

Essence of Leasing Relations in Business

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Annotation: This article reveals the essence of leasing activities in business sphere of Uzbekistan. We have done some statistical analysis on this theme and contemplated some concepts about lease.

Main body: Leasing in Uzbekistan is a relatively new activity. To encourage investment in the manufacturing sector, to upgrade the industrial building for improving the competitiveness of domestic producers of our country needs to develop leasing relationship. But you need to create the appropriate conditions. The experience of other advanced countries, it pays close attention to: legislation, tax incentives, etc.

Leasing is growing as an external financial resource not only in developed countries, but also in Uzbekistan, among development and medium and small business entities. Leasing is not a cheaper option than other financial resources, but in some cases it is very convenient for business entities.

In developing countries such as Uzbekistan, state support for small and medium-sized businesses leads to the development of the country's economy, reducing unemployment and raising the standard of living of the population. One of the best ways to support small and medium-sized businesses one of them is to give incentives for their acquisition of external financial resources, including leasing, tax incentives, and one of the main ones is maximum simplification in this area, abandoning excessive documents.

It is not a secret to anyone that Uzbekistan has opened its doors to the countries of the world in terms of tourism and attracts tourists from all over the world. If we trust to Statistical agency of Uzbekistan, the number of tourists has increased dramatically in last years. Because of this, in my opinion, the development of an area with the help of leasing will be beneficial for us and for the coming tourists.

Definition and meaning of leasing. Leasing is widely used in many countries of the world, and it is considered one of the most appropriate ways of organizing business activities. In Uzbekistan, despite certain actions, the forms and ways of leasing development are now being defined.

However, the economy is in crisis, and many enterprises are not able to invest large financial means to intensify production and upgrade techniques. This is a big problem for the development of the production sector and support for producers of all forms of ownership in the country, primarily engaged in innovative entrepreneurship. requires the need to increase the role of leasing, which allows attracting a large amount of funds, including private investments.

The success of the leasing business in any industry depends to a large extent on the knowledge of its content and specific features, as well as on the effective use of this mechanism. In this regard, it is of urgent importance to determine the essence of leasing, its nature and potential, tasks and organizational forms.

Currently, there is no uniform interpretation of the concept of “leasing” in foreign countries. Someone imagines a lease as a special form of lending, while others liken it to a long-term lease. Some see leasing as a hidden method of trading means of production, while others associate leasing with the management of other people's property on behalf of the trustee.

The current interpretation of the term lease goes back to the words of Aristotle (in the work “Rhetoric”). It says that wealth is not the possession of property as private property, but the wise use of it (property). This opinion clearly explains the essence of leasing: it is not necessary to own means of production or other types of property for profit; it is enough to use it and get income.

There is no word exactly corresponding to the term leasing in the Uzbek language. From the point of view of semantics (in terms of meaning of the word), this term corresponds more to the words of rent-to-rent. Therefore, in most cases, the term leasing is interpreted as a long-term lease of various equipment, buildings and production facilities. Leasing is carried out as part of a three-way transaction, in which the financing leasing company (lessor) buys the property from the property developer (property owner) at the option of the customer (lessee) and leases it to the customer, while ownership remains with the leasing company (lessor). The relations between the participants of the lease justify the existence of several contracts, which provide new features to the individual elements of the leasing operations and closely connect them with each other. In particular, in addition to the main lease contract, other contracts such as sales, credit, guarantee, and service will have their place.

One of the characteristics of leasing is the complex combination of contracts and the intertwining of relationships that arise from it. In this case, the relationship in temporary use of the property is the main one.

Leasing objects and subjects. When signing lease agreements, it is important to define the leased objects. According to the Law of the Republic of Uzbekistan “On Leasing” (Article 3), “any non-consumable items used for business activities, including enterprises, property complexes, buildings, structures, equipment, transport tools and other movable and immovable property can be leased object”¹. The main condition of leasing is that the leased objects are required to be used only for business purposes. Unlike rent, land areas and natural complexes, which are the basis of all real estate, cannot be leased. According to the main condition of the lease, the leased objects can be used only for business purposes.

The size of the new leasing market in the Republic of Uzbekistan in 2022 exceeded the pre-pandemic figure of 2019 for the first time in the last three years. At the same time, the driver of the industry has also changed: the most popular leasing object is not agricultural machinery, but motor vehicles.

¹ Law of the Republic of Uzbekistan "On leasing", 1999. April 14, Article 3

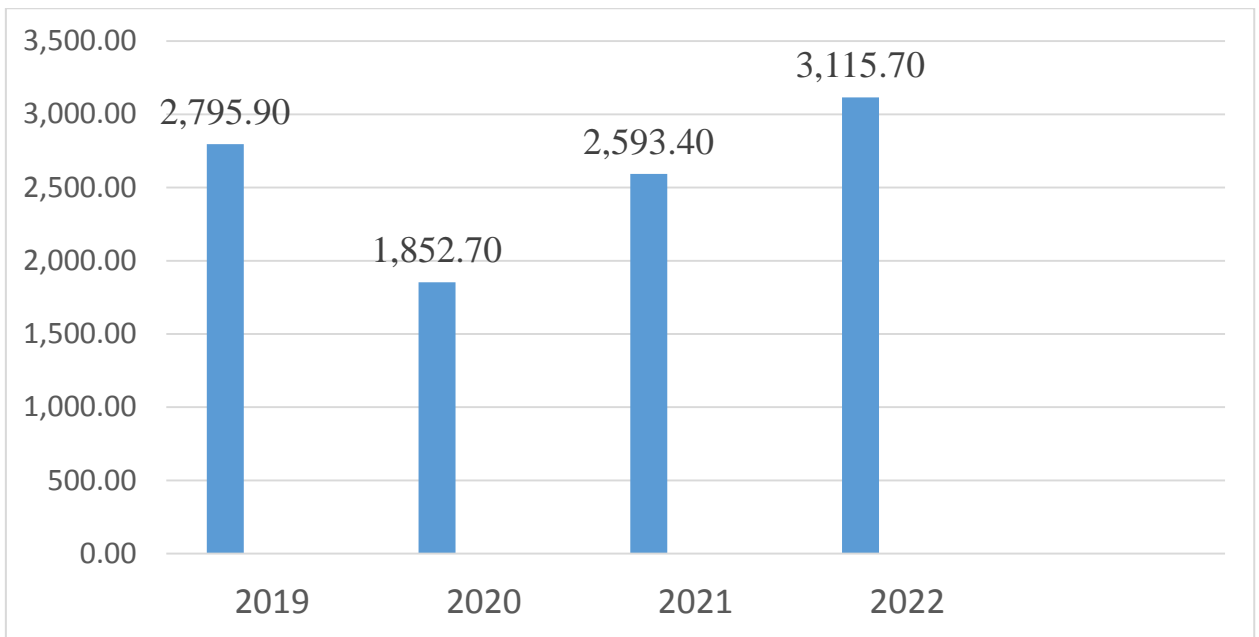


Figure 1. A portfolio of new lease contracts in 2022².

In February, the Uzbek Leasing International company leased a set of Italian equipment for the production of baby diapers for the Uzbek-Turkish joint venture “Atco Hygienics”. The project was financed by a loan from KDB(Korea Development Bank) Bank Uzbekistan. Bank loans are used as the main source of financing by most leasing companies in Uzbekistan. But the transaction, which is the subject of technological equipment leasing, is more contrary to the trend: over the past year, the volume of this sector has decreased from 22,5 percent to 12,1 percent of the total composition of transactions.

In 2022, the volume of new business amounted to 3,1 trillion soums (+11,4 percent compared to 2021), the leasing portfolio of market participants increased by almost 6,2 trillion soums (+6 percent) during the year. 9,400 contracts were concluded between companies and banks, which is almost a third more than last year, but this figure is still lower than in 2019, when the number of contracts exceeded 11,000.



Figure 2. Leasing market portfolio³.

² <https://kz.kursiv.media/2023-03-02/kak-smeshhayutsya-akcenty-na-lizingovom-rynke-uzbekistana/>

In the Republic of Uzbekistan, the main driver of the leasing market has traditionally been agricultural machinery, but now the first place is occupied by motor transport - it makes up 40,3 percent of the total structure of leasing transactions. For comparison: in 2021, the share of road transport was 26,4 percent. It is a more active use of financial leasing of motor vehicles by individuals than before.

During the year, the share of agricultural machinery in the total composition of leasing transactions decreased slightly - from 26,9 percent to 26,2 percent. The share of construction machinery decreased significantly - from 21,8 to 19 percent. But in 2022, as mentioned above, significantly less technological equipment was leased. Real estate leasing rates were below 3 percent and remained virtually unchanged over the year.

In 2022, the total volume of financial leasing operations will be 700,9 billion soums (22,5 percent of the entire market), quantitatively it was 3,1 thousand transactions (33 percent of all transactions).

In the current conditions of Uzbekistan, attention should be paid to several other areas.

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It's no secret that when a tourist visits a country, he uses a number of means of transport there. Including taxi, public transport, etc. But if we pay attention to developed countries, they offer the option of renting a car for a few days. It is very convenient for tourists and the majority of tourists use it. However, unfortunately, there are no visible opportunities in this regard in our country. Providing short-term car rental for tourists visiting our country on the basis of operating lease is a great convenience for tourists and good opportunity for entrepreneurs to get high income. The state also benefits from this in every way. In order to organize this activity, it is necessary to resolve the process of concluding an operating lease agreement as quickly as possible.

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