

## Impact Factor:

ISRA (India) = 6.317  
ISI (Dubai, UAE) = 1.582  
GIF (Australia) = 0.564  
JIF = 1.500

SIS (USA) = 0.912  
PIHIQ (Russia) = 3.939  
ESJI (KZ) = 8.771  
SJIF (Morocco) = 7.184

ICV (Poland) = 6.630  
PIF (India) = 1.940  
IBI (India) = 4.260  
OAJI (USA) = 0.350

SOI: [1.1/TAS](#) DOI: [10.15863/TAS](#)  
International Scientific Journal  
**Theoretical & Applied Science**  
p-ISSN: 2308-4944 (print) e-ISSN: 2409-0085 (online)  
Year: 2023 Issue: 01 Volume: 117  
Published: 11.01.2023 <http://T-Science.org>

Issue

Article



Sukhrob Turanov  
Tashkent Kimyo International University in Tashkent  
Senior lecturer

## LEGISLATIVE ASPECTS OF ECONOMIC INSOLVENCY AND BANKRUPTCY OF ENTERPRISES IN UZBEKISTAN

**Abstract:** This paper studies the practice of assessing the financial situation of enterprises and identifying signs of economic insolvency in Uzbekistan. It studies the legislative definitions of bankruptcy, how legislation works in Uzbekistan towards insolvency of companies.

**Key words:** solvency, bankruptcy, financial situation, economic insolvency, Uzbekistan.

**Language:** English

**Citation:** Turanov, S. (2023). Legislative aspects of economic insolvency and bankruptcy of enterprises in Uzbekistan. *ISJ Theoretical & Applied Science*, 01 (117), 366-371.

**Soi:** <http://s-o-i.org/1.1/TAS-01-117-20> **Doi:**  <https://dx.doi.org/10.15863/TAS.2023.01.117.20>

**Scopus ASCC:** 2000.

### Introduction

In the conditions of economic development and liberalization, the economic strategy of the state includes not only setting long-term fundamental goals, but also defining the means and ways to achieve these goals. Among them, continuous improvement of production efficiency takes the main place.

Positive aspects are not always observed in economic development. Especially in the conditions of today's pandemic, as well as integration into the world economy and globalization, the transformation of the world's competitive economy into a single economy requires enterprises to take measures to avoid economic insolvency and to take measures to prevent it. In the conditions of fierce competition, globalization and the integration of the world economy, a modern enterprise corresponds to such characteristics as competitiveness, financial stability and the ability to change its organizational structure. However, this is not the case for all businesses. A sudden change in business conditions led to the emergence of a new concept - insolvency.

The process of transformation from a totalitarian system to a competitive, free market economy is causing completely new problems in macroeconomics, such as bankruptcy, crisis, and imbalance. Studying the theoretical and practical foundations of these problems, determining the means of solving them is an urgent issue of today. Concepts

of economic insolvency and bankruptcy are usually considered in the same context. There are many reasons that cause it. But healthy competition is one of the laws of economics.

The fact that the market economy is based on different forms of ownership makes it possible to attract new techniques and technologies to production, which leads to a decrease in market prices due to an increase in the supply of products and creates a healthy competitive environment between market participants. As a result, bankruptcy processes are activated in the activities of market participants. Today, in the post-pandemic situation, the risk of a global crisis continues to threaten the world economy. This aspect requires increasing the activity of measures against economic insolvency and bankruptcy in enterprises.

### Literature review

Companies entering and exiting the market are inherent to the business life cycle, and policies should ensure that this can occur in a smooth and organised manner (Cirmizi, Klapper and Uttamchand, 2011). Efficient insolvency regimes protect both entrepreneurs and creditors, striking the right balance between the interests of each; protecting and ensuring support to all parties is imperative for efficient bankruptcy rules and procedures (World Bank, 2017). Efficient regulations for bankruptcy recognise the

## Impact Factor:

|                          |                        |                      |
|--------------------------|------------------------|----------------------|
| ISRA (India) = 6.317     | SIS (USA) = 0.912      | ICV (Poland) = 6.630 |
| ISI (Dubai, UAE) = 1.582 | PIHIQ (Russia) = 3.939 | PIF (India) = 1.940  |
| GIF (Australia) = 0.564  | ESJI (KZ) = 8.771      | IBI (India) = 4.260  |
| JIF = 1.500              | SJIF (Morocco) = 7.184 | OAJI (USA) = 0.350   |

complexity of the phenomenon and envisage the possibility of viable companies reorganising.

Business success or failure might be explained by internal or external circumstances. Internal causes can include managerial incompetence, overconfidence or excessive risk taking (Hayward, Shepherd and Griffin, 2006). External factors can be related to inadequate economic circumstances, government policies or lack of financial resources (Liao, Welsch and Moutray, 2008]; Cardon, 2010). However, regardless of the cause, effective liquidation and discharge procedures need to be in place to allow entrepreneurs to reintegrate into the market. Data show that entrepreneurs who go bankrupt have a higher success rate in their second attempt and, on average, their firms perform better than newcomers in terms of turnover and jobs created (Stam et al., 2008). Currently, this possibility is often impeded by the stigma attached to a firm's failure.

### Analysis and results

Help is sometimes needed for people to start their own businesses, for disadvantaged enterprises or remote areas to "get on their feet" and to enter new export markets. This will eventually lead to the creation of new jobs and an increase in the income of the population. For this purpose, a number of benefits have been introduced in our country in recent years. In 2021, their total volume was 51 trillion soums. As a result, 170,000 new business entities were opened last year, and more than 500,000 jobs were created. In the last six years, about 1,400 benefits have been provided in the tax sector alone. Subsidies aimed at supporting exports are also giving their results and helping entrepreneurs to enter the foreign market. Last year alone, more than 280 billion soums of such subsidies were allocated, of which about 220 billion were allocated to transport costs for exports. As a result, 2,800 enterprises entered the foreign market for the first time. Also, international standardization and certification, insurance and even advertising expenses are partially reimbursed to exporting enterprises. As a result, 870 soums worth of exports were made for each soum subsidy provided in the electrical engineering sector. This indicator was 555 soums in the field of textiles and 273 soums in the field of construction materials. A system of loan interest compensation and loan guarantees was created to help entrepreneurs. In order to reduce their credit burden, the Entrepreneurial Activity Support Fund received obligations of 6 trillion 100 billion soums, and compensations of 2 trillion 500 billion soums were paid in 2022.

However, there are also cases of inefficient or purposeless use of benefits. For example, although 127 types of subsidies have been introduced from the state budget, 15 of them are not used in practice. The benefits are not the same across industries and sectors. For example, 33 soums of added value is created in the sector for every 1 soum of concession given to

agriculture. This figure is 30 soums in health care, 22 soums in education, and 16 soums in information technology.

"In recent years, we were forced to introduce unprecedented benefits in order to stimulate economic sectors. Today, we need to find an answer to the question, what was the result, lesson, experience from them. It is necessary to put the calculation of every soum allocated from the budget in place, to increase the efficiency of benefits," said Shavkat Mirziyoyev. As for regions, 31 percent of tax benefits are allocated to Tashkent city. The share of the Republic of Karakalpakstan, Jizzakh, Khorezm and Surkhondarya regions does not exceed 2 percent. However, the requirements, taxes, benefits, subsidies, compensation and preferences for entrepreneurs are the same in Oltinsoy district of Surkhondarya and Mirabad district of Tashkent city.

Therefore, the head of our state issued an instruction on determining tax benefits based on the level of development of the regions. - Now it is necessary to go to the places, make targeted decisions, take advantage of the privileges and bring the peripheral districts to the path of development, - the President says.

In the context of modernization of the macroeconomics, the recovery of economically weak enterprises is of great importance. Timely identification, analysis, and implementation of support measures for economically weak enterprises. Positive solutions to issues such as the growth of the economic indicators of our republic, improvement of the population's livelihood, reduction of unemployment, production of competitive products in accordance with world standards will help.

In determining the signs of economic insolvency of enterprises, the meaning of several economic terms such as restructuring, bankruptcy, rehabilitation, their importance, analysis of bankruptcy cases in the enterprise, in which situations to apply them in practice, to clarify them theoretically is appropriate. Concepts such as economic insolvency, bankruptcy, state of crisis, and crisis are usually used to explain the decline of firms and companies. The concept of bankruptcy is derived from the Italian word "banco rotto", and although it is actually translated as the breaking of the chair (seat), this word has the meaning that the debtor falls into a helpless situation and breaks down is used.

"On Bankruptcy" of the Republic of Uzbekistan, Bankruptcy symptoms are defined separately for legal entities and individual entrepreneurs. By 2003, additions and amendments were made to this law.

To date, a program has been developed for the implementation of important priority projects aimed at modernization of the country's economy in all aspects, technical and technological renewal, sharp increase of its competitiveness, increase of export potential. In

## Impact Factor:

|                          |                        |                      |
|--------------------------|------------------------|----------------------|
| ISRA (India) = 6.317     | SIS (USA) = 0.912      | ICV (Poland) = 6.630 |
| ISI (Dubai, UAE) = 1.582 | ПИИИ (Russia) = 3.939  | PIF (India) = 1.940  |
| GIF (Australia) = 0.564  | ESJI (KZ) = 8.771      | IBI (India) = 4.260  |
| JIF = 1.500              | SJIF (Morocco) = 7.184 | OAJI (USA) = 0.350   |

particular, the draft Law of the Republic of Uzbekistan "On Insolvency" was put into practice.

The purpose of this Law is to regulate relations in the field of insolvency of legal entities and individuals, as well as individual entrepreneurs in the country.

bankrupt - a debtor who has been declared insolvent based on a court decision and is subject to liquidation proceedings or the procedure for selling his property;

one type of creditors - a group of creditors who have the same requirements towards the debtor and do not have a preference over each other in their satisfaction;

settlement agreement - an agreement of the parties on termination of insolvency proceedings on the basis of mutual concession;

creditors - to which legal entities or individuals the debtor is responsible for monetary obligations and (or) for the fulfillment of his obligations in terms of taxes and fees, these same legal entities or individuals, the debtor's life if he is responsible for the damage to his health, this same citizen, as well as institutions (participants) of a legal entity that is liable for obligations arising from his participation, are excluded;

court rehabilitation procedure - a procedure used by the court in order to restore the debtor's solvency and pay off his debt to creditors without transferring the authority to manage the debtor's affairs to the rehabilitation manager;

pre-trial rehabilitation - measures taken by the founders (participants) of the debtor legal entity or the owner of its property, creditors and other persons to restore the debtor's solvency and prevent insolvency;

In order to prevent insolvency, the debtor's founders (participants), management body, or the owner of the debtor's property shall take measures aimed at the financial recovery of the debtor until the application to declare the debtor insolvent is submitted to the court will be Measures aimed at the financial recovery of the debtor may be taken by creditors or other persons based on the agreement concluded with the debtor.

The main measures of pre-trial rehabilitation:

• The main measures of pre-trial rehabilitation are as follows:

- full or partial purchase of overdue debts;
- re-specialization of production in line with competitive production;
- attracting highly qualified specialists from abroad;
- training, retraining and improving the skills of employees;

• providing financial assistance by legal and natural persons interested in the recovery of the debtor's solvency and continuing its activities;

• an agreement aimed at reaching an agreement between the debtor and creditors on delaying the term

of payments to creditors and (or) paying it in installments or giving a discount from debts in order for the debtor to continue the activity;

• postponement of payment of taxes and fees and repayment of loans until the period of rehabilitation before the court;

• reorganization of the debtor legal entity.

• There may be other measures in the pre-trial rehabilitation procedure.

• Conducting pre-trial remediation with the assistance of the state is carried out based on the decision of the body authorized by the Cabinet of Ministers of the Republic of Uzbekistan.

• The procedure for pre-trial remediation with the assistance of the state is regulated by legislation.

• When pre-trial rehabilitation is carried out with the assistance of the state to the debtor, the debtor's working accounts in the bank that has been providing services to the debtor are suspended, and a rehabilitation account in soums and (or) foreign currency is opened. The procedure for using the sanation account is determined by legislation.

Without an economic assessment of the causes of economic insolvency (bankruptcy) in an enterprise, it is ineffective to deal with it. Most economists have pointed out that the causes of enterprise-wide recessions are caused by marketing deficiencies. Disruption of information transformation between the enterprise's production and market activity causes interruptions or problems at this level.

Reasons related to economic factors:

• Insolvency, illiquidity of the enterprise (poor situation in covering payment obligations through payment funds, slowness in the mobility of funds);

• financial instability of the enterprise (poor state of asset financing, dependence on borrowed capital, low share of private capital in fixed capital and working capital);

• chronic loss-making and low profitability of the enterprise (continuity of loss-making, low level of profitability, lack of justification of expenses);

• slowdown of business activity (slowness in the turnover of funds, assets, reduction of cash receipts, excessive increase in receivables and payables, loss of the company's place and position in the market)

• low efficiency of the management apparatus of the enterprise (lack of education of managers, lack of knowledge of legislation, inability to make sufficient use of opportunities and concessions lost by the state, lack of deep study of specific laws of the market economy, strict adherence to contractual discipline, being deceived when choosing a partner, not being able to conduct marketing, not taking into account demand and supply, not considering the opinion of the work team, and implementing management in the old way).

## Impact Factor:

**ISRA (India) = 6.317**  
**ISI (Dubai, UAE) = 1.582**  
**GIF (Australia) = 0.564**  
**JIF = 1.500**

**SIS (USA) = 0.912**  
**ПИИИ (Russia) = 3.939**  
**ESJI (KZ) = 8.771**  
**SJIF (Morocco) = 7.184**

**ICV (Poland) = 6.630**  
**PIF (India) = 1.940**  
**IBI (India) = 4.260**  
**OAJI (USA) = 0.350**

From an analytical point of view (based on the information provided in the financial reports), the following reasons for economic failure can be shown.

1. Factors related to the financial situation of the enterprise (insolvency, illiquidity of funds, the state of financing of working capital, financial instability)

2. Factors associated with changes in the financial condition of the enterprise (financial performance, low level of profitability or a negative sign)

3. Other factors expressing various aspects of the changes in the financial situation of the enterprise (the structural structure of cash flow, the state and movement of the main means, the structural structure of private capital, the state of debtor and creditor obligations).

One of the main reasons for economic decline in the modern economy is explained by the decrease in the financial potential of the enterprise. According to the degree of change in the financial situation, enterprises can be divided into financially stable, financially risky and financially unstable enterprises.

The Law of the Republic of Uzbekistan "On Evaluation Activities", President of the Republic of Uzbekistan No. PF-5953 dated March 2, 2020 "Five priority areas of development of the Republic of Uzbekistan in 2017-2021 on the Decree on the implementation of the action strategy in the "Year of Science, Enlightenment and Digital Economy Development" and PQ-4381 of July 1, 2019 "Further improvement of evaluation activities and low-profit and In accordance with the decision "On measures to simplify the mechanisms for the sale of non-operating state-owned enterprises", the unified national evaluation standard of the Republic of Uzbekistan was approved. This legislation is intended to determine the normative regulation of assessment activities in the Republic of Uzbekistan.

An assessment approach consists of a set of assessment methods combined with a common methodology. Appraisal methods are a sequence of procedures that allow to determine the value of the object of assessment on the basis of information important for these methods within the framework of one of the approaches to assessment.

Assessment approaches include:

- comparative approach;
- income approach;
- cost approach.
- Each of the assessment approaches has different uses.

The purpose of choosing the valuation approach and methods in asset valuation is to find the most suitable method for use in specific cases. No single assessment method may be appropriate for all situations. When choosing them, the following should be taken into account:

- appropriate assessment basis and assessment conditions in accordance with the conditions and objectives of the assessment task;

- relative strengths and weaknesses of approaches and methods that can be used for evaluation;

- the appropriateness of each method used by the relevant market participants, taking into account the nature of the asset, approach or methods;

- availability of reliable information necessary for the application of the method.

If significant differences in value indicators are obtained using different valuation approaches and/or valuation methods, the appraiser should conduct an analysis to understand why the value indicators differ in this way, since, as a rule, one or two different value indicators are simply ( arithmetic) would not be appropriate to measure. In such cases, the appraiser should consider the requirements of the second paragraph of paragraph 100 of this Standard to decide whether any of the approaches/methods used can provide a more appropriate or reliable indication of value.

A comparative approach is a set of methods of assessing the value of an asset based on comparing the appraised asset with similar assets in the presence of information about transaction or offer prices. The comparative approach is based on the substitution principle. Comparative approach methods are effective when there is an active market for comparable valuation objects, which gives an idea of the real market value of the object. The diversity of most assets makes it impossible to find market data on transactions with the same or similar assets in some cases. Without using a comparative approach, primary market data should be used to a high degree even when other approaches are used. The following main methods are used in the assessment of asset value through a comparative approach:

- comparable transaction method;
- capital market (analog-company) method.

The income approach provides for the estimation of the value of the object of evaluation by reducing the expected future income from the object of evaluation to a single present value. When the income approach is used, the value of the asset is determined by the value of the income or cash flows that will result from its use, or the cost that will be saved. The income approach provides for the estimation of the value of the object of evaluation by reducing the expected future income from the object of evaluation to a single present value.

When the income approach is used, the value of the asset is determined by the value of the income or cash flows that will result from its use, or the cost that will be saved. The most important factor in the income approach is the investors' expectations of return/performance from their investments, which must take into account the perceived risk levels of the

## Impact Factor:

ISRA (India) = 6.317  
ISI (Dubai, UAE) = 1.582  
GIF (Australia) = 0.564  
JIF = 1.500

SIS (USA) = 0.912  
ПИИИ (Russia) = 3.939  
ESJI (KZ) = 8.771  
SJIF (Morocco) = 7.184

ICV (Poland) = 6.630  
PIF (India) = 1.940  
IBI (India) = 4.260  
OAJI (USA) = 0.350

investments in obtaining returns. To estimate the value of the object of assessment with the income approach, the appraiser uses one of the following methods, based on the conversion of the expected income from the object of assessment into a unit of value at the date of assessment:

the method of discounting cash flows (hereinafter referred to as the POD method) — the value of the object of assessment is based on determining the state of the assessment date by adding the current values of cash flows in the forecast and post-forecast periods (at the end of the period);

method of capitalization of income - the value of the object of assessment is determined by dividing the amount of income in a single period by the capitalization rate corresponding to this income.

The following are the main areas of application of the POD method:

choosing the most appropriate type of cash flow, taking into account the characteristics of the asset being valued and its valuation, that is, real or nominal cash flows, cash flows before or after taxes, cash flows for private capital or invested capital, etc. ;

determining the duration of the cash flow forecast period;

preparing a cash flow forecast during the cash flow forecast period;

if it is necessary to determine the post-forecast value (hereinafter referred to as the terminal value) for the assessed asset after the end of the specified forecast period, determine the appropriate terminal value, taking into account the characteristics of the assessed asset;

determining the appropriate discount rate;

apply the discount rate to the projected future cash flow, taking into account the terminal value if necessary.

The discount rate and other metrics used in the valuation should be appropriate for the type of cash flow selected. Appraisers may use any reasonable method to calculate the discount rate. The following are generally accepted methods of calculating the discount rate:

- weighted average cost of capital (WACC);
- discounted cash flow analysis;
- internal rate of return (IRR);
- Weighted average return on assets (WARA);
- cumulative compilation (as a rule, it is used only in the absence of market data).

The cost approach is a set of methods for estimating the value of the object of evaluation based on determining the necessary costs for its restoration or replacement, taking into account the obsolescence of the object of evaluation. To replace this property, it is assumed that a copy of the original property or another property that can provide the same utility can be created.

This approach provides an indication of value by calculating the cost of replacing or remanufacturing an asset and by applying discounts for physical and other reasonable wear and tear.

The formula for calculating the present value of an appraisal object using the POD method, assuming that the cash flows will fall at the end of each year of the forecast period, will look like this:

$$PV = \sum_{i=1}^n \frac{CF_i}{(1+D)^i} + \frac{FV}{(1+D)^n}$$

here,

PV - current value;

i is the number of the year of the forecast period;

n is the last year of the forecast period;

CF<sub>i</sub> - cash flow of the i-th year of the forecast period;

D - discount rate;

FV is the value of the object of evaluation after the end of the forecast period.

When it is assumed that the cash flows fall in the middle of the year (when they fall proportionally during the year), instead of i, the level indicator is i-0.5, and instead of n, n-0.5 is used accordingly.

The main type of cash flow used to estimate the value of an enterprise's private equity or ownership interest in it is net cash flow to private equity, which is calculated in the following order:

net income;

plus depreciation allowances;

plus (minus) decrease (increase) of private working capital;

plus (minus) sale of assets (capital investments);

minus dividends on preferred shares;

plus (minus) increase (decrease) in long-term debt.

## Conclusions

The cost approach is a set of methods for estimating the value of an object of evaluation based on determining the necessary costs for its restoration or replacement while accounting for obsolescence. It is assumed that a copy of the original property or another property that can provide the same utility can be created to replace this property.

To avoid insolvency, the debtor's founders (participants), management body, or the owner of the debtor's property must take measures aimed at the debtor's financial recovery until an application to declare the debtor insolvent is filed with the court.

To assist entrepreneurs, a system of loan interest compensation and loan guarantees was established. The Entrepreneurial Activity Support Fund received obligations totaling 6 trillion 100 billion soums in order to reduce their credit burden, and compensation totaling 2 trillion 500 billion soums was paid in 2022.

## Impact Factor:

|                          |                        |                      |
|--------------------------|------------------------|----------------------|
| ISRA (India) = 6.317     | SIS (USA) = 0.912      | ICV (Poland) = 6.630 |
| ISI (Dubai, UAE) = 1.582 | PIHII (Russia) = 3.939 | PIF (India) = 1.940  |
| GIF (Australia) = 0.564  | ESJI (KZ) = 8.771      | IBI (India) = 4.260  |
| JIF = 1.500              | SJIF (Morocco) = 7.184 | OAJI (USA) = 0.350   |

## References:

1. (2017). *World Bank, Doing Business 2018: Reforming to Create Jobs*, World Bank Group, Washington, DC, <http://www.doingbusiness.org/en/reports/global-reports/doing-business-2018>
2. Cirmizi, E., Klapper, L., & Uttamchand, M. (2011). "The challenges of bankruptcy reform", *World Bank Research Observer*, Vol. 27/2, pp. 185-203. <https://elibrary.worldbank.org/doi/abs/10.1093/wbro/lkr012>
3. Liao, J., Welsch, H., & Moutray, C. (2008). "Start-up resources and entrepreneurial discontinuance: The case of nascent entrepreneurs 1", *Journal of Small Business Strategy*, Vol. 19/2, p. 1, <https://www.questia.com/library/journal/1P3-1680693201/start-up-resources-and-entrepreneurial-discontinuance>
4. Cardon, M. (2010). "Misfortunes or mistakes? Cultural sensemaking of entrepreneurial failure", *Journal of Business Venturing*, Vol. 26/1, pp.79–92, <https://doi.org/10.1016/j.jbusvent.2009.06.004>
5. Stam, E., et al. (2008). "Renascent entrepreneurship", *Journal of Evolutionary Economics*, Vol. 18, pp. 493-507, <http://dx.doi.org/10.1007/s00191-008-0095-7>
6. (2022). "Prezident Shavkat Mirziyoyev huzurida iqtisodiyot tarmoqlariga yo'naltirilgan imtiyozlar samaradorligi tahlili bo'yicha yig'ilish" dan, *Xalq so'zi gazetasi*, 01.11.2022 yildagi soni.
7. (2022). "Prezident Shavkat Mirziyoyev huzurida iqtisodiyot tarmoqlariga yo'naltirilgan imtiyozlar samaradorligi tahlili bo'yicha yig'ilish" dan, *Xalq so'zi gazetasi*, 01.11.2022 yildagi soni.
8. (1994). "Bankrotlik to'g'risida" gi O'zbekiston Respublikasining Qonuni, 05.05.1994 yildagi 1054-XII-son.
9. (2003). "Bankrotlik to'g'risida" gi O'zbekiston Respublikasi Qonuniga o'zgartishlar va qo'shimchalar kiritish haqida, O'zbekiston Respublikasining Qonuni, 24.04.2003 Yildagi 474-li-Son.
10. (2021). "To'lovga qobiliyatsizlik to'g'risida" gi O'zbekiston Respublikasining Qonuni, 12.04.2022 yildagi O'RQ-763-son, Qonunchilik palatasi tomonidan 2021-yil 16-avgustda qabul qilingan, Senat tomonidan 2021-yil 30-sentabrda ma'qullangan.
11. (2020). "O'zbekiston Respublikasining yagona milliy baholash standartini tasdiqlash haqida" gi O'zbekiston Respublikasi Davlat aktivlarini boshqarish agentligi direktorining buyrug'i, 04.06.2020 yilda ro'yxatdan o'tgan, ro'yxat raqami 3239.