

**REPUBLIC OF AZERBAIJAN**

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**ABSTRACT**

of the dissertation for the degree of Doctor of Philosophy

**IMPROVING THE FINANCIAL MECHANISM OF STATE  
REGULATION OF AGRICULTURE**

Speciality: 5312.01 - “Sectoral economy”

Field of science: Economic sciences

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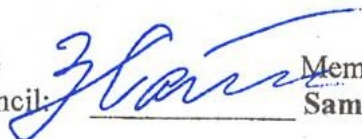
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## GENERAL CHARACTERISTICS OF THE PAPER

**Relevance and development of the topic.** Agriculture is one of the vital sectors of the economy. The development of this sector ensures food security as an integral part of the country's economic security, at the same time it makes possible to develop the light industry. Today approximately %40 of the population of Azerbaijan is engaged in agriculture and for account of this sector %5-6 of the gross domestic product is produced. Alongside with all these, let us also mention that this sector is also performs a number of important functions.

As it is known, today agriculture, like other sectors of the economy, develops on the basis of market relations. Decisions on the production of some or other of product in this area are made on the basis of information received from the market, product producers set prices for their products themselves, and they sell those products through the channels of their choice. All this has contributed to the development of free enterprise in agriculture, and there are many business structures in this area. But in some cases the revenues of business entities operating in this area do not allow for large-scale reproduction and they face a lack of financial resources. Without solving this problem, it is impossible to ensure sustainable development in agriculture, and this is almost the case in most developed countries of the world. In short, There is always a need for financial support for agriculture and the improvement of the financial mechanism of state regulation in this area. This also applies to the development of agriculture in our country.

In the 'Towards a highly competitive economy' section of the 'Azerbaijan 2020: vision for the future' development concept approved by the Decree of the President of the Republic of Azerbaijan dated after December 29, 2012, building an economic model based on effective government regulation and mature market relations requires updating and further rationalization of regulatory mechanisms. In the 'Strategic roadmap on the production and processing of agricultural products in the Republic of Azerbaijan' accepted by the Decree of the President of the Republic of

Azerbaijan dated after December 6, 2016, the third strategic goal is to facilitate access to finance, and there is also provided the solutions for improvement of financial mechanisms for agriculture, development of agrarian insurance, and promotion of investments in the agricultural sector. The solution of these problems directly depends on the improvement of the financial mechanism of state regulation of agriculture.

Standing intersectoral competition by agriculture demands the low price levels formed for products produced in this area, the low level of profitability of agricultural producers, at the same time, it requires improvement of monopolistic position of state regulation of agriculture and the financial mechanism, as a part of it in relation to agricultural producers of other industries. It is true that in recent years the agriculture of our country is sufficiently protected by the state, and and this allows the industry to be protected and developed from the harsh laws of the market. However, improving the financial mechanism of state regulation of agriculture can lead to its development at a faster pace. All this is an expression of the relevance of the topic of the dissertation in terms of modern requirements.

When talking about the relevance of the research topic, special attention should be paid to an important and historic event. It should be proudly noted that in the autumn of 2020, the glorious Azerbaijani Army liberated 7 border regions occupied by Armenian vandals 30 years ago under the wise leadership of the victorious Supreme Commander-in-Chief, President Ilham Aliyev, and thus the territorial integrity of the Republic of Azerbaijan was fully restored. The revival, reintegration and involvement of these liberated territories rich in natural resources in the national economy will significantly strengthen the economic potential of our country in a very near future. At the same time, In addition to the large-scale construction work to be carried out in these areas, new historical and scientific research on these processes will be increased. We hope that for the same reasons the topic of this dissertation, i.e. 'Financial mechanism of state regulation of agriculture' will hold its relevance in the future and more interesting research will be conducted around it.

As for the level of development of the topic, it should be noted that scientists from both our country and abroad have been engaged in solving the problem of improving the financial mechanism of state regulation of agriculture, and they are the authors of valuable research works in this field. Some of the economists of our country, such academicians as Z.A.Samadzadeh, E.R.Ibrahimov, E.A.Guliyev, B.Kh.Atashov, H.A.Khaliliov, V.H.Abbasov, I.H.Ibrahimov, I.Sh.Garayev, S.V.Salahov, Kh.M.Huseynova, M.S.Huseynov, M.G.Musayev, N.A.Javadov, A.Kh.Valiyev, V.A.Gasımlı, R.Z.Huseyn, V.I.Ismayılov and others are the authors of valuable researches on agricultural financing and on financial protection of enterprises and farms operating in this area. Some of the foreign countries scientists such as V.T.Vodyannikova, A.M.Godin, S.V.Frumina, A.I.Golubeva, A.P.Zinchenko, D.K.Sanokoeva, K.R.Makkonnel, N.N.Semenova, S.L.Bryu, Ş.M.Flinn, V.A.Kundius, V.Y.Uzun and others conducted research on the financial protection of agriculture. But in the context of economic globalization, the improvement of the financial mechanism of state regulation of agriculture of the republic in terms of existing realities, and the possibility of reconciling these regulatory measures with the experience of developed countries remains unexplored properly. There is a need to deepen research in these areas.

**The object of research** is agriculture and business entities, enterprises and organizations of the Republic of Azerbaijan operating in this field.

The issues, methods and means of improving of the financial mechanism of state regulation of agriculture are **the subject of the research**.

**The objectives and tasks of the research.** The objective of dissertation is preparation of scientifically substantiated proposals on improvement of the financial mechanism of the state regulation of agriculture. To achieve this objective the below tasks were determined and performed sequentially:

– Importance, necessity, form and methods of the state regulation of agriculture were researched;

- The financial mechanism of the state regulation of agriculture and its compositional elements were clarified;
- The impact of the state regulation on the general sustainable development of agriculture was researched;
- The production of agricultural products and the tendency of its productivity to change has been studied;
- The current state of the financial mechanism of state protection of agriculture was analyzed and assessed;
- The impact of the formation of a favorable business environment on the financial situation of agricultural producers was studied;
- Directions for improving the financial mechanism of state regulation of agriculture were identified;
- Issues of improving of the insurance system in agriculture was clarified in terms of modern requirements;
- The experience of foreign countries in state protection of agriculture was studied.

**Research methods.** During the research the system and complex approach, analytical and synthetic methods of financial science, induction and deduction methods, analysis of dynamics series, analytical-computational method, marketing observation, and also modern methods and tools of economic analysis were used. When developing theoretical and methodological approaches the works of local and foreign scientists on improving the financial mechanism of state regulation of agriculture were the main source of guidance. Alongside with this, while conducting the research the laws and normative-legal documents of the state regulation of agriculture in Azerbaijan, expert opinions, as well as methodological materials of relevant research institutes were also used.

**Main provisions to defense.** The following main provisions arising from the scientific innovations and results of the research are defended:

- As in all countries, also in Azerbaijan the agriculture, which is the main guarantor of food security of the population, needs comprehensive state support and is in constant need of it;

- specific features of the agrarian sector make state regulation inevitable;

- There are opportunities for partial application of some elements of international experience in state protection of agriculture in our country, and it is very useful to use them skillfully;

- In order to ensure sustainable reproduction in agriculture, state support and necessary interventions should be carried out mainly by economic means, primarily through financial mechanisms;

- There are specific difficulties in providing vital agricultural resources with financial resources in our country;

- There is a serious need to regulate this area financially and to improve the financial support mechanism provided to the sector from time to time;

- Measures of state financial support to the agricultural sector should be constantly strengthened, factors that hinder the development of this area must be eliminated, financial support mechanisms should be established and adjusted to the new requirements of each period;

- The lack of development of the insurance system in the direction of financial protection of agricultural producers in our country is a matter of concern, more attention should be paid to this area and a working mechanism for its implementation should be created;

- A favorable business and marketing environment must be created to improve the financial situation of agricultural producers;

- innovative development of the agrarian sphere is possible on the basis of allocating continuous sufficient financial resources to it, and ensuring a favorable position of agriculture in the intersectoral competition.

**The scientific innovation of the research** consists of the following:

- Factors making necessary the financial regulation of agriculture have been clarified, and on the basis of these factors, the development of a financial mechanism for agricultural development was justified;

- taking into account the challenges of modern times and global influences, the cell chart of theoretical and methodological approaches, principles and criteria of state regulation of agriculture were developed;

- The impact of the application of marketing in agricultural enterprises and organizations as a new management method on improving their financial condition was identified;

- There was reported the impact of formation of a favorable business environment on improvement of financial status of agricultural producers;

- state financial support to agriculture was assessed and the need for its improvement was substantiated;

- The main directions of the financial mechanism of state regulation of agriculture was identified;

- a new organizational and economic mechanism for state support of insurance activities in agriculture was proposed;

- The importance of the development and application of a special financial mechanism of state regulation and financial services is substantiated in the context of "green economy", "smart village" models of revival and development of agriculture in the liberated territories.

**Theoretical and practical importance of the research.** The usage of the proposals put forward in the paper can cause the improvement of financial resources of the agriculture in a whole, and enterprises and organizations busy in sector, and in such a way, can cause improving the competitiveness of both agriculture and agricultural enterprises and farms. New scientific approaches developed by the author on improving the financial mechanism in agriculture and increasing state support in this area can also be useful in the development of state programs and local projects. Use of the proposals put forward in the dissertation may at the same time result in more efficient use of state budget funds allocated for the protection of agriculture.

**Approval and implementation.** The subject of the dissertation discussed and approved in regular scientific seminars as a topical issue in accordance with the general direction of scientific



research in the Department of Finance and Banking at Azerbaijan Cooperation University.

The main provisions, results and recommendations of the research were reflected in the 6 articles in prestigious local and foreign journals, recommended by the Higher Attestation Commission, and in the materials of international scientific-practical conferences held by Institute of Economics of ANAS (October 12, 2017) and Azerbaijan Cooperation University (June 1-2, 2018). Among the published scientific papers there are 'Priority directions of state regulation of the agrarian industrial complex' (Baku, 2016), 'Necessity of state regulation of the agriculture' (Baku, 2017), 'Organization of financial mechanism of enterprises and farms operating in the agrarian sector' (Baku, 2018), 'Impact of state regulation on the stable development of the agriculture' (Moscow, 2019), 'Improvement of the state financial protection of the agriculture' (Baku, 2019).

Suggestions and recommendations made in the dissertation were accepted for use by Kurdamir Agrarian Science and Innovation Center under Ministry of Agriculture of the Republic of Azerbaijan.

**Name of the organization where the dissertation work is performed.** The dissertation was completed at the Azerbaijan Cooperation University.

**The total volume of the dissertation with signs, with indication of the volume of the structural units of the dissertation separately.** Cover and contents (2452 signs), introduction (13859 signs), Chapter I (85876 signs), Chapter II (49439 signs), Chapter III (83133 signs), Conclusion (17569 sign) and references (18405 signs), the total volume – 293927 signs. The volume of dissertation except the tables, pictures, references and abbreviation list is 252328 signs.

## **MAIN CONTENT OF THE DISSERTATION**

The **introduction** of the paper covers the relevance and degree of processing of the topic, object and subject of the research, its aim and tasks, methods, main content put forward for defense, scientific

innovation of the research, theoretical and practical importance, approbation and implementation, and etc.

In the Chapter I of the paper named **‘Scientific theoretical basis of the state regulation of the agriculture’** the support and regulation of this sector by the state bodies, the essence, necessity, form and methods were investigated, the system of indicators characterizing the financial situation of the agricultural enterprises and organizations was specified, The potential impact of state regulation on the sustainable development of agriculture was identified.

Due to the high strategic role and importance of agriculture in the economy of each country, one of the important conditions is application of state support mechanisms for the development of this field and implementation of regulatory measures. In most countries of the world agricultural production is regulated to one degree or another, and the development of this vital area is directed in the desired direction through necessary regulatory measures. The fact that the development of this sector is entirely under the influence of the market mechanism does not justify itself and causes the weakening of its position in the intersectoral competition. Such a situation limits the implementation of large-scale reproduction in agriculture and can result in a sharp decline in the production of vital products. Taking into account the mentioned above, there is a need for state regulation of agriculture, and it is possible to achieve the required volume and variety of agricultural and food products namely by implementation of state regulatory measures. Therefore, in most countries of the world, special attention is paid to the state regulation of agriculture. Agriculture is one of the few sectors of the economy that is strongly regulated by the state in both developed and developing countries. The factors determining the need for state regulation of agriculture can be summarized as follows: 1) failure to obtain income at a level that would allow large-scale reproduction; 2) non-justification of free (market) price formation in agriculture; 3) foreign trade arguments and 4) ecological argument.

After the transition to development based on market relations although the of agriculture in Azerbaijan is mainly under the

influence of the market mechanism the necessary regulatory measures have been implemented and are still having been implemented by the state in the direction of making adjustments to that mechanism. The implementation of these measures is also based on the above-mentioned arguments on the regulation of agriculture. As the first of these arguments, let us note that agricultural producers of our country can not earn enough income to implement the extensive recycling from product sales, and their activities need to be protected by the state.

The most important factor contributing to the low level of profitability of agricultural producers is the fact that the formation of prices in this area is not fully justified by the market mechanism. Thus, because of the low level of market prices for the formed products the level of income of producers is low, and this prevents them from resuming and expanding the production process. Laying the activity of agricultural producers in our country wholly on market mechanism may cause them to leave the market, and this means that the solution of the strategic problem of ensuring food security of our country is under threat. Therefore, the state regulation must complete the agricultural production, and at the same time the market regulation of the development of the agro-food complex as a whole, and they must be optimally coordinated with each other.

The measures taken by the state to regulate agricultural production can be divided into two groups: 1) strategic and 2) tactical regulatory measures. The main activities for these groups include: 1) support for scientific and technical progress and increase the efficiency of production on this basis; 2) protection of achieving equivalent commodity exchange between agriculture and industry sectors; 3) maintaining the interests of agricultural producers by ensuring the necessary level of their profitability and social protection; 4) prevention of excessive expansion of foreign producers into the domestic market, and ensuring the competitiveness of local producers in both domestic and foreign markets.

During last 10-15 years the measure taken on the agriculture production regulation by state have resulted in significant reduce of

the problems in terms of large-scale reproduction of some categories of farms operating in this sector.

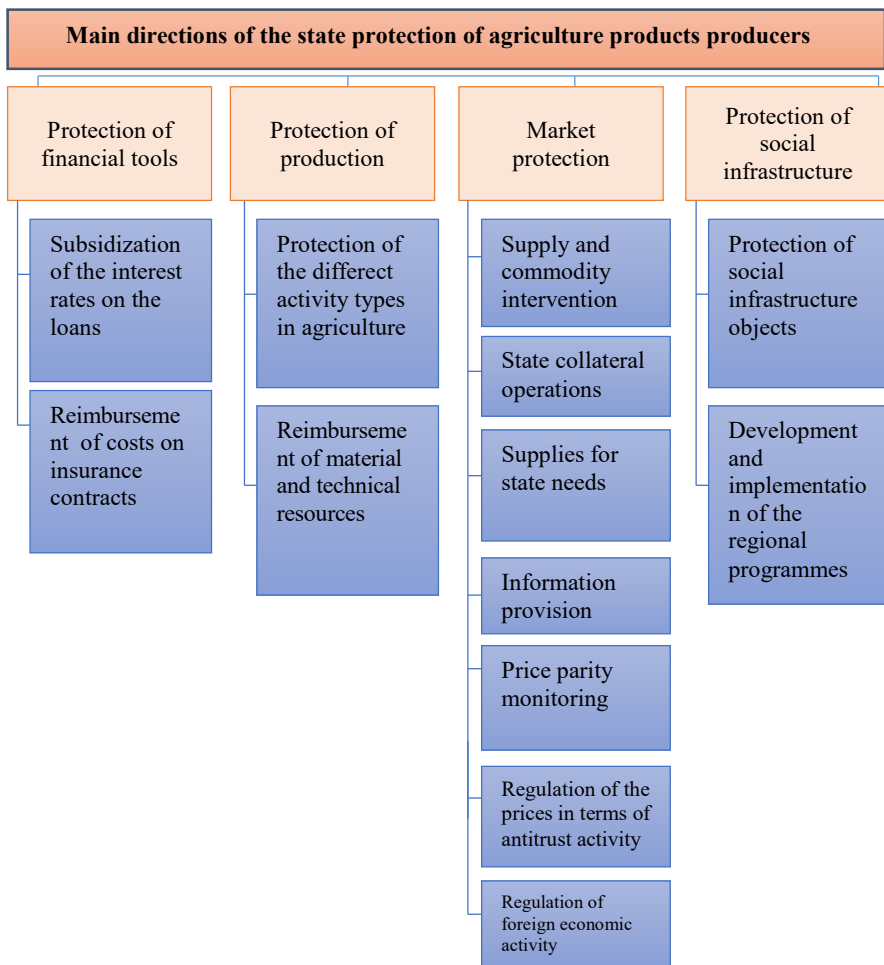
Without state regulation the desired development rate of the agriculture sector is a very hard issue. For this reason it is occur the necessity of protection of the development of this sector in a number of directions, which is of vital importance. One of this directions is financial protection of this sector, more properly of the commodity producers of the agriculture. Russian scientists D.K.Sanakoyeva, Y.A.Kolpakova and A.A.Tibilova differs four direction of the protection measures in this aspect, and presents the suggested model suitable for our country in Picture 1<sup>1</sup>.

As we can see from the Picture 1 we can differ two directions in financial protection of the commodity producers in agriculture sector. They are subsidization of the interest rates on loans issued to the product producers and compensation of insurance premiums. Facilitate access to credit for agricultural producers - providing them with loans at low interest rates is considered to be an important condition for the implementation of large-scale reproduction in agriculture.

Taking into consideration this point in the most countries of the world the interest rates paid on the loans taken by agriculture products producers are subsidized. To solve this problem the purposeful measures were taken in Azerbaijan, and there were formed institutions to provide low-interest loans to agricultural producers. The outstanding American economists K.R.Makkonnel, S.L.Brew and Sh.M.Flinn distinguish the short- and long-term aspects of the agriculture economy development. The mentioned aspects are also connected with the prices formed for agricultural products. They show the spottiness of the prices and incomes in agriculture by the analysis:

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<sup>1</sup> Sanakoeva D.K. Main directions in improvement of the state regulation of the agriculture. // D.K.Sanakoeva, E.A.Kolpakova, A.A. Tibilova / reporter of the Volgograd State University. Vol. 3, Economy, Ecology 2015. No.4 (33). - p. 161-169.

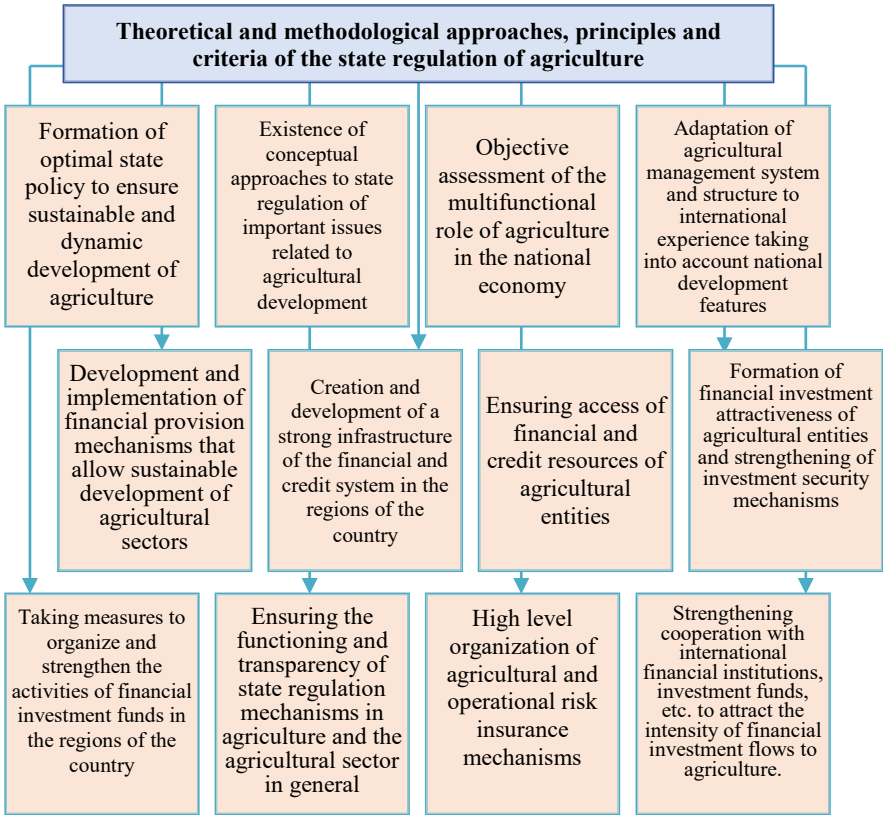


**Picture 1. Main directions of the state protection of agriculture products producers.**

*‘Spottiness of the prices and incomes in agriculture is explained with a number of factors: 1) inelasticity of demand for agricultural products; 2) fluctuations in the volume of products produced by farmers; 3) sliding demand curve for agricultural products’<sup>2</sup>. The organization of price monitoring is in fact necessary*

<sup>2</sup> Makkonel, K.R. Economics // K.R.Makkonel, S.L.Brew, Sh..M.Flinn / Moscow. INFRA – Moscow, 2011, 1009 p. – p.486.

for the development and implementation of price parity policy. Considering the realities and challenges of the recent period, the theoretical and methodological approaches of the state regulation of agriculture, the principles and criteria are given in the cell chart in Picture 2.



**Picture 2. The cell chart of theoretical and methodological approaches, principles and criteria of the state regulation of agriculture (prepared by the author).**

Complex and systematic review and assessment of the theoretical and methodological approaches, principles and criteria given in Picture 2 is very important.

It is worth to mention that, in the countries with developed market economy the large sums of money are allocated for the

functioning of the agricultural sector<sup>3</sup>. The share of these funds in the gross domestic product of these countries is quite high. For example, the share of the funds invested into financial protection of agriculture in the gross domestic product of those countries was %0,8 in Canada, % 0,3 in Australia, % 1,3 in EU countries, % 1,6 in Island, % 1,4 in Japan, % 4,5 in Korea, % 0,3 in New Zealand, % 1,5 Norway, % 2,0 Switzerland, and % 0,9 in USA. Although the developed countries that are members of the World Trade Organization continue to reduce their spending on agriculture in accordance with their obligations to this organization, for now, the amount of those funds remains high<sup>4</sup>.

The second chapter of the paper is named '**Current situation of the state regulation of agriculture in Azerbaijan**'. Here the agriculture production and tendency to change of its rationality is studied, the current situation of the financial mechanism of the state regulation of agriculture was assessed, the impact of favorable business environment to the financial situation of the product producers was widely analysed.

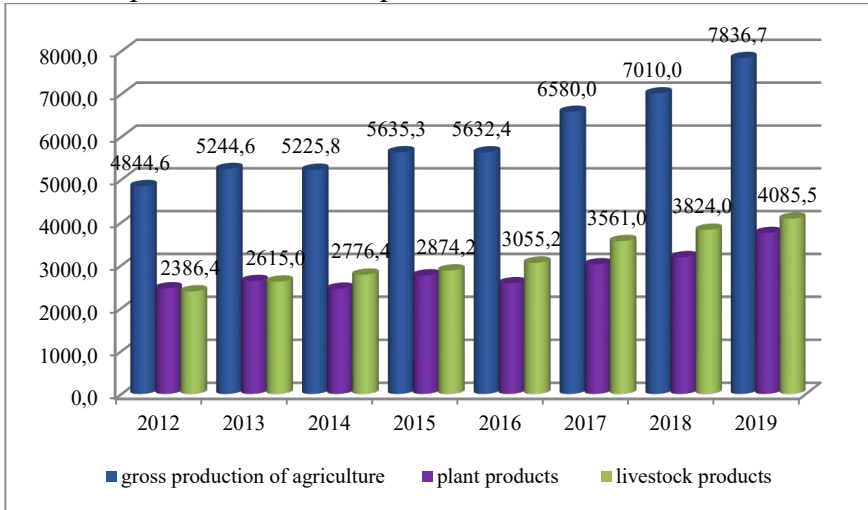
The agriculture is very important vital sector of economics. In this sector the large-scale reproduction of human labor directly depends on the volume and quality of products produced, and the satisfaction of physiological needs, based on their hierarchy, is met by the products of this field. Because of this in the world countries great attention is paid to the development of the agriculture, and necessary amount of financial funds are allocated for the provision of sustainable development of this sector. In our country also the agriculture is developed as a priority sector, and the state pays special attention to modernization of this sector; and this is as it should be, because high level provision of the economical independence of our country, as well as food independence as a part of it depends directly on development of this sector.

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<sup>3</sup> Vincent H. Smith, Joseph W. Glauber. Agricultural Insurance in Developed Countries: Where Have We Been and Where Are We Going? // Applied Economic Perspectives and Policy (Oxford University Press), Vol. 34, No. 3, 2012. – p. 363-390. – p. 367.

<sup>4</sup> Suppan, S. Agricultural finance for climate resilience: An assessment with policy options. Published September, 2020. –36 p.– p.14.

The value of gross production of agriculture, and also the volume of plant and livestock products are indicated in Picture 3.



**Picture 3. Gross production of the agriculture, mln manat.**  
 (Source: prepared by the author on the basis of SSC data.  
<https://www.stat.gov.az/source/agriculture/>).

If we review the analysis of Table 1, it can be seen that, if in 2005 the shares of plant and livestock in the gross production were % 53.6 and % 46.4 consequently, in 2017 the same indicators were % 45,9 and % 54,1, and in 2019 they composed % 47,9 and % 52,1.

**Table 1. The structure of the gross agriculture production, %**

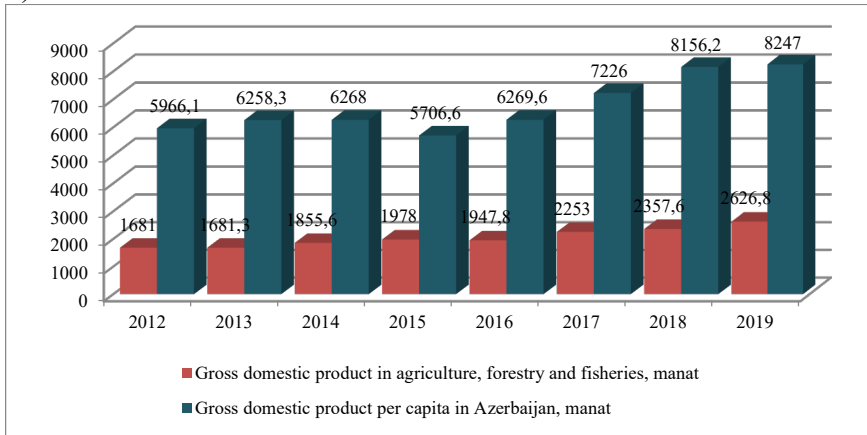
Years	Total	Separately	
		Plant products	Livestock products
2005	100,0	53,6	46,4
2010	100,0	51,6	48,4
2011	100,0	51,7	48,3
2012	100,0	50,7	49,3
2013	100,0	50,1	49,9
2014	100,0	46,9	53,1
2015	100,0	49,0	51,0
2016	100,0	45,8	54,2
2017	100,0	45,9	54,1
2018	100,0	45,4	54,6
2019	100,0	47,9	52,1

Source: Prepared by the author on the basis of SSC data – <https://www.stat.gov.az/source/agriculture/>.



So, we can conclude from this that the market opportunities opened for the listed producers are mostly related to those products. For the very reason agricultural producers prefer to allocate the resources at their disposal for the production of livestock products.

As it is known, one of the important indicators characterising the economical efficiency of the agriculture production is labor productivity. Although the country's GDP per capita is higher than the GDP per capita in agriculture, the GDP per capita in agriculture is higher due to the growth rate during the analyzed period. (Picture 4).



**Picture 4. Gross domestic product per capita in Azerbaijan, including agriculture, forestry and fisheries**

Source: Prepared by the author on the basis of SSC data – <https://www.stat.gov.az/source/agriculture/>.

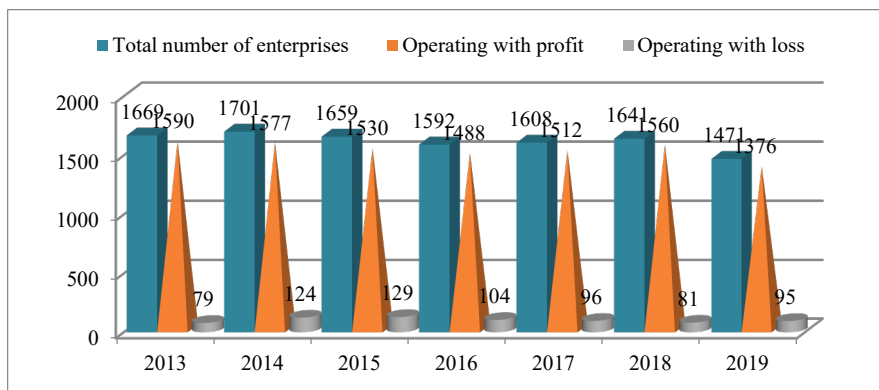
At present, the range of state protection measures in the field of agriculture is quite wide, and almost all of them have a great positive effect on the improvement of the financial situation of producers. These measures are grouped in the Strategic Roadmap for Agricultural Production and Processing as shown in the table below (Table 2).

Analysis of the financial condition of agricultural enterprises and farms are given in Picture 5 and Picture 6.

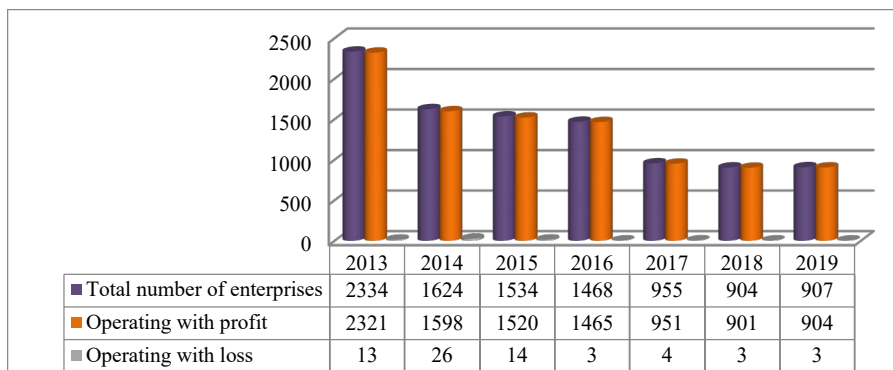
**Table 2. State support measures for agriculture sector**

State support measures for the sector in general	State support measures for plant production	State support measures for livestock production
<ul style="list-style-type: none"> <li>▪ Agriculture is exempt from taxes;</li> <li>▪ preferential loans are provided to producers from the budget;</li> <li>▪ customs preferences are applied to most means of production imported on production and processing industry of agricultural products;</li> <li>▪ 40% of the cost of agricultural machinery and equipment sold by “Aqrolizing” OJSC is paid from the budget and they are sold through leasing;</li> <li>▪ 50% of the calculated insurance premium for insurance of agricultural property and certain insured events is paid by the state.</li> </ul>	<ul style="list-style-type: none"> <li>▪ 50 subsidies are provided per hectare of sown areas (including re-sowing) in order to ensure that the state pays 50% of the cost of fuel and motor oils to be used for the production of agricultural products;</li> <li>▪ Processing enterprises are provided with a subsidy of 0.1 manat for each kg of cotton sold, 0.1 manat for each kg of dry tobacco, 0.05 manat for each 10 kg of wet tobacco</li> <li>The price of each 1000 m3 of irrigation water for those engaged in agricultural production was set at 0.5 manat;</li> <li>▪ “40% of modern irrigation equipment sold by “Agroleasing” OJSC is paid from the budget;</li> <li>▪ 70% of the cost of fertilizers, pesticides and industrially produced biofuels are paid from the state budget;</li> <li>▪ tsubsidies are provided for the production and sale of seeds and seedlings;</li> <li>▪ Measures to control quarantine and special dangerous pests of agricultural crops are financed from the state budget.</li> </ul>	<ul style="list-style-type: none"> <li>▪ “50% of the value of breeding goods imported by "Agroleasing" OJSC is paid from the budget and sold through leasing;</li> <li>▪ 100 manat subsidy is given to each calf obtained by artificial insemination;</li> <li>▪ Treatment, prevention and diagnostic measures against especially dangerous infectious diseases of animals (13 types of diseases) among all types of farm animals and birds are provided by the state.</li> </ul>

*Source: prepared by the author.*



**Picture 5. Agricultural enterprises operating with profit and loss**  
 (Source: prepared by the author on the basis of SSC data - <https://www.stat.gov.az/source/agriculture/>).



**Picture 6. Individual entrepreneurial farms operating with profit and loss**  
 (Source: prepared by the author on the basis of SSC data - <https://www.stat.gov.az/source/agriculture/>).

The amount of expenditures allocated from the state budget to agriculture as an important indicator from the point of view of protection and providing of agriculture with state financial resources is shown in Table 3.

As we can see, the percentage of expenditures on agriculture, forestry and fisheries from a year earlier in 2014 composed % 104.1, and demonstrated growth dynamics becoming in 2015 - % 116,1, in 2016 - % 101,5, in 2017 - % 136,4, in 2018 this indicator reduced

(%93,5), but in 2019-cu the increase composed % 115,7 (see: table 3).

*Table 3. Share of expenditures on agriculture, forestry and fisheries in GDP and state budget expenditures,%*

	2013	2014	2015	2016	2017	2018	2019
Expenditures allocated for agriculture, forestry and fisheries, thousand manat	483021,5	502644,4	583726,0	592176,1	807969,8	755282,7	874230,4
Growth of expenditures allocated for agriculture, forestry and fisheries, in comparison with the prior year	-	104,1	116,1	101,5	136,4	93,5	115,7
GDP, mln man.	58182,0	59014,0	54380,0	60425,2	70135,1	80092,0	81681,0
Ratio of Expenditures allocated for agriculture, forestry and fisheries to GDP,%	0,9	0,9	1,0	1,1	1,3	0,94	1,07
Ratio of Expenditures allocated for agriculture, forestry and fisheries to state budget expenditures, %	2,4	2,5	2,8	3,6	4,9	3,27	3,47

Source:prepared and calculated by the author on the basis of SSC data - <https://www.stat.gov.az>.

In the third chapter of the paper named ‘**Main priorities of improvement of the financial relations and state regulation in agriculture**’, the directions of financial mechanisms improvement of

the state regulation of agriculture sector were determined, the ways to strengthen the insurance system in agriculture were shown, the global experience in state protection of agriculture was studied, and the proposals for benefit from this experience in our country were suggested.

Due to the market relations the financial mechanism of the state regulation of the agriculture is formed on the basis of market demands. As to this mechanism, let us mention, that financial mechanism combines the planning of finance, methods and tools used in determination of the financial indicators level, as well as the methods used with this aim.

Development of agriculture market in Azerbaijan on the basis of market relations does not deny the planning of this sector, quite the opposite, due to the development of the sector through the planning, it is possible to avoid factors or threats that hinder the development of the field, and thus it is possible to enable it to develop at a higher pace. In this regard the strategic planning of the sector is used. This planning is the implementation of long-term goals.

It is very difficult to imagine a financial mechanism in agriculture without its organization. For this reason one of the component of this mechanism is its organization. By financial organization it is meant the people or groups union implementing the financial program on the basis of certain rules and regularities<sup>5</sup>. Formation of the management bodies, formation of the executive personnel structure, determination of the mutual relations between the management units, and also development of the norms and acts and etc. can be ascribed to these rules and procedures. Namely on account of the mentioned the organization of the financial mechanism and implementation of the financial measures become possible. The regional organization of the finance is also important. Implementation of the measures for development of different regions, structural units responsible for the implementation of these measures, as well as issues of financial provision for implementation of the measures are reflected

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<sup>5</sup> Atashov, B.Kh. Financial markets. / B.Kh. Atashov – Baku, “Cooperation publishing house”, 2016. – 456 p.

in the State Programs prepared for the regional development in our country. All these reflects the issues of organization of the financial aspects of the implementation of he programs on regionall development, and creates conditions for their implementation.

Financial regulation serve as a component of state regulation system of agriculture or as one of the elements. Relevant government agencies create the necessary conditions for the development of this sector through the development and implementation of measures aimed at improving the financial condition of agricultural enterprises and farms through financial regulation. From this point of view one of the components of financial mechanism of the agriculture is its state regulation. By means of financial system regulation the enterprises and farms producing the agricultural products are reasonably influensed, and sustainability of their financial status is provided<sup>6</sup>. The role of insurance factor in development of the agriculture is huge, and the development of the agrarian insurance system in our country is also conditioned by the low level of insurance coverage of enterprises and organizations operating in this field. Thus, a few percent of agricultural plants are insured, and this indicator is many times lower than in the developed market economies. At the same time this is also applicable to the insured animals. As to thesee indicators in the developed countries, thir leve is very high. For example, it seems fair to say that more than % 80 of the sown areas in the USA (it refers to the sown areas of most plants) are insured<sup>7</sup>. The level of this indicator in neighboring Russia – i.e. insurance of the agricultural sown areas is around % 20. But in this country only % 3 of the agriculture enterprises and organizations are insured, and in this regard surrounded by protective measures by the state<sup>8</sup>. In general, in regards to solve the insurance problems in

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<sup>6</sup> Minakov I.A., Kuvshinov V.A. State support to agriculture of the region in the context of the implementation of the import substitution strategy //Agroproductional policy of Russia. – 2017. – No. 7 (67). – p. 57-63.– p.59.

<sup>7</sup> Daniel A. Sumner., Davis and Carl Zulauf. Economic & Environmental Effects of Agricultural Insurance Programs./ University of California; Ohio State University July 2012. – 20 p.– p.12.

<sup>8</sup> Aleskerova Y.V. Agroinsurance as a tool of risk management in agriculture // Економіка АПК, 2014, No.12. –p. 62-69.– p.65.

agriculture the implementation of the following proposals is expedient: 1) the perfect legal framework that can protect the interests of each of the insurance participants must be improved; 2) the creation of a real statistical base on the conditions of cultivation of agricultural plants should be accelerated (retrospective information on soil condition, climatic conditions, plant species, technological processes, level of productivity, level of damage, etc.); 3) creation of a special fund by combining financial funds to eliminate the damage caused in case of force majeure or reinsurance operations must be carried out with the guarantee of the state; 4) development and approval of rules or procedures related to agrarian insurance and compensation of losses of agricultural producers should be in the focus of attention and 5) Representatives of insurance companies, employees of public authorities in the field of agrarian insurance should be regularly imparted specific knowledge on agricultural insurance. The practical realization of these listed proposals can provide the impetus for formation of the excellent insurance system on agrarian sector of Azerbaijan.

One more issue needs a special attitude, thus, in 2020 we witnessed a historic victory for our country, and Garabagh region, which possesses quite high potential of development and strengthening of agriculture, was liberated. As a result of the occupation, our country has suffered extensive damage, and restoration of these areas requires a large amount of financial resources. Accelerating revitalization in these areas requires more efficient and effective, as well as affordable financial mechanisms. Undoubtedly, first of all to this end financial mechanisms and services should be put into circulation as soon as possible through state regulation. Alongside with this, there is a large necessity in determination of the alternative financial resources in intensification of agriculture development in the region. At the same time the rehabilitation of the liberated areas and their development was reviewed on the strategic level in National Priorities on social economic development of our state economic system will 2030, and clean environment in the Garabagh region, the emphasis on the concept of "green growth", the organization of the development of

agriculture and the agrarian sector in this area in accordance with world experience is insured<sup>9</sup>. It means that the preference will be given to more natural products, protection of natural features of territories, increase of productivity, creation of more efficient agricultural enterprises and farms. In exchange these makes creation of maximum favorable investment climate and expansion of financial services to be important.

Thus, for reaching the sustainable development on the different important directions of the agriculture and agrarian sector in a whole, the systematic measure at both micro and macro level should be implemented and these measures should accomplish each other. In a certain way this embodies the actions based on partnership between the state agrarian market subjects for provision of sustainable development and etc.

**In the ‘Conclusion’ chapter of the paper the proposals and recommendations of scientific and practical significance arising from the essence of the research are covered:**

1. Under the conditions of market relations, the development of the agriculture entirely under the influence of the supply-demand mechanism does not allow the formation of sufficient financial resources in this sector. As a sector of vital importance the lack of financial resources in agriculture cause problems from the point of view of implementation of extensive reproduction. For this reason, there is a serious need in regulation of this sector from the financial point of view, and improvement of the financial support mechanism for this sector.
2. When talking about the state regulation of agriculture, it is considered the purposful influence from the point of view of directing the development of this area to the desired course. Without such kind of impacts it is not possible to provide the competitiveness of the agriculture in comparison with the other sectors of the economics. From this point of view the state regulation

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<sup>9</sup> Azerbaijan 2030: National Priorities on social-economic development. Approved by the Decree of the President of the Republic of Azerbaijan dated after February 2, 2021: [E-resource] / <https://president.az/articles/50474>.



of agriculture is necessary in a certain way, Regulatory measures should be strengthened when the market mechanism shows slowdown in the development of this sector.

3. One of the important directions in state protection of agriculture is organization of financial protection of the commodity producers operating in this sector, and improvement of the implemented mechanisms this time. It is reasonable to divide the implemented protection measures in two directions. The first of them is subsidizing the interest rates that producers will pay on loans; the second one is reimbursement of a certain part of the costs related to the payment of insurance premiums by the state to insure against various risks in this area.

4. Measures to indirectly protect agricultural producers also have an impact on improving their financial situation. Among these measures we can mention the provision of producers with advanced material and technical resources. Last years in direction of bringing the products manufactured by the world's leading technical resource companies to our country by 'Aqrolizing' OJSC, and offering them to producers huge works were done. However, the supply of technical resources to agricultural producers is still low compared to countries with developed market economies. The solution to the problem in this area can be the organization of production of technical resources that can meet the needs of small farms in our country. The solution of this problem can ensure the sustainability of their financial position.

5. Improving the financial situation of agricultural producers can be imagined in a favorable business and marketing environment. Thus, sometimes enterprises and farms do not have detailed information on which products are most needed for production. This leads to the fact that their decisions on production and sales activities are unfounded. Prevention of this can be possible by means of delivery of operational marketing information to agricultural producers. The study of the experience of developed countries in this field and its application in Azerbaijan can give positive results.

6. In recent years, the measures to protect the agriculture in Azerbaijan by the state was more strengthened. This is also

confirmed by the growing amount of funds allocated from the state budget for the development of agriculture. Against the background of increasing government funding for agricultural development, achieving more efficient use of these funds is possible on the basis of improving the financial mechanism.

7. Among the state defense measures aimed at the development of plant production we can attribute the subsidization of fuel and motor oils to be used in this sector, providing additional funds to producers in exchange for the sale of cotton and tobacco to be sold to processing enterprises, sale of irrigation water to producers at discounted prices, payment in amount of 70% of the cost of fertilizers, pesticides and industrially produced biohumus from the state budget and etc.

8. Among the state defense measures aimed at the development of livestock production we can attribute the reimbursement of 50% of imported breeding cattle at the expense of the state budget, and leasing them to producers, subsidy of one hundred manats for each calf obtained by artificial insemination, ensuring the prevention of the spread of infectious diseases of animals and birds with state budget funds.

9. In recent years although the increase of the protection measures directed to the agriculture development enhanced the specter of measures implemented in this sector, making of some of those measures public was not allowed. And it was caused by absence of working mechanisms for these measures. Among these measures we can mention insurance of various risks that producers may face in agriculture. Thus, mass insurance of property, animals and sown areas was not achieved in this area. Under such conditions, it is very hard to talk about the sustainable development of agriculture and agrarian industrial sector in a whole. For this reason this problem have to be solved urgently by development of the working financial mechanism.

10. In the measures on regulation, innovation or further improvement of the financial mechanism of the state regulation of agriculture adequate to the present global tensions and transformations the real potential and features of the development of

this field in our country should be studied in more depth, assessed and maximum effective measures should be taken while using international best practices.

11. Development and implementation of special financial mechanisms should be provided for the liberated territories without delay. To do this, within the requirements of the "green economy", "smart village" models an investment climate must be created in the Garabagh region, financial and credit infrastructure should be formed, a network of relevant financial and credit institutions should be established, state support mechanisms should be applied to stimulate the expansion of the financial services package, and in general the level of efficiency and accessibility of important financial services must be ensured, etc.

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2. Marketing as a tool of ensuring the financial sustainability of agricultural enterprises and farms / Proceedings of the international scientific-practical conference dedicated to the 70th anniversary of prof. Akif Musayev's birth, correspondent member of ANSA, PhD in Economics. Baku, October 12, 2017. - p. 354-355.
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