

## **FEATURES OF LEASING IN MODERN CONDITIONS OF DEVELOPMENT OF SMALL BUSINESS IN UZBEKISTAN**

**Zoirov Laziz**

Associate Professor, Tashkent Institute of Finance, Uzbekistan

[laziz.zoirov@bk.ru](mailto:laziz.zoirov@bk.ru)

### **Abstract**

*In modern conditions, leasing is particularly relevant for the development of small business in Uzbekistan, which can accelerate the formation of small businesses and strengthen the role of the middle class in the formation of the market and the development of market infrastructure in Uzbekistan. In this case, much less start-up capital is required, since the primary capital expenditures for the acquisition of equipment are incurred by the leasing company. This paper studies advantages of leasing than other means of finance. Moreover, it analyzes the current condition of leasing market in Uzbekistan. It can be seen that most leasing transactions realized in Tashkent city. Some proposals and recommendations are given to improve the leasing activity in Uzbekistan.*

*Keywords: Leasing, Leasing companies, Lessor, Small business, Uzbekistan*

### **INTRODUCTION**

In accordance with the law and the financial lease contract (leasing agreement), the lessor undertakes to purchase the property indicated by the lessee from the seller determined by him and for entrepreneurial purposes to provide it in paid rent or in temporary possession and use. And the lessor in this case is not responsible for choosing the subject of the lease and the seller. At the same time, the financial leasing agreement may provide for another option, in which the choice of the seller and the acquired property is carried out by the lessor.

First, in comparison with an ordinary bank loan, leasing has a number of advantages that are extremely beneficial for small businesses, as evidenced by the following factors:

- a) A contract for leasing is easier to obtain than a loan in a bank, and, as a rule, no additional guarantees are required. After all, the equipment itself is already serving as a guarantee for securing the transaction. If the lessee fails to fulfill its obligations, the lessor has the right to immediately take back his property;
- b) The leasing agreement is more flexible than the loan in the bank, which assumes strict terms and amounts of repayment. When leasing, a convenient payment scheme can be adopted, including their repayment after receipt of proceeds from the sale of goods produced on leased equipment. The risk of aging equipment falls on the lessor, and the user has the opportunity to constantly update it due to changes in market conditions or to achieve high production results. Moreover, at leasing the user at once has an opportunity to involve more productive capacities, than at purchase, moreover on credit and with considerable percent. Subjects of small business can send out money to implement other projects of their company;
- c) Leasing involves full lending and does not require immediate commencement of payments.

Secondly, the financial function of leasing is that it frees the lessee from a one-time and full payment for the value of the property at the expense of own or borrowed funds.

Thirdly, the production function of leasing is to quickly solve the problems of manufacturing products by temporarily attracting expensive equipment, rather than buying it.

Fourth, the marketing feature of leasing promotes the expansion of the circle of consumers and the conquest of new markets. This increases the socio-economic role of the middle class, because allows to create additional workplaces and to involve in the production and sale of goods, works and services of those representatives of the small business that do not immediately have the opportunity, at the first stages of their activities, to acquire the required property and equipment in ownership.

Fifth, leasing has a number of benefits for taxes and depreciation charges:

- a) The property leased is not reflected in the user's balance sheet, since the ownership right is retained by the lessor;
- b) The leasing charge is charged to the cost of the goods (services) produced and, accordingly, reduces the amount of taxable profits;
- c) The use of accelerated depreciation, calculated on the basis of the contract term, rather than the life of the equipment for leasing, also reduces the taxable profit and accelerates the renewal of the property.

The leasing company is interested in supporting small businesses, since the equipment is relatively inexpensive, and the leasing market is wide enough for these forms of activity. It can include: mini-plants for processing milk, meat and other agricultural products, mini-bakery; Manufactories for the production and bottling of beer and soft drinks, as well as vegetable oil; equipment for shops, canteens; medical equipment; means of communication; equipment for various kinds of tailoring shops, studios, enterprises of chemical cleaning of the upper and lower garments, carpets, blankets, etc., laundries, beauty salons, hairdressers and many other kinds of works and services, which are engaged in small businesses, including law offices and auto repair shops. In terms of volume and form of service, the following types of leasing are distinguished:

- Net leasing, when only the lessee is responsible for the maintenance of the received property;
- Leasing with a full range of services, which in practice is called "wet" leasing. In this case, the full servicing of the property is carried out by the lessor, who is responsible for this;
- leasing with a partial set of services of the lessor;
- General leasing, when the lessee (lessee) can supplement the list of leased equipment under a general contract without concluding new contracts.

Depending on the composition of the subjects of the leasing transaction, the following categories can be distinguished:

- Direct leasing - bilateral transaction, when the supplier (manufacturer) himself leases the object. The chain turns out: the plant - transfer to the lease - the user;
- Indirect leasing, when the transfer of property through an intermediary through the chain: the plant - purchase - the leasing company - the transfer to the lease - the user;
- Return leasing (it is sometimes considered a private case of direct leasing), when the owner of the property sells it to the future lessor, and then he himself rents this property from him, as if getting it back.

As for the time lag, in practice, basically there are:

- Short-term leasing, with a term of less than one and a half years;
- Medium-term leasing, with a term of one and a half to three years;
- Long-term leasing, with a period of at least three years or more.

With all the obvious advantages of leasing, there are different approaches to identifying its economic nature. For example, in some cases, leasing is identified with long-term leases and transfers its regulatory provisions to the leasing type of entrepreneurial activity. In other cases, the regulation of a complex of leasing activities is attempted through traditional norms of civil law, in particular, using for this purpose contracts of commission, lease, loan, etc.

In some cases, leasing is recognized in the form of a qualitatively new type of legal relations that cannot be adequately reflected by existing civil law standards and must be formalized by a special, independent type of contract that has been called a financial leasing (leasing) contract. From our point of view, in leasing relations there is indeed a combination of elements of the contract of receipt, as well as lease relations, as well as elements of credit financing. In this connection, it seems to us, it is expedient to classify leasing, in addition to the features mentioned above, also in terms of the payback of leased property. After all, full payback implies a situation where, for the term of one agreement, the lessor would be fully paid for the value of the leased property. In particular, leasing with full payback can include both financial and return leasing.

## ANALYSIS

In 2017 the volume of new leasing transactions amounted to 1.5 trillion UZS, and the total portfolio of leasing operations reached about 2.7 trillion UZS. In Uzbekistan, 46 leasing investors were actively involved in leasing activities, out of which 15 were banks.

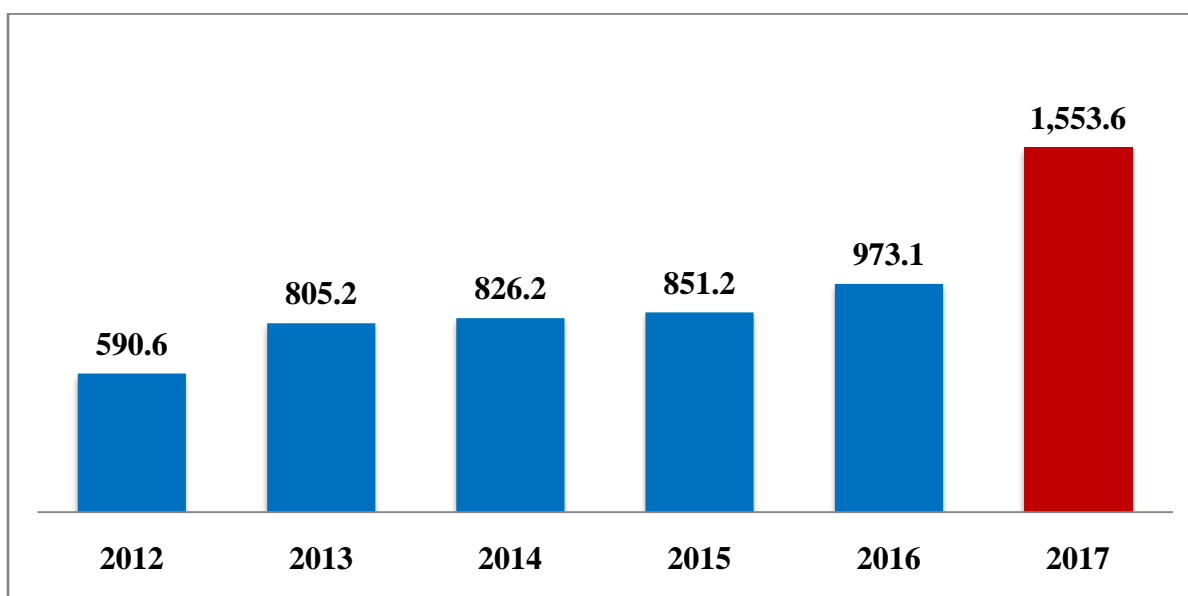


Figure 1. Growth dynamics of new leasing transactions volume (in billion UZS)

Source: [www.ula.uz](http://www.ula.uz)

In the first half of 2017, the volume of new leasing transactions increased by 65.1% to 710.9 billion UZS compared to the same period of last year. The tendency continued to grow in the second half of the year, and by 2017 this figure grew by 59.6% and reached 1 trillion, 553 billion UZS, which is 581 billion UZS more than in 2016.

The tendency of growth of the volume of new leasing transactions was distributed among leasing market participants as follows:

Table 1. Share of participants in the leasing market

	2013	2014	2015	2016	2017
<b>Leasing companies</b>					
- Property value, billion UZS	560,2	592,6	668,2	630,8	963,8
-share	69,6%	71,7%	78,5%	64,8%	62,0%
<b>Banks</b>					
- Property value, billion UZS	244,9	233,6	183,0	342,3	589,8
-share	30,4%	28,3%	21,5%	35,2%	38,0%
<b>Total</b>	<b>805,2</b>	<b>826,2</b>	<b>851,2</b>	<b>973,1</b>	<b>1 553,6</b>

Source: www.ula.uz

The tendency of leasing market distribution among leasing marketers in 2017 remained the same as in previous years. According to him, 62% of the market belongs to leasing companies. As for commercial banks, the banks increased the volume of leasing services by 247.5 billion UZS compared to the results of the year 2016. Their share was 38%.

If the leasing portfolio is considered to be leased, it is seen that 78.2% of the portfolio is accounted for by leasing companies. As of the beginning of 2018, the amount of leasing portfolio exceeds 2 trln. 684 billion sums. This indicator can be characterized by the fact that in the current legislation the amount of leasing services rendered by commercial banks should not exceed 25% of the first level capital of the bank.

The distribution of leasing operations in the republic is fairly even, with the exception of Tashkent, which accounts for 35.6% of all new leasing operations in the country's market. According to the results of 2017, the Tashkent region is leading (10.6%) and the Syrdarya region (9.7%) is in the third place. The activation of the Syrdarya region can be indicated by large transactions from the SLC "O'zagrolizing" worth almost 54 billion UZS and from the bank "Asaka Bank" in the amount of 81.2 billion UZS.

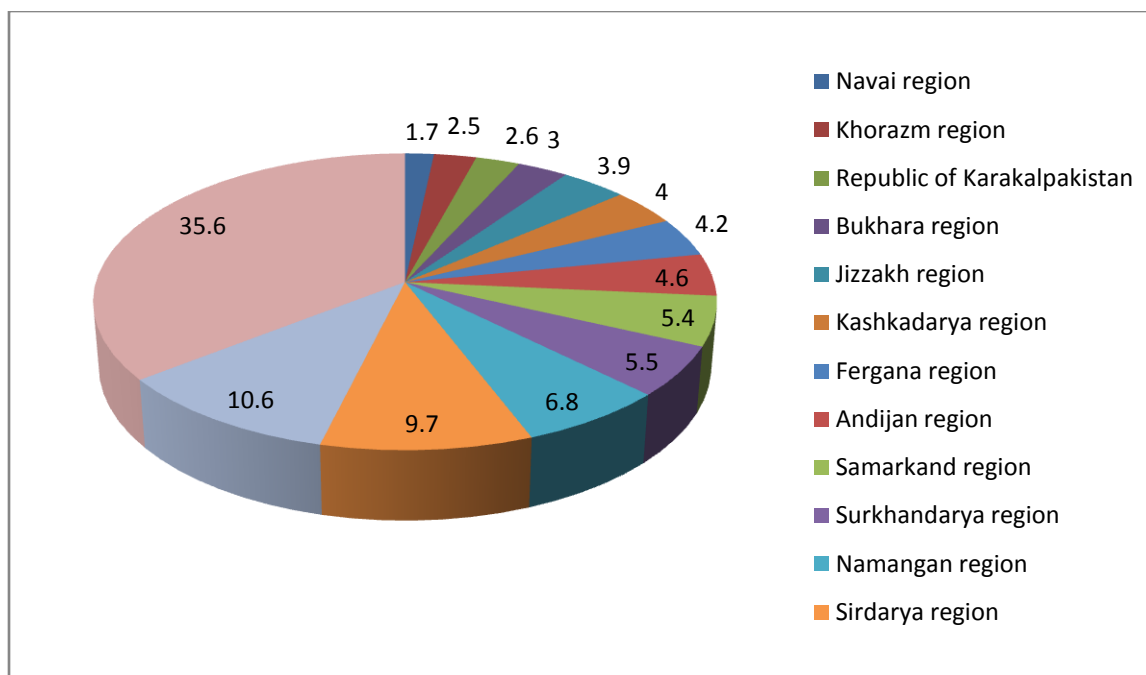


Figure 2. Distribution of transactions by regions

Source: [www.ula.uz](http://www.ula.uz)

## PROSPECTS OF DEVELOPMENT OF THE LEASING MARKET IN UZBEKISTAN

Analyzing the market of leasing services of the Republic of Uzbekistan for 2017, the factors hindering the growth of leasing operations were revealed, including:

- Low capitalization of leasing companies;
- Insufficient financial resources;
- There is no access to international sources of financing;
- Regional imbalance:
- Share of the city of Tashkent from 30%, regions from 3% to 9%.

In view of the above factors, proposals were developed to stimulate further development of leasing in Uzbekistan:

- Consumer leasing;
- Operational leasing;
- Secondary leasing;
- Expanding the sources of financing, including through the securities market;
- Access to the international capital market;
- introducing appropriate changes in legislative standards.

As in previous years, one of the determining factors in the development of the leasing sector is the access of lessors to sources of financing. Leasing companies will have to work out

the issue of attracting direct foreign loans; cooperate with insurance companies to attract resources used to finance leasing transactions. Insurance companies provide additional support for leasing companies to fulfill their obligations to banks on credit lines, using collateral under the insurance policy of export agencies when concluding contracts for the supply of equipment or machinery from foreign countries. This, in turn, stimulates an increase in financing of leasing transactions in freely convertible currency.

## CONCLUSION

Taking into consideration all analysis and research results the following conclusions have been made:

- Purchase of some equipment for leasing is more convenient and beneficial to the enterprise rather than buying it on credit, because until the money is not returned to the leasing company, the purchased item will not be shown in the balance sheet of the company;
- There is no problem related to the collateral for purchasing items on leasing. In case of bank loans banks usually do require additional collateral or the guarantee of the third party;
- Number of leasing companies is increasing in Uzbekistan and most of them are running their business properly without being insolvent. It means the mechanism for leasing operations are conducted well.

## REFERENCES

Frederic S. Mishkin and Stanley Eakins Financial Markets and Institutions (7th Edition) (The Prentice Hall Series in Finance)

Official website of Uzbekistan Lessors Association ([www.ula.uz](http://www.ula.uz))

The law of Republic of Uzbekistan "On leasing" 14.04.1999 N 756-I

Vasilevskaya L. Yu. On the specifics of the civil law nature of leasing relations // Proceedings of the scientific-practical conference "Globalization processes in the field of law: problems of legal development in Russia and the CIS" April 19-20, 2001. - Moscow: Ministry of Economic Development of the Russian Federation, Moscow State University of Commerce, 2001. - P. 134.