

Improving The Efficiency Of The Use Of Financial Resources Of Enterprises In Modern Conditions

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Abstract: *With the formation of the market structure of agriculture, agricultural entities faced the problem of finding real sources of financing for the growing needs of the agricultural business. However, due to the difficult socio-economic situation in the republic, free money resources were diverted for a long time to lending to domestic loans, industry and trade. In recent years, an understanding has come in the republic that stable economic growth cannot be ensured only through the development of financial markets in isolation from the real sector and in the absence of an effective investment and financial infrastructure.*

In this paper given financial and credit support of the agricultural sector in the conditions of the formation of market relations remains the least developed problem, and many of its aspects are the subject of discussion and need further development, covering the entire range of theoretical foundations, methodological issues of financial and credit support of the agricultural sector in a market economy in order to increase efficiency of the agrarian sector of the republic.

Keywords: *activity, analysis, efficiency, innovation, investment, strategy, modernization, potential, improving, financial resources enterprises, modern conditions.*

1. INTRODUCTION

The crisis triggered by COVID-19 almost completely paralyzed the growth of Uzbekistan's GDP in 2020. The government is taking anti-crisis measures aimed at mitigating the effects of the pandemic on the health of citizens, the well-being of the population and the economy of the country.

These measures are also intended to ensure the further implementation of reforms. Government efforts to mitigate the economic impact of the pandemic include significant additional costs to support health and social protection systems and local businesses. It is expected that international financial assistance, including from the World Bank, the International

Monetary Fund, the Asian Development Bank and donor organizations from foreign countries, will help cover the unforeseen expenditures of the state budget arising from the crisis.

Currently, the relevant ministries and departments are developing strategies to reduce poverty and ensure employment until 2030. They will provide government measures to protect the most vulnerable segments of the population.

The disruptions caused by the pandemic at the local and international levels impede the rapid recovery of the economy of Uzbekistan in 2021. However, the prospects for GDP growth in the country look quite optimistic, as the reforms help to increase the efficiency of the use of various kinds of resources from the state and the growth of the private sector.

The World Bank has launched a country diagnostic study process in Uzbekistan to accumulate the data needed to prepare a new Country Partnership Framework (PPF) for FY2022-2026.

The RSP will reflect the amount of financial and technical assistance to the government from the Bank over the next five years. These resources will be used to implement important social, economic and institutional reforms.

In 2018, the Bank's activities under the current RPF were adjusted to provide more targeted support for the reforms initiated by the government in 2017. It is currently focused on the following priority areas for the country: i) measures for a sustainable transition to a market economy; ii) public administration reforms and citizen involvement in decision-making processes; and iii) investment in human capital, development of the health and education sectors. In 2020, the country program was adapted to the government's objectives to mitigate the socio-economic impact of the pandemic.

2. METHODS OF RESEARCH

Financial, technical, and analytical support from the World Bank Group (WBG) has increased significantly since 2017 to help the government implement a comprehensive reform agenda for the transition to a market economy.

Today, the Bank's country program in Uzbekistan is the second largest in the Europe and Central Asia region (the Bank's program in Turkey ranks first in terms of volume of operations).

As of October 1, 2020, 23 projects totaling US \$ 4.44 billion were being implemented in the country with financial assistance from the Bank. They are being implemented through loans from the International Bank for Reconstruction and Development (IBRD) in the amount of \$ 2.15 billion and loans from the International Development Association (IDA) in the amount of \$ 2.29 billion (IBRD and IDA are organizations of the World Bank Group).

These projects assist in the implementation of economic and institutional reforms, in the modernization of agriculture, health care systems, education, water supply and sewerage, energy, transport and social protection of the population, as well as in the development of urban and rural infrastructure.

In response to the spread of the COVID-19 pandemic, at the request of the government, the World Bank provided emergency funding to the country totaling \$ 295 million. These funds are aimed at providing assistance in various socio-economic areas and strengthening the national health system. In addition, they were used to cover the unforeseen expenses of the state budget.

The Bank's portfolio of projects in Uzbekistan is complemented by a comprehensive program of technical assistance, advisory and analytical services provided jointly with the International Finance Corporation (IFC is an organization within the World Bank Group). The current program includes areas such as a systematic diagnostic study of the country, a review of

public spending and poverty reduction, as well as sectorial strategies of the government in the field of agriculture, transport, energy. It also focuses on technical assistance in reforming the aviation sector, tax policy and administration, the banking sector, trade facilitation, poverty reduction and citizen participation in decision-making.

IFC is also expanding its program in Uzbekistan. As of October 1, 2020, its investments in various projects amount to USD 105 million. The organization assists the government in the privatization of state-owned banks, the transformation of the cotton sector, the modernization of the chemical industry, the development of the financial market, as well as the launch of the first public-private partnership projects in the energy and health sectors.

The new stage of development of Uzbekistan is determined by the "Strategy of actions for the further development of the Republic of Uzbekistan" adopted by the President, developed for 2017-2021, where one of the five priority areas of development of the republic is the development and further liberalization of the economy, the expansion of the functioning of the market mechanism and the participation of the private sector.

To solve this problem, extensive measures were taken to create a solid legislative base that ensures reliable protection of the rights and legitimate interests of private owners, to introduce modern interactive forms of contactless provision of public services, to establish a systemic dialogue between the business community and the state, to create reliable legal guarantees for the accelerated development of small entrepreneurship as the most important factor in the formation of the middle class, sustainable development of the country's economy, the creation of new jobs and the growth of incomes of the population.

Work was carried out to create an effective mechanism for supporting business development, the formation of a fundamentally new system for protecting the rights and legitimate interests of business entities, a Committee was created to improve the investment climate and carry out reforms. The government has made changes to the Tax Code, customs regime, inspection, land allocation policy, and the financial system. Entrepreneurs were allowed to directly export agricultural products. The Law on the reduction of state participation in commercial organizations was adopted and a new classification of small and medium-sized businesses was introduced, excluding industry differentiation.

The results of the reforms have been positively assessed by international communities, and are reflected in the increase in our country's performance in international rankings and indices. In particular, over the past four years, the country has climbed 52 positions in the Heritage Fund's Index of Economic Freedom, 19 positions in the Logistics Performance Index, and 18 positions in the World Bank's Doing Business Index.

The international rating agency S&P Global Ratings has kept Uzbekistan's sovereign credit rating at 'BB-', noting progress in the implementation of comprehensive reforms and modernization of the economy, success in institutional reforms. In particular, the Doing Business, Corruption Perceptions, and the country's performance in the World Bank's governance indices have improved significantly, while the government's priorities remain to reform publicly owned enterprises and increase direct investment.

In the World Bank's Doing Business rating in 2019, Uzbekistan rose by 7 positions, took 8th place among 190 states in terms of business registration and was among the best reformers. By 2030, the country should achieve an increase in its position in the World Bank's Doing Business rankings from 69th to 20th.

The importance of private business development in modern conditions is quite great. The development of the entire economy of the country largely depends on the growth rates of this sector of the economy and its economic activity.

The private sector, especially small businesses, has grown significantly over the past decade, especially since 2016. It now stands at 50-60% of GDP, up from about 45% of GDP in 2010. Small businesses account for an increasing share of employment - from about 65% in 2005 to almost 80% today. About 60% of small businesses work in the service sector, while the rest are employed in agriculture, manufacturing and construction. Retail trade and catering make up the largest share of small businesses - about a third. Transport, communications and agriculture represent a growing share of private enterprises, almost all of which are small.

A very high level of direct government intervention in the economy was achieved. The vast majority of large enterprises and financial institutions are state-owned. Many enterprises are controlled by the state through controlling stakes or so-called “golden shares”. The size of state property cannot be determined due to the lack of relevant statistics, but according to some estimates, it exceeds 50% of all productive assets of the country. More than 80% of the assets of the banking sector are also owned by the state. At the end of 2018, the expenditures of the consolidated budget of Uzbekistan amounted to 35.2% of GDP in 2018, and taking into account the quasi-fiscal expenditures of state enterprises, the volume of government expenditures amounted to at least 41.2% of GDP. These two indicators are 1.5-2 times higher than those of successfully developing countries with a comparable level of GDP per capita and even higher than those of many highly developed countries of the world (Figure 1).

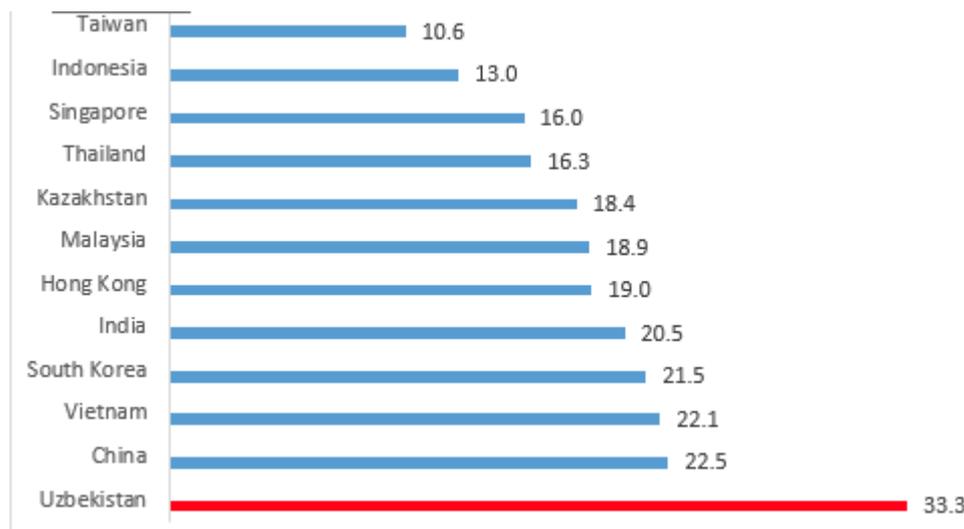


Figure 1. Revenues of the state budget and extra-budgetary funds to GDP of selected Asian countries, in%, in 2015

The role of entrepreneurial initiative fully manifested itself during the crisis caused by the coronavirus pandemic. At the first stage of serious business trials, small private enterprises effectively used available resources and did not allow a serious drop in industrial production. This was facilitated by the attention and support of entrepreneurship by the government.

To mitigate and eliminate the consequences of the pandemic, the state implemented comprehensive measures for a total of 82 trillion soums. In particular, an Anti-Crisis Fund has been created, more than 16 trillion soums have been allocated from the budget for measures to combat coronavirus, support the population and business. Along with this, practical assistance was provided to state-owned enterprises and more than 500 thousand business entities, as well as almost 8 million citizens in the form of tax benefits, deferred repayment of loans and financial assistance totaling 66 trillion soums.

In order to widely support entrepreneurship, many benefits and preferences were provided. Business entities were allocated 100 trillion soums of loans - almost 4 times more than in 2016.

Following a series of political reforms in 2016, such as the liberalization of the foreign exchange market, the creation of new specialeconomic zones, the launch of programs to attract investment in various priority sectors, as well as a more positive attitude towards private investors, there was an increase in the involvement of foreign private capital in the economy of Uzbekistan. The number of firms with foreign participation has grown from less than 5,000 in 2015 to over 7,500 today. More and more FDI comes from Russia, Turkey, South Korea, China, Germany and Canada. A growing share of this investment is attracted by energy and mining, which are priority sectors, as well as trade, construction and tourism.

Reforms in agriculture, the transfer of land to private clusters and cooperatives made it possible to increase cotton yields by an average of 10 percent in one year. About 500 clusters and cooperatives have been created in horticulture, grain growing and animal husbandry. As a result, despite the negative impact of the pandemic, \$ 1 billion worth of fruit and vegetables were exported.

The process of transforming state-owned enterprises and the formation of the private sector is one of the main directions of reforms and the most important factor in creating an enabling environment for the development of entrepreneurship and private business. Work in this direction has been carried out over the past four years.

In the first half of 2020, GDP growth was almost zero compared to growth of 5.8% in the first half of 2019. Investment in fixed assets over the same period decreased by 12.8%. The unemployment rate rose sharply from 9.4% in the first quarter of 2020 to 15% in the second quarter

Increased gold production and growth in agriculture helped offset the sharp decline in industry and services. Despite a 19% decline in remittances in the first half of the year, a 17% cumulative increase in social transfers and a 10% increase in the minimum wage from February 2020 helped to maintain private consumption.

Reduced remittances and widening foreign trade deficits pushed the current account deficit to 7.7% of GDP in the first half of 2020. Exports declined by 22.6% over the same period due to disruptions in the global supply chain and falling prices for major commodities (natural gas, metals). Imports fell by 15% after a sharp drop in the import of foreign-made machinery, equipment and semi-finished products into the country

The budget deficit has grown to 5% of GDP. An additional 2.5% of GDP was spent on supporting the national health system, increasing benefits for the poor, expanding public works and supporting businesses.

Annual inflation dropped to 11.6% in August 2020, which allowed the Central Bank of Uzbekistan to cut the refinancing rate twice in 2020 - from 16% to 15% in April, and to 14% in September. Anti-crisis credit lines to enterprises helped increase lending to the economy as a whole by 18% in January-August 2020.

The lifting of quarantine restrictions in the third quarter of 2020, sustainable agricultural production and a partial recovery in remittances will lead to higher economic activity in the second half of the year.

Annual GDP growth is projected to range from 0.4% to 0.8% this year. Provided that quarantine is not reintroduced throughout the country, Uzbekistan's GDP growth is projected at 4.8-5.0% in 2021.

Inflation will slow down in the medium term, but will remain high as a result of further price reforms. The current account deficit of the balance of payments is expected to be about 6% of GDP in 2020. It will be financed by increased government borrowing and a gradual increase in foreign investment.

The projected state budget deficit of 7.5% of GDP in 2020 will decrease in 2021-2022. This deficit is expected to be financed by increased external borrowing.

Public external debt will increase to about 35% of GDP in 2020. Despite the increase in debt compared to 2017, it is expected to stabilize in the medium term, and most of the increase will be associated with increased multilateral support for the reform program.

The reform was driven by the government's decisions to ensure a qualitative change in state policy in the development of private property and entrepreneurship on the basis of privatized state property, to provide effective post-privatization support to business entities, as well as to increase the efficiency of the use of state property, create favorable conditions for the development of private entrepreneurship, and further simplify procedures and accelerating the process of selling state property, eliminating bureaucratic barriers during their privatization, organizing competitive goods and services at privately owned facilities, accelerating enterprise reform with state participation and privatizing state assets.

Within the framework of structural transformations in the economy, the transformation of state-owned companies is accelerating. Currently, the majority of enterprises with the participation of the state remain a heavy burden for it due to their financial instability. Therefore, the implementation of the reform program for all state-owned enterprises has begun.

3. RESULTS

To improve the technical capabilities of state-owned enterprises, the knowledge and skills of their specialists to reform large enterprises in the electric power industry, oil and gas and chemical industries, mechanical engineering, as well as commercial banks, specialists from the World Bank, European Bank for Reconstruction and Development, Asian Development Bank, McKinsey & Company are involved. "Boston Consulting Group", "Rothschild & Co" and other world famous companies.

To take measures to drastically reduce the participation of the state in those areas where the private sector and competition are developing, an inventory of about 3 thousand enterprises with a state share was carried out.

In the coming years, it is planned to carry out the transformation of 32 large enterprises of industries of strategic importance.

In the oil and gas sector, activities have been organized with the involvement of foreign experts to improve the management efficiency of state-owned enterprises and optimize costs, and achieve a reduction in existing debt.

4. CONCLUSION

According to the President's message to the OliyMajilis in December 2020, new investment projects are being implemented at strategic enterprises that will make these enterprises full-fledged participants in the international financial market. For this, financial statements were prepared based on international standards, revaluation of reserves was carried out and modern corporate governance was introduced. In the near future, the Navoi Mining and

Metallurgical Combine, Uzbekneftegaz JSC, Uzbekgidroenergo, Uzavtosanoat will have the opportunity to enter the international financial market and raise funds without state guarantees.

Uzbekistan is an importer of meat and dairy products. In order to improve food supply in the country, the government is taking measures to expand the access of the population to the products of the livestock sector. This sector, which employs about 3.6 million agricultural workers, is characterized by low productivity. Its modernization will increase labor productivity, create a significant number of better-paid jobs in rural areas, strengthen the country's food security and increase the access of local producers to domestic and foreign markets. The World Bank-financed Livestock Sector Development Project (US \$ 150 million) aims to achieve the above goals by creating conditions for a dynamic industry formation with broad private sector participation. The project is helping to develop the capacity of relevant organizations, including the State Committee for Veterinary Medicine and Livestock Development and four agricultural research institutes. Within its framework, farmers and agricultural enterprises also gain access to credit financing through the local banks participating in the project. The funds received can be invested in various business projects that increase the productivity and competitiveness of livestock farms throughout the country. To date, more than 500 loans have been provided, which allowed investing in the development of enterprises for the production of products from milk, poultry, meat, fish and honey. So, thanks to the project, the beneficiaries were able to purchase more than 28,800 head of cattle, 16,500 small ruminants, 405 camels, 305 horses, as well as more than 110 units of agricultural machinery and equipment. The investments allowed expanding the business of a number of beneficiaries, creating jobs, increasing labor productivity and improve product quality. For example, in the field of milk production, local farms were able to increase milk yield per cow from an average of 8 to 20 liters of milk per day. The farmers and agribusiness involved in the project have created over 5,000 new jobs in rural areas. The project beneficiaries have also increased the range of dairy products, meat, poultry, eggs, fish and honey in local markets to meet the existing demand for these goods in several regions of Uzbekistan.

Large banks, such as Sanoatkurilishbank, Asaka Bank, Ipoteka Bank, Aloka Bank, Turon Bank and QishloqQurilish Bank, are preparing for privatization. It is planned to sell to strategic investors the entire state share of at least one of these banks. In general, the number of enterprises with state participation in the next two years will decrease by at least 3 times.

Efforts are being made in the country for the broad development of entrepreneurship, the creation of new opportunities and favorable conditions for this purpose. The main task of state bodies is to ensure the rights of private property, especially its inappropriateness.

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