

PUBLIC-PRIVATE PARTNERSHIP IN THE DEVELOPMENT OF BANKING SERVICES AND ENTREPRENEURSHIP IN AZERBAIJAN

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Summary

In June 2022, "Kapital Bank" OJSC, the largest commercial bank of the Republic of Azerbaijan, will integrate banking and tax systems into the State Tax Service in order to facilitate the access of entrepreneurs to financial sources, to ensure the organization and operation of unsecured business loans and factoring services, as well as A proposal letter has been sent regarding additions to invoices. In this article, the importance of that proposal for banks, entrepreneurs and the state will be examined, and if the proposal is accepted, it will be justified that there will be serious progress in the banking sector and the development of entrepreneurship. Changes to be made in the legislation and the steps to be taken for this have also been included in the article. The Ministry of Economy, the Small and Medium Business Development Agency and the Entrepreneurship Development Fund have also been informed about this, and joint efforts with the mentioned institutions are continuing for the State Tax Service to evaluate the proposals.

Keywords: *electronic invoice, business loans, factoring.*

JEL: *G21, L26, L32.*

UDC: *336.71(479.24)*

Introduction

According to Article 71-1 of the Tax Code of the Republic of Azerbaijan, in the cases defined by that Code, the person who presents (sends) the goods, performs the works and provides the services, as well as the person who is registered with the tax authority, who performs intra-household movement of goods, submits (compiles) the electronic invoice (State Tax Service, 2022). Banks, in turn, use these invoices as a basis when they provide factoring services to legal entities and individual entrepreneurs or allocate business loans. According to the "Rules for the form, application, accounting and use of electronic invoice" of the Cabinet of Ministers of the Republic of Azerbaijan, when there are changes in the prices of goods (works, services), when the nature of the transaction changes (subsequently changing a taxable transaction to a tax-exempt transaction or vice versa changing the transaction to a taxable transaction), as well as the circumstances that provide grounds for specifying the taxable turnover later (except for the cases of full or partial return of goods) are revealed by the taxpayer "issued according to Article 163 of the Tax Code, except for the return of goods" an invoice is drawn up (Resolution No. 89, 2017). At

this time, there is no change (increase or decrease) in the amount of goods (works, services), only the price of goods (works, services) changes (increase or decrease). This means a change in the electronic invoice, which the bank uses as a basis for financing the buyer, and creates risks for the bank.

Materials and methods

"Kapital Bank" OJSC made the following proposals to the State Tax Service in order to provide unsecured business loans and factoring services to entrepreneurs by minimizing bank risks:

1. Adding a factoring cell to overhead invoices. Thus, it is proposed to add a "factoring" cell to the electronic invoice. Activation of the cell is not mandatory. Enable the box if the seller plans to submit the invoice to the bank for factoring financing in the future. If this box is activated, if the invoice becomes approved by the Buyer within 5 days or after 5 days, the invoice cannot be canceled, the change is allowed only for increasing the amount no later than the 20th of the following month after the end of the reporting month in which it was submitted in the electronic invoice will be given. When the factoring box is activated, in the window that opens, a list of commercial banks will appear and it is suggested to select the name of the Factor bank that the Seller (Supplier) will provide for factoring financing. It is also suggested to integrate the systems so that the bill appears in the factor bank's system after the bill has passed to the status of approved or system-approved.

2. Adding a bank account cell. It is suggested to add the fields "Bank account" and "account number" to the electronic invoice. Activation of the cell is mandatory. If the box is activated, the list of banks with which the Seller has opened an account will appear. The seller will choose the bank and bank account to which the buyer wants to transfer the funds on the promissory note.

We can group the perspectives of the mentioned proposal and the development after the changes in terms of the volume of banks, entrepreneurs and taxes as follows:

1. Increase in the amount of taxes - the number of taxpayers and the amount of tax revenues will increase by stimulating the access of taxpayers to financial sources. So, if the seller carries out his sales by sending electronic promissory invoices in an official form, he will make an effort to carry out his sales in an official form because he realizes that the promissory note can be financed by the factor bank and obtain the receivables in advance.

2. Development of entrepreneurship - if the proposals are accepted, entrepreneurs will have the opportunity to use business loans and factoring services quickly and without collateral. This, in turn, contributes to the development of entrepreneurship, macroeconomic development and stability, the development of production and the non-oil sector, the increase in the level of employment, etc. will cause.

3. Development of banking - the mentioned proposals also aim at the development of electronic banking, simplification and acceleration of procedures, thereby saving labor costs and increasing revenues.

Result and discussion

According to the opinion of the Legal Department of "Kapital Bank" OJSC, the proposals are of a technical nature as they include changes in the electronic overhead invoicing system, and this is regulated by the decision of the Cabinet of Ministers (Cabinet of Ministers, 2021). For the implementation of the proposal, at least Article 3.6 of the Cabinet of Ministers dated 02.02.2021 No. 26 "Form, application and accounting rules of electronic overhead invoice" should be amended (KapitalBank, 2022).

The proposed form of the text of the amendment to the relevant decision of the Cabinet of Ministers is as follows:

3.6. If the information specified in the electronic invoice sent by the taxpayer does not correspond to the information on the primary accounting documents (handover act, settlement act, etc.), correction shall be made no later than the 20th of the following month after the end of the reporting month in which the electronic invoice was submitted. It can be done. The corrected e-invoice is not assigned a new serial number by the software. The corrected e-invoice must be approved by the recipient after it is sent. If the amended e-invoice is not approved by the recipient by the last day of the month in which it is sent, the amended e-invoice is canceled through the software and considered unamended. The invoice with the factoring box activated cannot be canceled after it has changed to the approved or system-approved status, and it can only be adjusted in relation to the amount drop no later than the 20th of the following month after the end of the reporting month in which it was submitted.

The transactions between the seller, the buyer, the tax authority and the bank in the tax system after the corrections to the invoices are described by the following block diagrams.

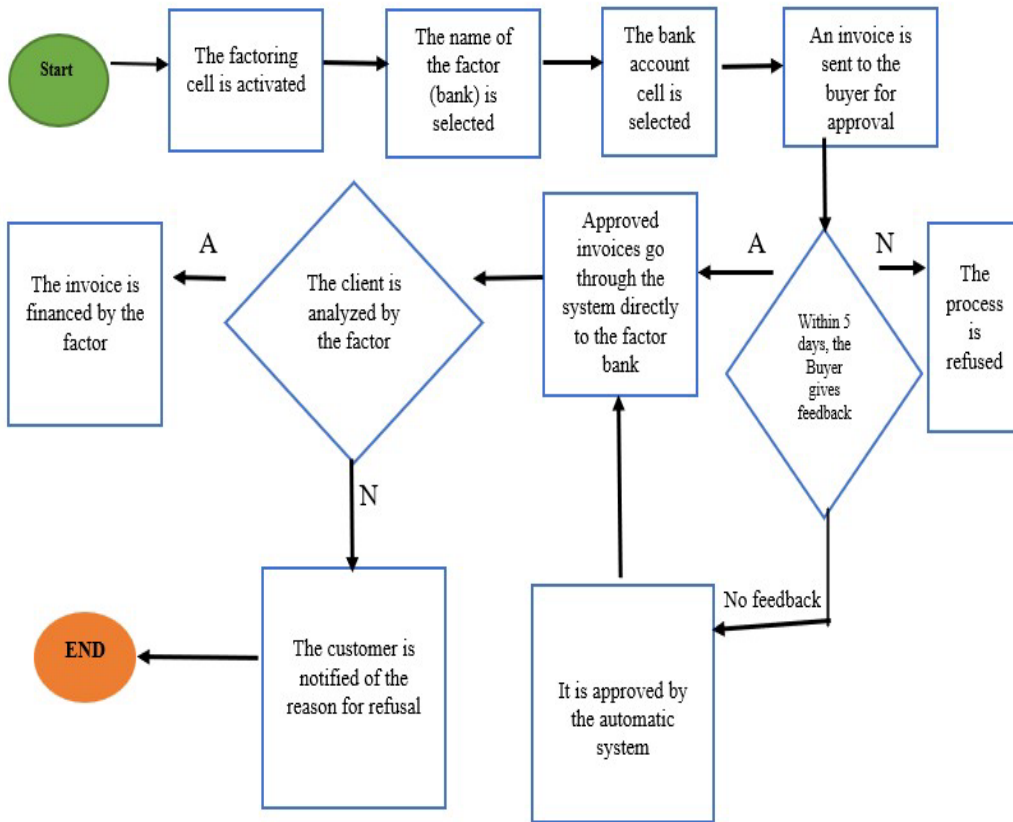


Figure 1. The system after the changes

Source: Compiled based on research by the author

Company managers and accountants were polled about the proposals, and opinions were sought about adjustment mechanisms if necessary to reduce the amount after the receipts are approved. As a result of the survey, it was found that entrepreneurs can be more careful in relation to invoices for which the factoring cell is activated, taking into account the facilitation and acceleration of access to factoring and business loans. Also, if the amount needs to be reduced later, the parties can adjust it among themselves. It was noted that the status of invoices with the activation of the factoring cell can be monitored by both the Seller and the Buyer within 5 days regarding their correct sending.

Acceptance of the proposals will lead to an increase in factoring operations, which in turn will lead to a decrease in the receivables of entrepreneurs, an increase in their income, the development of entrepreneurship and an increase in the volume of taxes. This dependence is shown in the graph below. So, as can be seen from panel A, as the volume of factoring operations increases, the receivables of the company decrease, and there is an inverse proportional dependence between the volume of factoring and receivables. As can be seen from panel B, as receivables decrease, the company's revenues increase, and when revenues increase, the company fulfills its

obligations on time and liabilities decrease. Panel C shows that as a company's revenue increases, so does its profit and the amount of income tax increases.

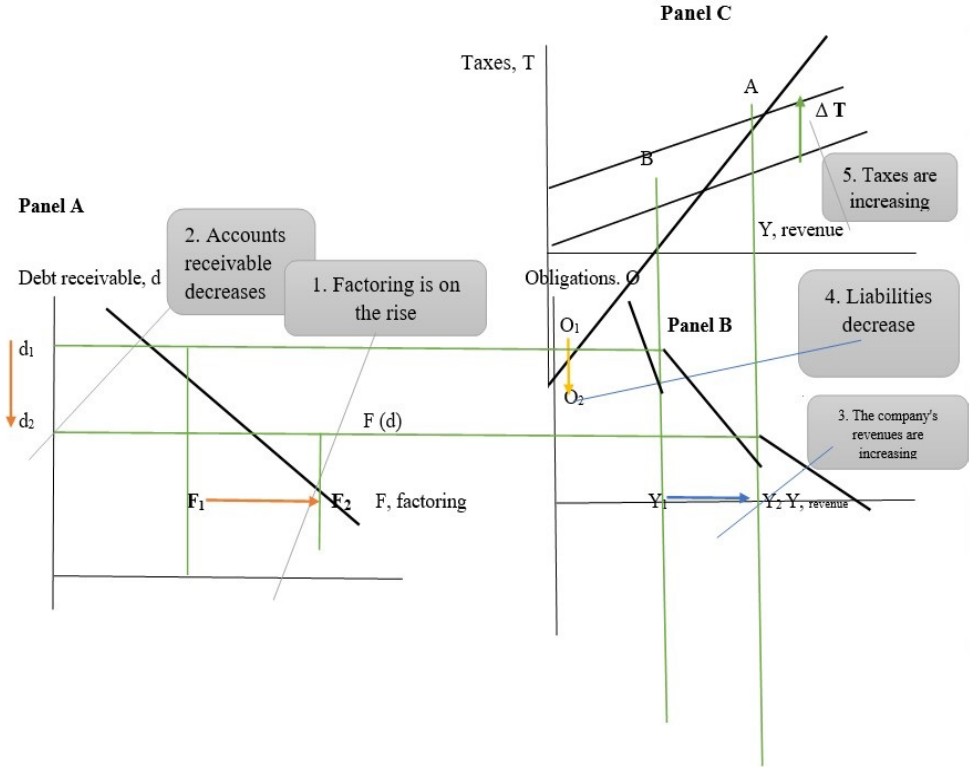


Figure 2. The relationship between the volume of factoring operations and receivables, company revenues, the volume of liabilities and the volume of taxes

Source: Compiled based on research by the author

“According to Nasimi Khasiyev, Director of the Small and Medium Businesses Department of Kapital Bank OJSC, accepting the mentioned proposals will lead to the elimination of the following difficulties for banks:

1. Difficulties in the current system - Since the information on the financing of electronic invoices does not appear in the system on the day of financing, there is a risk of repeated financing of the same invoice by different banks.
2. Difficulties in getting the buyers to sign the notice – factoring financing risk reduction prolongs the process of the buyer having to sign the notice and creates difficulties for the buyers.
3. Difficulties arising from the ability to make corrections in invoices - according to the current rules, the electronic invoice can be amended no later than the 20th of the following month after the end of the reporting month in which it was submitted to the invoice. The fact that these notes can be changed after they are funded creates a risk for banks.

It should be noted that the proposal was addressed to the State Tax Service by Farid Hidayatzade, the general director of the Corporate and SME Sales Department of "Kapital Bank" OJSC. Nurana Guliyeva, Head of the Documentary Transactions Department of the Corporate Sales Department of the Corporate and SME Sales Department of Kapital Bank OJSC, who participated in the preparation of the proposal, Nasimi Khasiyeva, the Director of the Small and Medium Entrepreneurs Department of the Corporate and SME Sales Department, Nasimi Khasiyeva of the Corporate and SME Sales Department We express our deep gratitude to the Director of the Corporate Sales Department, Gara Abdurrahmanov, as well as Bahruz Jamalova and Ayten Ahmadova, who supported the preparation of the presentation, and Arif Mehdiyev and Nadir Isazade from the Legal and Compliance Department.

Conclusion

As a result of the research, it was found that the acceptance of the mentioned proposals addressed to the State Tax Service will lead to the simplification of banking operations, the development of entrepreneurship, the increase of the volume of tax receipts and the development of factoring services. In this direction, the State Tax Service, in its turn, should apply to the Cabinet of Ministers and ensure the implementation of the proposals. Buyers should also take a responsible approach to their obligations as they know that the State Tax Service supervises the payment of overdraft invoices. After additions to current account invoices and system integration, other commercial banks will also be interested in providing factoring services. Also, entrepreneurs will have the opportunity to finance receivables in a short period of time, to benefit from business loans quickly and without collateral.

I suggest that if the changes are implemented, factor banks should also provide non-recourse factoring (classic factoring) services. In such a case, Buyer companies gain additional time to fulfill their obligations, and Seller companies, in turn, are insured against payment risks and entrust the follow-up of receivables to factor banks.

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