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# PROBLEMS AND PROSPECTS OF APPLYING INTERNATIONAL STANDARDS OF REPORTING TO THE ACCOUNTING SYSTEM OF THE REPUBLIC OF UZBEKISTAN (IN THE CASE OF ENTERPRISES OF THE REAL SECTOR NETWORK)

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**Annotation:**This article explores the current state, challenges, and future prospects of implementing International Financial Reporting Standards (IFRS) in the accounting systems of Uzbekistan, particularly focusing on enterprises within the real sector. The study highlights the gap between national practices and IFRS, analyzes institutional readiness, and provides recommendations for effective convergence.
**Keywords:** IFRS (International Financial Reporting Standards),Uzbekistan,Accounting System,Real Sector,National Accounting Standards (NAS),Transition to IFRS,Institutional Barriers,Policy Recommendations,Financial Transparency,Investor Confidence,Economic Growth,Capacity Building,Educational Reform,Professional Training,Public Interest Entities (PIEs),SMEs (Small and Medium Enterprises),Cultural Resistance,Technological Gaps,Legal Framework,Government Support,Mining Sector Case Study,Foreign Investment,Economic Liberalization,Accounting Education,Certification Programs,Institutional Development,Global Financial Reporting Standards.

**Introduction:**The globalization of financial markets has emphasized the need for harmonized accounting practices. IFRS serves as a globally accepted framework for financial reporting, promoting transparency and comparability. Uzbekistan, amid economic reforms and aspirations for international integration, has recognized the importance of aligning with IFRS. However, real sector enterprises face unique challenges in this transformation process.

## Literature Review

### Global Adoption of IFRS

A broad analysis of IFRS adoption shows that while many countries have transitioned smoothly, others, particularly in developing regions, encounter regulatory, institutional, and professional limitations.The implementation of International Financial Reporting Standards (IFRS) has become a global trend in the field of accounting and financial reporting. More than 140 countries have officially adopted or partially adopted IFRS within their national accounting systems. The main objective of implementing these standards is to ensure comparability, transparency, and

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trust in financial information, especially in the context of globalization and cross-border investments.

Smooth Transition in Developed Countries. Developed countries generally have more mature financial markets and a higher level of professional accounting expertise. In jurisdictions such as the European Union, Canada, and Australia, the transition to IFRS occurred relatively smoothly. This can be attributed to:

- A well-established legal and regulatory framework;
- Advanced IT infrastructure for accounting and reporting;
- Strong institutions for professional education and certification;
- Active support from regulators and capital markets.

Challenges in Developing Countries, in contrast, developing countries — including those in Central Asia, Africa, and parts of Latin America — face significant challenges in implementing IFRS. The key difficulties include:

- **Regulatory barriers**: National laws often contradict IFRS principles or do not provide for their application.
- **Institutional weaknesses**: Lack of independent bodies to monitor and enforce the quality of financial reporting.
- **Professional limitations**: A shortage of qualified professionals trained in IFRS, combined with outdated academic curricula and insufficient continuing education.
- **Financial constraints**: The costs of adapting accounting systems and training personnel are often unaffordable for many enterprises.

Some countries have adopted a dual approach, where IFRS is required only for specific types of entities (e.g., public companies, banks, or firms with foreign investment), while others continue to use local standards. This results in inconsistencies and complicates efforts to standardize reporting across the national economy. The global adoption of IFRS is a complex, multi-layered process. Its success depends largely on a country's level of economic development, political commitment, institutional capacity, and the readiness of its professional community. For transition economies like Uzbekistan, it is essential to study international experiences and adapt them to local conditions in order to ensure effective and sustainable implementation. Case studies from Kazakhstan, Russia, and Ukraine provide relevant context. Kazakhstan's early adoption serves as a model, while Russia's dual-system (national and IFRS) creates inconsistencies. These experiences offer lessons for Uzbekistan. The experiences of post-Soviet countries in the Commonwealth of Independent States (CIS) and Central Asia with IFRS adoption provide valuable lessons for Uzbekistan. These nations share similar historical accounting foundations, institutional structures, and reform trajectories, making their transition experiences particularly relevant.

**Kazakhstan – A Model of Early and Structured Adoption**

Kazakhstan stands out as a regional leader in the implementation of IFRS. The country began its transition in the early 2000s, driven by a national strategy to modernize its economy and attract foreign investment. Key features of Kazakhstan's approach include:

- **Mandatory IFRS reporting** for listed companies and financial institutions;
- **Government support** in the form of legal reforms and training initiatives;
- **Strong regulatory institutions**, including a dedicated financial reporting council;

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- **Integration of IFRS into university curricula** and continuous professional education programs.

This early and structured adoption helped Kazakhstan improve the transparency and reliability of financial statements, which in turn enhanced investor confidence and economic competitiveness.

**Russia – A Dual System with Limited Convergence**

Russia presents a more complex scenario. Although the government officially endorsed IFRS, its application is restricted to specific sectors, primarily public interest entities and companies involved in international capital markets. As a result, a **dual reporting system** emerged:

- **IFRS** is used for consolidated financial statements of large companies;
- **Russian Accounting Standards (RAS)** remain in place for tax and regulatory reporting.

This duality has led to inconsistencies, increased administrative burdens, and confusion among users of financial reports. Furthermore, limited enforcement and gaps in professional training continue to hinder the full integration of IFRS principles.

**Ukraine – Reform-Oriented but Fragmented Implementation**

Ukraine also took steps toward IFRS adoption, particularly after the 2010s, aligning its financial reporting framework with EU standards. However, implementation has been **fragmented and uneven**:

- IFRS is mandatory for public companies and financial institutions;
- Smaller enterprises still use simplified national standards;
- Political instability and economic uncertainty have disrupted consistent reform efforts.

Despite these challenges, Ukraine has made notable progress in aligning its legislation and professional education with IFRS requirements.

**Lessons for Uzbekistan**

The experiences of Kazakhstan, Russia, and Ukraine underscore several critical insights for Uzbekistan:

- **Political will and institutional commitment** are essential for successful IFRS integration;
- **Gradual, phased implementation** allows time for adaptation and capacity building;
- **Harmonizing national standards** with IFRS reduces redundancy and confusion;
- **Investment in education and training** is key to developing a capable accounting workforce.

Uzbekistan can draw from these examples to shape a pragmatic and context-sensitive roadmap for IFRS adoption, tailored to its own economic and institutional landscape.

**National Context**

Prior research on Uzbekistan's accounting system reveals its foundation in Soviet-based standards. Though reformed post-independence, it still diverges significantly from IFRS in areas such as asset valuation, revenue recognition, and financial instruments. Uzbekistan's accounting system has undergone significant changes since gaining independence in 1991. However, it still carries deep-rooted influences from the Soviet-era accounting model, which emphasized centralized planning, tax compliance, and statistical control over transparency and investor-oriented reporting.

The foundation of Uzbekistan's accounting framework was originally based on the **Soviet Union's uniform accounting system**, which prioritized the recording of economic transactions for state planning purposes. Key features of this legacy system include:

- A focus on **inventory and input-output tracking** rather than profitability or investor needs;
- Minimal disclosure requirements;
- Accounting rules designed primarily for **tax reporting**, rather than for providing a true and fair view of financial position.

This approach left little room for judgment, professional discretion, or fair value assessments — all of which are essential under IFRS.

Since independence, Uzbekistan has taken steps to modernize its financial reporting system. Some achievements include:

- Development of **National Accounting Standards (NAS)** that align partially with IFRS;
- Creation of regulatory institutions such as the **Ministry of Finance's Department of Accounting and Audit Methodology**;
- Introduction of basic accounting education reforms and training programs.

However, these reforms have been **incremental** and **fragmented**, with major gaps remaining in the alignment with international standards.

**Key Divergences from IFRS**

Despite progress, Uzbekistan's NAS continues to diverge significantly from IFRS in several core areas:

- **Asset Valuation**: NAS primarily uses historical cost, while IFRS encourages fair value or revaluation methods, especially for property, plant, and equipment.
- **Revenue Recognition**: The NAS lacks the detailed, principle-based framework found in IFRS 15, which emphasizes revenue recognition based on the transfer of control and performance obligations.
- **Financial Instruments**: IFRS 9 introduces complex classifications, measurement, and impairment models for financial assets and liabilities. Uzbekistan's standards, by contrast, offer only basic treatment, often lacking sufficient guidance for modern financial instruments.
- **Presentation and Disclosure**: IFRS mandates extensive disclosures that help users understand the financial performance and risk exposures of a company. Uzbekistan's NAS tends to be more limited and form-based, with less emphasis on transparency.

**Cultural and Institutional Factors**

Additionally, cultural and institutional factors slow down convergence:

- A **rules-based mindset** inherited from the Soviet era discourages professional judgment.
- Many enterprises still see accounting as a compliance function, not a strategic tool for decision-making.
- **Lack of enforcement** and **limited audit quality** further reduce the effectiveness of current standards.

Although Uzbekistan has made notable efforts to reform its accounting system, a full transition to IFRS remains a work in progress. Bridging the gap will require a comprehensive overhaul of

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standards, education, institutional capacity, and professional culture. Recognizing these national characteristics is essential for crafting an effective IFRS implementation strategy.

**Methodology**

To provide a comprehensive understanding of the challenges and opportunities related to the adoption of International Financial Reporting Standards (IFRS) in Uzbekistan's real sector, this study employs a **mixed-method research approach**. By combining both **quantitative and qualitative methods**, the research captures not only numerical trends and patterns but also the contextual and institutional realities that influence financial reporting practices.

**Quantitative Component: Enterprise Surveys**
A structured survey was conducted among **50 enterprises** across three key real-sector industries:
- **Manufacturing**
- **Construction**
- **Mining**

The survey targeted **chief accountants, financial directors, and internal auditors**. The questionnaire covered topics such as:
- The current use of National Accounting Standards (NAS) vs. IFRS;
- Perceived benefits and obstacles of IFRS adoption;
- Availability of qualified staff and IFRS training;
- Software and technology readiness;
- Financial and operational costs of transitioning to IFRS.

The responses provided valuable statistical data on the degree of IFRS penetration, enterprise-level preparedness, and general sentiment toward reform.

**Qualitative Component: Expert Interviews**
To gain deeper insights into regulatory and institutional perspectives, **semi-structured interviews** were conducted with:
- **Officials from the Ministry of Finance**, particularly from departments overseeing accounting policy and IFRS implementation;
- **Representatives of the Chamber of Auditors of Uzbekistan**, who provided professional and oversight viewpoints;
- Select **university faculty members** and trainers involved in accounting education and IFRS certification.

These interviews explored themes such as:
- Governmental strategies for IFRS rollout;
- Institutional bottlenecks and regulatory constraints;
- Education system readiness and professional capacity gaps;
- Alignment (or misalignment) between national laws and IFRS principles.

The interviews allowed for an open-ended exploration of challenges that are not easily quantifiable but critical for understanding systemic issues.

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**Comparative Financial Statement Analysis**

To evaluate the practical differences between reporting under NAS and IFRS, the study also conducted a **comparative analysis of financial statements**. This involved:

- Collecting financial reports from a sample of enterprises that prepare both NAS-based and IFRS-based statements (e.g., joint ventures or firms with foreign investors);
- Examining differences in key areas such as asset valuation, revenue reporting, lease accounting, and financial instrument classification;
- Analyzing the impact of those differences on financial ratios, investor appeal, and decision-making.

This comparative element provided concrete evidence of how IFRS can lead to different financial outcomes and improved transparency.

By triangulating data from enterprise-level surveys, expert interviews, and document analysis, the study offers a multi-dimensional understanding of Uzbekistan's IFRS readiness. This methodology enables both a macro-level institutional assessment and a micro-level view of challenges at the firm level — critical for shaping practical policy recommendations.

**Analysis and Discussion**

This section synthesizes the findings from surveys, interviews, and document reviews to evaluate the present landscape of IFRS adoption in Uzbekistan's real sector. It identifies existing barriers, explores enterprise-level realities, and highlights emerging opportunities that could facilitate a broader implementation of international financial reporting practices.

**Current State of IFRS Implementation**

The analysis reveals that only a **small percentage of enterprises** in the real sector currently apply IFRS voluntarily. These are predominantly companies with **foreign shareholders, joint ventures**, or those operating in sectors that require regular interaction with international partners or investors. Most local firms continue to rely exclusively on **National Accounting Standards (NAS)**, driven by both practical and regulatory reasons. Several key obstacles were identified:

- **Lack of Qualified Specialists**: There is a significant shortage of accountants and financial professionals who possess practical IFRS knowledge. Many practitioners are unfamiliar with international standards due to limited exposure during their education and minimal access to ongoing training.
- **Limited Conceptual Understanding**: Even where IFRS is discussed or superficially implemented, the understanding of its principles—such as fair value, substance over form, or recognition based on control and risk transfer—is often inadequate. This leads to improper application or partial compliance.
- **High Transition Costs**: Adopting IFRS requires significant financial investment. Enterprises must invest in new accounting software, retrain staff, and, in some cases, hire external consultants. These costs are particularly burdensome for small and medium-sized enterprises (SMEs) with limited financial capacity.

As a result, IFRS is perceived as complex, costly, and not directly beneficial to enterprises that do not operate internationally.

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**Institutional Barriers**

In addition to firm-level limitations, several **institutional-level barriers** hinder the nationwide adoption of IFRS:

- **Legislative Incompatibility**: Existing national laws and tax codes often conflict with IFRS principles. For example, some IFRS requirements related to revenue recognition or asset revaluation are not permissible under Uzbek tax regulations, creating legal uncertainty for businesses.
- **Outdated Academic Curricula**: Many university programs still teach accounting based on Soviet-era approaches or basic NAS frameworks. IFRS is either absent from curricula or included in a limited, theoretical manner without practical application.
- **Weak Professional Training Infrastructure**: There are insufficient opportunities for continuing professional development in IFRS. Certification programs and refresher courses are rare, expensive, and not widely promoted among practicing accountants.

These systemic issues mean that even if enterprises wish to transition, the broader ecosystem may not support such a move effectively.

**Enterprise-Level Challenges**

At the organizational level, several **practical and cultural challenges** impede the application of IFRS:

- **Operational Complexity**: Mapping from NAS to IFRS is not straightforward. The standards are based on different conceptual frameworks, and many enterprises lack internal capacity to conduct the necessary adjustments and reconciliations.
- **Cultural Resistance**: There is a general reluctance among many accountants, especially those trained during the Soviet or early post-independence periods, to embrace new systems. The transition requires a shift in mindset from rule-following to principle-based judgment, which can be unsettling for practitioners used to rigid guidance.
- **Technological Obsolescence**: Many enterprises use outdated accounting software that cannot generate reports in IFRS-compliant formats. Upgrading these systems involves costs and technical expertise that are often unavailable at the enterprise level.

These challenges highlight the need for a tailored and supportive approach to implementation, particularly for enterprises outside the capital and major urban centers.

**Opportunities and Prospects**

Despite the difficulties, several **positive trends and policy developments** suggest that broader IFRS adoption is both feasible and beneficial in the near future:

- **Economic Reforms**: Uzbekistan's ongoing economic liberalization, including reforms in banking, taxation, and private sector development, is increasing the demand for transparent and internationally comparable financial information.
- **Investor Expectations**: Foreign investors, international donors, and financial institutions are placing growing importance on IFRS-compliant reporting. Enterprises seeking external capital or partnerships must align their financial practices with global norms to remain competitive.

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- **Government Initiatives**: The Ministry of Finance has announced plans to **gradually implement IFRS for large enterprises starting from 2026**, with potential expansion to other sectors thereafter. Pilot programs and partnerships with international organizations are already underway to support this transition.

These developments create a window of opportunity to strengthen institutions, modernize the accounting profession, and enhance the credibility of Uzbekistan's business environment on the global stage.

**Application in the Mining Sector**

To illustrate the practical implications of adopting International Financial Reporting Standards (IFRS) in Uzbekistan's real sector, this section presents a detailed case study of a mining enterprise that voluntarily transitioned from National Accounting Standards (NAS) to IFRS. The case provides concrete insights into the benefits, challenges, and long-term outcomes associated with this shift.

**Background of the Enterpris**

The selected enterprise is a mid-sized mining company operating in the extraction and export of non-ferrous metals. It is partially owned by foreign investors and has contractual obligations with international buyers, making transparent and globally recognized financial reporting essential.The enterprise began its transition to IFRS in 2021, motivated by the need to improve its financial credibility and expand access to foreign capital markets. The process involved overhauling its accounting system, retraining financial staff, and hiring external consultants for implementation guidance.

**Key Outcomes of IFRS Adoption**

**1. Improved Accessto Foreign Capital**

Following the adoption of IFRS, the enterprise experienced greater trust and interest from foreign financial institutions. Its **IFRS-compliant financial statements** met the disclosure requirements of international lenders and investors, making the enterprise more attractive for financing and joint ventures. As a result:

- It secured a loan from an international development bank at a lower interest rate;
- It was shortlisted by a European mining firm for a long-term supply partnership;
- Its credit rating improved due to increased financial transparency.

**2. Enhanced Internal Controls and Financial Management**

The standardized and principle-based approach of IFRS forced the company to **reassess internal controls and accounting policies**. This led to several improvements:

- Stronger documentation and audit trails for transactions;
- More accurate and timely financial reporting;
- A better understanding of asset impairment and risk exposure.

These changes not only aligned the company with global best practices but also improved **managerial decision-making** based on more reliable financial data.

**3. Increased Administrative and Implementation Costs**

The transition was not without its drawbacks. The company incurred significant **short-term costs**, including:

- Licensing new accounting software compatible with IFRS;

- Hiring international consultants for guidance and quality assurance;
- Organizing intensive IFRS training sessions for finance and audit staff.

Additionally, the enterprise had to **maintain dual reporting** (IFRS and NAS) to comply with national tax authorities, increasing the workload for the accounting department.

However, management considered these costs a **strategic investment**, believing that long-term gains in transparency, investor confidence, and international competitiveness would outweigh the initial burden.

This case study demonstrates that while the adoption of IFRS in the mining sector of Uzbekistan involves considerable effort and cost, it brings significant **strategic benefits**, particularly for companies with international exposure. The experience highlights the importance of **leadership commitment**, **professional training**, and **regulatory support** in ensuring a successful transition. It also reinforces the potential of IFRS as a tool for improving corporate governance and financial sustainability in the country's real sector industries.

**Recommendations**

Based on the findings of this study, a set of targeted recommendations is proposed to support the effective and sustainable implementation of International Financial Reporting Standards (IFRS) within Uzbekistan's real sector. These recommendations are divided into four key categories: policy, education, technical support, and institutional development. A successful transition to IFRS requires a supportive legal and regulatory environment that aligns national priorities with global standards.

- **Harmonize the Legal Framework with IFRS**: Existing contradictions between Uzbekistan's tax legislation, civil code, and accounting rules must be addressed. A legal review should be undertaken to ensure that national laws do not obstruct the application of IFRS principles. This includes aligning rules related to asset valuation, revenue recognition, and reporting requirements.
- **Mandate IFRS for Public Interest Entities (PIEs)**: The government should introduce a phased mandate for the adoption of IFRS, starting with **public interest entities** such as listed companies, large state-owned enterprises, and financial institutions. This mandate should be accompanied by **government support**, such as technical assistance and financial subsidies during the transition period.

Human capital is at the core of any accounting reform. A qualified workforce is essential for effective IFRS application.

- **Revise Accounting Curricula in Universities**: Universities should modernize their accounting programs to incorporate IFRS content, not only as a theoretical subject but also through practical case studies, simulations, and use of real-life financial statements. Faculty training and curriculum updates are essential to build foundational IFRS knowledge at the undergraduate and postgraduate levels.
- **Launch Nationwide IFRS Certification Programs**: A national-level IFRS certification should be developed in collaboration with international accounting bodies. These programs should target practicing accountants, auditors, and finance managers and be accessible both online and in-person to reach professionals across the country. Certification would help raise the overall competency and confidence of the accounting profession.

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For many enterprises, particularly small and medium-sized enterprises (SMEs), the technical complexity of IFRS is a major barrier to implementation.

- **Subsidize Software Upgrades for SMEs**: The government, in partnership with development agencies, should provide **financial subsidies or tax incentives** to SMEs for the purchase and implementation of IFRS-compliant accounting software. This support is essential to level the playing field for enterprises with limited resources.
- **Develop IFRS Implementation Guidelines Tailored to Local Needs**: Practical, industry-specific guides and manuals should be developed in the Uzbek and Russian languages. These resources should explain how to apply IFRS in the local context, using examples relevant to Uzbek industries and providing checklists and templates to simplify the process.

Long-term sustainability of IFRS adoption requires strong institutions and international engagement.

- **Strengthen the Role of Professional Associations**: Bodies such as the **Chamber of Auditors of Uzbekistan** and other professional organizations should be empowered to provide continuing education, publish guidance materials, and play an active role in monitoring IFRS implementation. Their leadership is crucial in professionalizing the accounting sector.
- **Foster International Cooperation with IFRS Bodies**: Uzbekistan should actively engage with international accounting standard-setters such as the **IFRS Foundation** and **regional development organizations**. These partnerships can bring technical assistance, access to training resources, and alignment with global reporting trends.

Together, these recommendations form a roadmap for the successful implementation of IFRS in Uzbekistan. By aligning policies, upgrading educational systems, addressing technical gaps, and strengthening institutions, the country can enhance its financial transparency, attract foreign investment, and support the growth of a modern, globally integrated economy.

**Conclusion:** The transition to **International Financial Reporting Standards (IFRS)** in Uzbekistan's real sector represents a significant undertaking, but it also offers profound benefits for the country's economic future. While the path to full implementation is fraught with challenges, including institutional constraints, limited educational resources, and cultural resistance to change, these obstacles can be overcome with the right strategies and long-term commitment. Uzbekistan faces several **barriers** to adopting IFRS within its real sector, including:

- **Institutional Hurdles**: The existing **national legal and regulatory framework** still conflicts with IFRS principles in key areas, such as asset valuation, revenue recognition, and reporting of financial instruments. These discrepancies create an environment where full convergence with international standards is difficult.
- **Educational Limitations**: The country's **higher education system** remains largely outdated, with most accounting programs focused on National Accounting Standards (NAS) rather than IFRS. This gap in professional training means there is a shortage of qualified accountants, auditors, and financial professionals capable of implementing IFRS effectively.
- **Cultural Resistance**: There is also significant **cultural inertia** in the accounting profession. The **rules-based approach** inherited from the Soviet era has instilled a mindset that is resistant to the principle-based approach required by IFRS, which necessitates greater professional judgment and flexibility.

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Despite these challenges, the transition to IFRS is also an **opportunity** for Uzbekistan to modernize its financial reporting system and position itself as a competitive player in the global market. The key opportunities for successful convergence include:

- **Governmental Support**: The government's ongoing economic reforms and its commitment to aligning with international standards offer a solid foundation for IFRS implementation. Planned initiatives, such as the phased implementation of IFRS for public interest entities starting in 2026, demonstrate the government's intent to embrace global best practices.
- **Capacity Building**: If Uzbekistan invests in **education and training** programs to enhance the skills of accounting professionals, it will create a workforce capable of handling the complexities of IFRS. Additionally, reforms in university curricula and the introduction of **IFRS certification programs** will ensure that the next generation of accountants is well-equipped to work in a globalized financial environment.
- **Economic and Investor Confidence**: The adoption of IFRS will increase **financial transparency**, which is crucial for attracting foreign investment and fostering **economic growth**. As the country becomes more aligned with global financial reporting practices, foreign investors will gain more confidence in Uzbekistan's market, leading to a higher volume of international capital inflow.

Ultimately, the successful adoption of IFRS in Uzbekistan's real sector will not only **enhance transparency** but will also significantly contribute to **economic growth**. Over time, this will build a stronger foundation for business operations, attract more international partnerships, and foster a **more competitive economy**. Moreover, IFRS adoption will help the country **integrate into the global financial community**, supporting long-term development in the broader context of economic liberalization. In conclusion, while the road to IFRS adoption in Uzbekistan's real sector presents significant challenges, it also offers substantial opportunities. With **coordinated reform, investment in capacity building**, and **governmental support**, Uzbekistan can successfully transition to international accounting standards, leading to enhanced **financial credibility, investor confidence**, and **economic growth**.

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