



## IMPROVING FINANCIAL SUPPORT MECHANISMS OF LANDOWNERS COSTS OF FARMLAND

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<b>Received:</b> 11 <sup>th</sup> April 2022 <b>Accepted:</b> 14 <sup>th</sup> May 2022 <b>Published:</b> 28 <sup>th</sup> June 2022	This article analyzes the factors influencing the effectiveness of mechanisms to financially support the costs of landowners and develops recommendations for their improvement
<b>Keywords:</b> Landowners, Central Bank, Commercial Banks, Credit, Dehkan Farms, Financial Support.	

Financing the production of agricultural products is a key condition for ensuring food security. Therefore, the process of attracting resources and increasing the efficiency of commercial banks in financing business activities in agriculture in our country depends on the forms and methods of financing mechanisms. At present, the main problem is the ineffectiveness of the mechanism for financing the costs of landowners, the inability of the existing mechanism to perform its functions, the lack of coverage of various forms of ownership in agriculture, the lack of implementation of laws and decisions by our government. This is causing various problems between the manufacturer and the financial institutions. In particular, the lack of financial resources in banks to finance the costs of landowners, the lack of collateral for the cost of repaying loans and the complexity of the lending mechanism for businesses limit the development of small business. The complexity of the existing mechanisms and the multi-stage implementation scheme have led to objections from industry representatives. In accordance with the Resolution of the Cabinet of Ministers No. 130 of March 11, 2021, the Regulation "On the procedure for crediting the costs of growing vegetables in the main areas" was developed. According to him, the Fund for State Support of Agriculture under the Ministry of Finance of the Republic of Uzbekistan determines the procedure for lending by commercial banks for the costs of growing vegetables in the main areas of farms and other vegetable growers at the expense of credit resources.

According to him, an agreement will be signed between Jamgarma and the Commercial Bank on lending for the cost of growing vegetables in the main areas before the start of the planting season each year. The Commercial Bank submits loan applications to the Fund by the 5th of each month to credit the cost of growing vegetables in the main areas. Fund allocates credit resources to commercial banks in accordance with loan applications. The Commercial Bank will open a credit line from Jamgarma's credit resources to the borrower on the terms of maturity, repayment, payment, security and purposeful use to lend the costs of growing vegetables in the main areas.

**Table 1**  
**SCHEDULE of lending for the cost of growing vegetables in the main areas<sup>1</sup>**

Step	Implementation mechanism	Duration	Performers
Step 1	An agreement will be signed between the Fund and a commercial bank on crediting the costs of growing vegetables. The commercial bank submits loan applications to the Fund to finance the cost of growing vegetables.	Until the 5th of each month before the start of the planting season each year	1. Fund 2. Commercial bank
Step 2	In accordance with the agreement with the commercial bank, the Fund will place loans to finance the cost of growing vegetables in the main areas of the borrower.	From the first month of the period in which the agro-technical measures are carried out	1. Fund 2. Commercial bank
Step 3	The borrower submits an application to the commercial bank servicing the deposit account, which is kept until the basic requirement for obtaining a loan.	At the beginning of the harvest year, when agro-technical measures are carried out	Commercial bank branch

<sup>1</sup> 9 months Annex to the Resolution of the Cabinet of Ministers No. 130 of March 11, 2021

Step 4	A credit line and a credit account will be opened for the borrower to lend the costs of growing vegetables in the main areas at the expense of the Fund's loans.	From the first month of the period in which the agro-technical measures are carried out	Commercial bank branch
Step 5	A commercial bank provides a loan from the Fund without the right to extend the repayment period to lend the costs of growing vegetables in the main areas.	Until the term of the loan agreement	1. Commercial bank branch 2. Borrower
Step 6	The commercial bank monitors the targeted use of allocated loans.	Until the term of the loan agreement	Commercial bank branch
Step 7	It pays off the soft loan and the interest accrued on it	9 months	1. Fund 2. Commercial bank

This scheme is intended to be implemented on the basis of the following requirements for crediting the costs of growing vegetables in the main areas:

- In accordance with the agreement with the commercial bank, the Fund places loans at a rate of up to 40% of the value of vegetables, taking into account the value of seeds for 9 months, at a rate of 2% less than the base rate of the Central Bank of Uzbekistan.

- If the loan is not repaid by the commercial bank within the period specified in the agreement, interest on the non-repaid part of the loan is calculated by adding 6 percentage points to the base rate of the Central Bank of the Republic of Uzbekistan.

- Unused portion of credit resources allocated to a commercial bank shall be returned to the Fund by the commercial bank no later than the next business day.

- The loan amount is determined on the basis of the minimum price announced annually by the Ministry of Agriculture of the Republic of Uzbekistan and taking into account the normative yield of soil (centner / hectare) relative to one quality point.

An insurance policy is required to prove that the risk of non-repayment of the loan received by the borrower is insured in favor of a commercial bank or that the borrower's future crop is insured.

Examining some aspects of these requirements, it can be concluded that the implementation mechanism and the time spent on collecting the necessary documents are disproportionate to the requirements of the issued system.

**Table 2**

**SCHEME OF ESTABLISHMENT OF AN INSURANCE PARTNERSHIP INSURANCE OF RISK RETURN OF LOANS TO FARMS AND LAND OWNERS<sup>2</sup>**

Steps	Name of event	Period	Responsible
<b>I</b>	Identification of participants in the insurance partnership to insure the risk of non-repayment of loans to farmers and owners of land plots	Within 5 days after the decision is made	State Inspectorate for Insurance Supervision of the Ministry of Finance of the Republic of Uzbekistan, Association of Professional Participants of the Insurance Market of Uzbekistan
<b>II</b>	Convening the first constituent meeting of the Supervisory Board of the participants of the insurance partnership to insure the risk of non-repayment of loans to farmers and owners of land plots	Within 10 days after the decision is made	State Inspectorate for Insurance Supervision of the Ministry of Finance of the Republic of Uzbekistan, Association of Professional Participants of the Insurance Market of Uzbekistan
<b>III</b>	Election of the Chairman of the Supervisory Board of the Insurance Partnership and his Deputy	Within 10 days after the decision is made	Supervisory Board of the insurance partnership
<b>IV</b>	Appointment of the executive body carrying out the current activity of the insurance partnership	Participants of the insurance partnership within 10 days after the first constituent meeting of the Supervisory Board	Supervisory Board of the insurance partnership
<b>V</b>	Signing of relevant agreements by the executive body of the insurance partnership with each of the participants of the	Within 5 days after the appointment of the executive body	Executive body of the insurance partnership

<sup>2</sup> National Database of Legislation (www.lex.uz), March 11, 2021

	insurance partnership		
<b>VI</b>	Development and approval of the text of the agreement on joint activities between the participants of the insurance partnership	Participants of the insurance partnership within 15 days after the first constituent meeting of the Supervisory Board	Insurance partnership, Association of professional participants of the insurance market of Uzbekistan, insurance companies
<b>VII</b>	In accordance with the decision of the Cabinet of Ministers of the Republic of Uzbekistan to develop and implement a single model contract of non-repayment of credit insurance for additional loans for the cultivation of poultry and lemon products and the establishment of greenhouses in farms and households	Participants of the insurance partnership within 15 days after the first constituent meeting of the Supervisory Board	Insurance partnership, Association of professional participants of the insurance market of Uzbekistan, insurance companies
<b>VIII</b>	Insurance against the risk of non-repayment of loans provided by the participants of the insurance partnership for the cultivation of additional poultry products, lemons, unabi, walnuts and the establishment of greenhouses in farms and households	Since the introduction of a single model insurance contract	Insurance partnership participants
<b>IX</b>	Carrying out settlements between the participants of the insurance partnership	By the 10th of the following month after each quarter	Insurance partnership participants
<b>X</b>	Making insurance payments on insurance claims within its share	Insurance partnership participants	Insurance partnership participants

The results of the calculations in the implementation of this mechanism show that the time required to prepare a folder of documents for the insurance service is from 30 to 55 days. This process leads to a reduction in the frequency of control over the activities of landowners, a negative impact on productivity and excessive costs. Most importantly, most of the loan period is spent on the preparation of this document, which complicates the process of obtaining a loan. Therefore, the laws and decrees issued, the decrees should complement each other, be simplified and, most importantly, not cause unnecessary confusion for the manufacturer.

If we pay attention to the use of investment funds in the financing of agriculture in our country in recent years, the amount of money spent between industry and agriculture differs significantly.

**Table 3**

**Dynamics of key macroeconomic indicators of agricultural sector development in the Republic in 2000-2020 years<sup>3</sup>**

Indicators	2000 y	2005 y	2010 y	2015 y	2020 y
The share of agriculture in GDP, in%	34,4	29,5	32,9	34,1	28,2
Annual growth rates of gross agricultural output, in%, compared to the previous year	103,1	105,4	106,3	106,1	103,0
The share of agriculture in fixed capital investments, in%	5,7	4,4	3,5	3,3	8,9

According to the table, the share of agriculture in GDP was 34.4% in 2000 and 28.2% in 2020. The reason for this decrease can be explained by several reasons: First, sales of raw cotton, which had the largest share in 2000, have declined sharply over the past 5 years, and the share of the industrial sector has risen sharply through the conversion of raw materials into semi-finished and final products. The area under cotton was sharply reduced, and high-yield food products began to be produced. Second, the coronavirus epidemic, which began in 2019, will continue in 2020 and has had a significant negative impact on agricultural production. However, as a result of state economic support for agriculture in 2021, its share in GDP will be 43%. Also, the share of investments in fixed assets increased from 5.7% in 2000 to 8.9% in 2020. The increase in the share of financial support for agriculture has had a positive impact on the volume of agricultural production in 2021.

According to the analysis, 70.7% of vegetables, 83.7% of potatoes, 59.7% of melons, 60% of fruits and 56.2% of grapes are grown in these areas.

<sup>3</sup> Author's development on the basis of data of the State Statistics Committee of the Republic of Uzbekistan

**Table 4**  
**Information on productivity indicators of farms and horticultural farms<sup>4</sup>**

Nº	Product types	Unit measurement	of Land management	Farm
1	Vegetables	ga / ton	27,6	21,0
2	potatoes	ga / ton	24,6	17,0
3	melon products	ga / ton	24,9	13,4
4	fruit	ga / ton	20,5	8,6
5	grapes	ga / ton	22,7	11,5

When analyzing the average yield of crops, the average yield of vegetables in the period from 27.6 tons per hectare in the population's farms, this figure was 21.0 tons per hectare in farms, 24.6 tons and 17.0 tons for potatoes, respectively, 24 for melons, respectively. , 9 tons and 13.4 tons, fruits 20.5 tons and 8.6 tons, respectively, and grapes 22.7 tons and 11.5 tons, respectively. The analysis shows that horticulture has high yields, although it does not have advantages over farms in the production of fertilizers, water, machinery, funds and other necessary supplies. The seasonal nature of agriculture, the very low capacity to recoup the money spent, has led to the relocation of fixed capital to other high-income sectors. This can be seen in the following table:

**Table 5**  
**The share of credit investments of commercial banks by industry<sup>5</sup>**

Name of indicators	01.01.2020 year		01.01.2021 year		Change, in percent
	billion sum	percentage	billion sum	percentage	
Total loans	<b>211 581</b>	<b>100%</b>	<b>276 975</b>	<b>100%</b>	<b>30,9%</b>
Industry	75 636	35,7%	102 162	36,9%	35,1%
Agriculture	17 205	8,1%	28 081	10,1%	63,2%
Construction industry	5 930	2,8%	7 380	2,7%	24,4%
Trade and general service	14 480	6,8%	19 916	7,2%	37,5%
Transport and communication	23 516	11,1%	26 626	9,6%	13,2%
Development of material and technical support	3 302	1,6%	3 962	1,4%	20,0%
Housing and communal services	2 512	1,2%	3 759	1,4%	49,7%
Individuals	39 934	18,9%	54 888	19,8%	37,4%
Other areas	29 065	13,7%	30 201	10,9%	3,9%

However, in recent years, the share of loans of commercial banks to agriculture amounted to 63.2%, which is higher than in other sectors. In the development of the agricultural industry, the contribution to the formation of the value chain has been high.

As a result of the study, proposals were developed to take into account the following factors in improving the mechanism of lending to the population for the use of land and increase its efficiency:

1. Determining the timing and timing of lending in the lending mechanism based on the climatic conditions of the country and the type of product;
2. Increasing the role of insurance services in reducing the risk of non-repayment of loans in the development of financial support mechanisms, attracting funds and local budget funds;
3. Widespread use of financing mechanisms through the effective use of digital technologies (online access to credit, the introduction of a single electronic platform system "agricultural market" for agricultural products);
4. Introduce a preferential mechanism for taking into account the social strata of the population and youth employment in setting interest rates.

The solution of these issues will serve to increase the entrepreneurial spirit of the population in our country and the effective functioning of the mechanism in the financing system. This will lead to an increase in the number of producers of quality agricultural products, create a healthy competitive environment and increase the share of export-oriented products.

<sup>4</sup> Author's development on the basis of data of the State Statistics Committee of the Republic of Uzbekistan

<sup>5</sup> Author's development on the basis of data of the State Statistics Committee of the Republic of Uzbekistan

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