bad decisions may lead to crashing of an entity, it becomes an intrinsic value effort of the decision makers to be thorough in effectively analysing the parameters for such decisions using financial statement analysis.

The financial statement which contains the financial information of an organisation is usually the basis of its financial planning analysis and decision making. This financial information is required in the prediction, comparison and evaluation of the organization's profit making ability amidst uncertainty as well as in financial and investment decision making. Financial statement analysis implies a process whereby information relating to the organization as a whole is evaluated based on strength, weakness, opportunities and threats (SWOT).

In Anaja and Onoja (2015), financial statement was defined according to Ohison (1999) as written reports that summarize the financial status of an organization for a stated period of time. This includes an income statement and balance sheet or statement of the financial position describing the flow of resources, profit and loss and the distribution or retention of profit. According to Companies and Allied Matters Decree (CAMA, 1990) and International Finance Reporting Standard (IFRS), the financial statement of any organization includes, statement of account policies, statement of financial positions (balance sheet), income statement (description of profit and loss), cash flow statement (reports on a company's cash flow activities, particularly its operating, investing and financing activities), statement of retained earnings, notes to the account, the auditor's and director's reports, a value added statement for the year, a five year financial summary, and the group financial statement in the case of a holding company.

The financial statement also comprises of statement of equity changes and are often complex and may include an extensive set of notes to the statement and explanation of financial policies and management discussion and analysis (IASB, 2007). These set of notes typically describe each item on the balance sheet, income statement and cash flow statement in further detail and are considered an integral part of the financial statements.

The financial statement and associated notes are presented and reported critically for investment decision making by existing and prospective investors so as to earn optimal returns on their investments. This shows that financial statement methods in terms of information disclosure pattern, transparency, auditing, reporting standards, regulatory control and flexibility, corporate governance, and financial scandals have influence on investment decision making in any organization, especially in financial institutions with extensive range of investment activities that requires comprehensive financial facts that can be obtained from a financial statement.

Financial statement analysis is an evaluative method of determining the past, current and projected performance of a company. Several techniques are commonly used as part of financial statement analysis including **horizontal analysis**, which compares two or more years of financial data in

both Naira and percentage form; **vertical analysis**, where each category of accounts on the balance sheet is shown as a percentage of the total account; and **ratio analysis**, which calculates statistical relationships between data.

Decision making process requires financial as well as non-financial information. The most important financial information needed in the process of business decision comes from accounting. To assist investors in making quality and precise investment decisions, both public and private organizations are under legal obligation to disclose financial information relating to their operations. In addition, they tend to retain existing investors and to attract potential ones through the publication of their financial statements where the capital stock of an organization is widely held and its affairs are of interest to general public relations (Amedu, 2008).

The perceived relevance of the financial statement are, to provide information about the financial position, performance and changes in financial position of a firm that is useful to a wide range of users in making management and investment decisions. The various users of financial statements can be grouped into two broad divisions, internal and external users. The internal users are the Management team and employees while the external users include prospective investors, financial institutions, government regulatory agencies, media, trade creditors, education/ research institutions, customers, stock exchange, vendors and general public.

Financial statement are often prepared according to national standards, corporate governance, professional ethics, and code of ethics to avoid financial reporting fraud and scandals that might hinder effective decision making process by management and other users of the report. The purpose of ethics in financial accounting reporting with expected standards is to re-orientate corporate organization on the need to abide by a code of conduct that facilitates public confidence in their services (Okafor, 2006).

1.2 Statement of the Problem

In modern business environment, the survival of any firm depends on the strategic decisions made by its management. This is achieved through financial statements analysis, which -is a big challenge to most countries like Nigeria that has shortage of professional Accountants and financial analysts.

The financial data obtained from financial statements must be analysed to provide meaningful information for decision makers' use. Decisions without correct information may impede the growth of an organization. A sustained success will depend on how good decisions are made based on the proper analysis of financial statements.

In Nigeria, it has become common practice by financial institutions to adopt creative accounting in anticipation of sourcing for equity capital from the capital firms. Although this approach in financial reporting process often lead to overvaluation of assets and company's net worth in the views of prospective shareholders and other stakeholders. Okoye and Alao (2008) opined that, "creative accounting is the transformation of financial accounting figures from what they actually are to what preparers desire by taking advantage of the existing rules and/or ignoring some or all of them". Another perceived problem of financial statement disclosure is the non-compliance to industry corporate governance, ethics, and regulatory standards which is prevalent in the financial institutions of Nigeria.

Although several studies have been done on financial analysis in Nigeria, no work has been carried out on its relevance on investment decision making, especially in Diamond Bank Pic. Hence, this

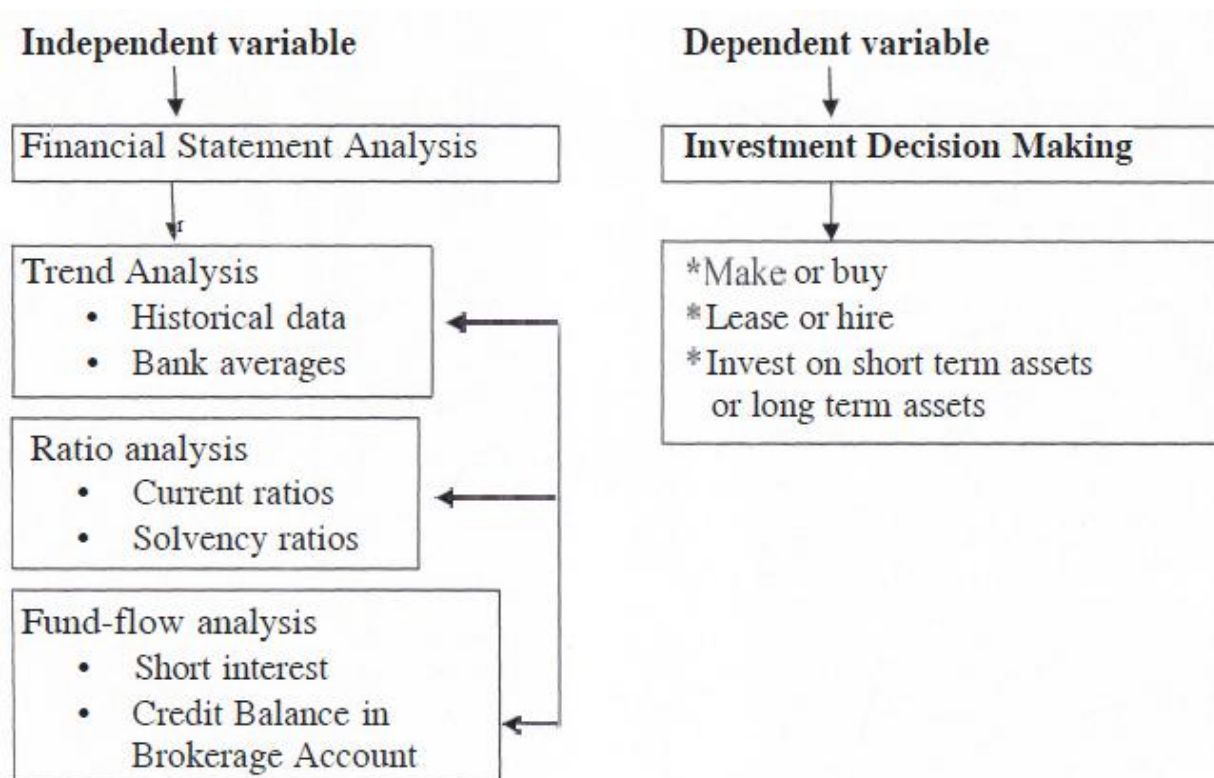
study aims at filling the gap by investigating the relevance of financial statement analysis on investment decisions in Diamond Bank Pic. This will be of immense benefit to banks for improving the banking performance, financial analysts, investors, companies and financial organizations and will also help them to appreciate the importance of sound financial statements in the provision of information necessary for decision making.

1.3 objectives of the study

The aim of this study is to investigate the relevance of financial statement analysis on investment decisions in Nigeria by assessing the effects of trend analysis, ratio analysis, and fund-flow analysis on investment decisions making in Diamond Bank Pic.

2.1 Conceptual Framework

Financial statements influence greatly investment decisions by informing investors about the investment project analysis, corporate financial positions, and corporate financial performances. Some important attributes of an ideal financial statement are; Relevance, Capable of verification, Uniformity, Consistency, Understandability, Completeness, Timeliness, and Accuracy.



Source: Vestine *et al*, (2016)

2.1.1 Trend Analysis

This deals with computing ratios and comparing them with previous year ratios of the same company to assess the performance of the company, Vestine *et al*, (2016). When more than two years are involved, index numbers are used instead of percentage changes. Essentially, one year is selected as the base year and is set to 100%. To measure real growth, the value of the index can be compared with either the consumer price index or any specific price index for the industry.

2.1.2 Ratios on investment decision making

Investment decision of a firm is one which is expected to produce benefits to the firm over a long period of time and it can pass both tangible and intangible assets (Porter, 1995). Investment decisions require special attention because they influence the firm's growth in the long-term and affect the risk of the firm. They involve commitment of large amount of funds. They are irreversible at substantial loss and are among the most difficult decisions to make. (Quirin, 1997). Investments are classified in many ways such as; Expansion of existing business, Expansion of new business and Replacement and modernization. Ratio analysis is the judgmental process which aims at evaluating the current and past financial positions and the results of an entity, the primary objectives of determining the best possible estimate about the future conditions and performances. The ratio analysis is divided into four major categories that address different areas of management concern. Viz; 1) Liquidity (a short run look at the firm's ability to pay its bills as they become due; 2) Solvency (a longer run look at firm survival); 3) Profitability (relating profit — before or after tax to sales, total assets employed or to owners investment); and 4) Efficiency (selected measures that measure how well the firm is employing its resources).

Profitability ratios measure how well a company is performing by analysing how profit was earned relative to sales, total assets and net worth (Manasse, 2005). Profitability ratios are the most important even though liquidity ratios have been used longest in history of financial analysis (Horriggan, 1968). Three key financial business ratios are used to measure a company's profitability. Viz; Return on Sales (Profit Margin) Ratio, which measures the profits after taxes on the year's sales. The higher this ratio, the better prepared the business is to handle down trends brought on by adverse conditions; Return on Assets (ROA) Ratio, which shows the after-tax earnings of assets and is a key indicator of a company's profitability. It matches net profits after taxes with the assets used to earn such profits. A high percentage rate will tell you the company is well run and has a healthy return on assets; and Return on Net worth Ratio, which measures the ability of a company's management to realize an adequate return on the capital invested by the owners in the company.

According to Saleemi (2009), efficiency ratios measure the quality of a business' receivables and how efficiently it uses and controls its assets, how effectively the firm is paying suppliers, and whether the business is overtrading or under trading on its equity (using borrowed funds). Five key financial business ratios are used to measure a company's efficiency. Viz; Collection Period Ratio, which is helpful in analysing the collectability of accounts receivable, or how fast a business can increase its cash supply. Although businesses establish credit terms, they are not always observed by their customers. In analysing a business, you must know the credit terms it offers before determining the quality of its receivables. While each industry has its own average collection period (number of days it takes to collect payments from customers), there are observers who feel that more than 10 to 15 days over terms should be of concern; Sales to Inventory Ratio, which provides a standard for comparing stock-to-sales ratios of a business with others in the same industry. When this ratio is high, it may indicate a situation where sales are being lost because the inventories are under stocked and/or customers are buying elsewhere. If the ratio is too low, this may show that inventories are obsolete or stagnant; Assets to Sales Ratio, which rates sales to the total investment that is used to generate those sales. An abnormally high percentage may indicate that a business is not being aggressive enough in its sales efforts, or that its assets are not being fully utilized. A low ratio may indicate that a business is selling more than can be safely covered by its assets; Sales to Net Working Capital Ratio, which measures the number of times working

capital turns over annually in relation to net sales. This ratio should be viewed in conjunction with the Assets to Sales Ratio. A high turnover rate can indicate overtrading (excessive sales volume in relation to the investment in the business) and also may indicate that the business relies extensively upon credit granted by suppliers or the bank as a substitute for an adequate margin of operating funds; and Accounts Payable to Sales Ratio that measures how a company pays its suppliers in relation to the sales volume being transacted. A low percentage would indicate a healthy ratio, A high percentage may indicate that the business may be using suppliers to help finance operations.

2.2 Theoretical Framework

2.2.1 Proprietary and residual equity theory

Proprietary equity theorists such as Husband (1938) insisted that the accounting process of companies must be conducted from the shareholders' perspective. Staubus (1952, 1959), developed the residual equity theory which considered that accounting must be done from the perspective of the residual equity holders. Under the proprietary view, transactions and events are analysed, recorded and accounted for as to their immediate effect on the proprietors. Financial statements are prepared from the viewpoint of the proprietors and are meant to measure and analyse their net worth expressed by the accounting equation:

(1) $Z \text{ assets} - Z \text{ liabilities} = Z \text{ equity, proprietorship or net worth}$

In the proprietary view, the assets are considered the proprietors' assets, and the liabilities are the proprietors' liabilities. According to New love and Garner (1951) under proprietary theory 'liabilities are negative assets minus negative properties, which must be sharply defined and separated in the accounting process.' Revenues are increases in proprietorship and expenses are decreases. Net profits, "the excess of revenues over expenses accrues directly to the owners. It represents an increase in the wealth of the proprietors." (Hendriksen and VanBreda, 1992). Staubus (1959) narrowed the concept of owners to common stockholders and considered preference shareholders as liability holders and stressed the importance to investors of the estimation of future cash receipts. The accounting equation becomes:

(2) $\text{Assets} - \text{Specific Equities (Liabilities} + \text{Preferred Stock)} = \text{Residual Equity}$

The proprietary approach represents an agency view of the company where the main responsibility of management is to manage the firm in the best interests of the owners. As the assets and liabilities are considered the owners' assets and liabilities, the maximization of profits equals maximization of the increase in the shareholders' net assets.

2.2.2 Entity theory and enterprise or social theory

Under the entity view, transactions are analysed as to their effect on the accounting entity. Financial statements are prepared from the viewpoint of the entity. The income statement is meant to calculate income for distribution and analyse the company's performance over a period, whereas the balance sheet serves to indicate the security or riskiness of the company's financial position. Under the different varieties of entity theory the accounting equation may take the following forms.

1) $E \text{ assets} = Z \text{ liabilities}$ (Paton, 1922)

2) $Z \text{ assets} = I \text{ equities}$ (Paton, 1922)

3) *Z assets = I equities + Z liabilities* (Hendriksen and Van Breda, 1992) The balance sheet is secondary to output, income and value added considerations. The balance sheet equation expressing the enterprise theory according to Meyer (1973) is: 4) *Assets = Investors' input contributions* In the entity view as expressed in equation 3, the assets are considered the company's assets, and the liabilities are the company's liabilities. Alternatively, as expressed in equation 4, the assets are considered the company's assets and the equities are all the financial stakeholders' equities. Entity theory views the entity as "having a separate existence - an arm's length relationship with its owners. The relation to the owners is regarded as not particularly different from that to the long-term creditors" (Lorig, 1964). Suojanen (1954)'s enterprise or social theory sees the large listed corporation as an institution with social responsibilities. Companies' actions affect many different stakeholders such as stockholders, creditors, customers, employees, the government as a taxing and regulatory authority and the public at large. (Hendriksen and Van Breda, 1992; Kam, 1990; Suojanen, 1954) Suojanen traces this institutionalization of the large enterprise to the separation of management and ownership leading to increasingly large proportions of income being retained within the company to reduce the corporation's dependence on external financing. Large corporations may decide to pay only 'conventionally adequate dividends' because this ties in with their survival and growth objectives. (Suojanen, 1958).

2.2.3 DuPont Mean- Variance of Portfolio Investment Theory

According to Adebimpe (2009) DuPont equation is an expression which breaks return on equity down into three parts. The name comes from the DuPont Corporation, which created and implemented this portfolio formula into their business operations in the 1920s. It was adopted from Markowitz Mean-Variance Portfolio theory which states that profit of a firm is a function of total sales, total assets, shareholder equity contribution and the liabilities (debts). This formula is known by many other names, including DuPont analysis, DuPont identity, the DuPont model, the DuPont method, or the strategic profit model

$$ROE = \frac{\text{Net income}}{\text{Sales}} \times \frac{\text{sales}}{\text{Total Assets}} \times \frac{\text{Total assets}}{\text{Average shareholder equity}}$$

In the DuPont equation, ROE is equal to profit margin multiplied by asset turnover multiplied by financial leverage. Under DuPont analysis, return on equity is equal to the profit margin multiplied by asset turnover multiplied by financial leverage. By splitting ROE (return on equity) into three parts, companies can more easily understand changes in their ROE overtime. Components of the DuPont Equation: Profit Margin which is a measure of profitability.

It is an indicator of a company's pricing strategies and how well the company controls operating costs. If the profit margin of a company increases, every sale will bring more money to a company's bottom line, resulting in a higher overall return on equity; Asset Turnover (Asset turnover is a financial ratio that measures how efficiently a company uses its assets to generate sales revenue or sales income for the company) and Financial Leverage(Financial leverage refers to the amount of liabilities/debts that a company utilizes to finance its operations, as compared with the amount of equity that the company utilizes).

2.2.4 The Modern Portfolio Theory (MPT)

Harry Markowitz (1991) developed a theory of "portfolio choice," which allows investors to analyse risk relative to their expected profit. Markowitz' s theory is today known as the Modern Portfolio Theory, (MPT). The MPT is a theory of investment which attempts to maximize portfolio

expected profit for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected profit, by carefully choosing the proportions of various assets. The Modern Portfolio Theory also called Portfolio Management Theory encourages asset diversification to hedge against market risk as well as risk that is unique to a specific company. It aids an investor to classify, estimate, and control both the kind and the amount of expected risk and profit. The fundamental concept behind the MPT is that assets in an investment portfolio should not be selected individually.

According to William, (2011), the best measure of a company is its profitability, which is necessary for its growth. If a company does not grow, its stock will trend downward. Increasing profits are the best indication that a company can pay dividends and that the share price will trend upward. Investors will put their money at a cheaper rate to a profitable company than to an unprofitable one; consequently, profitable companies can use leverage to increase stockholders' equity even more.

Michael (2013) on the degree of reliance of the published financial statements by corporate investors, survey research design was employed by which data were generated by means of questionnaire administered on one hundred and fifty corporate investors and senior management officials of the selected banks. The descriptive statistics and percentage analysis were used for the data analysis and the hypotheses were tested using test statistic. The results reveal that one of the primary responsibilities of management to the investors is to give a standardized financial statement evaluated and authenticated by a qualified auditor or financial experts. It also showed that investors do understand the financial statement well before making investment decisions. This indicated that investors depend heavily on the credibility of auditors/financial expert approval of financial statements in making investment decisions and as such published financial statements is very important in the investors' decision making. The study recommends that adequate care and due diligence should be maintained in preparing financial statements.

It is generally believed that published financial statements have failed in its responsibility to provide credible information for investors and other users (Duru, 2012). Popoola *et al.*, (2014) investigated published financial statement as correlate of investment decision among commercial bank stakeholders in Nigeria. The findings of their study revealed that, balance sheet is negatively related with investment decision, while income statement, notes on the account, cash flow statement, value added statement and five-year financial summary are positively related with investment decision making. It also revealed that components of published financial statement significantly predicted good investment decision making for commercial bank stakeholders.

Adebayo *et al.*, (2013), examined the impact of accounting information system in assisting organizations in making sound and effective investment decisions. Regression analysis and Karl Pearson's correlation showed that accounting information system is an indispensable tool in investment decision making in today's turbulent world. They discovered from the test of hypotheses that financial statements are useful for forecasting company performance and are relied upon for investment decision making. It was concluded that financial statements plays a vital role in investment decision making and recommends that no investment decision should be taken without consideration of company's financial statements.

The above findings are from previous studies which indicate that financial statements play an important role in investment decision making. But they didn't show how investors are going to

obtain and understand those information contained in financial statements for proper investment decision.

3.0 METHODOLOGY

This study adopted descriptive survey design. The target population of this study comprised of 150 managers of Diamond Bank Pic, Abuja Headquarters including eight boards of directors, thirty senior managers, thirty-two middle management and eighty lower managers stationed at Diamond Bank Pic, Abuja Headquarters. Managers were used because they are the ones taking major decisions in commercial banks. Stratified random sampling was used to determine the respondents. A sample size of 110 respondents (staff of Diamond Bank Pic, Abuja Headquarter) was determined from a total population of 150 individuals using the formula by Taro Yamane (1967).

$$n = \frac{N}{1 + N(e)^2}$$

Where n = the desired sample size

e = probability of error (i.e., the desired precision, e.g., 0.05 for 95% confidence level)

N = the estimate of the population size.

$$\begin{aligned} n &= \frac{150}{1 + 150(0.05)^2} \\ &= 110 \end{aligned}$$

Using the Yamane 's formula, the proportions of the sample size the computed sample strataare shown in Table 1 .

TABLE 1: SAMPLING FRAME

Area of Operation	Population	Proportions
Board of directors	8	6
Senior Managers	30	16
Middle Managers	32	18
HQ Staff	80	70
Total	150	110

4.0 Research Findings and Discussions

4.1. Trends Analysis

This section basically needed to establish the effect of trend analysis on investment decisions making in Diamond Bank Pic. It was important in providing a clear understanding of the use of financial statement analysis in investment decision making.

TABLE 2: TREND ANALYSIS OF THE DIAMOND BANK PIC

BASE YEAR 2006-2007					
Percentage (%) figures					
	2007	2008	2009	2010	2011
Deposits	100	123	170	185	214
Advances	100	124	161	187	224
Net profit	100	148	201	202	162

Source: Diamond Bank Pic.

From the data in the above Table 2, there is a continuous increase in deposits, there is an increase of advances and there is an increase in net profits till 2010 but there is a fall in 2011. The overall performance of the bank is satisfactory.

4.1.1 Use of financial statement information in investment decision making

Stakeholders can use experience in dealing with the company to invest, interest and long term plans of the investor, management quality information, the constitution of the board of directors as well as the way management issues are done in an organization (Craig, 2009), The respondents were asked whether clients used financial statements in assessing Diamond bank financial position in a move to invest.

TABLE 3: RESPONDENTS VIEWS ON THE USE OF FINANCIAL STATEMENT ANALYSIS

Variable	Frequency	Percentage
Yes	84	90
No	9	10
Total	93	100

Table 3 shows the opinion of the respondents as to whether they use financial statements information in making any move to invest. The table shows that majority (about 90 percent) of the respondents do use financials information in a move to invest. Only very few of them (about 10 percent) do not use financials information.

The use of financial information is popular because, financial statements do contain valuable information that is key to determining profitable investments. Such information includes; return on equity, return on assets, asset-liability ratios, liquidity ratios, debt to equity ratios etc. Such information shows clearly, whether the company is performing or not. Therefore, the study recommends that financial information is a main source of information to use in making any investment move.

4.1.2 The adequacy of Diamond bank financials for use in investment decision making Table 3 shows the opinion of the respondents with regards to the adequacy of the financials prepared by Diamond Bank Pic.

TABLE 4: RESPONDENTS VIEW ON THE ADEQUACY OF FINANCIAL STATEMENT ANALYSIS IN INVESTMENT DECISION MAKING

Variable	Frequency	Percentage
Yes	64	68
No	29	32
Total	93	100

Table 4 shows that many respondents about 68 percent are in opinion that the Diamond Bank Pic financials are adequate to use in the investment decision making process. A few of them about 32 percent stated that the Diamond Bank Pic financial statements are not adequate to use in the process of investment decision making. There are many reasons why financials could be inadequate. Such reasons include, data manipulation, lack of skills in the preparation of financials, and impairments i.e. refusal to report some key information as per IFRS guidelines. Financial statements are prepared as per the International Financial Reporting Standards (IFRS) guidelines. These guidelines dictate things to follow to ensure good quality of all reports (NBAA, 2010).

4.1.3 Financial Statements that are used in Investment decision making

Respondents were asked on the financial statements that are used during investment decision making. To establish the relationship between the rankings of financial statements to the investment decision, eta was computed and to determine the explained variation in the investment decision resulting from the type of financial statement ordinal eta squared was calculated. The measure of association was meant to indicate the size of effects on the investment decision based on either the investment being short or long term. The larger eta indicates greater influence of the financial statement in determining the term of the investment.

TABLE 5: MEASURE OF ASSOCIATION BETWEEN THE RANKING OF FINANCIAL STATEMENTS AND INVESTMENT DECISION

Financial Statement	Eta	Eta squared
Balance Sheet	.495	.245
Cash Flow Statement	.395	.156
Projected Balance Sheet	.267	.071
Projected Income Statement	.130	.0169
Projected Cash Flow Statement	.500	.250
Income Statement	.573	.329
Other factors	.289	.084

Table 5 indicates that the current income statement has the greatest influence in determining the term of investment (eta = .573) and further indicates that the decision to grant a short or long term investment is influenced 32.9% (eta = .329) by the income statement produced by a borrower. Secondly, the projected cash flow statement is ranked second in influencing term of investment (eta = .500 and eta squared = .25) and finally in the balance sheet (eta = .495). The combined effect size of the balance sheet, income statement and the projected cash flow account for 82% of the influence on the term of investment (combined eta squared = .82). Other factors account for less than 10% (eta = .084). However, they are also important in determining the term of the investment decision to a client.

The study concludes that, while there are other factors that determine the terms of investment decision, financial statements forwarded by the customer remain most important. And in their order of priority, the income statement is the most important and seconds the projected cash flow statement and finally the balance sheet. Apparently, the banks are more interested in future cash flow to determine the term of the investment and not the past cash flow statements which have a lower effect size in influencing term investment decisions. This finding was similar to Hernandez and Perez (2004) who found a preference by credit institutions for statements that are budgetary in nature, in credit appraisal.

Regression analysis was done to determine the effect of trend analysis on investment decision making in Diamond bank Pic and the following results were obtained. The results of the analysis are shown in Table 5.

TABLE 6: MODEL SUMMARY SHOWING EFFECT OF TREND ANALYSIS ON INVESTMENT DECISION MAKING

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.755 ^a	.570	.558	.601
f. Predictors: (Constant), Trend analysis				

A regression analysis was conducted to determine the significant relationship of trend analysis on investment decision making. Table 6 shows that the coefficient of determination guidelines. Financial statements are prepared as per the International Financial Reporting Standards (IFRS) is 0.570; therefore, about 57.0% of the variation in the investment decision making is explained by trend analysis.

The regression equation appears to be relatively useful for making predictions since the value of Rsquared is slightly more than half.

TABLE 7: ANOVA RESULTS SHOWING THE EFFECT OF TREND ANALYSIS ON INVESTMENT DECISION MAKING ANOVAB

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	18.177	1	18.177	50.334	.000 ^a
	Residual	13.723	38	.361		
	Total	31.900	39			

b. Dependent Variable: Investment decision making

c. Predictors: (Constant), Trend analysis

Table 7 presents the results of the Analysis of Variance (ANOVA) on trend analysis versus investment decision making. The ANOVA results for regression coefficients indicate that the significance of the F is 0.00 which is less than 0.05. This indicates that the regression model statistically significantly predicts the outcome variable (meaning it is a good fit for the data). There is therefore a significant relationship between trend analysis and Investment decision making.

TABLE 8: COEFFICIENT RESULTS SHOWING THE RELATIONSHIP BETWEEN TREND ANALYSIS AND INVESTMENT DECISION MAKING COEFFICIENTS (A)

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
	B	Std. Error	Beta	
1 (Constant)	.609	.412		1.478
Trend analysis	.806	.114	.775	7.095

e. Dependent variable: Investment Decision making

The researcher sought to determine the beta coefficients of trend analysis versus investment decision making. Table 8 showed that there was positive relationship since the coefficient of trend analysis was 0.806 which is significantly greater than zero. The t statistics (7.095) was also greater than zero. This demonstrated that the trend analysis had a positive influence on investment decision making. Correlation coefficients show that trend analysis (Xj) is significant (p-value = 0.000.0) in investment decision making (Y). The fitted model from this analysis is shown below:

$$Y = 0.609 + 0.806X$$

4.2 Ratio analysis

Ratio analysis in investment decision making was taken into consideration from two aspects; Understanding ratio analysis in investment decision making and ratio analysis as a tool of investment decision making.

4.2.1 Investment ratios of Diamond Bank Pic.

The study sought the view of the respondents with regards to investors' use of ratios on investment decision making. Ratios were calculated using equation in the theories.

TABLE 9: INVESTMENT RATIOS OF DIAMOND BANK PIC.

	Base Year 2006-2007 Percentage (%) figures				
	2007	2008	2009	2010	2011
Earnings per Share	18.9	18.6	16.4	31.6	33.8
Dividend per Share	9.75	12.00	13.20	14.20	15.1
Dividend cover	1.30	1.63	1.67	1.68	1.75

Source: Author's calculations and Annual Financial Reports of Diamond Bank Plc.

In the year 2007 Diamond Bank Pic experienced a sharp increase in earnings per share going up by 497%. This was caused by the change in profit for the financial year attributable to equity holders from 64 to N325m. Another positive shock occurred in 2010 when diluted earnings went up from 289 to N591m, primarily due to the revaluation of properties. It is important that assets are revalued in order to keep the real value of assets on balance sheet.

Earnings per share in 2011 increased by 7% to 33.8 p, reflecting the improvement in the operating profit and the effect of the additional shares issued in 2009, more importantly due to the property profits.

Dividend cover needs to be sustainable in the future. The reason behind it is that if the dividend cover is too low, there is a possibility that the company will not be able to pay out the investors. If the investors are not satisfied, they may invest their money in another company. Dividend cover of Diamond Bank Pic says that earnings available for dividend cover the actual dividend by 1.58 times on average during the last 5 years.

4.2.2 Ratio analysis as a tool for investment decision making

Ratio analysis as a tool for investment decision making was analysed and respondents' opinions against the statements were recorded using the scale shown below: 1-Strongly disagree; 2 - Disagree; 3 - Indifferent; 4 - Agree; 5 -Strongly agree.

TABLE 10: RESPONDENTS VIEWS ON RATIO ANALYSIS IN INVESTMENT DECISION MAKING

No.	Statements	R	A	T	E	S
		1	2	3	4	5
1	Strategic decision is made by the board of directors through the use of ratios analysis		9 (10%)	12 (13%)	24 (25%)	48 (52%)
2	Decisions of the management largely depends on use of ratios analysis	2 (2%)	3 (3%)	12 (13%)	40 (43%)	36 (39%)
3	. Decisions about the perception of investment is made through use of ratios analysis	3 (3%)	6 (7%)	15 (16%)	30 (31%)	40 (43%)
4	Decisions as to whether the enterprise is making profits or not is made via use of ratios analysis		9 (10%)	12 (13%)	24 (25%)	48 (52%)
5	Time factor in decision making is largely dependent on use of ratios analysis	2 (2%)	3 (3%)	12 (13%)	40 (43%)	36 (39%)
6	Decisions about overall performance of the organization via growth, effectiveness, productivity etc. is made through use of ratios analysis.		11 (12%)	22 (23%)	20 (22%)	40 (43%)
7	Management can easily make effective decisions that would move the enterprise forward through use of ratios analysis.		11 (12%)	22 (23%)	20 (22%)	40 (43%)

Analysis of the responses to the statement that strategic decision is made by the board of directors through the use of ratios analysis, revealed that 52% of the respondents strongly agreed, 25%, agreed, 13% were neutral, 10% disagreed while none strongly disagreed. This implies that Diamond Bank Pic strategic decisions are made by the board of directors through the use of ratios analysis.

Analysis of the responses to the statement that decisions of the management largely depends on use of ratios analysis, revealed that 39% of the respondents strongly agreed, 43%, agreed, 13% were neutral, 3% disagreed while 2% strongly disagreed. This means that there is a good link between decisions of the management largely depends on use of ratios analysis.

When the responses to the statement that decisions about the perception of investment is made through use of ratios analysis were analysed, it was found that 43% of the respondents strongly agreed, 31%, agreed, 16% were neutral, 7% disagreed while 3% strongly disagreed. This shows that Diamond bank Pic decisions about the perception of investment is made through the use of ratios analysis.

Analysis of the responses to the statement that decisions as to whether the enterprise is making profits or not is made via use of ratios, revealed that 52% of the respondents strongly agreed, 25%, agreed, 13% were neutral, 10% disagreed while none strongly disagreed. This means that decisions as to whether the enterprise is making profits or not is made via use of ratios Analysis of the responses to the statement that time factor in decision making is largely dependent on the use of ratios analysis revealed that 39% of the respondents strongly agreed, 43%, agreed, 13% were neutral, 3% disagreed while 2% strongly disagreed.

When the responses to the statement that decisions about overall performance of the organization via growth, effectiveness, productivity etc is made through use of ratios analysis, it was found that 43% of the respondents strongly agreed, 22%, agreed, 23% were neutral, 12% disagreed while none strongly disagreed.

When the responses to the statement that management can easily make effective decisions that would move the enterprise forward through use of ratios analysis were analysed it was found that, 54% of the respondents strongly agreed, 30%, agreed, 13% were neutral, 3% disagreed while none strongly disagreed.

4.2.3 Rating of Profitability Ratios in Investment Decisions Making

The respondents were required to answer the questions requiring them to rate the profitability ratios on the scale of 1 to 5. Where 1-Strongly disagree; 2 - Disagree; 3 - Indifferent; 4 -Agree; 5 - Strongly agree. The table below shows the various profitability ratios and how they are rated by Diamond Bank Pic in making their investment decisions.

TABLE 11: PROFITABILITY RATIOS

	N	Min.	Max.	Mean	Std. Dev.
Dividend yield (DY)	93	1	5	2.78	1.05
Dividend pay-out (DPO)	93	1	5	2.70	.993
Dividend per share (DPS)	93	1	5	2.74	.984
Earnings per share (EPS)	93	1	5	2.89	1.188
Earnings yield (EY)	93	1	5	3.31	1.050
Gross profit to sales (GPS)	93	2	5	4.00	.943
Net profit Margin (NPM)	93	3	5	4.18	.772
Operating profit to sales	93	3	5	4.19	.736
Return on capital employed	93	3	5	3.96	.759
Return on equity (ROE)	93	2	5	4.19	.786
Profit/ Volume Ratio (PVR)	93	3	5	4.04	.720

Table 11 shows the results of the analysis. It can therefore be seen that only two ratios are frequently used thus return on equity (ROE) and net profit to sales. Also, used moderately are the

profit volume ratio, return on capital employed (ROCE), net profit margin, gross profit to sales and earnings yield. These ratios were obtained from the audited financial statements which again are highly relied upon on making the investment decisions.

4.2.4 The Variables looked at in assessing company's financial position

The variables that stakeholders look at to determine the financial position of a firm from financial statements help them to make investment decision. The gearing ratios, liquidity ratios, and profitability ratios are the key financial variables that stakeholders look at in the process of investment decision making. These ratios clearly shows whether a company is performing or not and therefore clearly guides investors whether to invest or not. Regression analysis was used to determine the effect of ratio analysis on investment decision making.

TABLE 12: MODEL SUMMARY SHOWING EFFECT OF RATIO ANALYSIS ON INVESTMENT DECISION MAKING

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.791 ^a	.626	.616	.561
a. Predictors: (Constant), Ratio analysis				

The results show that the coefficient of determination R squared 0.626 which imply that 62.6% of the variation in investment decision making is explained by ratio analysis. The regression equation appears to be relatively useful for making predictions since the value of R squared is near 1. This means that when ratio analysis was used the investment decision making of Diamond Bank Pic in Nigeria changed by 62.6%.

TABLE 13: COEFFICIENT RESULTS SHOWING THE EFFECT OF RATIO ANALYSIS ON INVESTMENT DECISION MAKING COEFFICIENTS (A)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.849	.338		2.509	.010
	Ratio analysis	.776	.097	.791	7.967	.000
a. Dependent Variable: Investment decision making						

The result in Table 13 shows a beta coefficient of 0.849 which implies a strong positive relationship between ratio analysis and investment decision making. The findings further showed that the test was statistically significant with the significance value of 0.000 which is less than the p-value of 0.05. The t statistics (7.967) was also greater than zero. This demonstrated that ratio analysis had a positive influence on the investment decision making.

Correlation coefficients show that Ratio analysis (X2) is significant (p-value = 0.0000) in investment decision making (Y). The fitted model from this analysis is shown below: $Y = 0.849 + 0.776X_2$

4.3 Cost volume analysis

4.3.1 Reliability of NPVs calculated from financials' information

In finance, the net present value (NPV) or net present worth (NPW) is defined as the sum of the present values (PVs) of incoming and outgoing cash flows over a period of time.

Incoming and outgoing cash flows can also be described as benefit and cost cash flows, respectively. The difference between the present value of cash inflows and the present value of cash outflows. The difference between the present value of cash inflows and the present value of cash outflows (Adam, 2008).

Table 14 shows the reliability respondents have with the net present values calculated from financial statements data. The table shows that majority of the respondents consider the net present values calculated as reliable.

TABLE 14: EXTENT TO WHICH FINANCIALS HELP INVESTOR TO TAKE OPPORTUNITIES

Variable	Frequency	Percentage
Not reliable	0	0
A bit reliable	4	4
Moderately reliable	11	12
Reliable	57	72
Very reliable	11	12
Total	83	100

This implies that majority of the respondents are financial information users and they are knowledgeable. Their confidence in the net present values calculated from the financial data implies that they know what financials contain and display. In addition, the data shows that investors can use financial statements to determine whether their investments will pay or not pay at the end of the day. Net present values give assurances to investors that their investments will yield positive returns at the end of the day. A negative net present value would make investors abandon an investment out rightly. Thus, it is recommended that investors need to be good users of financial information as the net present values calculated are reliable

TABLE 15: COEFFICIENT RESULTS SHOWING THE RELATIONSHIP BETWEEN COST ANALYSES ON INVESTMENT DECISION MAKING COEFFICIENTS (A)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	1.382	.303	3.803	.001
	Cost analysis	.501	.009	.004	.000
a. Dependent Variable: Investment decision making					

The beta coefficients of Cost volume analysis versus investment decision making results in Table 14 showed that there was significant relationship between investment decision making and the cost volume analysis was positive since the coefficient of investment decision making is 0.591 which is significantly greater than zero.

The t statistics (5.942) was also greater than zero. This demonstrated that the investment decision making had a positive influence on cost volume analysis in the Diamond Bank Pic.

Correlation coefficients show that cost volume analysis (X3) is significant (p-value = 0.0000) in investment decision making (Y). The fitted model from this analysis is shown below:

$$Y = 1.382 + 0.591X_3$$

4.4 Regression Results

The results show that the coefficient of determination was 0.696 which mean that 69.9% of variation in investment decision making is explained by trend analysis, ratio analysis and cost volume analysis. The regression equation appears to be relatively useful for making predictions. R square and adjusted R is high; therefore, this implies that there is a high variation that can be explained by the model.

TABLE 16: MODEL SUMMARY OF THE COMBINED EFFECT

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.834 ^a	.696	.766	.527
b. Predictors: (Constant), Trend analysis, ratio analysis and cost volume analysis				

The ANOVA results for regression coefficients on Table 16 showed that the significance of the F statistics is 0.000 which is less than 0.05. This implied that there was a significant relationship between trend analysis, ratio analysis and cost volume analysis affecting the dependent variable the investment decision making.

TABLE 17: ANOVA RESULTS SHOWING THE COMBINED EFFECT ANOVAB

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.101	4	5.548	10.000	.000 ^a
	Residual	9.700	35	.277		
	Total	31.000	39			
b. Dependent Variable: Trend analysis, ratio analysis and cost volume analysis						
c. Predictors: (Constant), Investment Decision making						
The study sought to determine the beta coefficient of the variables. The findings are presented in Table 17. The regression model was written as: Investment decision making = 0.404 + 0.203 (Trend analysis) + 0.415(Ratio analysis) + 0.020 (cost volume analysis).						
Table 18: Coefficient results showing the combined effect Coefficients (a)						
Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	.404	.308		1.008	.020
	Trend Analysis	.203	.171	.274	1.712	.046
	Ratio Analysis	.415	.192	.422	2.150	.038
	Cost Vol. analysis	.020	.158	.024	.130	.038
a. Dependent Variable: Investment decision making						

From the data in the above table the established regression equation was $Y = 0.404 + 0.293 X_1 + 0.415X_2 + 0.020X_3$

The Beta Coefficients in the regression show that all of the tested variables had positive relationship with investment decision making. The findings show that all the variables tested were

statistically significant with p-values less than 0.05. $X_1 = 0.293$ which implied that a unit change in the trend analysis resulted into a 0.293 change in investment decision making.

$X_2 = 0.415$; this implied that unit change in the ratio analysis will result into a 0.415 change in investment decision making $X^{\wedge} 0.020$; implied that one-unit change in the cost volume analysis will result into a 0.020 change in investment decision making.

5.0. CONCLUSIONS

The research study revealed that financial statement analysis performs a crucial role on investment decisions making. This is achieved by implementing the best fundamental concepts of financial statement analysis for any Bank. Diamond Bank Pic used as a case study revealed that for any Bank to be successful, it should endeavour to make use of financial statement analysis because accounting itself is a language of business, and before venturing into any business, one must know the right method to achieve the stated goals and objectives. Also, studies have shown that successful utilization of accounting information requires a fit between three factors. First, a fit must be achieved with dominant view in the organization or perception of the situation. Second, the financial statement analysis must fit when problems are normally solved, i.e. the technology of the organization.

Thirdly, the accounting information must fit with the culture of the organization i.e. the norms and value system that characterizes the organization. There is also a high level of awareness pertaining to the role of accounting information system and managerial efficiency which is not limited to senior and management staff alone but also cuts across intermediate and junior staff whose operations are also governed by the accounting information system. It is evident that the accounting information factors loom large among factors, which contribute to the overall corporate efficiency.

5.1. Recommendations

We recommended that commercial banks devise a self-assessment form with benchmarks on the key areas of assessments to be codified within a document for clients to read and use it for self-assessment. From such assessment, banks can develop categories for customers, based on the investment decision making, the security expected and terms of the investment.

Specifically, the following should be put in place to ensure that, financial statements' role in investment decisions making is achieved.

1. Every financial institution should ensure that all material facts as regards the assets and equity of the organization should be reflected in their yearly financial statement.

As such, the financial institutions should adhere to the demand of subjecting their financial statement to statutory audit as a way of authenticating their contents.

2. The financial statement should be prepared using a language and terms a layman can understand because the technical terms do not mean much to the investors. Prompt provision of the financial statements at the end of each financial year is necessary and the profit after tax should be reported precisely and accurately with actual figures to avoid the use of percentages so that any layman can make good investment decision.

3. Investment decision should be based on the financial statement and the volume of liabilities acquired by financial institutions should be minimal to avoid its negative effect on the profit of the bank which will discourage prospective investors

4. Banks and companies should carry out educational enlightenment programme from time to time to enable investors understand the financial report fully. Investors should attach much importance to the annual reports so that banks and companies can really know the extent of their responsibility in preparing the financial statement.

5. Banks and companies should sponsor research into the information needs of their investors and how best to communicate this information to them. There should be a review of annual report of banks and companies by the authority concerned, in order to effect the much-needed changes raised by investors considering the changing economic trend in the country.

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SOLUTION OF PROBLEMS ON THE DEVELOPMENT OF BANKS' OFF-BALANCE OPERATIONS

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ABSTRACT

This article develops scientific proposals aimed at solving the problems of developing off-balance sheet operations of commercial banks in the Republic of Uzbekistan. The article examines the problems associated with the development of off-balance sheet operations of commercial banks of the country, scientifically substantiated ways to overcome them. In overcoming these existing problems, the proposals are based on the application of foreign experience, i.e. the operations of developed countries in banking operations.

KEYWORDS: Commercial Bank, Documentary Letter Of Credit, Roman, Credit, Import, Current Account, Bank Transfer, Payment System, Letter Of Credit, Advising Bank.

INTRODUCTION

The development of off-balance sheet operations of commercial banks in the world, in particular, the integrated use of forms and types of documented letters of credit, expanding the scope of operations with foreign exchange options and currency futures, increasing the role of off-balance sheet operations in risk management. However, the fact that this article does not disclose the opportunities for the development of off-balance sheet operations in the context of high financial risks in the activities of commercial banks, low level of diversification of foreign exchange reserves of banks makes it necessary to study the development of off-balance sheet operations. The fact that in the practice of commercial banks of the Republic of Uzbekistan more than 90% of the documented letters of credit opened by banks account for secured letters of credit indicates the underdevelopment of off-balance sheet operations of banks.

THE MAIN PART

In order to develop off-balance sheet operations of commercial banks of the Republic, the following measures should be taken:

1. In order to improve the practice of using the guarantees of commercial banks, it is necessary, first of all, to increase the volume of bank guarantees on their payment obligations, forming a group of customers with a high level of solvency; secondly, it is necessary to increase the volume of guarantees on the quality of exported goods and guarantees on payment for imported goods, in consultation with foreign representative banks on bank guarantees.

As a result, first, the volume of income of commercial banks will increase; second, the ability of enterprises to purchase raw materials and supplies in a timely manner will increase; third, the level of business risk in commercial bank customers is reduced.

It is necessary to allow customers to choose guarantees by using both forms of bank guarantees.

The following two forms of bank guarantees are widely used in international practice:

- Direct guarantee;
- Counterfeit.

In a direct guarantee, the guarantor bank assumes the obligation directly to the beneficiary.

The counter-guarantee is applied when the direct guarantee is not made by the principal's bank, but by a bank in the beneficiary's country or a bank in a third country. In this case, the principal's bank provides a counter-guarantee and asks its representative bank to provide a direct guarantee in favor of the beneficiary.

In short, a counter-guarantee is a guarantee by a secondary bank that is guaranteed by a primary bank.

In identifying a group of customers with high solvency, we believe that both financial ratios and cash flow estimation methods should be used at the same time.

2. In order to develop off-balance sheet operations of commercial banks through documentary letters of credit, first of all, given the existence of the problem of insolvency in the economy of the Republic of Uzbekistan, it is necessary to expand the use of red-letter letters of credit; secondly, in order to increase the role of documented letters of credit in financing foreign trade operations of business entities, it is necessary to introduce the use of transferable and revolving (renewable) letters of credit in banking practice.

As noted above, the level of monetary security of the Uzbek economy is very low, which does not allow to solve the problem of receivables and payables between businesses. In this context, the expansion of the use of red-framed letters of credit will serve to reduce the amount of non-payment between enterprises.

A letter of credit with a red border is the amount of payment to be delivered to the supplier or exporter as an advance.

In international trade, an exporter may require an advance payment from an importer to help finance part of the cost of producing the exported good.

According to the UCP 600 rule, the advance payment on a red-framed letter of credit is made at the expense of the representative bank, but under the responsibility of the bank that opened the letter of credit. If the exporter does not provide the required documents in time and does not return the advance, then the representative bank (intermediary bank) debits the correspondent account of the

bank that opened the letter of credit for the amount of the advance, the amount of interest and other tariffs. The bank that opened the letter of credit will recover these deductions from the importer.

There are some "sensitive" issues in red-framed letters of credit. One such issue is who will pay the difference if there is a difference between the exchange rates.

If the advance payment in the red-lettered letter of credit is made in foreign currency. In that case, the amount of the difference between the exchange rates may occur. In such circumstances, the foreign trade agreement should clearly state who will pay the difference between the exchange rates.

If the advance payment in the red-framed letter of credit is made in the local currency, the amount of the difference between the exchange rates does not occur. However, in advance payment in local currency is not possible in the practice of the Republic of Uzbekistan. Because our national currency - the soum does not have external convertibility.

It should be noted that currently, in international practice, two types of red-letter letters of credit are used:

- Unsecured (pure) letter of credit with a red border;
- Secured (documented) letter of credit with a red border.

An advance in an unsecured red-framed letter of credit is issued at the request of the beneficiary in order to finance the cost of loading the goods.

An advance in a secured red letter of credit is issued to the warehouse receipt when the beneficiary submits together the obligation to provide the documents required for the shipment of goods (bill of lading, invoices, etc.).

While transferable letters of credit give the trading intermediary the right to claim the amount of payment under the letter of credit under conditions of limited funds, the stand-by letter of credit simultaneously served as a guarantee.

3. We consider it expedient to improve the quality of the loan portfolio by removing from the balance sheet of commercial banks the portion of overdue loans that has reached the allowable limit.

The credit policy of commercial banks of the Republic of Uzbekistan does not set normative requirements for the maximum allowable level of overdue loans. In addition, the Central Bank has not set prudential standards for this indicator. This makes it necessary to determine the maximum allowable level of overdue indebtedness on loans of commercial banks and to clarify the issue of derecognition of a certain part of the bank's balance sheet as overdue loans reach this limit.

In our opinion, based on the experience of banking practice in developed countries, the permissible limit of overdue loans should be set at 5% of gross loans, and with overdue loans reaching 2.0-2.5% of gross loans. should be removed from the balance sheet.

CONCLUSION

The following conclusions have been drawn from the increase in the development of off-balance sheet operations of commercial banks of the Republic of Uzbekistan.

In our opinion, it is expedient to determine the solvency of customers using the following four financial ratios used in determining the creditworthiness of legal entities in US commercial banks:

1. Current liquidity ratio (normative ratio: 2: 1).
2. Rapid liquidity ratio (normative ratio: 1: 1).
3. Financial leverage ratio (normative ratio: 1: 1).
4. Financial margin ratio (normative level: max 1).¹

In addition, one of the important, unique advantages of the Transferable letter of credit is that it is very useful in financing investment projects involving sub-suppliers as a second beneficiary.

The UCP 600 rule clearly states that if the letter of credit is allowed to be paid in installments, the letter of credit can be transferred in installments to second beneficiaries with more than one number.

It should be noted that the UCP 600 rule imposes a strict restriction on transferable letters of credit, ie the transferred letter of credit cannot be transferred to another beneficiary at the request of the second beneficiary. In this case, the first beneficiary is not considered as the next beneficiary.

It should be noted that there may be differences between the terms of the transferable letter of credit and the terms of the main letter of credit. In the practice of financing international trade, in most cases, differences arise in the following cases:

- On the amount of the letter of credit;
- Terms of execution of letters of credit may differ;
- Insurance coverage rate may be increased;
- Shipment time may be reduced.

International trade finance is one of the most widely used types of letters of credit, revolving letters of credit.

Revolving letter of credit is renewable both for the term and for the amount.

It is important to note that revolving letters of credit require the shipment of goods in equal shares over a period of time. If this requirement is not met, then there will be confusion and difficulties in using a revolver letter of credit. This is because revolver letters of credit must clearly indicate the time to withdraw the tranche of the same amount.

Another important aspect that commercial banks of the Republic pay special attention to when using revolving letters of credit is the basis on which settlements are made.

In revolving letters of credit, calculations are made on two different bases:

- On a cumulative basis;
- On a non-cumulative basis.

The share not used in the cumulative calculations is calculated by adding the remaining shares.

In noncumulative calculations, the term of a share that is not required in a timely manner expires suddenly.

In the context of lack of resources in commercial banks and the problem of unbalanced liquidity, revolving letters of credit are of great practical importance for buyers of goods, including importers.

The deepening problem of overdue loans in commercial banks of the country is due to a number of reasons. The main ones are:

- One of the main reasons for the large amount of overdue loans in commercial banks of the country is the non-repayment of loans issued by banks to finance government programs;²
- The main reason for the large amount of overdue loans in commercial banks of the country is the fact that interest rates on loans from commercial banks are higher than the profitability of enterprises in all sectors of the economy, including agricultural and industrial enterprises;
- The low level of liquidity and solvency of enterprises and weak cash flows prevent them from repaying loans from commercial banks in a timely manner;
- The low level of monetary security of the Uzbek economy does not allow solving the problem of non-payment. International experience has shown that the problem of overdue loans cannot be solved without solving the problem of default.³

As of December 31, 2018, the level of cash supply of the country's economy amounted to 20.5%. This is significantly lower than the generally accepted normative requirement (40%).

The low level of cash supply to the economy does not allow to receive the full amount of payment for goods sold and services rendered. As a result, the current accounts of enterprises do not accumulate the funds needed to repay loans.

If the above scientific proposals are implemented, the off-balance sheet operations of commercial banks will develop, which will serve to increase the income of our banks.

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IMPROVEMENT PERFORMANCE OF BANKS IN UZBEKISTAN

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ABSTRACT

The article describes the improvement of licensing practices in commercial banks, strengthening the legal framework for the establishment of banks, increasing the financial stability of commercial banks and expanding the range of banking services, increasing the scale of domestic banks in the financial market, modern accounting and reporting in commercial banks.

KEYWORDS: *Commercial Banks, Financial Stability Of Banks, Banking System, International Financial Community, Deposits, Credit, Financial Market, Market Economy.*

INTRODUCTION

Today, the banking system is one of the fastest growing segments of the economy of the Republic, which is evidenced by the growth rates of key indicators in the sector, such as assets, capital level, credit and investment operations.

In our country, special attention is paid to strengthening and improving the quality of the banking and financial system, as well as the emergence of commercial banks as a driving force of the economy and their transformation into large investment institutions. Because the financial and economic stability of our country largely depends on the effective functioning of the banking and financial system.

Consistent and targeted reforms in the banking system of Uzbekistan will not only ensure its reliable protection from the negative effects and consequences of the global financial crisis, but also achieve significant and qualitative changes in banking, expand lending to the real sector of the economy and improve banking and financial services allowed to radically improve the level of delivery.

Kurbanov R. B. (2020) analyzed financial performance of private banks in Uzbekistan. He argued that the volume of bank assets, asset management ratio and operational efficiency are positively correlated with ROA.

In addition, Saidov Elyor Ilhomovich (2009) found that the average ROA for the Malaysian commercial banks during the study period was about at 3.21% which is better comparing with 1997 Asian crisis period.

MATERIALS AND METHODS

The process of formation of the banking system of the Republic with the adoption of the Law of "On the Central Bank of the Republic of Uzbekistan" of December 21, 1995 and the Law of the Republic of Uzbekistan, "About banks and banking activity" of April 25, 1996 strengthened. These important documents have created a legal basis for the banking system of the republic to operate in accordance with international standards.

One of the peculiarities of the formation of the banking system of Uzbekistan is its integration into the international financial community. In 1992, our country became a member of the World Bank and the International Monetary Fund, and a number of their projects are being implemented in our country. Now there are international financial institutions such as the European Bank for Reconstruction and Development, the Asian Development Bank, the International Finance Corporation. National financial institutions of the United States, Germany, Japan, England, Switzerland, Belgium, Turkey, China and India are partners of Uzbek banks.

In addition, the quality of external audits conducted by the Central Bank in commercial banks, taking into account the need to raise the status of commercial banks to world standards, strengthen confidence in the banking system and the role of bank audit in attracting foreign investment in the economy through commercial banks. special attention was paid.

As a result of inspections by reputable international audit organizations (Pricewaterhousecoopers, KPMG, Deloitte & Touch, Ernest & Young) and with the assistance of international financial institutions, joint banks with foreign investment were established. At that time, Uzprivatbank, UzDaewoo Bank, UzABN Amrobank, UT Bank (UzbekTurkish Bank), Central Asian Cooperation and Development Bank and Soderat Bank of Iran were established and were operating in Tashkent.

The stable and reliable functioning of the banking system of our country, its growing prestige in the global financial market, as well as our bold steps to modernize our country are recognized by the world community, as well as a number of influential international financial institutions.

In this regard, the work done to increase the capitalization of banks is particularly noteworthy. If we look at the numbers, the total capital of the banking system has grown more than 4.4 times in the last 6 years. In 2013 alone, the total capital of commercial banks increased by 25%. During this period, the bank issued 534.5 billion soums to increase its authorized capital. UZS worth of bank shares were placed among investors.

It should be noted that the increase in the level of capitalization of large banks in the country is based not on maintaining the liquidity of banks, but on strengthening the investment activity of banks, restoring and expanding the priorities of structural changes in the economy modernization of production, increase in lending for technical and technological renewal.

As for the level of capital adequacy of banks, this figure has been 24.3% for several years, which is three times higher than the generally accepted international standard (8%). The liquidity of the banking system increased by more than 65% ("high" indicator price - 30%). The banking system's "airbag" has almost tripled in the last four years to \$ 2 billion. More than USD, as well as the amount of assets is more than 1.6 times their total liabilities. Today, the types of deposits offered

by commercial banks have exceeded 250. The total volume of deposits in commercial banks over the past 6 years increased by 6.7 times and as of January 1, 2014 increased by 30.2% compared to the same period last year and amounted to 26 trillion soums.

In addition to deposits, banks are actively attracting free funds through the issuance of securities. As of January 1, the volume of long-term bonds of banks amounted to 330 billion soums, certificates of deposit and savings - 592 bln. soums.

In turn, the high level of capitalization of commercial banks and the expansion of their resource base further increase the opportunities for financial support of the real sector of the economy. In particular, the total assets of banks increased by 30% in 2013 and increased by 4.7 times in the last 6 years. During this period, the annual growth rate of lending to the real sector of the economy averaged 30%, and even more in certain areas and sectors of the economy. In particular, the average annual growth rate of investment loans was 36%, loans to small business and entrepreneurship - 46%, including microcredits - 57%.

At a time when the trend of declining lending to the real sector in many developed and developing countries continues, the volume of loans provided by commercial banks to the real sector of the economy is growing from year to year. As of January 1, 2014, the volume of loans to the real sector amounted to 26.5 trillion soums. 79.3% of the allocated loans were long-term loans for investment purposes.

As part of the credit policy in 2013, 7.2 trillion soums were allocated for modernization, technical and technological re-equipment of priority sectors. UZS were allocated for investment loans. Over the past 13 years, the volume of investment loans has increased more than 60 times. This indicates that the banking system of Uzbekistan makes a significant contribution to the development of the country's economy.

In recent years, under the leadership of the President, the country has implemented comprehensive reforms to improve the welfare and living standards of the population, in particular, to radically change the appearance of rural settlements, build new housing on the basis of standard projects. The active participation of commercial banks in the issue is being ensured.

In particular, over the past 5 years, more than 900 new housing estates have been built in 159 rural districts of the country on the basis of standard projects, more than 33,500 individual houses with a total area of 4.5 million square meters have been commissioned.

It is noteworthy that for several years, the international rating agency Moody's has given a stable rating to the banking system of Uzbekistan only among the CIS countries. This, in turn, is closely linked to the assessment of our entire economy.

According to the results of 2011, 13 commercial banks of Uzbekistan received positive ratings from international rating agencies such as Moody's, Fitch Ratings and Standard & Poor's, and today they operate in the country. all commercial banks that received the show received positive reviews.

RESULTS AND DISCUSSION

In 2014, the main focus will be on reforming and further enhancing the stability of the banking system, approved by the Decree of the President of the Republic of Uzbekistan dated November 26, 2010 No PP-1438 "On further reform of the financial and banking system of the republic in 2011-2015 and Comprehensive measures to improve the sustainability and achieve high

international ratings” will be aimed at ensuring the implementation of measures outlined in the Program. In particular:

1. Further improvement of the system of regulation and supervision of commercial banks on the basis of new recommendations of the Basel Committee on Banking Supervision, introduction of norms, criteria and standards used in international practice in assessing the activities of banks;
2. Further increase the level of capitalization of commercial banks, strengthen and diversify the resource base, further intensify the attraction of free funds of the population and businesses to long-term deposits;
3. Further strengthening the investment activity of commercial banks, increasing the volume of lending to projects for modernization of production and technical and technological re-equipment, expansion of financial support for small business and private entrepreneurship, as well as socio-economic development of regions and job creation further expansion of participation in the implementation of state programs to increase employment and employment;
4. Further expand the range and improve the quality of services provided by banks, increase the number of customers working online from remote services;
5. Improving the quality of bank assets and credit investments, further development of the bank risk assessment system;
6. Further increase the convenience and efficiency of use of plastic cards issued by commercial banks, in particular, further development of the system of payments via the Internet;
7. Carry out relevant work on training and retraining of personnel with modern knowledge and skills in the field of bank management;
8. Implementation of measures aimed at further improving the business environment in the banking and financial sector;
9. Further improvement of the regulatory framework of the Bank and ensuring its compliance with international requirements and principles;
10. The financial and banking system of the Republic will be aimed at continuing the ongoing measures to fully bring the accounting and financial reporting system in line with International Financial Reporting Standards (IFRS).

It is expedient to further expand the investment activity of commercial banks, modernize production, as well as make full use of the emerging potential of the securities market in the country to attract domestic and foreign investment in the economy.

- take appropriate measures to further increase the total capital of commercial banks and fulfill the set parameters;
- introduction of clear mechanisms for in-depth factor analysis in the assessment and management of banking risks in order to ensure further growth and improvement of the quality of assets of commercial banks, including loan portfolios;
- take effective measures to improve the quality of examination of investment projects in banks, including the transparency of examination processes and take into account all potential factors and risks.

- introduction of new types of bank deposits, certificates of deposit and corporate bonds and further improvement of existing types in terms of their terms, amount, types of currency and methods of payment to increase the long-term resources of banks;
- Expansion of progressive fund support, including the issuance and circulation of promotional shares, convertible bonds, mortgage certificates, derivative and collateral securities;
- Improving the legal framework governing the securitization of assets, strengthening prudential control over these activities in order to prevent the emergence of "financial bubbles", increase the transparency of securitized assets and pay attention to their security;
- comprehensive introduction of international standards in the practice of commercial banks and other issuers of emerging stock markets in order to increase the level of information transparency for potential investors;
- Activation of the secondary market of securities of commercial banks, expansion of subordinated debt;
- further strengthening the participation of banks in the establishment of issuance and underwriting syndicates, rating and collection agencies, joint investment institutions in order to develop the investment and financial infrastructure of emerging securities markets;
- Expansion of the list of pledged securities and regular publication of this list;
- Organization of circulation of non-revocable certificates of deposit, strengthening of its legal basis;

The current measures will create a solid foundation for the stability of the banking and financial system of the country during the global financial crisis, strengthening the investment activity of banks and, consequently, sustainable economic growth, improving the living standards and welfare of our people.

The achievements in the socio-economic development of our country have once again confirmed the correctness of the model of development chosen by Uzbekistan, the stability of the republic's economy and the reliability of its banking and financial system.

It should be noted that the assessment of the activity and development of the banking system in accordance with the national indicators of financial stability and development of the banking system, developed on the basis of international requirements, shows a "high" value. At the same time, according to a recent study by the International Monetary Fund, Uzbekistan is the leader among the CIS countries in the number of commercial banking institutions per 100,000 adults. In 2013, the network of branches of commercial banks in the regions of the country further expanded, and as of January 1, 2014, their number reached 837.

Another example of the success of the reform and liberalization of the banking system is the results of the next annual report of the World Bank and the International Finance Corporation "Doing Business-2014" on the requirements for doing business in the credit rating of Uzbekistan the position rose to 24 points.

CONCLUSION

Although the Republic of Uzbekistan has not gained independence for a long time, it has managed to create a perfect banking system, among all other sectors and industries.

The current state of the banking system and the dynamics of growth of financial indicators of the banking system can be a clear proof of this. But at the same time, there are some shortcomings in the banking system, the timely and correct resolution of which will determine the prospects of the banking system.

The stability of the banking system largely depends on the level of development of its supervision system, its ability to identify and solve existing and emergency problems. The main task of regulatory agencies is to identify and assess bank risk. The central bank is the licensing and supervisory body of commercial banks in the Republic of Uzbekistan.

In a market economy, the constant analysis and control of banks' performance indicators and the study of the factors that affect them should be established in a strict manner. They must comply with the economic standards set by the Central Bank of the Republic of Uzbekistan to control the activities of commercial banks.

In this regard, unconditional implementation of the measures envisaged in the program on further strengthening the financial stability of the banking system, further development of the financial and banking system of the Republic and strengthening its stability, strengthening banking supervision, strengthening bank assets and loan portfolio special attention should be paid to improving the quality.

Consistently high growth rates, stable and reliable functioning of the banking and financial system established in our country, the ongoing reforms and changes in the economy, in general, our bold steps to modernize our country have been widely recognized by the world community.

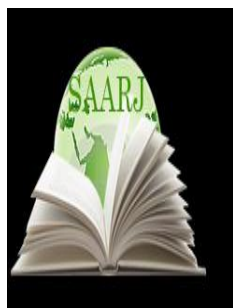
Based on the conclusions, it is advisable to implement the following recommendations:

- Strengthening the requirements of the legal framework for the establishment of banks, primarily to improve the licensing practice in commercial banks;
- increase the financial stability of commercial banks and expand the range of banking services provided;
- increase the activity of domestic banks in the financial market, the introduction of incentives for them to participate in this market;
- formation and introduction of new approaches to modern technologies and methods of accounting and reporting in commercial banks, improving the quality of financial and banking information, creating opportunities for its widespread use in accordance with the requirements of leading international rating agencies;
- Increasing the financial stability and liquidity of banks by further capitalization of commercial banks in accordance with the requirements of international standards set by the Basel Committee, attracting private capital in this area, increasing resource bases, improving asset quality, improving banking performance;
- Individual banks on the basis of international norms, standards and criteria used by leading international rating companies and allowing an objective assessment of the rise of individual banks and the entire banking system to a higher level on the basis of world-renowned indicators; introduction of a modern system of analysis and evaluation of the entire banking system;
- further strengthening confidence in the banking system by improving the quality of banking services provided to the population in remote areas of the country.

In conclusion, it can be said that a strong banking infrastructure has been formed in our country since the early days of independence. The growing banking system will continue to make a significant contribution to the comprehensive development of our country, the successful continuation of economic reforms aimed at improving the welfare of the people. As a result of the special attention paid by the Head of State to the development of the banking system of the country and the creation of favorable macroeconomic conditions in the country, positive results have been achieved in the development and reform of the banking system.

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THE PERFECT MAN FROM THE PERSPECTIVE OF ABDUL RAHMAN JAMI

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ABSTRACT

The opinion of a perfect human being is one of the most important mystical theories. The whole course of human behavior is to reach such a position. In this study, two issues are examined: first, what steps must be taken to reach the perfect human being, and what authorities must be passed over and what circumstances must be obtained. The second category discussed is the personal and personality traits of the perfect human being that have been studied in this study. Interestingly, although different Sufi groups have different views on authorities and stages, they share common views on the attributes and personality of perfect human beings. All of these sections are accompanied by remarks by Abdul Rahman Jami to express his views on the documentary.

KEYWORD: *Perfect Man, Abdul Rahman Jami, Mystical Authorities, Devout Mysticism And Romantic Mysticism*

INTRODUCTION

The necessity of explaining the theory of the perfect man is necessary because all the Sufi rituals and manners are to approach and possibly reach this position. A perfect human being who has both the color and smell of God and human nature. It is a mirror that shows the names and attributes of truth to the seekers of the path of truth. After Hallaj, all mystics have paid attention to the theory of the perfect man and have studied all the ways to reach him. Officials in both groups love romance and devout mysticism to reach this position. The ultimate goal of mysticism and the path and behavior is to reach this position. For each movement in each field, two important principles are considered. The first is where we want to go. The second is how and in what way we should go to achieve that goal. Abdul Rahman Jami is one of the mystical mystics of Abedaneh. On the other hand, he is one of the greatest commentators on Ibn Arabi's ideas. Understanding Jami's view of

Ibn Arabi reflects the views of Ibn Arabi's followers. In this study, we have studied this study based on the views of various mystics, especially Jami.

Generalities of research

-1Expressing the problem: The perfect man is one of the key mystical issues. Abdul Rahman Jami has also been one of the greatest mystics and mystical scholars. The study of the perfect man and his characteristics in Jami's thought is an important point that has been studied in this study. This review is based on Jami's work and has been viewed through his various books.

Importance of the need for research:

Islamic mysticism is a large and valuable part of Persian literature. Just as research in Islamic mysticism is essential for our culture and religion, it is very important to clarify the most important part of this collection, the perfect human being.

Research questions:

Questions: In this research, the answers to the following questions should be clarified:

- A) What are the characteristics of a perfect human being in mysticism, mysticism and mysticism?
- B) To which mystical-romantic-ascetic-ascetic-philosophical mysticism does Abdul Rahman Jami belong?
- C) What are the ways to reach the perfect man in the above mysticisms?
- D) What characteristics does Jami consider necessary to reach the perfect human being?

Research background:

There has been a lot of research on Jami. Ali Asghar Hekmat took an important step by writing Jami's book. Edward Brown and Dr. Zabihullah Safa researched the history of their literature, and Najib Mayel Heravi wrote Jami's book. But none of them have explicitly examined the perfect man from Jami's point of view. So this research is new.

Research Hypothesis:

- Knowing the perfect man in various mystical schools in romantic mysticism, ascetic mysticism and philosophical mysticism
- Knowing the ways to reach perfection and the perfect human being in different mystical schools
- Reaching Abdul Rahman Jami's view on the perfect man

New and innovative aspects of research:

Although he has written numerous books and articles about Abdul Rahman Jami, most of these works go back to his biography and his works. No work has yet been published on this aspect from Jami's point of view, that is, the theory of the perfect man. Therefore, this research can be considered new and fresh.

Research Methods:

The research method in this research is library. This research has been done by examining various works of Jami, especially Haft Orang, and the role of texts, and the rays of light and other mystical books.

The perfect man in the eyes of Abdul Rahman Jami:

The perfect man in the eyes of all the religions and mystics of different nations is the one whom God has created the foundation of existence for their existence. According to religious scholars, God created the universe to be the basis for the creation of animals, and made animals a prelude to the creation of man, and created human beings to be the basis for the creation of the perfect man. They believe that if man were not perfect, creation would be futile and God's will would not be fulfilled. Holy Hadith: *Lolak Lama*, the creation of the universe - if it were not for your existence, I would not have created the universe - (Forouzanfar, 1982: 172) expresses the same meaning. Because the existence of the Messenger of God as the objective example of the perfect man has been the goal of creation. Mystics have not considered the existence of a perfect human being as the ultimate goal of creation and have said that God wanted to create a creature that sometimes manifests its names and attributes, and in other words, the perfect human being is a mirror in which God exposes his attributes. It sets everyone's vision. This meaning is mentioned in the poetry of Persian language poets. For example, it is stated from the words of the Messenger of God that:

And Ani and An Kant Ibn Adam Surah / Fili Fih means the witness of Babouti (Farghani, 1357: 537) Jami has arranged this verse as follows:

Talk about rubbing salt in my wounds - d'oh! That's all I can do for you (Jami, 1352, 28).

He also said: A person who, in the form of my father and I, my son, is the one who does not look at the truth

One hundred kinds of evidence come from him in my opinion / Ko means my son and I am my father (Ibid: 2)

The meaning of the verse is that although Adam is apparently my father, but since the ultimate goal of his creation was to create me, I am credited with being his father.

The hadith of the hidden treasure of Kunz - hidden treasure - also expresses the same idea that: The saying of David (peace be upon him): He said that you are a hidden treasure, and that you are the creator of the creation of the creature (Forouzanfar, 1361: 29).

David the Prophet, may God bless you and grant him peace, what was the purpose of creation?

God said: I was a hidden treasure. I wanted to be known, so I created the universe to be known.

Hafez Shirazi has referred to this idea in several verses:

What happened to the lover's shadow if it fell on the lover? We needed him, he was eager for us)Hafez, 1387: 204(

The above idea is one of the ideas that almost all mystics believe in and in many cases have mentioned in their works. Rumi Rumi has said about this:

He hid the hidden treasure of evil and made the soil brighter than the heavens

The hidden treasure boiled badly / The soil was covered by the Sultan of Atlas)Rumi, 2001: 1/130(From the above discussions, it can be seen that God created the universe to be a prelude to the emergence of the perfect man, so that Asma may manifest his attributes in his being like a mirror. According to Jami :Witness the loneliness of the unseen from the beginning He had a mirror in front of him / everyone had a look with him (Jami, 13: 395)

So far, all mystics agree, but there are differing views on how such a human being can be realized and achieve the necessary and possible perfection. A group has proposed the theory of the seeker's fascination (Kashani, 1988: 108) and has said that God guides those who want to be the mirror of his name and attributes to the valley of conduct with attraction and attraction and call it fascinated (Jami). , 1352, 226 also, Kashani, 1367: 108(In his initial conduct, he is fascinated by God's providence and will and becomes a perfect human being (ibid. :)

From Jami's point of view, the perfect man is one who has both passions (right to man and man to right):

Although love came between / desire and attraction came from the substitute Until the asceticism of God Almighty / manifested in the name of the disciple No one is devoted to this / No one is known to love (Ibid: 186)

All mystics have believed that in the age when the prophets carried the divine mission on earth, they are the perfect human beings of their time and carry the divine names and attributes and are the purpose of their creation. But in the age when the Prophet of God It is not among the people that other divine saints in the guise of the perfect man are the mirror of the attributes of truth. It should be noted that the term perfect man does not mean that he has all the divine names and attributes, but he has more divine attributes than other human beings, but he also has imperfect human qualities.

In any case, according to the hadith: The path to God after the breath of creation is the way to reach God in the number of human beings. Therefore, mystics have proposed different methods for conduct and nearness to God. Non-mystical poets consider obligatory and recommended worship and self-purification as sufficient for human perfection, but mystics have ordered certain authorities and circumstances to reach nearness to God. And they said:

From the authorities of Tibetan Tafna / Base to the meeting of God (Rumi, 2001, 1/516)

There are several instructions in the path to nearness to God that must be followed in order to reach the status of a perfect human being or at least approach it:

A) Shari'a: In the term of mystics, it is the words, deeds and instructions that God has appointed for His servants in the language of the Prophet (Lahiji, 1337: 290). The truth is. All true seekers and mystics have emphasized the observance of various aspects of the Shari'a. Qashiri has said that the duties of Shari'a are obligatory. That any truth that is not limited to the Shari'a will not achieve anything (Qashiri, 1374: 127)

Sheikh Mahmoud Shabestari in Golshan Raz has said that :But in order to keep the words of the Shari'a with your own Zenhar / Lanhar (Lahiji, 1337: 559)

He believed that without observing all aspects of the Shari'a, perfection could not be achieved : Someone is a complete man Make the Shari'a your motto / Make the path your destiny (ibid .: 740)

Abu Bakr Shafaf has said: "Whoever loses the limits of command and prohibition in appearance is deprived of seeing the heart inwardly (Ibn Jawzi, 1989: 139).

Suhrawardi, the owner of the encyclopedias, also emphasizes the observance of the Shari'a and says: "Any truth that the Shari'ah rejects is the same as pure ignorance and cruelty" (Suhrawardi, 1985, 31).

According to what has been said, the ladder of ascending the seekers is to observe the issues of the Shari'a, and without observing this aspect, no perfection will be achieved.

Tariqat: Tariqah is the special movement of the seekers of the path of truth to reach the head of the house of conduct that is the truth, such as leaving the world and perpetuating remembrance and paying attention to the origin and isolation and continuity of purity, ablution, truthfulness, sincerity and so on (Lahiji, 1337: 564 And they have also said: "The law is to keep the transactions (worships) and the way is to cultivate the inner self. The law is the way of the soul and the way is the way of the heart "(Sajjadi, 1991: 552)

Truth: My connection with God has been called truth. According to Hojvir

Y: "The truth of my stay is that I am connected to God" (Hojviri, 1392: 560). The ultimate goal of the journey and conduct and austerity and observance of various aspects of the path of this position is the truth. From the point of view of mystics, the perfect man is the one who achieves the truth by observing the Shari'a and continuing on the duties of the path. It should be noted that so far all mystics are sympathetic and accompanying, that is, they start from the Shari'a, then they add the rules of the way to the duties of the Shari'a in order to reach the position of truth and reach perfection in the path of humanity. Due to their tastes and characteristics, mystics mainly choose one of the two to reach the truth. Romantic mysticism and devout or ascetic mysticism.

Romantic mysticism: In this mystical path, the seeker goes through a romantic path and his view of God is a romantic view (Kashani, 1988: 45). The theme of romantic mysticism can be found in the words of Rabia Adavieh: "O God, give me everything you have given to your enemies from the world and whatever you have given to your friends from the Hereafter, so that you will be much better to us" (Attar Neyshabouri, 1993) : 87) He also said, "I dreamed of the Prophet (peace be upon him) who said to me: O Rabia! Do you love me? I said, O Messenger of God! Who doesn't love you? But the love of truth has engulfed me in such a way that the friendship and enmity of others will not be left behind! "(Ibid: 80)

The most exciting and famous Muslim mystics in this collection are: Hussein bin Mansour Hallaj, Bayazid Bastami, Sheikh Abu Saeed Abi Al-Khair, Attar Neyshabouri, Maulana Jalaluddin Mohammad Balkhi and....

In romantic mysticism, the authorities' conduct that every seeker must go through is: seeking, love, knowledge, seeking, monotheism, astonishment, and technology.

Attar Neyshabouri is the first person to explain and explain these officials in the logic of the bird .)Attar Neyshabouri, 1374: 414 - 380(

Taleb: In the term of mystics, it is the sincere intention of the seeker to fall into the path of seeking the knowledge of the truth (Goharin, 2003: 7/314).

Love: Too much passion for something is called love. In the words of Aziz al-Din Nasfi, "Love is a fire that burns the qibla and its veins when it falls into the seeker's mind, and turns it into a color and a qibla)".Nasfi, 1352: 142(

Knowledge: It means knowing the names and attributes of truth as it is.

Istaghna: It means needless. In this position, the seeker has no personal request from God:

After this, the valley was desolate

He jumps from the needlessness of Sarsari / strikes a national tail (Attar Neyshabouri, 1374: 392)

What is the use of this, Yarb Wayne, what is the power of wisdom / Cain, all wounds are hidden and there is no room for sighing).Hafez, 1387: 130(

Tawhid: In this position, the seeker sees nothing but the existence of truth and sees all the attributes of phenomena in the attributes of mortal truth. In order to reach this position, the following manifestations must shine on the heart of the seeker.

A: Manifestation of verbs: that the seeker sees all actions as the verb of truth and this position is called fading.

B: Manifestation of attributes: The seeker considers all the attributes of objects as mortal in the attributes of truth and calls it the status of Thames.

A: Intrinsic manifestation: The seeker sees all the essences of things as mortal in the essence of truth, which is called the rightful authority (Kashani, 1988: 371).

Surprise: It is the entrance that enters the seeker's heart during contemplation and presence and reflection, and prevents the seeker from thinking and contemplating.

Death: It means non-existence and non-existence. And in the term of mystics, it is forgetting non-God and drowning in observing the attributes of truth. In this position, the will of the servant disappears in the will of God, and no temptations of the flesh and the devil remain for him.

It was therefore necessary to state the above issues in order to show that the perfect man in Sufism and romantic mysticism must go through stages and authorities in order to reach this position.

Pious mysticism (asceticism): The course of this mysticism is based on asceticism and piety, and less love.

-Exercise with God is seen in it. The construction of these seekers - with whom mysticism and Sufism also emerged - is based on the fear and fear of God's high position. Officials in ascetic mysticism are: repentance, piety, asceticism, poverty, patience, trust and contentment.

-1Repentance: means return and in the term "return was from the condemned with what is good and opposition and abandonment of darkness are present and intention that also not sin again"

)Qashiri Neyshabouri, 1374: 137(

Therefore, the first step in ascetic mysticism is repentance.

-2Abandonment: avoiding doubts. Vara also means purifying the heart and preserving the language).Sajjadi, 1991: 785(

-3Asceticism: Piousness and abandonment of the world. It has also been said that asceticism is the return of desire from the possessions of the world and the departure of the heart from the necessities of the world. (Ibid: 448)

-4Poverty: It is the need for the right and the needlessness of others.

"-5Patience" means patience and forbearance, and in the terminology of Turkish mystics, complaining about the hardships of calamity to non-God. Saber is the one who has made himself so miserable that he is not afraid of the coming of calamity (Ibid: 521)

-6Reliance: It means relying on and trusting Brexit and acknowledging one's inability. In the term of mystics, trusting the support of the right and despairing of what is in the power of the people.

-7Reza: It means pleasure and contentment, and in the term of mystics, it is not dissatisfaction and tolerance of judgment and destiny. (Ibid: 416)

Regarding Jami, it should be said that he had three different mystical thoughts. First of all, he is one of the poles of the Naqshbandiyya dynasty of Khorasan, who are ascetic elders and mystics, and believe in the authorities and stages: repentance, piety, asceticism, poverty, patience, trust and contentment to reach the destination. . In its seven colors, especially in SabHah al-Abrar insists that these officials will be replaced. Secondly, he is strongly influenced by Rumi's teachings and thoughts, and like him, he is influenced by romantic mysticism, and he considers the valleys: seeking, love, knowledge, deprivation, monotheism, astonishment and annihilation to be the cause of perfection. Thirdly, Jami is one of the disciples and commentators of Ibn Arabi's ideas and has written several books such as Naqd al-Nusus and Ash'at al-Lama'at in expressing and explaining Ibn Arabi's philosophical mysticism and always defending the ideas of Mohi-ud-Din Ibn Arabi. One of the characteristics of Jami is that he does not mix them in his writings in these three works, and in the above two works he is the commentator of Ibn Arabi's thoughts, and in Haft Orang he is the commentator of Naqshbandi ascetic mysticism. With this explanation, it becomes clear that the claim that "Jami in the stages of Sufism follows the method set by Ibn Arabi" (Tafangdar, 1997: 31) does not seem correct.

In short, Abdul Rahman Jami has an ascetic mysticism in mysticism, and this tendency is quite evident in his most important poetic work, Haft Orang. Although, like Attar, who clearly explains the order of the authorities of romantic mysticism in Mantiq al-Tair, Jami does not have such an order in his expression, but addressing the basics and distinguishing between the authorities and the conditions of ascetic mysticism clearly shows his tendency to this school. In other works of Jami, the order of the meanings of behavior as mentioned in Sabha Al-Abrar is not mentioned. Perhaps this book can be considered as Jami's guide to reaching the perfect human stage. Jami has referred to each step as a contract.

Examining mystical texts, it can be said that in less than one of these works, he has given a chapter to the study of the perfect man. What is seen in all these works is the study and expression of the stages of behavior to reach the perfect human being. They show the way so that anyone who seeks this path can walk this path and approach the status of a perfect human being. Jami in Sabha al-Abrar expresses the preliminaries for conduct and perfection, these are many cases that cannot be compared to all of them, so we will suffice with the most important of them. He considers entering the Jirga of Sufism and Sufism as the first step in this direction: to enter the collection of Sufis and mystics, one must fight against selfishness and selfishness.

You have a taste for Sufism / you have to comment on yourself A Sufi is one who is selfish) Jami, 1987: 479(

In his drawing of the path of path, Jami points to an important point after entering those who are interested in mysticism and Sufism, and that point is the divine attraction for the continuation of behavior. It has already been said that the enthusiasts of the seeker are the target of the truth and are following the long path of conduct quickly :O heart of the people of devotion, I am happy for you / I am not happy for you that you have died and I mean you

The request from us is not true / whatever is on your behalf first (ibid .: 483)

According to Jami, the will of the servant and the attraction of the truth cause the path to reach the position of repentance:

How delicious you are / You are not tasteless, taste it

Especially a person came to repentance / a secret source came to repent

Gareth is not a relative of Adam / Where are the lords and the oppressors?

Give up on God / Kai

Whoever is lost is a sin / except to repent and turn to the path (Ibid: 486)

Vara: Jami considers Vara to be very important. In this way, the seeker avoids not only the forbidden but also the doubts:

Because it is not perfect, do not ask for the taste / bite of the taste

Whatever they put on your table / whatever they put in your mouth and mouth

Whether you want to eat it or not, it is not safe for cows and donkeys (ibid .: 487)

Asceticism: Jami considers asceticism to mean cutting off the desire for mortal blessings and pure attention to eternal blessings (ibid .: 490)

He considers the glorious disgrace and the clothes of Atlas and the palace-like houses and the food to be eaten so badly by Bethany Hurush that they are nothing more than nothing:

Everyone is nothing and nothing is Samar / but nothing more than nothing (ibid .: 491) Poverty:

Jami asks God for the status of poverty and desperately asks him to:

O in your mercy, open to all / drown your blessings, slope and ascent

It's hot in the garden of your heart, and that's enough

Sewing his wife's poverty on the living / compromising from the taste of the living heart of annihilation

Until he died, he was alive / dead and living in poverty (ibid .: 493).

Patience: Patience in suffering and suffering plays an important role in the success of seekers. From Jami's point of view, God sent the prophets to suffer, hardships and bitterness in order to provide them with perfection:

The prophets waited patiently

Noah did not die of the grief of the people

Joseph came to Jacob with patience / The truth came to Job from patience

Find out from the patience of Kalimullah Aoun / The garment in the Nile perished Pharaoh

Jesus waited patiently for the rope to be built

Ahmad waited patiently for the Quraysh.

Trust:

Instead of the reasons, Jami thinks about the causes and believes. And relying on the apparent causes and forgetting the main cause, ie God, is not compatible with trust and considers it absolutely necessary to complete the trust in order to take a step in the path of human beings. Other

mystics thought the same way. Pay attention to the reasons that keep you from the caravan of perfection:

O in the cause of the world, stay on your feet Multiple series

Take a look at this series from your own footsteps

The caravan has found the cause / You have stepped on the furniture

Spiders from Danny's nature / up to multi-ton objects

The veil on the causative agent is the cause / Love with the veil of the wise is amazing (ibid .: 508)

Reza : Jami calls Reza's position "the hating of open-heartedness and the sweetness of bitterness)". Ibid: 511(

He considers hardships and sufferings as austerities that bring man to perfection and he should be satisfied and satisfied with these sufferings.

Kill the dagger, be ascetic / Be satisfied with every austerity that comes

There is no end to the work on the other side, except for Rezina Baqadaullah

It is the suffering of the officials of Reza / Fateh Ganj Keramat Reza

Reza Reza Rooz Rezvan Matlab / Feyz Sarcheshmeh Hayat Matlab (same)

Mystics have referred to the theory of the perfect man in various ways in his works. A group such as Ibn Arabi (Ibn Arabi, 2010) Azizuddin Nasafi (Nasfi, 1350) and Sheikh Mahmoud Shabestari (Lahiji, 1337) have expressed the personal and personal characteristics of the perfect man and who is called the perfect man and What exactly does it have?

However, the majority of mystical authors - such as Qashiri, Hojviri, Attar Neyshabouri, Sanai Ghaznavi - have paid more attention to the study of the authorities and circumstances that bring a person to the status of a perfect human being than to the personal and individual characteristics of the perfect human being. And have examined them.

One of the characteristics of Jami's expression to explain human perfection in behavior is that for each of these mystical authorities and circumstances, he arranges a story of the states of the previous mystics, then he preaches and advises the seekers to take these authorities and circumstances seriously. They get to reach the position of the perfect man or approach him, then because he considers success and divine help as the main condition, he prays for the truth and asks him for help to help him in this difficult path. In this regard, it should be explained that according to the beliefs of mystics, it should be an effort of the seeker and the attraction of Hazrat Haqq. Without passion, attraction, and help, no seeker can reach his destination. In order to achieve the status of a perfect human being, in addition to the officials who are merchants (Qashiri Neyshabouri, 1374: 91), Jami also has a special view on the situation that they are a gift (the same). Items such as love (ibid .: 513), enthusiasm (ibid .: 516), astonishment and zeal (ibid .: 519), closeness (ibid .: 525), freedom (ibid .: 527), fatwa (ibid .: 530), sincerity (ibid .: 535).) And ... in his poem and has shown the way to seekers.

In his other work, Jami reveals the name of the Golden Dynasty as a legislator, promotes pure asceticism, and abhors immoral acts. He condemns ugly acts such as eulogy and hypocrisy and expresses his devotion to the Messenger of God and his family. He calls jealousy the eater of good things (ibid .: 144). It can be said that Jami in the dynasty pays more attention to the nobles and the

restrained and warns people against them. In this book, he praises Sheikh Abu Sa'id Abi al-Khair, who never uses my word for himself, and always uses his absent pronoun for himself (ibid .: 157). Regarding the arrangement of Jami's works and their role in the journey and behavior and reaching the characteristics of a perfect human being, it should be said that Jami tries to remove distortions and ugliness from readers and audiences in the Al-Dhahab dynasty, and in this book he plays the wrong role of ascetic. Takes charge. After this book, Al-Dhahab Series, in Sabha Al-Abrar, he arranges and promotes the stages of the journey and behavior in reaching the perfect human being, and based on the ascetic mysticism, this path shows the path of conduct. The important point in this work of Jami is that unlike Attar, who deals with the authorities of romantic mysticism in a methodical way and maintains order in them, Jami mixes the authorities of ascetic mysticism with mystical conditions as well as the principles of practical ethics. From his point of view, a person who observes the asceticism of the Golden Dynasty, as well as the authorities and circumstances of Sabha al-Abrar, is a perfect human being.

From the point of view of mystics, the further a person moves away from selfishness and selfishness, the closer he gets to the truth. Therefore, the prophetic hadith has been put at the forefront of their behavior: the most hostile enemies in you are your inner soul (Farzvanfar, 1982: 9). Rumi has also written in confirmation of this point:

People are lurking inside me in ambush / Better than all the people in Makr and Kane (Rumi, 2001: 44)

Jami also points to this important step in behavior:

Sheikh Mahneh, who was always with me

You told him a hundred stories, but neither you nor I ever said

His words, which were specific to the absence of the right / the garment, are right on his height (Jami, 1987: 157)

Austerity and self-improvement are the main tasks of mystics. One of the most important methods of austerity and self-improvement is voluntary starvation.

Jouk is the way of the seeker of the way / the way of the mystics is aware

The seeker's cunt was at his disposal / The mystic's cunt was so-called (ibid .: 124)

An important point to be made about the perfect man and his characteristics is that although each of the three different scholars of Ibn 'Arab mysticism and romantic mysticism and Ibn Arabi's philosophical mysticism has various positions and circumstances to reach the position of the perfect man, but all of them have characteristics. Perfect humans agree. From their point of view, the perfect man is the shadow of God among his servants, and therefore, he called him his caliph and successor, and the perfect man is superior to all other beings. God has made him the manifestation of His attributes. It is like a mirror that is perfect in being a mirror and reflecting the attributes of the viewer. God created him on the basis of his nature and has taken over all the heavens and the earth. He is the most perfect in terms of knowledge and right. perfect humanIt has both animal power and angelic qualities. In short, a perfect man is one in whom the graces of grace appear and purify his mind from other than God. (Rak to: Ibn Arabi, 1389: 113 - 111)

Jami considers that one of the most important characteristics of a perfect human being is that after attaining the position of nearness, the passion of the carpenter does not diminish in him, and he is

always impatient with the connection of truth. He tells the story of an Egyptian Dhu al-Nun who sees in the Ka'bah someone who has faded from the love of truth. He asks her if you have reached the carpenter, why are you so impatient: she says in response to Zulnoon:

The difficulty of getting closer is greater / My liver is bloody because of my closeness

It is in the presence of all the fears of decay / it is not in the dimension but the hope of Vesal (Jami: 1987: 524)

Jami explains the reason for the impatience of the perfect man after the closeness of the truth in such a way that, first of all, one cannot become a Muharram without the absolute destruction and strong attraction of the truth.

Grexie says that it is complete to arrive

So what's the point of abandoning the story? / What are the complaints?

I say yes, the link to perfection is impossible in the world

Until the remnants of existence remain / when it becomes clear from the opacity of the intuition cup (Jami, 1352: 206)

The second reason for their complete impatience is that their connection is fleeting:

This happiness does not come to anyone except after a lifetime and that one breath

Because after a lifetime, he turned to you / sooner than the lightning flashed (same)

Hafez Shirazi has told Shivai about the above and briefly:

The nightingale had a brightly colored flower on its beak.

I said, "What's the connection between this moan and the shout?" / He said he made us look like lovers) Hafez, 1387: 134(

He also said about the fleeting moments of Vesal:

How safe it is for me to live in Janan's house, because every breath / scream shouts to close the door) Ibid. 97(

In a nutshell, Jami and other Sufis and mystical mystics have said about the perfect man: The sign of the people of truth (perfect man) is ten things: reaching God, peace with all, compassion for all, humility with all. Satisfaction and submission and right, trust and patience, greed, contentment, unhappy harassment of someone and obedience means endurance and endangered stability (Jami, 1352: 216)

In another category, it has been said that the perfect man is to be perfected by eight things: good sayings, good deeds, good morals, knowledge, abandonment, seclusion, contentment, and leisure. Whoever has the first four and does not have the last four is an adult, but he is not free, and whoever has all eight attributes is perfect, free, and mature (ibid .: 219).

CONCLUSION

All three currents in Islamic mysticism - ascetic mysticism and romantic mysticism and Ibn Arabi's philosophical mysticism - although they have different ways to reach the perfect man and their positions and circumstances are different, but about the characteristics of the perfect man and his role in human excellence and His relationship has a single point of view. According to them, the

perfect man has both earthly and heavenly aspects. The mirror is the right of human beings, which exposes the attributes of truth to human beings and is the mediator of divine grace on earth. Jami believes that man should start from you and purify his soul and then go through the levels of ascetic mysticism to the stage of annihilation. Such a person, if he is attracted to God, reaches the position of a perfect human being and arrests and guides seekers.

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WAYS TO REDUCE BANK RISKS IN FINANCING MICRO, SMALL AND MEDIUM BUSINESS AND PRIVATE ENTREPRENEURSHIP BY INCREASING CORPORATE SOCIAL RESPONSIBILITY

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ABSTRACT

The main purpose of the article is to improve ways to reduce banking risks in the use of resources of commercial banks for young people, women, our compatriots working abroad, those who want to further expand their business. The main goal is to increase the popularity of financial services, expand the access of banks to the regions and meet the needs of the population in banking services, increase the confidence of the population and investors in the bank, raise banks to the level of financial supermarkets. Those who have entrepreneurship should apply the basics of entrepreneurship and the knowledge gained in practice no explanations, and training is provided. As a result, the risk level of commercial bank assets will be hedged, the population's demand for banking services will be met, young men and women will be directed to the profession, the role of women in society and financial literacy will be increased, the potential and scale of business entities will expand.

KEYWORDS: Banking System, Commercial Banks, Entrepreneurship Development, Business, Micro-Small And Medium, Private Entrepreneurship, Loans, Leasing, Financing, Consulting, Education, Cluster Development, Commitment To Society.

INTRODUCTION

In practice, we see that micro, small and medium-sized businesses and private entrepreneurship are weaker than large businesses, have limited financial knowledge in doing business, lack of financial resources of enterprises, staffing and the need for tax and tax advice.

When studying the works of many Uzbek scientists, the main focus is on updating the legal framework based on foreign practice, government incentives for entrepreneurship, low

creditworthiness of banks in some districts and remote cities of the country, problems with opening bank accounts, business registration and micro, small and a lack of collateral to repay loans to medium-sized businesses and private entrepreneurs.

In addition to theoretical knowledge, in practice, commercial banks have taken measures to reduce poverty and improve the quality of life of the population through the allocation of loans for the development of entrepreneurship in the loan portfolios "from house to house", ie by studying the lifestyle of the population. Measures on the one hand meet the needs of the population in loans from commercial banks, on the other hand, loans provided by commercial banks by this criterion are problematic led to an increase in the share of higher loans. Although existing businesses have been operating for decades, growth rates are slow, and banks misinterpret loans to understand that these debts will instead lead them into a debt swamp.

We can see that our women are not looked at with confidence in their entrepreneurial abilities, their entrepreneurial tendencies and growth are not taken seriously, and gender barriers have made them the few women to enter big business.

Micro, small and medium business entities are widely used in practice by commercial banks, mainly short-term financing or lending, and banks can see in their analysis the risk-rich nature of financing venture and startup businesses. Pawnshops from non-bank financial institutions opened nationwide, micro, small and medium-sized businesses and private entrepreneurs do not use such financial instruments due to the high interest rates on loans or credits offered by microcredit organizations for entrepreneurship.

Most of our bakers are hesitant about what and in what field and how much money they need to invest in entrepreneurship, and ask for advice from bank and tax specialists in doing business.

Today, in the macroeconomics of the world community, such indicators as the unemployment rate, per capita income in GDP, poverty reduction are the main concepts, and much attention is paid to improving the living standards of the population. We would like to take a critical approach and note that today in Uzbekistan there is no university for the development of entrepreneurship.

All existing educational institutions are public educational institutions and consist of higher education institutions focused on economics and finance. Entrepreneurship and their development are taught as a subject in public schools, but only non-governmental educational institutions and foreign organizations that provide paid services, including the Japanese Education Center in Tashkent and the Indian Entrepreneurship Development Center, offer entrepreneurship-oriented courses. Efforts are being made to attract available funds only to deposits of commercial banks.

We regret that all our young men and women in remote villages have limited access to education in large cities. As for the proposed hypothesis, the emphasis in corporate banking through corporate governance ethics is on promoting social responsibility to serve not only the interests of shareholders but also the interests of employees, consumers and society as a whole. If we look at foreign banking practices, the largest and most capitalized U.S. banks have accumulated similar obligations in them and are using them in practice.

When bank customers apply with the desire to become new entrepreneurs, it is advisable to fill this gap. The goal can be achieved through the organization of trainings for the population in remote areas and villages of the country, the organization of business courses in remote areas and villages through the types of business development services in banks. As a result of such measures, banks will be able to reduce their risks and promote a culture of entrepreneurship throughout the country.

METHODS

First of all, branches and offices of commercial banks have been opened in many districts of the country. These banks are doing a lot of work for the development of entrepreneurship of the population today.

In this regard, the Board of Directors of banks should consider the selection of independent observers from the banking sector and entrepreneurs, the development of entrepreneurship and business as a primary responsibility to banks, the importance of financial literacy of bank customers, and the interest of banks themselves.

At the same time, the allocation of grants and funds to bank customers and other new entrepreneurs on the basis of the draft obligations of banks to the Company, which will be considered by the Board of Directors of banks, will be considered and implemented.

Banks are still encouraging entrepreneurship on the ground, but this is not enough. At the same time, the population should focus on low-income sectors, including: financial literacy by teaching them how to increase their income through bank deposits, activities they and their families know how to start their own business, and how to earn income from corporate and government securities and foreign exchange trading.

- It would be expedient for banks to train specialists for the business sector at their own expense, as a duty to society. Extensive study of training programs for trainers in retraining and advanced training of commercial banking professionals in the field of entrepreneurship and business education to their clients and others;
- Identify and select those who have a propensity to start, lead, and manage a business, encouraging them to continue their parents' careers based on their education and the life experience and knowledge they have acquired over time;
- Improving the basics of business management, financial management system, reading of balance sheets, accounting literacy, with a close connection with foreign practices;
- To motivate the bank's clients to start a business, to give an idea of how easy it is for their parents to continue their careers, to emphasize that prospective entrepreneurs should first pay for their work, give advice and guidance, mentor, successfully conduct B2B agreements and negotiations and put them into practice ;
- Ways of state registration of entrepreneurship, liaison with stakeholders and preparation of reports, analysis of market research in the field of entrepreneurship and business SWOT, PERS analysis;
- Types of market analysis, teaching to create a business plan based on them, to give an idea of how accurate it is to write a business plan themselves;

- To teach the importance of choosing a name for business and entrepreneurship, the concept of entrepreneurial life, the principles of overcoming losses or achieving sustainability in business, such as "Win-win", "lose-win", and brand building;
- Methods of practical application of benefits such as tax payments and tax issues, budget revenues, benefits and preferences, subsidies and grants;
- Detailed training on financing methods such as the purchase of working capital and fixed assets, letters of credit, leasing, project financing, securities, partnerships, joining clusters and associations in the financing of the selected business from own funds and bank loans;
- Promoting a business created under the role of competition and rivals, partnership and trust;

They will study ways to expand export potential, ways to expand foreign exchange transactions through banks. It will focus on the important aspects of starting a family business, passing on the business to the next generation, teaching the basics and practical concepts of entrepreneurship or business termination.

Candidates selected and approved by banks will be assisted in conducting their business by employees as project initiators, from the basics of entrepreneurship to phasing of business, until they reach income (profit) and perhaps reach the category of large business.

Results

The article we have chosen will essentially be achieved with minimal losses and based on macroeconomic growth trends. Through these measures, the risks of commercial banks will be reduced, and banks will provide their customers with a comprehensive material and moral incentive in the field of entrepreneurship.

Additional jobs will be created in banks and in business units created and formed. They are accountable for every job created by the Bank's employees, and are responsible for allotted loans and other services. If such measures are taken, the risk of allocated loans will be reduced and new jobs will be created. The focus is on women.

CONCLUSION

From the points listed in our article, it will be possible for commercial banks to set the corporate governance system correctly, to understand the obligations of the bank's Board of Directors, shareholders and stakeholders to society.

Risk management is at the heart of many corporate strategies. Reputation gained over the years can be destroyed in a matter of hours in events such as corruption scandals or environmental disasters. Creating a corporate culture of "right behavior" can reduce these risks. Banks will be able to increase their reputation and customers and hedge their risks as a result of such actions.

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PROSPECTS FOR THE DEVELOPMENT OF THE BANKING SYSTEM OF THE REPUBLIC OF UZBEKISTAN

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ABSTRACT

This article is devoted to highlight the current obstacles and challenges in the development of the banking and financial system of the Republic of Uzbekistan and their elimination through promising integration strategies. The predominance of state participation in the banking sector is considered to be one of the main causes of existing crucial issues in the current banking system, such as high level of liquidity and currency risks, an extreme increase in free market rates till almost unaffordable level for private sectors due to uncovered preferential credits, as well as, a weak competitive environment among commercial banks and this review is supported with both theoretical and statistical data on the basis of real sector practice and recommendations of international experts. The optimal and alternative solutions to these problems are based on the main directions of development identified in the "Strategy for Banking Reform of the Republic of Uzbekistan during 2020-2025s", developed by specialists in the banking and financial sector of the country in collaboration with World Bank experts, and analyzed on the basis of term distributions.

KEYWORDS: *Banking Sector, Inadequate Corporate Governance, State-Owned Commercial Banks, Private Sector, Information Disclosure, Privatization, Commercialization, Bank Liabilities, Credit Portfolio, Bank Assets, Non-Bank Credit Institutions, International Financial Institutes, Risk Of Currency, Risk Of Liquidity.*

INTRODUCTION

As any country goes through a stage of development, it sets itself significant tasks, such as providing the future of the state and the welfare of the population, and in achieving this, the main emphasis will be placed on the development of the country's economy. With such intense processes, the Republic of Uzbekistan also considers the tasks of strengthening and enhancing the quality of the banking and financial system, as well as achieving the image of commercial banks as a driving force of the economy, as one of the most actual issues in front of the national economy. Indeed, the fact that the financial stability in the country largely depends on the effective functioning of the banking and financial system has been proved by the practice of the world economy. A number of measures are being taken in the country to gradually reform the financial sector, and accordingly, the necessary legal conditions are being created for conducting advanced banking business and strengthening the competitive environment in the sector. In particular, the updated legislations of Laws of the Republic of Uzbekistan: "On the Central Bank of the Republic of Uzbekistan", "On banks and banking activities", "On currency regulation", "On payments and payment methods", which meet international standards and create an attractive environment for foreign investments in the financial sector, have been adopted.[1] The implementation of these laws has eliminated complex systemic problems, existing in the country over the past decade, such as currency conversion, cash supply, and high commission fees for services. One of the latest news on the current financial condition of the country's banking sector - the report of the international rating agency "Moody's", announced on April 8, 2020, states that the forecast of the banking system of the Republic of Uzbekistan remains "stable". The main factor was the fact that the banking system of the republic is more resistant to the effects of the COVID-19 pandemic than the other CIS countries.[2] Although the country's banking system is achieving stable progressing indicators, the analysis of the current situation in the banking sector reveals a number of systemic problems that hinder the development of the banking sector in line with economic reforms and the needs of society, such as high levels of government intervention in the banking sector, insufficient quality of risk and general management in state-owned banks, as well as, low levels of financial intermediation. In order to overcome these problems and obstacles, taking into account the main conclusions and recommendations of the World Bank based on the results of the study of the current state of the country's banking system, "The Strategy for the reform of the banking system of the Republic of Uzbekistan during 2020-2025s" has been developed on basis of the Decree of the President of the Republic of Uzbekistan. The strategy identifies areas for transformation and reform of the banking system over the next five years, as well as tendencies to find possible solutions to existing problems, taking into account the global trends in the financial sector.[3]

MATERIALS AND METHODS

Any normal banking system has the following two functions: securing agreements and mediation. Currently, there are four main problems that prevent commercial banks of the Republic of Uzbekistan from performing these functions: inflation, managerial administration of money market, weak competition and low confidence in banks.[4] The main reason for privatization of the state-owned commercial banks was their poor performance and frequent costly bailouts, resulting from inadequate systems of governance under state ownership. A second reason was a widely held perception that the presence of state-owned banks tends to hold back the development of the financial sector. Several empirical studies have indeed established that the presence of state-owned banks generally is associated with a lower level of financial development.[5] Banking fragility by itself does not justify government intervention aimed at guaranteeing the stability of the banking

system, unless bank failures generate large negative externalities. It is exactly in this sense that banks are special because, besides intermediating credit, they also provide two services that have a publicgood nature: they are the backup source of liquidity for all other institutions and the transmission belt for monetary policy.[6]

RESULTS AND DISCUSSION

It should be noted that there are still some problems and issues in the banking system, which are causing the country's commercial banks to significantly lag behind in the process of integration into advanced international banking practices and taking full advantage of their progressive potential. As an example of such key barriers include high levels of government involvement in the banking system, resulting in inefficient use of financial and human resources, and also inadequate corporate governance and risk management systems: (Table 1)

TABLE 1. THE STATE SHARE IN THE AUTHORIZED CAPITAL OF COMMERCIAL BANKS OF THE REPUBLIC OF UZBEKISTAN,%[7]

Commercial banks of the republic with a state share in the capital	State shareholding (share) in the capital of banks, %
“National Bank for Foreign Economic Affairs of the Republic of Uzbekistan” Joint Stock Company	100
Joint-Stock Commercial “People’s Bank”	100
Joint-Stock Commercial Bank “Asia Alliance Bank”	100
Joint Stock "Poytaxt Bank"	100
Joint-Stock Commercial Bank “Turonbank”	97.6
Joint-Stock Commercial Bank “Qishloq Qurilish Bank”	96.5
Joint-Stock Commercial Bank “Asaka Bank”	95.9
Joint-Stock Commercial Bank “Agrobank”	94.3
Joint-Stock Commercial “Aloqabank”	94.2
Joint-Stock Commercial Bank “Sanoat Qurilish Bank”	89.1
Joint-Stock Commercial Bank Microcreditbank”	84.8
Joint-Stock Commercial Mortgage Bank “Ipoteka” bank ATIB	84.7
Joint-Stock Commercial Bank “UzagroExportBank”	75
JSICB “Ipak yo‘li”	0.4
Private Joint-Stock Bank Trastbank	0.1
Joint Stock Commercial Bank with Foreign Capital “Hamkorbank”	0.01

The table confirms that the state has a dominant position in the banking sector of the country, with a total of 16 out of 31 commercial banks, with a large share in the authorized capital of 13 banks. Significantly, the capital of these banks accounts for more than 87% of the total capital of the banking system, and their assets account for more than 85% of total assets.

In recent years, the dominant position of the state in the banking sector and the involvement of banks as intermediaries to finance various government programs and enterprises have generated a number of systemic risks and problems, including:

- the lowest rating of the banking system instruments of Uzbekistan in the ranking of world financial institutions by region: (Table 2)

TABLE 2. THE WORLD BANK, EASE OF DOING BUSINESS 2020: AS AN EXAMPLE OF CIS COUNTRIES[8]

The list of CIS countries	“Getting Credit” indicators	rating	“Getting Credit” DB 2020 scores
Armenia	48		70.0
Azerbaijan	1		100
Belarus	104		50.0
Uzbekistan	67		65.0
Kazakhstan	25		80.0
Kyrgyz Republic	15		85.0
Moldova	48		70.0
Russian Federation	25		80.0
Tajikistan	11		90.0

The table demonstrates that the level of getting credit from commercial banks in the Republic of Uzbekistan is relatively low in the region, more precisely, Uzbekistan takes almost the last place among the CIS countries (ahead of Belarus), the last among Central Asian countries.

- the backwardness of large commercial banks in the process of transformation in accordance with modern requirements in the industry, the use of effective methods of risk management in terms of assets and liabilities, corporate governance standards, and the volume of information technology products. At present, according to the latest financial statements of the commercial banks, 70 percent of bank deposits have been short-term ones whereas 90 percent of credits/loans have been given for a long-term period. In some commercial banks, current expenditures account for 60-70 percent of banks revenues.[9] In this case, taking the fact that loans/credits are revalued on the basis of the refinancing rate while deposits are revalued depending on the level of yield on short-term government bonds into account, the breakdown of the correlation between the refinancing rate and the level of profitability of short-term government bonds directly affects the bank's margin.
- the role of state-owned banks as traditional “development banks”, which provide loans to priority government programs, sectors and state-owned enterprises at rates below market. As a result, the share of preferential credits in the total credit portfolio is more than 60%.[10]

The availability of long-term concessional financing in foreign currency leads to a decrease in the income curve. And this, in turn, makes long-term loans much cheaper than short-term loans for state-owned enterprises, and encourages them to borrow in foreign currency rather than national one. The high level of assets and liabilities in foreign currency equivalent, as well as the concentration of loans and deposits in large companies and certain sectors of the economy exposes banks to currency and credit risks, as well as liquidity risk: (Figure 1)

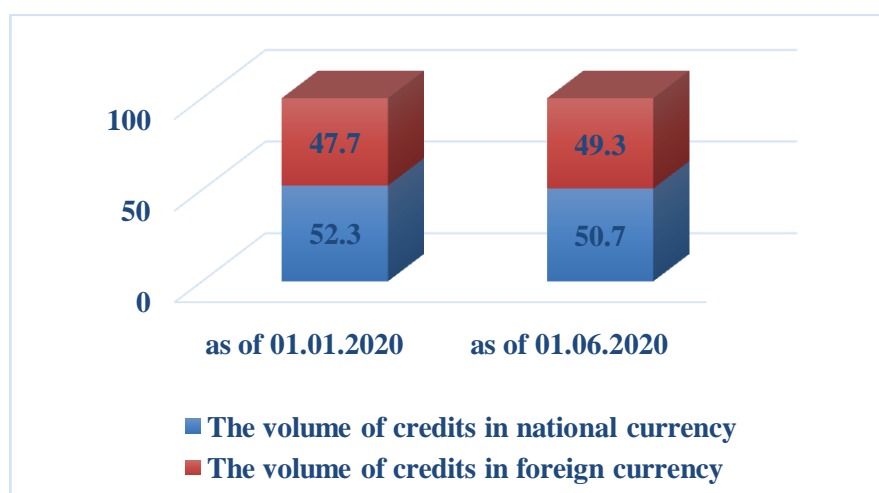


Figure 1. Volume of loans in national and foreign currency in certain periods of the current year, % [11]

In the first quarter of this year, credits in national currency were 4.6% higher than in foreign currency, however, by the third quarter of the year, loans in foreign currency increased by 1.6%, while maintaining the previous equality. At present, 36% of total credits given by state-owned banks are accounted for by 10 large borrowers. [12] If this trend continues in this manner, in the coming years, it will create serious risks, such as the depreciation of the national currency and negative changes in bank margins due to the high level of risk.

- the focus of business models of banks on corporate customer service, low level of financial popularity among the citizens of the country due to the slow development of non-bank financial institutions, innovations and information systems. As a result, whereas credits to individuals and corporate clients are distributed evenly in other countries, in the state's banking sector, credits to individuals account for just 18.8% of the total credit portfolio, and loans to corporate clients (in various purposes) account for 81.2%. [13]
- underdeveloped non-bank credit institutions, including microfinance institutions. As a result, there are no effective mechanisms in place to cover the level of start-up entrepreneurs, giving them chances to reach the level of a full-fledged business that can gradually attract bank loans.

In fact, no new stage of development will pass without difficulties, indeed, at the same time, the country's current attention to these existing problems and the main factors hindering the development of the banking system, and also the rigidity for the system, efforts to find optimal solutions in consultation with international institutions based on thorough analysis are in themselves a great success for the country's economic prospects. This is evidenced by the development of the Strategy "The reform of the banking system of the Republic of Uzbekistan during 2020–2025s" and via this legislation, specific, effective and timely reforms have been identified to eliminate the above problems and ameliorate the quality of the banking sector. The main goal of this strategy is to carry out comprehensive changes in the banking system, aimed at the formation of a modern banking system in the country, increasing the investment attractiveness of banks and introducing new standards of banking services. According to the strategy, the followings have been identified as priorities for reforming the banking system of the Republic of Uzbekistan:

1. **Improving the efficiency of the banking system** is the most important factor in economic development to meet the growing needs of businesses and the population for affordable and quality financial services. In this regard, the strategy envisages the following measures:
 - expanding the range and improving the quality of banking services through the involvement of advanced international experience and technology;
 - improving the management of banks through the introduction of advanced standards and practices of corporate governance, ensuring the accountability and transparency of the banking authorities and the proper disclosure of information by them;
 - increasing the commercialization of banks, ensuring the financial stability of the banking system, as well as the abandonment of subsidized lending to increase the effectiveness of monetary policy instruments;
 - strengthening the role of commercial banks as financial intermediaries, mobilizing funds for investment and directing them to finance the most financially and economically viable sectors;
 - consistent liberalization of banking activities and its harmonization with international best practices in order to attract strategic foreign investors and create the necessary conditions for the gradual integration of the financial system into international financial markets;
 - creation of convenient conditions for the progress of non-bank credit institutions through the development of competition and the relevant norms of prudential regulation, as well as the facilitation of access to financial services in this sector.
2. **The provision the financial stability and resilience of the banking sector** is a key condition for the successful implementation of the planned reforms and strengthening the confidence of businesses and the public in the national banking system. The following measures are expected to serve strengthening the financial stability of banks:
 - the implementation of comprehensive measures to improve the management efficiency of state-owned enterprises, including the development of optimal methods of management, financial stability and privatization of these enterprises;
 - the conduct of an independent assessment of the quality of assets of state-owned banks, including measures to improve the quality of their credit portfolios through practical assistance to non-performing credits;
 - the development of credit bureaus through the integration of their databases with information systems of housing and communal services, tax and pension systems;
 - an international integration of the financial sector based on the principles of banking, including the introduction of advanced international standards in corporate governance and customer service;
 - the elaboration of out-of-court dispute resolution procedures, legislation in the field of bankruptcy and enforcement, and other measures of legal protection of banks from dishonest actions of debtors.
3. **Privatization of commercial banks and reduction of the state's share in the banking sector** is an important factor in reforming the banking system. The main approach to the privatization of the country's largest banks includes two stages, including institutional changes in 2020–2021s and the full sale of the state's share to strategic investors in the subsequent period. In the first phase, the institutional reformation of banks will involve cooperation with international financial institutions and consulting companies to conduct in-depth analysis of the financial condition of the banks, identify existing problems and develop appropriate transformation strategies. Extensive cooperation with international financial institutions is based on the introduction of modern solutions in corporate governance, business strategy and

operations. In addition, their participation could be a positive sign for potential strategic investors. The process of corporate transformation of state-owned banks will be carried out in four priority areas: improving corporate governance, amending the quality and scope of banking services, the introduction of modern information technology and capacity building. The second stage- the privatization of the state share, will take place after the successful transformation of the banks and will involve the sale of bank shares to strategic investors with the necessary experience, knowledge and reputation.

Based on the foregoing, the strategy envisages the transformation and privatization of the following banks in the country:

1. JSCMB "Ipoteka Bank" and Joint-Stock Commercial Bank "Uzbek Industrial and Construction Bank" with the support of the International Finance Corporation;
2. JSCB "Aloqabank" is with the support of the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB);
3. JSCB "Asaka Bank" with the support of the EBRD;
4. Considering the merger of JSCB "Qishloq Qurilish Bank" and JSCB "Turon Bank" through the involvement of international financial institutions and consulting organizations.

The strategy envisages the sale of state-owned shares in JSC "People's Bank" and JSC "Asia Alliance Bank" to foreign strategic investors. In addition, during the process of preparing the JSC "People's Bank" for privatization, it is planned to separate the pension system from the bank.

In order to meet the demand for financial services of all segments of the population during the reform of the banking system, to ensure the territorial coverage of banking services, state shares in three commercial banks- In order to meet the demand for financial services of all segments of the population during the reform of the banking system, to ensure the territorial coverage of banking services, state shares in three commercial banks- "National Bank for Foreign Economic Affairs of the Republic of Uzbekistan" Joint Stock Company, JSCB "Agrobank" and JSCB "Microcreditbank" will be remained. Furthermore, the NBU will develop a single mechanism ("project factory") to support the development, review, financing and implementation of investment projects through taking international experiences into account. Taking into account the advantages of the regional network of JSCB "Agrobank" and JSCB "Microcreditbank", their activities are aimed at providing small and medium-sized businesses, agricultural producers with state credits, providing services for individuals and financial support to small businesses in remote areas where financial services are difficult to provide. Based on the diagnosis and assessment of the financial condition of some state-owned banks, their reorganization in accordance with the law, based on regulatory requirements and economic feasibility, will be considered.

In order to assess the timely achievement of the goals set for the reform of the banking sector and the success of the efforts, the strategy includes the following targeted indicators:

TABLE 2. TARGETED INDICATORS FOR THE IMPLEMENTATION OF THE BANKING REFORM STRATEGY OF THE REPUBLIC OF UZBEKISTAN DURING 2020-2025S[14]

S/n №	Name of indicators	Current state	Targets:		
			For 2021	For 2023	For 2025
1.	The share of the assets of private (without the state share) banks in the total assets of the banking sector	15 %	17 - 20 %	35 - 40 %	60 %
2.	The share of banks' liabilities to the private sector in total liabilities	28 %	30 - 40 %	60 %	70 %
3.	Attract strategic foreign investors with sufficient experience, knowledge and reputation	-	-	3	3
4.	The ratio of deposits to bank liabilities	41 %	41 - 45 %	45 -50 %	50 - 60 %
5.	The share of assets of non-bank credit institutions in the total assets of credit institutions	0,35 %	0,5 - 0,7 %	1 - 1,5 %	4 %
6.	The share of liabilities in foreign currency in total liabilities	58 %	50 - 55 %	45 -50 %	40 - 45 %
7.	The ratio of total bank assets to GDP	53 %	53-54 %	54-55 %	over 55 %
8.	The ratio of bank deposits to GDP	18 %	19 - 21 %	22 -24 %	25 - 27 %

The Ministry of Finance and the Central Bank of the Republic of Uzbekistan will carry out systematic monitoring of the implementation of the Strategy, general coordination, prompt consideration and resolution of problematic issues that hinder the reform of the banking system.

CONCLUSION

In general, one of the priorities in front of the national economy is to create the necessary conditions for the proper organization and development of the banking and financial system. In particular, in recent years, the Republic of Uzbekistan has increased the importance of the banking sector in the country among the general financial instruments, through which to increase the financial literacy of the population. Furthermore, by focusing on financing investment projects that are expected to yield high returns by attracting free funds in the hands of citizens to the economy, and this will not only serve to the banking sector and the population in need of financing, but also to the regulation of monetary factors that are important for the whole economy. The predominance of state participation in the commercial banks of the country, the violation of the correlation between the term of deposits and credit portfolios in the banking sector, and a high share of foreign currency financing in the total credit portfolio, as well as, the existence of misunderstandings about the licensing process in the system- are being considered to be the main causes of existing crucial issues in the current banking system, such as high level of liquidity and currency risks, an extreme increase in free market rates till almost unaffordable level for private sectors due to uncovered preferential credits, as well as, a weak competitive environment among commercial banks. The optimal and alternative solutions to these problems are based on the main directions of development identified with the term distributions in the "Strategy for Banking Reform of the Republic of Uzbekistan during 2020-2025s", developed by specialists in the banking and financial

sector of the country in collaboration with World Bank experts. According to the strategy, the main direction in overcoming these problems will be put on the partly privatization of state-owned banks by attracting qualified investors, beforehand, in the process, the activities of commercial banks should be correctly evaluated and prepared for the transformation process. Most importantly, the level of preferential lending should be radically reduced, it should be only aimed at those segments of the population that are in need of support. Furthermore, the legislation directs for the implementation of key reforms in banking and finance, such as increasing the level of knowledge and experience of the country's cadres by expanding cooperation with leading universities, consulting companies and international financial institutions. Although the current ratings of the Republic of Uzbekistan in the banking and financial sectors are not at the highest level, it should be noted that, the country is maintaining own stability with the stringency and potential for the development of the system, the right policy based on changes in the global economy in the time of COVID-19 pandemic.

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