



## PROBLEMS WITH FINANCING EXPORT OF AGRICULTURAL PRODUCTS

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### ABSTRACT

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*The article mainly discusses the problems encountered in financing the export of agricultural products in the agricultural sector and the issues of increasing the role of the agricultural sector in stimulating export potential.*

**KEYWORDS:** *agriculture, export, finance, agrarian sector, credit, bonification, commercial banks, subsidies, soft loans, insurance costs, importer, exporter*

### INTRODUCTION

Financing the export of agricultural products is one of the necessary conditions for increasing the export potential of the agricultural sector. In the practice of the world, research is being conducted to develop the system of lending to agricultural exports, improve the mechanism of state support for financing these exports, ensure the effectiveness of the use of documentary letters of credit to finance agricultural exports, 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.

In this regard, 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:

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. This will, firstly, increase the rate of access of agricultural exporters to loans from commercial banks; 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.

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 [1].

Theoretical and practical aspects of financing the export of agricultural products are foreign economists - G. Mokrov, D. Ternovsky, V. Akhramovich, R. Yanbykh, G. Grishin, O. Tagirov, S. Korotkova, Yu. Tkach, E. Shkarupa, and others.

Uzbek economists E. Shodmonov, I. Alimardonov, D. Murodova, Z. Berdinazarov, F. Akhmedov, and others in the scientific work to improve the practice of financing the export of agricultural products theoretical and practical aspects were studied separately G. Tajenova, T. Nurymbetov, financed the export of agricultural products in the Republic of Karakalpakstan.

## RESEARCH METHODS

This article used induction and deduction, economic-statistical methods, expert evaluation methods.

## RESULTS AND DISCUSSIONS

The scientific significance of the results of the research is that they can be used as a source in the conduct of scientific research on the development of international trade operations of agricultural entities.

The practical significance of the research results is determined by the possibility of their application in the development of a set of measures aimed at improving the practice of financing the export of agricultural products in the Republic of Uzbekistan.

## ANALYSIS COMMENTS

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;
- 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 solvency of agricultural producers in developing countries, their access to commercial bank loans 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 showed that lending to farms by the bonification method has become the main form of lending to them in developed countries, as 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.

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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 disposal of the buyer at the agreed address, provided that the delivery is free 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.

3. In order 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, 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 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.

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 provided 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 [2].

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.

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 (to calculate this ratio, the sum of cash at 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 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) [3].

It should be noted that one of the necessary conditions for the large-scale attraction of foreign credit lines is to ensure the efficient 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:

- 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, the Action Strategy for the five priority areas of development of the Republic of Uzbekistan for 2017-2021 includes attracting World Bank loans for 27 projects for 2016-2020, Asian Development Bank loans for 20 projects, Islamic Development Bank 1, 0 billion It is planned to implement investment projects involving loans in the amount of not less than \$ 1 billion [4].

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, the requirement for the compulsory sale of foreign exchange earnings of all exporting enterprises, regardless of the form of ownership, has been 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 [5].

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. This indicates that the level of diversification of foreign exchange reserves is very low

The low level of diversification of foreign exchange reserves does not allow reducing the level of currency risk in the activities of agricultural exporters. This, in turn, has a negative impact on their financial situation.

Therefore, in developed countries, as well as in countries such as Russia and China, businesses form reserves in all major currencies (except the Chinese yuan) at the same time in order to diversify foreign exchange reserves.

## CONCLUSION

Based on the above, there are the following problems associated with the improvement of the practice of financing the export of agricultural products in the Republic of Uzbekistan:

\*non-disclosure by commercial banks of documentary letters of credit and guarantees for 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;

\*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.

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