

# ANALYSIS OF CURRENT PRACTICES IN BANK CREDITING OF TOURISM ENTERPRISES

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**Abstract:** This article examines issues related to current practices of bank lending to enterprises in the tourism sector. An analysis is conducted on loans issued by commercial banks for the development of the sector, the number of enterprises in the sector that received loans, and an overview of loans issued by commercial banks in the Samarkand region. Factors influencing the amount of loans obtained are detailed. Conclusions are drawn and recommendations are provided to increase the number of loans issued by commercial banks in the republic.

**Keywords:** bank, commercial bank, credit, lending, tourism enterprises, tourism services, entity, financial resources, financial and credit support, efficiency

**Introduction.** In the global economy, the service sector is one of the most important sectors. According to the report of the World Bank "Doing Business," the share of the service sector in the GDP of developed countries ranges from 50% to 60%. Specifically, in Russia it's 68%, Kazakhstan 64%, Belarus 59%, and South Korea 60%. The service sector constitutes 36.6% of GDP of Uzbekistan, with 50.5% of the country's workforce employed in this sector. Nowadays, the service sector is a driver of economic development in the country. However, the banking system inadequately meets the needs of enterprises operating in this sector. Given that tourism services are a key aspect of the service sector, improving the current mechanism of financing and developing alternative methods of bank lending become crucial.

**Research Methodology.** This study is based on the findings of researchers in the field of credit for tourism sector entities, as well as statistical data processing methods in the tourism market and the banking credit support market in the Republic of Uzbekistan.

**Literature Review.** Many domestic and foreign scholars have studied the organization of credit for tourism sector entities, including J. Schumpeter, M.A. Krivulya, S.V. Fedorova, A.A. Kozybagarov, K.S. Zakharova, A.A. Bakanova, N.G. Novikova, K.A. Lebedev, O.E. Lebedeva, N.A. Zaytseva, McKercher, H. Du Cros, and M.A. Bulaev, among others.

**Analysis and Results.** The successful development of tourism enterprises and their financial stability depend on the assessment of the current state of the tourism market and the credit lending process. Institutional inequality, a limited range of financial and credit instruments and services, and the absence of effective legal foundations create challenges related to ensuring the realization of property interests in credit transactions, reducing the effectiveness of services provided, and utilizing credit resources for the development of tourism enterprises.

In our study, we conducted an analysis of loans issued by commercial banks in the Samarkand region, revealing the following (see Table 1)

Table 1

**Analysis of loans issued by commercial banks for the development of the tourism sector (Samarkand region, as of January 1)<sup>1</sup>**

(mln.sum)

N	Bank Name	2019 y	2020 y	2021 y	2022 y	2023 y
1.	ЧАКБ «Orient Finans Bank»	7,5	184,2	174,2	180,1	199,3
2.	АКБ «Uzpromstroybank»	1,95	2,45	1,95	3,25	4,75
3.	АО «NB for Foreign Economic Activities of Uzbekistan»	31,2	20,0	15,3	15,7	25,9
4.	ЧАБ <a href="#">«Trastbank»</a>	-	-	-	-	-
5.	АКБ «Agrobank»	25,5	55,5	85,5	98,2	91,0
6.	АИКБ «Ipak yo'li bank» branch «UMAR»	31,2	38,2	41,1	55,3	58,9
7.	АКБ «Mikrokredit bank»	21,5	35,5	55,4	64,3	69,8
8.	АКБ «Kapitalbank»	1,65	6,2	5,1	5,9	-
9.	АКБ «Turonbank»	11,5	18,5	25,4	28,4	33,7

So, the analysis of loans issued by commercial banks in the Samarkand region indicates that in practice, the amount of loans granted to entities in this sector is not significant. Banks that issued loans are facing problems related to loan defaults. Therefore, most banks try to avoid lending to tourism businesses.

We also conducted an analysis of enterprises in the tourism sector, specifically guest business entities, that utilized this credit support. Our analysis showed that the lifecycle of tourism enterprises varies, so we categorized them based on the number of enterprises and loans according to their lifecycle stages (see: Table 2).

The analysis of loans granted to entities in the tourism sector as of January 2023 showed that very few enterprises actually profited from it. Of the 76 businesses that have been for less than a year, none have received a loan. Of the

<sup>1</sup> Data from banks in Samarkand region for 2019-2023.

54 businesses that lasted between one and three years, just seven had financing. Out of the 149 businesses that have been in operation for three years or more, just 18 have gotten loans. In conclusion, just 25 of the 279 tourism industry businesses used credit help; the others declined, citing worries about fulfilling their bank obligations.

**Table 2**

**Analysis of the number of tourism enterprises based on their lifecycle that have received credit.(Samarkand region, as of January 1, 2023)<sup>2</sup> (units)**

N	The name of the tourism enterprise	up to 1 year		from 1 year to 3 years		3 years and above		total	
		num of enterp	num of enterp granted loans	num of enterp	num of enterp granted loans	num of enterp	num of enterp granted loans	num of enterp	num of enterp granted loans
1	hotels	30	0	22	5	58	10	110	15
2	guest houses	38	0	20	2	78	8	136	10
3	hostels	8	0	10	0	10	0	28	0
4	Other accommodation facilities	0	0	2	0	3	0	5	0
<b>Total:</b>		<b>76</b>	<b>0</b>	<b>54</b>	<b>7</b>	<b>149</b>	<b>18</b>	<b>279</b>	<b>25</b>

Based on the analysis of banking practices in the Samarkand region, it is evident that most commercial banks exclude the possibility of financing entrepreneurial entities that are in their early stages of development, i.e., less than one year old. This contradicts the state economic policy aimed at supporting entrepreneurial entities for the further development of the sector. On one hand, banks are interested in issuing loans, as there is a significant demand from entities seeking credit; however, on the other hand, the rejection rate for such loans is relatively high.

Moving forward, based on the analysis of enterprises in the tourism sector at various stages of their lifecycle, we have decided to categorize them as follows:

«а» (beginning)	«б» (developing)	«с» (established)
$0y < \Pi_c T_{yc} < 1y,$	$1y < \Pi_c T_{yc} < 3y,$	$3y < \Pi_c T_{yc} < +3y$

(1)<sup>3</sup>

whereas,  $y$  - year of activity of a tourist enterprise

$\Pi_c T_{yc}$  - enterprise in the tourism services sector.

<sup>2</sup> Compiled by the author based on data provided by commercial banks in Samarkand region (January 2023).

<sup>3</sup> Developed by a team of authors.

Thus, the analysis of loans issued by commercial banks in the Samarkand region to enterprises in the tourism sector, regarding loans issued by the lifespan of enterprises, revealed the following (see Table 3)."

**Table 3**

**Analysis of loans granted by some commercial banks of Samarkand region to tourism enterprises based on their lifespan from 2019 to 2023**

(million sum)

N	Names of bank	years									
		2019		2020		2021		2022		2023	
		Total amount of loans granted	Category of tourism enterprises: a*, b*, c*	Total amount of loans granted	Category of tourism enterprises a*, b*, c*	The total amount of loans granted	Category of tourism enterprises a*, b*, c*	The total amount of loans granted	Category of tourism enterprises a*, b*, c*	The total amount of loans granted	Category of tourism enterprises a*, b*, c*
1.	ЧАКБ «Orient Finans Bank»	141,4	c*	7,5	c*	184,2	c*	195,3	c*	202,2	c*
2.	АКБ «Uzpromstroybank»	1,18	b*,c*	1,95	b*,c*	2,45	b*,c*	4,42	b*	4,15	b*,c*
3.	АО «NB for Foreign Economic Activities of Uzbekistan»	0	-	31,2	b*,c*	0	-	0	-	0	-
4.	ЧАБ «Trustbank»	0	-	0	-	0	-	0	-	0	-
5.	АКБ «Agrobank»	10,0	b*,c*	25,5	a*,b*,c*	55,5	b*,c*	65,5	c*	65,7	b*,c*
6.	АИКБ «Irak yo'li bank» branch «UMAR»	18,5	c*	31,2	b*, c*	38,2	b*,c*	35,2	b*,c*	38,8	b*,c*
7.	АКБ «Mikrokredit bank»	10,0	b*,c*	21,5	c*	35,5	b*,c*	35,5	b*,c*	35,5	b*, c*
8.	АКБ «Kapitalbank»	0,18	b*	1,65	b*,c*	0	-	1,05	b*	1,15	b*,c*

"Note: Categories a,b,c correspond to:

a\* - tourism enterprises with a lifespan of up to 1 year

b\* - tourism enterprises with a lifespan from 1 to 3 years

c\* - tourism enterprises with a lifespan of 3 years and more"

Based on the analysis of current banking practices of several commercial banks operating in the Samarkand region, it is evident that most banks exclude the possibility of financing entrepreneurial entities that are in their early stages of development, i.e., less than 1 year old. This contradicts the state economic policy aimed at supporting entrepreneurial entities for the further development of the sector. On one hand, banks are interested in issuing loans, and there is a significant number of entities seeking and striving to obtain credit. However, on the other hand, the rejection rate for such loans is relatively high. Research results indicate that a large portion of tourism sector entities require credit support, and the demand for financing these entities is increasing daily. Nevertheless, the studies also show that the volume of loans issued by commercial banks in Samarkand is not substantial. Only a small number of entities manage to obtain preferential loans, while very few decide to take commercial loans due to high interest rates and lack of collateral.

If tourism enterprises do decide to take out loans, they are typically well-established entities with a lifespan exceeding 3 years. However, high interest rates and the absence of collateral make loan repayment challenging for

entrepreneurs in this sector. As a result, many prefer not to borrow from banks and instead seek funds from friends or acquaintances.

Creating favorable conditions for the financial activities of tourism sector entities, particularly hotels, entertainment complexes, trading enterprises, business, educational, sports facilities, medical and health organizations, etc., is crucial for enhancing their own financial resources.

In practice, credit support for economic entities is implemented through various banking credit programs tailored to the specific goals and financial capabilities of banks. Table 4 illustrates the conditions for obtaining credit for tourism enterprises from some commercial banks in the Samarkand region.

Table 4

Conditions for obtaining credit for tourism enterprises from commercial banks in Samarkand region<sup>4</sup> (as of January 1, 2023)

N	Names of Bank	% int rate		"Term (months)"	Purpose of the loan	Security
		Uzb	USA			
1	ЧАКБ «Orient Finans Bank»	26	7	12-36	"acquisition of fixed assets (including for the construction and reconstruction of hotels, as well as major repairs)"	<ul style="list-style-type: none"> <li>- real estate;</li> <li>- jewelry;</li> <li>- automotive transport;</li> <li>- deposit (in national and/or foreign currency);</li> <li>- special equipment;</li> <li>- equipment;</li> <li>- third-party guarantee;</li> <li>- insurance policy covering the risk of default on the loan by the borrower in favor of the bank;</li> <li>- other liquid assets.</li> </ul>
2	АКБ «Uzpromstroybank»	24	9	12-72		
3	АО «NBU for Foreign Economic Activities of Uzbekistan»	22	7-8	12-72		
4	ЧАБ «Trustbank»	22-28	8	12-72		
5	АКБ «Agrobank»	26	8	12-72		
6	АИКБ «Ipak yo'li bank» branch «UMAR»	22	7-8	Up to 24 months		
7	АКБ «Mikrokreditbank»	25	-	12-36		
8	АКБ «Kapitalbank»	27	7-8	Up to 18 months		
9	АКБ «Hamkor bank»	22,9	-	Up to 60 months		
10	АКИБ «Ipoteka»	The main interest rate of the Central Bank.		Up to 60 months		
11	АКБ «Asaka»					

According to the analysis of the data in Table 4, it can be concluded that the interest rates of loans for legal entities are very high, starting with 22% and higher. This situation is observed across different banks in the region, where interest rates can be even higher. These requirements also play an important role in loan approval, posing challenges for many bank customers, including tourism entities and hotels. Many insurance policies lack tangible assets, such as securities, which are necessary for securing loans. These factors may deter most legal entities from obtaining credit.

Research on the banking loan programs of several commercial banks in the Samarkand region indicates that most banks exclude the possibility of financing businesses that are in the early stages of development, i.e., less than 1 year old.

<sup>4</sup> Developed by the author based on data obtained from commercial banks in Samarkand region, as of March 2020.

The analysis of current banking practices reveals a contradiction with the state economic policy aimed at supporting entrepreneurial entities for further sectoral development. On one hand, there is substantial interest from banks and a large number of entities seeking credit to open or expand their businesses. On the other hand, the rejection rate for such loans is relatively high.

The aforesaid factors claim that the daily demand for financing in the tourism sector is increasing, as a significant portion of entities in the sector require credit support.

But analysis of loans granted to entities in this sector has identified factors that influence the approval or rejection of loans for their businesses. Let's explore these factors in more details:

The *first factor* involves the significant risk associated with financing tourism enterprises. Issues include insufficient management capability at the enterprises, resulting in inadequate economic project development that accounts for all possible nuances related to the sale of goods and services. Additionally, the mentality of the enterprise significantly affects loan repayment and timeliness.

The *second factor* is the necessity for banks to establish substantial reserves to compensate for losses incurred from risky deals when financing tourism sector enterprises.

The *third factor* is that many tourism sector entities lack collateral at the initial stages of their operations. Thus, most of the commercial banks should consider declining the borrower requirements for those without adequate collateral.

The *last factor* for highlights the challenge of accurately assessing of risk associated with financing tourism enterprises due to the absence of a comprehensive creditworthiness evaluation methodology for such entities.

**Conclusion and Recommendations:** In conclusion, analysis of current banking practices shows that the credit market is a significant financial resource for entities contributing to the establishment or further developing of entrepreneurial activities. However, despite of substantial financial and credit support from government, the number of enterprises benefiting from bank credit support remains to its minimal. This is largely due to banks preferring to lend to small business engaged in trend.

Moreover, most entrepreneurial entities face numerous barriers when seeking credit. Analyzing credit trends in the Samarkand region leads us to conclude that credit support was mainly utilized by enterprises with a lifespan of more than 3 years (although in limited numbers). Entities in their early stages (less than 1 year old) were either denied loans due to non-compliance with requirements or chose not to risk applying due to factors hindering loan approval. We believe it is advisable to develop a methodology for financing tourism enterprises at various stages of their lifecycle and based on their

relationship typology with banks: a (beginning):  $0y < П_c TУc > 1y$ , b (developing):  $1y < П_c TУc > 3y$ , c (established):  $3y < П_c TУc < +3y$

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