



SOME ASPECTS OF CURRENT STATE OF FINANCING THE HOTEL BUSINESS IN UZBEKISTAN

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ABSTRACT	KEYWORDS
<p>Abstract. A number of scientific researches related to the field have been studied in researching some aspects of current state of financing the hotel business in Uzbekistan. Equity capital and structure of liabilities of hotels operating in the Republic of Uzbekistan, key aspects of financing the hotel business at Agrobank JSCB and others are analyzed. Conclusions and proposals are developed based on the conducted research.</p>	<p>Hotel, hotel business, hotel finance, capital, equity capital, liabilities, financing hotel business.</p>

Introduction

Extensive scientific research is being conducted worldwide on the attraction and effective use of additional funds in the financing and development of the hotel business. They mainly cover the role of the hotel business in the economy, types of hotels and the essence of their financing, the importance of attracting investors' financial resources to the hotel business, and issues of taking control of the hotel business. However, these studies have not sufficiently studied the current problems associated with the development of the hotel business by attracting free funds from local and foreign investors. In addition, the aspects of issuing bonds and preferred shares in the financing of the hotel business and thereby directing the funds received from them to new projects and ensuring their profitability have not yet found their positive solution. This, in turn, determines the relevance of research on improving the financing of the hotel business.

Literature Review

Foreign economists Orhan Akova, Gurel Cetin, Ibrahim Cifci [1] analyzed in their scientific research that demographic factors should be taken into account when organizing a hotel business. In their opinion, male unemployment is higher in the hotel business and this directly affects work efficiency. "Small and medium-sized hotels are capital-intensive firms, so they have a high level of fixed assets that allow them to easily access debt due to the ability to provide collateral to creditors. However, the capital-intensive nature of small and medium-sized hotels can increase the risk of the firm due to the high volatility of revenues arising from high fixed costs that do not change depending on changes in activity. Therefore, it is important to analyze whether the leverage of small and medium-sized hotels is consistent with fixed capital or not," [2] they state that the solvency of small business hotels should be constantly analyzed. In our opinion, it is extremely important to take into account all the risks when starting a hotel business and develop strategies for them. For this, first of all, it is necessary to analyze

the form in which the hotel will be organized and the compatibility of the strategic goals set for it with the sources of financing.

S. Zhang et al. studied the features of hotel financing in their research. In particular, “the mismatch of the terms between fixed assets and short-term liabilities, the need to adjust the sources of financing of inventories depending on the internal and external environment, and the high dependence of operating assets on equity capital” [3] are among them.

F. Sardo et al. noted in their research that “the profitability of hotels operating as small and medium-sized businesses depends on a number of factors, such as their experience, qualifications, level of knowledge of employees and managers, volatility of income, and capital structure” [4].

A. Kopanelli conducted research on hotel finance. “When analyzing financial statements, three approaches to decision-making should be taken into account. First, the decision on direct investment in hotels is directly related to finding various investment projects, selecting one of the investment projects and evaluating it. Second, the decision on hotel financing is directly related to the optimal capital structure and is carried out taking into account various long-term methods of corporate financing (for example, long-term loans, common shares, preferred shares). Third, the decision on dividend policy means making a decision on whether to pay dividends to shareholders when the company makes a profit or to retain corporate profits and invest them in various investment projects” [5]. When financing a hotel business, one should try to choose the types of financing forms that are appropriate for the hotel industry.

According to Z. Serrasqueiro and P. Nunes, “firms in the hotel sector have specific characteristics that can affect the financing behavior of the firm. The capital-intensive nature of firms in the hotel sector, coupled with the high level of fixed costs resulting from changes in sales, can increase the risk of hotels due to their high level of income volatility” [6]. Hotels can be small, medium or large businesses in various business forms. This aspect also affects the financing of the hotel business.

The development of the hotel business is important in the development of tourism in the country. Therefore, a number of economists have conducted research in this area. According to F. Zhang et al., “transactions in the hotel industry are different from operations in other industries, since companies that have carried out mergers and acquisitions in the hotel sector have achieved positive results after the merger. The results show that domestic transactions and conglomerate acquisitions are the most common transactions in the hotel industry. The United States, Great Britain and Australia are the three most active countries with 55% of acquiring and 60 acquired companies” [7]. In addition, the use of mergers and acquisitions in hotel operations should be considered at each stage of this process.

In the process of economic development and modernization, the need for additional financing of any business entity is increasing. Because in a market economy, it is impossible to compete and sell its products without new projects and innovations. As economists have noted: “The correct direction of investment flows in the social sphere and the implementation of new projects have an impact on the development of the national economy” [8]. Financing the hotel business also requires constant investment resources.

At the same time, it is worth noting the effective management of hotel resources, because as noted in scientific research: “In the context of economic modernization, effective management involves optimizing the resource potential of an enterprise. In this case, the importance of effective management of funds increases. Financial resources in this case are of primary importance, since they are the only resource that can directly and in the short term become one of the resources of the enterprise in all its

forms” [9]. In our opinion, the effective organization of the hotel business and obtaining high profits depend on optimizing the use of resources and the formation of highly qualified personnel.

It is no exaggeration to consider tourism and hotel business as an inseparable unit. In particular, according to economists conducting scientific research in this area: “Currently, the tourism industry serves as the main source of income for many developing countries. Exporting tourism products and services creates additional demand in the national economy, increases employment levels and increases foreign exchange earnings. Accordingly, the tourism sector plays an important role in ensuring socio-economic development and stability” [10]. It is worth noting that in order to increase the volume of domestic and foreign tourism, there must be a supporting infrastructure, especially hotels, that are suitable for it.

Analysis and Results

During our research, we studied the activities of a number of hotels operating in the Republic of Uzbekistan. In particular, we analyze the financial indicators of hotels such as Regal Stay, Simma Hotel, Saltanat Hotel, Hotel Elyorbek Grand below. First of all, if we pay attention to the private capital of these hotels, we can observe that the changes in the volume of private capital during 2020-2022 were different (Figure 1).

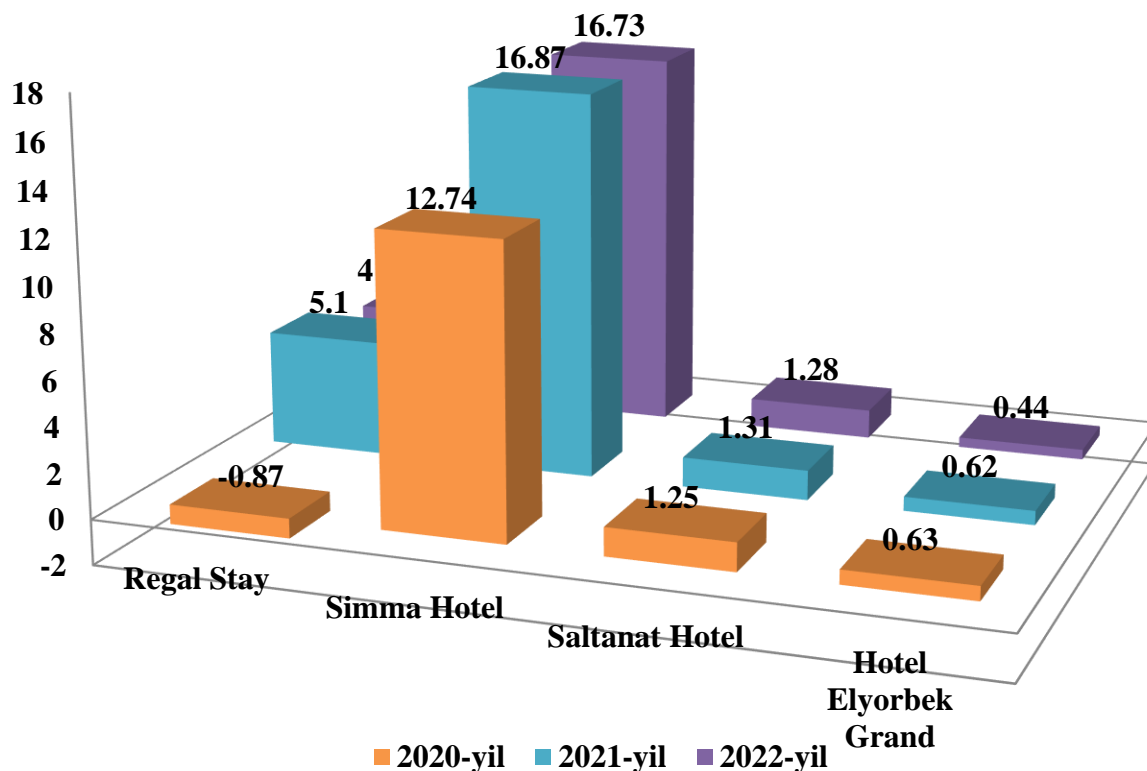


Figure 1. Private capital of hotels operating in the Republic of Uzbekistan, billion soums [11]

From the data in Figure 1, it can be seen that the dynamics of changes in the private capital of the hotels operating in the Republic of Uzbekistan, Regal Stay, Simma Hotel, Saltanat Hotel, Hotel Elyorbek Grand, were studied. It is worth noting that over the past three years, the indicators of Regal Stay,

Simma Hotel have changed positively, while this indicator of Hotel Elyorbek Grand has decreased. It can be noted that the indicator of Saltanat Hotel has been fluctuating. It should be noted that due to the lack of financial resources in the above hotels, the level of development and the change in the volume of private capital have not all been positive.

In addition to private capital, external sources play an important role in financing the hotel business. Below is an analysis of the sources of financial and material resources of Regal Stay, Simma Hotel, Saltanat Hotel, and Hotel Elyorbek Grand (Figure 2).

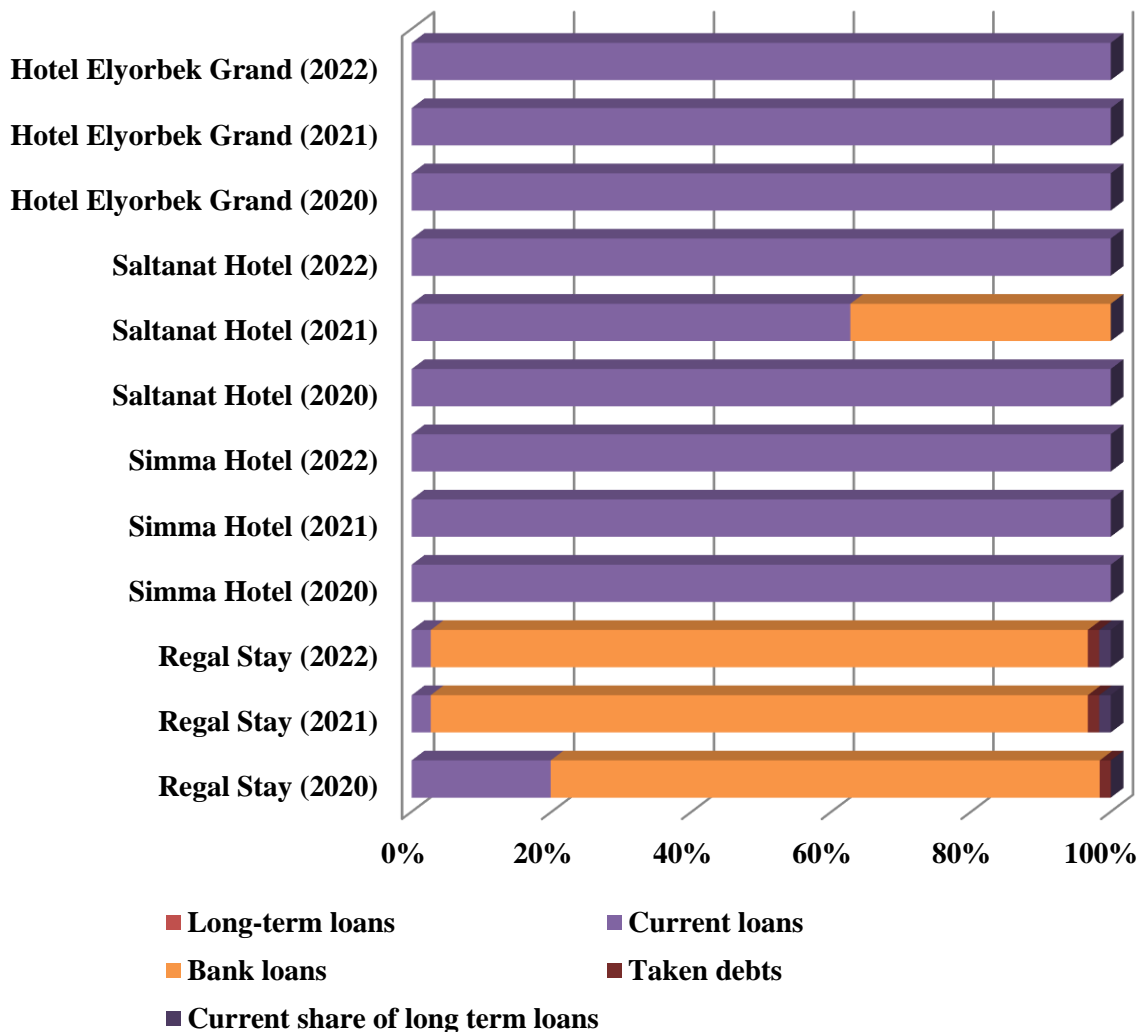


Figure 2. Structure of liabilities of hotels operating in the Republic of Uzbekistan [11]

Figure 2 shows the composition of the liabilities of the Regal Stay, Simma Hotel, Saltanat Hotel, and Hotel Elyorbek Grand hotels. Based on the analysis, it should be noted that the share of bank loans in the Regal Stay hotel was 77.5 percent in 2020, and 93 percent in 2022. However, it should be noted that the share of financing at the expense of bank loans in other hotels is small.

In national practice, the demand for cash flow in hotel operations remains high. Due to this high demand, cash expenses occupy the main place in the structure of hotel and other accommodation expenses. As a result, the possibility of obtaining loans from commercial banks for a specific purpose

is low. This situation negatively affects the ability of hotels to attract loans from commercial banks and, as a result of low cash turnover, slows down the growth of private capital. The introduction of cash credit products by commercial banks should be noted as one of the ways to solve these problems.

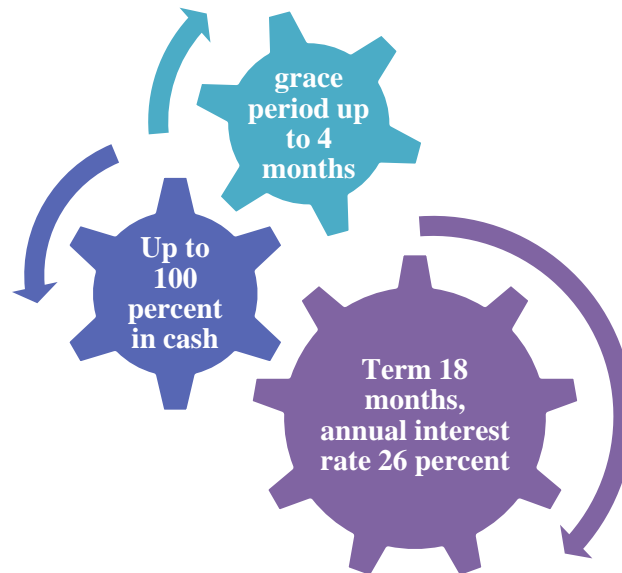


Figure 3. Key aspects of financing the hotel business at Agrobank JSCB [11]

Since the introduction of cash loan products by commercial banks solves a number of problems, Agrobank JSCB has paid attention to these issues and introduced fully cash loan products for the purchase of fixed assets and business expansion. It is also worth noting that in the practice of lending to hotel projects by Agrobank JSCB, loans are issued in 100% cash form with a grace period of up to 4 months and funds are allocated at a rate of 26% for a total of 18 months (Figure 3).

Various sectors of the hotel business participate in creating a product. Therefore, companies operating in one sector are interested in financing enterprises in another sector. For example, tour operators can finance the development of hotel complexes in resorts where they send their clients. Airlines can ensure the financial security of tour operators who widely use their services. The activities of many companies in the hospitality industry require a lot of labor. It is much more difficult to adapt their services to changes in demand. Moreover, the operating cost depends on how the product is sold.

Commercial banks are effectively involved in financing the hotel business in Uzbekistan. However, the requirement of a business plan when commercial banks allocate loans to the hotel business, in particular to hotels and other accommodation facilities, creates inconvenience for most hotels. This is because the fact that not all costs in the hotel business can be reflected in real terms, as well as the fact that income formation varies in different periods, and the seasonality of the hotel business has a high impact, hinder the formation of a business plan with high accuracy.

In order to positively resolve the above issues, a number of commercial banks are introducing the practice of financing the activities of hotels and other accommodation facilities (hostels, motels, holiday homes, tourist bases, etc.) without requiring a business plan.

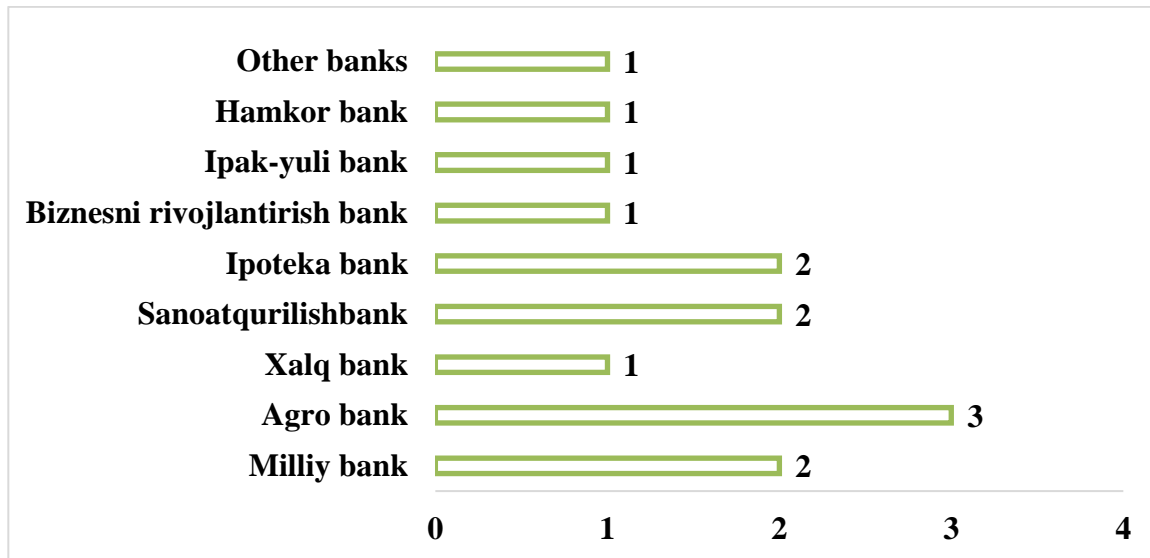


Figure 4. Number of hotel projects financed by commercial banks in Uzbekistan in January 2024 [12]

In particular, if we analyze the number of hotel projects financed by commercial banks in Uzbekistan in January 2024, it should be noted that Agrobank JSCB is leading in financing hotel projects, and it should be noted that these hotel projects were financed without the requirement of a business plan. Also, banks such as Hamkorbank (1), Ipak Yuli Bank (1), Biznesni rivojlantirish bank (1), Ipotekabank (2), Sanoatqurilishbank (2), Xalq Bank (1), Milliybank (2) are also active in this process (Figure 4).

Conclusions

In order to effectively organize the hotel business, it was also considered important to assess the rate of return on long-term investments in attracting financial resources. This is done by determining the amount, type and value of funds invested in the business. After that, it is determined how much of the funds will be received and at what rate, what part of the capital will be invested by shareholders and how much profit is expected from it. To characterize investment methods and determine their results, usually one situation is taken and each alternative situation is compared to it. For large projects, such an assessment is also important because the risk here is much greater.

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