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# METHODS TO ASSESS FINANCIAL POTENTIAL OF THE REGIONS WITH THE AIM OF THE EFFECTIVE USE OF FINANCIAL RESOURCES

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**Abstract.** This article considers the areas for assessing and analyzing financial potential of the regions in achieving economic development in reliance upon the goals of the Development Strategy of the Republic of Uzbekistan in 2022-2026. In addition, the article contains proposals for regulating the ratio of the eqyuity and borrowed funds of economic entities operating in the regions.

**Key words:** financial potential, sources of equity, liabilities, solvency, financial sustainability.

## Introduction

With the aim of possessing its own material and technical base, labour resources and working capital, first of all, the company must develop its financial capacity, which is the top-target objective for the operation of the the economic entity.

The transition to the practice of programme budgeting system and initiative budgeting in assessing financial potential of the regions of the country and replenishment of revenues of local budgets meets the requirements of international standards.

In this regard there has been set an essential objective "When doing insightful analysis of the current state of socio-economic development of the regions, to elaborate the measures for a comprehensive assessment for working out promising targeted programmes, as well as the measures aimed at solution of these problems" [1].

In reliance upon the objectives specified above, it should be noted that ensuring sustainable economic growth of the regions is an essential component of their economic development. This fact justifies the relevance of the chosen topic and the need for doing a comprehensive research in this focus area.

## Literature Review

The issues of improving the analysis of the financial and economic situation and solvency in economic entities have been studied by both our domestic scholars and the Commonwealth of Independent States in relation to specific research objects.

From the point of view of the scholar-economist Buranova L.V.: "The financial potential of the regions constitutes a part of the national income generated by the state (local budget revenues), economic entities (participating in all stages of processing), financial and banking institutions (equity and borrewed funds) and consolidated financial resources of the population (real gross income), the sum of currently created and pre-accumulated financial resources aimed at the goals of the socio-economic development strategy of the regions"[1].

In our opinion, the financial potential of the regions implies their ability to cover long-term and current assets with their own funds and liabilities, a set of analytical measures, procedures aimed at coordinating the activities of financial market participants, budget and insurance organizations, banking institutions to ensure sustainable growth and ultimate development.

The Professor Khasanov B.A., Rakhimov M.Yu. and other scholars argue that financial potential is determined on the passive side of the balance sheet. It is admitted that it is advisable to include equity and liabilities, in particular, a coefficient of proportionality between them in the amount of 0.5 [2].

**Research Methodology**

The article is devoted to the research on the analysis of the financial potential of the regions. Such research methods as analysis, synthesis, grouping, comparison, and coefficient method have widely been applied in the article.

Foreign scholars A.D.Sheremet, L.Bernstein, N.P.Lyubushin, G.V.Savitskaya conducted research on the analysis of the efficiency of the financial potential of the regions and created various educational, methodological and research papers. Uzbek economists I.T. Abdukarimov, E.A. Akramov, A. Ibragimov, N. Ishankulov, M.Yu. Rakhimov, M.B. Kalonov, B.I. Isroilov, M.K. Pardaev, J.I. Isroilov, B.A. Khasanov, A.Kh. Shoalimov, F.I. Isaev, L.V. Buranova have researched some aspects of this problem as well.

**Analysis and Results**

The analysis of the economic literature and Internet resources shows that currently there are different approaches to the concept of financial potential. In particular, D. Jerlitsin and others suppose: “Financial potential reflects the investment potential and capabilities of the entity through financial indicators, such as profitability, liquidity, solvency. The competitiveness of an economic entity is reflected in its sustainable solvency, as well as the availability of the necessary amount of working capital in economic activity through the clear organization of settlements” [3].

In our opinion, we believe, that the definition, specified above, is incomplete and imperfect due to the fact that it covers only a part of the financial potential, i.e. the processes related to investments.

It should be noted that the mechanism for formulating a strategy for managing the financial capacity of the region requires a precise objective at each stage, and ultimately the logical connection and sequence of tasks at all stages and their implementation. During the research process, the following stages in developing the strategy for managing the financial potential of the region have been determined:

- developing the programme for the analysis and forecasting of the economic and financial situation in the region;
- identifying specific strengths and weaknesses, opportunities and economic risks of the region;
- analyzing internal and external factors influencing the development of the region;
- searching for sources of attractive and profitable lending resources, developing the strategies for the collection, formation and distribution of financial resources;

- planning cash flows in the region for operational, investment, financial activities and taxes, as well as analyzing and assessing financial risks;

- developing the management strategy for financial potential, its implementation and monitoring of results.

Analyzing the international experience, it is possible to make a conclusion that the balance of assets and liabilities across the US states is determined in reliance upon the balance sheet data, accurate allocation and targeted spending of the budget, as well as conclusions for business management, strategies and programs are developed. It should be noted that the active part of the balance sheet of the United States includes cash and the assets, which can be easily converted into the cash, in the first section. Then long-term hard-to-sell assets are placed on the balance sheet items. The aim of this is to ensure the speed of calculation of balance sheet liquidity.

The net financial potential of a country (state) is determined by comparing the state assets reflected in the assets of the balance sheet with its liabilities. It should be noted that the balance sheet does not include the financial value of the government's sovereign powers to tax, regulate trade, or set monetary policy, or the value of the government's non-operating resources, such as national and natural resources managed by the government.

As in the profit and loss statement, changes in net financial potential in the balance sheet include a separate presentation of the portion of the funds referred to the special funds. It should be noted that the risks of the government to ensure financial potential are wider than the liabilities specified in the balance sheet. The public future commitments, social security, taxes, and contingency forecasts are set out in separate explanations and comments in the financial statements [4].

Below we consider the analysis of the dynamics of Gross Domestic Product (territorial) by regions of the Republic of Uzbekistan (Table 1).

**Table 1**

**Analysis of the dynamics of Gross Domestic Product (GDP) by regions of the Republic of Uzbekistan** (in current prices, billion UZS)

| Regions | **2017** | **2018** | **2019** | **2020** | **2021** | **Change in 2021 compared to 2017,%** |
|---|---|---|---|---|---|---|
| Republic of Uzbekistan | **317 476,4** | **424 728,7** | **529 391,4** | **602 193,0** | **734 587,7** | **231,4** |
| Republic of Karakalpakstan | 10 855,1 | 15 703,5 | 19 715,0 | 21 881,0 | 26 250,7 | 241,8 |
| Andijan region | 19 753,0 | 27 144,4 | 33 802,1 | 38 333,9 | 43 790,8 | 221,7 |
| Bukara region | 17 191,0 | 21 928,4 | 28 143,3 | 31 593,4 | 38 742,4 | 225,4 |
| Jizzakh region | 9 680,7 | 12 780,1 | 16 143,6 | 18 575,1 | 23 349,2 | 241,2 |
| Kashkadarya region | 21 597,3 | 26 554,1 | 32 399,3 | 35 605,3 | 43 833,3 | 203,0 |

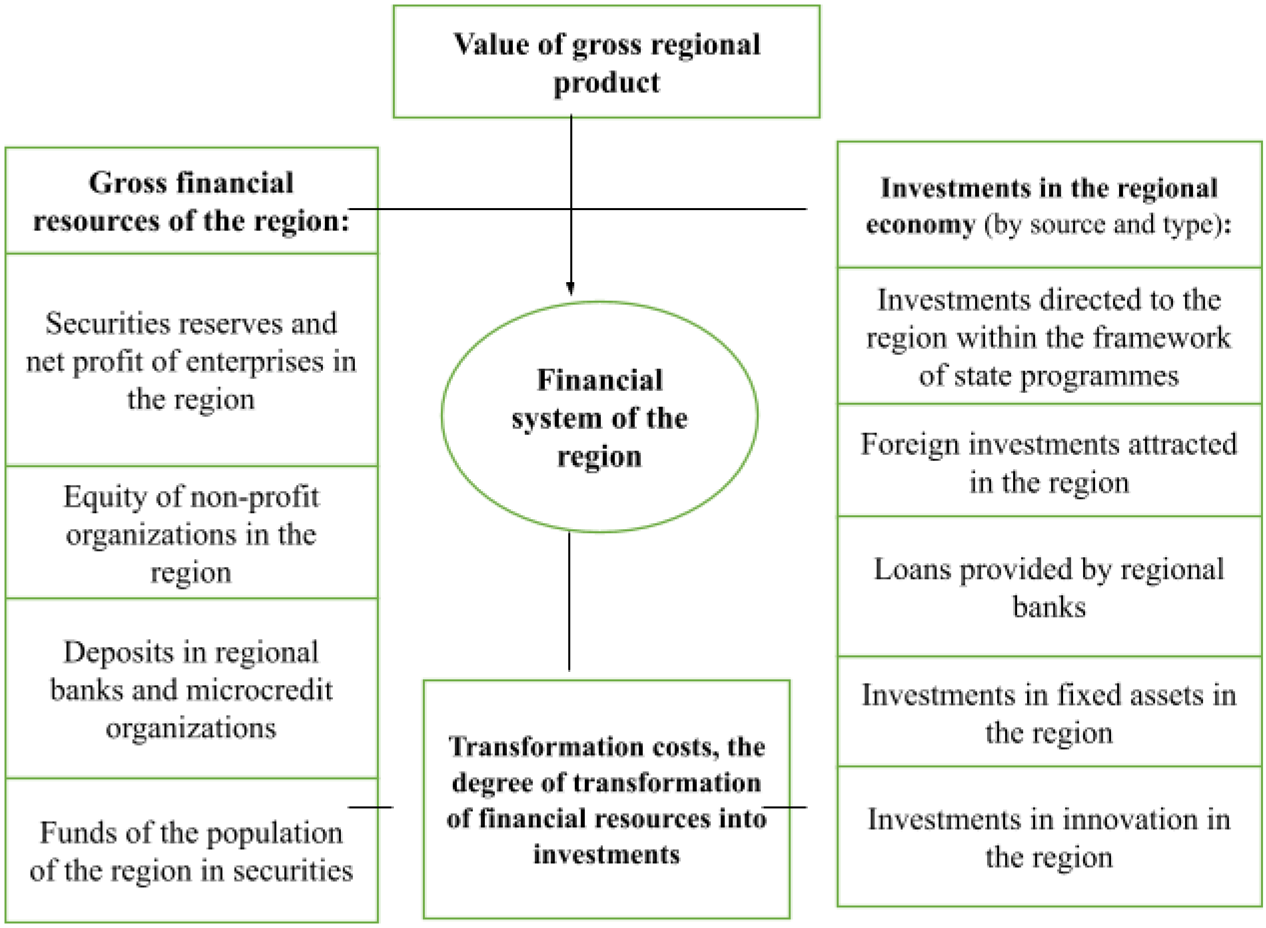
| | | | | | | |
|---|---|---|---|---|---|---|
| Navoi region | 14 681,5 | 22 677,2 | 36 661,9 | 50 605,8 | 59 357,7 | 4 марта |
| Namangan region | 15 311,1 | 18 916,1 | 23 920,9 | 28 077,4 | 34 479,8 | 225,2 |
| Samarkand region | 27 039,0 | 32 863,7 | 39 050,5 | 43 386,6 | 53 749,9 | 198,8 |
| Surkhondarya region | 14 404,4 | 18 674,9 | 22 393,5 | 24 779,3 | 30 090,5 | 208,9 |
| Sirdarya region | 6 799,6 | 8 594,2 | 11 949,2 | 12 928,3 | 15 583,1 | 229,2 |
| Tashkent region | 29 092,8 | 40 219,2 | 55 306,5 | 65 243,8 | 82 148,4 | 282,4 |
| Fergana vregion | 20 749,2 | 27 663,1 | 32 737,8 | 37 560,2 | 47 331,9 | 228,1 |
| Khorezm region | 12 008,1 | 15 977,2 | 19 241,1 | 21 467,9 | 26 900,3 | 224,0 |
| Tashkent city | 49 259,1 | 64 519,1 | 86 126,2 | 97 108,0 | 121 829,5 | 247,3 |

**Source:** The data of the State Committee of the Republic of Uzbekistan on Statistics. www.stat.uz

According to U. Otajanov, who conducted research on financial potential, to assess the investment attractiveness of the region, it is necessary to determine another indicator, namely, the budget and financial potential, which will raise the return on investment and investor interest in the region [5].

Admitting the points specified above, it is recommended to determine the financial potential of the region by comparative analysis of the areas of production of goods, services and works, which are similar to its fiscal system. As a result, the probability of duplication and repetition of data in the calculation process of the region's Gross Domestic Product through the system of national accounts is reduced. This requires generalizations to assess the financial potential of manufacturing, non-manufacturing and services sectors. In this case, it is required to analyze significant factors such as innovation potential, budget and financial potential, social potential, production potential in terms of investment potential.

In this regard, the formation of financial resources in the financial system of the region and their investment is essential in calculating the value of gross regional product (Figure 1).




**Source.** Developed by the author based on the research results

**Figure 1. Chart of formation of financial resources in the financial system of the region and their allocation to investments**

The analysis shows that at present the indicators of financial potential of the regions by financing from the state budget and collection of taxes and fees are not calculated. Analysis of the financial potential of these budgetary organizations enables to determine the degree of independence of the regions or their dependence on budget subsidies.

When analyzing the financial potential of the region, it is necessary to calculate important indicators per capita. Herewith, using official statistics together with accounting information, it is required to calculate the following indicators that represent the financial potential of the regions: average and real income per capita in the region, bank deposits of the population, dynamics of deposits of the population and securities savings per capita, per capita financial outcomes of non-profit enterprises reflected in the balance sheet, regional consolidated budget revenues per capita, investments in fixed assets per capita, inflow of foreign investments per capita, gross regional product per capita.

In the financial analysis it is advisable to use the ranking by scores and places in the assessment of the system of regional performance indicators. The rating of entities by region is determined in reliance upon the results of the analysis. However, neither of the two proposed methods enables to compare one region with another. Therefore, we think that the use of the index method yields a positive result in the interregional comparative analysis.

**Conclusion and Recommendations**

Based on the results of the analysis of the financial potential of the regions, the following conclusions have been developed:

1. International experience shows that determining the financial potential of the regions requires preparation of regional balance sheets and conducting financial analysis. Taking into account the peculiarities of current forms of management and ownership of entities operating in the regions, it is necessary to follow the rules of the system of national accounts in the calculation of regional gross domestic product. The data of the financial statements is undoubtedly the source of information for these calculations.

2. It is necessary to determine the system of consolidated indicators to assess the financial potential of production, non-production and services sector in the regions. In this regard, it is recommended to analyze the value of the gross regional product of the regions by linking important factors such as innovation potential, budget and financial potential, social potential, production potential to investment potential.

Herewith the stages of formation of financial resources in the financial system of the region and their investment in the calculation of the value of gross regional product have been developed. The degree of transformation of financial resources into investments and the sources of financing the costs in this process have been categorized.

3. In the financial analysis it is advisable to use the ranking by scores and places in the assessment of the system of regional performance indicators. In this regard, we consider it appropriate to use the index method in the comparative analysis of the financial potential of the regions.

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