

Methods of Credit to the Service Sphere by Commercial Bank

Nurmukhammedov Abdijabbar Yunusovich

*Associate Professor of the Department of Bank Account and Audit of the Tashkent State
University of Economics, PhD*

Abstract: Loans from commercial banks are of great importance in solving the existing problems of increasing the share of the service sector in the economy of our country, expanding and improving the quality of services provided, as well as in financial support of economic entities in this direction. This article examines the theoretical foundations of lending to the service sector, in particular scientific and theoretical views on improving the mechanism of lending to the service sector, forms of lending to the service sector and their specific features.

Keywords: credit, service sector, resource, commitment, overdraft, forfeiting, credit line.

INTRODUCTION

At the new stage of economic development in Uzbekistan, special attention is paid to improving the service sector. Moreover, today the adoption of the Development Strategy of the new Uzbekistan for 2022-2026 and in it the service sector and services in the regions, in particular, housing and communal services, transport and logistics services, non-governmental educational services, medical services, , tourism, transport, information and communications, including the definition of urgent tasks for the development of software and other services, is the basis for more rapid development of practical work in this direction. [1]

Also Decrees of the President of the Republic of Uzbekistan No. PQ-5113 dated May 11, 2021 "On measures for the accelerated development of the service sector", No. PQ-4752 dated June 16, 2020 "On measures to support the service sector", 2022. Of great importance in ensuring the rapid growth of the service sector, further support for entrepreneurship in this direction and the creation of new jobs for the population. In particular, as a result of the implementation of the program for the development of the service sector in the Republic of Uzbekistan for 2021-2023, the volume of services provided in 2021 increased by almost 20%. [2]

In the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025, it is necessary to "carry out lending only on the basis of market conditions, improve the quality of the loan portfolio and banking risk management, adhere to moderate growth in lending volumes, and introduce technological solutions for assessing financial risks" reforms of the banking system. are recognized as a priority. [3] This, in turn, gives rise to the need to improve the methodological and practical foundations of the credit mechanism.

Improving the practice of lending to the service sector by commercial banks around the world, improving the practice of assessing and managing financial risks associated with lending to the service sector, ensuring a balance between the profitability and riskiness of loans provided by commercial banks to the service sector, improving resource provision for lending to the service sector, lending to service sector entities. Scientific research is being conducted to increase the level of solvency. This indicates that the issue of lending to the service sector is relevant.

LITERATURE ANALYSIS ON THE SUBJECT

Foreign economists - E. Altman, P. Andrikopoulos, R. Barsky, A. Khorosgani, S. Beyer, I. Wieland, O. Blanchard, DJ. Sinki, D. Furcher, A. Pescatori, R. Caballero, A. Krishnamurzi, D. Fantazini, O. Lavrushin, F. Mishkin, N. Researched in the scientific works of Tkach, E. Brovkina, A. Burova, G. Penikas, S. Popova and others.

Theoretical and practical aspects of lending in the service sector were studied in the scientific works of Sh. Abdullaeva, B. Berdiyarov, D. Saidov, Zh. Isakov, F. Dodiev, Sh. Mirziyoyev, J. Majidov, F. Kholmamatov and others from Uzbekistan.

O. According to Lavrushin, a bank is an institution that produces a specific product, and in the form of money and means of payment produces special goods, in contrast to the sphere of material production. In addition to these products, banks provide mainly monetary services. [4]

O. Lavrushin acknowledged that the goods created by the bank have an intangible form and are in the form of money and means of payment.

DJ. According to Sinki, the main activity of banks is to finance loans through deposits. However, if earlier banks were considered only as intermediaries in the process of distributing financial resources, then at the current stage of economic development they can be considered as enterprises engaged in the production of information and ensuring transactions. [5]

Here, J. Sinki recognized the role of commercial banks as financial intermediaries and interpreted them as organizations that play a key role in providing information for the process of financial transactions.

According to F. Mishkin, it is the activities of banks and other financial institutions that ensure the functioning of financial markets, without which funds cannot be transferred to those who can effectively use free resources. Consequently, financial institutions have a significant impact on the development of the entire economy. [6]

In this conclusion, F. Mishkin recognized commercial banks as the main participants in financial markets and emphasized the redistribution of financial resources through banks.

According to E. Grishina, the main factors determining credit limits are:

- compatibility of turnover growth rates and loan growth rates;
- level of development of types of lending;
- compliance with the requirements of the law on the return of funds.[7]

This conclusion by E. Grishina has practical significance from the point of view of improving the practice of lending to banks in the country. Because, firstly, the low level of use of commercial bank loans by business entities. This is explained by the high interest rate on loans and the lack of highly liquid collateral. Secondly, there are problems in the development of types of lending. That is, overdraft and confiscatory forms of lending still do not exist in commercial banks of our republic.

From the scientific and theoretical views of economists, it is clear that the development of the service sector depends on a large number of factors, such as the price of services, return on capital, level of investment, level of social services of the state budget. and labor productivity.

RESEARCH METHODOLOGY

In the course of the scientific research in the article, the importance of commercial bank loans in financial support of the service sector is scientifically substantiated, using methods based on the principles of abstract-logical, system analysis, analysis and synthesis, as well as using analytical analysis. , comparative analysis and statistical analysis of data, problems are identified and problems are solved, scientifically substantiated proposals are given. At the same time, scientific works of foreign and domestic economists on issues of improving the practice of lending to

commercial banks, including the practice of lending to the service sector; The sources were annual reports of central banks, as well as analytical materials and studies of international rating agencies (Ernst & Young, Thompson Reuters, Blossom, etc.).

ANALYSIS AND DISCUSSION OF RESULTS

In order to improve the mechanism of lending to the service sector, it is necessary to strengthen the resource base of commercial banks, ensure the proportionality of assets and liabilities of banks in terms of their size and duration. Today, commercial banks of our republic are faced with the problem of strengthening the resource base, so this issue is of great practical importance for banks.

According to official statistics of the Central Bank of the Republic of Uzbekistan, the share of resources attracted by issuing securities by commercial banks in the total volume of liabilities as of January 1, 2023 amounted to only 2.3 percent.[9] This is clear evidence that the resource base of banks is not strong enough. Because the funds received from the sale of securities in commercial banks of developed countries occupy a significantly larger weight in the volume of banks' liabilities. For example, at Bank of America (USA), as of January 1, 2022, the share of funds received from the sale of securities in the volume of liabilities was 30.3 percent. [10]

The following forms of lending by banks in the service sector are widely used in international banking practice:

1. Syndicated lending
2. Opening a credit line.
3. Overdraft.
4. Current account.
5. Factoring form.
6. Confiscation.
7. Lease.

Syndicated lending includes the following stages:

- search for a project financed by a syndicated loan;
- the initiating bank will conduct an analysis of the economic, social and environmental efficiency of the project;
- the initiating bank writes a letter to other banks with a request to participate in the syndicate;
- a banking syndicate is formed between the banks participating in the syndicate and the Main Bank;
- a loan agreement is concluded between the syndicate of banks and the borrower.

The advantages of syndicated lending are as follows:

- credit risk is distributed between the commercial banks participating in the banking syndicate;
- allows the accumulation of credit resources necessary for financing large investment projects;
- allows a commercial bank to lend to large investment projects without violating the requirements of economic standards established by the banking supervision authority.

Lending by opening a credit line has the following advantages for business entities operating in the service sector:

- the business entity will have the opportunity to receive several loans within the credit limit allocated by the commercial bank;

- interest is paid only for the used part of the credit limit;
- the service entity will be relieved from the need to apply to the bank for a loan each time.

The credit limit in the form of lending by opening a credit line is determined by the following formula:

$$\text{KLH} = (\text{ICHZ} + \text{TICH} + \text{TMQ} + \text{DQ} + \text{JT}) - (\text{KQ} + \text{O'M}) \quad (1)$$

Here:

KLH – credit limit;

ICHZ – production stocks;

TICH – work in progress;

TMK – balance of finished goods;

DC – accounts receivable;

JT – shipped goods;

KQ – accounts payable;

OM – own funds.

Overdraft credit is provided when there are insufficient funds in the current account of a service entity. Usually, overdraft is provided to business entities that have a stable income, but a short-term shortage of funds in the main current account.

Since the level of credit risk for an overdraft loan is relatively high (the bank does not know in advance when and how much money will be insufficient in the current account of the business entity), the interest rate is higher than the interest rates of other loans.

According to the findings of Russian economists, the credit limit for an overdraft loan is allocated for up to 180 days, while the following are not taken into account in the credit turnover of the client's current account when calculating the limit:

- loans received;
- income from conversion transactions;
- return of previously placed deposits;
- funds received from the sale of bank securities (bills of exchange, deposit certificates and other securities);
- transit transactions (transfer of funds from the account of one bank client to the account of another);
- funds received from the client's current account;
- funds received as financial assistance;
- funds received from corrected accounting transfers. [4]

With the overdraft form of lending, the borrower's main current account opened in a commercial bank is closed and an overdraft account is opened in its place. All cash receipts from the borrower's activities are reflected in the credit of the current account, all his payments are reflected in the debit of the current account. The credit of the current account is provided for the amount of the debit balance of the current account.

An overdraft loan, like an overdraft, belongs to the high-risk group, therefore it is issued to legal entities with a high level of solvency.

An important advantage of overdraft for companies is that it allows solving the problem of temporary shortage of funds that occurs when financing a certain object in the company's activities.

In developed countries, a calendar sequence of payments is used, and in our republic - a target sequence of payments. This, in turn, leads to a higher level of credit risk associated with overdraft and overdraft loans.

The factoring form of lending consists of the following set of activities:

- collection of accounts receivable arising from sold goods and rendered services;
- replenishment of the company's working capital through a short-term loan;
- borrower's guarantee against credit risk;
- borrower's guarantee against currency risk.

In international practice, with factoring loans issued by commercial banks, commodity documents are acquired under two conditions:

- with the right of recourse;
- without the right of recourse.

When purchasing documents for goods with the right of recourse, a commercial bank has the right to demand the amount of the factoring loan from the supplier if the buyer is unable to pay the amount of the goods.

When purchasing documents for goods without the right of recourse, a commercial bank will not have the right to demand the amount of the factoring loan from the supplier if the buyer is unable to pay the amount of the purchased goods.

Currently, in our country, not only commercial banks and factoring companies have the right to provide factoring services, but also microfinance organizations.

The factoring form of lending is based on the following four requirements:

- the presence of a loan in the form of early repayment of accounts receivable;
- accounting of the supplier of goods;
- collection of accounts receivable arising from goods and services;
- insurance of the borrower against credit risk.

A loan to a small business entity in the confiscatory form of lending is provided by purchasing an asset at its disposal without the right of recourse. A bill of exchange is a commercial bill of exchange; when purchasing it without the right of recourse, a commercial bank does not have the right to collect the amount of the penalty from the supplier in the event of the buyer's insolvency.

A leasing loan is a long-term loan issued by commercial banks and leasing companies. According to the leasing legislation of Uzbekistan, leasing agreements must meet one of the following requirements:

- upon expiration of the leasing agreement, the leased asset becomes the property of the lessee;
- if the term of the lease agreement is more than eighty percent of the service life of the leased asset or if the residual value of the leased asset after the end of the lease agreement is less than twenty percent of its original cost;
- upon expiration of the lease agreement, the lessee has the right to purchase the leased asset at a price below its market value, the basis of which is the cost of the leased asset on the day of exercise of this right;
- if the current discounted (estimated) value of lease payments for the term of the lease agreement exceeds ninety percent of the current value of the leased asset at the time of conclusion of the lease agreement. The current discounted (accounted) value is determined in accordance with the legislation on accounting.

Commercial banks' leasing loans are provided on the basis of a tripartite financial leasing agreement:

- an agreement between the manufacturer of the leased asset and the buyer of the leased asset;
- an agreement concluded between the seller of the leased asset and the buyer (commercial bank, leasing company);
- an agreement between the lessor and the lessee of the leased asset.

Leased assets are acquired using funds from a commercial bank and transferred to lessees. In this case, the commercial bank buys out the leased asset for its full value. As a result, financial relations arise between the commercial bank and the seller of the leased asset, as well as between the bank and the lessee.

In the legislation of the Republic of Uzbekistan on leasing, there is a form of leasing called "return lease", in which financial relations arise only between a commercial bank and a lessee, that is, the same person participates as a lessee and a lessee. seller.

In a return lease, the lessee offers a fixed asset on its balance sheet to a commercial bank as a lease object. The commercial bank buys the leased asset from the enterprise at full cost and leases it to the enterprise. After the lease agreement expires, the company buys the leased asset at its residual value.

An important advantage of a renewable lease for the lessee is that it allows the lessee to meet the lessee's needs for working capital. The leased asset remains in the production process.

In international practice, lending to business entities is carried out on the basis of the following generally accepted principles:

- to return;
- payment of interest;
- duration;
- security;
- purposefulness.

developed countries, the method of financial ratios and the method of assessing the total cash flow are used to assess the creditworthiness of service sector entities. The assessment method used consists of the following financial ratios:

- quick liquidity ratio;
- current liquidity ratio;
- financial leverage ratio;
- financial margin ratio;
- financial independence ratio.

Also, in developed countries, the scoring model is used to determine the creditworthiness of service sector entities. Scoring is a mathematical and statistical model, the successful application of which allows to increase the level of use of commercial bank loans by small business entities in the service sector.

The scoring model is based on the following three financial ratios:

- private equity return ratio;
- current liquidity ratio;
- financial independence ratio.

However, the scoring model has the following disadvantages:

- commercial bank employees do not have sufficient experience in developing a scoring-based strategy;
- the quality of the data to be processed does not allow for the effectiveness of assessment and monitoring;
- the existence of the application of credit scoring models to banking products, groups of borrowers or geographic regions without checking their effectiveness;
- that over time, models may lose their effectiveness for objective and subjective reasons. [11]

One of the important conditions for using forms of lending are the requirements for collateral for loans.

The requirements for collateral include:

- an accurate assessment of the maximum ratio of the loan amount to the collateral amount;
- an accurate assessment of the market value of the collateral;
- not allowing a sharp deviation of the estimated price of the collateral from the market price at which it can be sold;
- establishing a separate maximum value for securities traded on stock exchanges and a separate maximum value for securities not traded on stock exchanges;
- separate consideration of land plots leased at a preferential rate when using the right of lease as collateral for loans.

In international banking practice, highly liquid, i.e. first-class objects of collateral for loans issued by commercial banks are:

- land plots owned by the borrower;
- gold and other non-ferrous metals;
- government securities;
- securities, the payment of which is guaranteed by the state.

Limited availability of first-class collateral in the banking practice of Uzbekistan is explained by the following reasons:

- all land plots are owned by the state;
- non-sale of gold and other rare metals on the domestic market of the country;
- absence of corporate securities, the payment of which is guaranteed by the state;
- small volume of issue of government securities (Chart 1).

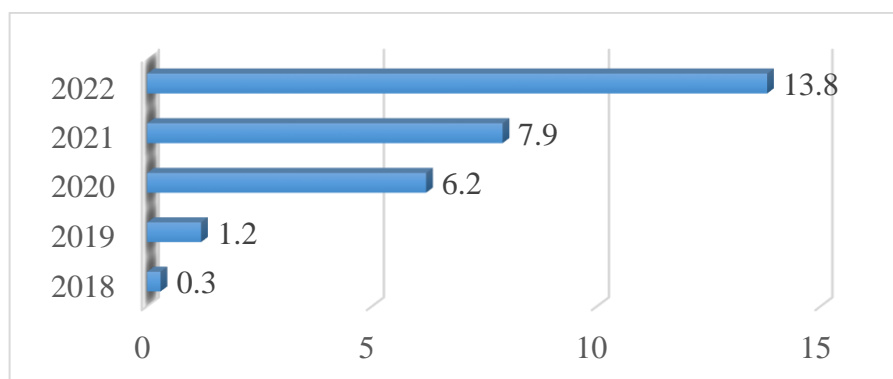


Figure 1. The share of transactions with government securities in the Republic of Uzbekistan in the total volume of trades conducted on the Republican Currency Exchange, in percent

The data in Figure 1 show that the share of transactions with government securities in the total volume of financial transactions carried out on the Republican Currency Exchange tended to increase in 2018-2022, but still remained at a low level. Exemption of income from government securities from taxation plays an important role in ensuring their investment attractiveness. However, high inflation rates and devaluation of the national currency negatively affect the investment attractiveness of government securities. [12] It should be recognized that innovative forms of lending play an important role in improving the practice of lending to the service sector (Figure 2).

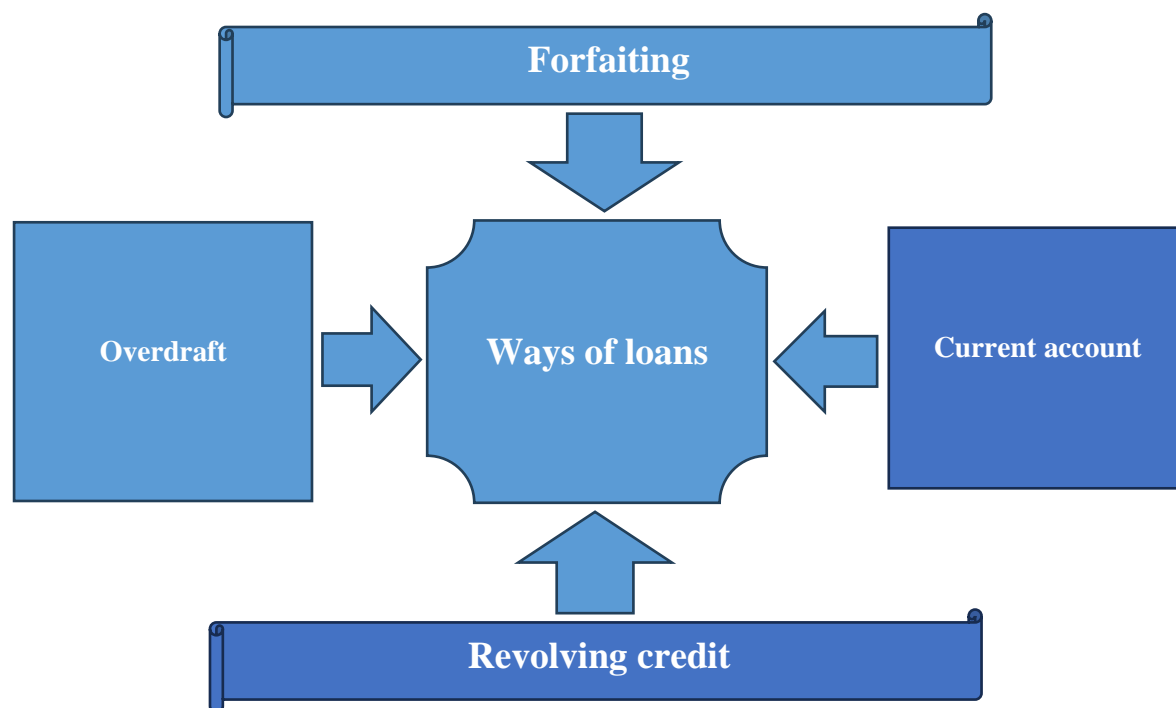


Figure 2. Innovative forms of lending to the service sector

From the data in Figure 2 it is clear that for commercial banks of Uzbekistan innovative forms of lending in the service sector are forfaiting, revolving credit, overdraft and overdraft. The emergence of problem loans is associated with the influence of credit risk, as a result of which the bank fears that the borrower will not be able to repay their obligations under the loan agreement in a timely manner and in full, and the bank may incur losses. associated with lending to such borrowers. Therefore, in banking practice, problem loans are often called low-quality. This interpretation of problem loans focuses on the losses that arise as a result of problems. However, not every bad loan ends in losses. The task of the bank is to prevent or minimize possible losses. Analysis of foreign studies in the field of problem loan management shows that the most effective strategy for efficiency is a problem loan management strategy aimed at financial recovery of the borrower experiencing difficulties, which is implemented within the framework of a strategic partnership. with the client. [13]

CONCLUSIONS AND SUGGESTIONS

The results of the study of scientific and theoretical views on lending to the service sector showed that:

- the development of the service sector directly depends on the population's demand for services. In turn, the demand for services depends on the change in the difference between income and consumption;
- in order to develop the financial services sector, it is advisable to implement the following measures: by creating a healthy competitive environment in the service sector, it is necessary to reduce prices for services and, consequently, increase demand for financial services; it is necessary to create conditions that allow entities providing financial services to ensure a

stable level of their investments; by increasing state budget expenditures and reducing tax rates, it is necessary to increase the solvent demand of entities using financial services;

- in order to improve the mechanism for lending to the service sector, it is necessary to strengthen the resource base of commercial banks, ensure the proportionality of assets and liabilities of banks in terms of their size and duration.

Analysis of forms of lending to the service sector showed that:

- in our republic, the form of one-time lending to service sector entities from a separate loan account is widely used, and with this form of lending, payment is made in full immediately from the loan amount;
- when lending by opening a credit line, the credit limit is allocated by a commercial bank to a service sector entity and the term is determined, and this form of lending has the following features:
 1. loans in this form are provided only to legal entities;
 2. Borrowers of the loan are enterprises and organizations that need bank loans throughout their activities;
 3. the loan is provided to clients whose main current account is in this bank;
 4. the loan is issued to legal entities with high creditworthiness;
 5. With this form of lending, the commercial bank is exposed to liquidity risk throughout the entire lending period. Therefore, the commercial bank charges the client a separate commission for using the credit line.

Reference:

1. Decree of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022 "On the new development strategy of Uzbekistan for 2022-2026" // National Legislative Information Base, 01/29/2022, No. 06/ 60.22.0082.
2. Resolution of the President of the Republic of Uzbekistan dated January 27, 2022 No. PQ-104 "On additional measures related to the development of the service sector".
3. Decree of the President of the Republic of Uzbekistan No. PF-5992 dated May 12, 2020 "On the strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025" // QHMMB: 06 / 205992 / 0581- No. 05/13/2020
4. Lavrushina O.I. Banking. Express course: a textbook. 2016. 12 p.
5. J. Sinkey Financial management and commercial banking and industrial financial management. Trans. English - M.: Alpina Business Books, 2007. - 1018 p.
6. Mishkin. F.S. Economic theory, banking and financial markets, 7th edition: Trans. English - M.: OOO "I.D. William", 2006. P-42
7. Grishina E.A. Trends in the development of credit services provided by commercial banks // Finance and credit. - Moscow, 2016. - No. 28. - P. 18-27.
8. Nurmukhammedov, A.Yu. (2022). Mechanisms for improving the practice of long-term lending by commercial banks. European Journal of Business Startups and Open Society, 2 (10), 11–16.
9. Consolidated balance sheet of commercial banks //www.cbu.uz (Central Bank of the Republic of Uzbekistan).
10. Bank of America. Annual report 2021// (<https://investor.bankofamerica.com/annual-reports-and-proxy-statements>).
11. Snyder D., Brian T. Scoring in lending to small and medium enterprises // Money and credit.

- Moscow, 2011. - No. 10. - P. 59.

12. Nurmukhammedov A.Yu. (2020). Development of securities markets of commercial banks in Uzbekistan. Theoretical and applied science, (6), 476–480.
13. Nurmukhammedov Abdijabbar Yunusovich. (2024). Ways to develop innovative banking services in Uzbekistan. Miasto Przysloszczy 52, 76–83.
14. Berdiev A.O. Improvement of Financial Management Mechanisms of Investment Activity. Euroean Journal of Business Starturs and Oren Society. ISSN: 2795-9228, Vol.3 No.5 (2023): EJBSOS Pp.62-68.
15. Berdiev A.O. Scientific and theoretical foundations of rroject financing risk management in commercial banks. “Science and innovation” Tashkent, 2023. UIF-2022: 8.2. ISSN: 2181-3337 scientists.uz. 293-300.