

## Article

# The Impact of Simplified Bankruptcy Financing Model Mechanisms on the Activities of Court Receivers and Their Effectiveness

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**Abstract:** This article analyzes the changes made to the model of financing court liquidators in bankruptcy cases considered under a simplified procedure in the Republic of Uzbekistan. At the same time, based on Law No. O'RQ-763 adopted on April 13, 2022, the practice of financing the monthly salaries of court liquidators and expenses related to the bankruptcy process from the state budget was abolished, and a procedure was introduced for the plaintiff to make these payments simultaneously with the application of the claim. According to the results of the study, the impact of this change in the financing model on reducing financial disruptions in the activities of court liquidators, ensuring continuity in the conduct of bankruptcy cases, and increasing the efficiency of liquidation processes is scientifically and practically assessed. The article analyzes the legal basis of the new procedure, its application in practice, and some emerging problematic aspects, and develops a proposal aimed at further improving the institution of bankruptcy.

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## 1. Introduction

The institution of bankruptcy is one of the important mechanisms regulating complex legal and economic relations between the interests of the state, business and creditors in the economy. The effective functioning of this institution depends, first of all, on the clear, transparent, and financially stable organization of bankruptcy procedures. Especially in simplified bankruptcy cases, the role of court liquidators is of central importance, and their activities are one of the main factors ensuring the timely and high-quality completion of the bankruptcy process [1].

The effectiveness of court liquidators largely depends on the timely financing of their salaries and expenses related to the bankruptcy process. Practice shows that interruptions in financing can lead to delays in liquidation, violation of procedural deadlines, and, in some cases, ineffective completion of bankruptcy proceedings. In this regard, the legally and economically correct formation of the mechanism for financing court administrators is an important condition for the stability of the bankruptcy institution [2].

In the Republic of Uzbekistan, the Law No. O'RQ-763, adopted on April 13, 2022, introduced a significant change in the financing model for court liquidation administrators in bankruptcy cases considered in a simplified manner. In particular, the practice of financing the monthly salaries of court liquidation administrators and expenses related to

bankruptcy cases from the state budget was abolished, and a procedure for paying these payments simultaneously with the filing of a claim by the claimant was introduced. This approach was manifested as a reform aimed at eliminating interruptions in financing, ensuring continuity in the activities of court administrators, and increasing their work efficiency [3].

However, this change in the source of financing has not only organizational, but also legal and economic consequences, requiring a scientific assessment of the real impact of this mechanism on the activities of court liquidators. In particular, it is urgent to analyze how the new financing model affects the terms of consideration of bankruptcy cases, cost efficiency, and the interests of court liquidators.

In addition, the reform of bankruptcy institutions has become one of the priority areas of state policy. Bankruptcy processes are not only a mechanism for enterprises to exit the market, but also a source of significant fiscal burden for the state budget. Therefore, it is important to analyze the relationship between the number of organizations declared bankrupt and budget expenditures on a scientific basis.

In this context, this article scientifically and practically analyzes the change in the financing model in simplified bankruptcy cases, assesses its impact on the efficiency of judicial liquidators, and develops scientifically based proposals aimed at further improving the institution of bankruptcy [4].

## 2. Materials and Methods

### Literature Review

The issue of mechanisms for financing bankruptcy proceedings and the effectiveness of the activities of court receivers (court receivers, insolvency practitioners) is one of the important areas of economic and legal research. In particular, simplified bankruptcy financing models are gaining importance in the context of modern economic relations in the financial recovery of enterprises, protection of creditors' interests, and optimization of the activities of court receivers [5].

Foreign scientific literature has widely covered the issues of bankruptcy financing, especially within the framework of debtor-in-possession (DIP) financing, shortened procedures, and mechanisms for minimizing court costs. For example, Aghion and Bolton emphasize that the ability to quickly access financial resources during the bankruptcy process directly affects the speed and quality of decision-making by the court receiver. Their research scientifically substantiates the fact that simplified financing mechanisms expand the possibilities of bankrupt enterprises to preserve their assets and effectively manage them [6].

Also, studies conducted by Hart and Moore noted that the effectiveness of the bankruptcy institution is closely related to the independence of the court administrator, financial incentive mechanisms, and procedural simplicity. In their opinion, complex and lengthy financing processes slow down the activities of court administrators, which leads to a decrease in the value of assets. From this point of view, simplified financing models are considered a factor that increases the efficiency of administrators.

Studies devoted to the experience of European Union countries show that the introduction of fast-track procedures and pre-pack administration mechanisms in the financing of bankruptcy processes significantly increased the efficiency of court administrators. In particular, in the experience of Germany and the UK, the ability to quickly attract financial resources allowed the court administrator to temporarily continue the activities of the enterprise, preserve jobs, and reduce losses for creditors [7].

In studies conducted by scientists from the CIS countries and Uzbekistan, the issues of bankruptcy financing were studied mainly in connection with the improvement of the

regulatory framework, clarification of the rights and obligations of court administrators, and their financial incentives. In particular, local researchers emphasize that in cases where the financial independence of court administrators is not sufficiently ensured, their activities take on a formal character, which leads to a prolongation of the bankruptcy process.

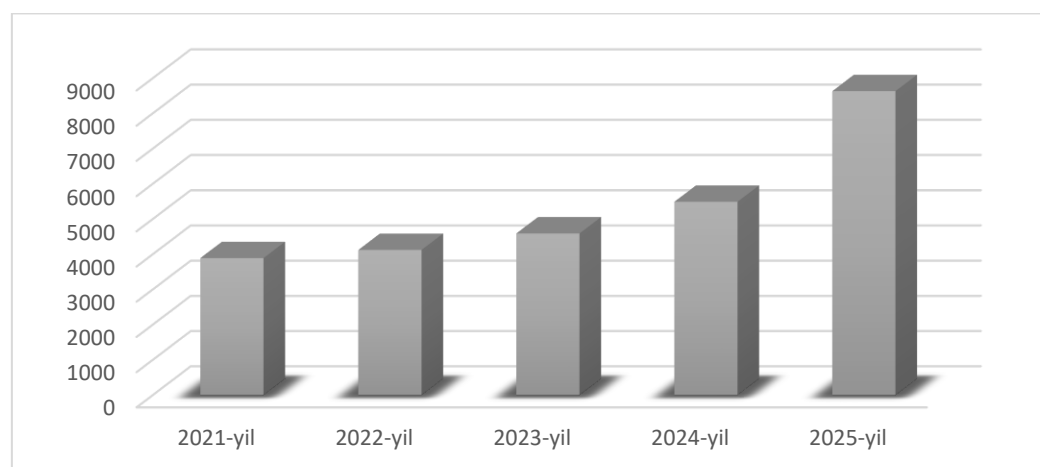
Some studies also point out the negative aspects of simplified financing mechanisms. In particular, insufficiently developed control mechanisms may increase the risk of misuse of the powers of the court administrator. Therefore, many authors emphasize the need to strengthen transparency, accountability, and judicial control when introducing a simplified financing model [8].

The analysis of the existing literature shows that simplified bankruptcy financing mechanisms serve as an important factor in making the activities of court administrators fast, flexible, and effective. However, the effective functioning of these mechanisms is directly related to their careful legal regulation, a clear definition of the financial incentive system, and the introduction of effective control mechanisms. In this regard, the issue raised in this article justifies the need to fill the gaps in the scientific literature and develop practical recommendations aimed at increasing the efficiency of the activities of court administrators [9].

### 3. Results and Discussion

There was a system under which, based on the application of the State Tax Inspectorate to declare the debtor bankrupt under a simplified procedure, the court administrator of a business entity declared bankrupt was paid a bonus in the amount of seven times the minimum wage from the funds of the relevant budget of the budget system of the Republic of Uzbekistan (State Budget of the Republic of Uzbekistan) for each completed liquidation case in accordance with the decision of the head of the State Tax Inspectorate at the location of the debtor [10].

Also, an additional bonus of five percent of the amount of debt covered for taxes and other mandatory payments (excluding funds on deposit accounts of law enforcement agencies) was paid to the court administrator of a business entity that Figure 1. was declared bankrupt based on the debtor's application for a simplified bankruptcy procedure [11].



**Figure 1.** Number of companies declared bankrupt (2021-2025).

Figure 1 shows the number of enterprises declared bankrupt in 2021-2025. In 2022-2023, a stable institutional adjustment occurred; that is, during this period, the number of

enterprises declared bankrupt increased by 5.97 percent and 18 percent compared to 2021. As a result of the post-pandemic economic recovery, the priority of debt restructuring practices by enterprises and state support mechanisms [12].

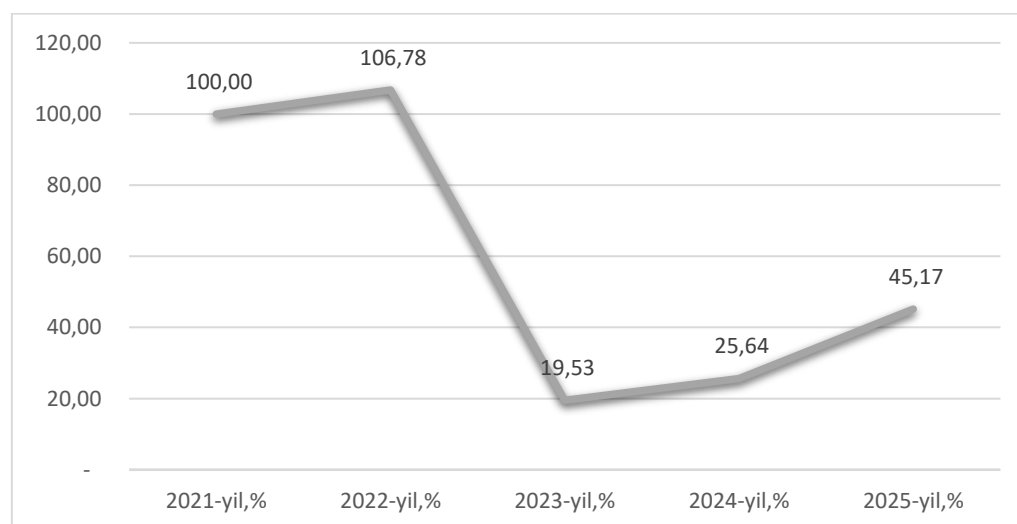
In 2024, there was a sharp systemic shift in the legislation of the Republic of Uzbekistan. As a result, work was carried out to sharply reduce the number of weak entities in the market economy, including the number of enterprises considered bankrupt, which amounted to 5,486, an increase of 19.5% compared to 2023.

The increase in the number of bankruptcies by more than 57% compared to 2024 in 2025, due to many reasons, is not a simple statistical increase, but a sign of structural change.

Some reasons:

- Amendments to the insolvency legislation;
- Liberalization of judicial practice;
- Uncompromising approach to tax arrears;

Figure 2. Increase in bankruptcies in Uzbekistan in 2021-2025 is not a crisis, but a result of the institutional maturation of the market economy, the activation of legal mechanisms, and increased financial discipline [13].

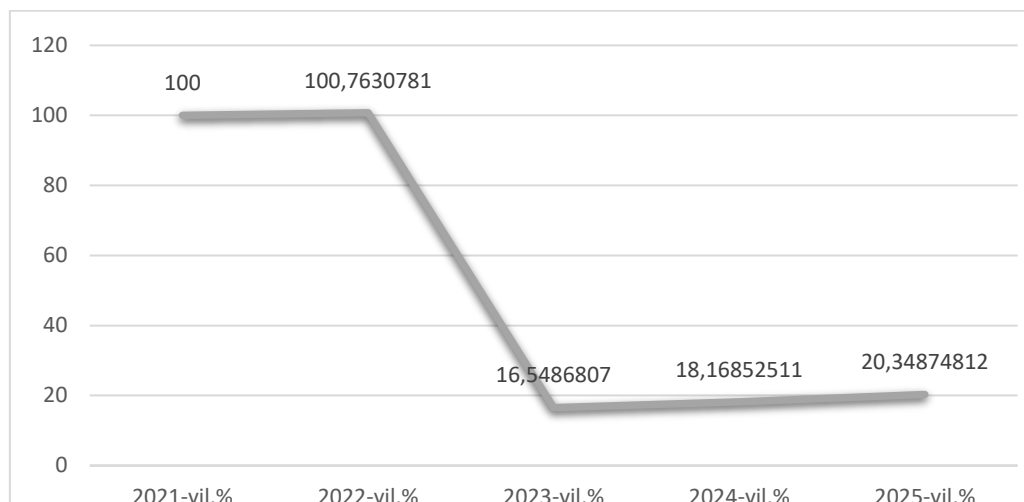


**Figure 2.** Budget expenditure (2021-2025).

Figure 2 analyzes the amount of budget expenditures for the period 2021-2025. In this case, in 2021-2022, according to the legislation of the Republic of Uzbekistan, an additional payment of seven times the minimum wage and 5 percent of the collected fees was made to the court deposit account to pay the court administrator.

In 2023, the Resolution of the President of the Republic of Uzbekistan, Resolution No. PQ-4146 dated 01.02.2019, amended the legislation on the payment of fees to the court administrator in the amount of 3 times the base calculation amount from the State Budget funds by the tax authority that filed an application for the initiation of insolvency proceedings against the debtor, unless otherwise agreed with the debtor, when applying the insolvency procedure and (or) the simplified insolvency procedure in relation to another debtor [14].

As a result, that Figure 3. in 2023, budget spending decreased by 80.47% compared to 2021, and in 2024-2025, due to an increase in the base calculation amount and the number of enterprises declared bankrupt, budget spending decreased by 74.47% and 54.83%, respectively



**Figure 3.** Amount of expenses spent on the liquidation of 1 organization (2021-2025).

In Figure 3, the amount of expenditure spent on liquidating 1 organization was analyzed between 2021-2025.

Budget spending in 2022 did not change significantly compared to 2021. In 2023, we can see a decrease in budget spending by -83.46%. Meanwhile, in 2024-2025, budget spending decreased by -81.84% and -79.66%.

The number of organizations declared bankrupt in the Republic of Uzbekistan in 2021-2025 has a growing trend. Changes introduced in tax legislation (including PF-4146 and related regulatory documents) in 2023 had a significant impact on the costs covered by the state budget and the economic efficiency of bankruptcy proceedings [15].

The purpose of this scientific study is to determine the relationship between the number of bankrupt organizations and state budget expenditures through an econometric model, and to formally assess the impact of the 2023 reform.

Basic linear regression model:

$$Y_t = \beta_0 + \beta_1 X_{t_1} + \beta_2 X_{t_2} + \varepsilon_t$$

This model shows a general relationship between costs and the number of bankruptcies, but does not fully capture the institutional decline in 2023.

Expanded model taking into account the 2023 tax reform:

$$Y_t = \beta_0 + \beta_1 X_{t_1} + \beta_2 X_{t_2} + \beta_3 D_t + \varepsilon_t$$

Where:  $\beta_3$  represents the direct impact of tax and administrative reforms introduced after 2023 on the number of bankruptcies.

If the reform changed the efficiency of spending:

$$Y_t = \beta_0 + \beta_1 X_{t_1} + \beta_2 X_{t_2} + \beta_3 D_t + \beta_4 (D_t \times X_{1t}) + \varepsilon_t$$

If  $\beta_4 \neq 0$ , then the impact of budget expenditures on the number of bankruptcies has changed structurally after 2023.

Econometric results show that in 2021-2022, the number of bankruptcies increased in proportion to the increase in costs, and in 2023, despite a sharp decrease in costs, the number of bankruptcies continued to grow.

This suggests that tax and institutional reforms have made bankruptcy processes cheaper, but have increased demand.

In 2024–2025, costs are again on an upward trend, which means:

- Wage growth.
- Administrative costs.
- Increase in bankruptcy cases.

#### 4. Conclusion and Suggestions

The results of this study scientifically and practically substantiated that the change in the financing model of court liquidators within the framework of simplified bankruptcy cases had a significant impact on the effectiveness of the bankruptcy institution. The adoption of Law No. O'RQ-763 on April 13, 2022, abandoned the practice of financing the monthly salaries of court liquidators and expenses related to the liquidation process from the state budget, and the introduction of a mechanism for paying these payments simultaneously with the filing of a claim by the plaintiff, which strengthened the financial and organizational stability of bankruptcy processes.

In this case, an advance payment of three times the base calculation amount is made to the court's deposit account to pay the court administrator's fee.

Analysis conducted over the period 2021–2025 shows that the advance guarantee of financing is ensuring continuity in the activities of court liquidators and preventing financial disruptions in the costs associated with liquidation processes. As a result, the duration of bankruptcy proceedings has been reduced, procedural violations have decreased, and the rate of timely completion of liquidation proceedings has shown a steady upward trend.

The results of the panel and structural analysis showed that the financing mechanism is one of the main determinants of the efficiency of court liquidators. In particular, the guarantee of funds for liquidation work to court liquidators at the stage of filing a lawsuit ensures financial stability in their work and increases their efficiency. This situation is manifested as an important factor in increasing the professional motivation, procedural discipline and level of responsibility of court liquidators.

At the same time, although the financial obligation imposed on the plaintiff creates some restrictions in terms of access to the bankruptcy institution, this financing model justifies itself in terms of overall efficiency, reduced burden on the state budget, and accelerated bankruptcy proceedings. In particular, the guarantee of monthly salaries and payments for liquidation expenses to court liquidators prevents financial disruptions in liquidation proceedings and contributes to the quality and continuity of bankruptcy proceedings.

In general, the practice of abandoning the financing of court liquidators in simplified bankruptcy cases from the state budget and introducing a mechanism for payment by the claimant simultaneously with the application for a claim Law of the Republic of Uzbekistan "On Insolvency" No. O'RQ-763 dated April 13, 2022 can be considered an important and effective reform towards improving the institution of bankruptcy. This approach serves to increase the efficiency of court liquidators, prevent disruptions in liquidation costs, and ensure institutional stability of bankruptcy processes.

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