

---

# Improving the Mechanism of Financial Lending to Agricultural Enterprises

---

*Dustova Mukhayo Khudayberdievna*

*Senior Lecturer at the Department of Finance at the Karshi Engineering Economics Institute*

---

**Abstract:** The article shows the specific features of agricultural lending. An assessment given to the modern existing mechanisms for lending to agricultural producers. Moreover, the improvement of the mechanism of financial lending to agricultural enterprises is proposed.

**Keywords:** industry, agricultural, financial lending, improvement, mechanism, enterprises, governmental support.

---

Lending to agriculture does not always take into account the objective features of this sector of the economy, causing an additional need for borrowed resources, the dependence of the agricultural producer on natural conditions, seasonality and other factors. Nor does it take into account the specific conditions that lie in the economic differentiation of agricultural organizations. The incompatibility of the financial and credit mechanism with the real state of affairs in this sphere of production has led to the unavailability of credit resources for various reasons for the bulk of agricultural organizations, and in this regard, to the lack of not only expanded, but also simple reproduction. Most of the loans are loans to procurement and leasing organizations, and only a small part goes directly to agricultural organizations.

In this regard, the role of external, and above all returnable, sources of financing in agriculture is significantly increasing. The agricultural lending system is the most important specific area, the functioning of which ensures the accumulation of temporarily free funds and their redistribution in accordance with the needs of agricultural producers in the formation of cash funds at various stages and stages of production, distribution, exchange and consumption of products [2].

The most important step in the development of agriculture in Uzbekistan, and in particular lending to agricultural organizations, was the Decree of the President of the Republic of Uzbekistan, dated February 26, 2021 № UP-6179 “On the cardinal improvement of the activities of the fund for state support of agriculture under the ministry of finance of the republic of Uzbekistan”. Where in order to develop agriculture in the country, finance all areas of the agricultural sector, ensure price stability in the domestic market, create a high value chain, mechanize the agricultural sector, as well as widely introduce market principles into production, purchase and sale of products:

- Approve the proposal of the Ministry of Economic Development and Poverty Reduction, the Ministry of Finance and the Ministry of Agriculture to raise the activities of the State Support Fund for Agriculture under the Ministry of Finance (hereinafter referred to as the Fund) to a new level in order to expand the introduction of additional mechanisms and financial means of financing agriculture;
- In order to ensure the timely implementation of agrotechnical measures, including the raising of the fallow and the application of mineral fertilizers to the sown areas, from the

harvest of 2022, the financing of expenses for the cultivation of raw cotton begins on November 1 of the year preceding the corresponding financial year;

- For crediting expenses for growing vegetables, the Fund places funds in commercial banks for a period of 9 months with an annual interest rate two percentage points lower than the main rate of the Central Bank and others [1].

State Program for the Development of Agriculture and Regulation of Agricultural Products, Raw Materials and Food Markets for 2020-2030 became a continuation of state support for agricultural lending. The main directions of which are: replenishment of the authorized capital of development institutions specializing in supporting development and subsidizing the interest rate when providing loans to agriculture, aimed at achieving its financial sustainability. Work is underway to implement the strategy of agricultural development of the Republic of Uzbekistan for 2020-2030 [3].

Thus, within the framework of the implementation of the main activities of this State Program of the Republic of Uzbekistan for 2020-2030, it envisaged to provide access to short-term borrowed funds received from credit institutions and agricultural credit consumer cooperatives of Uzbekistan:

- ✓ (farming) farms under credit agreements (loan agreements) for the acquisition of material resources for seasonal work in crop production;
- ✓ organizations of the agro-industrial complex, regardless of their organizational and legal form, and organizations of consumer cooperation under credit agreements (loan agreements) for the purchase of agricultural raw materials for the primary and industrial processing of crop products, the purchase of flour for the production of bakery products;
- ✓ agricultural producers (with the exception of citizens running private farms and agricultural consumer cooperatives) and peasant (farm) enterprises, organizations of the agro-industrial complex, regardless of their organizational and legal form, agricultural consumer cooperatives under investment loan agreements (loan agreements) received in credit organizations and agricultural credit consumer cooperatives of Uzbekistan for the construction, reconstruction and modernization of storage facilities.

One of the most important areas in the activities of OJSC “Agrobank” and “QQB” is lending to agricultural producers for current purposes – seasonal fieldwork, replenishment of working capital, purchase of feed, young stock for fattening, etc. Since borrowers do not always have sufficient collateral on loans for seasonal fieldwork, loans provided for these purposes secured by the products of the future crop crops. Thus, for seasonal fieldwork and the purchase of feed in 2021, “Agrobank” issued 120.9 billion sums, and “QQB” issued 160 billion sums[3].

The State Program of the Republic of Uzbekistan emphasizes the role of agricultural credit cooperatives in achieving the financial stability of agricultural producers, and above all small forms of management. Credit cooperation creates real prerequisites and conditions for agriculture to emerge from the crisis, stabilize and boost agricultural production, and improve the supply of high quality and cheap food to the population.

Prospects for the development of lending to agricultural producers are associated with the creation of agricultural cooperative and other banks operating on the principles of credit cooperation. This will help reduce the cost of loans and prevent the leakage of targeted credit resources to non-agricultural sectors, creating a competitive environment in the banking sector, even in remote rural areas.

The high capital intensity inherent in agriculture and the relatively low return on assets, the

mismatch in time between the periods of costs and income generation dictate the need for specific forms of credit support from banks for agricultural organizations to commodity producers.

The priority of the development of the system of land mortgage lending is due to the fact that agricultural land is the basic prerequisite and the basis of production in agriculture and can act as collateral for a loan. The effective functioning of the mechanism for pledging agricultural land helps to attract long-term investments in agriculture and improve the economic condition of agricultural organizations.

A significant reason limiting the development of land and mortgage lending is the lack of properly formalized property rights to land plots among potential borrowers due to the ill-advised privatization of agricultural land and the high cost of land management. In this regard, from 2020-2030, a new measure of state support for farmers in the registration of land plots in the property being implemented.

Land and mortgage lending in Uzbekistan is of a high-risk nature due to the low liquidity of agricultural land, the instability of interest rates, the insufficiency of liquid bank assets, and the insolvency of agricultural organizations.

In order to provide agricultural organizations with borrowed sources, it is necessary to create financial institutions that are interconnected and form an integrity that ensures the transfer of credit resources in the loan capital market from investors to borrowers specializing in mortgage lending, both secured by land plots and farms in general. The main task of financial institutions will be to carry out credit and guarantee operations, to provide additional guarantees when applying for a loan that exceeds the cadastral value to the market value.

In the formation of credit land systems, the role of the state is important, its active participation in the formation of land mortgage banks, the creation of credit resources, and the provision of soft loans. Complex mortgage transactions require strict control and regulation by the state, well-functioning registration system. Therefore, the creation of conditions for land mortgage lending should be considered a key point of state policy in the field of lending to agricultural organizations.

The factor hindering the development of the system of land and mortgage lending is the imperfection of the legislation. There is no clear system of legal regulation of the land market, which takes into account the interests of all participants in the mortgage process and allows the full implementation of the function of land mortgage. Uncertainty remains in the delimitation of state ownership of land, which hinders the development of land mortgage lending, being a significant obstacle for commercial banks to use land as collateral.

Despite the fact that the system of land mortgage lending in Uzbekistan is in its infancy, we can talk about success in promoting this innovative product.

The development of agricultural credit cooperation is one of the important areas of financial support for small businesses in the countryside. Agricultural credit cooperation creates an opportunity to resist commercial banks, strengthens the financial position of agricultural organizations, and provides greater access to financial services for small businesses and the rural population.

When considering the prospects for the development of rural credit cooperation, it is advisable to take into account the provisions contained in the draft Strategy for the Development of the Banking Sector of the Republic of Uzbekistan until 2030. In these provisions, credit cooperatives and microfinance organizations do not carry out banking

operations and are not credit organizations. Their main goal is to provide financial support for the activities of citizens, individual entrepreneurs and small businesses. The procedures used by these organizations for issuing loans and providing loans are less formalized and regulated compared to the bank lending procedure, based on direct interaction with customers, their business and social environment, on a specific analysis of their financial needs and opportunities [3].

The need for further development of the system of rural credit cooperation explained by the significant number of different categories of farms in need of financial resources. Therefore, the size of loans, their duration should be varied, taking into account the possibilities and protecting the interests of the manufacturer. At the same time, the main condition is the need to provide state support for its growth and development. Credit cooperation can fill the financial vacuum by boosting agricultural production and living standards for farmers.

In order to improve lending to agricultural organizations by commercial banks, the following areas can be proposed:

- Development of concessional lending to agriculture for seasonal production needs;
- Creation and support of trust funds for lending with the issuance of loans to direct agricultural organizations;
- Development of concessional lending secured by property;
- Development of credit cooperatives, creation and support of land banks. Improving the system of lending to agricultural organizations must be carried out taking into account the presence in them of collective organizations, households, peasant (farm) enterprises and agricultural consumer cooperatives.

Weaker agricultural producers can be supported through the development and implementation of programs for the financial recovery of agricultural organizations and the modernization of their production, which will strengthen the role of the state in regulating and supporting the system of lending to agricultural organizations. All these areas of credit relations between banks and agricultural organizations with the participation of the state will make it possible to create a coherent and transparent system of agricultural lending that meets modern business conditions and the current principles of bank lending.

## REFERENCES

1. <https://lex.uz/docs/5309651> [Decree of the President of the Republic of Uzbekistan, dated February 26, 2021 No. UP-6179]
2. Narkabilov S. Agriculture as a priority direction of state support // Bulletin of Moscow State University: economics, management. 2021. № 3.
3. Sodikov A. Lending to agriculture: modern challenges and ways to solve them // Economic sciences. 2021. № 4.