

## **Financing Mechanism of Clusters Activities**

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**Abstract:** Financing mechanisms of enterprises are of particular importance in the organization of cluster production based on socio-economic reforms implemented in the region. Because, if the principles of financial management and the mechanisms of its implementation are correctly applied in enterprises operating on the basis of a cluster, it will lead to the correct and efficient use of the financial resources of the enterprise, and this will affect the management efficiency of the enterprise. From this point of view, in this article, the financing mechanisms of enterprises operating on the basis of the cluster system, as well as the reduction of the state's role in agricultural production, the use of tax incentives for the purpose of promotion, the state of organization of financial management in such enterprises in Uzbekistan related issues are highlighted, problems are identified and some recommendations are given.

**Keywords:** Cluster, financing, financial management, state-owned enterprises, state share, tax, incentive, credit, cotton-textile cluster, value-added product.

### **Introduction**

For the past years, in the economic activities of the Republic of Uzbekistan, it has been witnessed that the production cluster is formed as a group of enterprises operating in the same or related sectors of the economy and geographically close to each other. It is very important that these enterprises are technologically interconnected, and these enterprises are a system united for one common goal - to produce a competitive product.

"The main goal of establishing clusters is to increase the volume of exports. For this, it is necessary to find new markets. If there is no market, there will be no export, and the cluster system will not work. Therefore, it is necessary to regularly study the demand abroad, to use the opportunities effectively, and to ensure consistency in exports"<sup>1</sup>.

The purpose of financing cluster activities is to develop scientific-methodical and practical proposals and recommendations for the effective use of financial instruments in the development of cluster activities in Uzbekistan.

The scientific novelty of the article consists of the development of new legal norms that serve to improve the organization and financing of the activities of cotton-textile clusters in Uzbekistan, while revealing the economic content of the clusters, and the development of new legal norms that serve to improve the legal basis of the organization and financing of the activities of cotton-textile clusters in Uzbekistan.

Therefore, clusters are supported by our state in every way, and a favorable agribusiness environment is being created. For instance, in 2020, 5 laws, 12 decrees of the President and more

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<sup>1</sup> Shavkat Mirziyoyev's video selector related to establishing clusters. February 14, 2020

than 30 decisions, as well as many government decisions were made, which were aimed at providing financial support, additional freedom to the representatives of this sector. By the decree of the head of our Republic dated October 23, 2019, the strategy for the development of agriculture of the Republic of Uzbekistan for 2020-2030 was adopted. In accordance with the decree, fruit and vegetable clusters are being organized in order to produce products with high added value. On December 11, 2019, the President's Order in this regard was adopted, and all organizational and legal foundations were created. Proposals for the establishment of 86 such clusters were formulated by mayors in the past short time.

I can say without exaggeration that the concept of cluster, although not for everyone today, but for farmers it is familiar as they are working in this system. The new complex of production, which combines the process from cotton planting to finished products into a single technological system, has also opened a wide path to the rapid implementation of scientific achievements and new innovative technologies.

### **Literature review**

A number of leading foreign scientists have discussed some problems of the financial and economic foundations of the development of clusters, such as Vladislav Tarasenko (Territorial clusters: Seven management tools. — M.: Alpina Publisher, 2015. — 201 p. — ISBN 978-5-9614-4705-7), Pierre Desrochers and Frédéric Sautet, (Cluster-Based Economic Strategy, Facilitation Policy and the Market Process), Pierre Desrochers (Geographical Proximity and the Transmission of Tacit Knowledge), Furshchik Moisey, Slavyanova Svetlana (Cluster number one //Expert Yug № 48 (137), 2010), Baburin V.L., Zemtsov S.P. (Innovation potential of Russian regions. Moscow: KDU, 2017, 358 p. ISBN 978-5-91304-721-2), Bortnik I.M., Zemtsov S.P., Sorokina A.V., Pavlov P.N., Ivanova O.V., Kutsenko E.S. (Formation of innovation clusters in Russia: results of the first years of support // Innovations. 2015. No. 7. C. 26-36), Zemtsov S., Barinova V., Pankratov A., Kutsenko E. (2016) Potential High-Tech S lusters in Russian Regions: From Current Policy to New Growth Areas . Foresight and STI Governance , vol. 10, no. 3, pp. 34–52. DOI: 10.17323/1995-459X.2016.3.34.52) have studied.

Uzbek scientists are conducting scientific research related to some features of this problem, albeit partially. In particular, Professor Murtazo Akhmedovich Rahmatov's book entitled "New Uzbekistan on the Threshold of the Third Renaissance" covers the issues of the organization of these clusters, their development and financing mechanisms.

### **Research Methodology**

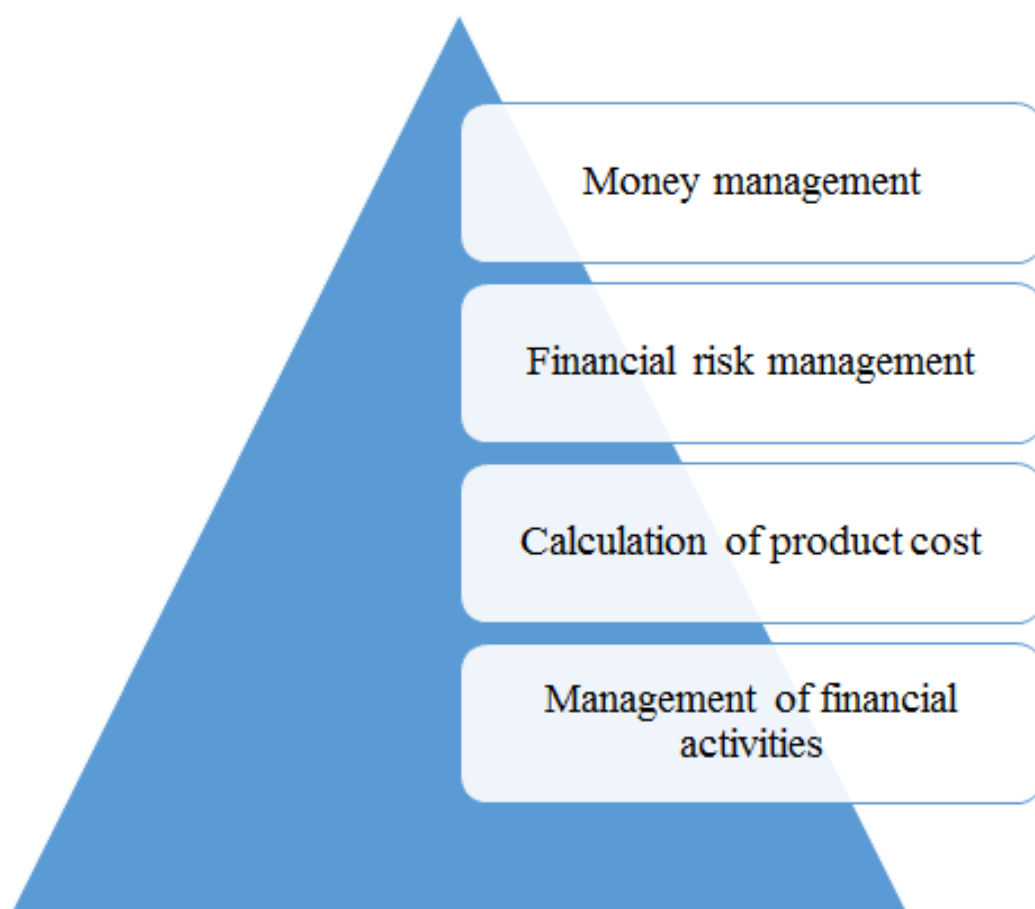
Uzbekistan is paying serious attention to the creation of infrastructure based on advanced technologies and the introduction of the cluster method in agriculture. Scientific and theoretical analysis of cluster activity, features and laws of financial management requires the use of a number of effective research methodologies. Of course, first of all, based on a theoretical observation and a logical approach, a scientific-theoretical analysis of the approaches to financing the activity of clusters and financial management was carried out. Based on it, the scientific literature was scientifically analyzed, the scientific-theoretical views of the scientific researchers and experts on the problem were based on the method of generalization and grouping. Based on official and practical materials, scientific conclusions were drawn based on the methods of synthesis and analysis, based on the deductive or inductive approach, it was possible to research the factors affecting financial management in the process of financing clusters from the bottom to the up and vice versa. Scientific-practical proposals were formed based on complex findings by applying logical and comparative, abstract-logical thinking and statistical methods.

### **Analysis and results.**

Ensuring the implementation of the Decree of the President of the Republic of Uzbekistan No. PF-5853 of October 23, 2019 "Approving the strategy for the development of agriculture of the Republic of Uzbekistan for 2020-2030", fruit and vegetables and production of high-value-

added products in the field of viticulture, increasing the volume of exports, development of disused and dry lands, increasing the planting of export-oriented agricultural crops in areas that are being reduced from cotton and grain, as well as gardens, vineyards and in order to make effective use of greenhouses, cooperation between members of agricultural associations and participants of fruit-vegetable clusters is encouraged through their financial support, in which the participants of the tripartite agreement with working capital through processing and exporting organizations interest rate at the expense of the State Fund for the Support of Entrepreneurial Activities on loans of up to 20 billion soums allocated by commercial banks for providing, building a new garden, vineyard and greenhouses, and creating facilities for product storage and processing Compensation for the part that exceeds the refinancing rate of the Central Bank of the Republic of Uzbekistan, but not more than 8 percentage points or guarantee in the amount of 50 percent of the loan amount is provided.

Due to the general nature of financial management in cluster activity and the specificity of financial relations, financial management in cluster activity, like other management processes, consists of a system of financial relations and processes built on the basis of interdependence and sequence. This can be seen in the figure below (Figure 1).

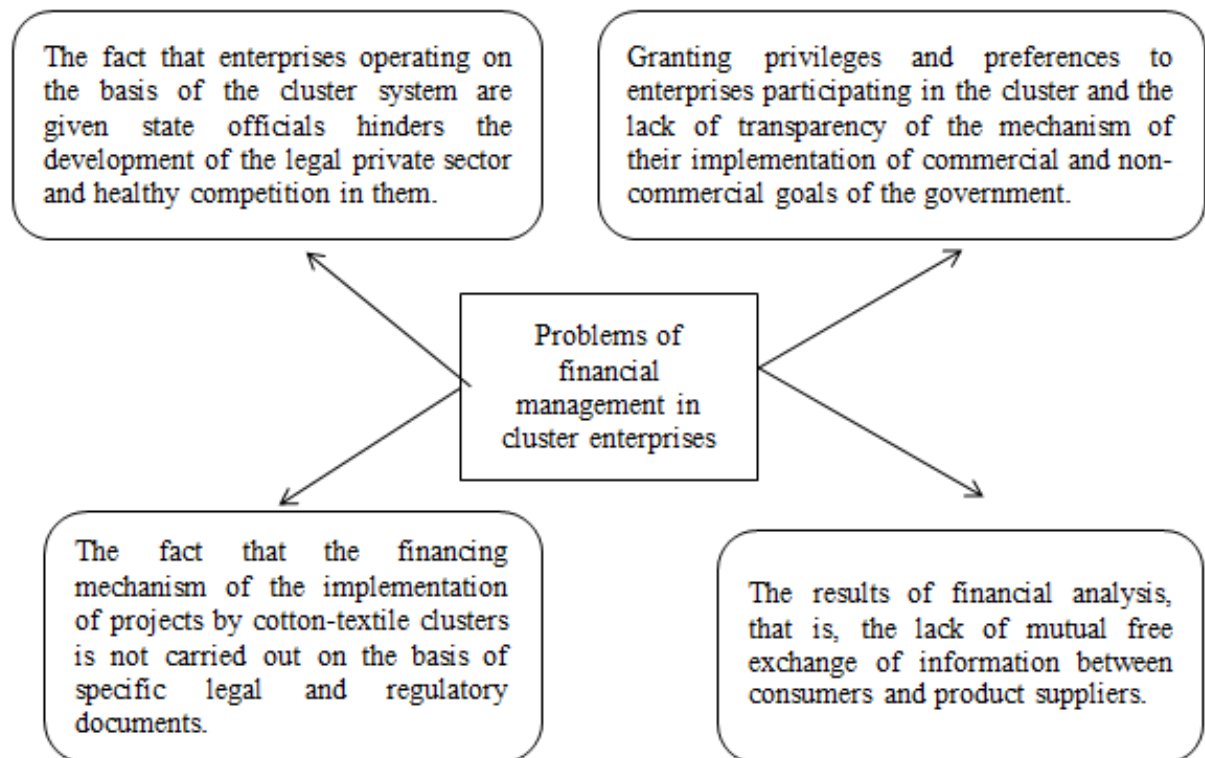


**Figure 1. Financial management of cluster activity<sup>2</sup>**

As it is seen from the above figure, as a result of the process of organizing the production process of financial management in the enterprises of the cluster activity, it includes interrelated economic and financial management aimed at achieving an increase in the quality of the product by reducing the expenses included in the cost of the product (service) at the necessary level, its unjustified increase and reducing it as much as possible. Financial resources are directed to monetary funds, which are formed depending on the management of the cost of agricultural products. Cash management covers the processes of proper spending of funds at various levels and proper direction of their flow. Of course, this process also depends on the optimal

<sup>2</sup> Compiled by the researcher.

management of financial resources. In general, money is also a type of financial resources, if other financial resources are properly managed, the volume of money also increases. Management of economic and financial relations is also of great importance in the process of financial management in enterprises of cluster activity.



**Figure 2. Problems of financial management in enterprises in the cluster system<sup>3</sup>**

In the figure above, we can see that if we pay attention to the directions for improving financial management processes in enterprises, "In accordance with the Action Strategy on the five priority directions of the development of the Republic of Uzbekistan in 2017-2021, 50 percent of the authorized capital and Although a number of practical works are being carried out to reduce the state participation in the economy to a reasonable level, to further increase the efficiency of the activities of economic societies and state unitary enterprises, there are still a number of problems in terms of financial management, first of all, the lack of access to financing mechanisms in state enterprises.

In order to support the development of the modern cotton-textile cluster by the state, equipment, special vehicles and equipment, animals and plants, veterinary drugs, raw materials and materials, which are not produced in Uzbekistan, are imported for the needs of this cluster. construction goods and greenhouse complexes were exempted from customs duties until January 1, 2022.

In accordance with the President's decision, farms in the purchase of agricultural machinery on lease, mineral fertilizers, seeds, fuels, lubricants, chemical plant protection agents and other material resources. the conditions and procedures provided for "Bek cluster" LLC JV were introduced.

**Additional taxes collected to the budget of textile enterprises in 2021-2022 according to the cameral tax inspectors<sup>4</sup>**

<sup>3</sup> There is regulatory and legal documents based on findings by the researcher.

<sup>4</sup>Based on data from the Statistics Committee

Table- 1

| №  | Territory name      | 2021 year                           |        |                |   |                      | 2022 year                           |        |                |   |                      |
|----|---------------------|-------------------------------------|--------|----------------|---|----------------------|-------------------------------------|--------|----------------|---|----------------------|
|    |                     | Total extra calculated tax and fees |        | From this      |   |                      | Total extra calculated tax and fees |        | From this      |   |                      |
|    |                     | Enterprise the number               | Amount | Collected part | Too much at the expense of covered part | Tax debt as the rest | Enterprise the number               | amount | Collected part | Too much at the expense of covered part | Tax debt as the rest |
| 1  | Total               | 755                                 | 200.08 | 65.29          | 99.05                                   | 35.74                | 1840                                | 445.08 | 198.89         | 218.34                                  | 27.85                |
| 2  | Karakalpakstan      | 7                                   | 0.96   | 0.02           | 0.22                                    | 0.72                 | 24                                  | 11.71  | 5.35           | 6.31                                    | 0.06                 |
| 3  | Andijan region      | 262                                 | 42.94  | 9.61           | 31.20                                   | 2.12                 | 305                                 | 45.59  | 9.58           | 30.05                                   | 5.96                 |
| 4  | Bukhara region      | 40                                  | 4.53   | 2.12           | 1.98                                    | 0.42                 | 59                                  | 17.58  | 14.53          | 2.79                                    | 0.25                 |
| 5  | Jizzah region       | 10                                  | 5.80   | 1.24           | 3.14                                    | 1.42                 | 125                                 | 14.71  | 4.80           | 8.47                                    | 1.44                 |
| 6  | Kashkadarya region  | 25                                  | 3.47   | 0.67           | 1.75                                    | 1.04                 | 34                                  | 23.74  | 21.20          | 2.53                                    | 0.01                 |
| 7  | Navoi region        | 9                                   | 1.71   | 0.76           | 0.96                                    | 0.00                 | 21                                  | 1.09   | 0.51           | 0.58                                    | 0.00                 |
| 8  | Namangan region     | 63                                  | 7.43   | 4.50           | 1.87                                    | 1.06                 | 221                                 | 12.62  | 3.96           | 7.36                                    | 1.30                 |
| 9  | Samarkand region    | 71                                  | 11.75  | 8.49           | 1.70                                    | 1.56                 | 99                                  | 30.75  | 9.85           | 20.57                                   | 0.33                 |
| 10 | Surkhandarya region | 15                                  | 3.18   | 2.26           | 0.01                                    | 0.91                 | 8                                   | 10.12  | 6.09           | 2.71                                    | 1.31                 |
| 11 | Syrdarya region     | 27                                  | 9.53   | 3.28           | 6.23                                    | 0.01                 | 20                                  | 22.25  | 9.75           | 6.61                                    | 5.90                 |
| 12 | Tashkent region     | 36                                  | 3.49   | 1.14           | 2.19                                    | 0.16                 | 198                                 | 34.95  | 8.69           | 21.44                                   | 4.82                 |
| 13 | Ferghana region     | 89                                  | 19.87  | 4.05           | 15.81                                   | 0.01                 | 201                                 | 30.46  | 16.43          | 13.49                                   | 0.55                 |
| 14 | Khorezm region      | 24                                  | 2.53   | 1.55           | 0.57                                    | 0.41                 | 103                                 | 21.34  | 14.32          | 6.05                                    | 0.98                 |
| 15 | Tashkent city       | 18                                  | 13.84  | 3.44           | 1.10                                    | 9.30                 | 378                                 | 31.69  | 6.14           | 21.81                                   | 3.74                 |
| 16 | Big tax payers      | 59                                  | 69.05  | 22.15          | 30.30                                   | 16.60                | 44                                  | 136.45 | 67.69          | 67.56                                   | 1.20                 |

When we analyzed the financial situation of 2021-2022 in Table 1, the following was revealed: in total, the additional taxes and fees calculated in 755 enterprises in the regions totaled 200.08, and in 2022, the number of enterprises will be 1840, and we can observe the growth of enterprises. In 2022, the total of additional taxes and fees amounted to 445.08 sums, and the amount of tax collected from them was 198.89 sums. Also, we can observe that the number of existing large tax payers in textile enterprises is 59, and in 2022 the number of enterprises will be 44. As a result of analyzes and inspections prior to the chamber tax audit conducted in January-May of this year, it was ensured that 445.0 billion soums of additional taxes were calculated in a total of 1.8 thousand subjects. It can be observed that these indicators amounted to 200.0 billion soums in 0.8 thousand entities in the corresponding period of the previous year and increased by 245.0 billion soums or 222% compared to the previous year.

In addition, this cluster has several tax benefits:

1. "Bek cluster" LLC JV can collect funds from some of its constituent organizations and distribute these funds among them for the implementation of financial and economic activities and development of production.
2. "Bek cluster" LLC JV funds and property, which are not related to the turnover of their organizations and are received and transferred between them, as well as the distribution of net profit, is not considered an object of taxation.
3. "Bek cluster" LLC JV's agricultural organizations pay the single social payment at the rate set for small enterprises<sup>5</sup>.

For example, as a result of the understatement of sales of goods and other incomes by "Payariq-cluster" LLC, as well as discrepancies in tax reports, 7.8 bln. soums of taxes were additionally calculated and 2.1 billion. The amount was collected and the rest was covered by overpayment.<sup>6</sup> The importance of preferential lending to subjects of fruit and vegetable clusters and cooperatives through the Agricultural Support Fund was emphasized.

<sup>5</sup> <https://daryo.uz/2018/11/14/klasterlar-7.43agrar-sohaning-lokomotivi>

<sup>6</sup> 2021 - January-May 2022 on camera tax inspections and tax audits conducted at enterprises within the clusters



**Table-2. Distribution of the limited amount of funds allocated from the budget to the Ministry of Agriculture in 2022 among budget organizations under its jurisdiction <sup>7</sup>**

| №  | Naming of budget transports at own expense   | Total    | Amount of wages and equivalent payments | The only one social tax | another current expenses | Objects design, construction, (reconstruction) and repair works capital investments for |
|----|--|----------|---|-------------------------|--------------------------|---|
| 1  | Ministry of Agriculture of the Republic of Uzbekistan  | 392313.7 | 158852.5                                | 39922.4                 | 192938.7                 | 600.0   |
| 2  | Including:   |          |   |                         |                          |   |
| 3  | Maintenance costs of the Ministry's central office   | 10367.4  | 8067.7                                  | 2016.9                  | 282.8                    | 0.0   |
| 4  | Current expenses   | 182590.2 | 11216.3                                 | 3013.4                  | 168360.4                 | 0.0   |
| 5  | System organizations of the Ministry of Agriculture:   |          |   |                         |                          |   |
| 6  | Center for testing agricultural crop varieties   | 4294.7   | 2740.8                                  | 685.2                   | 868.8                    | 0.0   |
| 7  | Maintenance costs of the central apparatus of the Horticulture and Greenhouse Development Agency under the Ministry of Agriculture | 14683.3  | 11707.1                                 | 2926.8                  | 49.4                     | 0.0   |
| 8  | Costs of maintaining scientific research institutions and unique scientific objects of the system                                  | 67822.6  | 50704.1                                 | 12676.0                 | 4442.5                   | 0.0   |
| 9  | Network center for retraining and upgrading of pedagogic personnel   | 671.6    | 489.8                                   | 122.5                   | 59.3                     | 0.0   |
| 10 | Tashkent city Agrarian University  | 30367.2  | 16394.6                                 | 4098.7                  | 9873.9                   | 0.0   |
| 11 | Samarkand Branch of Tashkent State Agrarian University   | 9710.0   | 4956.8                                  | 1239.2                  | 3514.0                   | 0.0   |

Based on the data of Table-2, it can be said that in the distribution of the limited amount of funds allocated to the Ministry of Agriculture in 2022 from the budget in the section of budget organizations at the disposal of the Ministry of Agriculture, in particular, the current expenses amounted to 182590.2 soums, for other expenses amounted to 168360.4 soums. In particular, the fund allocates credit resources for the working capital of fruit and vegetable clusters at a rate of 10 percent for a period of 1 year. For clusters and farmers with export contracts, 50 percent of the insurance premium is covered by the government. If we look at the foreign experience, the margin of local commercial banks attracting credit funds is high. For example, the annual interest rate of the German Lands bank credit lines is 0.75-1% on average. However, they receive loans at an annual rate of 5-6 percent. This leads to a delay in the loan repayment period and an increase in loan obligations. The rates of local banks should be in line with those of foreign financial institutions.

### Summary and Suggestions

The content of the general conclusions of our researches is that the number of reforms carried out in our republic to improve the financing mechanisms of enterprises in the cluster system is increasing. In turn, it is appropriate to implement the issue of cluster formation in Uzbekistan on the basis of specific economic and social conditions, based on the financing of clusters and state incentives.

In our opinion, special attention should be paid to the following in the mechanism of financing enterprises operating in the cluster method:

- First of all, it is necessary to strengthen the activity of the authorized bodies in the management of enterprises in the cluster activity, and to define specific mechanisms for its coordination.

<sup>7</sup> To the regulation on the procedure for posting information on official websites in order to ensure the openness of the budget process.

- Secondly, it is necessary to open and make transparent the income of enterprises from their financial assets, to determine the exact mechanisms of attracting the income received from the placement of their financial assets to the state budget.
- Thirdly, we believe that it is necessary to revise the legal documents in order to improve the financial relations of enterprises operating in the cluster method.

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