

# Trends in the Development of Investment Activities in the Agriculture of the Republic of Uzbekistan

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**Abstract.** This article highlights the issues of sustainable development of agriculture based on the implementation of investment activities. In particular, statistical indicators of the results achieved in this area are presented, problems in the field of investment attractiveness of agriculture are studied, ways of their solution and directions of priority development of investment activity are shown.

**Keywords:** agro-industrial complex, investments, investment attractiveness, agriculture, economy.

## 1. Introduction

Over the past few years, structural changes have been occurring in the economy of Uzbekistan that deserve special attention. A structural shift in the economy means a qualitative change in the economic system, manifested in the replacement of previously existing relationships between its components with new ones. It is known that the sectoral structure of the economy of Uzbekistan until the 1990s was dominated by agriculture, and with the acquisition of independence and the transition to market relations, structural changes occurred in the republic towards an increase in the share of industry and the service sector. Thus, if in 1990 the share of industry was 25.9%, then with the severance of economic ties in the post-Soviet space, it decreased to 11.1% in 2000 and increased to 33.4% in 2022, while the share of agriculture rose from 33% in 1990 to 50.7% in 2000 and decreased to 25.1% in 2022. Qualitative changes in the structure of the economy are ensured by the growth of services in the structure of GDP from 37% in 2000 to 41.5 in 2022. The share of small business and private entrepreneurship in the country's GDP, which was 31% in 2000, reached 51.8% in 2022. All these changes ensured stable rates of economic growth, which overall over the period 1990-2022 increased from 3.8% in 2000 to 5.7% in 2022. At the same time, the most important source of sustainable growth rates of the economy and diversification of its structure was the growing volume of investments in fixed capital, which, according to the World Bank, amounted to 40.58 percent of GDP in 2021 (Table 1). It is worth noting that Uzbekistan is among the top ten countries in the world for this indicator.

Table 1. Share of investments in GDP, % [6]

Global ranking	Countries	Share in GDP, %
1	Mauritania	57,16
2	Mozambique	49,82
3	Cape Verde	45,6
4	Vanuatu	43,77
5	Tanzania	43,22
6	China	42,84
7	Uzbekistan	40,58
8	Algeria	37,34
9	Mongolia	36,72
10	Qatar	36,68

Uzbekistan occupies a geographically convenient location in Central Asia, being a “core” around which there are five states - CIS countries. Many Uzbek projects are attractive for investment due to the country's raw material potential, relatively low cost of energy and labor, as well as strong government support and a developed

legal framework. In addition, the existing system of financial and economic incentives and benefits for foreign investors, such as reduced tax rates, tax holidays, exemption of income from equity participation, accelerated depreciation and write-off to current costs, transfer of losses to future costs, deduction of certain expenses, etc. etc., are focused on increasing foreign direct investment in the manufacturing sector and, in particular, in industries and production with great export potential. [2]

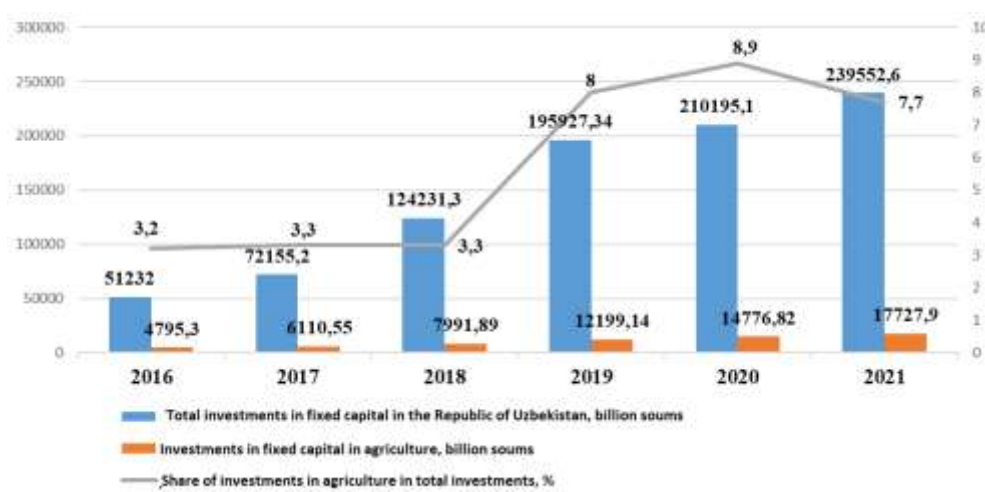
According to official data from the Statistics Agency under the President of the Republic of Uzbekistan, in 2022, investments in the equivalent of 269.9 trillion were attracted and disbursed in Uzbekistan from all sources of financing. soum (USD 16.7 billion), which is 0.9% more than in 2021.

Of the total volume of investments disbursed in 2022, 112.2 trillion. soums or 41.6% were foreign investments and loans, including 37.0 trillion. soum – foreign direct investment, 15.2 trillion. soum - investments in fixed assets financed by foreign loans guaranteed by the Republic of Uzbekistan, 60.0 trillion. soum - investments financed by non-guaranteed foreign loans and other investments. Own funds of the population and business entities amounted to 110.3 trillion. soum, of which more than 60% comes from non-state sources. 21.1 trillion was allocated to invest in the economy. soum (7.8% of the total investment in fixed capital) of funds from commercial banks and other borrowed funds. Budget funds amounted to 20.9 trillion. soums (7.8%), funds from targeted state funds, in particular the Fund for Reconstruction and Development - 2.5 trillion. soums (0.9%), Fund for the Development of Water Supply and Sewerage Systems - 2.9 trillion. soum (1.1%). [5]

The steady growth of the total capital of the country's commercial banks and a balanced policy for asset portfolio management have ensured that the banking system has a capital adequacy level three times higher than the international standards of the Basel Committee on Banking Supervision. The strengthening of the deposit base and the high growth of the total capital of commercial banks have expanded their ability to financially support production processes in the economy and the ability to stimulate investment activity through internal sources. [3]

In particular, as of January 1, 2023, the total assets of commercial banks amounted to 444,922.5 billion soums, with an increase of 19.0% compared to 2021. The total amount of credit investments of banks increased by 19% compared to last year, amounting to 382.1 trillion soums, of which the industrial sector accounts for 33.1% or 126.5 trillion soums; 10.6% or 40.4 trillion soums fall on the agricultural sector; 2.6% or 10.1 trillion. soums – for the construction sector; 7.6% or 29.1 trillion. soums of credit investments were directed to trade and general services enterprises; 7.4% or 28.4 trillion. soums – in the field of transport and communications. Individuals received loans totaling 97.7 trillion. soums or 25.6% of the total volume of loans.

Despite the positive dynamics in recent years in the structure of investments in fixed assets by type of economic activity, agriculture does not occupy the best position: in 2021, 17,727.9 billion soums were disbursed in this industry from all sources of financing, or 7.7% of the total volume of investments in fixed capital (Fig. 1).



Source: data from the Statistics Agency under the President of the Republic of Uzbekistan  
**Figure 1. Share of investments in fixed assets in agriculture, forestry and fisheries, in %**

In 2021, 17,727.9 billion soums of investments were disbursed in agriculture, forestry and fisheries, of which 43.2% were foreign investments and loans, 17.1% were funds from enterprises and organizations, 15.5% were loans from commercial banks and other borrowed funds, 6.9% - the republican budget and 17.2% - other sources of financing (Table 1). [5]

Table 2. Investments in agriculture, forestry and fisheries by source of financing (billion soums)

	2016	2017	2018	2019	2020	2021
Total	4795,3	6110,6	7991,9	12199,1	14776,8	17727,9
<i>Including:</i>						
republican budget	565,7	553,4	911,1	1935,6	1736,0	1231,9
funds of enterprises and organizations	510,0	905,5	1768,8	1132,9	1663,8	3038,6
commercial bank loans and other borrowed funds	371,2	715,6	2328,1	2034,1	1883,5	2746,9
foreign investments and loans	171,8	189,8	1064,4	5050,6	6739,9	7659,4
other sources of funding	3176,6	3746,3	1919,5	2045,9	2753,6	3051,1

Source: data from the Statistics Agency under the President of the Republic of Uzbekistan

State funds are directed, first of all, to the implementation of reclamation measures; restoration of technical potential in rural areas; completion of construction on previously started facilities provided for by target programs; strengthening the material and technical base of agricultural science, seed production, breeding, as well as the storage base, both in agriculture and in the processing industries; construction of housing in rural areas; small business support.

Self-financing is one of the most important forms of financial support for the investment activities of agricultural enterprises, but the state of affairs in agriculture is such that there is little hope of using profit as the main source of financing. [4] The low profitability of farms, associated primarily with high expenditures of resources in agriculture, can be explained by many reasons: low soil fertility, large losses of production, high costs of energy resources, fuels and lubricants, seeds and planting materials, poor-quality equipment, non-compliance with agrotechnological requirements, lack of alternative technologies, etc.

Another source of financing investment activities is depreciation charges. These deductions are formed at enterprises as a result of transferring the value of fixed production assets to the cost of finished products. By operating for additional time, fixed production assets gradually wear out and transfer their value to finished products in parts. Since fixed production assets do not require compensation in kind after each reproduction cycle, agricultural enterprises incur costs for their restoration after the expiration of their standard service life. Cash released in the process of gradual restoration of the value of fixed production assets is accumulated in the form of depreciation charges to the depreciation fund.

In other words, the results of economic activities of agricultural enterprises depend on the level of technical equipment. However, the state of affairs in agricultural enterprises and private farms indicates that not all enterprises are provided with agricultural machinery. The condition of the machine and tractor fleet of agricultural enterprises in the republic as a whole remains unsatisfactory, primarily due to the high degree of wear and tear of technical equipment of agricultural enterprises and the lack of new high-tech equipment.

Despite these problems, many farms currently still have the opportunity to attract their own funds along with bank loans to implement a diversification policy aimed at combining the main activity of agricultural production with the development of other areas, including non-agricultural ones.

The situation is much better in the field of attracting foreign investment in the agricultural sector of the republic. Thus, in accordance with the Resolution of the President of the Republic of Uzbekistan dated December 28, 2022 N PP-459 “On measures to implement the Investment Program of the Republic of Uzbekistan for 2023-2025”, under the initiative of the Ministry of Agriculture, the implementation of a number of projects implemented with the attraction of foreign loans is provided on behalf of the Republic of Uzbekistan or under the guarantee of the Republic of Uzbekistan, with a total value of \$2,062.0 million. USA. Most of the projects are related to the development of value chain infrastructure in the fruit and vegetable industry and the development of this industry, the implementation of diversification and modernization of agriculture, and the introduction of modern water-saving technologies in the agriculture of the republic. [1]

The need to further intensify investment activity in all spheres of the national economy is provided for in the decisions of various government bodies adopted in recent years on this problem. However, along with all the achievements in attracting foreign investment, there are also certain limitations. For large investors with capital of tens and hundreds of millions of dollars (and these are attracted with the participation and under guarantees of the government), special conditions for a favorable “microclimate” are created in Uzbekistan; as for small and medium-sized investors, for them the current conditions for investing capital in Uzbekistan its

efficient use and repatriation of profits are not so attractive. The conducted systemic monitoring shows that the attraction of foreign capital is constrained by the following conditions:

- insufficient development of market infrastructure: insurance companies, auditing firms, trading houses, consulting offices, business centers, business incubators, etc.;
- imperfect mechanism for attracting foreign investment,
- ambiguity and some contradictions in regulations;
- instability of the exchange rate and insufficient transparency of the conversion regime (especially for small and medium-sized investors);
- insufficient development of sales markets, as well as markets for raw materials and materials;
- lack of domestic entrepreneurial know-how attractive to investors, etc.

In this regard, the intensification of investment activity becomes the most important determining factor in the further development of agriculture. It is required not only to reform the social structure in rural areas through institutional changes, which was a priority in the initial period of agrarian reform, but also to attract large-scale investments into the agricultural sector. Almost all areas and sectors of the agro-industrial complex are in dire need of them, be it agriculture, the processing industry, capital-producing industries or the rural housing sector. Therefore, creating the prerequisites for a massive influx of investment in the agricultural sector should become an essential element of the strategy of state agricultural policy at the present stage.

Ensuring high investment attractiveness of the agricultural sector, sustainable functioning of agriculture, involves the development and implementation of a set of organizational and economic measures to create conditions for increasing the attractiveness of agricultural production in the republic, aimed at solving the following tasks:

- □ comprehensive and full use of the natural-geographical advantages of the industry as a result of the creation of a network of internal roads in the republic, which will significantly optimize the transport costs of agricultural enterprises, speed up the transportation time of perishable agricultural products, improve the infrastructure of agricultural production in the mountainous climatic zone of the republic, create additional jobs, improve the standard of living of the rural population and reduce social tension in rural areas.
- Along with this, increasing the efficiency of using the natural resource potential of agriculture is associated with the achievement of scientifically based territorial specialization of agricultural production in natural economic zones.
- □ creating favorable conditions for the involvement of non-state investments in the economy - savings of the population, credit resources, savings of business entities, foreign investments. In order to achieve this task, it is necessary to improve the system of state guarantees and mechanisms for protecting private investments.
- □ active state regulation of the investment process in agriculture, aimed at improving the investment climate and ensuring risk reduction.

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