



## ANALYSIS OF FACTOR'S PRACTICE IN UZBEKISTAN

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### Abstract

The article examines the main features of factoring operations. The success of the factoring practice in the markets of the countries and their level of superiority as a modern service and the widespread use of these operations in the world today are analyzed. In Uzbekistan, factoring operations are mainly used by commercial banks, there are no separate factoring companies despite being allowed by legal documents, there are obstacles to their use by microcredit organizations, it is urgent to implement this practice on a large scale. It has been researched that the use of factoring operations in the Republic of Uzbekistan has a positive effect on the banking system and that it is useful not only for the banking system, but also for the development of small business, especially nowadays .

### Key words

factoring operations, commercial banks, legal framework, intermediary operations, buyer, factor, seller, indebtedness .

In the conditions of increasing globalization of the economy, the types of services provided by commercial banks to clients are increasing, which is naturally becoming diverse. In such conditions, increasing the trust of the population and business entities in banks by implementing new types of banking services that meet the requirements of the time and attracting their free funds remains one of the most urgent issues in the activity of banks. By applying various methods of intermediation operations, which are widely used in the practice of world banks, the income of banks and, in connection with it, all indicators are improving.

As any economic activity is aimed at making a profit, the intended result in the activity of commercial banks is also making a profit. For this purpose, the commercial banks operating in the territory of our republic are currently offering modern services to customers in order to justify their trust, create additional conveniences for them, and attract them to themselves.

Because the demand for modern banking services is increasing in the current period of economic reforms implemented in our republic. Therefore, in the "Strategy for reforming the banking system of the Republic of Uzbekistan for 2020-2025", approved by the Decree of the President of the Republic of Uzbekistan No. PF-5992 dated May 12, 2020, "Improving the quality and expanding the scope of banking services, ... in particular, to customers offering a wide range of services (financial consulting, investment banking, factoring, project financing, leasing, etc.)" [1] .

As the economy of our country develops, the need for various financial services is also increasing. In particular, commercial banks consider the practice of factoring as a means of reducing the receivables of

economic entities and use it on a large scale. However, if we look at the composition of the assets of commercial banks of our country, the practice of factoring is hardly visible. However, in foreign countries, this practice is one of the main financial services that bring income to commercial banks, and many types of it have been developed. In particular, business entities actively use factoring to reduce their receivables and stabilize their financial situation.

This about His Excellency the President of the Republic of Uzbekistan To the meeting did In the petition emphasizing past i dek " .... a fsuski , banking system digital technologies application of new banking products current reach and software supplies according to time 10-15 years from the requirements behind remains from 2020 starting from each one in the bank wide large-scale transformation program done is increased . This about capital, resource base of our banks and income increase separately our attention in the center will be " [2]. It should be noted that commercial banks in Uzbekistan currently do not implement factoring transactions on the electronic platform. One of the important tasks for our commercial banks is the electronic exchange of data and subsequent factoring on digital platforms. After all, based on foreign experience, factoring practice is performed quickly, safely and qualitatively on digital platforms.

Regarding the use of factoring operations in Uzbekistan, it can be noted that these operations are allowed in legal norms. Although not very actively, factoring operations in Uzbekistan are mainly carried out by commercial banks. Factoring companies do not exist separately, and these services are not provided by microcredit organizations. At the same time, it seems that there are some differences in the application of factoring operations in these legal documents. In particular, Article 750 of the Civil Code of the Republic of Uzbekistan states that "Banks and other credit organizations, as well as other commercial organizations that have a permit (license) for this type of activity, may conclude financing agreements in exchange for a waiver of the request for money in favor of another person" [3] . That is, it can be understood from this article that factoring can be carried out by other licensed commercial organizations besides banks. However, in paragraph 1.3 of the Regulation "On the procedure for conducting factoring operations in the territory of the Republic of Uzbekistan" adopted by the Central Bank of the Republic of Uzbekistan, it is interpreted as "Factoring service is a type of financing banking service" [4] . That is, based on this Regulation, it is noted that only commercial banks provide factoring services. It follows that only commercial banks are engaged in "factoring practice" in the territory of Uzbekistan. However, Article 16 of the Law of the Republic of Uzbekistan "On Regulatory-Legal Documents" states that "in case of discrepancies between documents, the normative-legal document with higher legal force shall be used" [5]. Based on this, it can be noted that the practice of factoring is not based on the Regulation issued by the Central Bank, but according to the Civil Code of the Republic of Uzbekistan with high legal force, all commercial organizations with a license can engage in the practice of factoring.

Now, in order to find an answer to the question of what are the advantages of factoring itself, we will focus on the execution of factoring operations below:

1. The seller (goods supplier) sells goods or services to the buyer (debtor) on condition of payment within 90 days.
2. The seller, without waiting for the 90-day period, sends an application to the factor for the need for funds and the sale of receivables, and in this:
  - factor payment to the buyer (debtor). ability Checks if it is a loan payment ability have if the application satisfies ;
  - the seller, together with the goods, sends the original invoice and payment instruction to the buyer (the instruction includes a payment order for the direct payment of receivables in factoring), and one original invoice to the factor;
  - receivables are transferred to the factor in accordance with the factoring agreement concluded on the basis of the agreement of all parties.
3. Factor payment request after receiving to the buyer common amount (70-90%) immediately full lips gives In this case, the factor is common from the sum commission services takes ( up to 0.2-5%). has been common payment in the application from the sum ).
4. When the debt is due, the debtor transfers the full amount to the factor account.
5. After the buyer pays the full amount to the factor, the factor transfers the remaining amount (10-30%) to

the seller's account after deducting commission, interest and other expenses.

Thus, factoring can offer more opportunities to business representatives than financing. Having a professional approach to credit management can even protect it in some cases. The advantages of factoring include:

- financing in the short term, issuing debts without additional collateral. A factoring company has the possibility of financing as soon as the contract is signed;
- improved cash flow, as the term of financing obtained from factoring differs from that of a loan;
- unlike a bank loan, the producer has the opportunity to use the funds received from factoring in a wide range (while the bank loan is focused on a narrow goal);
- thanks to factoring, the company focuses on expanding its business, spending its time on developing production and sales, while the factor, on the other hand, deals with the collection of receivables.

There are also disadvantages of factoring practice for enterprises and business representatives:

- the high costs of factoring (that is, business representatives can use this cost to develop their own production) and recourse factoring can be used as a solution to the problem (when a recourse factoring contract is concluded, the main risk remains with the seller);
- during the collection of receivables, if the factor is patient (tolerant), if the indebtedness is extended by the debtor for a long time, the factor may be separated from the majority of its customers (that is, the non-payment of the customer may have bad financial consequences for the activity of the factoring company);
- the factoring contract also imposes certain obligations on the factor, which in turn increases the risk level for the factor that the debtor will not have the ability to pay if the debtor does not pay the debt on time.

At this point, taking into account such cases, it is necessary to pay attention to the following:

- has more information and knowledge to reduce or eliminate the risk ;
- second, the factoring company builds a portfolio of receivables that avoids bankruptcy in the event of insolvency without dealing with individual debtors.

Thus, factoring is useful in the following cases:

- in one-time deliveries without having a credit history of the buyer supplier;
- when the supplier has a multi-network system of product deliveries.
- factoring reduces the supplier's balance sheet and improves its structure by increasing the ratios of equity and leveraged capital.

In short, on the basis of factoring operations, accounting in the economy can be accelerated, the company that supplies goods can stabilize its financial situation, the bank can use its funds efficiently and get a certain income, and the main thing is that the country's goods turnover will be accelerated in some way. It can be said without a doubt that the use of factoring operations in the Republic of Uzbekistan has a positive effect on the banking system. This is useful not only for the banking system, but also for the development of small businesses, especially nowadays. Also, factoring services in the Republic of Uzbekistan, firstly, increase payments to the economy, and secondly, they can bring the banking system of Uzbekistan closer to world standards and provide services to foreign companies.

In general, factoring is an important tool of the money settlement system, helping to accelerate the capital cycle, reduce the costs associated with debt collection, and facilitate the relationship between banks.

Thus, it is necessary to consider the fact that credit institutions, except for commercial banks, do not provide factoring services today as an important problem. It should also be said that factoring is not a part of banking, but it is wrong to call it an "operation", because factoring is not a one-time transaction, but a continuous service. All of these require special decision-making processes and risk management.

The next problem is that most of the country's banks are not ready for medium-term investments. The main obstacle here is not the financing of factoring, but the long-term cycle associated with the organization of work. This cycle takes longer even with qualified executors.

Thus, as a result of the analysis of the practice of factoring in the Republic of Uzbekistan, the following conclusion was formed regarding factoring operations:

1. The development trend of factoring operations in the practice of banks is not stable. The level of risk in the implementation of factoring operations in banks is very high. This is caused by the low turnover of receivables of enterprises in our country under the influence of some objective and subjective factors.

Factoring is a universal form of customer service, as customers are freed from accounting for their claims (claims), checking their solvency. Banks can provide their customers with information on the solvency of buyers of goods, and guarantee payments in foreign countries. Banks are also interested in performing these operations because these operations bring high profits. In developed countries, factoring operations externalize a significant part of the annual turnover, depending on the client's financial situation, the amount of share capital, the type of product, the volume of work, etc.

2. It is necessary to improve the regulatory and legal framework regulating mediation operations of commercial banks.

3. It is necessary to increase the amount of factoring operations by providing international factoring services to the group of reliable, financially stable clients of commercial banks.

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