



Current Situation of Agricultural Product Export Financing and its Analysis

**Tajenova Gulbakhar Esbosynovna,
Abishov Muhammed Sarsenbaevich,
Kallibekov Allabergen Saparbaevich**

Karakalpakstan Institute of Agriculture and Agrotechnologies, Republic of Uzbekistan

ABSTRACT

The article mainly talks about the current state of agricultural export financing today and the importance of analyzing it.

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Liberalization and simplification of export activity, diversification of export composition and geography, expansion and mobilization of export potential of economic sectors and regions are recognized as one of the necessary conditions for ensuring stable development of the country's economy in the Action Strategy for five priority areas of development of the Republic of Uzbekistan in 2017-2021. This, in turn, creates the need to improve the practice of financing the export of agricultural products. It should be noted that by the end of 2019, the foreign trade turnover of the Republic of Uzbekistan was 42.2 billion. amounted to US dollars. This is 8.7 billion compared to 2018. per US dollar or 26.2% more¹.

The export volume of the country's foreign trade turnover is 17.9 billion. per US dollar (growth rate – 128.0%) and the import volume is 24.3 bln. reached US dollars (growth rate – 124.9%). 6.4 billion in 2019. A passive foreign trade balance was recorded in the value of US dollars.

The export of agricultural products is an important component of the country's exports and plays an important role in increasing the country's export potential.

It can be seen from the data of Figure 1 that in 2017-2019, the volume of exports of the Republic of Uzbekistan had an increasing trend. However, the volume of export of agricultural products was unstable. In 2018, the volume of export of agricultural products decreased significantly compared to 2017.

¹Appendix 1 to the Decree of the President of the Republic of Uzbekistan dated February 7, 2017 No. PF-4947 "On the Strategy of Actions for Further Development of the Republic of Uzbekistan" // Collection of legal documents of the Republic of Uzbekistan. - Tashkent, 2017. - No. 6 (766). - p. 32



Figure 1. The volume of export and export of agricultural products in the Republic of Uzbekistan, bln. US dollars

In 2019, the share of goods in the export structure of our republic was 80.1%, and they were mainly precious metals (28.2% including silver), energy carriers and oil products (14.1%), textiles (9.1%), food - food products (8.5%, most fruits and vegetables - 6.7%), non-ferrous metal and products made from it (5.3%), and chemical products and products (4.9%) contributed. Differences in the direction of exports to the CIS countries and other countries are observed to be 29.1%. In particular, services account for 80% of exports to the CIS countries, followed by energy carriers and oil products (mainly natural gas), as well as fruits and vegetables and textile products².

In the practice of financing the export of agricultural products in the Republic of Uzbekistan, the main place is occupied by loans of commercial banks. In our republic, financial services to the agricultural sector are mainly provided by Agrobank and Uzagroexportbank.

From the data presented in Table 1, it can be seen that in 2016-2020, loans to agriculture occupied the first place in the loan portfolio of Agrobank by weight. This is explained by the fact that Agrobank is a bank specializing in agricultural lending

Table 1
Branch structure of loan portfolio of JSC "Agrobank"³.

	2016 y.	2017 y.	2018 y.	2019 y.	2020 y.
Industry	26,55	28,05	20,75	7,66	22,15
Agriculture	42,26	39,14	48,53	33,47	36,18
Transport and communication	0,59	1,99	1,18	0,36	0,66
Construction	1,26	1,23	5,72	0,32	1,30
Trade and social services	1,98	1,36	0,65	0,97	1,18
Material and technical support	4,92	3,46	0,80	20,63	8,84
Housing and communal services	0,0	0,0	0,0	0,53	1,19
Other sectors	22,44	24,77	22,37	36,06	28,50
Credits - total	100,0	100,0	100,0	100,0	100,0

²www.stat.uz - State Statistics Committee of the Republic of Uzbekistan.

³ Foreign economic activity. www.stat.uz - State Statistics Committee of the Republic of Uzbekistan.

From the data presented in Table 1, it can be seen that the share of agricultural loans in Agrobank's loan portfolio has significantly decreased in 2020 compared to 2016. This is explained by the increase in the weight of loans given to material and technical supply and other sectors in Agrobank's loan portfolio

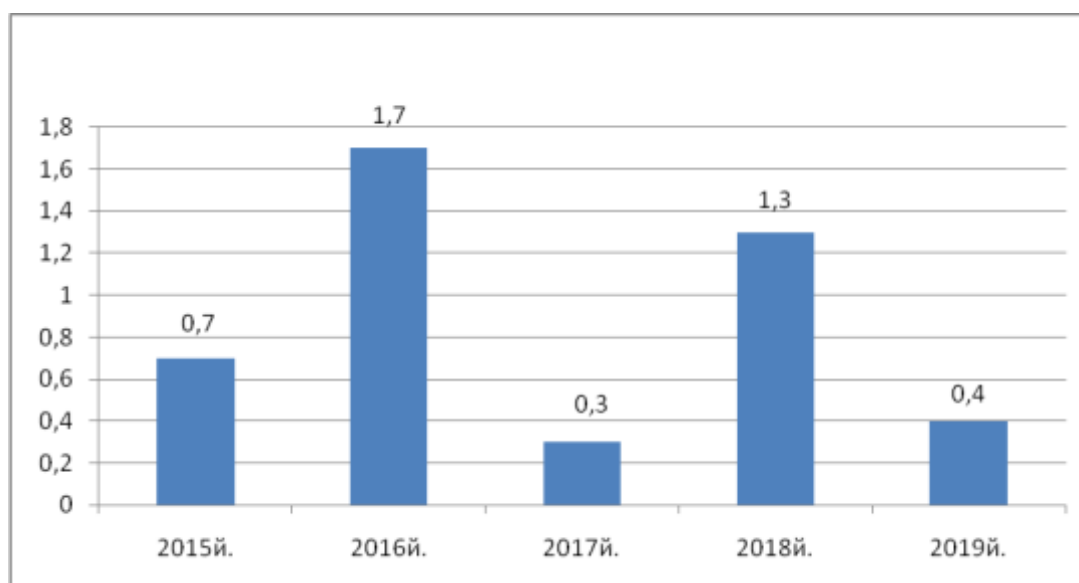


Figure 2. The share of loans granted for financing the export of agricultural products in the loan portfolio of Agrobank⁴, in percent

From the data presented in Figure 2, it can be seen that in 2015-2019, loans granted for the purpose of financing the export of agricultural products occupied a very small weight in the loan portfolio of Agrobank. Moreover, this indicator decreased in 2019 compared to 2015. These cases are negative from the point of view of improving the practice of financing the export of agricultural products.

The increase in the volume of loans granted by Agrobank for the purpose of financing the export of agricultural products directly depends on the interest rate levels of loans granted by Agrobank in national and foreign currencies. This is because the ability of farms and agricultural enterprises to recover loans depends on the difference between the interest rate of loans and their profitability.

Table 2

Average annual interest rates of JSC "Agrobank" loans to legal entities in national currency and US dollars⁵, in percent

Credits	2015 y.	2016 y.	2017 y.	2018 y.	2019 y.
Average annual interest rate of loans in national currency	13,5	14,3	16,2	17,7	23,0
Average annual interest rate of loans in US dollars	7,6	8,1	8,7	9,1	12,5

From the data presented in Table 2.2, it can be seen that the average annual interest rate of loans granted by Agrobank to legal entities in national currency and US dollars in 2015-2019 had a growing trend. This is explained by the following reasons:

1. In recent years, the inflation rate and the refinancing rate of the Central Bank have been high (Figure 3).

⁴The table was compiled by the authors based on the balance sheet data of JSC "Agrobank".

⁵ The picture was compiled by the authors based on the balance sheet data of JSC "Agrobank".



Figure 3. The annual level of inflation and the annual level of the refinancing rate of the Central Bank in the Republic of Uzbekistan⁶, %

From the data presented in Figure 3, it can be seen that in 2017, the inflation rate in our republic increased sharply compared to previous years, and this high level remained in 2018 and 2019. This forces commercial banks to increase interest rates on loans.

From the data presented in Figure 3, it can be seen that in 2017, the refinancing rate of the Central Bank of the Republic of Uzbekistan was increased by 5 percentage points compared to its level in 2016. This is explained by the sharp increase in inflation in 2017.

In turn, the sharp increase in the refinancing rate of the Central Bank gave a strong impetus to the increase in the interest rates of commercial banks' loans.

According to the official information of the Central Bank of the Republic of Uzbekistan, "In 2019, the growth rate of gross demand was higher than the growth rate of production, and this created inflationary pressure in the economy. At the same time, the demand, which was not covered by domestic supply, was covered by imports. This, in turn, increased the demand for foreign currency in the second half of the year and put pressure on the exchange rate. While the high demand remained, the increase in the exchange rate increased the inflationary processes in the domestic market. In 2019, the inflation rate changed in different directions. In particular, in the first half of the year, the inflation indicator decreased and remained stable at the annual level of 13-13.5 percent, and in August, due to the increase in the prices of energy resources and the acceleration of the devaluation of the national currency, the highest inflation rate of the year (16.5 percent) was recorded⁷.

2. The fact that Agrobank is setting a high spread in relation to loans attracted through foreign credit lines.

It can be seen from the data of Table 3 that the interest rate of the loans given on account of the credit line of Ziraat Bank is significantly higher. This has a negative impact on the efficiency of using these loans.

Table 3

Conditions of loans granted by JSC "Agrobank" from the credit line of Ziraat Bank of Turkey⁸

The purpose of the loan	Financing of projects aimed at processing agricultural products and agricultural products
Term of the loan	5 years (with a grace period of up to 12 months)
The percentage of the loan	6-month Libor + 8.75 %

⁶The table was compiled by the authors based on the balance sheet data of JSC "Agrobank".

⁷The picture was compiled by the authors using the site of the Central Bank of the Republic of Uzbekistan www.cbu.uz

⁸Report on the activities of the Central Bank of the Republic of Uzbekistan in 2019 (B.28), www.cbu.uz - website of the Central Bank of the Republic of Uzbekistan

Loanamount	In the amount of the credit line agreement
Initiative participation in the project	For active enterprises, the share of project initiators in the project should not be less than 25 percent.
Purchasedequipment	Purchased equipment must be manufactured in Turkey

Interest rates of commercial banks are their price. Therefore, the higher the interest rates of loans, the lower the efficiency of their use. Therefore, the risk levels of loans at high interest rates are also relatively high.

Table 4

Conditions of investment loans granted by JSC "Agrobank" for the implementation of investment projects of agricultural producers⁹

Purposesoftheloan	Purchase of high-tech equipment for modernization and technological rearmament of production and service
Termsoftheloan	upto 5 years
The percentage of the loan	It is determined in an amount not less than the refinancing rate of the Central Bank of the Republic of Uzbekistan or based on the price of the allocated credit source.
Documents to be submitted for obtaining a loan	1. Application
	2. Businessplan
	3. Foundingdocuments
	4. Contractdocuments
	5. Financialstatements
	6. Creditprovision
	7. Depending on the importance of the project, additional permitting documents may be submitted.

Loans issued through the credit line of Ziraat Bank are long-term and have a grace period of up to 12 months. However, the fact that the interest rate of the loan is high prevents increasing the efficiency of using the grace period.

It should be noted that the share of the project initiator in the financing of projects from these loans is required to be at least 25 %. This allows to reduce the credit risk for lenders to a certain extent.

From the data of Table 4, it can be seen that the long-term loans given by Agrobank for financing investment projects of agricultural producers are given for technical and technological rearmament of their activities.

It can be seen from the data of Table 4 that the interest rates of long-term loans granted by Agrobank for financing investment projects of agricultural producers are determined depending on the refinancing rate of the Central Bank of the Republic of Uzbekistan and the market rate of loans in foreign currency (LIBOR). In this regard, there are two risks in lending to agricultural producers: the first is the risk of exceeding the refinancing rate of the Central Bank; and the second is the risk of exceeding the LIBOR rate.

Starting from January 1, 2020, the main interest rate was put into practice at the current indicator of the refinancing rate - 16 percent. This rate serves as the basis for setting interest rates for money-credit operations carried out by the Central Bank¹⁰. However, changes in these rates are directly related to inflation. In our republic, the indicators of the interbank money market are calculated based on the rates of operations carried out in the money market in the section of the following standard terms:

⁹www.agrobank.uz-Stock-trade "Agrobank" site.

¹⁰www.agrobank.uz-Stock-trade "Agrobank" site

- 1 day;
- from 2 to 7 days;
- from 8 to 30 days;
- from 31 days to 90 days;
- from 91 days to 180 days;
- from 181 days to 1 year.

The British Banking Association - Thomson Reuters will call 16 prime banks at 11.30 local London time and ask them for the interest rates of their offers for 1 month to 1 year. The 4 highest and 4 lowest interest rates are removed. The LIBOR rate is determined by the arithmetic mean method of the remaining interest rates.

Also, JSC "Agrobank" is actively using the funds of the Reconstruction and Development Fund of Uzbekistan in providing investment loans.

Long-term loans of commercial banks allow to modernize the activities of agricultural producers and enterprises, to re-equip them technically and technologically. However, for this, first, agricultural producers and enterprises must be solvent; secondly, commercial banks must have a sufficient long-term resource base; thirdly, banks must be sufficiently liquid.

Table 5
Conditions of investment loans granted by JSC "Agrobank" at the expense of the Fund of Reconstruction and Development of Uzbekistan (for small industrial zones)¹¹

The purpose of the loan	Purchase of foreign equipment and technologies for investment projects of enterprises and organizations operating in small industrial zones
Term of the loan	10 years (with a grace period of 3 years)
The percentage of the loan	6-month Libor + 2%
Loan amount	Up to 50% of the value of investment projects in the leather-shoes, pharmaceutical and electrical engineering sectors of industry
	Up to 60 percent of investment projects aimed at the organization of cotton-textile clusters producing finished products
	Up to 15 percent of investment projects focused on weaving, processing and sewing
	Up to 10 percent of the cost of investment projects aimed at the production of cotton yarn

From the information presented in Table 5, it can be seen that the loans provided by Agrobank at the expense of the funds of the Reconstruction and Development Fund of the Republic of Uzbekistan are given to entities operating in small industrial zones and to entities operating in the field of light industry, pharmaceuticals, and electrical engineering.

Today, Agrobank is working on attracting credit lines of the Islamic Corporation for the Development of the Private Sector in order to finance the investment projects of small business entities. It is important to note that the loans of this Corporation are interest-free, and the efficiency of their use is high.

Agrobank is also working on attracting long-term investment loans from China State Development Bank

Table 6
Branch and reproduction composition of loans allocated by Agrobank in foreign currencies (thousands of US dollars), as of December 31, 2019¹²

The goal	Number	Amount	Share
Service	14	5 354	5,3
Textile industry	12	21 531	21,5

¹¹Report on the activities of the Central Bank of the Republic of Uzbekistan in 2019 (B.77), www.cbu.uz- Central Bank of the Republic of Uzbekistan

¹²www.agrobank.uz-Stock-trade "Agrobank" site

Foodindustry	11	13 709	13,7
Production	12	9 020	9,0
Poultry	4	2 450	2,4
Constructionindustry	8	6 048	6,0
Hygieneproducts	5	7 600	7,6
Storageofagricultural products	2	2 105	2,1
Equipment for a cotton gin	1	1 606	1,6
Agriculturalmachinery	1	76	0,1
Replenishmentofworkingcapital	4	20 836	20,8
Modernization of the bank's communication system	1	9 760	9,8
Total	75	100 094	100

From the data of Table 6, it can be seen that the main part of loans issued by Agrobank in foreign currencies in terms of number and amount was given to two branches:

- textile industry;
- food industry.

From the data of Table 6, it can be seen that if we look at the loans given by Agrobank in foreign currencies according to their participation in reproduction, the main part of these loans (79.2%) was given for the purpose of purchasing fixed assets.

Documented letters of credit opened for export and letters of credit opened for payment of exporters' imports are widely used by Agrobank for financing the export of agricultural products.

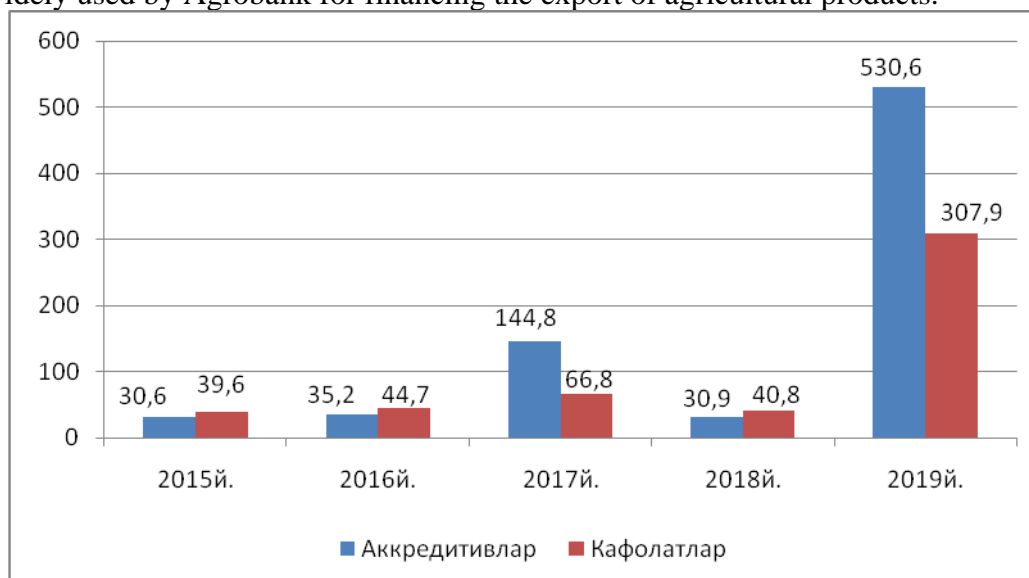


Figure 4. Documented letters of credit opened by JSC "Agrobank" to exporters of agricultural products and guarantees given to them, bln. soum¹³

¹³www.agrobank.uz-Stock-trade "Agrobank" site.

It can be seen from the data of Figure 4. that the amount of documented letters of credit opened by Agrobank to exporters of agricultural products had an increasing trend in 2015-2017. While the amount of these documented letters of credit decreased significantly in 2018 compared to 2017, it increased sharply in 2019 compared to 2018. This is a positive situation from the point of view of improving the practice of financing the export of agricultural products.

From the data of Figure 4, it can be seen that the amount of guarantees given by Agrobank to exporters of agricultural products had an increasing trend in 2015-2017.

The amount of these guarantees decreased significantly in 2018 compared to 2017, and increased sharply in 2019 compared to 2018. This is a positive situation from the point of view of improving the practice of financing the export of agricultural products.

In conclusion, it should be noted that the results of the analysis of the practice of financing the export of agricultural products:

- In 2017-2019, the volume of exports of the Republic of Uzbekistan had an increasing trend, however, the volume of exports of agricultural products was unstable, and in 2018, the volume of exports of agricultural products significantly decreased compared to 2017;

- in 2015-2019, the first place in Agrobank's credit portfolio was occupied by agricultural loans, which is explained by the fact that Agrobank is a bank specializing in agricultural lending;

- the weight of agricultural loans in the loan portfolio of Agrobank significantly decreased in 2019 compared to 2015 is explained by the fact that the weight of loans given to material and technical supply and other sectors in Agrobank's loan portfolio increased during this period;

- in terms of the number and amount of loans granted by Agrobank in foreign currencies, the main part is given to two sectors: textile industry and food industry. According to Agrobank's participation in the reproduction of loans in foreign currencies, the main part (79.2%) was given for the purpose of purchasing fixed assets;

- in our republic, business entities, including farms, lack highly liquid collateral for loans from commercial banks, in some cases they do not exist at all. Because business entities and farms cannot use highly liquid collateral for loans - land, government securities, gold, securities whose payment is guaranteed by the government.

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