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Article

Improvement of the Credit System for Agricultural Enterprises

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Abstract: The research explores agricultural enterprise credit systems to make them more financially stable while growing investment capabilities and connecting them to wider economic activities. The existing credit system faces three main problems which consist of demanding interest rates combined with strict collateral terms and limited payment durations that restrict access to credit for farms of small to medium size. The study demonstrates how seasonal production patterns and weather-related uncertainties along with market fluctuations affect credit access and demands the creation of adjustable lending approaches that include all participants. The examination of modern financial systems incorporates best practices from across the globe to examine new approaches involving digital credits and microfinance lending as well as guarantee programs. The research demonstrates how financial solutions that match agricultural revenue patterns should be developed along with artificial intelligence technology that boosts credit distribution together with risk reduction. The study advises government policy reforms which should lower interest rates and lengthen loan terms and establish tax incentives to boost agricultural sector investments. The implementation of these approaches will enable Uzbekistan to maintain long-term agricultural expansion and provide food stability and promote sustainable rural financial growth. Scientific studies find that agricultural productivity growth depends on modernizing credit systems which leads to technological development alongside economic stability in the sector.

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1. Introduction

The economy depends heavily on agriculture to secure food supply while creating rural work and enabling sustainable development of the economy. National stability and economic development of developing countries rely heavily on their agricultural enterprises. Primary enterprises face numerous hurdles while trying to expand and fulfill their necessary modernization needs. The failure of present credit systems blocks enterprise growth because they do not provide sufficient financial support needed for development. Small and medium-sized farms face significant obstacles obtaining financial support to purchase modern technology along with increased productivity for their agricultural development [1].

A modern agricultural enterprise that desires success needs credit so it can buy modern technology equipment as well as seeds and advanced machinery and fertilizers. The implementation of precision farming and sustainable practices by farmers becomes possible through credit facilities as they receive funding that boosts their productivity while maintaining their operational competitiveness and environmental sustainability. Today's credit systems restrict farmer and agribusiness entry because they charge high interest rates couple with strict collateral requirements alongside short repayment periods [2]. Prolonged production cycles combined with market price volatility and weather dependency make the agricultural sector exposed to various natural risks along with existing banking rules. The financial unwillingness to support agricultural ventures continues because of the current situation thus making the available credit fall short of what farmers need. Again because agriculture enterprises operate in exposed environments they have unfavorable risk rankings which restricts their possibility to secure formal linking finance. A growing business need exists to develop adaptable credit solutions made for agricultural companies because of current sector obstacles. The novel financial technology system connecting digital credit methods with microfinance schemes and credit defense solutions offers improved financing alternatives to agricultural industries. When farmers have access to agricultural insurance and price stabilization schemes in their farming operations they become more credit worthy because production risks decrease. New technologies based on artificial intelligence within credit evaluation systems together with distribution mechanisms generate beneficial methods to reduce financial risks and enhance operational system effectiveness.

The study evaluates agricultural enterprise credit systems by investigating existing difficulties to create scientific solutions for improvement. The study combines analysis of international markets with contemporary financial methods to develop adaptable lending approaches that handle agricultural irregular income patterns for sustainable agriculture. Farmer access to this financing approach provides current support and future benefits through economic security and food security adoption and rural growth. Agricultural credit enhancement maintains a crucial position because it creates a system that accelerates modernization and productivity growth of agricultural enterprises. Multiple issues exist that affect the agricultural credit system. The elevated interest rates result in farmers needing to pay higher loan costs which motivates them to abstain from borrowing required agricultural supplies and advanced farming technologies. The land-based title loan system acts as a restriction for small farmers since they lack sufficient property assets. Agricultural loans require speedy repayment which exceeds the length of agricultural enterprise cycles thus causing financial strain on farmers who receive harvest-based income after the repayment deadline.

Literature review

Morduch studied the importance of microfinance in agriculture and showed that this mechanism is effective for farmers who have limited access to credit through the traditional banking system. This study emphasized the importance of microcredit not only as a financial resource, but also as a means of increasing agricultural production and income [3].

Besley's study aimed to analyze the factors affecting the repayment rate of agricultural loans and to study the effectiveness of subsidized credit programs. According to him, for the effective use of state loans, it is necessary to ensure that they are consistent with market mechanisms [4].

Meyer examines trends in agricultural credit systems and analyzes the interaction between commercial banks, microfinance institutions, and government financing mechanisms. He emphasizes the role of modern technologies and digital credit systems in agriculture and argues for the need to further improve these systems [5], [6], [7].

Q.M.Ametov in his article studies new methods of financing agricultural enterprises and their impact on sustainability. In this article, the author analyzes various issues related to the study of new methods of financing agricultural enterprises [8], [9]. Also, taking into account the constantly evolving economic environment, the problems and opportunities associated with financing agriculture are considered. Innovative financing approaches, their impact on the sustainability of agriculture and the role of technology in reshaping the financial landscape for agricultural enterprises are studied. In addition, recommendations are given for agricultural entrepreneurs and financial institutions, Z.S. Shokhozhayeva and D.O.Boqieva in their article analyze the role of the credit system in financial support of agricultural producers and state and market mechanisms for its regulation, and the author develops proposals for improving the credit system [10].

According to M.Y. Rakhimov and N.N. Kalandarova, the theoretical and practical aspects of financial analysis are covered, and the methods and indicators used to assess the financial condition of agricultural enterprises are analyzed in detail. The authors consider the basic principles, methods and indicators of financial analysis, which have proven to be of great importance in assessing the financial stability of agricultural enterprises. [11], [12], [13].

N.G.Karimov and A.S. Akhmedov cover the basic concepts, principles and practices of finance and investment. The authors analyze the theoretical foundations of financial management, methods of evaluating investment projects and various methods of attracting financial resources. They emphasize that this can be useful for agricultural enterprises in attracting investment and improving financial management. [14], [15].

2. Materials and Methods

Using mixed research methods this study examines agricultural enterprise credit systems to discover current problems and develop scientific solutions for improvement. The study adopts mixed methods to create a complete picture of the monetary issues encountered by agricultural businesses. In-depth interviews served as the source of primary data where researchers conducted stakeholder sessions with farmers combined with agribusiness managers and financial institution personnel. The approach helped researchers uncover different levels of obstacles that prevented firms from getting credit access. A representative sample of agricultural enterprises received surveys that yielded quantitative data for statistical evaluation of credit demand as well as interest rates and repayment capabilities. The researchers used data triangulation methods to validate their results by seeking confirmation from several information sources. Statistical methods consisted of descriptive and inferential alongside thematic analysis to process both quantitative and qualitative data.

Research into international agricultural financing best practices allowed an examination of credit methods which could work within the study setting. Future policy guidelines and adaptable lending frameworks for agricultural businesses need to incorporate findings derived from the study because its results target both policy recommendations and lending mechanism development based on agricultural enterprise income patterns.

3. Results and Discussion

The main issue raised in improving the agricultural credit system is the inability of the current credit system to fully meet the financial needs of agricultural enterprises. Agricultural enterprises face problems such as seasonal production cycles, dependence on climatic conditions, and market volatility. Therefore, traditional financial institutions assess them as high-risk clients, and as a result, credit opportunities are limited, interest rates are high, and collateral requirements are set very stringently.

As a result, the current credit system for agricultural enterprises is not flexible enough. For example, the repayment schedule of many loans does not correspond to the income cycle of farmers. Many farmers receive income only after the harvest, but they are forced to repay the loans within the specified period. Small and medium-sized agricultural enterprises also face significant obstacles in obtaining credit, as their financial history or collateral is insufficient. This seriously hinders the development of the sector.

Financial institutions should develop credit products tailored to the specific needs of agricultural enterprises. For example, a simplified credit system and the provision of low-interest loans and tax incentives will open up wide opportunities for those involved in agriculture.

Regardless of the type of activity, as in all sectors, there is risk, so there is also risk in the agricultural sector. To reduce this risk, it is necessary to implement a guarantee in the loan portfolio in connection with the state. In addition, the development of agricultural insurance is also becoming increasingly important, because in the absence of subjective influence, that is, in the event of random changes in the climate, market fluctuations, the coverage of losses by insurance companies helps to reduce the level of risk in the implementation of the activities of rural enterprises and in obtaining loans.

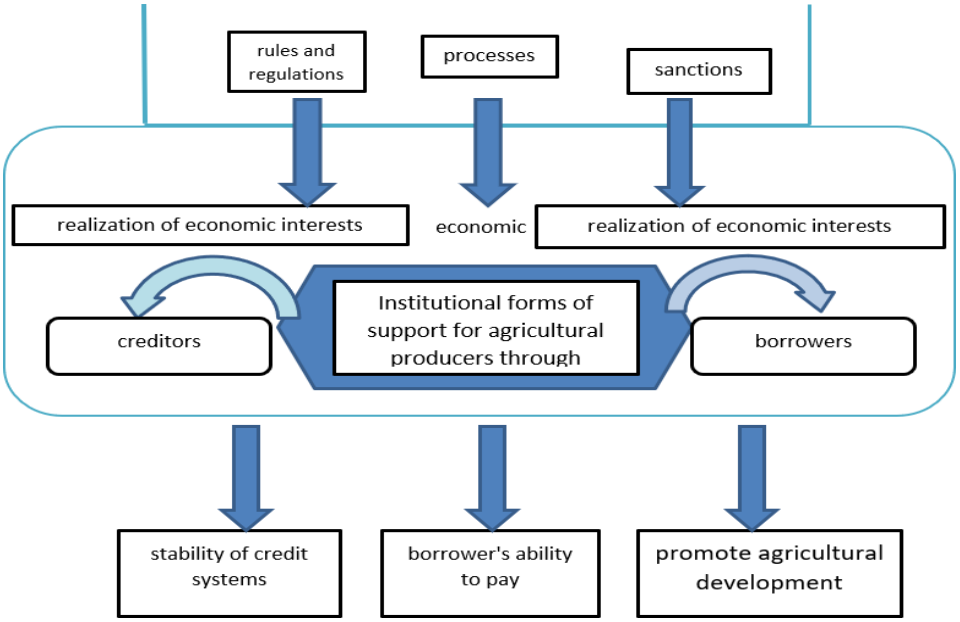

Figure 1. Model of state regulation of the agricultural credit system.

The practical implementation of the process of regulating the agricultural credit system is aimed at the efforts of state management bodies to create institutional mechanisms for credit support. Its purpose is to establish certain behavioral boundaries aimed at ensuring the economic interests of agricultural producers by establishing clear structural frameworks for financial and economic activities.

Taking into account the operation of economic laws in the country, a system of state regulation of loans allocated to agriculture has been developed. This procedure is aimed at creating the necessary conditions for financial support for the production and reproduction processes of agricultural products. This mechanism, established by the state, is intended to be implemented in an integrated and consistent manner on the basis of a set of various regulatory and legal instruments.

Table 1. Elements of the state and market mechanism for regulating the credit system in agriculture

Elements	Self-regulating market mechanism	State regulatory mechanism
Maqsad	Profit	Support for financial and credit relations that provide material and social conditions for the life of rural residents
Creditors	Commercial banks	Specialized financial and credit institutions established with state support (specialized banks, credit cooperatives, microfinance organizations);
Editing object	Forms of movement of loan capital in agriculture	Institutional forms of credit support for agricultural producers
Borrower solvency (coverage) level	Private households and agricultural enterprises that are part of the agrarian sector, close to regional creditors	All categories of agricultural producers, non-agricultural rural business entities will be implemented
Resources	Attracted deposits and funds of the financial market, population deposits	Raised funds, money market funds, budget funds
Principle	Profitable investment of funds, minimizing risks, ensuring profit growth	Expand lending limits, ensuring full use of credit resources by agricultural borrowers
Ensuring loan repayment	Strict requirements for the financial and economic status of the borrower, loan guarantee	Financial recovery and debt restructuring procedures, guarantee and insurance schemes
Interest rate	Profitability indicators of credit operations	It is subsidized and ensures the availability of credit, without reducing the profitability of credit operations.
Credit risk	It is minimized due to the methods of ensuring the obligations	The efficient infrastructure of the state-supported credit system will be reduced due to its operation

State regulatory support plays a central role in the research about agricultural credit systems. The elements of state and market regulatory functions regarding agricultural credit systems are presented in Table 1. Table 1 shows that market self-regulation system works to maximize profitability but minimize risks versus the state regulatory system focusing on all agricultural producers' financial inclusion through subsidized rates and structured lending support. The elements establish a foundation to recommend policies that develop an adaptable and inclusive financial environment suitable for agricultural producers.

One of the key areas of material production, agriculture offers the people food goods by means of agricultural and livestock products and is a major source of raw materials for other spheres of the national economy. The sustainable growth of agricultural output depends much on the efficient use of land and financial resources assigned to this sector. Particularly, the system of financial assistance required for agriculture—including a rise in loan volume given by commercial banks—is crucial in bringing fresh creative ideas into the industry and improving production efficiency. Economic measures including land return and land capacity let one evaluate the efficiency of land resource usage. While land capacity shows the number of hectares of land necessary to generate one soum of net product, land return is a measure of the net product obtained from one hectare of agricultural land. The improvement of these metrics is related with drawing additional investments and loan funds to the industry; it is exactly via financial support mechanisms that the possibility of effective use of land resources rises. Based on current statistics,

commercial banks allocated 17,205 billion soums to the agricultural sector as of January 1, 2020; by June 1, 2020, this amount had increased by 37.7% to reach 23,699 billion soums. This financial expansion can help to increase the options for efficient use of land resources and support the evolution of agricultural output. Consequently, it is crucial to investigate the effectiveness of the intended credit distribution to the industry. Improving the financial support system and raising land return and productivity will help to accomplish sustainable development of agriculture.

4. Conclusion

One of the main elements influencing sustainable growth and raising the agricultural sector's efficiency is the credit system improvement for agricultural businesses. High interest rates, collateral restrictions, short-term loans, and neglect of agricultural seasonal fluctuations define the several flaws in the present credit system. For small and medium-sized farms, these issues restrict their access to financial resources and impede their development and modernism. Artificial intelligence is suggested to be included into the credit system and current technology and robots used for agricultural work would help to enhance the system of agricultural finance. This will decrease labor-related operating expenses and allow the surplus money to be used for raw material needs, therefore increasing profit. Furthermore suggested is to minimise loan interest rates for agriculture and offer them for a long run. Should low-interest loans be given for an extended period, persons working in this field will not find their financial condition challenging. These ideas will help agricultural businesses to have more financial resources and to engage more in investment activity. Consequently, this will guarantee food security, boost agriculture sector efficiency, and help to drive economic development. Consequently, one of the most pressing issues still is enacting reforms to make the agricultural financing system more adaptable, inclusive, and effective.

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