

# IMPROVEMENT OF THE PRACTICE OF SETTLEMENT SERVICES OF FOREIGN TRADE OPERATIONS OF CLIENTS OF COMMERCIAL BANKS

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## Abstract

Improving the practice of settlement services for clients' foreign trade operations is one of the mandatory conditions for ensuring uninterrupted financing of clients' export and import operations. In particular, the comprehensive use of various types of documentary letters of credit facilitates the timely receipt of export revenue. And the active use of bank guarantees for the quality of exported goods reduces the risk of delivery of low-quality goods.

The article identifies current problems related to improving the practice of settlement services for foreign trade operations of clients of commercial banks of Uzbekistan and develops scientific proposals for solving these problems.

**Keywords:** Commercial bank, export, import, documentary letter of credit, order check, bank guarantee, credit, risk.

## Introduction

The Development Strategy of the New Uzbekistan for 2022-2026 notes that further increasing the export potential of the republic and bringing the volume of exports of the republic in 2026 to 30 billion US dollars by increasing the export potential of the republic through active support for the activities of exporting enterprises, further developing the export potential of local industries based on the maximum use of existing opportunities, introducing modern standards in the production of products that meet the requirements of foreign and international markets, attracting well-known brands, bringing the share of the private sector in exports to 60 percent is one of the priority areas for the accelerated development of the national economy and ensuring high growth rates [1]. This, in turn, necessitates improving the practice of settlement services for foreign trade operations of clients of commercial banks in the country.

## Review of literature on the topic

A. Gloriosov and D. Mikhailov claim that the following payment methods are used in international trade:

- advance payment;
- documentary letter of credit;
- payment after shipment;
- collection;



– open account trading [2].

According to economists, making payments through escrow accounts is a promising direction for improving the practice of non-cash payments and the implementation of these payments has six stages:

- conclusion of a purchase and sale agreement;
- opening an escrow account;
- transfer of funds;
- submission of documents confirming the transfer of ownership rights;
- payment approval;
- transfer of funds [3].

T. Masyukova, P. Platonova and Yu. Savinov highlight the following advantages of electronic letters of credit in international trade:

1. Electronic letter of credit allows you to avoid costs associated with sending documents.

On average, sending one set of documents on paper costs the parties to the letter of credit 75-100 US dollars and takes from 3 to 7 days under normal conditions. And if we imagine that partial shipments are allowed under the terms of the letter of credit, then the number of presentations under one letter of credit can reach several dozen.

2. Considering the significant percentage of bank refusals to pay upon the first presentation of documents (about 70-80%), one can identify another advantage of electronic presentation. An electronic document can be corrected much faster if critical inaccuracies are found in it, due to which it cannot be executed.

3. Exporters and importers under an electronic letter of credit have access to a secure online platform where electronic submission of documents and their verification is technically possible [4].

According to A. Gurinovich and V. Lukashevich, the leading counterparty countries of Belarus in settlements by means of collection are the countries of the Pacific region, as well as South Korea, India, Pakistan, Singapore, China, Turkey, Egypt, Italy, Great Britain and Austria. Settlements were also made with partners from the USA and Brazil.

It should be noted that the collection form of payments is more secure compared to payments in the form of a bank transfer. At the same time, payments in the form of collection allow banks to control the timeliness of receiving payment, but do not provide the opportunity to influence the importer in order to speed up the payment (acceptance) of documents. However, the collection form of payment is beneficial to the exporter, since it guarantees that the goods will not pass into the possession of the buyer until payment is made. It should be noted that this form of payment is also beneficial to importers, since it involves payment for the goods actually delivered, and the costs of conducting a collection operation are relatively small. [5].

G. Luca argues that a payment is international if it is circulated in more than one state [6]. In this case, the author identifies international settlements with bank transfers and confirms the cross-border nature of international payments.

H. Allen, based on the results of his own research, came to the conclusion that the use of electronic payments affects the frequency of transactions and can lead to the replacement of one means of payment with another. This can lead to a change in the relationship between monetary actions and economic activity [7].



According to A. Gorokhov, “ payment instruments from the point of view of the algorithm of movement of funds are divided into credit, debit and intermediate instruments. A credit transfer is a bank transfer initiated by the payer, who submits payment instructions to the sending bank. In a debit transfer, on the contrary, the initiator is the beneficiary, i.e. the recipient of the payment” [8].

I. Alimardonov, based on the results of his dissertation research, developed the following scientific proposal: “commercial banks need to establish payment of import payments of small businesses with a high level of solvency and enterprises, microfirms that have entered the system of state purchases under documentary letters of credit, through urgent and overdraft loans.” [9].

According to F. Akhmedov, the introduction into the practice of commercial banks of Uzbekistan of features that allow the wide use of uncovered documentary letters of credit and documentary collection in the banking practice of developed countries, namely a full guarantee of payment under letters of credit and the procedure for issuing commercial documents after payment under documentary collection, will improve their activities in servicing foreign trade activities [10].

## **RESEARCH METHODOLOGY**

The aim of the study is to assess the current state of banking practices in providing settlement services for export and import operations of companies in Uzbekistan and to develop ways to improve it.

The object of the study is the practice of Asaka Bank in settlement services for export and import operations of companies, and the subject of the study is financial relations arising in the process of settlement banking services for servicing export and import operations of companies.

The research methodology is based on general scientific methods and comparative analysis. The information base of the research was the official statistical data of the Central Bank of the Republic of Uzbekistan.

## **Analysis and Results**

The Strategy “Uzbekistan-2030” sets the task of strengthening the export potential of the national economy and a radical increase in its share of products with high added value by doubling the volume of exports and bringing it to 45 billion dollars, increasing the number of exporting enterprises from 6.5 thousand to 15 thousand, increasing the volume of finished and semi-finished products in exports by 3.3 times, expanding the export of finished and technological products to European countries within the framework of GSP+ and other systems, creating special economic zones together with 50 prestigious brands of the world [11]. Successful solution of the tasks set for export development requires the creation of a reliable system of financing export and import operations of domestic companies. In turn, commercial bank loans are an important source of financing export and import operations of companies.

It should be noted that the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025 sets specific objectives to increase the credit potential of commercial banks. In particular, the following tasks have been set: to implement lending exclusively on a



market basis, reduce banks' dependence on public resources, ensure the financial stability of the banking system by improving the quality of the loan portfolio and risk management, maintain moderate growth in lending volumes, and pursue a balanced macroeconomic policy [12].

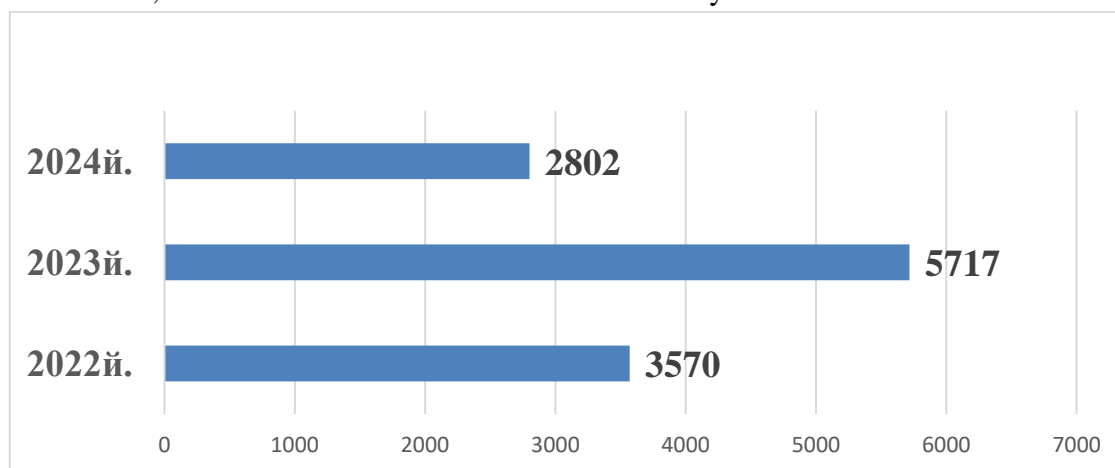
**Table 1 Volume of export and import operations in the Republic of Uzbekistan, million US dollars<sup>1</sup>**

Indicators	31.12. 2022	31.12.2023	31.12. 2024
Export volume	19309	24869	26948
Import volume	30699	38659	38985
Excess of import volume over export volume	11390	13789	12037

As can be seen from the table 1, in 2022-2024, the volume of exports in Uzbekistan had an upward trend. During the analyzed period, the volume of imports also had an upward trend. As can be seen from Table 1, in 2024 the amount of excess imports over exports decreased by 12.7%.

It should be noted that in the practice of settlement services of Asakabank there are no international settlements with bank order checks and settlements by documentary collection. This, in turn, hinders the improvement of the practice of settlement services of foreign trade operations of the bank's clients.

It should be noted that in Asakabank documentary letter of credit is the main form of international settlements used when paying for import operations of clients. However, the bank currently does not have comprehensive service for various types of documentary letters of credit, in particular, there are no such types of documentary letters of credit as a letter of credit with a red line, a transferable letter of credit and a stand-by letter of credit.



**Fig. 1. Change in the volume of documentary letters of credit opened by Asakabank for import operations of clients<sup>2</sup>**

<sup>1</sup>The table was compiled by the author based on statistical data from the Central Bank of the Republic of Uzbekistan.

<sup>2</sup>The figure was compiled by the authors based on the financial statements of Asaka Bank.

As can be seen from Fig. 1, in 2024, the volume of documentary letters of credit opened by Asakabank for import operations of clients has significantly decreased compared to 2023. This is assessed as a negative phenomenon from the point of view of improving the practice of settlement services for export and import operations of clients. This is explained by the fact that, firstly, documentary letters of credit are the main form of international settlements for the bank's clients; secondly, operations for issuing letters of credit are highly profitable operations for commercial banks.

Now let's look at the main types of documentary letters of credit at Asaka Bank.

**Table 2 The share of the main types of documentary letters of credit in the total volume of documentary letters of credit opened by Asakabank for import operations of clients<sup>3</sup>**

Types of letters of credit	31.12. 2022	31.12.2023	31.12. 2024
Documentary letters of credit for import with condition of payment of bills presented	47.9	26.3	62.6
Documentary Credits for Imports vs. Time Drafts	50.2	72.5	36.3
Other types of letters of credit	1.9	1,2	1,1
Documentary credits - total	100,0	100,0	100,0

As can be seen from Table 2, in Asakabank in 2022-2024, two types of documentary letters of credit had a significantly larger share in the total volume of issued letters of credit - Documentary letters of credit for import with the condition of payment of presented drafts and Documentary letters of credit for import against urgent drafts . In 2024, the share of letters of credit for import with the condition of payment of presented drafts increased significantly compared to 2022, which is explained by a significant decrease in the share of letters of credit for import against urgent drafts in this period.

### Conclusions and Suggestions

We have formulated the following conclusions on improving the practice of settlement services for foreign trade operations of clients of commercial banks:

\* further increase of the export potential of the republic and bringing the volume of exports of the republic in 2026 to 30 billion US dollars by increasing the export potential of the republic through active support of the activities of exporting enterprises, further development of the export potential of local industries based on the maximum use of existing opportunities for the introduction of modern standards in the production of products that meet the requirements of foreign and international markets, attracting well-known brands, bringing the share of the private sector in exports to 60 percent is one of the priority areas for the accelerated development of the national economy and ensuring high growth rates;

\*making payments through escrow accounts is a promising direction for improving the practice of international settlements;

<sup>3</sup>The figure was compiled by the authors based on the financial statements of Asaka Bank.

\*an electronic letter of credit is a promising form of international payments and it allows you to avoid expenses associated with sending documents and allows you to quickly correct errors in the shipping documents;

\* in the practice of settlement services of banks of Uzbekistan, there are no international settlements with bank order checks and settlements by documentary collection. This, in turn, hinders the improvement of the practice of settlement services of foreign trade operations of the bank's clients;

\* in the banks of the republic, a documentary letter of credit is the main form of international settlements used when paying for import operations of clients. However, at present, there is no comprehensive service for various types of documentary letters of credit, in particular, there are no such types of documentary letters of credit as a letter of credit with a red line, a transferable letter of credit and a stand-by letter of credit;

\*in 2024, the volume of documentary letters of credit opened by Asakabank for import operations of clients decreased significantly compared to 2023. This is due to the fact that, in the analyzed period, the volume of import operations of the bank's clients decreased;

\*in Asakabank in 2022-2024, two types of documentary letters of credit had a significantly larger share in the total volume of issued letters of credit - Documentary letters of credit for import with the condition of payment of presented drafts and Documentary letters of credit for import against urgent drafts . In 2024, the share of letters of credit for import with the condition of payment of presented drafts increased significantly compared to 2022, which is explained by a significant decrease in the share of letters of credit for import against urgent drafts in this period.

In our opinion, in order to improve the practice of settlement services for foreign trade operations of clients of commercial banks, it is necessary to take the following measures:

1. It is necessary to ensure the comprehensive use of forms of international settlements by introducing into practice bank order checks based on their payment at the expense of commercial bank loans in the event of a lack of funds in the current currency account of the importer; secondly, to introduce into the practice of international settlements documentary collection based on the payment condition "documents against payment"; thirdly, to actively use the guarantee of the advising bank on the quality of the exported goods and the guarantee of the payer bank on the payment obligations of importers.

2. In order to increase the efficiency of using documentary letters of credit, it is necessary, firstly, to introduce into the practice of settlement servicing of foreign trade operations of clients of commercial banks of Uzbekistan such types of documentary letters of credit as a letter of credit with a red line, a transferable letter of credit and a stand-by letter of credit; secondly, to reduce the specific amount of covered documentary letters of credit in the total volume of issued letters of credit; thirdly, to actively use urgent loans of commercial banks when paying for letters of credit.

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