

REFORMS IN THE FINANCING MECHANISMS AND MANAGEMENT SYSTEM OF AGRICULTURAL PRODUCTION IN THE COTTON-TEXTILE CLUSTERS OF UZBEKISTAN

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Abstract. *This study examines Uzbekistan's transition from state-regulated cotton production to a market-oriented framework between 2019 and 2024. In 2024, significant reforms were introduced, including the liberalization of cotton cluster selection and the implementation of futures contracts for cotton sales. The new financing mechanism allows farmers to auction their cotton at the beginning of the year, enabling clusters to secure production through futures agreements. Surplus cotton, beyond contracted amounts, can be sold via exchanges or processed independently. Additional initiatives encompass permitting all legal entities with at least two processing cycles to purchase cotton, introducing yield-based tax incentives, enabling land-use rights as collateral for bank loans, and subsidizing interest rates through the Agricultural Financial Support Fund. These measures aim to enhance supply chain efficiency, foster competition, and improve financial accessibility for farmers. Collectively, the reforms are designed to establish sustainable market relations and strengthen Uzbekistan's position in the global textile industry. the economic and environmental sustainability of the region.*

Keywords: *consolidated financial statements, subsidiary company, parent company, financial investments, control over the object of investment.*

Introduction

This study examines Uzbekistan's transition from state-regulated cotton production to a market-oriented framework between 2019 and 2024. In 2024, significant reforms were introduced, including the liberalization of cotton cluster selection and the implementation of futures contracts for cotton sales. The new financing mechanism allows farmers to auction their cotton at the beginning of the year, enabling clusters to secure production through futures agreements. Surplus cotton, beyond contracted amounts, can be sold via exchanges or processed independently. Additional initiatives encompass permitting all legal entities with at least two processing cycles to purchase cotton, introducing yield-based tax incentives, enabling land-use rights as collateral for bank loans, and subsidizing interest rates through the Agricultural Financial Support Fund. These measures aim to enhance supply chain efficiency, foster competition, and improve financial accessibility for farmers. Collectively, the reforms are designed to establish sustainable market relations and strengthen Uzbekistan's position in the global textile industry.

1. Materials and methods

This research is based on a review of government policies and economic instruments implemented in the cotton-textile sector from 2019 to 2023, with a focus on the policy reform introduced in 2024. The proposed initiatives were derived from policy analysis, expert consultations, and economic modeling aimed at evaluating the efficacy of market liberalization measures and financing schemes.

2. Results and discussion

To further develop free market relations in agriculture of Uzbekistan and enhance interactions between cotton-textile clusters and agricultural producers based on market principles, and foster a healthy competitive environment in the sector, the Cabinet of Ministers of the Republic of Uzbekistan adopted Resolution No. 680, titled “On Additional Measures for Crediting the Production of Raw Cotton and the Costs of Harvesting and Sale Thereof,” following Presidential Decree No. UP-205 dated December 12, 2023⁷¹⁷².

Over recent years, the government of Uzbekistan has implemented fundamental reforms to liberalize and transition the cotton-textile industry towards a market economy. Financing mechanisms for cotton production have undergone several revisions, including increased involvement of commercial banks in providing loans, adjustments to interest rates, and offering farmers options regarding loan amounts in 2020.

However, starting in 2024, the practice of involving commercial banks in providing loans for cotton production was discontinued, and this function was entirely transferred back to Agrobank. Thus, the management system of the country’s cotton sector has undergone two major transformations over the past eight years. From 2019 to 2023, full responsibility for financing and cultivation was placed on the cotton-textile clusters. Specific districts within regions were allocated to clusters for management purposes, and by 2022, 100% of cotton sowing areas were officially assigned to clusters. Farmers in those districts were required by default to sign contracts with the cluster that had been granted the right to operate in the region by decision of the Cabinet of Ministers of Uzbekistan. The infographic illustration of the government’s policy on managing the cotton sector from 2019 to 2023 is presented in Figure 1.

At the end of 2023, Presidential Decree No. UP-205 introduced a policy to liberalize the selection of cotton-textile clusters. Beginning in 2024, farmers' cotton is auctioned at the start of the year, allowing any interested cluster representative to participate in the bidding process to secure a futures contract. Raw cotton produced beyond the volume stipulated in the futures contract, as well as cotton cultivated using the farmer's own funds—including attracted resources and commercial loans—is sold by producers through the exchange to business entities or processed independently, without the necessity of entering into a futures contract with a cluster⁷³

⁷¹ Presidential Decree No. UP-205 “On additional measures for the further development of free market relations in agriculture.”, <http://faolex.fao.org/docs/pdf/uzb226966.pdf>

⁷² <http://faolex.fao.org/docs/pdf/uzb226966.pdf>

⁷³ Presidential Decree No. UP-205 “On additional measures for the further development of free market relations in agriculture.”, <http://faolex.fao.org/docs/pdf/uzb226966.pdf>

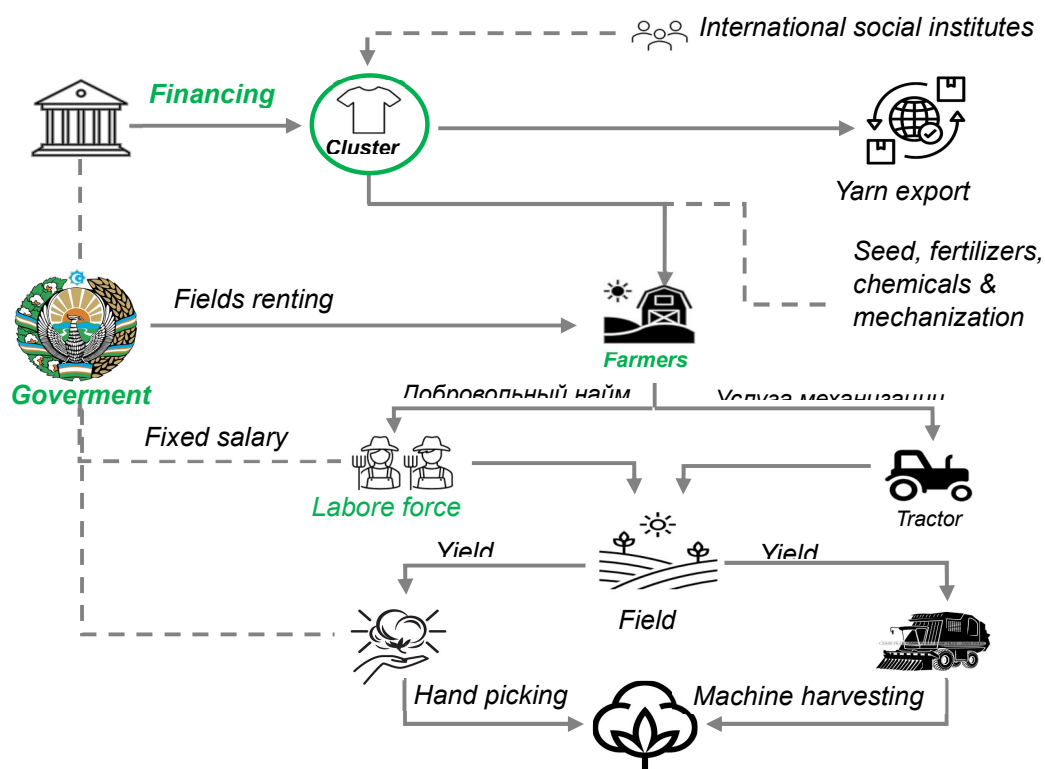


Figure 1. Uzbekistan's policy on the management of the cotton sector from 2019 to 2023⁷⁴.

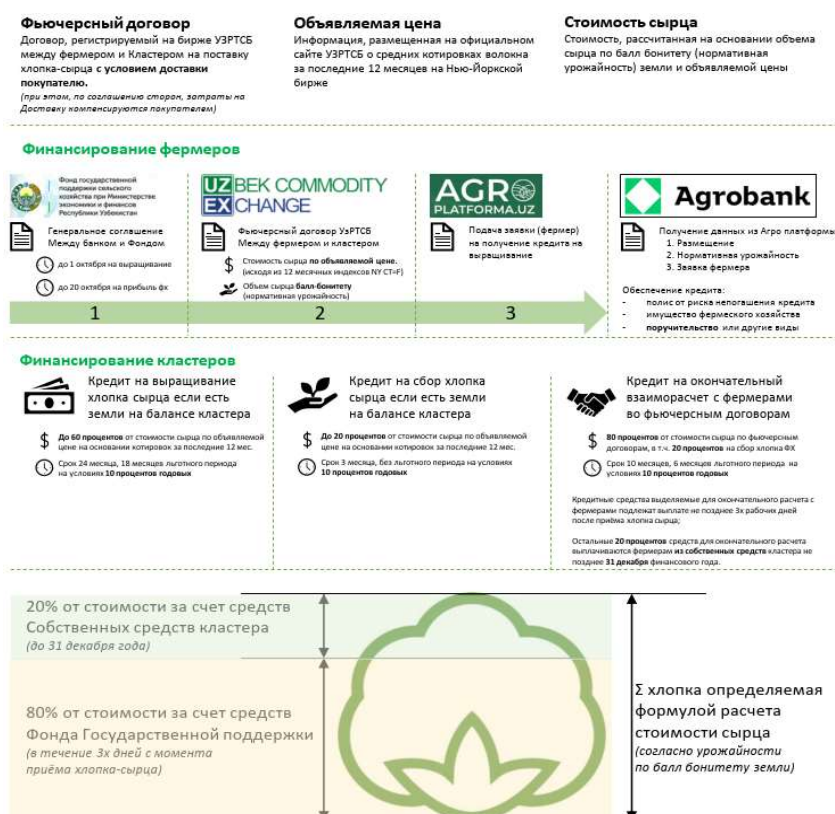


Figure 2. The new financing mechanism for raw cotton started in 2024⁷⁵.

⁷⁴ Developed by the author based on the studied materials.

⁷⁵ Developed by F.Djuraev and the author based on 18.Cabinet of Ministers Resolution No. PKM-680

Discussion

Strategic package of initiatives for the transition to full-fledged market relations and the development of the value chain in the cotton-textile sector of Uzbekistan.

1. **Direct contracts with farmers:** grant cotton clusters the right to purchase raw cotton from farmers through direct contracts. This will allow the supply processes to be accelerated and optimized, increase farmers' income, and strengthen the economic stability of the clusters, bringing the interaction to a new qualitative level.

2. **Permission for all legal entities to purchase cotton:** grant permission to all legal entities to purchase cotton, regardless of their status. The only condition is the presence of at least two processing cycles and the use of commercial loans for financing. This will create equal conditions for all market participants, increase competition, which in turn will lead to improved product quality and reduced production costs.

3. **Farmer motivation mechanism:** develop a mechanism allowing farmers to use the right to use land as collateral for obtaining bank loans. In case of failure to fulfill obligations, the land is returned to the state reserve. This will significantly expand farmers' access to financial resources, stimulating them to improve production indicators and technological development.

4. **Graduated taxation:** to encourage the increase in cotton yield, we propose to introduce a system of graduated taxation linked to the level of yield. The higher the farmer's yield, the lower the VAT rate on their product. At the same time, it is important that yield progress be steadily upward. This will become a strong incentive for farmers not only to increase current productivity but also to ensure sustainable growth of indicators in the long-term perspective. This measure will allow farmers to invest in innovations and farm improvements, knowing that their efforts will be rewarded by a reduction in the tax burden.

5. **Subsidizing interest rates on loans:** we propose that the Agricultural Financial Support Fund under the Ministry of Finance of the Republic of Uzbekistan subsidize part of the interest on commercial loans for the difference with the base rate of the Central Bank of the Republic of Uzbekistan. This measure will significantly reduce the financial burden on the Fund, as well as on producers and buyers, and allow them to attract commercial loans for the modernization and expansion of their production on more favorable terms.

This set of measures is aimed at developing sustainable market relations in the field of cotton growing. The author is convinced that only the joint adoption of all the proposed initiatives will ensure the expected effect and create a solid foundation for the prosperity of the industry. The exclusion of any element from this package may disrupt the integrity and effectiveness of the entire concept. Only in this way will Uzbekistan be able to realize its full potential in the global textile industry and strengthen its position in international markets.

Conclusion

The transition to market-based relations in Uzbekistan's cotton-textile sector is both ambitious and timely. The newly adopted financing mechanism and strategic initiatives form a robust foundation for sustainable development. Policymakers and

stakeholders must ensure the comprehensive and consistent application of these measures to realize their full transformative potential.

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