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# **IMPROVING THE PRACTICE OF FINANCING EXPORT OF AGRICULTURAL PRODUCTS: THEORY AND PRACTICE**



**G.TAJENOVA, S. BAYJANOV, M.ABISHOV**



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India-2023

***TAJENOVA G. E, S. BAYJANOV, M. ABISHOV***

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(Monograph)

G.Tajenova, S.Bayjanov, M.Abishov Improving the practice of financing the export of agricultural products: theory and practice. Monograph.-T-2023 78 pages

The monograph examines scientific and theoretical views on improving the practice of financing the export of agricultural products and scientific proposals and practical recommendations aimed at improving the practice of financing the export of agricultural products.

The monograph is mainly intended for professors, specialists, researchers, graduate students and students interested in analyzing the current state of the practice of financing the export of agricultural products in the country and identifying existing trends.

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## INTRODUCTION

Improving the practice of financing the export of agricultural products is one of the necessary conditions for increasing the export potential of the agricultural sector. According to the World Trade Organization, despite the decline in international trade due to the coronavirus pandemic, in the first half of 2020, agricultural exports increased by 2.5% compared to the same period last year. This is primarily due to the fact that the agricultural sector is financially supported by the state. In 2020 alone, the U.S. will provide an additional \$ 19 billion to farmers. dollars in subsidies. The amount of funds allocated by the state to promote the sale of agricultural products in Russia in foreign markets in 2019 increased by 52.4% compared to 2018.

Research is being conducted to develop the system of lending to agricultural exports, to improve the mechanism of state support for the export of agricultural products, to ensure the effectiveness of the use of documented letters of credit to finance agricultural exports, to increase the role of tax policy in stimulating export potential. This indicates that there are pressing issues in improving the practice of financing the export of agricultural products in these countries.

The Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 recognizes the liberalization and simplification of export activities, diversification of export composition and geography, expansion and mobilization of export potential of sectors and regions as one of the necessary conditions for sustainable economic development. This, in turn, creates the need to improve the practice of financing the export of agricultural products.

## **CHAPTER 1. THEORETICAL FUNDAMENTALS AND FOREIGN EXPERIENCE OF FINANCING EXPORT OF AGRICULTURAL PRODUCTS**

### **1.1 Scientific and theoretical views on financing the export of agricultural products**

Theoretical and practical aspects of financing the export of agricultural products have been studied on a scientific basis by foreign economists and relevant scientific conclusions and practical recommendations have been formed.

G. Mokrov distinguishes three forms of specific export subsidies:

1. Specific subsidies provided directly.

These subsidies are provided from the budget of the exporting state for the production, export or delivery of exported goods.

2. Indirect specific subsidies.

These subsidies are provided to exporting companies in the form of reductions in taxes, customs duties and allocations to the state budget.

3. Combined specific subsidies.

These subsidies are provided simultaneously to finance loans and to produce, export or supply goods<sup>1</sup>.

V. Akhramovich and R. Yanbykh. According to Yanbykh, the rapid growth of the total volume of international trade in agricultural goods in recent years has been observed within regional communities and accounts for about 70 percent. Therefore, they believe that in financing international trade in agricultural products, the main focus should be on financing international trade within regional communities<sup>2</sup>

This conclusion is of great practical importance for the Republic of Uzbekistan. Because our country has joined the Eurasian Economic Union as an observer, the issue of membership in the World Trade Organization is still relevant.

According to Ternovsky, subsidizing transportation costs for grain exports does not solve the problem of ensuring efficiency in terms of supporting the income of grain growers. This is because lower grain prices will lower the income

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<sup>1</sup> Mokrov G.G. The Eurasian economic union: instrumental zashchity vnutrennego rynka ot nedobrosovestnoy konkurensii. - M.: Prospect, 2018. - S. 57

<sup>2</sup> Akhramovich V.S. Mekhanizmy adaptatsii vneshnetorgovoy politiki v agrarnoy sphere otdelnykh stran i soobshchestv k usloviyam VTO//Ekonomicheskii bulletin Natsionalnogo issledovatel'skogo instituta Ministerstva ekonomiki Respubliki Belarus. - Minsk, 2015. - No. 5. - S. 15-25.; Yanbykh R.G. Sovremennye trends agroproduktovoy torgovli i ee perspektivy v Euraziyskogo ekonomicheskogo soyuza//Ekonomika selskogo hozyaystva Rossii. - Moscow, 2011. - #1. - S. 86-91.

level of its growers. For example, in 2017, the price of grain in Siberia was lower than the cost of production due to very high grain yields<sup>3</sup>.

N.Zaruk, G.Grishin and O.Tagirov, as a result of scientific research on the issue of financing of agriculture, came to the conclusion that financing from the state budget is an integral part of financing of agriculture<sup>4</sup>.

Their conclusion is also important for the practice of financing the export of agricultural products.

According to a group of foreign economists, a necessary condition for ensuring the effectiveness of agricultural export lending is the state repayment (bonification) of a percentage of loans issued by commercial banks to finance exports<sup>5</sup>.

This conclusion is of practical importance both for the practice of developed countries and for the practice of developing countries. This is because a portion of the loans provided to farmers and agricultural enterprises by commercial banks, including export loans, are bonified by the state. In particular, this bonification practice was introduced in the Russian Federation on January 1, 2017.

High interest rates on loans from commercial banks prevent farmers from using these loans. This is because farmers' ability to repay loans is determined by their level of profitability. If the interest rate on the loan is higher than the farmer's rate of return, then the farmer cannot repay the loan. Therefore, government intervention in the process of lending to farmers by commercial banks is an objective necessity<sup>6</sup>.

Taxation of agricultural producers is one of the important tools of state regulation of agriculture and plays an important role in the development of export activities of agricultural producers.

According to Kirichenko, the main purpose of taxation in developed countries is to create a relatively favorable environment for the development of the agricultural sector, as this sector is considered a weak sector of the economy.<sup>7</sup>

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<sup>3</sup> Терновский Д.С. Экспортоориентированная модель сельского хозяйства: плюсы и минусы//Мониторинг экономической ситуации в России. – Москва, 2020. – №24. – С. 8-12.

<sup>4</sup> Зарук Н.Ф., Гришин Г.Е., Тагиров О.А. Бюджетное финансирование сельского хозяйства в новых экономических условиях//Нива Поволжья, 2013. – №4. – С. 112-119.

<sup>5</sup> З. Короткова С. Н., Ткач Ю. Б. Кредитование как одно из направлений финансирования сельского хозяйства в условиях членства в ВТО и санкций//Материалы международной научно-практической конференции «Аюшиевские чтения. Финансово-кредитная система: опыт, проблемы, инновации» и др. – Иркутск: НИЦ «Апробация», 2016. — С. 124–130.; Шкарупа Е. А., Переходов П. П. Кредитование сельского хозяйства: особенности, проблемы, тенденции развития//Региональная экономика: теория и практика. — 2015. — № 44. — С. 52–56.; Scott J.A., Dinkelberg W.C., Dennis W.J. Credit, Banks and Small Business – the New Century – Washington: NFIB Research Foundation, 2003. – 96 p.

<sup>6</sup> Бондаренко В.С., Шишкина Д.А. Необходимость и направления государственной финансовой поддержки сельхозпредприятий российского АПК//Вестник СГСЭУ. – Саратов, 2018. –№ 5. – С. 131-135

<sup>7</sup> Кириченко Д. А. Исследование вопросов современного состояния налогового учета расходов сельскохозяйственных организаций // Аудит и финансовый анализ. – 2012.– №2. – С. 92-96.



In addition, tax incentives in developed countries play an important role in regulating the scientific and technological development of agriculture. In the United States, for example, up to 25 percent of farmers' profits invested in production priorities are tax-exempt, while in the European Union, part of farmers' taxes are paid from the state budget<sup>8</sup>.

According to T. Bugaeva, due to the low level of financial independence of agricultural enterprises, the role of external sources (bank loans, targeted government loans, debt financing, subsidies) in financing their activities is significant<sup>9</sup>.

Indeed, it is difficult to ensure the sustainability of their cash flows because the activities of agricultural enterprises are seasonal. This makes their financial independence lower than that of enterprises belonging to other sectors of the economy. The low level of financial independence of agricultural enterprises is also reflected in the low level of their profitability. According to I. Rykova, an academician of the Russian Academy of Natural Sciences, agricultural exports should be supported not only through subsidies, but also through the introduction of additional taxes and levies on agricultural entities that have large areas of land and property and do not use them properly<sup>10</sup>.

According to A. Gavrilov, the areas for improving export financing are:

- Export financing should be based on a system of public and private capital;
- strengthening cooperation with international economic organizations;
- Establishment of an institute of information and consulting support for exporters;
- Establishment of an export credit insurance agency;
- Subsidizing transportation costs of exporters<sup>11</sup>.

The fact that the state covers part of the percentage of loans issued by commercial banks to finance exports has been recognized by many economists as a necessary condition for ensuring the effectiveness of agricultural export lending<sup>12</sup>.

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<sup>8</sup> Zarubezhnyi opyt gosudarstvennoy podderzhki proizvodstva zernovykh kultur // Nauchnaya elektronnyaya biblioteka "Kiberleninka". URL: <https://cyberleninka.ru/article/v/zarubezhnyy-opyt-gosudarstvennoy-podderzhki-proizvodstva-zernovykh-kultur> (data obrashcheniya: 25.09.2018).

<sup>9</sup> Bugaeva T.N. Aktualnye problemy finansovogo obespecheniya selskogo hozyaystva//Finansy, banki, investitsii. - Crimea, 2018. - No. 1. - S. 42-43.

<sup>10</sup> Rykova I.N. Eksportnyi potentsial agropromyshlennogo kompleksa Rossii: osobennosti, finansirovanie, prognozy. - Financial research. - Moscow, 2018. - No. 2. - S. 14

<sup>11</sup> Gavrilov A.A. Sovershenstvovanie mekhanizm finansirovaniya eksporta v Rossii//Natsionalnye interesy: priority i bezopasnost. - Moscow, 2011. - S. 39-48

<sup>12</sup> Korotkova S. N., Tkach Yu. B. Kreditovanie kak odno iz napravlenii finansirovaniya selskogo hozyaystva v usloviyakh chlenstva v VTO i sanktsiy//Materialy mejdunarodnoy nauchno-prakticheskoy konferentsii «Ayushievskie chteniya. Financial and credit system: experience, problems, innovations» and dr. - Irkutsk: NITs "Approval", 2016. - S. 124–130.; Shkarupa E. A., Perekhodov P. P. Kreditovanie selskogo hozyaystva: osobennosti, problemy, tendentsii razvitiya//Regionalnaya ekonomika: teoriya i praktika. — 2015. — No. 44. — S. 52–56.; Scott

According to O. Khairullina, export support institutions play an important role in supporting the export of agricultural products. These institutions:

- \* In the United States - the Export Council under the President of the United States;

- \* In Brazil - the Ministry of Agrarian Development and the Agency for Trade and Investment Promotion;

- \* Chambers of Commerce in Germany (DIHK), Houses of the German Economy Abroad (AKA) and Hermes Insurance Company;

- \* Canada - Trade Authorization Service (TCS), Canadian Export-Import Agency, Canadian Commercial Corporation, Canadian Food Export Association and Canadian Association of Agriculture and Food Industry;

- \* In China - departments of the Ministry of Commerce of China, organized by geographical indication<sup>13</sup>.

Uzbek economist E. Shodmonov proposes to expand the use of documented letters of credit in the accounting system of agricultural enterprises

However, E. Shodmonov did not specify the types and forms of use of documented letters of credit for agricultural enterprises<sup>14</sup>.

According to Alimardonov, in order to improve the crediting of foreign trade activities of small businesses (including small businesses operating in the agricultural sector), they are able to obtain loans through documented letters of credit<sup>15</sup>.

According to D. Murodova, the problem with the export of agricultural products is the lack of foreign currency for agricultural producers. Increasing the export potential of agricultural producers provides the following conditions:

- not to allow the increase of the peal exchange rate of the national currency (increase of the peal exchange rate of the national currency in relation to the national currency of the country, which is the main foreign trade partner of Uzbekistan) leads to an increase in the exchange rate of the republic's exports to these countries);

- Avoiding the increase in the cost of transporting the exported products (in our country, most of the exported agricultural products are transported by road transport.

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JA, Dinkelberg WC, Dennis WJ. Credit, Banks and Small Business – the New Century – Washington: NFIB Research Foundation, 2003. – 96

<sup>13</sup> Khairullina O. Mirovoy opyt gosudarstvennoy podderzhki exporta agproprodovolstvy. – Institut agrarnykh issledovaniy VShK, 2019. – 4 p.

<sup>14</sup> Shodmonov E.Sh. The main directions of increasing the activity of banks in the deepening of agrarian reforms in Uzbekistan. Iqt. f.n. science Dissertation abstract written for degree. - Tashkent: BMA, 2005. - 22 p

<sup>15</sup> Alimardonov I.M. Improving the methodological and practical foundations of lending to small business entities. I.F.D. science narrow take three. destiny eat diss. autoref. - Tashkent, 2018. - B. 29

## **1.2 Sources of financing the export of agricultural products and their specific features**

The main sources of financing the export of agricultural products are the own funds of agricultural enterprises and producers, loans from commercial banks and funds provided by the state.

Due to the seasonal nature of the activities of agricultural producers and enterprises, their ability to finance the export of agricultural products will be limited. This necessitates the state's financial support of agricultural exports and loans from commercial banks.

A. The results of Uakhitjanova's research show that the amount of direct state subsidies to agriculture in the European Union, the United States and Norway plays an important role in financing the export of agricultural products. In terms of agricultural sectors, most of the subsidies in Canada, the United States and the European Union go to crop production, while in Norway and Switzerland to livestock<sup>16</sup>.

Indeed, subsidies make it possible to reduce the costs associated with the production of agricultural products. This will increase the competitiveness of exported agricultural products.

In a number of countries, including Russia and Uzbekistan, there are separate banks that finance the export of agricultural products. For example, Rosselkhozbank in Russia and Uzagroexportbank in Uzbekistan.

Uzagroexportbank was established by the Decree of the President of the Republic of Uzbekistan dated January 24, 2017 No. PP-2740 "On the establishment of a joint-stock commercial bank" Uzagroexportbank "and its main tasks are as follows:

- \* Attracting funds from individuals and legal entities in order to prioritize the financing of investment projects for the production and export of agro-industrial products, especially fruits and vegetables, as well as the development of relevant infrastructure;

- \* comprehensive provision of credit and settlement services to organizations of the agro-industrial sector and its infrastructure;

- \* Attracting funds from foreign investors, international financial institutions, foreign banks to finance agro-industrial organizations, developing direct cooperation with foreign partners;

- \* organization of a comprehensive marketing analysis and the formation of an information bank on the state of international markets and prospects for their development, export opportunities of domestic producers;

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<sup>16</sup> Uakhitjanova A.M. Finansirovanie selskogo hozyaystva Respubliki Kazakhstan: mechanism and puti sovershenstvovaniya. Diss. nor soisk. three. St. d.f.. – Nur-Sultan, 2019. – S. 35

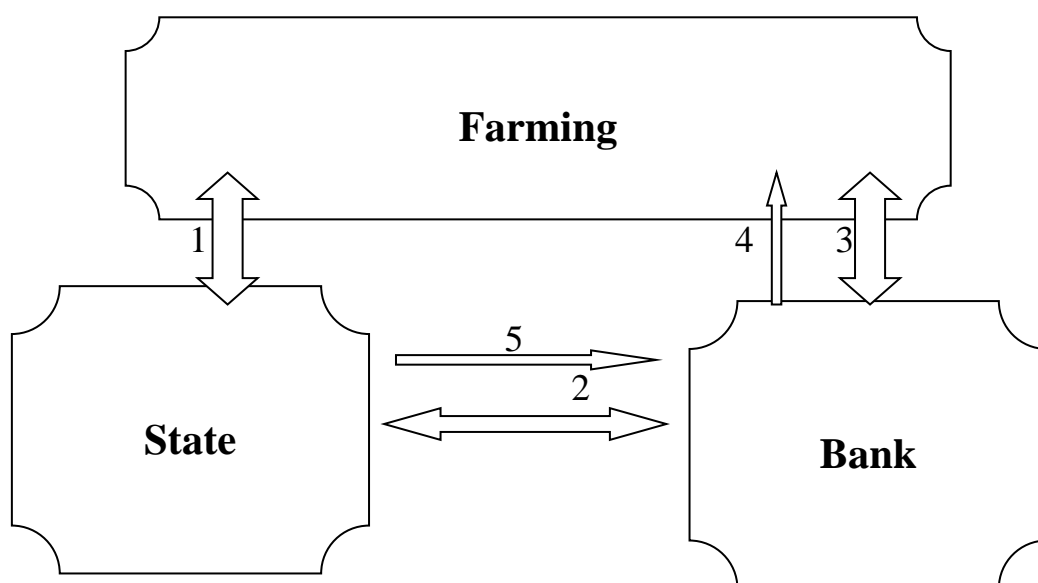
\* Active coverage of Uzbekistan's export potential through information, including active cooperation with foreign banks, international organizations, diplomatic and trade missions, as well as systematic access to international advertising and trade information networks;

\* Assistance to bank customers in developing strategies for the export of agro-industrial products, especially fruits and vegetables to international markets<sup>17</sup>

Loans from commercial banks are an important source of financing for agricultural exports.

The low level of profitability of farms prevents them from increasing their access to credit from commercial banks. This forces the state to intervene in the process of lending farms to commercial banks. In addition, the low level of profitability of farms and the seasonal nature of their activities have a negative impact on the liquidity and resource base of the banks that serve them.

In developed countries, the bonification method is widely used to finance agriculture.



**Figure 1.1. Farms by commercial banks credit procedure using the bonification method<sup>18</sup>**

Here:

- 1 - a contract is concluded between the state and the farm;
- 2 - an agreement is concluded between the state and the bank;
- 3 - a contract is concluded between the farm and the bank;

<sup>17</sup> Decision of the President of the Republic of Uzbekistan dated January 24, 2017 No. PQ-2740 "On the establishment of joint-stock commercial bank Uzagroexportbank"

<sup>18</sup> The picture was compiled by the author based on the study of advanced foreign experience

4 - the bank provides a loan to the farm;

5 - The state pays the bank the difference between the market rate of the loan and the preferential rate.

Lending to farms by the bonification method reduces the level of credit risk for banks by allowing them to reduce the costs associated with repaying loans.

In international banking practice, the following forms of loans from commercial banks are used to finance the export of agricultural products:

1. One-time lending from a separate loan account.
2. Lending by opening a credit line.
3. Overdraft lending.
4. Factoring form of lending.

When lending by opening a credit line, a commercial bank allocates a credit limit to an agricultural entity and sets a period. The main advantage of this form of lending is that the agricultural entity gets rid of the need to apply to the bank for a loan each time.

An overdraft loan is issued when there is a lack of funds in the current account of the agricultural enterprise. An overdraft loan is provided to agricultural entities that have a steady cash flow, but have a short-term cash shortfall in the main transaction account. The interest rate on an overdraft loan is usually higher than the interest rate on a term loan (because the level of credit risk in an overdraft is relatively high).

Overdraft loans are usually unsecured. This is because a commercial bank does not know in advance when and for what amount a cash shortage will occur on the transaction account of an agricultural enterprise or farm. Since overdraft loans are high-risk loans, they are first issued to agrarian sector entities with a high level of solvency; secondly, the bank requires the agrarian entity to provide the credit balance of the transaction account on the last working day of each month so that the overdraft debt does not pass to the next month.

According to D.Ignateva, one of the main issues in overdraft lending practice is the correct setting of the lending limit, and this limit should be set in relation to the average monthly net cash flowing into the customer's current bank account<sup>19</sup>. Here, D.Ignateva refers to the net cash inflow of the amount remaining on the client's current account for the last 3 months, minus the following:

- amount of loans received from banks;
- the amount of deposits withdrawn from banks;
- the amount of proceeds from conversion operations;

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<sup>19</sup> Ignateva D.A. Overdraft v praktike rossiiskix bankov//Finansy i kredit. - Moscow, 2002. - No. 23. - S. 30.

- proceeds from the sale of securities.

According to O. Lavrushin, such a form of overdraft lending, which has the property of payment, is issued to meet the short-term needs of customers belonging to the first class of creditworthiness<sup>20</sup>.

Here, O. Lavrushin implies that overdraft loans are given to customers with high solvency due to the high risk.

According to J. Sinki, overdraft credit plays an important role in ensuring the continuity of small businesses<sup>21</sup>.

According to Uzbek economist T. Bobakulov, in order to introduce and develop innovative credit products of commercial banks, such as overdraft and overdraft, it is necessary to abolish the procedure of collection of tax payments by state tax authorities without a certificate of reconciliation and in advance. This is due to the fact that in the case of a targeted sequence of payments, the right to collect and collect tax payments in advance without a certificate of reconciliation to the state tax service almost eliminates the possibility of overdraft and overdraft loans by commercial banks<sup>22</sup>. Guarantees of foreign banks on the quality of exported products play an important role in financing the export of agricultural products. This guarantee allows you to fully receive foreign exchange earnings for exported agricultural products. In addition, the payment of exported agricultural products through documented letters of credit provides a full guarantee of foreign exchange earnings. At present, the following forms and types of documented letters of credit are used to finance the export of agricultural products: –

Letter of credit forms:

- \* irrevocable letters of credit;
- \* unapproved letters of credit;
- \* uncovered letters of credit.
- types of letters of credit:
  - \* stand-by letter of credit;
  - \* letter of credit with a red border;
  - \* transferable letter of credit;
  - \* revolver letter of credit.

The subsidy method plays an important role in financing the export of agricultural products. Direct and indirect government subsidies for the costs

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<sup>20</sup> Lavrushin O.I. Credit overdraft. Banking case. Let's fly. Pod ed. prof. O. Lavrushina. - M.: KNORUS, 2016. - S. 417.

<sup>21</sup> Zinc Dj. Financial management in commercial banking and industrial financial management. Per. English - M.: Alpina Publisher, 2018. - S. 591.

<sup>22</sup> Current issues of development of banks' activities based on innovations Scientific bases and trends of innovative development of the economy of Uzbekistan//Proceedings of the scientific and practical conference of the Republic. - Tashkent, 2016. - P.86-87.

associated with the export of farm products are an important form of financial support for their activities. In the UK, for example, 50 per cent of farms' export-related costs are covered by the state. In Germany, Italy, Belgium and Ireland, farm export operations are insured by the state. In the European Union (EU) countries, large subsidies from the budget have been introduced for agricultural producers. In addition, subsidies will be provided to new EU members and low-yielding countries. In the Netherlands, for example, grain yields are significantly higher than in other EU countries, such as Poland.

It should be noted that the practice of financing the export of agricultural products is directly affected by the rate of devaluation of the national currency and the inflation rate. The high rate of devaluation of the national currency has a positive impact on the practice of financing agricultural products. In particular, as a result of devaluation, the national currency equivalent of foreign exchange earnings from agricultural exports will increase. High inflation has a negative impact on the practice of financing agricultural products. This is because inflation increases the cost of exported products and, as a result, reduces their competitiveness.

Prof. According to A.Vakhabov, "interest rates on investment loans provided by banks to small businesses to establish agricultural enterprises and firms specializing in the processing of agricultural products in rural areas should be bonified at the expense of the Fund for Reconstruction and Development of Uzbekistan."<sup>23</sup>

### **1.3 Foreign experience in improving the practice of financing the export of agricultural products and its application in the practice of Uzbekistan**

There is a large and rich experience in improving the practice of financing the export of agricultural products in developed countries and a number of developing countries. It is important to study this experience and assess the possibility of using it in the practice of the Republic of Uzbekistan.

Founded in 1862, the U.S. Department of Agriculture is the main institution implementing state agrarian policy.

At present, one of the priorities of US agricultural policy is to stimulate the export of agricultural products.

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<sup>23</sup> Vahabov A.V. The role of the banking system in raising the standard of living of the rural population//Proceedings of the international scientific and practical conference on the topic "The role of the banking and financial system in improving the standard of living of the rural population". - Tashkent: Finance, 2009. - B. 22.

According to the Law "On Development of Trade in Agricultural Goods and Food Assistance" adopted on July 10, 1954, incentives for the export of agricultural products are provided in the following three areas:

- Sale of American agricultural products to developing countries on favorable terms (for example, the sale of export loans at low interest rates for up to 30 years)<sup>24</sup>;
- provision of humanitarian food assistance to foreign countries in case of emergency;
- Free delivery of American food to poor countries.

It should be noted that the US Export-Import Bank (Eximbank) plays a significant role in financing exports in the United States, including agricultural exports.

Founded in 1934, the U.S. Eximbank provides export credits to the country's exporters, guarantees loans to exporters by commercial banks, and insures export credits<sup>25</sup>.

**Table 1.1**

**Instruments of financial support for the export of agricultural products  
in developed countries** <sup>26</sup>

№	Instruments	Countries
1	Tax benefits	European Union countries, USA
2	Trade and credit financing	EU countries, USA, Japan, South Korea
3	Insurance	USA, UK, Japan, France, Germany
4	Direct export subsidies	USA, Japan, Germany
5	Interest subsidy on export loans	Germany, Italy, the Netherlands, the United Kingdom, Japan
6	Issuance of tax deductions in the production of exported goods from imported components	Germany, USA, South Korea

Table 1.1 shows that a number of financial instruments are used in financial incentives by the state for the export of agricultural products in developed countries.

Export credits of commercial banks play an important role in the system of financing the export of agricultural products in developed countries.

<sup>24</sup> Agriculture Glossary. House Committee on Agriculture/<http://agriculture.house.gov/info/glossary/p.htm>

<sup>25</sup> The Export-Import Bank of the United States. [www.exim.gov](http://www.exim.gov)

<sup>26</sup> The table was compiled by the author based on information from the website [www.fso.org](http://www.fso.org) (Food and Agriculture Organization of the United Nations)



In the United States, part of the interest rate on farm loans provided by commercial banks is subsidized by public funds. In addition, commercial banks that provide deposit, credit and settlement services to farms have the right to provide loans for up to 40 years, securing farmers' land and buildings<sup>27</sup>.

Below we analyze the export lending practices of Rabobank, the main bank providing financial services to agriculture in the Netherlands<sup>28</sup>.

**Table 1.2**

**Indicators characterizing the practice of Rabobank (Netherlands)  
lending to agriculture and agricultural exports<sup>29</sup>**

Indicators	2017 year.	2018 year	2019 year.
Loans - total, billion euros	432,6	454,5	469,8
Including:	97,8	103,1	107,2
- Loans to agriculture, bln. euro	22,6	22,7	22,8
The share of agricultural loans in gross loans, %	5,7	6,4	7,1

The data in Table 1.2 show that in 2017-2019, the amount of loans issued by Rabobank and the amount of loans issued to agriculture had an upward trend.

The data in Table 1.2 show that the share of loans to agriculture in gross loans in 2017-2019 remained high and stable. This is a positive development in terms of the development of agricultural lending.

The data in Table 1.2 show that in 2017-2019, the share of loans for the export of agricultural products in the total volume of loans to agriculture increased. This is a positive development in terms of improving the practice of financing the export of agricultural products.

The fact that commercial banks in developed countries have sufficient resource base and liquidity makes them fully able to lend to agricultural producers. In particular, the introduction of the Basel-III standard in the banking practices of the United States, Japan and Europe, which includes the new requirements of the Basel Committee on Banking Supervision, has further increased the liquidity of commercial banks and strengthened the resource base. It was the introduction of the liquidity ratio that allowed banks to increase their liquidity, while the introduction of the net sustainable financing ratio helped to strengthen the resource base of banks.

<sup>27</sup> Sinky Dj. Financial management in commercial banking and industrial financial management. Per. English - M. Alpina Publisher., 2017. - S. 596-597.

<sup>28</sup> Scott J.A., Dinkelberg W.C., Dennis W.J. Credit, Banks and Small Business – the New Century – Washington: NFIB Research Foundation, 2003. – 96 p

<sup>29</sup> The table was compiled by the author based on the information from [www.rabobank.com](http://www.rabobank.com) (Sustainability facts and figures)..

It should be noted that in developed countries, central banks provide discount loans to commercial banks that provide financial services to agriculture and conduct open market operations with them to ensure their liquidity. The relatively low level of profitability of farms, the dependence of their cash flow stability on seasonal factors affect the liquidity of banks providing them with financial services and the stability of the resource base. Therefore, if their activities are not supported by the monetary policy instruments of the central banks, they will not be able to meet the demand for financial services of agricultural producers and enterprises.

In addition, the payment of part of the interest rate on loans to agricultural entities by the state to banks, on the one hand, will increase the level of loan repayment, on the other hand, will have a positive impact on the financial condition of these entities.

In the European Union, the financing of agriculture from the budgets of its member states and from centralized funds includes:

- \* Expenditures on the budgets of the EU, Ministries of Agriculture and other ministries;

- \* tax benefits;

- \* budget expenditures related to the financing of social security of farmers.

This is due to the fact that the governments of the eurozone countries are limited to the upper limit of the state budget deficit (3% of GDP), which allows them to maintain their ability to subsidize agriculture. Most developing countries have budget deficits. That is, the level of the budget deficit is higher than GDP. This does not allow them to adequately subsidize agriculture.

In the EU, two prices, namely targeted and targeted, are widely used to support farmers through prices. Target prices are acceptable wholesale prices of goods that are in short supply in EU markets. By installing it, the optimal market prices of these goods will be determined. In some cases, targeted assessments are used instead of targeted assessments. Targeted prices are calculated for almost all types of agricultural products and are intended to target producers and consumers. These estimates are also used as a basis for setting other guaranteed prices. If the current market price is lower than the target price, then intervention prices are used. Intervention estimates are typically 15-25% lower than targeted estimates.

One of the main institutions in the Russian Federation that implements the state policy to support exporting companies is the Russian Export Center JSC. On the basis of this Center, a system of export promotion and its financial and non-financial coordination has been created. The participants in this system are the Russian Export and Investment Insurance Agency and Roseksimbank.

In 2015-2017, the Center will provide 12 billion soums to 6,600 enterprises. A state grant of US \$ 1 million was made<sup>30</sup>.

In order to increase the volume of export loans issued by commercial banks to exporting enterprises in Russia, the practice of issuing export loans has been supplemented by letters of credit, discounting and factoring. The maximum amount of funding for export projects is 7 billion soums. 15 billion rubles rubles<sup>31</sup>.

It is important to note that the letters of credit used in the practice of export lending in Russia are unsecured letters of credit, and the foreign exchange funds belonging to exporting companies do not leave their business turnover. In addition, there is a state guarantee on these letters of credit.

Discounting allows exporting enterprises to increase the level of cash flow stability. This is because exporting companies can have cash by selling commodity documents or promissory notes to a commercial bank for a certain discount. In Russia, the use of both conditions of factoring operations is allowed. That is, brand documents can be purchased with and without the right of regression. It should be noted that if the goods are purchased by the bank with the right of recourse, the commercial bank retains the right to recover the loan from the exporter in the event of insolvency of the importer. If the goods are purchased by the bank without the right of recourse, if the importer becomes insolvent, the commercial bank will not have the right to recover the loan from the exporter, and the damage will remain with the bank. It should be noted that Russia has developed a national project "Export of agro-industrial complex products. " Under the project, 350 billion soums will be allocated to financially support the export of agricultural products. rubles allocated. Through the implementation of this project, by 2024 the export of agricultural products will reach 45 billion. It is planned to deliver in US dollars. The main part of these funds, ie 290 bln. rubles for the export of new goods through soft loans and land reclamation<sup>32</sup>. In our opinion, in order to use the best foreign experience in improving the practice of financing the export of agricultural products in the practice of the Republic of Uzbekistan, the following measures should be taken:

1. It is necessary to introduce a procedure for state subsidization of 50% of interest rates on loans issued by commercial banks of the Republic of Uzbekistan to finance the export of agricultural products.

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<sup>30</sup> Godovoy ochet 2017 JSC "EKSAR" "Ob'edinyaem luchshix" URL: <https://www.2017.exportcenter.ru/eksar> (data obrashcheniya: 25.05.2019).

<sup>31</sup> Postanovlenie Pravitelstva RF ot 16.06.2018 No. 692 "Ob izmeneniyax v ryadke subsidirovaniya protsentnyx stavok po eksportnym kreditam". URL: <http://www.government.ru/docs/> (data obrashcheniya: 01.06.2019).

<sup>32</sup> Mironova V.N. Rol gosudarstva v prodvizhenii eksporta promyshlennoy i selskohozyaystvennoy produktsii, konkurentosposobnoy na medunarodnyx rynkax//Ekonomika i upravlenie. - Moscow, 2019. - No. 4. - S. 50-59

As a result of the implementation of this proposal, first, the level of access of agricultural exporters to loans from commercial banks will increase; second, the amount of sources of financing the export of agricultural products will increase; third, it will increase the competitiveness of exported agricultural products in the price struggle.

In turn, commercial banks must have sufficient resource base and liquidity to fully meet the demand for loans to finance the export of agricultural products and ensure the continuity of lending.

2. In order to improve the insurance of agricultural exports:

first, it is necessary to expand the use of mutual insurance instruments. This is because this instrument reduces the costs associated with insuring agricultural products.

Second, given the low level of profitability of farms, part of the costs associated with the export of their products should be paid from the state budget.

Thirdly, the following conditions should be used in the export of agricultural products, which allow the importer to bear the insurance costs of delivery of goods:

- \* EX (Wex Works) - Franco factory;
- \* DAF (Delivered at Frontier) - Delivery at the border;
- \* DDU (Delivered Duty Unpaid) - Delivery duty free.

EX (Wex Works) - Under the terms of the factory, the exporter delivers the goods to the buyer (importer) at his factory, and thus his obligation is considered fulfilled.

The importer draws up customs documents, assumes all costs and risks.

DAF (Delivered at Frontier) - On the condition of delivery to the border, the exporter delivers the goods at the discretion of the buyer, to the agreed exact address, with customs clearance.

DDU (Delivered Duty Unpaid) - The exporter is obliged to deliver the goods at the discretion of the buyer at the agreed address, subject to delivery without payment of customs duties. However, the importer-seller is not obliged to complete the customs documents associated with the importation of the goods and unload the goods. Exporting the goods out of the country is the responsibility of the exporter.

## Conclusions on the first chapter

The following conclusions can be drawn from the first chapter:

1. The results of the analysis of scientific and theoretical views on financing the export of agricultural products showed that:

In international practice, there are three forms of specific subsidies:

- \* specific subsidies provided directly;
- \* indirect specific subsidies;
- \* combined specific subsidies;

- In recent years, the rapid growth of the total volume of international trade in agricultural products is observed within the regional communities, and therefore they should focus on financing international trade in regional communities in financing international trade in agricultural products;

- Subsidizing the costs of transportation in the export of grain does not solve the problem of ensuring efficiency in terms of supporting the income of grain growers, because the reduction in the price of grain reduces the level of income of growers;

- Financing of agriculture from the state budget is an integral part of agricultural financing;

- A necessary condition for ensuring the effectiveness of lending to agricultural exports is the state repayment of part of the percentage of loans issued by commercial banks to finance exports;

- High interest rates on loans from commercial banks hinder the increase in the use of these loans by farms;

- The main purpose of taxation in developed countries is to create a relatively favorable environment for the development of the agricultural sector, as this sector is considered a weak sector of the economy;

- Due to the low level of financial independence of agricultural enterprises, the role of external sources (bank loans, targeted government loans, debt financing, subsidies) in financing their activities is significant;

- support agricultural exports not only through subsidies, but also through the introduction of additional taxes and levies on agricultural entities that have large areas of land and property and do not use them for their intended purpose;

- Areas of improvement of export financing are:

\* export financing should be based on a system that includes public and private capital;

\* strengthening cooperation with international economic organizations;

\* creation of an institute of information and consulting support for exporters;

\* establishment of an export credit insurance agency;

\* subsidizing transportation costs of exporters;

- In order to improve the practice of lending to foreign trade activities of small businesses (including small businesses operating in the agricultural sector), it is necessary to introduce the payment of their payments through documentary letters of credit at the expense of term and overdraft loans of commercial banks;

- To ensure the continuity of financing the export of agricultural products, the following conditions must be met:

- \* foreign exchange earnings for exported agricultural products must be fully guaranteed;

- \* banks must have an adequate resource base;

- \* Revenues in the state budget should be sufficient to ensure the provision of subsidies through the state budget;

- The results of the study of best international practices show:

- \* In 2017-2019, the amount of loans issued by Rabobank and the amount of loans issued to agriculture had an upward trend;

- \* The fact that the share of loans to agriculture issued by Rabobank in 2017-2019 in the volume of gross loans remained high and stable is a positive situation in terms of the development of agricultural lending;

- \* The fact that in 2017-2019 Rabobank has a tendency to increase the share of loans for the export of agricultural products in the total volume of loans to agriculture is a positive situation in terms of improving the practice of financing the export of agricultural products.

## **CHAPTER II. CURRENT STATUS OF PRACTICE OF FINANCING OF EXPORTS OF AGRICULTURAL PRODUCTS IN THE REPUBLIC OF UZBEKISTAN**

### **2.1 Regulatory framework for the practice of financing the export of agricultural products**

The primary basis of the practice of financing the export of agricultural products is its regulatory framework.

In accordance with the Resolution of the President of the Republic of Uzbekistan dated July 29, 2019 No PP-4406 "On additional measures for deep processing of agricultural products and further development of the food industry", from August 1, 2019 Reimbursement of expenses by the Export Promotion Agency of the Ministry of Investment and Foreign Trade of the Republic of Uzbekistan in accordance with the substantiated calculations of the Agency "Uzstandard"; At the expense of the State Fund for Entrepreneurship Development under the Cabinet of Ministers of the Republic of Uzbekistan in the national currency in the amount of not more than 10 billion soums, On loans attracted by the Central Bank of the Republic of Uzbekistan at the interest rate not exceeding 1.5 times the refinancing

rate - in the amount of 5% points; for loans in foreign currency, the value of which does not exceed 10 billion soums - 40 percent of the interest rate set by commercial banks, but not more than 4 percent<sup>33</sup>. In accordance with the Regulation "On the procedure for export of fruits and vegetables", approved by the Cabinet of Ministers of the Republic of Uzbekistan dated February 23, 2019 No 163:

- Business entities have the right to export fruits and vegetables without a wholesale license. In this case, the procedure of taxation, which provides for the payment of a single tax on export earnings of individual entrepreneurs, is applied;

- exporting legal entities have the right to export fruits and vegetables without down payment, without opening a letter of credit, without a bank guarantee and without an insurance policy against commercial risks;

- from the date of registration of the customs cargo declaration on export operations, the term of occurrence of overdue receivables is set at 120 calendar days for fruit and vegetable products;

- Exporters have the right to export fruits and vegetables on the basis of invoices to the accounts of commercial banks of the Republic of Uzbekistan on the basis of invoices without concluding an export contract, subject to 100% prepayment by non-residents of the Republic of Uzbekistan in foreign currency has<sup>34</sup>

According to the Central Bank of the Republic of Uzbekistan dated February 22, 2001 No 464 "Procedure for microcrediting of farms and other small businesses operating in the legal status of commercial entities in national and foreign currencies":

- micro-firms, small enterprises, farmers and farms with the status of legal entities will be provided with loans in national or foreign currency for a period of three years in the amount not exceeding the equivalent of 10 thousand US dollars for the development of production and creation of new jobs;

- up to 50% of these loans are issued in cash, subject to repayment for up to one and a half years for the purchase of livestock, poultry and seedlings from the population;

- Commercial banks can also provide reliable microcredits without requiring collateral to borrowers who have a constant connection with them, have a regular cash flow in the bank account, have a good reputation and credit history;

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<sup>33</sup> Decision of the President of the Republic of Uzbekistan dated July 29, 2019 No. PQ-4406 "On additional measures for deep processing of agricultural products and further development of the food industry"//National database of legal documents, 31.07.2019, 07 No. /19/4406/3496

<sup>34</sup> Resolution No. 163 of the Cabinet of Ministers of the Republic of Uzbekistan dated February 23, 2019. On the approval of the regulation "On the procedure for exporting fruit and vegetable products" // National database of legal documents, 25.02.2019, No. 09/19/163/2663

- The procedure for consideration of loan applications submitted to the bank by entrepreneurs who do not have the status of a legal entity within a period not exceeding 5 working days, consideration of a loan application submitted by entrepreneurs with the status of a legal entity within 10 working days<sup>35</sup>.

According to the Resolution of the President of the Republic of Uzbekistan dated February 28, 2018 No PP-3574 "On measures to radically improve the system of financing the cultivation of raw cotton and grain":

- From March 1, 2018, guaranteed state prices will be set for the purchase of raw cotton and grain;

- indebtedness of cotton and grain farms to service organizations (as of 01.01.2018), including domestic debt and repayment of debts to the budget and state trust funds, excluding penalties and fines, 3 extended for a period of one year;

- The Fund for Targeted Financing of Public Procurement of Agricultural Products and Agricultural Equipment under the Cabinet of Ministers of the Republic of Uzbekistan was transformed into the Fund for State Support of Agriculture;

- The Ministry of Finance of the Republic of Uzbekistan has been instructed to place a deposit of 150 billion soums at a rate of 5% per annum within a week to provide loans to JSC "Agrobank" in excess of the amount of public procurement<sup>36</sup>.

Ensuring the implementation of this Resolution should increase the profitability of agricultural producers and stimulate the production of high quality products.

In accordance with the Resolution of the President of the Republic of Uzbekistan dated August 11, 2020 No PP-4803 "On measures to implement the project" Modernization of Agriculture of the Republic of Uzbekistan "with the participation of the International Bank for Reconstruction and Development and the International Development Association:

- On March 20, 2020, the Board of Directors of the World Bank will provide the Republic of Uzbekistan with a 30-year period for financing the project "Modernization of Agriculture of the Republic of Uzbekistan":

\* \$ 181 million loan from the International Bank for Reconstruction and Development with a 10-year grace period;

\* A \$ 100 million loan from the International Development Association with a 10-year grace period;

\* Approval of the International Development Association's concessional loan of \$ 219 million with a 5-year grace period;

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<sup>35</sup> Banking legislation. Regulatory documents. [www.cbu.uz](http://www.cbu.uz) (Central Bank of the Republic of Uzbekistan).

<sup>36</sup> Decision of the President of the Republic of Uzbekistan dated February 28, 2018 No. PQ-3574 "On measures to fundamentally improve the financing system for the cultivation of raw cotton and grain." [www.lex.uz](http://www.lex.uz)



- The total cost of the project is 659.3 million US dollars, of which the share of the Republic of Uzbekistan - 159.3 million US dollars, including:

- \* tax and customs benefits, the share in the form of payment of financial expenses during the investment period - 124.3 million US dollars;

- \* The share of project participants (beneficiaries) is the equivalent of 35 million US dollars;

- It was agreed that the project implementation period will be 6 years (2020 - 2026).

The following are the priorities of financing under the project "Modernization of Agriculture of the Republic of Uzbekistan":

- \* creation of an effective system of research, education and consulting services in agriculture, integrated with production;

- \* introduction of reliable and transparent methods of digitization of agriculture, collection, analysis and dissemination of statistical data;

- \* Ensuring food safety and strengthening quality control in the cultivation of agricultural products on the basis of the principle "From field to consumption", the creation of agro-logistics, roads and other necessary infrastructure;

- \* creation of a favorable agribusiness environment and value chain for the promotion of exports, the production of competitive, export-oriented high value-added agricultural products in international markets;

- \* Diversification of the agricultural and food sectors, reduction of state participation in the sector, development of cooperation and increasing the investment attractiveness of the industry;

- \* rational use of land and water resources, forest resources;

- \* introduction of modern management systems in the industry, improvement of service<sup>37</sup>.

It is noteworthy that the important regulatory framework of the practice of financing the export of agricultural products in the country are the financial terms and generalized rules of international settlements, developed by the International Chamber of Commerce.

Currency terms of international trade agreements:

1. Contract price.

This is the amount of money that the buyer of the goods has to pay to the seller of the goods and is denominated in a particular currency.

Fixed and variable prices are widely used in international trade:

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<sup>37</sup> Decision of the President of the Republic of Uzbekistan dated August 11, 2029 No. PQ-4803 "On measures to implement the project "Modernization of agriculture of the Republic of Uzbekistan" with the participation of the International Bank for Reconstruction and Development and the International Development Association"/>[www.lex.uz](http://www.lex.uz)

Strict valuation - is set at the time the contract is entered into and does not change until the contract is executed.

Variable price - is determined at the time of conclusion of the contract, and it changes if its market price changes at the time of delivery of the goods.

Typically, contracts allow fluctuations in market prices from the contract price of the commodity at the level of 2-5%.

The prices published in the special newsletters reflect the world prices.

World prices are the export prices of the main exporters in the world commodity markets and the import prices of the importers. For example, world prices for aluminum and wheat are Canada's export prices. The world price of rubber is the price of the Singapore Stock Exchange, the world price of tea is the price of auctions in Calcutta, Colombo and Dondon, the world price of oil is the price of the London Stock Exchange.

## 2. Discounts.

About 20 discounts are applied in international trade.

Discounts are given from 2% to 40% of the price of goods, depending on the type.

For example, up to 15% discount on off-season sales of mineral fertilizers.

## 3. Payment currency.

This is the currency in which the payment is made and may not correspond to the valuation currency of the contract.

## 4. Payment term.

## 5. Currency pisandasi (ogovorka).

This is one of the forms of currency risk insurance and is applied when the valuation currency does not match the valuation currency.

Currency lending is one-way and two-way.

Financial terms of international trade agreements:

### 1. Terms of calculation.

\* full payment;

\* advance payment;

\* late payment.

### 2. Forms of calculation

### 3. Procedure for payment of bank expenses.

### 4. Financial responsibility of the parties.

Documented letters of credit documented by the International Chamber of Commerce in 1930 developed international generalized rules and customs. This international document regulates all issues related to documented letters of credit and is called the UCP-500 standard. In 2007, the International Chamber of Commerce developed a new standard for documented letters of credit - UCP-600.

In accordance with the UCP-600 standard, the following forms of documented letters of credit are available:

- \* revocable letters of credit;
- \* irrevocable letters of credit;
- \* approved letters of credit;
- \* unapproved letters of credit;
- \* covered letters of credit.

According to the UCP-600 standard, there are the following types of documented letters of credit:

1. Stand-by letter of credit.
2. Revolving letter of credit.
3. Letter of credit with a red border.
4. Transit letter of credit.
5. Transferable letter of credit.

## **2.2 Current state of financing the export of agricultural products**

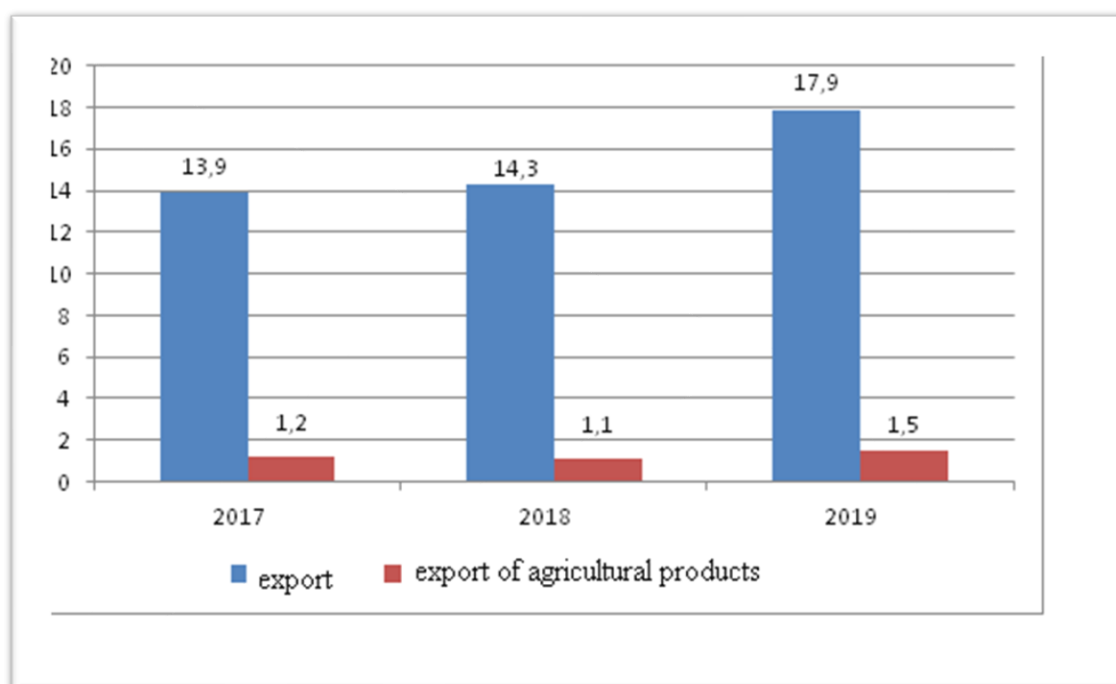
At the end of 2019, the foreign trade turnover of the Republic of Uzbekistan amounted to 42.2 billion soums. USD. This is 8.7 billion more than in 2018. USD or 26.2% more.

The country's foreign trade turnover amounted to 17.9 billion soums. USD (growth rate - 128.0%) and the volume of imports amounted to 24.3 bln. USD (growth rate - 124.9%). In the period of 2019, 6.4 billion. The passive foreign trade balance was recorded in US dollars<sup>38</sup>.

Exports of agricultural products are an important component of the country's exports and play an important role in increasing the country's export potential.

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<sup>38</sup> www.stat.uz (State Statistics Committee of the Republic of Uzbekistan).



**Figure 2.1. The volume of exports and agricultural exports in the Republic of Uzbekistan, bln. U.S. dollars**

Figure 2.1 shows that in 2017-2019, the volume of exports of the Republic of Uzbekistan had a growing trend. However, the volume of agricultural exports was volatile. In 2018, the volume of exports of agricultural products decreased significantly compared to 2017.

In 2019, the share of goods in the structure of exports of the republic will be 80.1%, they are mainly precious metals (including silver 28.2%), energy carriers and petroleum products (14.1%), textiles (9.1%), food. -food products (8.5%, most fruits and vegetables - 6.7%), non-ferrous metals and metal products (5.3%) and chemical products and articles (4.9%). Differences in the direction of exports to the CIS and other countries are observed at 29.1%. In particular, services accounted for 80% of exports to the CIS countries, followed by energy and oil products (mainly natural gas), as well as fruits and vegetables and textiles<sup>39</sup>. In the practice of financing the export of agricultural products in the Republic of Uzbekistan, the main role is played by loans from commercial banks.

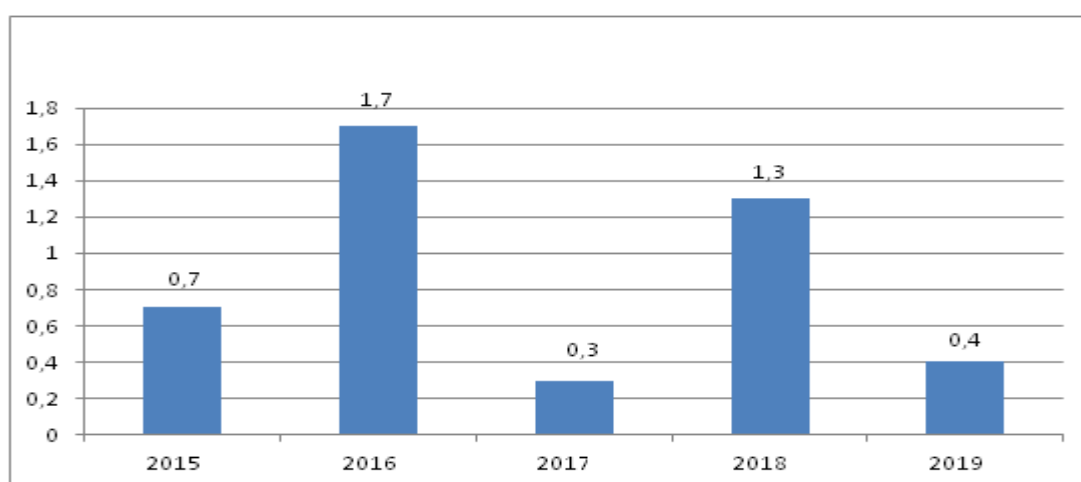
In the country, financial services to the agricultural sector are provided mainly by Joint-Stock Commercial Agrobank and Uzagroexportbank.

<sup>39</sup> Foreign economic activity. [www.stat.uz](http://www.stat.uz) (State Statistics Committee of the Republic of Uzbekistan).

**Table 2.1****Network structure of the loan portfolio of JSC "Agrobank"<sup>40</sup>**

	2015 y.	2016 y.	2017 y.	2018 y.	2019 y.
Industry	26,55	28,05	20,75	7,66	22,15
Agriculture	42,26	39,14	48,53	33,47	36,18
Transport and communication	0,59	1,99	1,18	0,36	0,66
Construction	1,26	1,23	5,72	0,32	1,30
Trade and social services	1,98	1,36	0,65	0,97	1,18
Logistics	4,92	3,46	0,80	20,63	8,84
Housing and communal services	0,0	0,0	0,0	0,53	1,19
Other sectors	22,44	24,77	22,37	36,06	28,50
Loans - total	100,0	100,0	100,0	100,0	100,0

The data presented in Table 2.1 show that in 2015-2019, the first place in the share of Agrobank in the loan portfolio was occupied by loans to agriculture. This is explained by the fact that Agrobank is a bank specializing in agricultural lending. The data in Table 2.1 show that the share of loans to agriculture in the loan portfolio of Agrobank in 2019 decreased significantly compared to 2015. This is explained by the increase in the share of loans to logistics and other sectors in the loan portfolio of Agrobank during this period. Using the data in the figure below, we assess the level of loans provided by Agrobank to finance the export of agricultural products<sup>41</sup> (Figure 2.2).



**Figure 2.2. The share of loans to finance agricultural exports in the loan portfolio of Agrobank, as a percentage<sup>41</sup>**

<sup>40</sup> The table was compiled by the author based on the balance sheet data of JSC "Agrobank".

<sup>41</sup> The picture was compiled by the author based on the balance sheet data of JSC "Agrobank".

The data shown in Figure 2.2 show that in 2015-2019, loans issued to finance the export of agricultural products accounted for a very small share in the loan portfolio of Agrobank. Moreover, this figure decreased in 2019 compared to 2015. This is a negative situation in terms of improving the practice of financing the export of agricultural products.

The increase in the volume of loans issued by Agrobank to finance the export of agricultural products directly depends on the level of interest rates on loans issued by Agrobank in national and foreign currencies. This is because the ability of farms and agricultural enterprises to repay loans depends on the difference between the interest rate on loans and their level of profitability.

**Table 2.2**

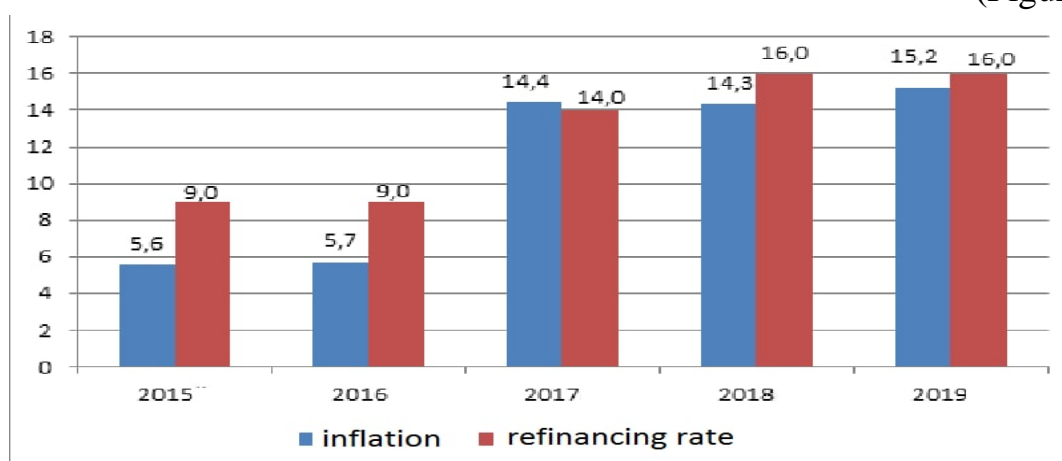
**Average annual interest rates on loans of JSC "Agrobank" to legal entities in the national currency and in US dollars фонда<sup>42</sup>**

Loans	2015 y.	2016 y.	2017 y.	2018 y.	2019 y.
Average annual interest rate on loans in national currency	13,5	14,3	16,2	17,7	23,0
Average annual interest rate on loans in US dollars	7,6	8,1	8,7	9,1	12,5

The data in Table 2.2 show that in 2015-2019, the average annual interest rate on loans issued by Agrobank to legal entities in the national currency and in US dollars had an upward trend. This is explained by the following reasons:

1. High inflation rate and high central bank refinancing rate in recent years

(Figure 2.3).



**Figure 2.3. Annual inflation rate in the Republic of Uzbekistan and the annual refinancing rate of the Central Bank, %<sup>43</sup>**

<sup>42</sup> The table was compiled by the author based on the balance sheet data of JSC "Agrobank".

The data shown in Figure 2.3 show that in 2017 the inflation rate in the country increased sharply compared to previous years, and this high level was maintained in 2018 and 2019. This is forcing commercial banks to raise interest rates on loans.

The data shown in Figure 2.3 show that in 2017, the refinancing rate of the Central Bank of the Republic of Uzbekistan increased by 5 percentage points compared to the level of 2016. This is explained by the sharp rise in inflation in 2017. In turn, the sharp increase in the Central Bank's refinancing rate gave a strong impetus to the increase in interest rates on loans from commercial banks.

According to the official data of the Central Bank of the Republic of Uzbekistan, "In 2019, the growth rate of aggregate demand exceeded the growth rate of production, which created inflationary pressure on the economy. At the same time, demand that was not met by domestic supply was offset by imports. This, in turn, strengthened the demand for foreign currency in the second half of the year, putting pressure on the exchange rate. While high demand remained, the increase in the exchange rate intensified inflationary processes in the domestic market. In 2019, the inflation rate fluctuated in different directions. In particular, in the first half of the year, inflation fell and remained stable at 13-13.5% per annum, while in August the inflation rate was the highest for the year (16.5%) due to rising energy prices and the acceleration of the devaluation of the national currency<sup>44</sup>.

2. Agrobank is setting a higher spread than loans attracted through foreign credit lines.

**Table 2.3**

**Terms of loans provided by JSC "Agrobank" at the expense of the credit line of the Turkish bank "Ziraat"<sup>45</sup>**

The purpose of the loan	Financing of projects aimed at processing of agricultural products and agricultural products
Loan term	5 years (with a grace period of up to 12 months)
Interest on the loan	6 months Libor + 8.75%
Loan amount	In the amount of the credit line agreement
Initiative participation in the project	For existing enterprises, the share of project initiators in the project should not be less than 25 percent.
Equipment to be purchased	Must be manufactured in Turkey

<sup>43</sup> The image was compiled by the author from the site [www.cbu.uz](http://www.cbu.uz) (Central Bank of the Republic of Uzbekistan).

<sup>44</sup> Report on the activities of the Central Bank of the Republic of Uzbekistan in 2019 (B.28). [www.cbu.uz](http://www.cbu.uz) (Central Bank of the Republic of Uzbekistan).

<sup>45</sup> [www.agrobank.uz](http://www.agrobank.uz) (Joint-trade "Agrobank").

From the data in Table 2.3, it can be seen that the interest rate on loans issued by Ziraat Bank's credit line is significantly higher. This has a negative impact on the efficiency of the use of these loans.

Interest rates of commercial banks are their price. Therefore, the higher the interest rates on loans, the lower the efficiency of their use. This means that the risk levels of loans at higher interest rates will also be relatively high.

Loans from the credit line of Ziraat Bank are long-term, with a grace period of up to 12 months. However, the high interest rate on the loan prevents the efficiency of using the grace period.

**Table 2.4**

**Terms of investment loans provided by JSC "Agrobank" for the implementation of investment projects of agricultural producers<sup>46</sup>**

Objectives of the loan	Procurement of high-tech equipment for modernization and technological re-equipment of production and services
Loan terms	Up to 5 years
Interest on the loan	It is determined in the amount not less than the refinancing rate of the Central Bank of the Republic of Uzbekistan or based on the price of the allocated loan source.
Documents to be submitted for a loan	1. Application
	2. Business plan
	3. Constituent documents
	4. Contract documents
	5. Financial statements
	6. Credit security
	7. Depending on the importance of the project, additional permits may be provided.

Table 2.4 shows that long-term loans provided by Agrobank to finance investment projects of agricultural producers are issued for technical and technological re-equipment of their activities.

Table 2.4 shows that the interest rates on long-term loans provided by Agrobank to finance investment projects of agricultural producers are determined depending on the refinancing rate of the Central Bank of the Republic of Uzbekistan and the market rate of foreign currency loans (LIBOR). In this regard, there are two risks in lending to agricultural producers: the first is the risk of the Central Bank exceeding the refinancing rate; the second is the risk of exceeding the LIBOR rate.

<sup>46</sup> [www.agrobank.uz](http://www.agrobank.uz) (Joint-trade "Agrobank").



From January 1, 2020, the basic interest rate will be implemented at the current level of the refinancing rate - 16%. This rate is the basis for setting interest rates on monetary operations carried out by the Central Bank<sup>47</sup>. However, changes in these rates remain directly related to inflation.

Indicators of the interbank money market in the Republic are calculated on the basis of the rates of operations in the money market in the following standard terms:

- 1 day;
- 2 to 7 days;
- 8 to 30 days;
- 31 to 90 days;
- 91 to 180 days;
- 181 days to 1 year.

The British Banking Association - Thomson Reuters - will call 16 Prime banks at 11.30 am London time to ask them for interest rates on their bids for a period of 1 month to 1 year. The 4 highest and 4 lowest interest rates are subtracted. The LIBOR rate is determined by the arithmetic mean method for the remaining interest rates.

## 2.5 - table

### **Terms of investment loans provided by JSC "Agrobank" at the expense of the Fund for Reconstruction and Development of Uzbekistan (for small industrial zones)<sup>48</sup>**

The purpose of the loan	Procurement of equipment and technology from abroad for investment projects of enterprises and organizations operating in small industrial zones
Loan term	10 years (with a grace period of 3 years)
Interest on the loan	6 months Libor + 2%
Loan amount	Up to 50% of the cost of investment projects in the leather, footwear, pharmaceutical and electrical industries
	Up to 60% of investment projects aimed at establishing cotton-textile clusters producing finished products
	Up to 15 percent of investment projects focus on weaving, processing and sewing
	Up to 10% of the cost of investment projects for the production of cotton yarn

<sup>47</sup> Report on the activities of the Central Bank of the Republic of Uzbekistan in 2019 (B.77). [www.cbu.uz](http://www.cbu.uz) (Central Bank of the Republic of Uzbekistan).

<sup>48</sup> [www.agrobank.uz](http://www.agrobank.uz) (Joint-trade "Agrobank").

JSC "Agrobank" also actively uses the funds of the Fund for Reconstruction and Development of Uzbekistan in providing investment loans. Long-term loans from commercial banks will allow to modernize, technically and technologically re-equip the activities of agricultural producers and enterprises. However, for this to happen, first of all, agricultural producers and enterprises must be able to pay; second, commercial banks must have a sufficiently long-term resource base; third, banks need to be sufficiently liquid

According to Table 2.5, loans from Agrobank at the expense of the Fund for Reconstruction and Development of the Republic of Uzbekistan are issued to entities operating in small industrial zones and in the light industry, pharmaceuticals, electrical engineering.

Today, Agrobank is working to attract credit lines from the Islamic Corporation for the Development of the Private Sector to finance investment projects of small businesses. Significantly, the loans of this Corporation are interest-free, and the efficiency of their use is likely to be high.

Agrobank is also working to attract long-term investment loans from the State Development Bank of China.

**Table 2.6**

**Sectoral and reproduction structure of loans issued by Agrobank in foreign currencies (thousand US dollars), as of December 31, 2019<sup>49</sup>**

Purpose	Number Sum ulushi	Number Sum ulushi	Number Sum share
	14	5 354	5,3
Service	12	21 531	21,5
Textile industry	11	13 709	13,7
Food industry	12	9 020	9,0
Production	4	2 450	2,4
Poultry	8	6 048	6,0
Construction industry	5	7 600	7,6
Hygiene products	2	2 105	2,1
Storage of agricultural products	1	1 606	1,6
Equipment for ginnery	1	76	0,1
Agricultural machinery	4	20 836	20,8
Replenishment of working capital	1	9 760	9,8
<b>Total</b>	<b>75</b>	<b>100 094</b>	<b>100</b>

Table 2.6 shows that the main part of the number and amount of loans issued by Agrobank in foreign currencies was given to two sectors:

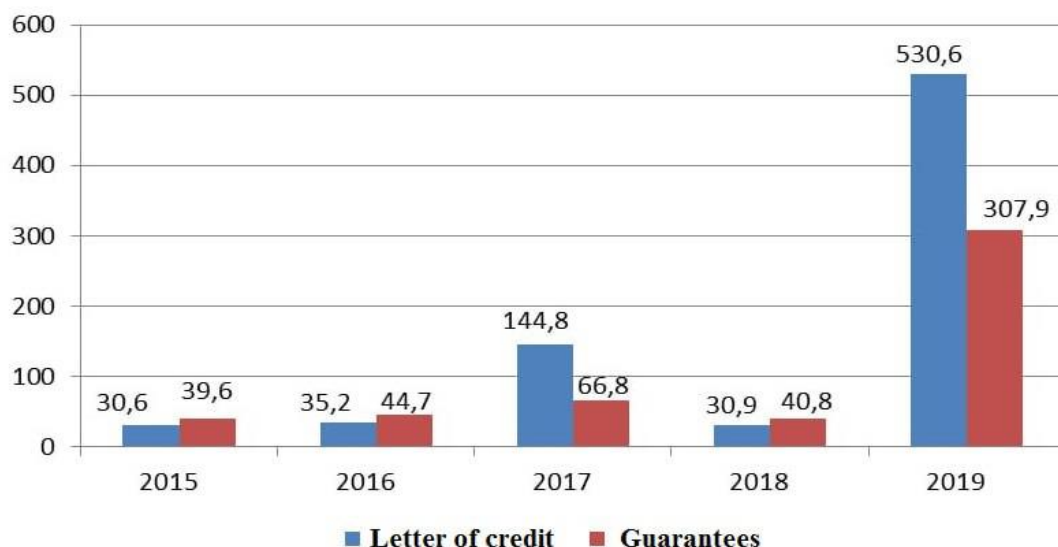
<sup>49</sup> [www.agrobank.uz](http://www.agrobank.uz).

\* textile industry;

\* food industry.

From the data in Table 2.6, it can be seen that if we look at the participation of Agrobank in the reproduction of loans in foreign currencies, the bulk of these loans (79.2%) were issued for the purchase of fixed assets.

Documentary letters of credit opened for export and letters of credit opened for export payments of exporters are widely used by Agrobank to finance the export of agricultural products.



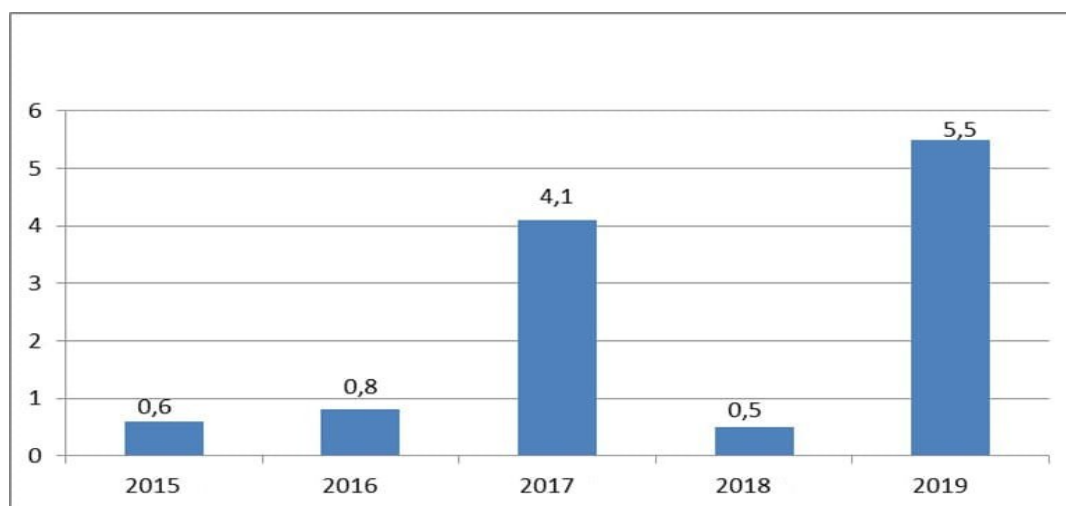
**Figure 2.4. Documentary letters of credit and guarantees issued by JSC "Agrobank" to agricultural exporters, bln. Sum<sup>50</sup>**

Figure 2.4 shows that the amount of documented letters of credit opened by Agrobank to exporters of agricultural products had an upward trend in 2015-2017. While the amount of these documented letters of credit decreased significantly in 2018 compared to 2017, in 2019 it increased sharply compared to 2018. This is a positive development in terms of improving the practice of financing the export of agricultural products.

Figure 2.4 shows that the amount of guarantees issued by Agrobank to exporters of agricultural products had an upward trend in 2015-2017.

While the amount of these guarantees decreased significantly in 2018 compared to 2017, in 2019 it increased sharply compared to 2018. This is a positive development in terms of improving the practice of financing the export of agricultural products.

<sup>50</sup> [www.agrobank.uz](http://www.agrobank.uz)



**Figure 2.5. Share of documentary letters of credit opened by JSC "Agrobank" to agricultural exporters in the total volume of off-balance sheet transactions, in percent<sup>51</sup>**

The data shown in Figure 2.5 show that in 2015-2017, the share of documentary letters of credit opened by Agrobank to agricultural exporters in the total volume of the bank's off-balance sheet operations had a growth trend in 2015-2017. This is a positive development in terms of improving the practice of financing the export of agricultural products.

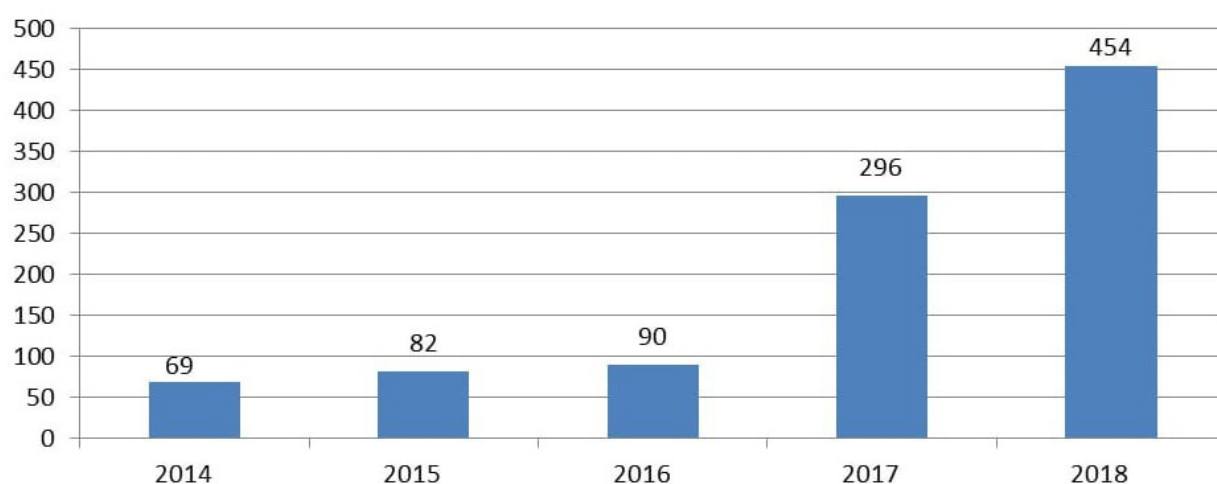
The data shown in Figure 2.5 show that the share of documentary letters of credit opened by Agrobank to agricultural exporters in the total volume of the bank's off-balance sheet operations in 2018 decreased significantly compared to 2017, but increased in 2019 compared to 2018. However, the share of documentary letters of credit issued by Agrobank to agricultural exporters in the total volume of the bank's off-balance sheet operations remained low during the analyzed period.

### **2.3 Government financial support for financing the export of agricultural products**

It should be noted that one of the main forms of financial support for agriculture is the attraction of international loans to finance exporters of agricultural products under the guarantee of the Cabinet of Ministers of the Republic of Uzbekistan.

An important form of state financial support for the export of agricultural products is the allocation of subsidies to agriculture from the state budget (Figure 2.6).

<sup>51</sup> [www.agrobank.uz](http://www.agrobank.uz)



**Figure 2.6. The amount of subsidies allocated to agricultural exporters at the expense of the State Budget of the Republic of Uzbekistan, bln. Sum<sup>52</sup>**

Figure 2.6 shows that in 2014-2018, the amount of subsidies provided to agricultural exporters at the expense of the State Budget of the Republic of Uzbekistan had an upward trend. Moreover, the amount of subsidies provided in 2018 had a higher growth rate than in 2014.

However, the deficit of the state budget limits the state's ability to allocate subsidies to exporting enterprises.

It should be noted that the coronavirus pandemic also had a negative impact on foreign trade between countries. According to the official data of the International Trade Organization, the international trade index in February 2020 decreased by 1.1% compared to the same period in 2019<sup>53</sup>.

Uzbekistan's main foreign trade partners are China and Russia. According to the results of 2019, 18.1% of the country's foreign trade turnover is accounted for by China and 15.7% by Russia. Therefore, a significant decline in GDP in China and Russia will have a negative impact on Uzbekistan's foreign trade relations.

It is characteristic that the main channel that forms the supply of currencies to the domestic foreign exchange market of the Republic of Uzbekistan is exports. Therefore, the decline in export earnings puts strong pressure on the nominal exchange rate of the national currency. In addition, the State Budget is expected to be executed in 2020 with a large deficit. In turn, the financing of the state budget through the placement of international loans and Eurobonds on international stock exchanges leads to an increase in the money supply in the national currency. This

<sup>52</sup> The picture was compiled by the author based on the information of the annual reports of the Ministry of Finance of the Republic of Uzbekistan

<sup>53</sup> [www.wto.org](http://www.wto.org). (World Trade Organization)

will lead to a further increase in inflation and have a negative impact on the stability of the national currency.

These negative conditions also have a negative impact on agricultural exports.

It should be noted that the increase in the real exchange rate of the national currency-soum against the national currencies of Uzbekistan's main foreign trade partners has a negative impact on the export of agricultural products. This is due to the fact that as a result of the increase in the real exchange rate of the national currency, agricultural products exported from Uzbekistan to these countries will become more expensive.

The increase in the real exchange rate of the national currency against the ruble, tenge, yuan and Turkish lira in January-September 2018 is explained by the high rate of devaluation of national currencies of our main foreign trade partners during this period.

Due to the fact that the inflation rate in Uzbekistan is significantly higher than in the countries that are major trading partners, in 2019 there was an increase in the real exchange rate of the soum against the national currencies of these countries.

The annual inflation rate in 2019 was as follows:

- \* In Russia - 3.0%;
- \* In China - 4.4%;
- \* In Kazakhstan - 5.4%
- \* In Uzbekistan - 15.2%<sup>54</sup>.

It is noteworthy that from 2019, the practice of bonification of interest rates on loans issued by banks to farms at the expense of public funds has been introduced.

It should be noted that in accordance with the Decree of the President of the Republic of Uzbekistan dated August 17, 2017 No PP-3225 "On the establishment of the State Fund for Entrepreneurship Development", the State Fund for Entrepreneurship Development (Fund) was established under the Cabinet of Ministers.

Obligations of the Fund:

\* to guarantee up to 50% of loans issued by banks to small businesses, but not more than 2 billion soums;

\* Compensation in the following equivalent to cover interest expenses on bank loans in the amount not exceeding 4 billion soums:

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<sup>54</sup> [www.cbr.ru](http://www.cbr.ru) (Central Bank of Russia), [www.pbc.gov.cn](http://www.pbc.gov.cn) (People's Bank of China), [www.nationalbank.kz](http://www.nationalbank.kz) (National Bank of Kazakhstan), [www.cbu.uz](http://www.cbu.uz) (Central Bank of Uzbekistan)

- in the national currency, at an interest rate not exceeding 1.5 times the refinancing rate - in the amount of 5% points;

- in the national currency - on soft loans allocated from the pension system on the recommendation of the Youth Union of Uzbekistan for the implementation of projects developed at the initiative of young entrepreneurs - in the amount of 3% to cover the costs of banks;

- in foreign currency - 40 percent of the interest rate set by commercial banks, but not more than 3 percent.<sup>55</sup>

In our opinion, the establishment of the State Fund for Entrepreneurship Development will play an important role in increasing the use of loans by commercial banks. This is due to the fact that the cash flow in business entities operating in the country is weak, and their balance sheet lacks highly liquid collateral. This prevents them from using commercial bank loans.

Based on the research conducted by I. Alimardonov, he concludes that the main focus in lending to small businesses is the availability of highly liquid collateral, which hinders the further increase in lending to small businesses. This is due to the fact that most small businesses do not have the highly liquid collateral required by banks.”<sup>56</sup>

Indeed, in the country, businesses, including farms, lack high-liquidity collateral for loans from commercial banks, and in some cases do not exist at all.

In banking practice, land, government securities, gold, and government-guaranteed securities are recognized as highly liquid collateral. However, business entities and farms will not be able to use these collaterals. This is explained by the following reasons:

- \* In our country, the land is owned by the state, so the land can not be pledged;

- \* gold in our country is not sold on the domestic market, only exported abroad;

- \* Securities of the Government of Uzbekistan are sold only to commercial banks;

- \* There are no government-guaranteed securities in the country.

It should be noted that in accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated September 23, 2020 No 581 "On measures to further improve the management system of the food industry":

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<sup>55</sup> Decision of the President of the Republic of Uzbekistan No. PQ-3225 of August 17, 2017. On the establishment of a state fund to support the development of entrepreneurship. [www.lex.uz](http://www.lex.uz)

<sup>56</sup> Alimardonov I.M. Improving the methodological and practical foundations of lending to small business entities. I.F.D. science narrow take three. present diss. autoref. - Tashkent, 2018. - 61 p

\* In accordance with the Resolution of the President of the Republic of Uzbekistan "On measures to accelerate the development of the food industry and the full provision of the population with quality food products" dated September 9, 2020 No PP-4821, the liquidation of Uzbekiston Holding

\* State shares in the charter funds of Uzbekozikovkatholding FE transferred to the State Assets Management Agency;

\* The share of Uzbekozikovkatholding in the charter capital of Uzagroexportbank and Agrobank was transferred to the Ministry of Finance free of charge at book value;

\* Until March 1, 2021, the State Assets Management Agency will be responsible for ensuring that the state shares in the charter funds of organizations are put up for public auction in the prescribed manner;

\* The liquidation commission of Uzbekiston Holding is obliged to ensure full repayment of debts allocated by the Ministry of Finance of the Republic of Uzbekistan for the purchase of basic foodstuffs from the sale of sugar products stored in the warehouses of Uzbekiston Holding until February 1, 2021<sup>57</sup>. It should be noted that the adoption of the Resolution of the President of the Republic of Uzbekistan with the participation of the International Fund for Agricultural Development on additional measures to implement the project "Diversification and Modernization of Agriculture" is important in terms of strengthening state support for agricultural exports. .

In this Resolution:

1. According to the Resolution of the President of the Republic of Uzbekistan dated November 20, 2018 No. PP-4021 "On measures to implement the project" Diversification and modernization of agriculture "with the participation of the International Fund for Agricultural Development:

- On August 4, 2020, the Republic of Uzbekistan and the International Fund for Agricultural Development signed a loan agreement for an additional loan of \$ 46.2 million, as well as a grant of \$ 800,000 under the project "Diversification and Modernization of Agriculture";

- In the framework of the project:

\* goods (works, services) and vehicles purchased at the expense of a loan from the International Fund for Agricultural Development from customs duties (except for customs clearance fees), value added tax and fees;

\* Participating individuals - income of non-residents of the Republic of Uzbekistan is exempt from personal income tax.

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<sup>57</sup> Resolution No. 581 of the Cabinet of Ministers of the Republic of Uzbekistan dated September 23, 2020. On measures to further improve the management system of the food industry. [www.lex.uz](http://www.lex.uz).



2. In accordance with the loan agreement, additional borrowings under the Project will be directed to:

- for the allocation of loans to finance diversification in agriculture - \$ 39.8 million. At the same time, loans will be provided to support clusters and cooperatives and their member businesses - \$ 30.3 million, for youth and women - \$ 5 million, and the State Fund for Entrepreneurship Support - \$ 4.5 million<sup>58</sup>.

- For the modernization of irrigation systems - \$ 3.1 million. At the same time, \$ 2 million will be spent on water extraction by digging vertical wells and installing pumps on forest lands;

- Development of knowledge, innovation and agro-services in agriculture - \$ 4.1 million.

Exemption of goods (works, services) and vehicles purchased at the expense of a loan from the International Fund for Agricultural Development from customs duties, value added tax and levies will significantly reduce the cost of imported goods.

Admittedly, the coronavirus pandemic has had a negative impact on agriculture, including the export of agricultural products.

The rapid spread of the coronavirus pandemic around the world has forced governments to take drastic quarantine measures, according to the World Trade Organization. This has had a negative impact on the production and export of goods, including the export of agricultural products. Many countries have reduced agricultural exports to ensure food security. In April 2020, exports of fruits, dairy products and meat products decreased significantly<sup>59</sup>.

The Government of the Republic of Uzbekistan has been forced to take drastic measures to combat the coronavirus pandemic.

In accordance with the Decree of the President of the Republic of Uzbekistan dated March 19, 2020 PF-5969 "On priority measures to mitigate the negative impact of the coronavirus pandemic and the global crisis on sectors of the economy":

- At the ministry of finance of the republic of Uzbekistan on order to fight against the spread of the coronavirus infection and ensure macroeconomic stability, uninterrupted operation of economic sectors and industries in the period of other global threats, encourage foreign economic activity, provide effective social support to the population, and prevent a sharp decrease in the income of the

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<sup>58</sup> Decision of the President of the Republic of Uzbekistan No. PQ-4830 of September 15, 2020. On additional measures for the implementation of the "Agricultural Diversification and Modernization" project with the participation of the International Fund for Agricultural Development. [www.lex.uz](http://www.lex.uz)

<sup>59</sup> [www.wto.org](http://www.wto.org) (World Trade Organization).

country's population without establishing a legal entity, a fund for combating the crisis in the amount of 10 trillion soums was established;

- The State Fund for Entrepreneurship Development under the Agency for Small Business and Entrepreneurship Development has set a task to expand the provision of guarantees and compensation for interest on loans for the production, purchase and sale of socially important consumer goods;

- In order to provide funding to the Cabinet of Ministers for the State Budget and the Anti-Crisis Fund in 2020 to support the budget from soft loans from international financial institutions and other sources up to \$ 1 billion in foreign debt, as well as real sector enterprises, exporters and commercial banks. to take measures to attract additional funds to finance support measures, to find untapped reserves by improving tax and customs administration, to approve comprehensive measures to ensure full payment of taxes, reduce the "hidden" economy and introduce new effective forms of tax and customs administration;

- Take measures to provide state support to strategic enterprises through the repayment of loans under the state guarantee of the Republic of Uzbekistan, as well as the allocation of interest-free budget loans for the implementation of primary costs; Reimbursement of part of the transportation costs of business entities engaged in foreign trade activities, the sectors and industries of the economy most exposed to the negative impact of the spread of coronavirus infection, as well as, provide additional measures to support commercial banks in case of deterioration of the loan portfolio; due to delays in payment of taxes through the allocation of interest-free budget loans for up to three years and the slowdown of business activity Measures to compensate for lost revenues in the budget of the Republic of Karakalpakstan, local budgets of regions and the city of Tashkent<sup>60</sup>. According to the Decree of the President of the Republic of Uzbekistan dated April 3, 2020 No PF-5978 "On additional measures to support the population, sectors of the economy and businesses during the coronavirus pandemic":

- From April 1 to December 31, 2020 tour operators, travel agents and entities providing hotel services (accommodation services) in the field of tourism, JSC "Uzbekistan Airways" and its subsidiaries, JSC "Uzbekistan Airports" and SUE "Uzaeronavigatsiya Markazi" exempted from property tax on legal entities and paid social tax at a reduced rate of 1 percent;

- by the Central Bank of the Republic of Uzbekistan:

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<sup>60</sup> Decree of the President of the Republic of Uzbekistan dated March 19, 2020 No. PF-5969. On the primary measures to mitigate the negative impact of the coronavirus pandemic and global crisis on economic sectors. [www.lex.uz](http://www.lex.uz)

- \* providing commercial banks with additional liquid resources in the amount of 2.6 trillion soums by easing the requirements for required reserves;

- \* approved measures to introduce a special mechanism to provide liquidity to commercial banks in the amount of up to 2 trillion soums for a period of 3 years;

- Information of the Central Bank on the following was received for information:

- \* Debts on loans of legal entities in the amount of 7.9 trillion soums were delayed in the implementation of the Decree of the President of the Republic of Uzbekistan dated March 19, 2020 No PF-5969;

- \* The amount of additional restructuring payments on loans of organizations facing financial difficulties due to measures taken to combat coronavirus in Uzbekistan and other countries and the sharp decline in economic activity is an additional 7 trillion soums;

- \* The volume of deferred payments on loans to be repaid by individuals and sole proprietors during the next 6 months of 2020 is 4.7 trillion soums;

- delay in payment of loans of legal entities and individuals, individual entrepreneurs facing financial difficulties by commercial banks until October 1, 2020, non-application of penalties and recovery measures on collateral for overdue loans of borrowers, which adversely affected the quarantine regime The Central Bank is responsible for taking measures to ensure that the amount of interest accrued and deferred on loans by commercial banks is not included in total income tax when calculating the deferred period;

- Until October 1, 2020 by the State Fund for Entrepreneurship Support:

- \* Guarantee in the amount of not more than 75% of the loan amount, but not more than 10 billion soums, provided to businesses with a positive credit history, regardless of the number of projects, to replenish working capital;

- \* to replenish working capital of business entities The Central Bank will provide compensation for interest expenses on loans in the national currency at an interest rate not exceeding 1.75 times the basic rate, while maintaining its established amounts, with both the guarantor and compensation provided by the state fund to one borrower at the same time. the restriction was lifted<sup>61</sup>.

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<sup>61</sup> Decree of the President of the Republic of Uzbekistan No. PF-5978 dated April 3, 2020. "On additional measures to support the population, economic sectors and business entities during the coronavirus pandemic." [www.lex.uz](http://www.lex.uz)

## **Conclusions on the second chapter**

The following conclusions can be drawn from the second:

1. The regulatory framework for the practice of financing the export of agricultural products are:

- \* Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021;

- \* Resolution of the President of the Republic of Uzbekistan dated July 29, 2019 No PP-4406 "On additional measures for deep processing of agricultural products and further development of the food industry";

- \* Resolution of the President of the Republic of Uzbekistan dated February 28, 2018 No PP-3574 "On measures to radically improve the system of financing the cultivation of raw cotton and grain";

- \* Resolution of the President of the Republic of Uzbekistan dated August 11, 2020 No PP-4803 "On measures to implement the project" Modernization of Agriculture of the Republic of Uzbekistan "with the participation of the International Bank for Reconstruction and Development and the International Development Association";

On additional measures for the implementation of the project of the President of the Republic of Uzbekistan "Agricultural Diversification and Modernization" with the participation of the International Fund for Agricultural Development No. PP-4830 dated September 15, 2020

Decree of the President of the Republic of Uzbekistan No. PF-5969 of March 19, 2020 "On priority measures to mitigate the negative impact of the coronavirus pandemic and the global crisis on the economy";

Decree of the President of the Republic of Uzbekistan No. PF-5978 of April 3, 2020 "On additional measures to support the population, sectors of the economy and businesses during the coronavirus pandemic";

Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated September 23, 2020 No 581 "On measures to further improve the management system of the food industry";

- \* Instruction of the Central Bank of the Republic of Uzbekistan No. 464 of February 22, 2001 - "Procedure for microcrediting by commercial banks of farms and other small businesses operating as legal entities in national and foreign currencies";

- \* Documentary letters of credit developed by the International Chamber of Commerce in 1930 are international generalized rules and customs;

- \* New UCP-600 standard for documented letters of credit developed by the International Chamber of Commerce in 2007.

The Documentary Letters of Credit, developed by the International Chamber of Commerce in 2007, regulates all issues related to documented letters of credit and is called the UCP-600 standard.

2. The results of the analysis of the practice of financing the export of agricultural products showed that:

- \* In 2017-2019, the volume of exports of the Republic of Uzbekistan had an upward trend, however, while the volume of agricultural exports was unstable, the volume of agricultural exports in 2018 decreased significantly compared to 2017;

- \* The first place in the share of Agrobank in the loan portfolio in 2015-2019 was taken by loans to agriculture, which is explained by the fact that Agrobank is a bank specializing in agricultural lending;

- \* Significant decrease in the share of loans to agriculture in the loan portfolio of Agrobank in 2019 compared to 2015 is explained by the increase in the share of loans to logistics and other sectors in the loan portfolio of Agrobank during this period;

- \* The main part of the number and amount of loans issued by Agrobank in foreign currencies is given to two sectors: the textile industry and the food industry. At the same time, the main part (79.2%) of Agrobank's participation in the reproduction of loans in foreign currency was provided for the purchase of fixed assets;

- \* In the country, businesses, including farms, lack high-liquidity collateral for loans from commercial banks, and in some cases do not exist at all. This is because high-liquidity collateral for loans - land plots, government securities, gold, government-guaranteed securities - is not available to businesses and farms.

- \* The fact that loans issued to finance the export of agricultural products in 2015-2019 have a very small share in the loan portfolio of Agrobank and this figure decreased in 2019 compared to 2015 is a negative situation in terms of improving the practice of financing agricultural exports;

- \* In 2015-2019, the average annual interest rate on loans to legal entities in the national currency and in US dollars by Agrobank tends to increase. explained by;

- \* The fact that the amount of documentary letters of credit opened by Agrobank to agricultural exporters has a growth trend in 2015-2017 and the amount of these documented letters of credit in 2018 increased significantly compared to 2017, while in 2019 it increased sharply. is a positive situation in terms of;

- \* The sharp increase in the amount of guarantees issued by Agrobank to agricultural exporters in 2018 compared to 2017, compared to 2018, is a positive

situation in terms of improving the practice of financing the export of agricultural products;

\* The fact that in 2015-2019 the share of documentary letters of credit opened by Agrobank to agricultural exporters in the total volume of the bank's off-balance sheet operations has a positive trend is a positive development in terms of improving the practice of financing agricultural exports.

3. The analysis of the practice of state financial support for the export of agricultural products showed that:

\* In 2015-2019, the amount of subsidies provided to agricultural exporters at the expense of the State Budget of the Republic of Uzbekistan has an upward trend, while the amount of subsidies provided in 2019 has a higher growth rate than in 2015;

\* The next form of financial support for agriculture is the attraction of international loans to finance exporters of agricultural products on the basis of the guarantee of the Cabinet of Ministers of the Republic of Uzbekistan;

\* The increase in the real exchange rate of the national currency-soum against the national currencies of Uzbekistan, the main foreign trade partner of Uzbekistan, has a negative impact on the export of agricultural products;

\* In accordance with the Resolution of the President of the Republic of Uzbekistan dated August 17, 2017 No PP-3225 "On the establishment of the State Fund for Entrepreneurship Development", the procedure for bonification of loans to small businesses and farms was introduced;

\* In accordance with the Decree of the President of the Republic of Uzbekistan dated May 15, 2015 No PF-4725 "On measures to ensure reliable protection of private property, small business and private entrepreneurship, removing obstacles to their rapid development."

4. According to official data from the World Trade Organization, the rapid spread of the coronavirus pandemic around the world has forced governments to take drastic quarantine measures, which has had a negative impact on the production and export of goods, including agricultural exports. Many countries have reduced agricultural exports to ensure food security.

5. In order to mitigate the negative impact of the coronavirus pandemic on the activities of enterprises and other business entities in the Republic of Uzbekistan, the following measures have been identified:

- The Anti-Crisis Fund in the amount of 10 trillion soums was established under the Ministry of Finance without establishing a legal entity;

- The State Fund for Entrepreneurship Development under the Agency for Small Business and Entrepreneurship Development has set a task to expand the

provision of guarantees and compensation for interest on loans for the production, purchase and sale of socially important consumer goods;

- In order to provide the Cabinet of Ministers with funding for the state budget and the Anti-Crisis Fund, up to \$ 1 billion in foreign loans from international financial institutions and other sources, as well as real sector enterprises, exporters and commercial banks to support the budget in 2020. the task of taking measures to attract additional funds to finance support measures;

- Measures to repay loans under the state guarantee of the Republic of Uzbekistan;

- tax benefits are provided;

- by the Central Bank of the Republic of Uzbekistan:

- \* providing commercial banks with additional liquid resources in the amount of 2.6 trillion soums by easing the requirements for required reserves;

- \* approved measures to introduce a special mechanism to provide liquidity to commercial banks in the amount of up to 2 trillion soums for a period of 3 years;

- Delays in payments on loans of legal entities and individuals, individual entrepreneurs facing financial difficulties by commercial banks until October 1, 2020.

## **CHAPTER III. WAYS TO IMPROVE THE PRACTICE OF FINANCING EXPORT OF AGRICULTURAL PRODUCTS IN THE REPUBLIC OF UZBEKISTAN**

### **3.1 Problems related to improving the practice of financing the export of agricultural products**

The results of the analysis show that there are a number of problems associated with improving the practice of financing the export of agricultural products in the country. One of such problems is the failure of commercial banks to open and issue guarantees of documented letters of credit on export operations of agricultural producers and enterprises in 2015-2019. This is a negative situation in terms of improving the practice of financing the export of agricultural products.

It is known that one of the important sources of financing the export of agricultural products is loans from commercial banks. However, the volume of financing the export of agricultural products through loans from commercial banks depends on the interest rate on loans. Unfortunately, the high interest rates on loans provided by commercial banks of the country, including Agrobank, to agricultural entities in national and foreign currencies are high, which hinders the growth of lending to agricultural exports.

In 2018, Agrobank provided investment loans to farms to finance investment projects for up to 60 months, at rates ranging from 22% to 26% per annum, for working capital for up to 12 months, at rates ranging from 22% to 26% per annum. The interest rate on loans in foreign currency issued by Agrobank is also relatively high. For example, the interest rate on loans provided by Agrobank through credit lines of the German Landesbank is 6-month EURIBOR + 1.5% + 2%, the interest rate on loans provided by the credit line of the Turkish Ziraat Bank is 6-month Libor + 8.75%. These are interest rates that are significantly higher. Secured letters of credit account for more than 90% of the documented letters of credit opened by commercial banks of the Republic of Uzbekistan on import payments of agricultural exporters. The essence of the problem is that in the secured documented letters of credit, part of the funds belonging to agricultural producers and enterprises will be withdrawn from their economic turnover. This is because in this form of letter of credit, the amount of the letter of credit is taken from the customer's transaction account and deposited in a separate account. It should be noted that the Central Bank of the Republic of Uzbekistan applies reserve requirements at a high rate (14%) to deposits of commercial banks in foreign currency and withdraws the amount of required reserves from the representative account of banks "Nostro" in national currency.



The main factors that negatively affect the liquidity of commercial banks of the Republic of Uzbekistan are:

- In September 2017, as a result of the sharp depreciation of the national currency, the number of cases of untimely repayment of loans in foreign currencies by customers increased;
- Repayment of international loans attracted through credit lines of foreign banks at the expense of banks' own funds;
- Due to the coronavirus pandemic, customers were given a credit vacation from April 1 to October 1, 2020;
- deepening of transformation risk in banks.

Below we assess the level of transformation risk in IT Agrobank (Table 3.1).

**Table 3.1**

**The structure of assets and liabilities of JSC "Agrobank" by maturity, as of December 31, 2019<sup>62</sup>**

(as a percentage)

№	Assets	Суммаси, млрд. сўм
1	Non-current assets	8,7
2	1 day to 30 days	4,0
3	31 days to 180 days	9,4
4	181 days to 365 days	23,5
5	More than 365 days	54,4
Assets - total		100,0
№	Liabilities	Суммаси, млрд. сўм
1	Indefinite liabilities	11,5
2	1 day to 30 days	2,8
3	31 days to 180 days	22,6
4	181 days to 365 days	24,7
5	More than 365 days	38,4
Liabilities - total		100,0

According to Table 3.1, time liabilities in JSC "Agrobank" amounted to 11.5% of total liabilities, while the share of perpetual assets in total assets was 8.7%. In addition, 54.4% of total assets were assets with a maturity of more than 365 days, while only 38.4% of total liabilities were liabilities with a maturity of more than 365 days. This indicates that the transformation risk in Agrobank has significantly deepened.

The deepening liquidity problem in Agrobank is explained by two reasons. The first reason is the large amount of overdue debt on soft loans provided to farms by Agrobank. As of January 1, 2019, the amount of overdue loans on soft loans

<sup>62</sup> Term structure of assets and liabilities of JSC "Agrobank". [www.agrobank.uz](http://www.agrobank.uz)

issued by Agrobank to farms amounted to 334 billion soums. soums. Therefore, 177 bln. sum is the debt of liquidated farms.

The low level of profitability of farms does not allow them to repay soft loans.

The second reason for the liquidity problem in Agrobank is the deepening of transformation risk.

The emergence and deepening of the risk of transformation of Agrobank is one of the most pressing issues in ensuring its liquidity.

The risk of transformation in Agrobank has deepened to such an extent that it has had a strong negative impact on its liquidity. It should be noted that the risk of transformation occurs when the maturity of bank assets is greater than the maturity of borrowed funds.

On September 5, 2017, due to the liberalization of monetary policy, the nominal exchange rate of the national currency - the soum against 1 US dollar was set at 8100.00 soums (previously it was 4210.00 soums). As a result, the costs of agricultural enterprises associated with the payment of imports and the repayment of bank loans in foreign currency have risen sharply. As a result, there is an increased likelihood of a reduction in imports and the inability to repay foreign currency loans.

The underdevelopment of agricultural insurance, in our opinion, is explained by high insurance rates and low profitability in agriculture.

The experience of developed countries shows that state financial support of the agricultural insurance process is one of the main tools of state regulation of agriculture.

Insurance of agricultural producers is based on natural risks (drought, floods, hurricanes, sudden changes in temperature) and other risks (fires, animal diseases, thefts, etc.) that lead to a decrease in their profitability and financial stability. to cover losses.

The agricultural insurance system in Japan was formed to ensure food independence and support farmers' incomes, given Japan's unfavorable climate for agriculture, with the state transferring 50 percent of the budget's insurance premiums to the insurance company to guarantee 70-90 percent of farmers' planned income. If at the end of the year the damage exceeds the amount accumulated in the insurance company, the increased part will be covered from the budget.

In Russia, 50 percent of the insurance premium is covered by the state to insure up to 65-80 percent of the crop. Similar programs are being used in various forms in more than 40 countries, including Spain, France, Germany, the United

States, Canada, Israel, China, Brazil, India, and a number of other developed and developing countries<sup>63</sup>.

The results of the analysis conducted in the first chapter show that subsidies and guaranteed prices from the state budget play an important role in financing the export of agricultural products. However, the deficit of the state budget in the country does not allow to increase the amount of subsidies to agricultural producers and enterprises.

According to the report of the Minister of Finance of the Republic of Uzbekistan T.Ishmetov on the implementation of the State Budget for the first half of 2020, the consolidated budget revenues in the first half of 2020 amounted to 71 trillion soums. 702 billion soums and 80 trillion soums in expenditures. 594 billion 8 trillion soums It was executed with a deficit of 892 billion soums or 3.9% of GDP<sup>64</sup>.

It should be noted that the World Trade Organization (WTO) opposes government subsidies to agricultural producers and enterprises.

According to Article 9 of the WTO Agreement on Agriculture, state subsidies to agriculture, which should be reduced, include:

- \* export of stocks of agricultural products at prices below the domestic market;
- \* Subsidization of agricultural products in connection with their inclusion in the structure of exported goods;
- \* providing subsidies to exported agricultural products;
- \* subsidies to reduce transaction costs;
- \* application of preferential tariffs for domestic transportation and freight in the export of agricultural products;
- \* direct payment to exporters<sup>65</sup>.

The WTO is currently discussing whether state-owned enterprises have an advantage over commercial companies in the export of agricultural products, and the following conclusions were drawn during the discussions:

- \* state-owned enterprises can create a monopoly in the market and artificially reduce prices;
- \* commercial companies can create a monopoly in the market and artificially reduce prices;

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<sup>63</sup> Aliev B.H., Filin A.M. Otsenka i analiz rynka straxovykh uslug razvitiikh stran mira//Voprosy strukturizatsii ekonomiki. - Makhachkala, 2013. - #2. - S. 155-158

<sup>64</sup> T. Ishmetov's report at the plenary session of the Legislative Chamber of the Oliy Majlis on the execution of the State Budget in the first half of 2020//<https://www.mf.uz/doklad>

<sup>65</sup> [www.wto.org](http://www.wto.org) (World Trade Organization).

- \* large opportunities for state-owned enterprises to receive subsidies from the state when they face financial difficulties;

- \* state-owned enterprises play an important role in ensuring food security in the country;

- \* State-owned enterprises can play an important role in increasing the country's export potential, not for commercial purposes.

There is no practice of financial support of agricultural producers in the country through guaranteed prices. However, the application of guaranteed prices in developed countries is an effective means of supporting the income of agricultural producers.

One of the most pressing problems in the practice of financing the export of agricultural products is the presence of liquidity and resource supply problems in Agrobank, the main commercial bank providing financial services to agriculture.

The low level of monetization of the economy of the Republic of Uzbekistan, ie the level of monetization, does not allow to solve the problem of receivables between enterprises. As of December 1, 2019, the amount of receivables among enterprises of the country amounted to 93.1 trillion soums. soums<sup>66</sup>.

As of January 1, 2020, the level of monetary security of the country's economy amounted to 17.8%.<sup>67</sup> This is a very low figure. This is because in order to eliminate the problem of insolvency in the national economy, the level of cash supply to the economy must be at least 50%<sup>68</sup>.

As the President of the Republic of Uzbekistan Sh.M.Mirziyoev acknowledged, “14 trillion soums or 60% of the total receivables of 18 trillion soums have been extended for the last 3 years. Why isn't the Minister of Finance and the Chairman of the Central Bank, who chair the overdue debt reduction commission, taking this issue seriously? ”<sup>69</sup>

Agrobank has a problem of insufficient resources and long-term lack of resources.

The fact that the share of demand deposits in Agrobank in the volume of gross deposits is more than forty percent indicates that its deposit base is insufficient. This is because the share of required deposits in the volume of gross

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<sup>66</sup> Socio-economic situation of the Republic of Uzbekistan. Statbulleten (B. 19). - Tashkent, 2020.

<sup>67</sup> It was calculated by the author based on the data of [www.ctat.uz](http://www.ctat.uz) (State Statistics Committee of the Republic of Uzbekistan) and [www.cbu.uz](http://www.cbu.uz) (Central Bank of the Republic of Uzbekistan) sites..

<sup>68</sup> Tikhonov A. Coefficient of monetization: theory of some aspects, comparative analysis and practical reasons//Bankovskiy vestnik. - Minsk, 2000. - #25 (132). - S. 3-4..

<sup>69</sup> Mirziyoev Sh.M. Critical analysis, strict discipline and personal responsibility should be the daily rule of activity of every leader. - Tashkent: Uzbekistan, 2017. - p. 30.

deposits should not exceed 30% for the commercial bank's deposit base to be sufficient.<sup>70</sup>

There is also a shortage of long-term resources in Agrobank. As of January 1, 2019, the total resources of Agrobank amounted to only 5.8% of the resources attracted for more than 1 year.

The limited ability of Agrobank to attract resources through the stock market is explained by the following reasons:

1. Underdevelopment of the national stock market.

The research of Uzbek economists has scientifically substantiated the underdevelopment of the stock market in the country<sup>71</sup>.

2. Decrease in the real value of investments in securities denominated in the national currency under the influence of inflation and devaluation.

High inflation and devaluation rates have led to a decline in the real value of securities denominated in the national currency, the soum.

According to the official data of the Central Bank of the Republic of Uzbekistan, "In 2019, the growth rate of aggregate demand exceeded the growth rate of production, which created inflationary pressure on the economy. At the same time, demand that was not met by domestic supply was offset by imports. This, in turn, strengthened the demand for foreign currency in the second half of the year, putting pressure on the exchange rate. "While high demand remains, the increase in the exchange rate has intensified inflation in the domestic market."<sup>72</sup>

The rate of depreciation of the national currency also remains high.

Admittedly, agricultural producers do not have the ability to raise funds through the financial securities market. This is due to the fact that it is not yet possible to ensure the investment attractiveness of securities issued by agricultural producers. Commercial banks in lending to export and import operations of agricultural enterprises focus on the availability of highly liquid collateral. This prevents them from increasing lending by banks. This is because the highly liquid collateral required by commercial banks is not available in most agricultural enterprises.

In international banking practice, the most liquid collateral for bank loans are:

- \* land areas;

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<sup>70</sup> Ruzmetov Sh.B. Ways to strengthen the deposit base of commercial banks of Uzbekistan. I.f.n. science narrow take three. destiny eat diss. autoref. - Tashkent, 2009. - 18 p

<sup>71</sup> Shokhazami Sh.Sh. Methodological basis and priority of strategic development of the market of the currency market in Uzbekistan. Autoref. Diss. nor soisk. three. St. d.e.n. - Tashkent, 2011. - 39 p.; Butikov I.L. Rynok tsennyx bumagUzbekistan: problems of formation and development. Monograph. - Tashkent: KONSAUDITINFORM-NASHR, 2008. - 224 p.

<sup>72</sup> Report on the activities of the Central Bank of the Republic of Uzbekistan in 2019 (B. 28). www.cbu.uz (Central Bank of the Republic of Uzbekistan).

- \* gold and other rare metals;
- \* government securities;
- \* government-guaranteed securities.

In our country, the balance of agricultural enterprises does not contain any of the above-mentioned highly liquid collateral. Therefore, the opportunity to increase the volume of collateral lending in our country is limited.

The problem of insuring soft loans provided by Agrobank has a negative impact on its liquidity and financial stability. The essence of this problem is that non-performing soft loans must be repaid by JSC "Agrosugurta". However, the insurance company does not make the payment, and the fund under the Cabinet of Ministers of the Republic of Uzbekistan, in accordance with the General Agreement, recovers its resources from Agrobank, regardless of whether the loan is repaid or not.

Another topical issue related to improving the practice of financing the export of agricultural products is the problem of using accounting forms that allow timely and complete payment for exported products.

The essence of the problem is that, firstly, the use of the collection form of international settlements in financing the export of agricultural products is low; secondly, the guarantees of foreign banks on importers' payment obligations are not widely used.

In international practice, both types of collection, ie documentary collection and net collection, are used to finance export-import operations.

An important advantage of collection is that it applies the terms of payment "Documents against acceptance" and "Documents against payment". Therefore, the importer's bank does not issue the commodity documents to the importer until the importer has accepted the promissory note or made the payment. This forces the importer to pay for the delivered goods on time and in full.

In documentary collection, only commercial documents are accepted for collection by the importer's bank, or commercial documents are accepted together with payment documents. In pure collection, only payment documents are accepted for collection.

It should be noted that the following two types of payment documents are accepted for collection in export-import operations:

- \* ordinary promissory notes;
- \* commercial bills.

In international practice, the guarantees of the importer's bank on the importer's payment obligations are widely used to finance the export of agricultural products.

The circulation of bank guarantees used in international trade is regulated by the Generalized Rules for Contract Guarantees (GCG).

The main features of the rules of SHKUQ are:

- \* has a contractual content;
- \* impartiality;
- \* availability of inspection principles;
- \* simplicity of payment mechanism;
- \* full payment guarantee;
- \* prevention of illegal actions.

If illegal actions are committed by the beneficiary, then the beneficiary loses the right to demand payment of the guarantee from the guarantor bank.

The use of a guarantee instrument in financing the export of agricultural products requires a foreign importer bank to be sufficiently solvent and liquid. To do this, the exporter of agricultural products must make sure that the foreign bank is solvent and liquid.

If the foreign importer bank does not have a high rating of international rating agencies (Moody's, Standard & Poor's, Fitch Ratings), then the beneficiary must assess the solvency and liquidity of the foreign importer bank.

If the bank providing financial services to a foreign importer is not sufficiently solvent and liquid, then it may not be able to make timely payments for the delivered agricultural products.

Typically, when assessing the solvency of a foreign importer bank, the adequacy of its regulatory capital is assessed, and the level of the current liquidity ratio is taken into account when assessing its liquidity.

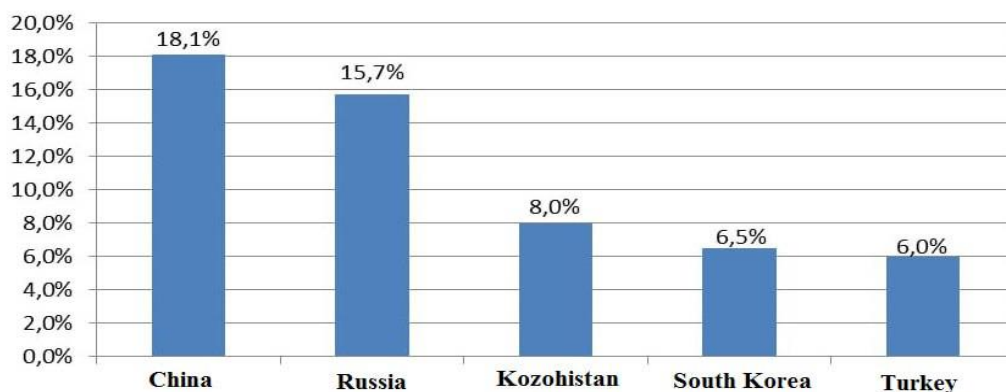
Uzbekistan's limited access to water transport, the cheapest mode of transport in international trade, risks increasing the cost of transporting exported goods and has a negative impact on the competitiveness of agricultural products. Therefore, measures are being taken to reduce the cost of freight transportation by rail, which is the main mode of transport in the country's exports. In particular, the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 sets the task to request preferences on transit fees from countries that are in transit for the export of goods by rail (Turkmenistan, Iran, Georgia, Azerbaijan, Kazakhstan, Russia).

Currently, the Republic of Uzbekistan uses the Georgian port of Poti for the export of agricultural products to the Mediterranean countries. At the same time, agricultural products are transported by rail to the port of Poti. These products are then loaded on ships and shipped to Mediterranean countries.

At present, the Republic of Uzbekistan can request the port of Batumi from Georgia, the port of Ilichevsk from Azerbaijan and through these ports to the

Turkish port of Mersin. If the port of Mersin is used, then the Republic of Uzbekistan will be able to export agricultural products to North African countries. This, in turn, will increase the level of diversification of agricultural exports.

At present, it can be acknowledged that the level of geographical diversification of exports in the country, including exports of agricultural products, is low.



**Figure 3.1. The share of major foreign trade partners in Uzbekistan's exports as of January 1, 2020<sup>73</sup>**

The data shown in Figure 3.1 show that 54.3% of the country's exports fall to the share of 5 partner countries. This indicates that the level of geographical diversification of the country's exports is low.

The low geographical level of exports can have a strong negative impact on a country's export potential. For example, if the demand for goods exported from our country in these countries decreases, then the total export revenue may decrease significantly. This is because more than half of the country's exports come from these five countries. This is exactly what happened in 2008. Due to the crisis, the demand for Uzbek cotton fiber has fallen sharply in Southeast Asia. As a result, export earnings from the sale of cotton fiber fell sharply.

Commodity futures are widely used in the export of agricultural products.

<sup>73</sup> Socio-economic situation of the Republic of Uzbekistan. Statbulleten (B. 327). - Tashkent, 2020



### **3.2 Ways to solve problems related to improving the practice of financing the export of agricultural products**

In our opinion, in order to improve the practice of financing the export of agricultural products in the country, it is expedient to implement the following measures:

1. It is necessary to introduce a procedure for state subsidization of 50% of interest rates on loans issued by commercial banks of the Republic of Uzbekistan to finance the export of agricultural products. As a result of the implementation of this proposal, first, the level of access of agricultural exporters to loans from commercial banks will increase; second, the amount of sources of financing the export of agricultural products will increase; third, it will increase the competitiveness of exported agricultural products in the price struggle.

This proposal is based on the results of studying and summarizing the experience of developed countries.

The results of the analysis in paragraph 1.3 show that in developed countries, a portion of the loans allocated to banks by farms is bonified at the expense of public funds. This, in turn, will increase the level of access of farms to loans from commercial banks.

The level of profitability of farms is relatively low. This prevents them from increasing their access to credit from commercial banks. Because the ability of farmers to repay the loan depends directly on their profitability (if the interest rate on the loan is higher than the level of profitability of the farm, the farmer can not repay the loan). This necessitates financial support from the state for bank lending to farms.

Due to the growing disparity between the prices of agricultural products and the supply of material and technical resources and services, low profitability of public procurement, the profitability of production in the agricultural sector and incomes of producers lag significantly behind other sectors of the economy<sup>74</sup>.

Specific factors affecting agricultural lending include:

- high level of dependence of agricultural production on natural climatic conditions;
- longevity of the production cycle;
- the problem of ensuring the liquidity of banks lending to agriculture;
- instability of the flow of deposits in banks providing financial services to agriculture;

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<sup>74</sup> Yusupov M.S. Improvement of economic mechanisms of state regulation of agriculture. I.f.b. doctor of philosophy Diss. autoref. - Tashkent, 2018. - B. 18.

- The need for financial support of agriculture in the form of government subsidies, soft loans;
- relatively low level of profitability of agricultural producers and enterprises.

Due to the low level of solvency of agricultural producers in developing countries, their access to loans from commercial banks is also low. This, in turn, necessitates financial support from the state for the process of lending them by banks.

The results of the analysis conducted in the first chapter show that lending to farms by the bonification method has become the main form of lending to them in developed countries because it has yielded the expected results. The expected effect here is as follows:

- \* farmers have sufficient credit, even if the profitability is low;
- \* interest of commercial banks in lending to farms (because bonification reduces the level of credit risk);
- \* Farmers play an important role in ensuring food security by the state.

2. In order to improve the insurance of agricultural exports:

first, it is necessary to expand the use of mutual insurance instruments. This is because this instrument reduces the costs associated with insuring agricultural products;

secondly, given the low level of profitability of farms, part of their costs associated with the export of products should be paid from the state budget;

thirdly, the following conditions should be used in the export of agricultural products, which allow the importer to bear the insurance costs of delivery of goods:

- \* EX (Wex Works) - Franco factory;
- \* DAF (Delivered at Frontier) - Delivery at the border;
- \* DDU (Delivered Duty Unpaid) - Delivery duty free.

EX (Wex Works) - Under the terms of the factory, the exporter delivers the goods to the buyer (importer) at his factory, and thus his obligation is considered fulfilled.

The importer draws up customs documents, assumes all costs and risks.

DAF (Delivered at Frontier) - On the condition of delivery to the border, the exporter delivers the goods at the discretion of the buyer, to the agreed exact address, without customs clearance.

The exporter is not responsible for the clearance of customs documents related to the import of goods into the neighboring country.

Unloading of the goods will be the responsibility of the buyer.

The exporter is obliged to insure the delivery of the goods to the agreed address.

This delivery condition applies to the carriage of goods by any mode of transport.

DDU (Delivered Duty Unpaid) - The exporter is obliged to deliver the goods at the discretion of the buyer at the agreed address, subject to delivery without payment of customs duties. However, the importer-seller is not obliged to complete the customs documents associated with the importation of the goods and unload the goods.

Exporting the goods out of the country is the responsibility of the exporter.

This delivery condition applies to the carriage of goods by any mode of transport.

The purpose of incoterms is to ensure uniformity in the interpretation of terms widely used in foreign trade.

The rules of foreign trade between states in some cases do not coincide. This leads to disputes between exporters and importers.

In order to solve this problem, the International Chamber of Commerce in 1936 developed the International Rule of Interpretation of Trade Terms - Incoterms.

Incoterms were amended in 1953, 1967, 1976, 1980, 1990, 2000, and most recently in 2010.

The scope of incoterms is limited only by the rights and obligations of the parties to the contract of export-import of goods.

3. In order to expand the scope of financing of these exports by increasing the volume of documented letters of credit opened by commercial banks for the export of agricultural products, first of all, the foreign bank must be opened to exporters who have a documented letter of credit; secondly, these letters of credit should finance current costs and transportation costs associated with the production of exported goods; thirdly, the current liquidity of exporters using these letters of credit should not be lower than the normative requirement (2.0) generally accepted in international practice.

The risk of payment on unsecured documentary letters of credit is borne by the bank that opened the letter of credit. Therefore, the opening of a documented letter of credit on payment for agricultural products exported from the country by a foreign bank means that payment is guaranteed. Therefore, we have identified the availability of a documented letter of credit of a foreign bank as a prerequisite for the opening of documentary letters of credit for the export of agricultural products by commercial banks.

Financing of current costs and transportation costs of farms and agricultural enterprises related to the production of exported goods through documented letters of credit opened for the export of agricultural products will ensure the continuity of the process of cultivation and production of exported agricultural products.

According to the internationally recognized methodology (developed by experts of the International Bank for Reconstruction and Development), the liquidity of legal entities is determined by the current liquidity ratio, and the normative level of this ratio is set at 2.0.

According to this methodology, the current liquidity ratio is determined by dividing the current assets of the business entity into current liabilities. In this case, the following are taken as current assets;

- \* cash;
- \* receivables;
- \* inventories;
- \* short-term investments.

Current liabilities include:

- \* creditor indebtedness;
- \* indebtedness to the state budget;
- \* indebtedness on issued securities;
- \* indebtedness to subsidiaries;
- \* indebtedness on short-term loans of commercial banks;
- \* indebtedness on commercial bills;
- \* wage arrears.

4. In order to increase the volume of financing the export of agricultural products through loans from commercial banks:

- \* taking into account the level of credit and interest rate risk in determining the interest rate on loans to agricultural producers and agricultural enterprises with guaranteed payment for exported products;

- \* establishment of selective lending by the Central Bank to agricultural exporters;

- \* it is necessary to ensure that these export loans issued by commercial banks are issued at fixed rates.

The implementation of this proposal will yield the following results:

- The level of use of export credits by agricultural exporters will increase;
- the level of credit risk associated with export credits of commercial banks will be reduced;
- interest rate risk for exporting agricultural entities will be significantly reduced.

If the payment for exported products is guaranteed, then the level of credit risk will be reduced. In turn, a reduction in credit risk allows the interest rate to be lowered.

We recommend the use of two indicators when assessing the level of credit risk:

- the share of overdue loans in gross loans;
- the level of reserve allocations to cover losses from loans relative to bank assets.

In assessing the level of interest rate risk, the net percentage spread ratio and the net percentage margin ratio should be taken into account.

In international banking practice, the following normative levels of these two indicators are adopted:

- \* for net percentage spread - 1.25%;
- \* for net interest margin - 4.5%.

Selective lending is carried out by the Central Bank for the purpose of indirect financial support of a particular sector or sector of the economy. In this case, commercial bills issued by entities belonging to the industry or sector, which must be supported by the Central Bank, are taken into account at relatively low discount rates. As a result, the demand for drafts of this industry or network entities will increase. In other words, commercial banks will be able to obtain loans from the Central Bank at relatively low rates by taking into account these loans<sup>75</sup>.

5. Proposal to increase the creditworthiness of Agrobank by exporting agricultural products by increasing its current liquidity.

As recognized in paragraph 3.1 of the dissertation research, Agrobank has a liquidity problem.

In turn, ensuring the liquidity of a commercial bank requires a number of measures. The main ones, in our opinion, are:

- \* ensuring a moderate level of overdue loans;
- \* Achieving the maximum allowable level of overdue loans;
- \* ensuring compliance with regulatory requirements for reserve allocations to cover loan losses;
- \* compliance with regulatory requirements for current liquidity of commercial banks;
- \* Ensuring a balance between the maturity and amount of assets and borrowings, while achieving a moderate level of return on assets.

In international banking practice, the moderate level of overdue loans is considered to be the level of their share in the total volume of bank loans not

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<sup>75</sup> Bobakulov T.I., Abdullaev U.A., Isakov J.Ya. Monetary policy. - Tashkent: ECONOMY-FINANCE, 2019. - B. 110-111.

exceeding 3%. The maximum allowable level of overdue loans is not more than 3% of their total bank lending. In addition, a high standard rate of reserve allocations to cover losses from loans was adopted at a rate of 1.0% of their average assets of commercial banks<sup>76</sup>.

The Instruction of the Board of the Central Bank of the Republic of Uzbekistan No. 2709 of July 22, 2015 "On requirements for liquidity management of commercial banks" sets the following economic standards for the liquidity of commercial banks:

- current liquidity ratio (to calculate this ratio, the bank's short-term liquid assets are divided by the sum of transaction deposits and short-term liabilities, and its minimum rate is 0.30)

- instantaneous liquidity ratio (for the calculation of this ratio, the sum of cash in the cash desk of a commercial bank, investments in highly liquid securities and funds in the correspondent account of the Central Bank "Nostro" is divided by the amount of required deposits and its minimum rate is 0.10);

- liquidity coverage ratio ratio (to calculate this ratio, the amount of highly liquid assets is divided by the total net loss for the next 30 days and its minimum normative level is 1.0).<sup>77</sup>

6. Proposal to expand the ability of Agrobank to finance the export of agricultural products by increasing the amount of long-term loans from foreign banks.

In turn, in order to attract foreign credit lines on a large scale, Agrobank must have a sufficiently high (at least VVV) rating from international rating agencies.

When attracting loans from foreign banks, more attention should be paid to obtaining loans at a fixed rate. This is because the price of floating-rate loans can suddenly rise sharply. The interest rate on fixed-rate loans does not change, regardless of fluctuations in interest rates on loans in the global loan capital market.

It should be noted that one of the prerequisites for large-scale attraction of foreign credit lines is to ensure the effectiveness of the use of attracted loans. Unfortunately, in the practice of our country, the effectiveness of international loans to finance many investment projects is not ensured.

Non-timely repayment of loans in foreign currency for the purpose of financing investment projects is explained by the following reasons:

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<sup>76</sup> Isakov J.Ya. Improving the efficiency of credit in the development of the service sector. I.F.D. science narrow take. three. destiny eat diss. autoref. - Tashkent, 2016. - B. 16-17.

<sup>77</sup> Decision of the Board of the Central Bank of the Republic of Uzbekistan dated July 22, 2015 No. 2709 "On approval of the regulation on requirements for liquidity management of commercial banks"//Collection of legal documents of the Republic of Uzbekistan. - Tashkent, 2015. - #32. - p. 141-152.

- errors in the process of project examination;
- rising prices for imported goods due to high inflation and the rate of depreciation of the national currency;
- Impossibility to export products produced as a result of the project (low quality of goods, non-compliance with the terms of foreign trade agreements by foreign importers, high prices for exported goods led to their non-export);
- Until 2017, investment projects were not launched on time or failed due to the problem of converting the national currency into foreign currencies.

Non-timely repayment of loans in foreign currencies has a negative impact on the foreign exchange liquidity of commercial banks, ie the lack of foreign currency in their foreign currency correspondent accounts "Nostro". This, in turn, will prevent commercial banks from increasing the amount of loans in foreign currency.

At present, increasing the volume of loans in foreign currencies is a topical issue in terms of modernization, technical and technological re-equipment of the country's economy. In particular, on the five priority areas of development of the Republic of Uzbekistan in 2017-2021 The Action Strategy envisages attracting World Bank loans for the implementation of 27 projects for 2016-2020, attracting loans from the Asian Development Bank for the implementation of 20 projects, the Islamic Development Bank's 1.0 billion. It is planned to implement investment projects involving loans in the amount of not less than \$ 1 billion.<sup>78</sup> With the adoption of the Decree of the President of the Republic of Uzbekistan dated September 2, 2017 No. PF-5177 "On priority measures to liberalize foreign exchange policy", firstly, the free purchase and sale of foreign currency by legal entities and individuals; secondly, only market mechanisms were introduced in determining the exchange rate of the national currency against foreign currencies; third, regardless of the form of ownership, the requirement on compulsory sale of foreign currency earnings of all exporting enterprises was abolished; fourth, state duties, levies and other mandatory payments will be levied only in the national currency; fifth, the practice of issuing licenses to commercial banks to conduct operations in foreign currency has been abolished<sup>79</sup>.

According to the Central Bank of the Republic of Uzbekistan, about 95% of export and import operations in the country are carried out in US dollars<sup>80</sup>.

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<sup>78</sup> Appendix 1 to the Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. PF-4947 "On the Strategy of Actions for Further Development of the Republic of Uzbekistan"//Collection of legal documents of the Republic of Uzbekistan. - Tashkent, 2017. - No. 6 (766).

<sup>79</sup> Decree of the President of the Republic of Uzbekistan dated September 2, 2017 No. PF-5177 "On the first measures to liberalize the currency policy"//Collection of legal documents of the Republic of Uzbekistan. - Tashkent, 2017. - No. 36. - Article 945.

<sup>80</sup> The situation in the monetary and credit sphere in 2013 and the main directions of monetary policy for 2014//Market, money and credit. - Tashkent, 2014. - No. 1.-Page 19

### **Conclusions on the third chapter**

The following problems related to the improvement of the practice of financing the export of agricultural products in the Republic of Uzbekistan have been identified:

- \* non-disclosure by commercial banks of documented letters of credit and guarantees on export operations of agricultural producers and enterprises;
- \* high interest rates on loans provided by commercial banks of the republic, including Agrobank, to agricultural entities in national and foreign currencies;
- \* The share of secured letters of credit is the absolute majority of documentary letters of credit opened by commercial banks of the republic on import payments of agricultural exporters;
- \* the fact that commercial banks of the republic have unilateral representative relations with foreign banks, ie foreign banks do not have Vostro correspondent accounts in Uzbek banks;
- \* due to the fact that farms and agricultural enterprises, having foreign credit lines, are unable to fulfill their obligations on time, banks are paying their principal debts and interest to foreign creditors at their own expense;
- \* The Central Bank of the Republic of Uzbekistan applies reserve requirements at a high rate (14%) to deposits of commercial banks in foreign currency and deducts the amount of required reserves from the correspondent account of banks in the national currency "Nostro";
- \* underdevelopment of agricultural insurance due to high insurance rates and low profitability in agriculture;
- \* the presence of the following factors that negatively affect the liquidity of commercial banks:
  - In September 2017, as a result of the sharp depreciation of the national currency, the number of cases of untimely repayment of loans in foreign currencies by customers increased;
  - Repayment of international loans attracted through credit lines of foreign banks at the expense of banks' own funds;
  - Due to the coronavirus pandemic, customers were given a credit vacation from April 1 to October 1, 2020;
  - deepening of transformation risk in banks.
- \* Significant deepening of transformation risk due to lack of balance between assets and liabilities in Agrobank;
- \* the main commercial bank providing financial services to agriculture - the presence of liquidity and resource supply problems in Agrobank;
- \* Due to the requirements of liberalization of monetary policy, the sharp depreciation of the soum against the US dollar, resulting in a sharp increase in the



costs of agricultural enterprises related to the payment of imports and repayment of bank loans in foreign currencies;

- \* There is a problem of insufficient resources and long-term lack of resources in Agrobank;

- \* lack of highly liquid collateral on the balance of agricultural producers;

- \* high cost of agricultural machinery and seasonality of their use, a decrease in the real value of the amount of depreciation on the leased object under the influence of inflation and devaluation;

- \* Due to the deficit of the State Budget of the Republic of Uzbekistan, there is no possibility to increase the amount of subsidies to agricultural producers and enterprises;

- \* The problem of receivables between enterprises is not solved due to the low level of cash supply of the economy of the Republic of Uzbekistan, ie the level of monetization;

- \* Limited ability of Agrobank to attract resources through the stock market (underdeveloped national stock market; decrease in the real value of investments in securities denominated in the national currency under the influence of inflation and devaluation);

- \* in the republic, the balance of agricultural enterprises does not contain any highly liquid collateral (gold, land, government securities, government-guaranteed securities);

- \* low level of use of the form of collection of international settlements in financing the export of agricultural products, insufficient use of guarantees of foreign banks on payment obligations of importers;

- \* Limited access to water transport, which is the cheapest mode of transport in international trade in Uzbekistan, poses a risk of increasing the cost of transporting exported goods and has a negative impact on the competitiveness of agricultural products;

- \* The low geographical level of the country's exports has a strong negative impact on the country's export potential.

The list of WHO subsidies for agriculture to be provided by the state and to be reduced:

- \* export of stocks of agricultural products at prices below the domestic market;

- \* Subsidization of agricultural products in connection with their inclusion in the structure of exported goods;

- \* providing subsidies to exported agricultural products;

- \* subsidies to reduce transaction costs;

\* application of preferential tariffs for domestic transportation and freight in the export of agricultural products;

\* direct payment to exporters.

The following scientific proposals and practical recommendations have been developed to improve the practice of financing the export of agricultural products in the Republic of Uzbekistan:

1. It is necessary to introduce a procedure for state subsidization of 50% of interest rates on loans issued by commercial banks of the Republic of Uzbekistan to finance the export of agricultural products.

2. In order to improve the insurance of agricultural exports:

First, it is necessary to expand the use of mutual insurance instrument. This is because this instrument reduces the costs associated with insuring agricultural products.

3. In order to expand the scope of financing these exports by increasing the volume of documentary letters of credit opened by commercial banks for the export of agricultural products, first, these letters of credit should be opened to exporters who have a documented letter of credit of a foreign bank; secondly, these letters of credit should finance current costs and transportation costs associated with the production of exported goods; thirdly, the current liquidity of exporters using these letters of credit should not be lower than the normative requirement (2.0) generally accepted in international practice.

4. In order to increase the volume of financing of agricultural exports through loans from commercial banks, first of all, it is necessary to take into account the level of credit and interest rate risk in determining the interest rate on loans to agricultural producers and agricultural enterprises with guaranteed payment for exported products; secondly, the Central Bank should establish selective lending to agricultural exporters; thirdly, it is necessary to ensure that these export loans issued by commercial banks are issued at fixed rates (for this purpose, the resources attracted by commercial banks in foreign currencies must have a fixed rate).

The proposal envisages low-interest loans for the export of agricultural products and an increase in loan repayment guarantees.

5. Proposal to increase the creditworthiness of Agrobank by exporting agricultural products by increasing its current liquidity.

In substantiating this proposal, Agrobank took into account the problem of unbalanced liquidity, the high share of demand deposits in gross deposits.

6. Agrobank's proposal to expand its ability to finance the export of agricultural products by increasing the amount of long-term loans from foreign banks.

## CONCLUSION

1. The results of the analysis of scientific and theoretical views on financing the export of agricultural products showed that:

- In international practice, there are three forms of specific subsidies:
  - \* specific subsidies provided directly;
  - \* indirect specific subsidies;
  - \* combined specific subsidies;
- In recent years, high growth in the total volume of international trade in agricultural products is observed in the regional communities, and therefore they should focus on financing international trade in agricultural products within the regional communities;
- Subsidizing transportation costs for grain exports does not solve the problem of ensuring efficiency in terms of supporting the income of grain growers, as lower grain prices reduce the income level of grain growers;
- As a result of scientific research on the issue of financing of agriculture, financing from the state budget is an integral part of financing agriculture;
- A necessary condition for ensuring the effectiveness of lending to agricultural exports is the state repayment of part of the percentage of loans issued by commercial banks to finance exports;
- High interest rates on loans from commercial banks hinder the increase in the use of these loans by farms;
- The main purpose of taxation in developed countries is to create a relatively favorable environment for the development of the agricultural sector, as this sector is considered a weak sector of the economy;
- Due to the low level of financial independence of agricultural enterprises, the role of external sources (bank loans, targeted government loans, debt financing, subsidies) in financing their activities is significant;
  - agricultural exports should be supported not only through subsidies, but also through the introduction of additional taxes and levies on agricultural entities that have large areas of land and property and do not use them for their intended purpose;
- Areas of improvement of export financing are:
  - \* export financing should be based on a system that includes public and private capital;
  - \* strengthening cooperation with international economic organizations;
  - \* creation of an institute of information and consulting support for exporters;
    - \* establishment of an export credit insurance agency;
  - \* subsidizing transportation costs of exporters;

- In order to improve the practice of lending to foreign trade activities of small businesses (including small businesses operating in the agricultural sector), it is necessary to introduce the payment of their payments through documentary letters of credit at the expense of term and overdraft loans of commercial banks;

– To ensure the continuity of financing the export of agricultural products, the following conditions must be met:

- \* foreign exchange earnings for exported agricultural products must be fully guaranteed;

- \* banks must have an adequate resource base;

- \* Revenues in the state budget should be sufficient to ensure the provision of subsidies through the state budget.

2. The results of the study of foreign experience in improving the practice of financing the export of agricultural products showed that:

- The following financial instruments are widely used in the state financial incentives for the export of agricultural products in developed countries:

- \* tax benefits;

- \* trade and credit financing;

- \* insurance;

- \* direct export subsidies;

- \* interest subsidies on export loans;

- \* granting tax deductions for the production of exported goods from imported components;

- In the United States, part of the interest rate on loans to farms by commercial banks is subsidized by public funds, and commercial banks that provide deposit, credit, and settlement services to farms have the right to lend for up to 40 years, securing farmers' land and buildings;

- The results of the analysis of the activities of Rabobank, which provides financial services to agriculture in the Netherlands, show that:

- \* In 2017-2019, the amount of loans issued by Rabobank and the amount of loans issued to agriculture had an upward trend;

- \* The fact that the share of agricultural loans in gross loans in 2017-2019 remained high and stable is a positive situation in terms of the development of agricultural lending;

- \* The tendency of the share of loans for the export of agricultural products in the total volume of loans to agriculture in 2017-2019 to grow is a positive situation in terms of improving the practice of financing the export of agricultural products;

- Targeted and targeted prices are widely used in the European Union to provide financial support to farmers, and target prices are acceptable wholesale

prices of goods that are in short supply in EU markets, targeted prices are aimed at targeting producers and consumers;

- One of the main institutions implementing the state policy to support exporting companies in the Russian Federation is the Russian Export Center JSC, on the basis of which a system of export promotion and its financial and non-financial coordination has been created.

- In order to increase the volume of export loans issued by commercial banks to exporting enterprises in Russia, letters of credit, discounting and factoring have been added to the practice of issuing export loans.

3. The regulatory framework for the practice of financing the export of agricultural products are:

- \* Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021;

- \* Resolution of the President of the Republic of Uzbekistan dated July 29, 2019 No PP-4406 "On additional measures for deep processing of agricultural products and further development of the food industry";

- \* Resolution of the President of the Republic of Uzbekistan dated February 28, 2018 No PP-3574 "On measures to radically improve the system of financing the cultivation of raw cotton and grain";

- \* Resolution of the President of the Republic of Uzbekistan dated August 11, 2029 No PP-4803 "On measures to implement the project" Modernization of Agriculture of the Republic of Uzbekistan "with the participation of the International Bank for Reconstruction and Development and the International Development Association";

On additional measures for the implementation of the project of the President of the Republic of Uzbekistan "Agricultural Diversification and Modernization" with the participation of the International Fund for Agricultural Development No. PP-4830 dated September 15, 2020

Decree of the President of the Republic of Uzbekistan No. PF-5969 of March 19, 2020 "On priority measures to mitigate the negative impact of the coronavirus pandemic and the global crisis on the economy";

Decree of the President of the Republic of Uzbekistan No. PF-5978 of April 3, 2020 "On additional measures to support the population, sectors of the economy and businesses during the coronavirus pandemic";

Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated September 23, 2020 No 581 "On measures to further improve the management system of the food industry";

- \* Instruction of the Central Bank of the Republic of Uzbekistan No. 464 of February 22, 2001 - "Procedure for microcrediting by commercial banks of farms

and other small businesses operating as legal entities in national and foreign currencies";

- \* Documentary letters of credit developed by the International Chamber of Commerce in 1930 are international generalized rules and customs;

- \* New UCP-600 standard for documented letters of credit developed by the International Chamber of Commerce in 2007.

The Documentary Letters of Credit, developed by the International Chamber of Commerce in 2007, regulates all issues related to documented letters of credit and is called the UCP-600 standard.

4. The results of the analysis of the practice of financing the export of agricultural products showed that:

- \* In 2017-2019, the volume of exports of the Republic of Uzbekistan had an upward trend, however, while the volume of agricultural exports was unstable, the volume of agricultural exports in 2018 decreased significantly compared to 2017;

- \* The first place in the share of Agrobank in the loan portfolio in 2015-2019 was taken by loans to agriculture, which is explained by the fact that Agrobank is a bank specializing in agricultural lending;

- \* Significant decrease in the share of loans to agriculture in the loan portfolio of Agrobank in 2019 compared to 2015 is explained by the increase in the share of loans to logistics and other sectors in the loan portfolio of Agrobank during this period;

- \* The main part of the number and amount of loans issued by Agrobank in foreign currencies is given to two sectors: the textile industry and the food industry. At the same time, the main part (79.2%) of Agrobank's participation in the reproduction of loans in foreign currency was given for the purchase of fixed assets;

- \* In the country, businesses, including farms, lack high-liquidity collateral for loans from commercial banks, and in some cases do not exist at all. This is because high-liquidity collateral for loans - land plots, government securities, gold, government-guaranteed securities - is not available to businesses and farms.

- \* The fact that loans issued to finance the export of agricultural products in 2015-2019 have a very small share in the loan portfolio of Agrobank and this figure decreased in 2019 compared to 2015 is a negative situation in terms of improving the practice of financing agricultural exports;

- \* In 2015-2019, the average annual interest rate on loans to legal entities in the national currency and in US dollars by Agrobank tends to increase. explained by;

- \* The fact that the amount of documented letters of credit opened by Agrobank to agricultural exporters has a tendency to grow in 2015-2017 and a

significant increase in the number of these documented letters of credit in 2018 compared to 2017, a sharp increase in 2019 compared to 2018. is a positive situation in terms of;

- \* The sharp increase in the amount of guarantees issued by Agrobank to exporters of agricultural products in 2018 compared to 2017, compared to 2018, is a positive situation in terms of improving the practice of financing the export of agricultural products;

- \* The fact that in 2015-2019 the share of documentary letters of credit opened by Agrobank to agricultural exporters in the total volume of the bank's off-balance sheet operations has a positive trend is a positive development in terms of improving the practice of financing agricultural exports.

5. The analysis of the practice of state financial support for the export of agricultural products showed that:

- \* In 2015-2019, the amount of subsidies provided to agricultural exporters at the expense of the State Budget of the Republic of Uzbekistan has an upward trend, while the amount of subsidies provided in 2019 has a higher growth rate than in 2015;

- \* Another form of financial support for agriculture is the attraction of international loans to finance exporters of agricultural products under the guarantee of the Cabinet of Ministers of the Republic of Uzbekistan;

- \* the increase in the real exchange rate of the national currency-soum against the national currencies of Uzbekistan's main foreign trade partners has a negative impact on the export of agricultural products;

- \* In accordance with the Resolution of the President of the Republic of Uzbekistan dated August 17, 2017 No PP-3225 "On the establishment of the State Fund for Entrepreneurship Development", the procedure for bonification of loans to small businesses and farms was introduced;

- \* In accordance with the Decree of the President of the Republic of Uzbekistan dated May 15, 2015 No PF-4725 "On measures to ensure reliable protection of private property, small business and private entrepreneurship, removing obstacles to their rapid development."

6. According to the official data of the World Trade Organization, the rapid spread of the coronavirus pandemic around the world has forced governments to take drastic quarantine measures, which has had a negative impact on the production and export of goods, including agricultural exports. Many countries have reduced agricultural exports to ensure food security.

7. In order to mitigate the negative impact of the coronavirus pandemic on the activities of enterprises and other business entities in the Republic of Uzbekistan, the following measures have been identified:

- The Anti-Crisis Fund in the amount of 10 trillion soums was established under the Ministry of Finance without the establishment of a legal entity;

- The State Fund for Entrepreneurship Development under the Agency for Small Business and Entrepreneurship Development has set a task to expand the provision of guarantees and compensation for interest on loans for the production, purchase and sale of socially important consumer goods;

- In order to finance the State Budget and the Crisis Fund to the Cabinet of Ministers in 2020 to support the budget from concessional loans from international financial institutions and other sources up to \$ 1 billion in foreign debt, as well as real sector enterprises, exporters and commercial banks. the task of taking measures to attract additional funds to finance support measures;

- Measures to repay loans under the state guarantee of the Republic of Uzbekistan;

- tax benefits are provided;

- by the Central Bank of the Republic of Uzbekistan:

- \* Provision of commercial banks with additional liquidity resources in the amount of 2.6 trillion soums by easing the requirements for required reserves;

- \* approved measures to introduce a special mechanism to provide liquidity to commercial banks in the amount of up to 2 trillion soums for a period of 3 years;

- Delays in payments on loans of legal entities and individuals, individual entrepreneurs facing financial difficulties by commercial banks until October 1, 2020.

8. The following problems related to the improvement of the practice of financing the export of agricultural products in the Republic of Uzbekistan have been identified:

- \* non-disclosure by commercial banks of documented letters of credit and guarantees on export operations of agricultural producers and enterprises;

- \* high interest rates on loans provided by commercial banks of the republic, including Agrobank, to agricultural entities in national and foreign currencies;

- \* The share of secured letters of credit is the absolute majority of documentary letters of credit opened by commercial banks of the republic on import payments of agricultural exporters;

- \* the fact that commercial banks of the republic have unilateral representative relations with foreign banks, ie foreign banks do not have Vostro correspondent accounts in Uzbek banks;

- \* due to the fact that farms and agricultural enterprises, having foreign credit lines, are unable to fulfill their obligations on time, banks are paying their principal debts and interest to foreign creditors at their own expense;



- \* underdevelopment of agricultural insurance due to high insurance rates and low profitability in agriculture;

- \* the main commercial bank providing financial services to agriculture - the presence of liquidity and resource supply problems in Agrobank;

- \* Due to the requirements of liberalization of monetary policy, the sharp depreciation of the soum against the US dollar, resulting in a sharp increase in the costs of agricultural enterprises related to the payment of imports and repayment of bank loans in foreign currencies;

- \* There is a problem of insufficient resources and long-term lack of resources in Agrobank;

- \* lack of highly liquid collateral on the balance of agricultural producers;

- \* high cost of agricultural machinery and seasonality of their use, a decrease in the real value of the amount of depreciation allocated to the leased object under the influence of inflation and devaluation.

The following important scientific and practical results have been achieved in improving the practice of financing the export of agricultural products in the Republic of Uzbekistan:

1. It is necessary to introduce a procedure for state subsidization of 50% of the interest rate on loans issued by commercial banks of the Republic of Uzbekistan to finance the export of agricultural products.

As a result of the implementation of this proposal, first, the level of access of agricultural exporters to loans from commercial banks will increase; second, the amount of sources of financing the export of agricultural products will increase; third, the competitiveness of exported agricultural products in the price struggle will increase.

2. In order to improve the export insurance of agricultural products:

first, it is necessary to expand the use of mutual insurance instruments. This is because this instrument reduces the costs associated with insuring agricultural products.

Second, given the low level of profitability of farms, part of the costs associated with the export of their products should be paid from the state budget.

Third, the following conditions should be used in the export of agricultural products, which allow the importer to bear the insurance costs of delivery of goods:

3. Ways to expand the scope of financing of these exports by increasing the volume of documentary letters of credit opened by commercial banks for the export of agricultural products (opening of these letters of credit to exporters who have a documented letter of credit of a foreign bank for payment of exported agricultural products to finance the associated current costs and transportation

costs, the current liquidity of exporters using these letters of credit should not be lower than the normative requirement generally accepted in international practice (2.0).

4. In order to increase the volume of financing of agricultural exports through loans from commercial banks, the Central Bank shall take into account the level of credit and interest risk in determining the interest rate on loans to agricultural producers and agricultural enterprises. It is necessary to establish selective lending, to ensure that these export loans issued by commercial banks are issued at fixed rates.

5. It is necessary to increase the creditworthiness of Agrobank by exporting agricultural products by increasing its current liquidity.

6. It is necessary to expand the ability of Agrobank to finance the export of agricultural products by increasing the amount of long-term loans from foreign banks.

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**IMPROVING AGRICULTURAL EXPORT FINANCING PRACTICES:  
THEORY AND PRACTICE**

It was written based on the results of scientific research conducted by G.E. Tajenova on writing her dissertation for obtaining the degree of Doctor of Philosophy in Economics.

**MONOGRAPHY**

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