



FINANCING OF HOUSING CONSTRUCTION BY COMMERCIAL BANKS THROUGH FACTOR OPERATIONS

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| Article history: | | Abstract: |
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| Received: | 28 th November 2024 | This article talks about the factoring instrument, which is one of the methods that commercial banks will use in the future in the process of financing housing construction. The introduction of factoring operation, similar to bank loan, in the financing of construction sphere, possible problems, achievements, character of domestic housing construction market and recommendations regarding the activity of banks as a factor are given. |
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INTRODUCTION.

Factoring provides customers with interest-free financing and improves the cash flow of construction companies. Buying a house with a long-term installment plan can provide financing for business development.

Factoring is a type of commercial intermediation agreement in which the outstanding claims of a supplier of goods, i.e. receivables with or without recourse, are purchased by a factoring company or commercial bank.

Factoring operations in housing construction financing are based on interest-free commercial products in the form of a discount provided by the bank to the seller's construction organizations in the form of deferred payment by the buyer for the house under construction.

MATERIALS AND METHODS.

Theoretical and practical aspects of the mechanisms of financing housing construction, the prospects of using factoring operations in it, studies conducted by foreign economists A. M. Yakushev, K. I. Starostina in the framework of the theory that housing construction should be supported by the state, A. B. Kopeikin, M. O. Yakubov, A. A. Tumanov, N. N. Rogozhina also published a textbook "Financing of Housing Construction", A. N. Asaul, S. N. Ivanov, M. The textbook "Economics and Movement" published by Starovoitovs, A. Gafurova, V.E. Pavlovich, O. Scientific works by V. Zinina, Y. Olentsova, It was studied by the textbook "Economics of Construction" economists of our country A. Uzokov, I.H. Davletov, scientific works by A. Ortikov, B. Jalilov. This article uses methods such as scientific interpretation, generalization and

abstraction of theoretical data, statistical data processing, observation, systematization, comparison, induction and deduction.

DISCUSSION AND RESULTS.

This article discusses various methods of financing contractors' construction organizations by commercial banks. Several such methods can be used simultaneously, the choice of which one depends on the construction strategy.

The main factor in developing a construction financing strategy is the sources of funding. Below we will mention most of the entities that own the funds.

Subcontracting organizations. Owners of subcontracting companies can also use their personal resources to fund business operations. However, developers should be careful not to spend too much money on paying bills.

Friends and family members. Many entrepreneurs get funding by convincing friends and family to invest in their company. Friends and family can invest in one of two ways: they can buy and own shares in the business or they can provide loans.

Each option has its own advantages and disadvantages. A loan is usually preferred because it allows you to control and retain ownership of the business. However, loans must be repaid and sometimes secured by personal assets. Before borrowing money from friends and family, weigh the pros and cons carefully. If used in the right context, it can be a great resource. Often entrepreneurs misuse this resource and run into problems.

Homebuyers. Helping construction organizations with financing if buyers pay some or all of their bills up front. Down payment provides companies with funds



to cover the costs associated with a construction project. Getting customers to pay for a home upfront is not easy.

However, this will be possible if the work done by the construction organizations is done well and on time. If the contractor offers a discount on payment, it encourages customers to pay faster. These programs allow customers to receive a 5-20 percent discount on their bill as an incentive if they pay within ten days (conditionally). Customers appreciate this benefit because it increases their profits. Properly determining the size of the discount and when to offer it will serve to optimize the cost of the estimate.

Suppliers of goods. Paying suppliers within 30-60 days is a form of financing for construction companies. Essentially, suppliers are asked to provide payments within 30-60 days, much like customers making a home purchase.

This strategy allows construction organizations to use a supplier's products until they are paid. Smaller subcontractors with no credit history may find it difficult to obtain such payment terms from suppliers.

Companies that provide service of special equipment. Construction companies that need to purchase special machinery can then obtain financial resources through suppliers. Construction organizations can use special equipment in two ways:

- Buying them on lease or bank loan;
- Renting.

In this case, you can take advantage of these service organization offers. Most of these forms have reasonable qualification requirements that are simpler than conventional bank loans. Loans and leases have advantages and disadvantages depending on the financial situation of the construction organizations. To determine whether a loan or lease is a good or risky tool for real estate developers, they should consult with commercial bank financiers.

Business Support Fund (TFQQJ). TFQQJ is an excellent source of funding that construction organizations often overlook. As a government agency

that assists small businesses, TFQQJ offers excellent programs designed to help small and medium-sized companies in many areas.

TFQQJ does not make business loans. Rather, the TFQQJ guarantees loans to banks, which allows banks to lend to small businesses. These guarantees are an incentive for lenders and banks to finance small companies. Financial assistance comes in two forms:

- Allocate subsidies to cover part of the interest costs on bank loans;
- Provide your guarantee to the bank as collateral for the requested loan.

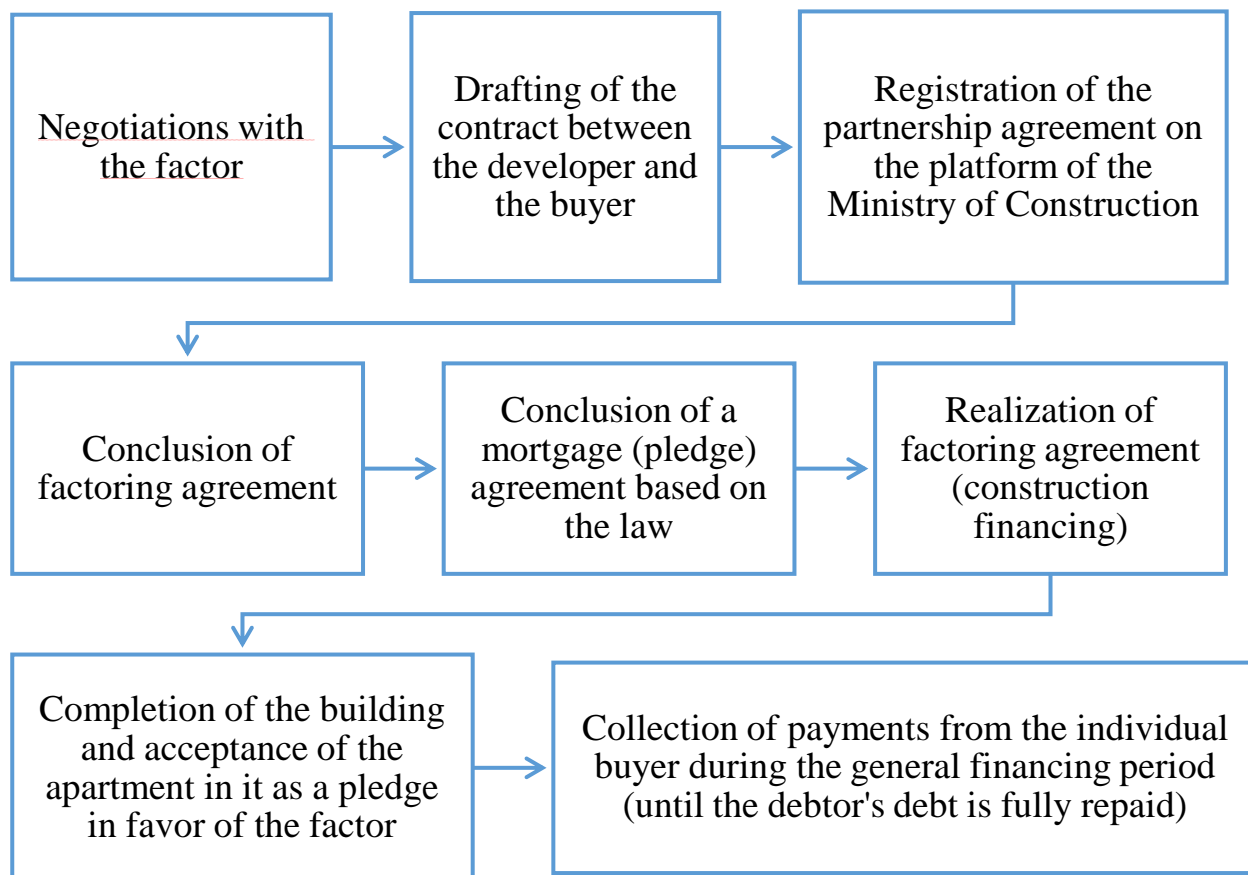
Factoring Organizations. Companies can utilize construction factoring when cash flow problems arise due to late payment of invoices. Construction factoring is becoming an increasingly popular financing option among subcontractors. This improves cash flow and provides financial opportunities that can be used to grow the business.

Instead of providing loans to construction organizations, many factoring companies finance them by purchasing accounts receivable. This is because the transaction structure has simpler qualification requirements than traditional loans. Transactions usually consist of two parts. The factor bank transfers 70% to 85% as a down payment shortly after purchasing the construction company's accounts receivable. After full payment by the end customer, the contracting company receives the remaining funds without excessive discounts.

Availability of an official or unofficial source of income at the payer (buyer - purchaser of the apartment) is a mandatory condition for rendering factoring services.

The difference between the amount transferred by the factor and the amount of the payment claim under the contract is the bank discount.

Accounts receivable purchased by a construction organization - applications for payment submitted by its customers (contractors) for an apartment in a building under construction shall be recorded in account "11100 Purchased Receivables - Factoring".



1-figure. Sequence of housing construction financing by a commercial bank (factor) through a factoring operation¹.

¹ Prepared by the author on the basis of regulatory legal documents and information of commercial banks.



There are instances of this practice being used internationally and an example is Commercial Capital LLC, which operates in countries with large construction markets such as the United States, Canada and Australia. This company will be a factor in the proposed financing mechanism.

There is a high probability of the emergence of such companies in the field of housing finance in Uzbekistan. Because project financing has always been difficult for construction contractors. Banks and financial institutions prefer to work only with large companies based on high underwriting criteria. This situation creates financial problems for construction organizations that need financing to operate their companies.

With the adoption of the Presidential Decree², interest in factoring operations in the banking services market increased.

This Decree consolidates the implementation of the Central Bank's electronic factoring platform. The factoring platform provides the following opportunities:

- entering information and documents on monetary applications for the use of factoring services by economic entities;
- automating the financing process by verifying the authenticity of the documents that are the basis for requesting money, as well as ensuring rapid collection of information on debtors and its analysis in real time;
- providing convenient, fast and secure technological infrastructure for credit organizations to provide factoring services to supply chain participants.

In order to verify the authenticity of money requests on the factoring platform, register them, assess the debtor's solvency and enable factoring, including international factoring, the following Central Bank and the Ministry of Digital Technologies, ensure integration of the E-Government system with the Factoring Platform through an interdepartmental integration platform and establishment of information exchange:

The Tax Committee - a database of electronic invoices, an electronic system of consignment notes and an electronic database of taxpayers with the possibility of obtaining financial statements of legal entities, the Ministry of Investment, Industry and Trade and the Customs Committee - a unified

electronic information system of foreign trade operations.

At the request of the Central Bank, it will be necessary to integrate the information systems and databases of other ministries and agencies into the Factoring Platform.

Credit organizations connect to the Factoring Platform and provide digital factoring services through this platform. Ministries and departments performing the function of a shareholder (participant, founder) in enterprises with the state share in the authorized capital of 50 percent or more are connected to the Factoring platform of these enterprises and place invoices on the platform under the contracts concluded through competition and selection of the best offers and with urgent payment.

Also, the main target indicators of factoring services market development are defined as follows:

- To increase the volume of factoring services 10 times in 3 years;
- Increase the share of factoring services provided by banks with state share to 3% of total financing by the end of 2026.

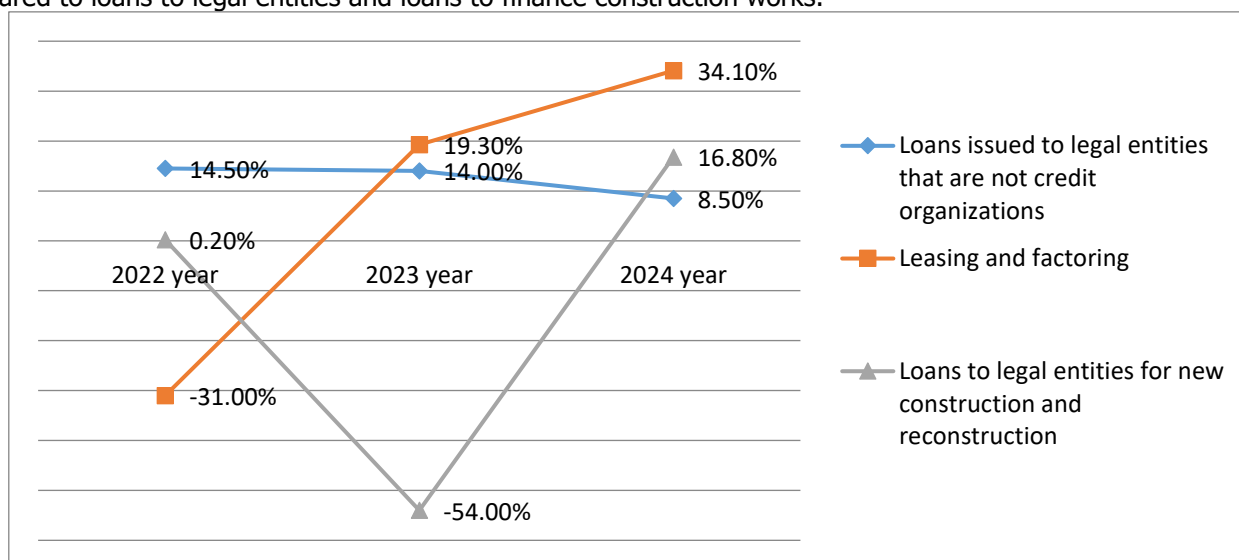
² Decree of the President of the Republic of Uzbekistan on august 12, 2024 year "On measures to accelerate the development of the factoring services market" No. DP-109.

1-table.

Information on the volume of loans and factoring operations provided by commercial banks³
As of December 1 (in billions of soums)

| Indicator name | 2022 year | 2023 year | 2024 year |
|--|-----------|-----------|-----------|
| Loans issued to legal entities that are not credit organizations | 267 413,4 | 304 866,0 | 330 681,6 |
| Leasing and factoring | 1 674,6 | 1 997,3 | 2 677,8 |
| Loans to legal entities for new construction and reconstruction | 10 957,6 | 5 028,6 | 5 874,8 |

The data in the table shows that the volume of factoring operations has increased over the last 3 years compared to loans to legal entities and loans to finance construction works.



2-figure. Observed changes in the volume of loans disbursed during the reporting period (year-on-year)⁴.

³ Prepared by the author on the basis of information of the Central Bank of the Republic of Uzbekistan.

⁴ Prepared by the author on the basis of information of the Central Bank of the Republic of Uzbekistan.



It means that the prospects of factoring operations are brilliant and bank clients show high interest to this instrument.

CONCLUSION.

To date, although the purchase of receivables through factoring instrument, which improves the financial condition of construction organizations, in turn, allows commercial banks to receive interest-free income, the practice of using this instrument in financing housing construction is absent. These services of factor organizations, including commercial banks, provide the following opportunities for financing the construction process.

First, the loans provided by commercial banks are interest-bearing, and some housing construction organizations and apartment-buying shareholders do not welcome these banking products. The proposed financing mechanism creates the possibility of financing without creating an Islamic window in conventional banking.

Secondly, discounts provided by construction organizations to customers who have made partial payment in advance in full or in installments according to the terms of the contract are presented as discounts to commercial banks, not to customers, and are considered a source of income from factoring operations. This creates economic relief for the parties.

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