Innovative Organization of Project Lending

Organización innovadora de préstamos para proyectos

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ABSTRACT:
This paper addresses some of the more relevant issues related to terminology associated with the economic categories 'finance' and 'credit' and illustrates that in implementing a project the costs are, mainly, dealt with by way of financing rather than lending. The authors introduce the term 'innovative project lending (financing)', which implies delegating the authority to manage project cash flows to bank staff. The paper describes various types of projects, including religiously oriented, confessional, ones, and examines some of the key factors for their inclusion in processes of innovative project lending. The authors examine some of the possible ways to form working groups for managing project cash flows and distribute authority amongst the participants. The paper describes a set of methodologies and a sequence of steps that may be utilized by the bank’s senior management in the choice and assessment of projects when there are plans to employ project lending (financing) schemes in implementing them. The authors put forward specific schemes and tools for managing a project’s cash flows at all stages of its implementation.

Keywords: commercial bank, project lending, project financing, innovation, confessional bank, risk management, managing cash flows, reputational risk

RESUMEN:
Este documento aborda algunas de las cuestiones más relevantes relacionadas con la terminología asociada con las categorías económicas "finanzas" y "crédito" e ilustra que al implementar un proyecto, los costos se tratan, principalmente, a través de financiamiento en lugar de préstamos. Los autores introducen el término "préstamos innovadores para proyectos (financiamiento)", que implica delegar la autoridad para administrar los flujos de efectivo del proyecto al personal del banco. El documento describe varios tipos de proyectos, incluidos los de orientación religiosa, confesional, y examina algunos de los factores clave para su inclusión en los procesos de préstamos innovadores para proyectos. Los autores examinan algunas de las posibles formas de formar grupos de trabajo para administrar los flujos de efectivo del proyecto y distribuir la autoridad entre los participantes. El documento describe un conjunto de metodologías y una secuencia de pasos que pueden ser utilizados por la alta gerencia del banco en la elección y evaluación de proyectos cuando hay planes de emplear esquemas de financiamiento (financiamiento) para la implementación de los mismos. Los autores presentaron esquemas y herramientas específicos para gestionar los flujos de efectivo de un proyecto en todas las etapas de su implementación.

Palabras clave: banco comercial, préstamos para proyectos, financiamiento de proyectos, innovación,
1. Introduction

Some of the more crucial problems in and prospects for ensuring the efficiency of management in banks deal with managing bank risks, which is the case at both the national and international level.

Traditionally, and quite rightly so, one of the major types of bank risk is credit risk, which, in terms of manifestation and management, is distinguished by special characteristics in project lending (financing). Compared with widely used schemes of project financing, oriented toward adequate cash flows (those accumulated by the actual project), the authors’ innovative model for organizing project lending (financing) involves engaging staff members of the lending bank in the project to have them manage its cash flows.

Checking, analyzing, and assessing the market, maintaining control over project costs, and monitoring project cash flows will help ensure that the borrower fulfills, in full and on time, all their credit obligations, thus minimizing credit bank risk, while the professional competence displayed by the bank’s staff will help to further reinforce its reputation.

That being said, the obvious chances of project financing in banking risk management are, to a certain degree, balanced by a number of additional issues, which are capable of growing into pure risks – and, in extreme cases, could even be translated into shocks. From the bank’s perspective, this could be competent staff members being led away, incurring additional organizational effort and costs, and facing increased operational risks. While the borrower (the project’s author and implementer) may well engage total strangers in the project, which is fraught with the risk of leakage of sensitive insider information, difficulties maintaining the established relationships with suppliers and keeping up on key indicators, and a low chance of maneuvering in managing the funds allocated toward a specific project.

The study’s hypothesis is as follows:

- it is possible to achieve gain when all participants in the project have a common interest in its implementation, as improved financial support for a project will, normally, result in boosts in terms of relevance, certainty, and assiduity;
- there are prospects for boosts in the realism and validity of assessments of projects from the perspective of their attractiveness to the bank’s senior management, to its risk management team, to participants in the project’s implementation, to authorities at varying levels, to nongovernmental organizations, and to the population;
- there is a pool of experience regarding the use of the proposed organizational schemes of project lending in corporate lending and working with problem loans and there is potential for expanding this experience in the immediate future as a component of strategic partnership agreements and additional services in deposit and credit undertakings as a corpus of examples for improving the financial literacy of bank clients.

The study’s methodological basis is grounded in a set of works by Russian and foreign scholars and practicians, as well as certain regulatory documents.

Among the key developers of the theory and methodology of banking management and banking risk management are O.I. Lavrushin, Yu.A. Rovenskii, E.F. Zhukov, Yu.Yu. Rusanov, L.A. Badalov, O.M. Rusanova, and other Russian scholars, as well as P.R. Rose and J.F. Sinkey.

Issues in and prospects for project lending (financing) have been researched by I.A. Nikonova, V.Yu. Katasonov, A.M. Morozov, B.V. Vorontsov, A.M. Kolesnikov, T.S. Bektenova, and other Russian scholars, as well as A. Fight, G.D. Vinter, and P. Benoit.

The theory, methodology, and practice of banking risk management have been explored by O.I. Lavrushin, M.A. Pomorina, Yu.Yu. Rusanov, and other Russian scholars, as well as C. van Walraven and M. Betts.

The authors’ objective in this study is to develop a rationale and an algorithm for their innovative scheme for organizing project lending (financing) at different stages of the
project’s implementation. Achieving it may help create the essential preconditions for not just boosting the efficient implementation of project-generated solutions but also reducing credit risk in a managed fashion.

2. Materials and methods
The findings from research conducted by the authors and work carried out by them in developing relevant instructional solutions helped identify a set of discrepancies and moot issues resolving which should help enhance the efficiency of theoretical models employed by and the practical performance of the bank’s management. There arose a need to come in touch with real bank employees and conduct a set of surveys by questionnaire, focus-group interviews, expert assessments, and observations. In processing the materials gathered as a result, the authors employed methods of economic analysis (of banks’ internal regulations), summarization, ranking, classification, grouping, comparison, and description. The authors’ investigation of related historical experience prompted the use of the historical and logical methods and the method of analogy and generalization. The study resulted in a collection of surveys, questionnaires, and classification attributes, specialized to project lending (financing) specifically.

3. Results
Defining the term ‘innovative project financing’ raises a number of moot issues that reflect both alternative views and quite highly divergent construals, associated, above all, with the conceptual apparatus.

This being the case, it is quite logical and appropriate to try to examine and describe some of the varieties of the phenomenon of innovation:

- **pure, genuine, or true innovations**, which involve investing in and providing financial support (in the form of financing, investments, including stock investments, and lending) for totally novel ideas, solutions, inventions, and proposals that have never, and nowhere, had an analog;
- **exogenous innovations**, which involve attracting funds toward and funding solutions, methodologies, models, or technologies that are already being implemented as part of other projects or processes or used in other sectors, regions, or countries but require, at times profound, complex, and costly, adaptation into new areas of use;
- **developing, streamlining, or improving innovations**, which involve investing in, creating, and introducing into the production process novel components that will supplement, improve, or even transform technologies, methodologies, and instrumentariums that are already in use.

All of the above types of innovation are highly beneficial for ensuring boosts in the nation’s economic reputation, the successful execution of the technical process, and enhancements in the quality and range of products that are facilitative of implementing new projects.

However, the innovations sphere is full of various risks that may be faced by banks that are prepared to lend to projects (Bektenova, 2015). These risks are inherent to the following types of innovation:

- **virtual innovations (dummy innovations)**, which involve investing, sometimes heavily, in solutions that are often primitive and quite often nonfunctional, which only simulate novelty and are mainly designed to help fulfill certain plans and directives and “achieve” higher performance indicators, keep up a progressive image or a leading-edge reputation, facilitate career growth, and ensure additional revenue for innovator developers, as well as implementers, administrative activists, and members of the management team. A variety of virtual innovations is minor changes made to a technology that make it possible to tout a new product – an innovation – and, thus, up the prices;
- **nonstandard innovations**, which involve lending to or financing projects that transcend the norms prescribed by administrative documents followed in a particular country, region, area, or populated locality (laws, decrees, provisions, statutes, or rules), the provisions of banks’ internal regulations, or all kinds of restrictions and prohibitions of a sociocultural, ethnic, and moral nature. These deviations may be full or partial and, based on the logicalness and quality of the restrictions and prohibitions, neutral, positive, and, rarely, negative. In any case, here one will need to employ schemes and methodologies from adaptation management;
political-ideological innovations, which, essentially, are a variety of political and advertising technology. Here, it is novelty and innovative status that will be placed at the head of the hierarchy of all indicators, parameters, and characteristics and thus reflected in administrative decrees, plans, and reports. It is now not consumer preferences, traditions, quality, or organoleptical properties but novelty that will matter the most as opposed to all other indicators of production, sale, and consumption of a product;

psychological innovations, which are aimed not at boosting the qualitative characteristics of goods and services and oriented not toward top organoleptical performance and toward aesthetics, reliability, convenience, and shelf-life but at meeting the need for leadership, superiority, exceptionality, and distinction, which is characteristic of certain people. Innovations of this kind are mainly implemented in such areas as fashion, design, variety entertainment, social networks, contemporary arts, small talk, and hospitality events, although right now they are also in demand in politics, education, and science.

In addition, there are risky innovations that include underworked, incomplete, unsecured, and idle innovations.

The present-day construal of the term ‘project financing’ associates it with schemes of investing certain funds in a project which will be returned by way of resources accumulated by that project during its implementation. This approach describes not financial but, rather, credit relationships, so it hardly qualifies as an innovative one. It has been common practice for a while now for banking management and banking risk management specialists to calculate and control – in assessing the probability of a loan being repaid, i.e. the level of potential credit risk – ‘adequate cash flows’, accumulated by a project toward which loan funds are extended.

There is also another approach to construing the concept of ‘project lending (financing)’ that has been developed and articulated in the economic literature and methodological research (Rusanov, Natocheeva, Belyanchikova, & Bektenova, 2017). Under this approach, project lending is construed as the lender’s (the bank’s) focus not on adequate cash flows for the repayment of the loan but on certain schemes involving the division of the project into several spheres: documentary, technological, construction, infrastructural, human resources, resources, and credit. Each of these spheres is implemented and managed by a group of experienced competent specialists united by a system of interrelationships, communications, and hierarchy. The bank’s managers participate in the project as managers of cash flows within the credit segment whose job is to provide with financial resources all other segments of the project. At first glance, the scheme looks quite attractive. The authors and implementers appear to be able to ensure the steady provision of the project with the financial resources it needs and do so in a most optimum manner (on time and without overspending), while the lenders (banks) are able to keep their credit risks down and manage (and in some cases even tangibly influence) not just the project’s adequate but general, extreme, and alternative cash flows.

However, in practice these benefits of project lending are put to use quite rarely. Based on the findings from a set of questionnaire-based surveys and focus-group interviews of representatives of entrepreneurial establishments conducted by specialists from Plekhanov Russian University of Economics, in response to the question about the choice between loans and project lending out of around 400 respondents only a tiny fraction did not express an all-out preference for loans, admitting the possibility of support for their projects via project lending schemes. As far as setting up a special firm that would be concerned with implementing projects, and, hence, managing their cash flows, this kind of go-between is likely to be more focused on personal economic gain than on the successful implementation of the project based on all related expenditure it may entail. In fact, we have already seen how a lender could manage project cash flows – within a corporation, with both the lender and the borrower (the project implementer) being the corporation’s members and reporting to the single corporate management authority.

The afore-said is briefly illustrated in Table 1.

| Conceptual apparatus of project financing | | | |
To be able to properly analyze, appraise, and, finally, select projects that are attractive to the bank’s senior management, it may help to organize different types of projects into groups based on common classification attributes.

Of major significance to the effective implementation of project lending (financing) initiatives by banks is dividing projects based on the degree of their novelty. With a certain degree of conditionality, there are:

- potential projects – projects that have yet to be developed and only exist in ideas for now;
- innovative projects – projects that have been developed on paper already and await implementation;
- projects engaging exogenous innovations – projects that have already been actualized, but in a different sector, region, or social stratum;
- standard projects – well-researched projects that are employed widely in various areas;
- rationalization projects – standard projects that come with certain changes, additions, and upgrades;
- traditional projects – projects that do not necessarily follow the latest, up-to-date trends but, nonetheless, keep turning out products that are in high and steady demand;
- conservative projects – projects that are aimed at turning out a product based on historical recipes and technologies, which is what drives demand for that product, often despite imperfections in its quality and organoleptic properties.

If need be, this list could be continued and elaborated further for each particular case.

Of major significance for the bank’s senior management in its orientation toward project lending (financing) is the degree to which the characteristics of the project’s authors and implementers are in line with certain priorities, restrictions, or even prohibitions prescribed by the bank’s internal client policy. In this respect, banks may be interested in clients:

- whose activity, characteristics, and parameters are close to or match the specialization and structure of the bank’s portfolios, both announced and actual;
- who operate in sectors and regions that are well-known to the bank’s specialists;
- who already have a significant amount of experience working with the bank, in the way of both passive and active bank operations;
- who are prepared to engage in a closer relationship with the bank (strategic partnership, additional services, etc.);
- who are prepared to implement, or are already implementing, social projects (housing for the low-income, support for orphans, the disabled, and the retired, etc.);

<table>
<thead>
<tr>
<th>No.</th>
<th>Standard concept (subject of discussion)</th>
<th>Content of standard concept (description)</th>
<th>Innovative concept (subject of discussion)</th>
<th>Content of innovative concept (description)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Finances</td>
<td>Form of movement of earnings Include loans (Knyazev &amp; Slepov, 2008)</td>
<td>1. Finances. Independent category</td>
<td>Economic relationships related to creating monetary funds and cash flows <em>on a gratuitous basis</em> (Kovaleva, 2002)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2. Loans. Independent category</td>
<td>Relationships related to extending a certain value in monetary or commodity form for temporary use <em>on a gratuitous basis</em></td>
</tr>
<tr>
<td>2.</td>
<td>Project financing</td>
<td>Funds invested in the project are returned by way of resources accumulated by that project (Bektenova, 2015)</td>
<td>Project lending</td>
<td>Project cash flows are managed by bank staff (Rusanov, Natocheeva, Belyanchikova, &amp; Bektenova, 2017)</td>
</tr>
</tbody>
</table>
who are involved in environmental projects in alignment with the state’s sustained focus on innovation or are servicing the area’s backbone enterprises at the behest of local authorities.

Among the types of projects that have been actively researched and keenly implemented in practice in certain nations, regions, social strata, including in banking, are religious projects (confessional banking). Banks’ internal client policy will, normally, apply certain restrictions in respect of this type of project.

Confessional banking prohibits providing loans for and investments in projects dealing with the production and distribution of products the use of which is prohibited at all times or during certain periods by a certain religion or confession (e.g., beef in Hinduism; pork in Islam; scaleless fish, pork, and leavened food items (forbidden during Passover) in Judaism; food items containing meat or milk products forbidden during the Lent in Orthodox Christianity; alcoholic beverages, tobacco, drugs, offensive arms, and pornographic material in Islam, etc.). These prohibitions may be numerous, diverse, often illogical but concrete, but it is within this domain that there exist distinctions regarding the possibility of banks engaging in servicing clients of a religious orientation engaged in implementing projects of this kind. Factoring these considerations in, the bank management team interested in participating in this kind of project and adapting to its specific nature may be able to adjust some of the relevant restrictions in the bank’s internal client policy, focus on minimizing potential risks, and engage in active work with clients who initiate and implement this kind of projects.

Confessional banking permits the undertaking of the following types of projects:

- **purely religious projects**: engaging in the construction of new temples; engaging in the restoration and renovation of old temples and monasteries; manufacturing and distributing of cult items, icons, books, posters, and calendars; organizing the delivery and worship of holy relics; conducting ecclesiastical forums and meetings; organizing pilgrimages and cross processions; engaging in the construction of and providing support for ecclesiastical educational facilities, hospitals, orphanages, Sunday schools; organizing the operation of mobile temples (on rail trains and barges);

- **religious-social projects**: preparing and organizing the work of sisters of charity; organizing environmental campaigns; organizing public holidays; organizing charity events; organizing the work of priests in hospitals and the army; organizing the conduct of religious sacraments (Baptism, Holy Communion, Matrimony, Service for the Departed); priests teaching at schools and colleges; reviewing textbooks and scholarly publications; taking part in restoration works undertaken on historical and natural sites and clean-up activities; engaging in the upkeep of religious facilities at colleges, hospitals, train stations, and airports;

- **religious-commercial projects**: engaging in the manufacture and sale of goods (food items, clothing, dishware, linen) with a religious basis (fasting, sacraments, kashruth, halal) to them and with religious symbols on them; incorporating religious sites (temples, monasteries, sacred springs) into tourism programs; engaging in the sale of souvenirs with religious symbols on them;

- **interconfessional projects**: conducting meetings, powwows, conferences, and forums featuring representatives of different religions and confessions; organizing joint activities (e.g., publications, TV appearances, books, meetings, speeches for members of the government, joint sermons) aimed at preventing the distortion of ethics, morals, and traditional family values, combating terrorism, and countering the reconception of proven historical facts; implementing joint environmental and social projects; publishing joint scholarly works on the successive history of religions (Judaism, Christianity, Islam).

**Organizational schemes for managing project cash flows** in the project lending (financing) undertaking are designed by bank specialists in several variants that prescribe a varying degree of participation on the part of the bank’s management and, accordingly, varying ways of minimizing credit and reputational risk for the bank:

- from its pool of professional staff, the bank draws the most competent and qualified specialists with experience doing similar work and assigns to them the duties of supervising the project in terms of managing its cash flows;

- project lending is performed by bank staff in a routine mode, but, to help enhance their performance, a third party consultant will also be engaged and invested with relevant authority;

- within its senior management team the bank will form a special group with a relevant hierarchy
and relevant powers that will, in coordination with the project’s authors and implementers, be put in charge of managing the project’s cash flows;

- the special group formed by the bank to manage project cash flows will be supplemented by a third-party consultant who will be invested with relevant authority and incorporated into the group’s hierarchy;

- the bank’s special group for project lending (financing) will include a representative of the project’s author and implementer, which is intended to ensure the most substantiated and balanced optimization of decision-making related to managing project cash flows.

Next, it is time to establish all desired and delegated powers and, accordingly, all relevant spots within the hierarchy of the working group in charge of managing project cash flows, which may incorporate the bank’s top specialists, their assistants, consultants, co-managers supervising the project’s other, non-credit-financial, segments, the project’s authors and implementers acting as the clients, and other parties interested in the project (public authorities, nongovernmental organizations, business partners, religious figures).

*Various powers* are put in place and delegated depending on the way the project’s implementation is organized and may include the following:

- a specific person independently handling issues related to lending to and financing particular components of the project based on established budgeted financial resources and by reference to adjustments permitted;

- issues related to lending to, and in special cases financing, particular components of the project are resolved factoring in the views of and proposals from project consultants or, in the event of the project being of a religious orientation, representatives of the corresponding confessions;

- decisions on objectives, amounts, and timeframes associated with lending to or financing particular components of the project are made by a loan supervisor in liaison with fellow managers overseeing its relevant components;

- lending to or financing certain components of the project is handled by project cash flow managers in accordance with the directives of the project’s director (its author and implementer) but based on planned amounts, timeframes, and objectives and by reference to adjustments permitted.

Subsequently, these powers are discussed by way of negotiations at meetings and captured in relevant documents, getting incorporated into the project’s internal regulations.

Regardless of whom the working groups for the project lending (financing) undertaking are made up of, it is part of their duties and powers to conduct the initial assessment of the project, based on which a decision is then made about engaging the bank’s management in implementing the project and managing its cash flows.

The project may be assessed based on the following parameters:

- the project’s feasibility;

- the reputation of the project’s author and implementers (the bank’s potential clients);

- the project’s resource capacity and investment solidarity;

- partner banks being interested in the project and the possibility of taking part in it (via syndicated loans);

- the degree to which the project is of importance and interest to the bank’s large regular clients (strategic partnership);

- the project being in alignment, fully or in part, with the objectives and priorities of state and regional programs;

- the linkage between the parameters, goals, objectives, methods, and instruments underlying the project’s implementation and local sociocultural factors.

The assessment of the project based on the above characteristics is conducted during the stages of projected monitoring, preliminary monitoring, credit documenting, operational monitoring, and final monitoring of the project.

Assessing the prospective project may involve the use of formalized methods, although, as evidence from practice indicates, no rankings, coefficients, or indicators can reflect reality most accurately, completely, and comprehensively unless they are preceded by the use of variative methods – above all, the expert assessment method.

The expert assessment of how realistic the project is involves the identification and
The substantiation of the degree to which the project:

- is feasible technically, i.e. it is possible to turn the author’s design into reality using the latest machinery and technology, qualified personnel, and quality materials; there have been precedents for the successful implementation of similar projects;
- is in harmony with current legislation or can entail the violation of certain laws, resolutions, directives, provisions, decrees, or other administrative acts;
- is or is not capable of harming the ecology of the region where it is going to be implemented both from the standpoint of current rules, restrictions, and prohibitions of an administrative nature and in terms of the degree to which its authors are oriented toward not just preserving but possibly improving the region’s natural conditions;
- is coordinated with local sociocultural and religious factors, priorities, restrictions, and prohibitions or may contravene them, which may provoke a negative, and possibly highly antagonistic, reaction on the part of the local population and seriously complicate, or even render altogether impossible, the project’s implementation.

The assessment of the reputation of the potential client (the project’s author and implementer) is conducted through negotiations, interviews, and contact with the client’s business partners; through exploring related publications in the business, as well as gossip and glam, or maybe even extremist, press; based on personal acquaintances with the potential client, their family members, friends, and people they may know; through visits to their official entertainment events; through getting to know the way the work of their office, personnel, and enterprise as whole is organized.

The reputation of potential clients (the amount and size of reputational risk for the bank) is assessed across the following areas:

- being honest, loyal to one’s word, prepared to fulfill one’s obligations, both in general and with respect to particular people, groups, and communities;
- the potential client being a competent professional well-versed in major issues associated with the future project or just an average administrator, manager, or middleman whose knowledge of the project’s essence is limited;
- having prior successful experience implementing similar projects, or, conversely, having been involved in projects that failed, including through some fault of their own, like a lack of competence;
- the potential client (the project’s author and implementer) being well-liked and well-respected in business circles and public life thanks to their engagement in charitable activity and regional initiatives;
- the potential client having earned a somewhat unsavory reputation for their scandalous behavior in glam circles or politics, extravagant escapades or statements on social networks, or dealings with foreign agents of influence;
- knowledge of whether the client is law-abiding or has had a problem with the law, violated a certain ban, or has been an object of suspicion to the authorities; it may help here to also factor in the amount of administrative logic in those laws, bans, and actions by the authorities;
- there is no information available in any source with regard to the personal and business characteristics of the potential client (the project’s author and implementer), which may require making additional preliminary organizational effort if the bank is interested in the project.

How well the project is provided with financial support depends on the bank’s ability to ensure the availability of the funds required to implement the project most optimally and with as little risk as possible for itself. What may matter here is whether the potential client is prepared to invest their own funds in the project (that is, take a risk) or is mainly counting on someone else’s financial resources. In assessing financial support for the project, it may help to consider the following variants:

- the potential client is prepared to invest all of their special-purpose funds in it, but that is not enough for implementing the project;
- the project’s characteristics allow its author and implementer to count on some financial support out of the local, regional, and, possibly even, federal budgets and from nongovernmental organizations, business partners, family members, friends, and someone they know, although they may also need it from the bank – by way of project lending (financing);
- for the purposes of implementing the project, the potential client (author and implementer) plans to issue special-purpose securities (project bonds), but there are doubts they will be placed.
• successfully, so some help may be needed, and that requires additional spending;
• to ensure the successful implementation of the project, the author and implementer, as a potential borrower involved in a project lending (financing) undertaking, is prepared to sell a portion, or all of, their business, but additional investment from the bank will still be required;
• the author is interested in doing the project so much that they are prepared to negotiate with their family members the sale of a portion of their personal property, at times a sizable one at that;
• the project’s author and implementer is prepared to reduce their personal expenditure, but to a reasonable level, of course;
• to ensure the best possible resource support for the project, the author, as the bank’s potential lendee, is prepared to refrain from most official entertainment, recreation, and amusement activities, even if this may affect the atmosphere in their work team and their family;
• there is a willingness and preparedness on the part of some of the bank’s partners to take part in financial support for the project through syndicated loan schemes;
• some of the bank’s potential clients have guarantors who are prepared to back the project;
• the project’s author and implementer is prepared to come up with a negotiable security implementing which if necessary will not affect their business and life’s activity;
• the bank’s potential lendee is interested in doing the project so much that they are prepared to pledge as a security a piece of their property selling which may affect their personal or their family’s quality of life;
• the size of the investment made by the bank, as a participant in a project lending (financing) undertaking, toward financial support for the project is smaller than or equal to (does not exceed) the limiting amount established by the bank’s internal credit policy and depends on how attractive and risky the project is;
• the share of the client (potential borrower) in resource support for the project, including their revenue from the business, family property, and personal savings is sufficient enough (more than 50% of project costs depending on its attractiveness and riskiness) to attest that the client is actually prepared to bear some of the project risks.

An important component taken into account in the choice and appraisal of projects with a view to implementing in them a project lending (financing) scheme – when it is the bank that will manage project cash flows – is what is in it for the bank. The focus here is on the potential benefits for the bank that may arise from its active participation in the project, which may include the following:

• reduced credit risk in investing some of the funds accumulated at the bank;
• more dependable and sustainable generation of revenue, and that is within timeframes established upfront;
• engaging in managing project cash flows the bank’s intellectual resources, i.e. qualified, competent specialists with experience in project lending (financing), whose potential has yet to be exploited all the way as part of the bank’s standard work routine;
• strengthening, through interaction with public authorities, business partners, and the general public, existing and cultivating new relationships within the region where the project is being implemented; this is especially valuable if the bank did not do business in the region before and potential client and partners were not familiar with it;
• a chance for the bank to demonstrate to public authorities, partners, the general public, and large clients its preparedness to uphold the common interests in respect of all the objectives undertaken;
• a chance for the bank to demonstrate its financial, intellectual, professional, and organizational potential and strengthen its business and ethical reputation (minimize the bank’s reputational risk);
• in the event it is a project of a social, confessional, and local orientation, a chance for the bank to enlist the support of not only its clients and partners but local authorities, nongovernmental and religious organizations and their leaders, all levels of the population, and the local press;
• in the event the project, the cash flows of which the bank is planning to manage, is of a really innovative nature, the bank may earn the status of an advanced, progressive, and ambitious organization that is prepared to explore novel realities and is also readily supportive of social initiatives undertaken by the authorities;
• in contrast with standard special-purpose loans, project lending (financing) can substantially reduce pure credit risk and boost the probability of the success of a loan, as the management of both incoming and outgoing project cash flows by the bank’s staff, their actual participation in
the formation of revenue out of which the loan will be repaid, and the possibility of preventing financial errors on the part of the borrower may tangibly boost the borrower’s potential and preparedness to repay the loan in full and on time without having to resort to alternative cash flows (guarantees, sureties, pledges, pawns, assurances, or reserves) or give up some of their crucial assets, including family and personal ones.

Once the project has been analyzed, all relevant negotiations have been conducted and meetings held, and it has been decided that the bank is going to take part in managing the project’s cash flows, it is time to document the forms of this participation in terms of the use of methods and instruments of innovative project lending (financing), which may differ considerably in organization, document flow, activity, and responsibility. Methods and instruments for managing project cash flows may include the following:

- monitoring, and if need be adjusting, the project’s costs and revenues based on documentation provided by other participants in the project or its authors and implementers. It is important to have on hand all pricelists related to the project and may help to be wary of individual terms of sale-and-purchase and works agreements;
- in the event of a positive appraisal of documentation provided, making all related payments and entering these amounts into the registry of outgoing cash flows and putting on record some of the revenue generated during the project’s implementation as outgoing profits a portion of which will be directed toward repaying the loans;
- personally guiding the processes involving the supply of and payment for all necessary machinery, materials, works, as well as the shipment of goods produced as part of the project’s implementation and getting payment for them;
- effecting payments associated with documentation related to the acquisition of goods and services, as well as memorializing documentation on the effectuation of the project’s outcomes, precedes not only the study of pricelists but also the monitoring of the market and analysis of the competitive environment, regional and sociocultural factors, and regulatory limits and restrictions;
- empowering the bank’s specialists engaged in managing the project’s cash flows to independently conclude agreements with suppliers and consumers, make out, formalize, and effect payment based on billing documentation, and maintain payment registries in accordance with requests from the rest of the project participants;
- project cash flow managers engaging the bank’s partners and their subsidiaries, shareholders, regular large clients through their special-purpose and designated accounts, and additional services in the processes of formalization of documentation related to the execution of works and supply of and payment for goods and services;
- project cash flow managers from the bank taking care of the entire credit-financial process, which involves control over the progress of work within the project’s organizational, construction-related, technical, technological, HR, and legal segments. This control can be prudential and administered through the system of indicators that may signal the possible emergence or existence of certain problems and the need to deal with the situation in a meticulous and focused manner or it can be administered based on the “personal presence” method, whereby the credit manager in charge of the project assesses the situation locally to check if there are any issues that need resolution.

Different stages in a project’s implementation may be structured and classified, as well as named, in a more or less detailed fashion, while the set of project stages may vary substantially from the perspective of particular project participants, as the latter’s interests, objectives, and professional orientation, as well as alternatives, may not always overlap.

The standard, conventional method for structuring project implementation stages will, normally, incorporate the following components:

- initial stages, which conclude with a project loan request being drawn up. The resulting costs will be reimbursed to the author as part of the project lending (financing) undertaking;
- after the project has been appraised and selected, the bank manager will analyze and assess the degree to which all relevant project documentation, samples, layouts, and technical evaluations have been worked out and prepared and establish where they may need more work. At this stage, it may help to list the services of consultants and relevant specialists, both from the pool of those included in project working groups and independent ones, including those working for one’s partners and competitors (opponents). Payments made to specialists and consultants at this stage are prefunded and will be reimbursed for as part of the process of managing the
exploring and evaluating (based on documentation or visits to the location) the venue for the project’s implementation: the region’s terrain and climate; the local population’s professional, social, and religious make-up, employment characteristics, and human resource availability; the region’s transportation and social housing infrastructure and industrial facilities; local laws, requirements, and restrictions; the availability of usable buildings in the area or vacant space where something can be built (with no need to pull anything down for the purpose), etc. With all this known to require significant expenditure, these costs will also be prefunded and covered as the project is implemented;

before the actual implementation is commenced, all prefunded costs incurred at the project’s initial and planned to be incurred at its subsequent stages are calculated, added up, coordinated, and captured in documentation inclusive of all relevant capacities, evaluations, and adjustment and activation limits in case alternative cash flows are needed;

if it is a religious or religious-commercial project that is implemented as part of confessional banking, its implementation may involve a number of special additional stages. These may include: establishing in the religious-legal hierarchy and capturing in relevant agreements a number of additional sources of funding for the project; linking the instruments for lending to and financing the project, including Innovative Project Contributions, with religious factors (through consultations with religious figures); determining, based on the religious hierarchy, the sources of repayment of and reimbursement for funds invested in the project. It may be possible for costs generated at these additional stages to be covered in part through financial support from religious organizations.

Project cash flows change from being prefunded to being real ones at the project’s initial stage, or the start-up stage. The start-up stage is followed by the stage which involves the gradual ramping up of production but may require additional expenditure, and, on top of that, may involve the occurrence of previously unaccounted-for conflict situations in the area of legislation, local authority policy, or campaigns by political and public leaders, resolving which may require additional expenditure. All this may put heavy strains over the management of incoming project cash flows in the area of project lending (financing).

On the other hand, with the commencement of the sale of the product the project starts generating revenue and cash flows, which, if normally somewhat small initially, may, in part, be directed toward the repayment of project loans or coverage of a portion of above-mentioned additional costs. It is also worth keeping in mind that the commencement of the sale of the product generated by the project signals that it is viable and worthy of additional financial and credit support from the major interested parties, like public authorities, nongovernmental organizations, and partners.

The complete return of credit resources invested in the project normally takes place at the “plateau” stage, when the volumes of production and sale of the product reach target levels and stabilize, as do project costs and revenue and incoming and outgoing project cash flows. At the same time, this stage may involve some credit, regulative, deposit, operational, and other types of pure risk, which is something to be prepared for if you are to manage project cash flows as a specialist at the bank who has the capacity and authority to activate alternative (guarantees, sureties, pledges, pawns, assurances, or reserves) cash flows for the repayment of project loans. At this, virtually final, stage in projects associated with innovative project lending (financing), a certain portion of the costs may be associated with the training, intern, and retraining the staff of the organization which is implementing the project to whom the bank is going to entrust the management of its cash flows.

To sum up, the key findings of this study are as follows:

The fundamental economic categories ‘finance’ and ‘credit’ are substantially different and independent from each other, with financing involving gratuitous cash flows and lending repayable ones.

The widely common construal of project financing, which suggests returning the funds invested in a project’s implementation by way of resources accumulated by that project, is clear testimony to the process’s credit-based essence.

Practice offers examples of real project financing where the funds invested in the project do not have to be returned – this includes budget-funded projects of all levels, internal
projects associated with plans to expand the enterprise, assimilate new technology, or manufacture a refreshed or expanded product range, environmental public projects, and confessional projects.

Banks may participate in a project’s implementation by granting both standard, special-purpose, loans and special ones, like those oriented toward the return of funds by way of resources accumulated by the actual project (today, this form of lending is mainly referred to as project financing). Furthermore, there may also be cases where banks will actually and gratuitously finance a project: gratuitous loans to a corporation’s members or funds provided toward the bank’s internal projects.

Lending to projects that is communicated as project financing has a number of shortcomings, like the following:

- this construal does not set financing apart from lending, although their cash flows differ substantially;
- the focus on resources accumulated by the actual project makes one overlook other possible cash flows and reduces the potential for the return of credit resources invested in the project;
- it is pretty hard for the bank to calculate, much less trace, the borrower's adequate cash flows, which may result in serious pure risk in innovative projects.

Some of the beneficial characteristics of the innovative organizational scheme of project lending (financing) worked out as part of this study to consider are:

- the project could be implemented in a consolidated manner, with the process involving professionals from a variety of areas, including lending;
- cash flows that ensure the return of the loan could be more substantiated, controllable, and purposeful;
- cash flows could be managed more professionally;
- the project’s author and implementer could enjoy financial support that is more consistent and dependable;
- the bank that is lending to the project could enjoy a more consistent and dependable loan repayment process.

The concept of `innovation` is construed quite broadly – from true and exogenous innovations to reputational and simulation ones, i.e. there are plenty of varieties and types of innovation.

Innovations include all kinds of technologies, methodologies, techniques, or tools that are developed and then offered, and sold, to someone and for which there is demand under current, ever-changing, conditions. Exogenous innovations may selectively include innovations that are employed in other sectors, production operations, and organizational establishments (corporate lending within a corporation, work with problem loans, a bank’s internal projects, including social and confessional ones).

The study has identified a whole array of benefits offered by, and provided a corresponding rationale for, the active participation of the bank’s management in implementing the project toward which it is lending money:

- reduced credit risk as an opportunity to profitably and with minimum risk invest some of the funds the bank has attracted from without;
- project lending may be presented and styled as an additional service for the client;
- the project may match the bank’s specialization;
- if the project is of interest to public authorities, the bank’s partners, its major shareholders, or any other influential establishments, participating in the project can help to tangibly enhance the bank’s reputation and strengthen its competitive positions.

Project cash flows may be managed either by the bank’s own highly competent human resources or by hired third-party participants.

It has been suggested that the following criteria be applied in the choice and appraisal of projects:

- the business and ethical reputation of the project’s author and implementer;
- the project’s feasibility and lucrativeness;
- factors for the bank’s interest in the project;
At different stages in the implementation of the project, banking management actions may vary both in content (from gathering information about the project and its author to finalizing the return of the loan resources invested by the bank in the project) and in organization (from gathering, checking, and effecting payment as required by documentation to coming into personal contact with suppliers and buyers as part of managing the project’s incoming and outgoing cash flows).

4. Discussion
The authors’ critical handling of conclusions and results obtained as a result of conducting this study has helped identify a number of debatable issues and incomplete rationales, which are as follows:

The potential and demand for the use in banking management of innovative organizational schemes of project lending (financing) are not indubitable. It may take special conditions and a concourse of favorable circumstances to enable the effective management of cash flows by the bank’s specialists.

The bank’s staff engaged in managing project cash flows may sometimes lack the necessary competencies, qualifications, and experience, especially when the project is of an innovative nature with a high level of uncertainty.

The project’s authors and implementers are likely to give voluntary consent for the engagement of third parties in the project to manage its cash flows only in special, often exceptional, cases, and that is most likely to be done by way of administrative subordination and coercion.

The excessive focus of the bank’s senior management on cash flows generated by the project may divert its attention from other ways of getting the loan repaid.

A detailed analysis of the above considerations has helped establish some of the key areas for further research on the subject:

Fine-tuning the system of criteria for the appraisal and choice of projects with a view to engaging in them a scheme of innovative organization of project lending (financing), placing a special focus on projects for handling which the bank already has the right competent persons amongst its staff.

Engaging or preparing specialists in a purposeful manner, in alignment with the bank’s specialization, and choosing projects also in keeping with its specialization.

Putting in place a system of preliminary vetting of project authors and implementers so as to verify their reputation.

Putting in place a system of ranking and hierarchizing the borrower’s cash flows and determining the place of the project’s cash flows in the hierarchy.

5. Conclusion
This study may provide significant boosts to the capacity of the bank’s senior management to manage its assets and liabilities, partner relationships, and personnel. This may require making additions to the bank’s internal regulations, enhancing its staff’s qualifications and competencies, and putting in place well-grounded hierarchies, but is sure to provide tangible boosts in information support for the bank’s leadership and enhance its management toolbox.

Many a publication on project financing has been met with criticism with reference to the construal of the term ‘financing’, since gratuitous cash flows are employed in the sphere only occasionally, notwithstanding that they could be quite useful as a theoretical, methodological, and practical foundation for developing innovative organizational schemes of project lending, with the focus on adequate cash flows (those accumulated by the project),
quite logically, regarded as an integral element in the management of project cash flows.

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