

## ANALYSIS OF THE STATE OF BANK FINANCING IN AGRICULTURAL PRODUCTION IN CENTRAL ASIA

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### **Abstract**

*The article describes the process of using and the effectiveness of bank loans to the agricultural sector of Central Asia. A consistent analysis of the system of bank loans and the process of state incentives for financial and credit organizations completing financing in the agricultural sector is also presented.*

*An effective economic system of foreign agriculture has developed for decades. Today, the process of continuous expansion of farms continues due to the fragmentation and destruction of large farms. The production of large agricultural products in small farms, of course, exceeds - this is one of the basic laws of the economy. Large farms are cost effective and use modern technology effectively.*

*In some foreign literature, agricultural credit is an influential factor in the development of the agricultural sector. Most of these loans are large and long-term.*

*Many state programs of financial support for the agricultural sector are implemented in the form of loans. Lending is seen as a factor in stimulating private investment of an agricultural producer and increasing its activity.*

*Recently, more and more attention has been paid to agricultural loans, namely in industrialized countries. In almost most developed countries, there are special rules for lending to an agricultural producer. Namely, credit organizations mainly rely on special state financial and credit institutions.*

*The study proved that among Central Asian countries, the experience of Uzbekistan and Kazakhstan in using bank loans for the agricultural sector is in line with other Central Asian countries.*

*Thus, the foreign experience of the agro-industrial complex testifies to the constant concern of state authorities to create economic and material and technical conditions for the production of agricultural products necessary for the country's population.*

### **Keywords**

*bank, loan, deposit, finance, credit reserve, tax, subsidy, financing, investment, benefits, agriculture, etc.*

### **Introduction**

An effective economic system of foreign agriculture has developed for decades. Today, the process of continuous expansion of farms continues due to the fragmentation and destruction of large farms. The production of large agricultural products in small farms, of course, exceeds - this is one of the basic laws of the economy. Large farms are cost effective and use modern technology effectively.

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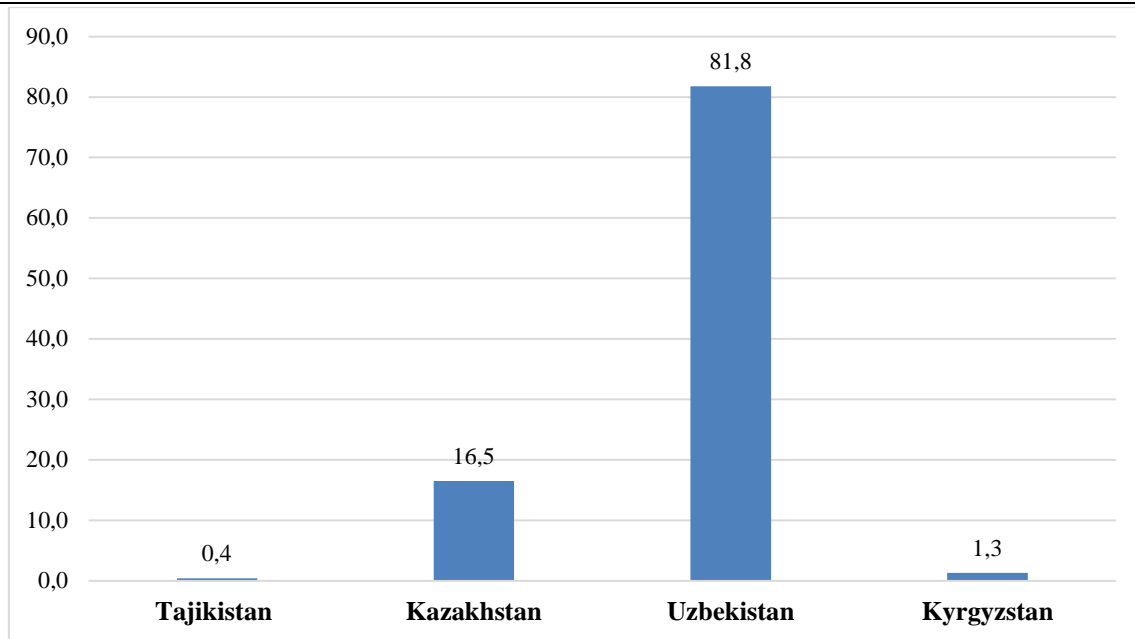
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### **Materials and methods**

Now let's look at the experience of the countries of Central Asia in the framework of this topic.

There are five countries in Central Asia: Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan and Turkmenistan. In the course of the study, we used the official websites of central banks and other government agencies in Central Asia, but in the course of the study we were unable to find statistical data from Turkmenistan (see Table 1).

The total volume of attracted banking resources from deposits in Central Asia in 2022 is \$ 406,642,8 million. USA. Of this indicator, 81.8% (\$ 332,563,9 million) went to Uzbekistan, 16.5% (\$ 67180.46 million) to Kazakhstan, 1.3% (\$ 5378,425 million) to Kyrgyzstan and 0.4% (\$ 1520,015 million) to Tajikistan. Analysis of these indicators shows that among the countries of Central Asia, the banking deposit services market is relatively developed in Uzbekistan and Kazakhstan (see Figure 1).



**Figure 1. - Share of bank reserves from deposits in Central Asian countries for 2022 (in%) \***

\* **Source:** Official website of the Central Bank of Uzbekistan: <https://cbu.uz/ru/statistics/buletten/1589796/>; Official website of the National Bank of Kazakhstan: <https://www.nationalbank.kz/ru/news/statisticheskyybyulleten/rubrics/1799>; Official website of the National Bank of the Kyrgyz Republic: <https://www.nbkr.kg/index1.jsp?item = 137 & lang = RUS>; Official website of the National Bank of Tajikistan: [https://nbt.tj/tj/statistics/statistical\\_bulletin.php](https://nbt.tj/tj/statistics/statistical_bulletin.php).

World experience shows that commercial banks allocate most of their resources through the provision of loans between economic entities. The turnover of bank financing in Central Asia will reach \$ 2022 million in 71,464,60. The United States leveled off, this figure increased by + 40.1% compared to 2018. Of this figure, \$ 18,095,2 million. United States or 25.3% Uzbekistan, \$ 49,539,4 million US or 69.3% Kazakhstan, \$ 2,420,4 million USA or 3.4% to Kyrgyzstan and \$1409.6 million. Tajikistan accounts for US \$2.0% (see Table 1).

**Table 1. - Bank financing of the Central Asian agricultural sector in 2018-2022, mln USD USA \***

Name of state		2018	2019	2020	2021	2022	2022/2018 (+/-, %)
Uzbekistan	I	12 918,35	14 805,31	12 141,69	15 339,19	18 095,2	+ 40,1

	<b>II</b>	2 208,09	1 477,95	1 791,77	1 949,98	1 422,1	- 35,6
<b>Kazakhstan</b>	<b>I</b>	34 075	36 371	34 758	42 851	49 539,4	+ 45,4
	<b>II</b>	1 275	667	557	788	868,9	- 31,9
<b>Kyrgyzstan</b>	<b>I</b>	1821,5	2091,0	1958,2	2138,2	2 420,4	+ 32,9
	<b>II</b>	355	371	390	417	466,2	+ 31,3
<b>Tajikistan</b>	<b>I</b>	710,6	791,2	787,9	138,3	1409,6	+ 98,4
	<b>II</b>	81,7	15,9	67,6	19,0	238,6	+ 192,0
<b>All bank loans</b>	<b>I</b>	<b>62 443,80</b>	<b>68 863,82</b>	<b>61 787,48</b>	<b>60 466,69</b>	<b>71 464,60</b>	<b>+ 14,4</b>
	<b>II</b>	<b>4 001,49</b>	<b>2 547,75</b>	<b>2 873,97</b>	<b>3 173,98</b>	<b>2 995,80</b>	<b>-25,1</b>
<b>Appendix: I - total; II - including agriculture.</b>							

\* **Source:** Official website of the Central Bank of Uzbekistan: <https://cbu.uz/ru/statistics/buletten/1589796/>; Official website of the National Bank of Kazakhstan: <https://www.nationalbank.kz/ru/news/statisticheskyybyulleten/rubrics/1799>; Official website of the National Bank of the Kyrgyz Republic: <https://www.nbkr.kg/index1.jsp?item = 137 & lang = RUS>; Official website of the National Bank of Tajikistan: [https://nbt.tj/tj/statistics/statistical\\_bulletin.php](https://nbt.tj/tj/statistics/statistical_bulletin.php).

It follows from Table 1 that in 2022 in Central Asia out of \$ 71,464,60 million of loans offered, \$ 2,995,80 million or 4.2% of them belong to the agricultural sector, that is, Uzbekistan 2.0%, Kazakhstan 1.2%, Kyrgyzstan 0.7% and Tajikistan 0.3% from this contribution. The trend in the development of bank financing in 2022 compared to 2018 in the field of agriculture in Central Asia is generally declining.

For example, the rate of development of bank lending to agriculture in 2018 is decreasing by 5.9%, in 2019 - 39.2%, in 2020 - 32.6%, and in 2022 - 25.1% compared to 2018. During this period (2022), the indicators of the agricultural lending trend in these countries - Uzbekistan and Kazakhstan - had a significant impact. Thus, the results of this analysis show that the role of the banking system of these two countries in Central Asia is significant. Also, the result of a decrease in bank loans to the agricultural sector can be seen in the volume of agricultural production.

In 2022, total agricultural production in Central Asia amounted to \$ 41,751,8 million, of which 18,542,1 million US dollars or 44.4% fell on Uzbekistan, \$ 19,110,5 million or 45.8% to Kazakhstan, \$1,310.1 million or 3.1% to Kyrgyzstan and \$2,789.0 million or 6.7% to Tajikistan (see Table 3).

**Table 3. - Agricultural output in Central Asia in 2018-2022 (in millions of US dollars) USA) \***

Name of state	2018	2019	2020	2021	2022	2022/2018, (+/-, %)
<b>Uzbekistan</b>	23394,0	23588,2	24853,2	16822,6	18542,1	- 20,7
<b>Kazakhstan</b>	12979,3	13458,3	15121,1	17369,7	19110,5	+ 47,2
<b>Kyrgyzstan</b>	2971,8	3155,8	3202,0	1203,0	1310,1	- 55,9
<b>Tajikistan</b>	2823,1	2911,9	3257,9	2113,6	2789,0	- 1,2
<b>In total</b>	<b>42168,2</b>	<b>43114,2</b>	<b>46434,2</b>	<b>37508,8</b>	<b>41751,8</b>	- 1,0

\* **Source:** Official website of the Interstate Statistical Committee of the CIS countries: <http://www.cisstat.com/>. The official website of the Central Bank of Uzbekistan: <https://cbu.uz/ru/statistics/bulet/en/1589796/>; Official website of the National Bank of Kazakhstan: <https://www.nationalbank.kz/ru/news/statisticheskyy-byulleten/rubrics/1799>; Official website of the National Bank of the Kyrgyz Republic: <https://www.nbkr.kg/index1.jsp?item = 137 & lang = RUS>; Official website of the National Bank of Tajikistan: [https://nbt.tj/tj/statistics/statistical\\_bulletin.php](https://nbt.tj/tj/statistics/statistical_bulletin.php).

According to Table 3, in 2022, the largest share of agricultural production in the states of Central Asia (90.2%) falls on Uzbekistan (44.4%) and Kazakhstan (45.8%). During this period, Kazakhstan is the leader in terms of agricultural production growth, and its indicator is + 47.2% more than in 2018.

## Results

Due to the trend in the development of financial resources of banks and their use in the field of agriculture, the application of the experience of Uzbekistan and Kazakhstan may be more effective for Tajikistan, since the mechanism of financial support for these two countries in the field of agriculture is a positive and significant result compared to other countries of Central Asia. Therefore, we will consider the experience of these two countries in the direction of state financial support in the field of agriculture.

In Uzbekistan, one of the mechanisms of financial support in the field of agriculture is the provision of tax incentives and the implementation of investment projects in the field of agriculture. Of course, according to the official website of the Ministry of Agriculture of the Republic of Uzbekistan... "in Uzbekistan, tax benefits are provided for 22 sectors of the economy, and these benefits are also applied in the field of agriculture.... these benefits apply to all regions, except for the city of Tashkent and the Tashkent region" [5], since in this city and the region the infrastructure for the production of agricultural products is more developed.

Therefore, the state provides more financial incentives to cities and regions where agricultural production is declining.

In this country, depending on the volume of foreign investment, agricultural enterprises are provided with appropriate tax incentives. For example, if the amount of foreign capital involved in an enterprise is between US \$0.3 million and US \$3 million, that enterprise is exempt from income tax, property tax and the single business tax for small businesses. Other tax credits for agriculture are listed in Table 4.

**Table 4. - Tax incentives for agriculture in the Republic of Uzbekistan \***

<b>Investment amount</b>	<b>grace period</b>	<b>Exemption from:</b>
0.3 million - 3 million	3 years	Income tax Property tax Small Business Single Enterprise Tax
3 million - 10 million	5 years	for the import of own property to enterprises with foreign capital - at least 33 percent.
More than 10 million	7 years	income tax

\* *Source: Official website of the Ministry of Agriculture of the Republic of Uzbekistan: <https://www.agro.uz/ru/imtiyozlar/>*

In addition to tax incentives, the government has also provided other types of incentives to the agricultural sector, including:

- providing drip and rain technology on rainfed lands and pastures (for food producers);
- partial reimbursement of costs from the state budget for the introduction of energy-efficient technologies (drip irrigation, sprinkling, land grading using grading units);
- compensation to farms for the cost of electricity consumed by pumping units and irrigation wells;
- compensation for pest control costs, as well as ensuring crop safety in emergency situations;

- reimbursement of interest expenses for the purchase of agricultural machinery; partial insurance compensation under insurance contracts for future cotton and grain crops;
- customs exemptions for agriculture and food exports (subsidies for transporting, sending samples abroad, covering the costs of advertising campaigns abroad, introducing standards and obtaining certificates of conformity).

Agriculture in Kazakhstan remains a small sector of Kazakhstan's economy. The share of agriculture in GDP is less than 10%, that is, "in recent years it has been fixed in the range of up to 6.7%, and it makes up only 20% of the workforce. Moreover, more than 70 percent of the country's land is used for agriculture and animal husbandry "[8].

Kazakhstan's largest agricultural crop is wheat, which it exports. It ranks sixth in the world in wheat production. Less important crops include barley, cotton, sugar beets, sunflower, flax, and rice.

Currently, the fertility of agricultural land in Kazakhstan has decreased compared to Soviet times. This process has a negative impact on the production cycle of the product. At the same time, it should be noted that the dynamics of some types of agricultural products is also declining. For example, "in 2011, Kazakhstan reached a record grain harvest of 26.9 million tons, exceeding the previous 2009 record of 21 million tons. In 2012, the Ministry of Agriculture of Kazakhstan reduced the crop forecast to 14 million tons due to dry weather "[13].

In February 2013, the Government of Kazakhstan at a meeting chaired by Prime Minister Serik Akhmetov approved a new sectoral program for the development of the agro-industrial complex for 2013-2020 "Agribusiness - 2020" [3]. The Agribusiness-2020 program is aimed at developing four areas: financial stability, increasing the availability of products, works and services for the subjects of the agro-industrial complex, developing the state system of support for agricultural producers and increasing the efficiency of the state management system of the agro-industrial complex.

Within the framework of the Agribusiness-2020 program, the government of Kazakhstan in April 2014 approved a package of incentive measures - the rules for subsidizing measures for the rehabilitation of agricultural enterprises. In the first half of 2014, for these purposes, "second-tier banks were allocated 140 billion tenge (\$770 million)" [7]. Domestic researchers of this country are of the opinion that "only capital subsidies can help solve the problems of agricultural development in Kazakhstan. Instead, extensive institutional reforms are recommended, such as

improving the rural education system and transferring political power to local decision makers "[1].

In 2016, the Ministry of Agriculture of Kazakhstan launched a program of financing cooperatives that help farms purchase equipment, store and transport products, provide veterinary services, organize food and agrochemicals, and provide soft loans. This program "enabled 157 cooperatives to help 15,000 households. More than 100 milk collection points and 7,000 feed bases have been created in cooper

In 2013, the Ministry of Agriculture of Kazakhstan published the Master Plan "Stabilization of the Grain Market." This plan supported the Agribusiness 2020 program, in which the ministry determined the goals and prospects for grain production, consumption and export for 2013-2020. Some of the key trends highlighted in these projections include [2]:

- the ministry predicts that the area of all grain crops during this period will be relatively stable and slightly decrease;
- a significant transition from wheat is expected: wheat growing areas will decrease by 2 million hectares (14 percent) from 13.5 million hectares in 2012 to 11.5 million hectares in 2020;
- it is expected that most of this reduced area will be replaced by so-called "fodder crops" mainly for fodder grain, and in 2020 their area will be 1.5 million hectares (53 percent) from 2.8 million hectares to 4 or 3 million hectares growing.

In 2021, 104.4 billion tenge (201.6 million US dollars) was planned for the implementation of the investment subsidy program, however, the implementation of these projects at the local level amounted to 104.3 billion tenge (201.45 million US dollars), which made it possible to subsidize 24 thousand 189 investment projects in the field of agriculture and create 20 thousand 183 jobs [4].

From this analysis of the state of the investment subsidy program, it can be seen that Kazakhstan uses most of the attracted capital in the direction of agriculture. Of course, the mechanism for attracting financial resources to the agricultural sector is obvious. In this regard, the use of such experience for the Republic of Tajikistan will lead to further development and improvement of the agricultural sector.

### **Conclusion**

The development of agricultural lending in the world not only contributed to the emergence of agricultural financing organizations, but also led to the formation of a powerful system that determines the speed and level of development of agricultural production, investment planning on a national scale. At the same time,



on the one hand, the role of the ministries of agriculture in guaranteeing loan payments increased, and on the other hand, there was a decrease in the participation of state funds in agricultural lending.

Thus, the foreign experience of the agro-industrial complex testifies to the constant concern of state authorities to create economic and material and technical conditions for the production of agricultural products necessary for the country's population.

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