

Peculiarities of the Development of the Financial and Economic System of Agriculture and Water Sector in Uzbekistan



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Abstract— *In Uzbekistan agriculture plays a specific role in economic development because of its significant share in total employment and GDP. The aim of this paper is to analyze financial and economic system of agriculture and water sector. The special attention is devoted to the position of agricultural sector that may positive influence to support economic development and food security in the region. The results indicate main trends in economic development, and point that agriculture still dominates in terms of employment. Moreover, a significant reduction of agriculture's share in GDP is to be expected in the future, while the shares of industry and services increase.*

Keywords: *agriculture sector, financial system, liberalization, foreign investments, market infrastructure*

I. INTRODUCTION

It is known that the reforms carried out during the years of independence have laid a solid foundation for national statehood and sovereignty, ensuring security and the rule of law, the inviolability of State borders, the rule of law, a reliable system for the protection of human rights and freedoms, inter-ethnic harmony and religious tolerance in society, and have created decent living conditions and the realization of Uzbekistan's potential. At the same time, a comprehensive analysis of the country's past stage of development and the changing situation in the globalized world economy require the elaboration and implementation of cardinal new ideas and principles for the country's further sustainable and forward-looking development.

With a view of radical increase of efficiency of carried out reforms, creation of conditions for maintenance of all-round and accelerated development of the state and a society,

realisation of priority directions on modernization of the country and liberalization of all spheres of a life, is confirmed by the president of the Republic of Uzbekistan on February, 7th, 2017 developed following results of complex studying of actual and disturbing questions of the population and businessmen of the republic, the analysis of the current legislation, Law-enforcement practice and advanced foreign experience The strategy of action in five priority areas of development of the Republic of Uzbekistan in 2017-2021, including structural reforms in agriculture [7].

II. LITERATURE REVIEW

The Republic of Uzbekistan is located between the Amu Darya and Syr Darya rivers. Over 70% of the territory is covered by plains, intermountainous and river valleys, steppes and deserts. Agriculture here is based on irrigation. 96% of agricultural production here comes from irrigated lands and more than 60% of the republic's population lives in rural areas; agriculture provides jobs for about 33% of the country's able-bodied population. The main limiting factor for further expansion of irrigated arable land is limited water resources. Financing of the agricultural sector is not enough if we evaluate the importance of agriculture on a national scale. The share of agriculture in the total volume of all investments in fixed assets tends to decrease, while in 1999 the agricultural sector accounted for 8.2%, while in 2016 this indicator amounted to 4.7%. The distribution of foreign investments is similar: while in 2015 the share of agriculture was 5.9%, in 2016 it was only 3.1%. This trend of reduction in the level of investment in agriculture raises the problem of finding alternative and additional sources of financing, as well as the formation and adoption of measures to encourage the participation of various financial institutions in the process of lending to agricultural producers.

At present, the main sources of investment in agriculture and water management are budget funds, the Fund for the purchase of agricultural products for state needs, as well as funds from commercial banks, extra-budgetary funds, credit unions and foreign credit lines. The financial resources received from these sources are mainly used in five directions: maintenance of the water sector; financing of irrigation and reclamation works; financing of purchase of agricultural products for state needs; financing of agricultural production for own needs of producers; financing of leasing operations.

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Last year, the share of public spending on agriculture financing was 4.7%. At the same time, the main expenditure items are water management and irrigation and reclamation works. This type of activities is mainly financed through the Ministry of Agriculture and Water Resources. The system of state support based on free financing of the water sector is characterized by weak control over the targeted use of public funds, lack of material interest of agricultural producers and heads of subordinate structures of this ministry in water resources saving. Another way of financing agriculture from the state budget is through various incentives and, in particular, tax exemptions.

III. METHODOLOGY

The urgency of accelerating the development of alternative sources of financing for agriculture is due to the recent trend of development of farming and dekhkan economy. After the creation of the normative-legal base of the state regulation of the agro-industrial complex in Uzbekistan the system of preferential crediting of agricultural producers with the use of both budgetary resources and funds of commercial banks is applied. Farmers' and dekhkan farms are financed by commercial banks mainly at the expense of the Preferential Loan Fund. Thus, the data on the loan granted by "AGROBANK" are observed to increase the volume of loans to agriculture. Agrobank in the course of its activities focuses on the issues of financing the real sector of the economy, attracting the free cash of the population into the banking turnover, increasing the network of branches and customer base, increasing the types of services, the implementation of the established basic parameters of the business plan and budget of the bank.

It should be noted that Agrobank, as one of the largest commercial banks of the country, which has great potential for development, makes a significant contribution to the comprehensive development of the real sector of the economy, and especially agricultural production.

Today we can state the fact that the process of radical reforming of agriculture, which is a priority sector of the country's economy, has been successfully completed in accordance with the requirements of market conditions. On the basis of shirkat farms, farms with a legal status have been established step by step, which effectively conduct independent activities. In the implementation of these fundamental reforms in agriculture there is a considerable merit of the Agrobank, which is the main financial support of the agrarian sector.

For the purpose of small business development, the Bank attracted credit lines from KFW, EBRD, ADB, Eximbank of the People's Republic of China, International Bank for Reconstruction and Development (IBRD)

International operations of Agrobank are carried out through correspondent accounts of 23 banks abroad and within the country.

Also, Agrobank is a member of the global interbank community of financial telecommunications S.W.I.F.T. [6].

The implemented measures to ensure acceptance as principal members of the international payment system "VISA International", in turn, created an opportunity to organize a processing center and to establish work to ensure the issue of chip plastic cards. All these achievements of the

staff of JSCB "Agrobank" once again demonstrate its growing ties with international financial institutions.

Foreign loans received under government guarantees are mainly used to improve the irrigation and land reclamation conditions in the regions. At the same time, a serious factor limiting lending to agriculture is the specific risks that banks face in lending to this sector. Specific risks associated with lending to agricultural enterprises include: instability of financial condition, mismatch between the long-term needs of enterprises and the short-term nature of the resources available to the bank; seasonal peculiarities of agricultural production, its dependence on natural and climatic conditions; difficulties associated with the sale of products; non-payments or delays in the receipt of proceeds from the sale of goods; lack of liquid collateral for loans by borrowers; low profitability of lending operations; insufficient legal and regulatory framework

IV. RESULTS & DISCUSSIONS

Recently, there has been a situation in which many agricultural enterprises are unreliable borrowers. This has led to the fact that working capital is replenished with own funds of the enterprises and short-term (up to 1 year) bank loans, issued mostly from the fund of preferential crediting of agricultural sector. At the same time, the share of bank loans remains limited. In this connection it is possible to recommend such mechanism of credit compensation, when the state should pay off the funds not to the bank, but directly to the agricultural enterprise which has taken the credit from the bank at the market rate. Then the compensation of the loan may be carried out not at the beginning of the loan term, but at the end, which will make it easier to control the targeted use of funds. The advantage of such a scheme is that it links government subsidies on credit to enterprise funds in a specific programme (e.g., a production improvement programme). It is necessary to supplement the existing mechanism of subsidizing the interest rate on the loan and part of the loan itself.

At the same time, guaranteeing the repayment of the loan may contribute to the solution of several tasks: there will be a possibility of securing the loan; the number of banks providing credit under guarantees may increase significantly; budget expenses for the formation of the fund of preferential crediting will decrease (these funds can be redistributed to other needs of agriculture, in particular, for long-term investment projects); expenses for the control over the use of the funds of the fund of crediting will decrease; the possibility of using the funds of the budget will decrease.

The experience of creating rural credit cooperation, which is useful for the development of the system of commercial credit in rural areas and is a kind of counterbalance to bank lending, is of great practical interest. Such cooperatives are primarily necessary for the development and functioning of farms and dekhkan farms. The absence of relevant legislative acts hinders the development of credit cooperation in agriculture.

Another way to mobilize additional credit and financial resources is to create specialized

agricultural institutions. Such institutions are successfully functioning in many countries of the world. Some of them (Dutch Rabobank, German Raiffeisenbank, French Credit Agricole, American (Farm Credit System) system of farmer credit are among the largest banks, both in terms of capital and volume of operations.

In order to increase investment, it is necessary, first of all, to increase the activity of the state in these processes: state guarantees, increase the volume of state investments, and their legislative support. Another progressive form of lending, to which much attention is paid today, is a long-term loan (for mortgage). Mortgage loans secured (mortgaged) by rural immovable property are one of the earliest forms of credit, which, as public production developed, was concentrated in special mortgage banks. Mortgage lending can be characterized in different ways. On the one hand, mortgage lending is regarded in many countries as one of the main sources of investment resources for agriculture, as land is an attractive collateral for bank loans. And banks do not need to assess the real solvency of the borrower, to analyze the feasibility of the purpose of the loan, to control the effectiveness of the funds used.

A complex of resource-saving and soil-protective technologies, means and variants of mechanized soil treatment, high-yielding, drought and salt-tolerant varieties of agricultural crops for various natural-climatic zones has been developed in our country. Our research shows that the situation is as follows: economic entities, because of poor awareness and lack of financial resources, do not introduce scientific and technical achievements and become chronically unprofitable. Due to the fact that the mechanism of stimulation, implementation, scientific and technical achievements has not been processed, agricultural producers suffer losses. Unprocessed economic mechanism of stimulation, implementation, results of scientific researches in agricultural production, poor awareness of farmers and dekhkans, restrain the process of choosing the most acceptable for this land plot resource-saving technology, variety and type of agricultural products.

CONCLUSION

Thus, the implementation of the above recommendations will accelerate the formation of a class of owners in rural areas with a sustainable economy and their activation in making production and commercial decisions. In the long term, all this will contribute to the unification of small farms with large specialized farms with developed market infrastructure.

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