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## **ALLOCATION OF FINANCIAL RESOURCES IN TO THE BUSINESS SECTOR IN UZBEKISTAN**

The article reviews the allocation of financial resources to small and medium sized enterprises, the role of a banking system in the allocation of money and projects related to development of business sector. Some dilemmas relating to the business climate in Uzbekistan are given with some solutions to tackle them.

**Keywords:** budgetary allocations, banking sector, short and long-term credits, commercial banks, “start-up” business, government monitoring.

Maqolada moliyaviy resurslarning kichik va oʻrta hajmdagi tadbikorlikka sarflanishi, bankning moliyavaviy mablagʻlar taqsimotidagi oʻrni va biznes sohasini rivojlantirishga oid loyihalar haqidagi masalalar koʻrilgan. Oʻzbekistondagi biznes sohasidagi uchrayotkan bʻzi muammolar yechimlari bilan keltirilgan.

**Kalit soʻzlar:** moliyaviy mablagʻ taqsimoti, bank sektori, qisqa va uzoq muddatli kreditlar, tijorat banklari, “startap” loyihalar, davlat nazorati.

В статье рассматривается распределение финансовых ресурсов для малых и средних предприятий, роль банковской системы в распределении денег и проекты, связанные с развитии бизнес сектора. Некоторые дилеммы, связанные с бизнес климатом в Узбекистане, даются с некоторыми решениями.

**Ключевые слова:** бюджетные ассигнования, банковский сектор, краткосрочные и долгосрочные кредиты, коммерческие банки, начинающий бизнес, государственный мониторинг.

### **Introduction.**

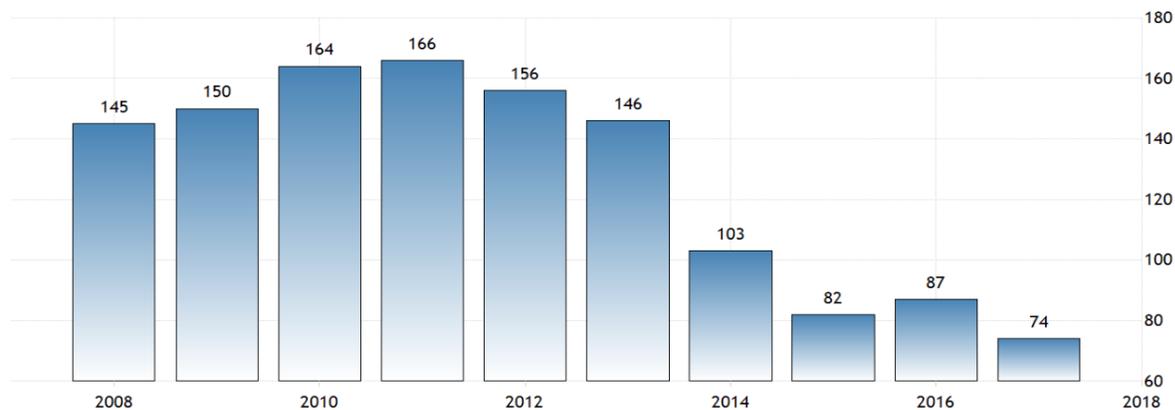
There is saying: “The more organized financial resources, the more developed the economy”. In Uzbekistan, the government is drawing more attention to business sector as the sector is found to be more prospective and profitable. Before looking at the money distributed into this field, it is important to know what budgetary allocations mean.

**Budgetary allocations** are integral components to an annual financial plan, or budget of all organizations. It is the amount of funding designated to each expenditure line. It designates the maximum amount of funding an authority or an organization is willing to spend on a given item, program or field.

The Ministry of Finance decides how to allocate money properly according to statistics from previous years and investigations of forecast upcoming results. Recognizing the importance and the bright future of business, most of the money in country’s budget is spent on business sector as well as to attract more investments from abroad.

## Literature review

According to the fact that small businesses effectively generate employment and income, the role of small business and entrepreneurship in the country’s GDP (Gross Domestic Product) is ever increasing and giving loads of opportunities to start-up businesses : subsidies, decreased tax rates and so on. For example, as of 1st January 2016 basic tax rate for unified tax payment for micro-firms and small businesses, except for enterprises of trade and public catering, was reduced from 6% to 5% in order to further lessen tax burden, support and stimulate development of small and private businesses. [1]



**Figure 1. Ease of doing business in Uzbekistan. [2]**

Uzbekistan is ranked 74 among 190 economies in the ease of doing business according to the latest World Bank annual ratings. The rank of Uzbekistan improved to 74 in 2017 from 87 in 2016 (Figure 1).

The financial system is dominated by banks, which control 94% of finance sector assets. In this turn, money allocated to business sector is managed by banks. They give short-term and long-term credits to people intending to set up their own business. Eight state-owned banks control 75% of banking assets and provide the bulk of credit to state-owned entities. In 2017, the aggregate capital of commercial banks in Uzbekistan increased 2.3 times and reached 20.7 trillion sums. Looking at the examples below, given opportunities to entrepreneurs ( young entrepreneurs, women entrepreneurs and others) and some key factors of business climate can be clearly seen:



**Picture 1. Increased loans issued to small business in 2015 and 2016(in trillion sums) [3]**

The amount of given credits in Commercial banks to female entrepreneurs expanded by 1,3 times and reached 1,6 trillion sums compared to 2014.



**Picture 2. Increased loan given to the young entrepreneurs in 2015 and 2016 (in billion sums) [4]**

Supporting the young people, college graduates and the people who want to do business, the amount of loan given to them in 2016 is 1,3 times more than the one in 2015(362.1 billion sums). (Picture2)

Some new projects related to the money supplies in banks are willing to be carried in the upcoming years. For example, The Asian Development Bank (ADB) has approved a loan of \$ 100 million for financing small business in Uzbekistan.

Credits to small businesses will be provided through four financial institutions: PJSCB DAVR BANK, JSCB Hamkorkbank, AICB Ipak Yuli and leasing company Uzbek Leasing International A.O. (the assets of the project are in the tables below).

**Table 1**

**Annual Disbursement Estimates (\$ million) [5]**

Participating Financial Institution	Allocation	Disbursement Year			
		2016	2017	2018	2019
Hamkorkbank	45.00	4.00	14.00	14.00	13.00
Ipak Yuli Bank	38.00	3.00	13.00	12.00	10.00
Uzbek Leasing	10.00	0.75	3.25	3.00	3.00
Davr Bank	7.00	0.25	2.75	2.00	2.00
Total Project Cost	100.00	8.00	33.00	31.00	28.00
% Total Project Cost	100%	8.0%	33.0%	31.0%	28.0%

The current allocation of the ADB loan to PFIs is presented in Table 1. The Loan Agreement provides that the Government of Uzbekistan shall reallocate the funds among the PFIs in a manner acceptable to ADB should there be a change in the composition of the PFIs or a need to reallocate the proceeds of the ADB loan.

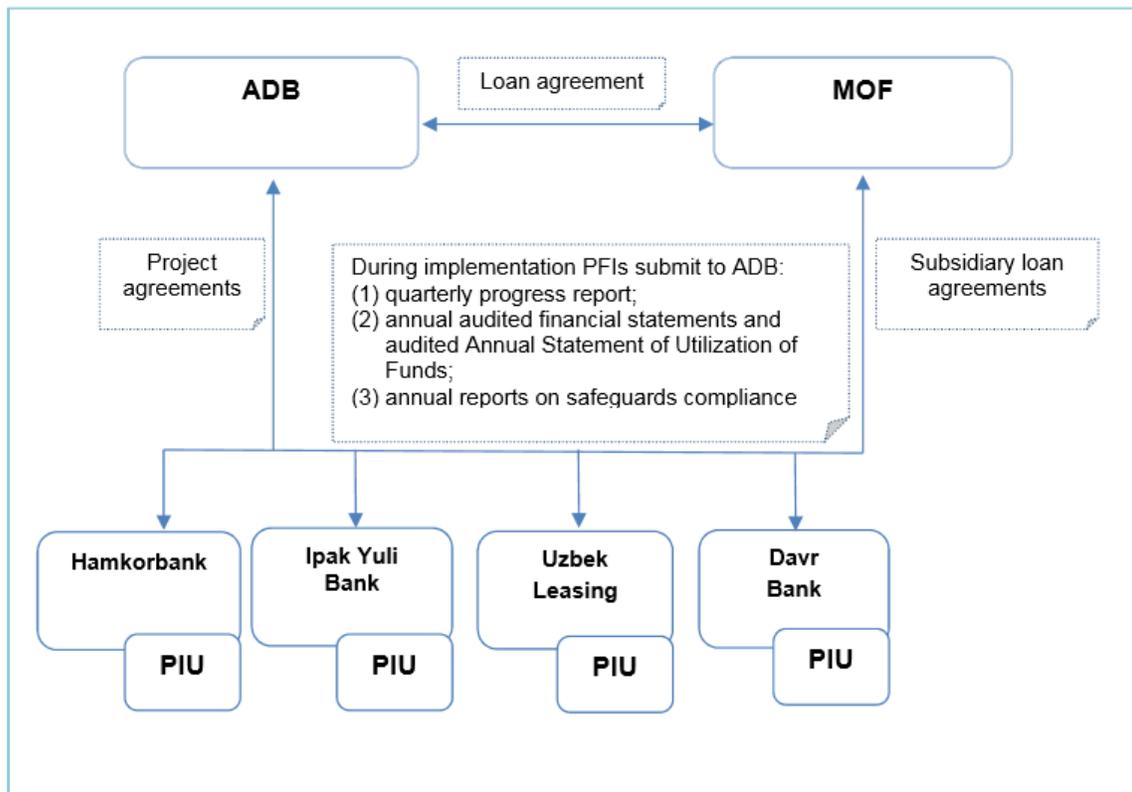
In the implementation of the project responsible bodies are MOF (Ministry of Finance) and ADB (Asian Development Bank) with the other four key subjects: Hamkorkbank, Ipak Yuli Bank, Uzbek Leasing, Davr bank (Picture 3)

Alia Mukhamedyarova, a specialist in the financial sector of the ADB’s Central and Western Asia Department, noted that the share of small businesses in Uzbekistan’s GDP is higher than 50%. About 80% of employees work in this sector.

“But access to financial resources, particularly in rural areas, is hampered by inadequate services and a number of other circumstances,” she said.

According to her, in the framework of this loan, small businesses can get loans for working capital and investments in fixed assets. She noted that, in particular, the funds will be provided to businesses outside the capital and to female entrepreneurs.

Providing a loan will help meet the growing demand for credit and leasing of small businesses and entrepreneurs.



**ADB= Asian Development Bank; MOF=Ministry of Finance; PFI= participating financial institutions; PIU= project implementation unit.**

**Picture 3. Project Organization Structure [7]**

ADB notes that the maximum amount of the sub-loan will be \$300,000. The borrowed funds will be allocated to small businesses at market financing rates. At the same time, at least 20% of sub-loans will be provided to small businesses owned by women. The project will contribute to improve the enabling environment for women-owned small businesses by upgrading their skills and access to finance. To ensure a wide outreach of training to the targeted population, PFIs will conduct annual customer

surveys of women who own small businesses to identify issues faced by this segment, also public marketing campaigns will be carried out to improve outreach to women and rural small businesses. [6]

Also, the project envisages allocating at least 60% to small businesses outside Tashkent.

ADB also provided Uzbekistan with a technical assistance grant of \$500,000. The Government of Luxembourg will finance this grant through the Special Partnership Fund for the Development of the Financial Sector, which will be administered by ADB.

Technical assistance will help in strengthening the policies and procedures of participating financial institutions, increasing the potential for financing small businesses.

Also, within the framework of technical assistance, intensive training programs for financial literacy will be conducted for small businesses – clients of participating financial institutions.

The project implementation period is 5 years, with a projected completion date in December 2021.

### **Analysis, results and recommendations.**

Though government is trying to devote most of its budget to the development of business climate, some problems are still lacking behind and setting some barriers to business climate to develop:

**-Currency Issues.** Although Uzbekistan adopted Article VIII of the IMF's Articles of Agreement in October 2003 and, thus, committed to currency convertibility for current account transactions, currency conversion has been problematic, particularly for consumer goods importers, with delays regularly stretching out more than a year. The government claims to provide timely conversion to companies on a pre-approved list for manufacturing development, but these companies also suffer from conversion delays. Government officials have stated that work is being done to liberalize the currency market, although no timeline has been given as to when these changes might occur.

**-Overregulated Banking Sector.** The banking system in Uzbekistan remains closely controlled by the state through a complex set of regulatory actions, decrees, proclamations, and practices. Most banking assets remain in state-owned or controlled banks, and most loans are directed or channeled by the government to develop certain pre-selected industry sectors. The banking sector includes three state banks that hold 60 percent of the total assets and capital of the entire banking system, they are virtually the agents of the government in implementing government development strategy (NBU, Halq Bank, Asaka Bank), eleven joint stock-commercial banks, eight private banks, and five banks with foreign investments (Savdogar Bank, Hamkorbank, KDB Bank Uzbekistan, Utbank, Saderat Bank). Privately owned commercial banks are small niche players.

The slow pace of reform in the banking system limits the role banks can play as financial intermediaries, thus inhibiting the ability of citizens or private companies to obtain credit and other banking services. Joint ventures often require supplemental local financing to complete projects. Although Uzbek law guarantees the Central Bank’s independence, in fact, this independence is only nominal. The Central Bank is unable to enforce bank regulations properly, leaving banks free to operate with little regard for applicable banking regulations or fiscally practices. Government influence over the banking sector is significant. All banks are closely monitored by the government, which imposes non-core functions on them, including tax withholding and financial oversight of their clients. Several private banks lost their licenses to conduct transactions in foreign currency in 2012-2013. Private credit unions were abolished in late 2012.

**State Involvement.** Both foreign and local private businesses suffer from government interference in investments and bureaucratic obstacles. The government reserves the right to cancel the registration of any business or withdraw its license. Government inspections frequently lead to punitive sanctions or closings [8].

The problems mentioned above should be tackled so that the business can flourish in Uzbekistan, in this turn the following actions should be taken:

- To increase the number of banks that services with much less monitoring;
- To reduce government legislation on banking sectors and give them more opportunity to give credits to unlimited number of entrepreneurs who have good and perspective idea to start or expand their small and private business.
- To ease contract making process with both local and foreign investors and avoid too much state interference, also to make laws that gives some priorities to investors and attract them to invest in our business.
- To train business skills for new starter business persons who will they know their rights and obligations in doing business and take every opportunity the government providing

Opportunities provided are for the best performance if people in the country try them. To improve the business skills of the people and support them to take every opportunities to run their own business the government can carry out a set of the following activities:

- Inform continuously every decree, laws released about business sector by the authority through mass media. (Television, radio, internet and etc.)
- Organize special “advice rooms” in each banks and specialists to give advice and information to the person coming to the bank about start-up projects, types of loans, subsidies and other questions they are interested in.
- Organize special trainings to teach how to make business plan and the types of business which can be well-organised in our business climate.
- Optimize the every service in banks to make customers come and use the services next time (because every time of their arrival gives them inspiration to take credit and start small business).

### **Conclusion.**

The role of small business and private entrepreneurship in the country’s GDP and economy is increasing. Recognising the importance of the business community in general and private entrepreneurship in particular for the economy, the state constantly updates the legislation in attempts to decrease the tax and administrative burden on the business. Uzbek government constantly develops various tools aimed at improving the local business climate: various subsidies, short and long term credits, investments from abroad in both local and global scale.

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