OPPORTUNITIES FOR REDUCING THE RISK LEVEL OF COMMERCIAL BANKS IN UZBEKISTAN BY IMPROVING THE ASSESSMENT OF THE CREDIT POSITION OF THE ENTERPRISE

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ABSTRACT

The article describes the possibilities of reducing the level of risk of commercial banks in Uzbekistan by improving the assessment of the creditworthiness of an enterprise. Analyzed domestic and foreign experience in assessing the creditworthiness of the enterprise and developed the author's proposal to reduce the level of risk.

Keywords: credit, creditworthiness, commercial banks, lending, comprehensive analysis, liquidity, efficiency, financial stability, risk, qualitative and quantitative indicators of the enterprise, risk analysis.

INTRODUCTION

Today, all economic, political, and legal foundations and conditions have been created for the effective and rational use of investment resources in various sectors and branches of the national economy. However, attracting foreign investment to the economy of Uzbekistan involves an objective and accurate assessment of the financial and economic efficiency of investment projects, which in turn requires the practical use of methods for assessing project risks and ways to reduce them. Thus, the improvement of risk assessment methods remains one of the main tasks for the further development of current investment processes.

In modern conditions, it is necessary to pay attention to the issues of improving risk assessment methods and ways to reduce them in the period of implementation and financing of investment projects. Also, it is necessary to pay special attention to the priorities of reforming the banking system of the Republic of Uzbekistan as one of the largest branches of the economy that finances investment projects. In the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025: “Creating equal competitive conditions in the financial market, lending only based on market requirements, reducing the dependence of banks on state resources, modernizing banking services, creating an efficient infrastructure and automating the activities of banks, as well as increasing the efficiency of the banking system by gradually canceling functions not related to the main type of activity”[1] requires that great importance be attached to reducing bank risks.

Based on the above, it has become one of the important tasks to pay attention to the improvement of the assessment of the creditworthiness of borrowing enterprises to assess the risks affecting investment projects in commercial banks and to apply modern methods of reducing them. A careful and reliable assessment of the creditworthiness of the enterprise is of great importance not only to reduce bank risks but also to reduce the risk of not being able to repay the loan for enterprises.

LITERATURE REWIEV

The analysis of the creditworthiness of enterprises and companies and its assessment, as well as the improvement of the practice of assessing the creditworthiness of borrowers in commercial banks of the Republic of Uzbekistan have been highlighted in scientific research by foreign and local economists[2], [3], [4], [5], [6], [7], [8], [9].

In our opinion, the creditworthiness and solvency of the enterprise is its ability to repay long-term debts and interest on time to provide debt service. The more creditworthy and solvent the company is, the more protected it is from bankruptcy.

The creditworthiness of enterprises is related to some indicators. The number of these financial coefficients is not limited and may be determined independently by each commercial bank based on the specific nature of the activity of the borrowers.

"When assessing the creditworthiness of enterprises by the bank, the credit inspectors pay attention to the issue of balance sheet liquidity or illiquidity. A necessary aspect is that enterprises with illiquid balances will not support with a bank loan, although other financial criteria show good results. Balance sheet liquidity is assessed based on the availability of working capital. The low liquidity of own working capital means that the company formed assets with high liquidity at the expense of debt.

The methods used by commercial banks and enterprises reflect only some aspects of creditworthiness. They do not allow to fully come to a final decision on the allocation of credit resources. Therefore, it is necessary to carry out a comprehensive analysis when analyzing the creditworthiness of the enterprise" [2].

A comprehensive analysis of the assessment of creditworthiness includes:

- analysis of enterprise liquidity indicators and balance sheet liquidity.
- analysis of the circulation of enterprise funds.
- analysis of enterprise performance indicators.
- analysis of financial stability indicators.

A comprehensive analysis and assessment of the creditworthiness of enterprises based on financial indicators is shown in Table 1 below.

TABLE 1
Assessment of the Creditworthiness of Enterprises Based on Financial Indicators in Uzbekistan [6],[8]

Content of comprehensive analysis	**Indicators**	**Formulas**	**Meanings**
Liquidity Indicators of the Enterprise	Current Liquidity Ratio	$\frac{\textbf{Cash+Invest+AR+Invent}}{\textbf{STL}}$	Cash-Cash funds Invest- short-term financial investments
	Quick Liquidity Ratio	$\frac{\textbf{Cash+Invest+AR}}{\textbf{STL}}$	AR- Accounts of Receivables Invent- Inventory
	Absolute Liquidity Ratio	$\frac{\textbf{Cash+Invest}}{\textbf{STL}}$	STL- Short-Term Liabilities
	Balance Sheet Liquidity	**Own funds+LTL-LTA**	Own funds-The Source of Own Funds LTL- Long-term Liabilities LTA- Long-term Assets
Analysis of the Turnover of Enterprise Funds	Indicators of Turnover of Working Capital of the Enterprise	$\frac{\textbf{Revenue}}{\textbf{(CAb+CAe)/2}}$	Revenue - Revenue from the sale of product (line 010 of the Form#2) (CAb+CAe)/2- Average annual value of Current Assets (line 390 of the Form#1)
	Indicators of Receivables of the Enterprise	$\frac{\textbf{Revenue}}{\textbf{(ARb+ARe)/2}}$	(ARb+ARe)/2- Average annual value of Receivables (line 210 of the Form#1)
	Indicators of Accounts Payable of the Enterprise	$\frac{\textbf{Revenue}}{\textbf{(APb+APe)/2}}$	(APb+APe)/2- Average annual value of Accounts Payable (line 601 of the Form#1)
	Indicators of Inventory Turnover	$\frac{\textbf{Revenue}}{\textbf{(Inven.b+Inven.e)/2}}$	(Inven.b+Inven.e)/2- Average annual value of Inventories (line 140 of the Form#1)
Analysis of Enterprise Performance Indicators	Return on Assets (ROA)	$\frac{\textbf{NP}}{\textbf{CA}}$	NP-Net Profit (line 270 of the Form#2) CA-Current Assets (line 390 of the Form#1)
	Return on Equity (ROE)	$\frac{\textbf{NP}}{\textbf{PC}}$	PC- Private Capital (line 480-460-470 of the Form#1)

	Return on Sales (ROS)	$\frac{GP}{Revenue}$	GP-Gross Profit (line 030 of the Form#2) Revenue - Revenue from the sale of product (line 010 of the Form#2)
Analysis of financial stability indicators	Independence Ratio	$\frac{PC}{TPV}$	PC- Private Capital (line 480-460-470 of the Form#1) TPV - Total Property Value (line 780 of the Form#1)
	The Ratio of Debt to Equity	$\frac{L}{PC}$	L-Liabilities (line 770 of the Form#1)
	Equity Mobility Ratio	$\frac{OWC}{PC}$	OWC - Own Working Capital (line 480+490-130 of the Form#1)

In world practice, the customer's creditworthiness is one of the significant assessment objects in determining the appropriateness of credit relations. 6C, CAMPARI, and PARTS are widely used methods in the banking practice of developed countries. Since these models include many parameters, they allow us to make the correct decision when assessing the creditworthiness of enterprises (Table 2).

TABLE 2

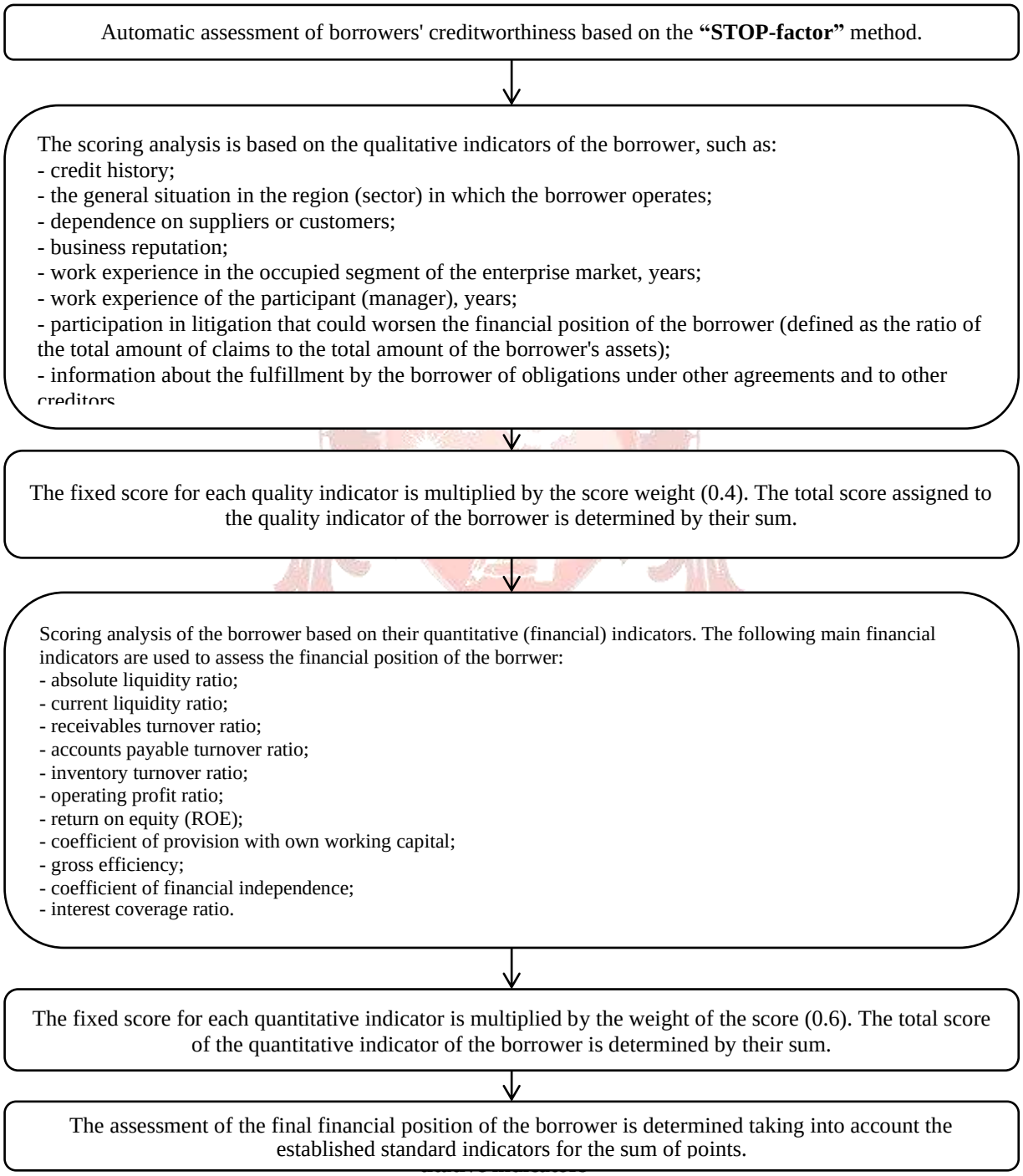
Description of International Models in the Assessment of Creditworthiness [10]

Symbol	Meaning	Short Description
6C method		
C	Character	Enterprise Image, Reputation
C	Capacity	Financial Opportunity
C	Capital	Capital or Property
C	Collateral	Availability of Pledge
C	Conditions	Financial, Economic Conditions
C	Control	Control or Monitoring
CAMPARI method		
C	Character	Enterprise Image, Reputation
A	Ability	Ability to Repay the Loan
M	Margin	Margin, Profitability
P	Purpose	The Purpose of the Loan
A	Amount	Loan Amount
R	Repayment	Loan Repayment Conditions
I	Insurance	Availability of Insurance Services
PARTS method		
P	Purpose	The Purpose of the Loan
A	Amount	The Amount of the Loan
R	Repayment	Repayment Conditions of the Loan
T	Term	The Term of the Loan
S	Security	Repayment Guarantee, Security of the Loan

Commercial banks develop their credit policy regarding their customers' credit relations, but for banks, it is necessary to pay attention to the assessment of the client's creditworthiness.

ANALYSIS AND RESULTS

Studies have shown that the analysis and assessment of the borrower's creditworthiness plays an important role in assessing the risks affecting investment projects. In this case, it is advisable to use a scoring method of assessment of the borrower's creditworthiness based on qualitative and quantitative indicators. Figure 1 shows the stages of assessing the creditworthiness of a company in commercial banks of Uzbekistan. Here, commercial banks assess the financial condition of borrowers based on qualitative and quantitative indicators, and depending on the result of the assessment, the issue of allocating credit funds is considered.



[1] Developed by the authors based on research

At the initial stage of lending, documents provided by the borrower and information obtained through the relevant information and communication tools and databases are analyzed and compared with the criteria set by the bank using the "STOP-factor" method.

TABLE 3

Assessment of the Creditworthiness of Borrowers Using the STOP-factor method.

#	Determined criteria ("STOP-factors")	Analysis result
1	The presence of a negative conclusion of the security service	YES / NO
2	The presence of overdue debt in the bank for more than 90 days	YES / NO
3	The presence of overdue debts for more than 90 days in other financial and credit organizations	YES / NO
4	The presence of written-off (cancelled) debt to banks or other financial and credit organizations	YES / NO
5	The presence of debt on litigation in banks or other financial and credit organizations	YES / NO
6	The presence of unpaid debt (K-2).	YES / NO
7	Availability of bankruptcy cases, processes	YES / NO
8	Negative equity ratio (if total equity on the balance sheet is a negative number)	YES / NO
9	The presence of an illiquid balance (if the amount of own funds and long-term liabilities is less than the amount of long-term assets)	YES / NO
10	The borrower ends the reporting period with a loss (determined according to the financial statements)	YES / NO

If, as a result of the analysis, the presence of one or more negative factors in the data related to the debtor is noticed, the bank will automatically refuse to issue a loan to prevent high risks.

Project documents that successfully pass the STOP factor are transferred to the next stage for analysis. The points assigned to each quality indicator are multiplied by the scoring weight assigned to this indicator (0.4), and the total score assigned to the quality indicator is determined by their sum (Table 4).

TABLE 4

The Method of Calculating the Score of the Borrower According to Qualitative Indicators[2]

Qualitative indicators	Good	Satisfactory	Poor	Indicator weight
Allotted points	2	1	0	40%
Credit history	No overdue debt or no more than 30 days	Overdue debt from 30 to 60 days	Overdue debt more than 60 days	0,2
The general situation in the field of activity of the debtor in the industry	There is a steady growth trend	Growth dynamics is positive, but depends on external factors	There is an unstable dynamics of the industry development	0,05
Dependence on supplier or customers	Does not depend on suppliers or customers	One-time deals	Not a single new contract was concluded for 12 months, and the validity period of previously concluded contracts has already expired	0,1

[2] Compiled by the author based on the data of JSICB "Ipak Yuli"

Business reputation	Business reputation is positive, there are no negative media reports	Positive business reputation, but the presence of a negative information background in the media	Negative business reputation, there is information from confirming sources - the conclusion of the security service	0,05
Work experience in the occupied segment of the enterprise market, years	7 years and above	From 3 to 7 years	Less than 3 years	0,1
Work experience of the participant (manager), years	Over 3 years	From 1 to 3 years	Less than 1 year	0,15
Participation in litigation that may worsen the financial situation of the debtor	No or up to 5%	From 5% to 25%	Over 25%	0,15
Information on the performance by the debtor of obligations under other agreements or to creditors	No overdue debt at the time of assessment within the last 12 months	there is information about overdue debts up to 30 days	there is information about the overdue debt for more than 30 days	0,2

After a qualitative analysis, a quantitative analysis of the company's indicators is carried out. The scores set for each financial (quantitative) indicator are multiplied by the scoring weight (0.6). Based on their sum, the total score assigned to the financial indicator is determined (Table 5). The final financial position of the borrower is determined taking into account the amount of accumulated points.

TABLE 5

The Method of Calculating the Score of the Borrower According to Quantitative Indicators[3]

Quantitative indicators	**Good**	**Satisfactory**	**Poor**	**Indicator weight**
Allotted points	2	1	0	60%
Absolute Liquidity Ratio	>0,1	0,05 - 0,1	<0,05	0,1
Current Liquidity Ratio	> 1,5	1,5 – 1,0	<1,0	0,1
Accounts Receivable Turnover Ratio	< 90 days	< 180 days	< 360 days	0,05
Accounts Payable Turnover Ratio	< 90 days	< 180 days	< 360 days	0,05
Inventory Turnover Ratio	growth was observed last year and in the last reporting period of this year	growth was observed during the reporting period of the current year	growth dynamics was not observed	0,05
Operating Profit Ratio	> 10 %	10 – 5 %	< 5%	0,2
Return on Equity (ROE)	> 0,8	0,3 – 0,7	0,2 and <0,2	0,1
Working Capital Ratio	>0,4	0,2 - 0,4	0,1 and <0,1	0,1
Gross Efficiency	> 15 %	15 – 10 %	< 10%	0,1
Financial Independence Ratio	> 40 %	40 – 20 %	< 20%	0,1
Interest Coverage Ratio	>0,3	0,3 – 0,15	<0,15	0,05

The assessment of the debtor's final financial position is determined by taking into account the following normative indicators set according to the total points:

[3] Compiled by the author based on the data of JSICB “Ipak Yuli”

Financial position	Amount of accumulated points
Stable	from 1.5 (considered) to 2
Good	from 1.2 (considered) to 1.5
Satisfactory	from 0.8 (considered) to 1.2
Poor	from 0.3 (considered) to 0.8
On the verge of bankruptcy	below 0.3

Based on the results of the analysis, it is recommended to allocate loans to business entities with a "stable" and "good" final financial position.

After analyzing and assessing the creditworthiness of the borrowing enterprise, the stages of assessing the effectiveness of the investment project are carried out. Compliance with the criteria for evaluation indicators in ensuring the effectiveness of an investment project is important to reduce the impact of risks and make the right investment decision (Table 6).

TABLE 6

Methods and their criteria for assessing risks affecting investment projects[4]

Methods for assessing risks affecting investment projects	**Criteria**	
	The project is accepted for financing	**The project is rejected for financing**
Break-even point	If the output (or production capacity) of the project is above the break-even point	If the output (or production capacity) of the project is below the break-even point
Sensitivity analysis	If project performance indicators are not sensitive to changes in project parameters (risk) and the project is considered stable	If project performance indicators are sensitive to changes in project parameters (risk sensitive) and the project is considered unstable
Method scenario	If the project is recognized as effective in all or two established scenarios (optimistic, realistic, pessimistic)	If the project is found to be ineffective in all or two scenarios
Mathematical methods (dispersion, variation)	If the coefficient of variation is below 10 percent and the level of risk is considered low	If the coefficient of variation is above 33 percent and the risk level is assessed as high
Decision tree method	With a positive result in evaluating the effectiveness, taking into account the revaluation of investments invested in the project and taking into account operational measures to changes that arise during the implementation of the project	In case of a negative result in the evaluation of efficiency, taking into account the revaluation of investments invested in the project and the adoption of prompt measures to changes occurring during the implementation of the project
Monte Carlo method	If the weight of positive results on project performance indicators is higher than the weight of negative results in all created scenarios	If the weight of positive results in terms of project performance indicators is lower than the weight of negative results in all constructed scenarios

Based on the results of the above study, it can be concluded that to identify, analyze, evaluate, and effectively manage risks, it is necessary to set limits on the weight of qualitative indicators up to 40 percent and the weight of quantitative indicators up to 60 percent of risk factors affecting investment projects. Based on this, it will be useful to make the right decision on financing the project;

[4] Developed by the authors based on research

it is advisable to use risk assessment methods that affect investment projects consistently and comprehensively.

CONCLUSIONS AND PROPOSALS

In a qualitative analysis and assessment of investment risks, it is necessary to pay much attention to the following issues: the efficiency of collection and reliability of the information on project indicators; a sufficient level of qualification and experience of expert analysts who analyze the risks of investment projects; compatibility of methods used in risk analysis with project characteristics and risk types; When assessing the risks of investment projects, it is not enough to use only one tool or method, but on the contrary, an accurate assessment requires a set of tools (such as objective and subjective methods, as well as methods of a qualitative and quantitative assessment of risks). In this case, the disadvantage of one method is compensated by the advantage of the second method, and may be achieved the best result; risk assessment methods should be based on foreign experience and especially on information and communication technologies.

When assessing the risks affecting investment projects, it is considered appropriate to start with an assessment of the borrower's creditworthiness, and if analysis and evaluation of the creditworthiness and risks are carried out in a sequence based on the stages proposed by the author, then it will be possible to reduce the credit risk of banks and reduce the risk of loan default for enterprises. The creditworthiness assessment models proposed by foreign economists include several qualitative and quantitative indicators that allow the most accurate decision-making when assessing the creditworthiness of enterprises.

In our opinion, to assess risk factors affecting investment projects, it is necessary to accept risk factors for financing, based on setting a weight limit of qualitative indicators of up to 40 percent and a weight limit of quantitative indicators of up to 60 percent.

Based on the results obtained after conducting a risk analysis, you can properly organize risk management and select the right methods to reduce risks.

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