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## WAYS OF IMPROVING THE FINANCING OF EXPORTS OF AGRICULTURAL PRODUCTS IN UZBEKISTAN

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### ABSTRACT

*The development of agricultural exports is one of the necessary conditions for increasing the export potential of the Republic of Uzbekistan. Therefore, the Strategy for the development of agriculture of the Republic of Uzbekistan for 2020-2030 provides for a sharp increase in the volume of agricultural exports by 2030 [1]. This, in turn, creates the need to improve the practice of financing the export of agricultural products. This article identifies problems associated with improving the practice of financing the exports of agricultural products in the republic and develops scientific proposals aimed at solving them.*

**KEYWORDS:** Credit, Subsidy, High-Interest Rate Documented Letter Of Credit, Bank Guarantee, Exchange Rate, Export, Agricultural Products, State Budget

**INTRODUCTION**

Agriculture is one of the key sectors of the economy of the Republic of Uzbekistan. Land used for agricultural production occupies 45% of the country's territory. Together with water and forestry, the industry provides employment for 3.6 million people or 27% of the employed in the economy and 18% of GDP. Export of agricultural products brings about 20-25% of total export income to the Republic. [2]

According to the Review of National Programs and Strategies support for agricultural exports in post-Soviet countries of the Food and Agriculture Organization of the United Nations, Tajikistan, Turkmenistan and Uzbekistan do not provide trade data for UN Comtrade. However, analysis of national statistics and mirror data in UN Comtrade allows us to draw the following most general conclusions for these countries.

Tajikistan and Turkmenistan are net importers of agri-food products, while Uzbekistan is a net exporter. In recent years, deliveries from these countries for this group of goods have been steadily declining. This also included supplies to post-Soviet countries.

The main countries that import agri-food products from these countries are the Russian Federation, Kazakhstan and Kyrgyzstan. At the same time, the main goods imported to the Russian market from Tajikistan, Turkmenistan and Uzbekistan, according to the customs statistics of the Russian Federation, are vegetables and fruits. [3]

Best international experience shows that improving the practice of financing the export of agricultural products is one of the necessary conditions for the development of agricultural exports. This creates the need to identify problems associated with improving the practice of financing the export of agricultural products and developing ways to solve them.

Currently, there are a number of urgent problems in the practice of financing the export of agricultural products to the Republic of Uzbekistan. One of such acute problems is the fact that the total number of documented letters of credit opened by commercial banks for the export of agricultural products is very small (3.5-4.0%) in the volume of letters of credit. In addition, high-interest rates on loans from commercial banks have a negative impact on the practice of financing the export of agricultural products.

**Literature review on the topic**

A lot of research can be found on this topic, but these studies do not include the situation of financing the export of agricultural products in the Republic of Uzbekistan.

According to V.Maliy, state financial support for their insurance plays an important role in financing agricultural exports. In this case, the agricultural producer enters into an insurance contract with the insurance company and pays 50 percent of the insurance premium; the remaining 50 percent is paid by the state [4].

This conclusion of V.Maliy is of great practical importance for Uzbekistan. Due to the relatively low level of profitability of farmers, the fact that the state covers half of the costs of agricultural export insurance contributes to an increase in their export potential.

The results of studies conducted by S. Korotkova, Y.Trach, E. Shkanupa, P. Peretshodov, J. Skoff, W. Dinkelberg showed that lending to agricultural exports is essential to

ensure efficiency, and the proportion of loans issued by commercial banks to Finance exports, financed by the state (bonification) [5].

According to A. Gavrilov, directions of export financing are as follows:

- Export financing must be based on a system that includes both public and private capital;
- Cooperation with international economic organizations;
- Creation of the Institute of information and consulting support for exporters;
- Establishment of an export credit insurance Agency;
- subsidizing the transport costs of exporters [6].

A scientist from Uzbekistan, economist E. Shadmonov, suggested expanding the use of documented letters of credit to Finance export-import operations of agricultural enterprises [7].

I. Alimardonov believes that in order to improve the practice of crediting foreign trade activities of small businesses (including small businesses operating in the agricultural sector), it is necessary to introduce payment of their fees through documented letters of credit from the accounts of term and overdraft loans of commercial banks [8].

#### **Data source and research methodology**

Analysis and synthesis, scientific abstraction deduction, classification, generalization, comparative, theoretical interpretation, and analytical methods were used in the methodology of this article, as a result of the bibliographic study, the direct and indirect factors affecting them and the prospects for further development were identified.

The information used in the article is mainly obtained through four sources: the official web pages of Food and Agriculture Organization of the United Nations, the Ministry of investment and foreign trade, the Ministry of agriculture of the Republic of Uzbekistan and ISB Agrobank.

#### **Analysis and results**

In Uzbekistan, the Ministry of foreign trade and the Ministry of agriculture and water management are responsible for the export of agri-food products.

In January 2017, it was decided to create a new bank — joint-stock commercial Bank "Uzagroexportbank". Its priority areas of activity are financing investment projects for the development of production and export of agro-industrial products (primarily fruits and vegetables) and related infrastructure, as well as assisting clients in developing strategies to promote agro-industrial products (primarily fruits and vegetables) to international markets together with foreign banks, financial institutions, diplomatic and trade missions.

In 2016, a Republican Commission was formed to ensure deeper processing and increase the export potential of fruit and vegetable products. The main tasks of the Commission are:

- implementation of marketing research on a systematic basis to determine the future demand for domestic fresh and processed fruit and vegetable products, as well as assistance to domestic exporters in developing new markets;

- coordination of work on the creation of specialized integrated trade and logistics centers for harvesting, storage, primary processing and export of fruit and vegetable products and melons, as well as refrigeration facilities;
- prompt consideration of issues related to the organization of transportation, customs clearance and reporting on the shipment of fruits, vegetables, melons and their processed products;
- organization of monitoring the implementation of forecast parameters for the supply of fresh and processed agricultural products for export.

Uztrade joint-stock company is a commercial organization based in the system of the Ministry of foreign trade of the Republic of Uzbekistan (51% of shares are owned by the state).

The Ministry of foreign trade of the Republic of Uzbekistan is responsible for the functions of a shareholder in the state blocks of shares of JSC "Uztrade". The main tasks and directions of activity of JSC "Uztrade":

- study on a systematic basis of demand and supply in foreign markets for products produced by small businesses and private businesses, dekhkans and farmers, and on this basis develop proposals for placing orders for the production of finished competitive products;
- export promotion of products of small businesses and private businesses, dekhkans and farmers, search and development of new markets for their products;
- creation of modern production facilities, greenhouses, cold storage facilities, sorting, packaging and processing of agricultural products for the purpose of their subsequent export together with small businesses and private businesses, dekhkans and farmers;
- assistance to small businesses and private businesses, dekhkans and farmers in the certification of export products, conducting advertising events, organizing their participation in international fairs and exhibitions, providing information and consulting on export issues;
- delivery of technological equipment, spare parts, components, raw materials and materials that are not produced in the Republic on the orders of small businesses and private businesses, dekhkan farms and farms.

Increasing the volume of agricultural exports in the Republic of Uzbekistan is one of the priorities of the state economic policy. Therefore, special attention is paid to creating the necessary conditions for increasing the volume of agricultural exports, including improving the practice of financing agricultural exports.

In accordance with the Decree of the President of the Republic of Uzbekistan dated July 29, 2019, under the No. 4406 "On additional measures for deep processing of agricultural products and further development of the food industry": [9]

a) The costs of certification of agricultural exporters are covered by the export promotion Agency under the Ministry of investment and foreign trade of the Republic of Uzbekistan based on reasonable calculations of the Agency "Uzstandart";

b) At the expense of the State Fund for support of business development under the Cabinet of Ministers of the Republic of Uzbekistan, loans from commercial banks involved in the implementation of investment projects in the field of processing of agricultural products are provided:

- compensation for interest expenses in the national currency with an interest rate not exceeding 1.5 times the refinancing rate of the Central Bank of the Republic of Uzbekistan for an amount not exceeding 10 billion soums in the part exceeding the refinancing rate, but not more than 3 percentage points;
- compensation for interest expenses in foreign currency on loans attracted in an amount not exceeding the equivalent of 10 billion soums — in the amount of 40 percent of the interest rate set by commercial banks, but not more than 4 percentage points;
- guarantee of up to 50 % of the loan amount in the amount not exceeding 3 billion soums.

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:

- Economic entities have the right to export fruits and vegetables without a wholesale license. In this case, the tax procedure is applied, which provides for: the payment of a single tax on the export revenue of individual entrepreneurs;
- exporting legal entities have the right to export fruits and vegetables without a 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 for export operations, the term for the occurrence of overdue receivables is set for 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 entering into an export contract, subject to 100% prepayment by non-residents of the Republic of Uzbekistan by bank transfers in foreign currency. [10]

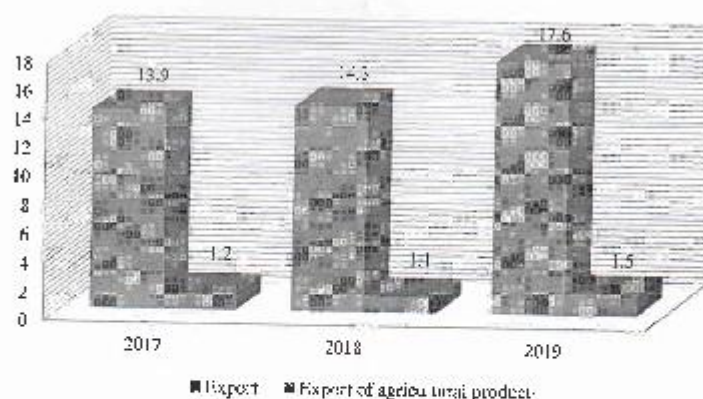
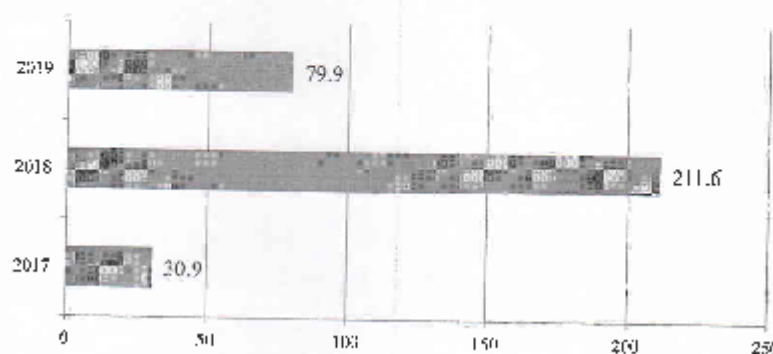


Figure 1. The volume of exports and exports of agricultural products in the Republic of Uzbekistan is estimated at \$ 3 billion. US dollar [11]



As can be seen from the Figure 1, the volume of exports of the Republic of Uzbekistan in 2017-2019 has a growth trend. However, the volume of exports of agricultural products is unstable. In 2018, the volume of exports of agricultural products decreased significantly compared to 2017.

In our republic, mainly, financial services to the agricultural sector are provided by JSB Agrobank.



**Figure 2.** Documented letters of credit and guarantees issued by JSB "Agrobank" for import operations of agricultural producers and enterprises, in billion soums [12]

As can be seen from Figure 2, the number of documented letters of credit and guarantees issued by Agrobank for import operations of agricultural producers in 2017-2019 was unstable. In 2019, this figure fell sharply compared to 2018.

It should be noted that during the period analyzed by Agrobank, documented letters of credit and guarantees for export operations of agricultural producers and enterprises were not issued. This is a negative situation in terms of improving the practice of financing agricultural exports.

It is known that one of the important sources of financing for agricultural exports is loans from commercial banks. However, the amount of financing for agricultural exports from commercial Bank loans depends on the interest rate on loans. Unfortunately, high-interest rates on loans provided by commercial banks of the country, including Agrobank, to agricultural enterprises in national and foreign currencies are high, which constrains the growth of lending to agricultural exports. In 2018, Agrobank provided investment loans to farmers to finance investment projects for up to 60 months at rates from 22% to 26% per annum, for working capital for up to 12 months at rates from 22% to 26% per annum. Also, the interest rate on loans in the foreign currency issued by Agrobank is 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% [13], these are interest rates that are significantly higher.

## CONCLUSION

In our view, in order to improve the practice of financing agricultural exports to the country, it is advisable to implement the following measures:

1. To expand the scope of financing of these exports by increasing the volume of documentary letters of credit opened by commercial banks for agricultural exports, first of all, these letters of credit should be opened to exporters who have a documented letter of credit from a foreign bank; secondly, these letters of credit should finance the running costs and transport costs associated with the production of exported goods; third, the current liquidity of exporters using these letters of credit should not be lower than the regulatory requirement (2.0) generally accepted in international practice.

2. 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 risk when determining the interest rate on loans to agricultural producers and agricultural enterprises with guaranteed payment for export products; secondly, it is necessary to establish selective lending by the Central Bank to agricultural exporters; third, it is necessary to ensure that these export credits are issued by commercial banks at fixed rates (for this purpose, resources attracted by commercial banks in foreign currency must have a fixed rate).

Implementation of this proposal will produce the following results:

- increase the level of access to agricultural exporters to export loans from banks;
- The level of credit risk associated with export loans from commercial banks will be reduced;
- the percentage risk for agricultural exporters is significantly reduced.

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