ISSN 1804-5839

VOLUME 3, 2011

AGRICULTURAL FINANCIAL MARKET IN UZBEKISTAN, ITS CONDITIONS AND PERSPECTIVES FOR SMALL AND MEDIUM SIZE BUSINESSES

DILBAR KHALMIRZAEVA

Tashkent State Economic University, Uzbekistan

ABSTRACT

Tne aim of this paper is to analyze the relationship between financial market development and agricultural sector in Uzbekistan. Research tries to answer these questions an empirical way and tries to clear questions in a role of financial development as also other variables in agrarian sector. Results of this research show that the financial market in agrarian sector has some weak places.

JEL CLASSIFICATION & KEYWORDS

■ Q19 ■ Financial Market ■ Agricultural Sector ■ Uzbekistan ■ Small and Medium Business ■ Agricultural Finance ■ Institutions.

INTRODUCTION

The organization of agrarian business activity in general, and agricultural production in particular, depend on such factors particular, is depend conditioned by the fact that inputs are transmuted into outputs with considerable time lags, and that production and sale outcomes can be highly uncertain because of the changes of nature or of charged in commodity markets. In such environment, possibility of the agricultural enterprises to make long-term investments, incur the calculated risks, and create the steady streams of consumption generated by a set of accessible financial tools and strategy capable to transform one sample of variable and uncertain inflows of a resource and outflows of another. If the available set of financial services is very limited, households may have to forego valuable investment and income-generating activities and hurt the consequences of volatile consumption.

Financial transactions are absolute within, and often the reason behind, many contractual and organizational forms in the agrarian economy. Financial innovation therefore can have considerable consequences on the ownership and governance structures of agricultural firms and community institutions. Financing options can affect decisions such as the physical placement and scale of agricultural operations, crop choices, and the decision to invest in risky but profitable new technologies or infrastructure. (Evenson, R.E., P. Pingali, and T. P. Schultz)

Review of literature.

Financial markets are significant for the functioning of today's markets, but they also connect today's markets with tomorrow's markets. If this linkage does not function well, today's and tomorrow's markets do not function well. Hence, "financial markets can be thought of as the 'brain' of the entire economic system, the general locus of decision making: if they fail, not only will the sector's profits be lower 1 than they would have been otherwise, but the performance of the entire economic system may be impaired" (Stiglitz, 1994).

Without functioning financial markets savings will hardly be mobilised and funds will not be directed to their most profitable location. Thus, the economy is distorted, more in favour of using up goods at the expense of capital goods and more in favour of short term investment than of medium and long term. These economies grow less fast than those with functioning financial markets. Functioning agrarian financial markets play a key role in transforming agriculture from a centrally planned to a market economy. Experience has proven that privatisation of agriculture will transform agriculture more effectively if it is linked to restructuring (Swinnen and Gow, 1999). However, restructuring suggest that some former investments will become obsolete and, hence, a significant amount of new short, medium and long term investment is needed. In most countries the new owners of farms have to finance investments with external funds. Without a solvent rural financial market the revitalisation of the farm sector will be lingered and the improvement of the agricultural sector to a market economy situation will take longer than for most other sectors of the economy.

Lack of credit is one of the main reasons for insufficient investment in agriculture. This, in succession creates a situation in which agricultural producers are not able to confirm optimal distribution of resources in the short-term (profit - liquidity effect), which results in a decline of long-term investment in land and equipment (investment demand effect) (Lerman and Subbotin, 2004).

As in many transitional countries of Europe and Central Asia (ECA), a main problem in Uzbekistan during the transition period was the a disintegrate of relationships of farms with input suppliers and output markets. The result is that many farms and rural households face serious limitations in obtaining essential inputs (feed, fertilizer, grounds, etc.) and selling their output (Swinnen, 2005).

It is nearly the same for all post-communist transition economies when governments occured in the agricultural financial markets by establishing special agricultural credit institutions, advance guarantees schemes, and credit subsidies. For instance, advance guarantees cover up to 50% of advance for agricultural investment in most CEE countries (Swinnen and Gow, 1999, p. 35).

In the beginning of the transition period, the institutional structure of agrarian credit markets was dominated by one specialized agricultural credit institution inherited from the centrally planned system. Governments used this institution primarily for the allocation of advance guarantees and credit subsidies. Since agricultural producers used to consider this credit institution as a source of governmental financial support, loans from these banks were often treated like government subsidies and not as commercial products one has to pay for. This resulted in a high rate of loan repayment default, which frequently led to the financial collapse of agricultural banks (Swinnen and Gow 1999, p. 40).

Research results.

The agricultural financial market is one of the most important factors for process of the prompt, steady growth of small-scale business of a farm in agriculture. From the beginning of independence of republic Uzbekistan small-scale business financing stimulated considerable research interest among scientists because of a continuous recognition of the importance of quantity small and moderate-sized firms for transition to market economy.

However the increase in number of small farms in the country does not reach full expectations because of some barriers. This empirical research is going to spend and investigate the rural financial market and to investigate those barriers which prevent to an obstacle to the enterprises of small-scale business for achievement of effective manufacture.

The empirical investigations were provided within eighty farms. By means of the questionnaires we investigate farmers financial conditions and how easy they can obtain financing if they need.

The econometric regression model was used for analysis of this research. The model is estimated by the following equation:

$$P(Y) = 1/(1 + e^{z}) \text{ and}$$

$$Z = b_0 + B_1X_1 + B_2X_2 + B_3X_3 + \dots B_nX_n + e$$

Where: P(Y) - is the probability of dependent variable (Y-financing difficulties expressed in loan denial) occurrence,

BnXn - is the regression coefficients of the corresponding independent variable X„ and e - is the residual term.

The results of the binary logistic regression model analysis imply that there is a difference of financing difficulties concerned the size of the loans, length of loans and the debt to asset ratio used by small farm businesses. The difference between size of the loan (P<0,07 level) means that farmers who require for smaller size loans are less likely to face a financing difficulties (loan denial) in contrary farmers who require larger size loans. The possible explanation for this evidence may relate to market inadequacies to provide larger size loans. The empirical investigation on length of loans reveals (P<0.04) that farmers who require shorter length loan are less likely to face a loan denial than farmers who require longer length loan. This implies that bank officers limit their activity to short term loans which are continuously renewed and thus may hamper productive activity of farmers.

Furthermore, it is found that farms with high debt to asset ratio face more barriers to credit access in the rural financial market. Farms with low debt to asset ratio eventually use their equity as collateral, so that bank officers feel more comfortable when lending a capital to the farms with low external financial services.

Additionally, we investigate the major problems which are prevalent in the rural financial market by means of the descriptive analysis. The investigation shows that major problem which prevalent in the rural financial market are; incomplete plan of small farm businesses, poor small farm business's cash flow, and farmer's insufficient equities.

Further capital market investigations on informational sources, technical assistance and government policies were surveyed to better analyze the capital market for agro businesses.

- We found that the majority of farmers obtain the informational sources from banking sector -36 percent, other 30 percent of respondents imply they would most likely obtain information on financing from experienced friends and relatives. This fact suggests that market is not adequate to provide full information to agricultural businesses. If the market would be adequate in providing information, farmers most likely would obtain full information from the informational sources rather than ask those friends and relatives whose answer may not satisfy the farmer or in some circumstance even may be bias. Another twenty two percent of respondents reporting that they would get information from consulting firms, ten percent report Chamber of Commodity Producers and only two percent imply Small Business Development Center.
- Investigations on technical assistance show that forty six percent of respondents defined as the technical assistance is the hardest issue to get. 32 percent of respondents report that project the cash flow in the future is very difficult to get to compare with technical assistance in legal issue which is report by sixteen percent of respondents. Finally, technical assistance to complete a business plan defined by six percent of respondents which is more likely to be available compare to other technical assistance.
- An assessment of government support programs are varies between 'one' as fairness with programs - to 'six' as very unfair with government programs; this includes government programs on subsidized credit for small farm businesses. Government policy estimation: The majority of respondents 66 percent agrees that it is easier to obtain financing when lenders use government support programs. However major support programs mainly focus farmers who produce cotton and weat. Farmers who produce other agricultural products believe that government should become active in ensuring an adequate access to capital market for other agricultural businesses as well.

Subjective assessment of small farm businesses on financing support programs" in rural capital market are described further. Loan guaranty program assessed in average as 3.9 rates means that small businesses less fair with insurance support program in rural capital market. Women entrepreneur associations weighted to 1,6; state micro credit program average is 2.6. Other programs such as the export financing assistance (3.4) and government fond of credit subsidies are less fair to small agricultural businesses.

Concluding this issue, we should remark that small farm business faces financial difficulties because of the high debt ratio used in the farms assets and additionally because of the farms plans incomplete and farm insolvency. We relate these problems to the lack of the technical assistance in the rural areas of the country. In the sense that farmers in the rural areas are almost unaware or lack of the information about the future market demand and lack of the assistance to project (plan) farm business and its cash flow. The issue here is that small businesses with lack of these technical assistance more likely to face business failure. In sense, when the farmers are not able to plan the future market needs, combining with the future cash flow needed for the business, more likely farmer face different barriers and obstacles during the farm business functioning. Therefore, in order to promote the sustainable growth of small farm businesses and also to facilitate the access to external financial sources, we suggest; firstly, to increase the technical assistance such as: projecting the future market demand and projecting the future farms cash flow in the rural areas of the country. Moreover, we suggest facilitating the farmers access to this technical assistance. This strategy will help not only to better access to the financial services but will also assist the better functioning of agricultural business as a whole, which finally step will improve the economic conditions of the country.

In addition, the informational sources are not easily available for the farmers in the rural areas. A lack of the information may cause a lack of demand for credit as well. We can explain this phenomenon in the sense that farmer who uncertain about the financial services are more likely will be unwilling to obtain the external financial services. Therefore, we suggest to increase the informational sources for small farm business, as well as to improve the access to these informational sources, to help the better functioning and growth of small farm businesses in the rural areas of the country.

Conclusion

The agriculture is one of the major branches of economy of Uzbekistan. Food processing (particularly cotton and vegetable fructs production) also is an important industrial sector.

However Uzbekistan possesses a favorable climate, to its allowing farmers to make a traditional clap and silks. It is the biggest in the world the exporter of a clap. These and other efforts have sustained healthy economic growth in agrarian sector in 1995-2010, noted by increase in a crop and the additional earth prepared for cultivation. The results of test of hypotheses showed that this financial market also plays very important role in developing agricultural sector in Uzbekistan. By the way, the results also indicated that there is still some weakness in such a financial market.

The author has drawn a conclusion that to remove or on an extreme measure to reduce such weak places in the first stage of improvement of financial management in agrarian sector. While banks improve the relation to the farmers, the second can make themselves more attractive to banks as clients. On-farm investments, like any other, must be considered based on a sound and conservative projection of the returns they are likely to generate. In order to make such projections and otherwise manage their finances prudently, farmers must have a thorough understanding not only of their own fixed and variable costs, and the factors that drive them, but also the dynamics affecting their industry as a whole. Equally importantly, banks must be convinced that a prospective borrower understands his own finances and has the capacity to manage them responsibly. It may take long to change these institutions. Transaction costs on financial markets are higher than on most product markets as information costs on the demand and supply side are higher. The demand for credit is constrained by lack of information because it is costly to identify profitable investment projects and to assess their risk.

REFERENCES

1. STIGLITZ, J. E. and A. WEISS (1981): Credit rationing in markets with imperfect competition. American Economic Review 71 (3): 383-410.
2. SWINNEN J. and H. R. GOW (1999): Agricultural credit problems and policies during the transition to a market economy in Central and Eastern Europe. Food Policy 24: pp. 21-47
3. Swinnen, J. 2005. “When the Market Comes to You or Not. The Dynamics of Vertical Coordination in Agri-food Chain in Transition”, Final Report of the World Bank