



THE MAJOR WAYS OF FINANCING TOURISM ENTERPRISES

Ruzibaeva Nargiza Khakimovna

Lecturer Samarkand Institute of Economics and Service

Khotamklova Madina Sanjar Kizi

Student of Samarkand Institute of Economics and Service

Article history:	Abstract:
<p>Received: July, 20th 2021 Accepted: August 21th 2021 Published: September 29th 2021</p>	<p>This article describes the prospects for the consistent development of tourism enterprises, the work being done to increase the flow of tourists visiting Uzbekistan, the importance of tourism financing not only internal but also external, and the main directions of state policy to mitigate the effects of pandemic in this sector.</p>
<p>Keywords: Tourism, cooperation, financing of tourism, internal financing, external financing, loan, interest rate, governmental support.</p>	

INTRODUCTION.

Tourism is a major driver of economic growth contributing with over 10% to global GDP and the second most efficient job creator¹. Furthermore, this sector is one of the top three exports for the majority of developing countries². Tourism is employment intensive and has linkages into many other parts of the economy. Although this business has been facing to major challenges for last two years because of the global pandemic, most of the governments taking measures to support this sector because of above mentioned reasons. In fact, unprecedented measures are being taken on a global scale to combat the spread of coronavirus infection, in particular by the introduction of restrictions on the movement of people and the suspension of enterprises. This has caused a sharp decline in production and consumption in major economies, disruption of global production chains and trade relations, lower commodity prices and worsening global financial markets.

The economy of Uzbekistan is also affected by these factors, which requires the adoption of effective proactive measures to mitigate their negative impact. Particular attention should be paid to supporting and ensuring the sustainability of such rapidly developing sectors of the republic's economy like tourism.

LITERATURE REVIEW.

Tourism has become one of the key features of many nations: both developed and developing ones.

¹ When direct, indirect and induced effects are included, 50 jobs are created for every million US dollars generated in tourism receipts, according to the World Travel & Tourism Council (WTTC) (2012). The Comparative Economic Impact of Travel & Tourism;

² Aid for trade and value chains in tourism, WTO, UNWTO, OECD, 2013

This sector is a part of Macroeconomic Policy in many countries by which governments are benefiting from its contribution to the State Economy. The recent study by Jack Soifer [1] shows that tourism is no longer a destination or historical buildings and caves, but it is "Emotions" earned by tourists during their visit to destinations (Soifer, 2010). If their expectations meet the reality while they are visiting various touristic destinations, they, for sure, feel excited and delighted and the probability of revisiting the same places the next time or positive word-of-mouth would increase. Thus, tourism experts in developed countries are working on building strong relationship with customers through satisfying their emotional needs and cooperating with psychoanalysts in order to increase their brand awareness and positive word-of-mouth as mentioned above.

Dr. Ian Yeomen, [2] the tourism futurologist, states that tourism will be vastly developed and innovated as never before (Yeomen, 2013). He clearly states that tourism will no longer be the same as it is now, but the travel culture, touristic habits and perceptions will change. He gives an example of Germans who are tourism-addicted are now demanding the unusual touristic trips rather than practicing the same touristic habits repeatedly. These habits are formed by the existing touristic cultures in different countries; however, they should be upgraded in the means of services and technology. Specialists and scientists in the field of tourism are more than ever involved in learning tourists behavior and their psychology of happiness in order to meet their expectations effectively and not only satisfy them, but make them delighted from consumed services.

METHODOLOGY OF THE RESEARCH.

The methodology includes systematic, statistic analysis and graphical methods. Statistics have been made by the help of official sites and resources.



RESULTS.

Classic economics refer that there are two types of financing any company that is doing any type of business: internal financing and external financing. Without any doubt, as it can be seen this notion is also related to the tourism industry. It can be also stressed that albeit internal financing is the most easy and accessible way of financing, the seasonal businesses like tourism has to spend a great amount of money during the tourism season but it has to keep its all money in its account while tourism is not so prevalent. It is clear that this type of financing is not so appropriate way and any company finds it difficult to

manage its funds while the tourism seasons. External financing can be one of the best methods of financing the company when the financial recourses are not expensive and this company can afford to pay its loan in the exact time.

It should be stressed that unfortunately, external sources of finance — sponsors, donators, lenders or investors — are often sceptical, especially in the case of smaller businesses. This can leave companies to rely on internal sources of finance for investing in business. Following table 1 illustrates main types of internal financing:

Table 1[3]
Types of internal financing

Nº	Types of internal financing	Main features
1	Retained earnings	Retained earnings are an easy source of internal financing to use because they are liquid assets. Retained earnings are the portion of net income that owners of the businesses have retained in business and not paid out. In a small business, retained earnings are usually paid out to the owners, who often do not draw a budgeted salary. Instead of paying out retained earnings, they can reinvest them into your cultural tourism project.
2	Current assets	Current assets consist of cash or anything that can easily be converted into cash. For example, if your business has stock holdings in other companies, you can sell them and use the income as a source of financing. You should be careful, however, not to decrease your current assets to levels less than your current liabilities, as this may prevent you from paying off your debts.
3	Fixed assets	Fixed assets are those that are not easily converted to cash. Typically, these assets include equipment, property and factories. Because these assets take time to convert to cash, they cannot be relied on for short-term access to finance. If you have the time, however, you could, e.g., sell off some equipment or even property to invest in your business.
4	Personal savings	Personal savings are the backbone of many small tourism businesses. If your business doesn't have the assets to finance your project, you may still have personal finances that you can contribute to the business. This provides an alternative to seeking external donators or loans and allows you to retain control over your business.
5	Some free resources ³	Voluntary contributions by supporters, networks and free information on any relevant matter might be that kind of resources. E.g. the chambers of commerce offer numerous free support measures which are resources you have free access to – just grab it!

³There are two groups of believes about this type of the revenue. The first school of thoughts believe that this type of revenue is internal source and the other school of thoughts surmise that this is external source of financing.



Advantages of internal funding. Internal funding and bank financing: when you use company funds, you do not have to pay interest to the bank. You also do not have to go through the application process, which can be costly if you have to pay someone to prepare profit and loss statements, balance sheets and other documentation required by the bank.

Internal funding and selling stock: one way to raise money for your business projects is to sell stock to investors. This gives them part ownership of your business. Using internal funding offers the advantage of keeping control in the hands of the company's founders.

Internal funding and government grants: especially in the tourism sector, your business may qualify for government grants under certain circumstances. However, the application process can be lengthy and expensive. The expense comes from preparing the documentation for these grants. You have to win the approval of the agency giving the grant, and this can involve many individuals and committees. With internal funding, you can start on your project immediately, with no approval required other than that of your management.

Internal funding and selling assets: some businesses try to fund new expenditures by selling assets. This decreases the value of the company and can trigger transaction costs, as well as taxes. Internal funding keeps all assets in the company and incurs no additional expenses beyond the cost of the project itself.

During the development stages of tourism business, it will gradually become economically viable. Tourism companies will be able to access a larger variety of financing resources which will help you to finance your day-to-day needs, or renovation and expansion activities. If you are in a small business, then you will probably rely largely on internal and informal sources of financing, such as personal loans, overdraft facilities, credit card use, savings and working capital, when you have to fund your day-to-day operations. Retained earnings are difficult to build up for small tourism enterprises as most earnings are immediately reinvested. Following methods are the most prevalent methods of external funding of the business entities in developed countries. However, they are not common in Uzbekistan actually, crowdfunding opportunities do not exist in our country.

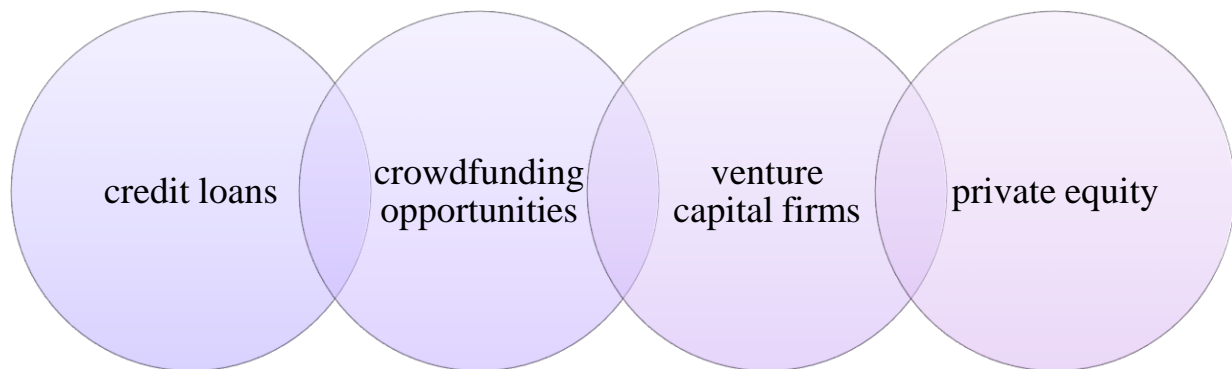


Figure 1. Types of external financing [3]

In fact, there are three types of credit loans based on the duration of the provided loan and they are short-term, medium-term, and long-term loans.

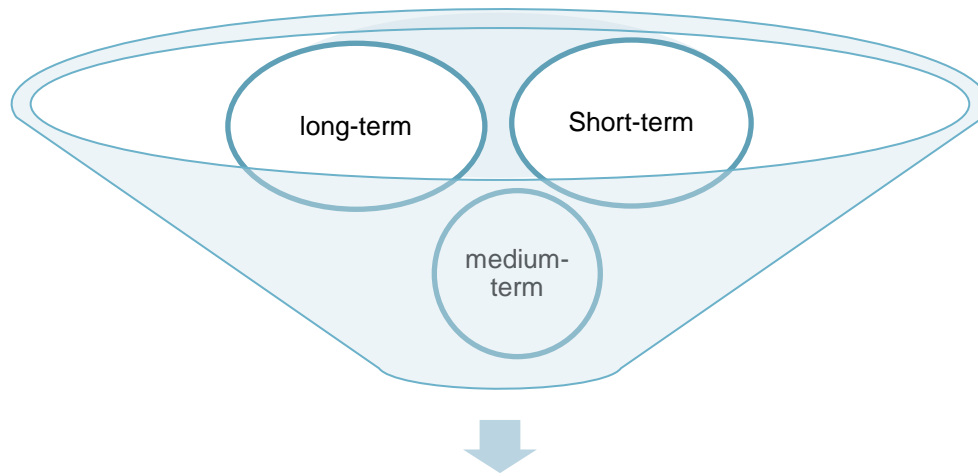


Figure2
Types of bank loans[4]

It should be stressed that short-term bank loans are well suited for financing your marketing activities, new software and technologies, or for refreshing your products. Medium- and long-term bank loans are more appropriate for larger investment projects, including renovating or developing new facilities. Overdraft facilities are an important but expensive tool used by seasonal businesses to manage cash flow, particularly at the start of the season. In any case, if you plan your tourism business and have the business plan ready for external review, then it is highly recommend discussing a financing opportunity with bank representatives. The purpose is not necessarily to receive a bank loan; moreover the banks offer a diverse set of start-up support, which may range from management support and consulting, to information flow to assess your concept without charges, to accessing local, regional networks up towards organization of and participation in fairs. If you have to rely on certain assets for your business operations (e.g. bicycles for excursion tours, or kitchen furniture if you are in the food services), you can borrow using the modality of asset-based finance. The rationale is similar: the asset is used as collateral for the loan. However, asset-based finance is not suitable for tourism producing only service-based intangibles. Mezzanine financing is a hybrid of debt and equity financing that gives the lender the rights to convert to an ownership or equity interest in your business in case of default, after venture capital companies and other senior lenders are paid. Mezzanine financing is usually completed with a less strict evaluation process on the part of the lender and little or no collateral on the part of the borrower, is treated like equity on a company's balance sheet.

New financing approaches with greater participation of the private sector While bank financing

will continue to be crucial for most of the (cultural) tourism sector, in the last years a more diversified set of financing options has emerged which can help you to strengthen your capital structures and decrease your dependency on borrowing. This chapter will focus your attention on the development of non-bank financing instruments such as asset-based finance and alternative debt systems. Asset-based finance Asset-based finance comprise leasing, asset-based lending, factoring, and purchase order finance. Asset-based lending is any kind of lending secured by an asset. This means, if the loan is not repaid, the asset is taken. In this sense, a mortgage is an example of an asset-based loan. More commonly however, the phrase is used to describe lending to business and large corporations using assets not normally used in other loans. Typically, these loans are tied to inventory, accounts receivable, machinery and equipment. Factoring is a financial transaction in which a business sells its accounts receivable (i.e. invoices) to a third party (called a factor) at a discount. Purchase order financing is a funding option if your business needs cash to fill customer orders. Especially in tourism, periodical cash flow problems exist. There will be times where there is simply not enough money available to cover the costs of doing your business. As a result, there may be an order from a client that you are not able to fulfil due to a lack of cash. Having to turn the order down would not only mean loss of revenue, but also a loss of your reputation. If word gets around that you are turning away business because you can't afford to complete your job, customer trust will be diminished. Alternative financing Alternative debt mechanisms (e.g. crowdfunding, securitized debts, corporate or covered bonds) hold potential for your cultural tourism business. However, very often these innovative and alternative financing



methods remain underdeveloped due in part to bureaucratic and regulatory constraints, but also because of a lack of knowledge and understanding. The two most interesting mechanisms are peer-to-peer lending and equity crowd-funding. They are innovative financing approaches that can provide your business a simple, low-cost way to raise capital from public investors. These internet-based models provide an alternative source of financing for you, especially if you do not readily have access to financing through traditional means.

Peer-to-peer lending (also known as crowd-lending) is a form of debt crowdfunding. It matches people who want loans with people who are potentially willing to fund those loans. The matching is completed via an intermediary – a peer-to-peer lending service, typically provided online. Borrowers list the details of their request (the amount sought and the intended use) on a peer-to-peer lending website. Lenders browse the website to decide which loans to invest in. Equity crowdfunding provides a means for investors from the "crowd" (or investing public) to invest in a project or firm in exchange for shares. You can offer "perks" or rewards (such as free holiday nights or

discounts) in exchange for investment. You stipulate the amount you wish to raise from investors. Once this funding is utilised, any surplus (minus fees) becomes available to your firm for its use. Crowdfunding is usually facilitated via an online equity crowdfunding intermediary and is most commonly used by newer firms at the earlier stages of their development. Legislative changes are opening up opportunities for projects to raise funds from many investors, each contributing small amounts of financing, while diminishing transaction costs as these investments are made online and through bank transfers. Another advantage of these finance techniques is that they enable the borrower to gather funds in a shorter time span than bank loans. Although not yet much used in tourism, these models offer considerable potential as a source of capital for your cultural tourism business. This innovative finance technique creates a network of investors and spreads the financial risk. At the same time, these approaches are also serving the double purpose of providing finance and supporting local development: people invest in projects they care about and help local firms to create jobs.

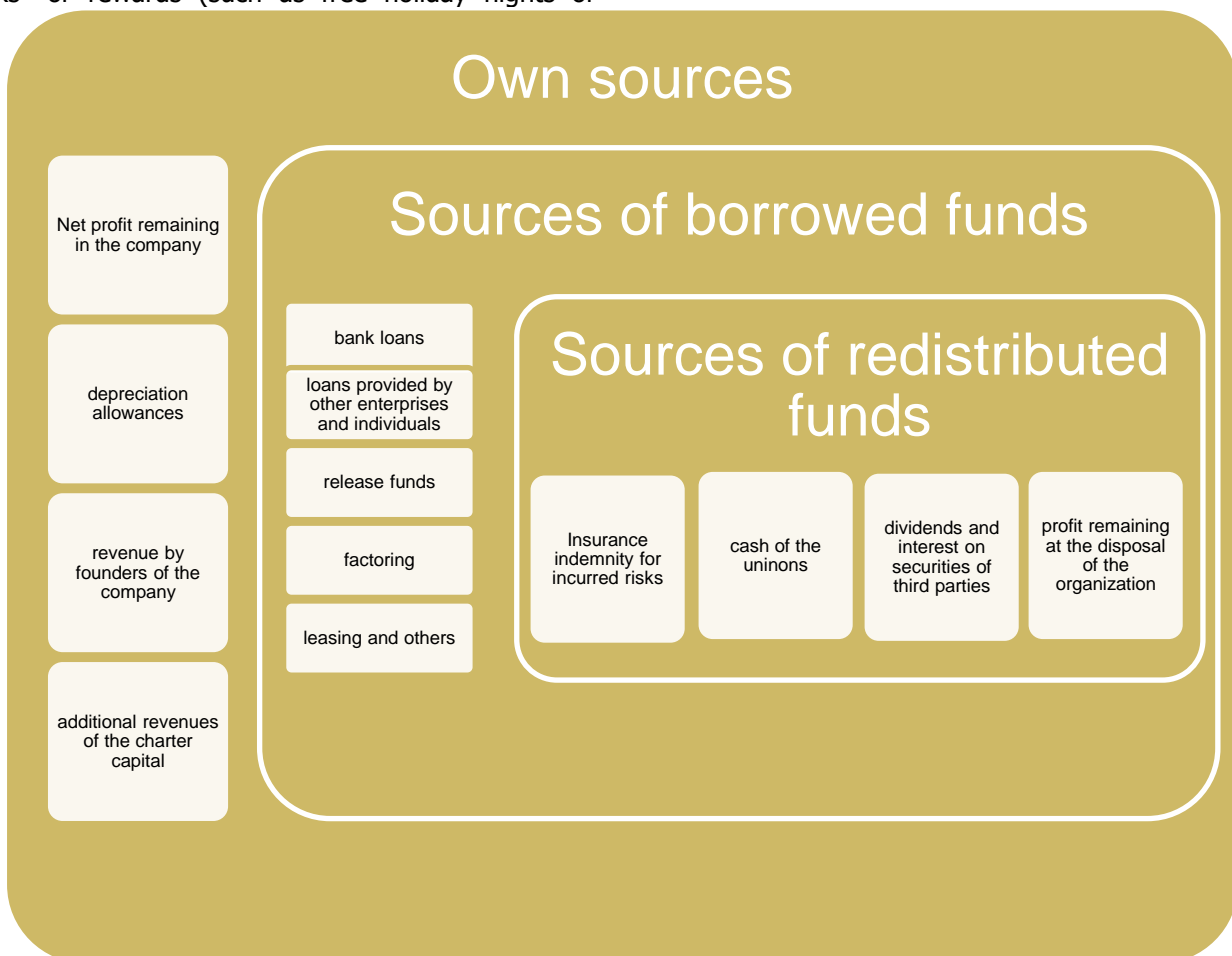


Figure 3. Sources of financing of tourism enterprises [4]



It can be noted that tourism is one of the significant businesses in Uzbekistan as this country has rich cultural heritage across its regions. Albeit pandemic had serious repercussions on this business, the government is taking measures to mitigate the effects of the pandemic. In order to ensure macroeconomic stability, uninterrupted operation of industries and economic sectors, stimulate foreign economic activity, provide effective social support to the population during the period of counteracting the spread of coronavirus infection and other global risks, and preventing a sharp decline in the country's population incomes. The Anti-Crisis Fund under the Ministry of Finance of the Republic of Uzbekistan was established in the amount of 10 trillion soums (~ 988.8 million US dollars). Its resources are used to combat coronavirus infection, support entrepreneurship and employment, including infrastructure projects, Ensuring the sustainable functioning of economic sectors and increasing social support for the population. Furthermore, The Republican Anti-Crisis Commission promptly solves the problems and prepares additional measures. [5]

By the decree № 5969 "On priority measures to mitigate the negative impact on the economy of the Republic of Uzbekistan" [6]:

From April 1 to October 1, 2020: for individual entrepreneurs, the minimum amount of social tax was reduced to 50% of monthly income tax. From April 1 to July 1, 2020[5]: the accrual and payment of tourist (hotel) tax was suspended. The submission of a declaration on the total annual income of individuals for 2019 was extended until August 1, 2020. The deadline for payment of property tax and land tax of individuals was extended until October 15, 2020. From April 1, 2020: Incomes of individuals received in the form of material benefits from charitable organizations are exempted from taxation. The application of penalties to business entities for overdue receivables from foreign trade operations is suspended. Measures are being taken to expand the remote servicing of taxpayers to fulfill tax obligations without visiting tax authorities. Until January 1, 2021: the tax audit of the activities of business entities is paused, with the exception of a tax audit conducted in criminal cases and in connection with the liquidation of a legal entity [7].

According to Presidential Decree № 5978 of April 3, 2020, was established that from April 1 to December 31, 2020[6]:

a) tour operators, travel agents and tourism entities providing hotel services (accommodation services), «Uzbekistan Airways» JSC and its structural divisions, «Uzbekistan Airports» JSC and «Uzairnavigation Center» State Unitary Enterprise:

- exempt from paying land tax from legal entities and property tax of legal entities;

- pay social tax at a reduced rate of 1 percent;

b) payers of value added tax, the turnover on the sale of goods (services) of which does not exceed 1 billion soums (~ 98.8 thousand US dollars) per month and using electronic invoices, has the right to calculate and pay value added tax on a quarterly basis;

c) the procedure for applying increased property tax and land tax rates in relation to unused production areas, non-residential buildings, including those identified before April 1, 2020, as well as interest and penalties for recovering debts arising from the application of increased rates, is suspended on the specified taxes [7].

In late May, President Shavkat Mirziyoyev signed a decree "On urgent measures to support the tourism sector to reduce the negative impact of the coronavirus pandemic". According to the decree, many benefits were provided to businesses operating in the industry. 50% reduction in income tax, the right to defer losses, suspension of levies on tourists, subsidies as a reward for imported tourists, subsidizing the costs of tour operators for air and rail tickets, tour operators, travel agents, as well as companies providing accommodation for guests. These include additional support measures for It was also decided to allocate interest-free loans from the Tourism Development Support Fund to tour operators and hotels to cover expenses and pay staff [7].

Unlike other economic sectors, the revival and revitalization of tourism depends directly on the flow of tourists, and the volume of exports of services in this area - the number of citizens visiting from abroad. Shortly after the signing of the above-mentioned decree, on June 19 this year, a resolution was adopted "On additional measures for the development of tourism in strict compliance with the requirements of the enhanced regime of sanitary and epidemiological safety." The resolution identified tourist insurance as one of the key initiatives to pay them up to \$ 3,000 in coronavirus infections.

CONCLUSION.

It can be said based on the above given information and conducted studies that tourism has been key factor for the development of the countries as well as for Uzbekistan. Briefly, this sector has received great attention over the last decade and several benefits are being provided to the representatives of this sector. Moreover, several proposals have been provided for further improvements in tourism of Uzbekistan:

— Creating new legal project for providing further financial facilities to the entities of the tourism sector;



- Supporting of the introduction of new technological and innovative project to this sector for providing better services;
- Supporting financially of creation new tourist destinations in Uzbekistan.

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