



# **The Ministry of Education of Azerbaijan Republic**

**The Effects of agricultural incentives on the agricultural small and  
medium sized enterprises by using evidence Azerbaijan agricultural  
market**

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## **List of Abbreviations**

<b>NGO</b>	Non Governmental Organizations
<b>GTZ</b>	German Organisation for Technical Cooperation
<b>SCD</b>	Systematic Country Diagnostic
<b>WBG</b>	World Bank Group
<b>CPF</b>	Country Partnership Framework
<b>FAO</b> Nations	Food and Agricultural Organization of the United Nations
<b>ANFES</b>	The Republic of Azerbaijan Ministry of Economy National fund for Entrepreneurship Support
<b>EU</b>	European Union
<b>IRDP</b>	Integrated Rural Development Project
<b>IFAD</b>	International Fund for Agricultural Development
<b>WUA</b>	Water Users Association
<b>O&amp;M</b>	Operation and Maintenance
<b>TICA</b>	Thailand International Cooperation Agency
<b>USAID</b>	United States Agency for International Development
<b>CIRC</b> <b>FIIS</b>	China Insurance Regulatory Commission Farmer Income Insurance Scheme
<b>OJSC</b>	Open joint-stock company
<b>IMF</b>	International Monetary Fund

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## **Introduction**

Agriculture can be characterized as assessing, producing, protecting, and marketing of vegetable products and through processing of soil. Extremely diverse

soil and climatic conditions have led to the development of rich vegetation, which proves that Azerbaijan is one of the main centers of crop production (including grain). Azerbaijan is one of the richest countries in the world due to its diversity of vegetation. About 70 percent of the vegetation in the Caucasus flora is here. There are over 4,500 plant species in the country, including fruits, berries, vegetables and garden plants.

Agriculture is a traditional production area of Azerbaijan. Historically, vineyards, silkworm and fruits are widely spread here. As a large part of the country has mountainous relief, livestock plays a vital role in the lives of people living here. The development of malnutrition, in turn, contributed to the growth of carpet weaving and carpet weaving. At that time, high quality carpets, wines, leather, silk products were exported from Azerbaijan to Europe and to the East.

The economy of the republic in the 1960s, and one of its main field agriculture was in a long crisis and decline. The average annual growth rate of gross agricultural output was lower than in other republics. Certain and serious measures have been taken to eliminate the deficiencies in the development of the country's economy, increase the responsibility of the staff. In 1970-1975, the growth rate of agricultural production in Azerbaijan reached 34 %

A tough task for the tenth Five (1976 - 1980) was the task of achieving rapid agricultural development by expanding the application of intensive factors and enhancing productivity, and the alliance's leadership was given specific recommendations. In July 1970, the Council of Ministers of the Soviet Communist Party and the USSR Council of Ministers on "Measures to Improve Agricultural Sector of Azerbaijan SSR", July 1975, "On Measures to Intensify Agricultural Production in the Azerbaijan SSR" and in 1979 Decisions were made in February of this year on measures to further improve the agricultural production in Azerbaijan SSR, to develop vineyards and winemaking. The improvements in all

areas of agriculture radically changed the social-economic image of the Azerbaijani village, and the country turned into an agrarian-industrial republic as a whole.

In the early 1990s, Azerbaijan's economy was in full depression. This decline had a great impact on agriculture. The production structure collapsed, the potential created by the work of several generations reached the limit of destruction. Only in the period of 1990 - 1995 the production of agricultural products decreased by 58%

Heydar Aliyev said at the meeting held in the Presidential Palace in March 1994: "As you know, our republic is in a severe economic and social crisis. This crisis, which covers all the spheres of the economy and social life of the Republic, is increasingly deepening, and its negative impact on the life of the country is intensifying.

Heydar Aliyev saw the solution of these problems in the privatization of agrarian reforms and property. Hundreds of decrees, decrees, laws, decisions and other normative-legal documents on reforming and further deepening of the agrarian sector, formation of property relations and entrepreneurship were adopted, the formation of new property relations in the agrarian sector and the introduction of various types of economic subjects, state support directions and legal basis for the state regulation of the agrarian market.

If the volume of gross output in agriculture declined from 1992 to 1995, this figure was increasing year by year (excluding 1997), from 7.0 in 1999 to 2001; 12.1; 11.1 percent increase

In order to ensure fair distribution of property, the Decree of the President of the Republic of Azerbaijan dated January 10, 1997 "Rules for the distribution of property in rural enterprises and one of their parts to municipal ownership" were approved

The Law on Land Reform, adopted on 16 July 1996, was aimed at creating new property relations on the ground of freedom and social justice, developing market economy, achieving economic independence of the country, including food security. For this purpose, three states, municipalities and private ownership forms have been identified on the land. The State Program on deepening Agrarian reforms and assisting the Development of Entrepreneurship in Agriculture was adopted in 1999-2000 by the Decree of the President of the Republic of Azerbaijan dated November 9, 1999.

In the first phase of Agrarian Reforms, 1995-2003, the sense of land and property stability in the rural population has increased, population propensity psychology, people's free activity, creativity, new production relationships in agrarian sector, market economy elements, technology and technology has been expanded, reduced costs for product unit, increased savings, increased control over wastefulness, improved access to land and property in agriculture, prevented economic recession, created dynamic development of production

236 million manat (5 percent) of total production output of 4525.2 million manat produced in 2011 was produced in agricultural enterprises, the remaining 4289.2 million manat (95 percent) were individual entrepreneurs, family-peasant, households and others.

Researches show that most of these households are unable to achieve successful results in agribusiness because of the lack of relevant knowledge, skills and expertise in agriculture, and small-scale farms formed on the basis of pay lands due to voluntary non-co-operation. Therefore, the integration of small-scale farms into cooperative cooperation has become an objective necessity to ensure the food security of the country, to increase the share of agriculture in the gross domestic product, and to ensure the intensive development of production. Based on the experiences of foreign countries, certain work should be done to combine small-scale farms in voluntary cooperation.



## *Chapter 1*

### *1. The conceptual explanation regarding Agriculture and Incentives*

The Azerbaijani Agricultural Industry has an important role in Azerbaijan Economy, because it has contribution to labor force, GNP, and exporting in Azerbaijan. Agriculture is Azerbaijan's largest employer field approximately 40 percent of the working population making some part of their living in agriculture. Agriculture can be defined as producing, protecting, evaluating and marketing of vegetable products and animal products through processing of soil. Although macroeconomic indicators of non-agricultural industries in Azerbaijan is well developed, the effects of the agricultural industry on the economy is much more important than those of other main-stream industries, and agricultural industry still remains to be a potential industry of the Azerbaijan economy. However, there are significant barriers to growth in the sector, which comprises only 6 percent of GDP

Agriculture is one of the most crucial sources of resources for Azerbaijan, especially in rural areas. Agriculture provides a labor force, raw materials for agricultural industry, food and nutrition for people and for exporting. Although Azerbaijan has rich natural and human resources, the Azerbaijan Agricultural Industry did not reach its potential. From 1930's to the current years, there have been various agricultural incentives given by the government. Unfortunately, these agricultural incentives were governed along incapable insurance policies and were insufficient overall, due to the fact there have been not advantageous system applications or so had been a lot about structural issues inside the agricultural industry. For example, one of the most crucial structural problems of the industry is that the agricultural industry has a very small size of farm businesses.

Most of them are family-owned farms, and most of the small family farms produce for themselves, in other words, they cannot produce for the agrarian market. Other issues include, but not restricted to, mismanagement of these

incentives and the misbehavior of the farmers. Along with solving these problems, and for the development of the agricultural industry in Azerbaijan, many national and international actors/entities have provided agricultural support programs for a long time.

Post-Soviet land reforms that are divided small land plots (one to three hectares) out to individual farmers created structural barriers to large-scale agriculture, which restrain the market from the equipment or methods used in large-scale agricultural business. Lack of adequate record keeping and titling of land are also making problems to even small-scale consolidation of agricultural plots. Access to finance is a persistent challenge for the owners of small and medium-sized land plots. A lack of agricultural experts and specialists also poses significant challenges to development in agriculture. The Azerbaijan State Agricultural University, which is situated in Ganja, is the only university that specialized in agriculture. Despite government subsidies to farmers, food imports from Georgia are a significant part of this market sector. Furthermore, the deterioration of Soviet-era irrigation systems has led to the salinization of large parts of farmland areas, which will require big investments to repair and may give a specialty market to banding together with the administration on reestablishing the arable land.

"Agriculture is a very important area of our economy. It is also a social sphere. Almost half of the population lives in rural areas, and we have to pay attention to this area"

Ilham Aliyev

"Our land, air, water area should be directed to the rapid increase of agricultural production in Azerbaijan."

Heydar Aliyev

"The non-oil sector is the future of Azerbaijan, the main condition for the comprehensive development of Azerbaijan's economy."

Ilham Aliyev

Let's note that in 2015, the share of agriculture in GDP in our country is 6.2%, in 2017 it is 5.6%. The value of gross agricultural output for January-October, 2017, is estimated at 5,780 billion manat, including 2929.1 million manat livestock, \$ 2850.9 million and the share of plant products. Compared to January-October 2016, the gross output of agriculture increased by 4%, including the production of livestock products by 2.8%, and the production of plant products by 5.3%.

Between January-October months 2017, 885.900 tons of potatoes or 0.7% more potatoes than in the corresponding period last year, 1 mln. 316,600 tons (9.2% more) vegetables and 437,400 tons (5.8% less) were harvested. At the same time, the average yield of the hectare increased by 11 centners per potato, 27 centners on vegetables, 11 centners on melon products, and amounted to 151, 191 and 187 centners respectively.

In 2017, a total of 136.4 thousand hectares of cotton, 14.9 thousand hectares of sunflower 14.1 thousand hectares of sugar beet and 3.2 thousand hectares of tobacco were planted. In January-October, 154,300 tons of cotton or 3.5 times more cotton than the same period last year, sunflower from 29,900 tons (74.9% more), 275,700 tons (2.4 more than once) and 4.5 thousand tons of tobacco leaf (31.2% more) were collected.

720,000 tons of fruits and berries, 135,600 tons of grapes, and 702.9 tons of green tea (about 28.6% less) were collected during the reporting period.

Relevant work is being done in the farms for the production of 2018. A total of 781.5 thousand hectares have been pumped out for the sowing campaigns of the current year, including clean seeds. For the harvest of next year, 455.6 thousand

hectares of land have been slaughtered. 290 thousand hectares or 63.7% of the total sown area are wheat, 162.4 thousand hectares or 35.6% of barley cultivated.

In January-October of the current year meat production increased by 3.4% to 405.2 thousand tons, dairy production increased by 0.6% to 1 million 682,800 tons, egg production increased by 7.5 % to \$ 1 billion 446.6 million and wool production by 4% to 15,800 tons.

At present, one of the main problems in the intensive development of livestock breeding in our republic is the poor feed base. Improve the livestock feed supply on the import account will have a significant impact on the profitability of the field. For example, recent problems in the poultry sector are an obvious example. It should be noted that in recent years, animal feed has become one of the fastest growing components in global exports. Increased demand for food around the world. It is necessary to implement a more flexible policy on the development of this sector in Azerbaijan.

In addition, 245.2 tons of barley was produced in the country.

## *1.1 The Determinants of the Agricultural Activities*

### *1.1.1 Human Resources*

The development of the regions of the Republic of Azerbaijan is an important component of the sustainable socio-economic development strategy that has been successfully implemented in the country. The third largest field in employment after the oil and construction sectors in the Azerbaijani economy is agriculture which takes the largest part of job placement (39.1% of all employed in agriculture in 2006 and only 1% in the oil sector). At the same time, this area is also an area

that has a substantial impact on poverty reduction in rural areas.



**Graph 1:** Employment in agriculture (% of total employment) in Azerbaijan

Implementation of the state programs adopted in successful and successfully implemented state programs, as well as in the decrees related to additional socio-economic development of the regions, contributes to the sustainable development of the non-oil sector in the country, the improvement of the quality of public services and social infrastructure in the regions, further improvement of the business environment, to increase investment, to open new businesses and businesses, to increase employment and reduce poverty.

As a result of purposeful measures implemented in this period, more than 1.2 million new jobs were created in the country, 900 thousand permanent ones, 55.6 thousand enterprises were created, unemployment reduced to 5 percent, and the poverty rate decreased to 5.3 percent.

Due to the having nearly 10 million inhabitants with a high proportion of it being young, Azerbaijan is a country that has very significant potential labor force. Agricultural industry in Azerbaijan has kept its role as a fundamental employer and provided to GNP throughout the years. Almost all of the rural population works in farms in Azerbaijan. Moreover considering the industrial distribution of Azerbaijan

employment population, the agricultural industry has a very high percentage. The number of economically active population in Azerbaijan is about 50% of the total population.

According to the statistics of 2016 workforce in agriculture, forestry and fishing spheres is 1729,6 people, which is 36 % of working population in Azerbaijan, the ratio of working population in industry is 6 percent, and the ratio of working population in services is 58 percent. The function of agriculture is not only to reserve labor force but also to restrain the rural-urban immigration (Wibberley and Turner 2006). While the ratio of working population in agriculture was 31 % in 1991s, the ratio increased in 56 % in 2009.

<b>Types of economic activities</b>	2005	2010	2012	2013	2014	2015	2016
In economy - total	4062,3	4329,1	4445,3	4521	4602	4671,6	4759,9
<b><i>Agriculture, forestry and fishing</i></b>	1573,6	1655,0	1673,8	1677	1691	1698,4	1729,6
Mining industry	42,3	41,5	41,8	42,3	41,5	39,1	38,1
Processing industry	198,4	208,9	215,6	224,1	227	229,8	242,2
Production, distribution and supply of electricity, gas and steam	27,9	30,6	31,2	32,3	29,8	27,1	27,3
Water supply, wastewater treatment and treatment	23,9	25,2	24,7	25,7	25,8	25,4	30,6
Construction	211,9	287,5	321,8	325,5	334	336,4	343,8
Trade; repair of vehicles	634,8	626,7	646,8	664,0	681	693,7	699,6
Transportation and storage	174,6	179,1	182,7	183,8	185	197,1	198,4
Placement of tourists and public catering	25,1	46,9	48,9	49,2	55,7	61,5	68,4
Information and communication	32,3	55,8	58,7	58,1	59,2	60,3	61,2
Financial and insurance activities	18,1	24,4	26,9	30,6	32,8	33,0	27,1
Professional, scientific and technical activities	43,4	45,6	54,6	56,3	58,5	59,6	68,4
Education	345,1	349,8	349,0	366,2	367	373,5	374,8
Health and social services to the population	188,8	170,3	165,4	171,8	176	180,8	185,6
Activities in the field of leisure, entertainment and art	52,4	59,6	61,1	61,8	67,8	69,6	77,4

**Table 1:** Classification of Human Resources in Azerbaijan by their speciality

### *1.1.2 Land, Agricultural Equipment and Machines, and Capital Accumulation*

The advancement in agricultural sector of Azerbaijan is directly dependent on the landform, agricultural equipment and machines, and capital. Moreover, the agricultural enterprises additionally are reliant to the factors that are mentioned in the past section. Because of these relations between these components, I will consider these factors all together in this section.

In Azerbaijan, farms are mainly family-owned and fragmented. Which is the reason, the agricultural business in Azerbaijan comprises of regularly small businesses in terms of economical size. 66.8% of specialized agricultural producers are domestic peasants, 32.8% - households and 0.2% - peasant farms. In addition, the country has 78,648 households engaged in the production, processing and sale of various types of agricultural products.

The results of having small-agricultural organizations are loss of land, the difficulties of implementing industrial size machines wasteful utilization of fuel, and capital, along with labor force. To sum up, it makes the production and efficiency diminish on a greater scale. The absolute amount of land plots owned and rented by agricultural producers is 2324,2 thousand hectares. 69.3% of the households are households, 11.4% of households and 2% of peasant farms. Each agricultural producer has an average of 1.92 hectares of land. Only 16.0% of farms use mineral fertilizers and 32.0% of organic fertilizers. 80 million manat was allocated from the state budget for 2007 to ensure that the average cost of fuel used by the agricultural producers for their production, motor oils and mineral fertilizers is 50 percent. Technical services have been established in 48 regions of the republic.

On the other hand, the larger farmers who have above 20 hectares of land constitute 5 percent of the property; possess 35 percent of the land, 17 percent of the sheep, and 10 percent of the dairy cattle (Burell A. also, Kurzweil M. 2007). Thinking about the distribution quality of land owned by the farmers, we

understand that, the greater part of the small farmers together, cultivated just 22 percent of the land, and 30 percent of the irrigated land. The farmers who possess more than 50 hectares of land cultivated have more than 15 percent of the land and about 15 percent of the irrigated land. As can be derived, the shares of the irrigated land in the total area declined, however, the size of the farms inclined. There are a few reasons;

1) The first reason of it is the irrigation intensity in small vegetable gardens

2) The second reason is larger lands irrigate from dams and artificial lakes which is constructed and subsidized by the Azerbaijan Government

Furthermore, the smaller lands irrigated from wells which are constructed by the budget of these farmers

Years	Cereals and cereal legumes	Cotton	Tobacco	Potato	Vegetables	Vegetable garden plants
1991	1346,4	539,7	57,3	179,9	805,3	61,9
1995	921,4	274,1	11,7	155,5	424,1	41,9
2000	1540,2	91,5	17,3	469,0	780,8	261,0
2009	2988,3	31,9	2,6	983,0	1178,6	410,8
2010	2000,5	38,2	3,2	953,7	1189,5	433,6
2011	2458,4	66,4	3,6	938,5	1214,8	478,0
2012	2802,2	57,0	4,3	968,5	1216,2	428,0
2013	2955,3	45,2	3,5	992,8	1236,3	429,8
2014	2383,3	41,0	2,9	819,3	1187,7	440,9
2015	2999,4	35,2	3,5	839,8	1275,3	484,5
2016	3065,1	89,4	3,6	902,4	1270,6	464,8

**Table 2:** Classification of techniques by their harvesting products

Agricultural mechanization is a field which produces the power plants, machines, and equipment. Because of the market size and the importance role of agriculture in Azerbaijan Economy, the agricultural machinery industry has grown over the last decades. During the recent years the numbers of manufactured machinery has increased which regarding in agricultural sectors. It is one of the consequences of industrialization period and improvement in the modern agricultural techniques. These are agricultural power suppliers and equipment, transporting and loading



equipment, land reclamation equipment, tillage equipment, sowing, planting, and fertilizing equipment, row crop husbandry equipment, plant protection and irrigation tools and equipment, harvesting tools, and etc.

Indicator	1995	1999	2005	2009	2010	2011	2014	2015	2016
<i>Tractors (unit)</i>	33174	9500	14887	21542	21258	21404	23090	12262	17043
<i>Plows (unit)</i>	8770	6477	3019	3326	3344	3324	5507	570	1002
<i>Cultivators (unit)</i>	4512	4180	1009	987	939	902	711	49	79
<i>Seeders (unit)</i>	6702	4897	1412	1965	1844	1911	2051	185	294
<i>Brush cutter (unit)</i>	2088	1296	1056	901	873	882	1393	90	128
<i>Solid mineral fertilizers dispersing machines (unit)</i>	1676	1086	135	111	112	114	245	19	54
<i>Buckwheat combines (unit)</i>	4273	3634	1298	2176	1928	1776	2218	658	1285
<i>Corn harvester combine (unit)</i>	239	158	43	7	5	4	7	2	2
<i>Combine Harvesters (unit)</i>	1075	640	139	690	661	681	616	317	441
<i>Potato machines (units)</i>	13	0	10	20	20	21	39	4	5
<i>Cotton Combines (units)</i>	2653	1751	22	0	0	38	86	86	0
<i>Beetroot machines (units)</i>	19	12	16	7	9	9	9	6	0
<i>Sprinkler and polishing machines (units)</i>	4247	0	201	659	624	629	848	82	683
<i>Grass Pressing Combine(units)</i>	3269	1984	903	1537	1501	1516	1727	476	130

**Table 3:** Park of the main types of agricultural machinery at the end of the year

In 2016, 9877 units of agricultural machinery were imported to the country for the purpose of improving the supply of the necessary equipment to the producers to ensure quality harvesting in the agrarian sector and ensuring its uninterrupted harvest.

According to the State Statistical Committee, by the year 2017 Agroleasing OJSC has increased the production of agricultural products to 130.8 mln. In total, AZN 269.4 mln, including AZN 1 million. Agricultural machinery and equipment worth AZN 1 million were sold.

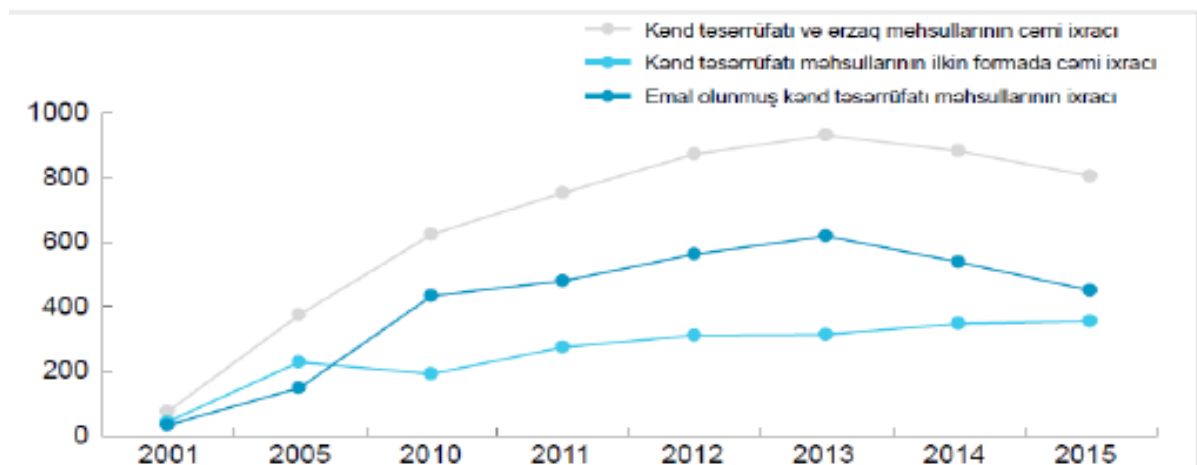
## *1.2. Azerbaijan Import and Export*

The independence of Azerbaijan has expanded its economic and foreign trade relations with its neighbors and countries around the world. The measures taken in

foreign trade led to the transformation of the foreign trade sector into one of the leading sectors of the country's economy and the expansion of foreign trade relations. The country's free economy, development of the private sector, political and economic prestige of the country and favorable geographical position of the country have created an excellent opportunity to increase the volume and volume of foreign trade.

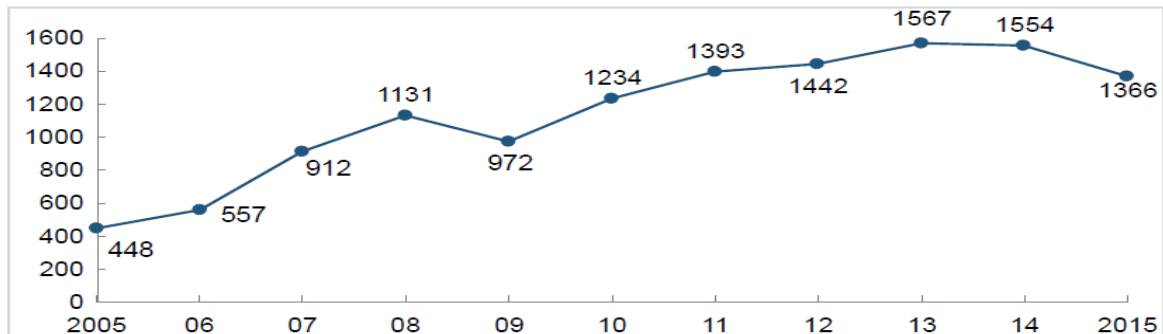
As for exports of agricultural products, exports of fruit and vegetable products in 2015 amounted to 312 million dollars. USA. In January-June 2016, agricultural products were exported to the amount of 190.2 million dollars. USA. The volume of exports of agricultural products increased by 33.5 percent in value terms compared to the same period last year.

There is an increase in the export of fruits and vegetables and, in parallel, this sector's share in the structure of exports is increasing. Thus, the share of fruit and vegetable exports in the first six months of 2015 was 1.1 percent, 2.0 percent during the six months of 2016, and rose to 4.4 percent in the same period of 2017. In 2018, exports of fruits and vegetables amounted to 3.36% of total exports, and crude oil - 84.22% as always became the leader in Azerbaijan's exports



**Graph 2:** Export of agricultural and food products (in millions of US dollars)

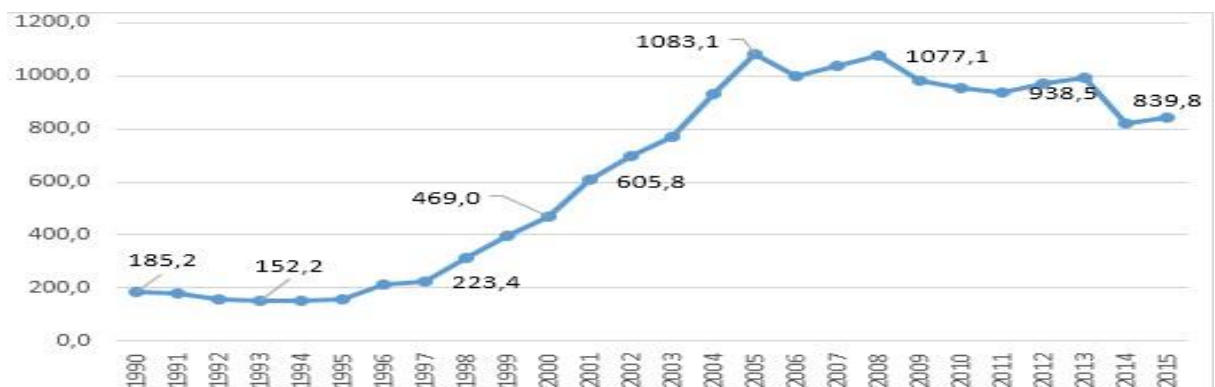
It is clear from this that agriculture plays an important role both in arriving in the country and in the absence of currency in the country. That is, replacing agricultural imports with local production plays an indispensable role in the development of the country.



**Graph 3:** Import of agriculture and food products (in millions of US dollars)

### *1.2.1 Local substitution of imports: achievements and problems*

After agrarian reforms, Azerbaijan has gained a positive experience in increasing productivity and replacing imports with local products. The most important achievement in this direction was achieved in potato. In the USSR, potato growing was one of the poorly developed agricultural areas in the republic and the demand for this product was mainly paid off from Belarus, the Baltic republics and Russia. In the early years of independence, imports had a large share in meeting the country's potato requirements, and now we export more than 50,000 tons of potatoes each year.



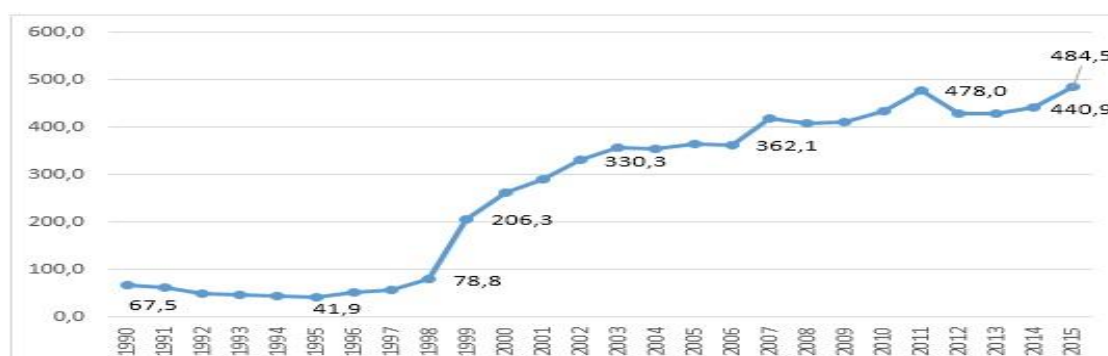
**Graph 4:** Dynamics of potato production (thousand tons)

According to statistical data, in 1990, 185.2 thousand tons of potatoes were produced in the country. In 2015 it reached 839.8 thousand tons. It should be noted that the increase in potato production has been achieved not only by the expansion of single fields, but also as a result of increased productivity. So, in the case of potatoes per capita of 90 hectares in 1990, in 2014, it reached 152 centners. There are still many opportunities to increase productivity in this area.

It should be noted that analysis of the FAO data for 2014 shows that potatoes are highly productive in many countries around the world. Thus, France has a yield of 479 centners per hectare, 456 centners in the Netherlands, 474 centners in Germany, 321 centners in Turkey, 277 centners in Poland, 203 centners in Belarus. The average world average was 200 centners. In this case, it is possible to increase the export of potatoes without expanding the sowing area by bringing productivity to Turkey. In addition to potato, such a growth was also achieved in the production of melon plants.

### *How was self-sustained vegetable culture achieved?*

Azerbaijan provides full self-sufficiency in garden products and has achieved significant success in this area during the years of independence. Thus, in 1995 the country produced 41.9 thousand tons of garden products, and in 2015 this figure was 484.5 thousand tons. Over the years of independence, the productivity of garden products has increased more than 2 times.

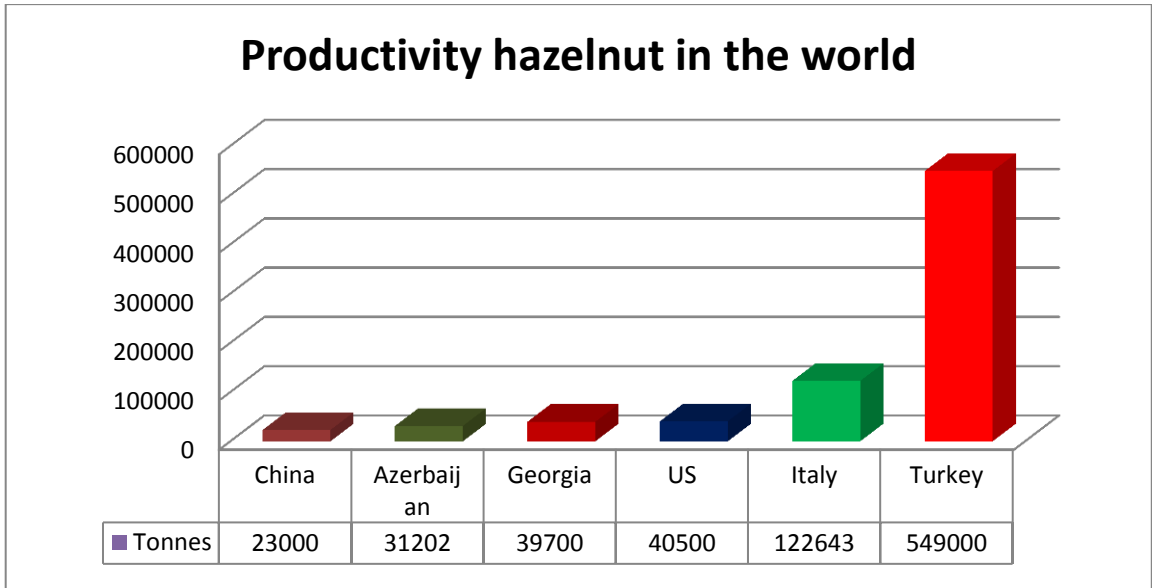


**Graph 5:** Dynamics of production of garden products (thousand tons)

In addition to garden products, this increase was also observed in the production of vegetables and fruits. So, in 1995 in the republic 424.1 thousand tons of vegetables were produced, and in 2015 this figure was 1273.3 thousand tons. However, there was no significant improvement in the production of vegetables. Thus, the productivity of tomatoes per hectare was 380 centners in Turkey, 4800 in the Netherlands, 2000 in Germany, 1900 centners in France and 310 centners in Belarus. The average figure in the world is 348 quintals. Theological situation is also related to the productivity of cucumbers. Cucumber yield up to 1 hectare is 278 centners in Turkey, 6600 in the Netherlands, 751 centners in France, 408 centners in Belarus, 150 centners in our republic. The average world figure is 330 centners. The development of greenhouses in our republic will have a significant impact on the growth of vegetable productivity. The increase in productivity creates a great potential for the growth of vegetable exports. It should be noted that the weight of vegetables and fruits in world exports is also quite high.

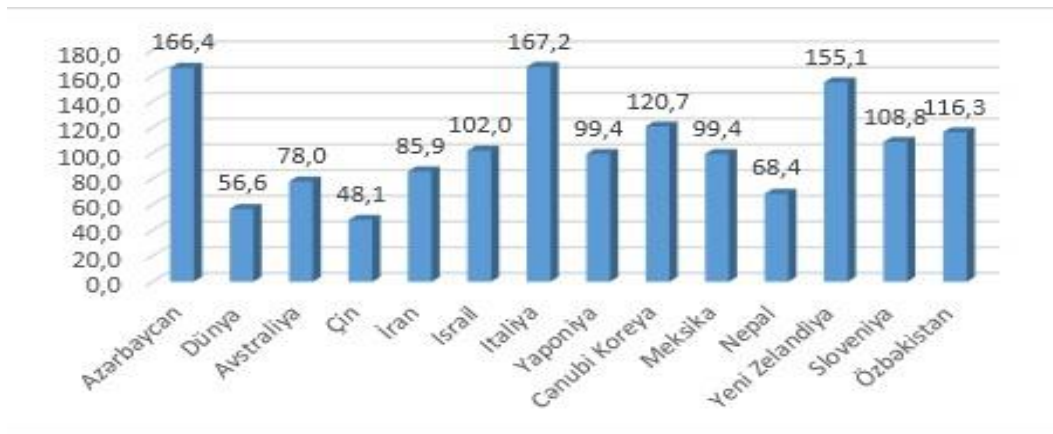
### ***Productivity enhancement is a key requirement***

Fruits are an important share in the agricultural export of Azerbaijan. In the coming period, along with the introduction of incentive measures towards the development of agricultural production, productivity gains should also be one of the main objectives. Here it should be noted that nuts and persimmon, which occupy a special place in the export of Azerbaijani products, are close to the average world level or higher.



**Graph 6:** Productivity hazelnut in the world (hectare / centner, 2017)

As you can see, the hazelnut productivity is closer to world average yields. As regards the productivity of the persimmon, FAO data shows that Azerbaijan is at the forefront of the global average in this area.



**Graph 7:** Productivity of the persimmon of the world (ha / centner, 2013)

Undoubtedly, it is also important to intensify production in agriculture in the coming years. Increasing productivity will affect the competitiveness of our direct export products. Increasing the competitiveness of crop production will not only

increase export potential, but will also increase the incomes of workers in agriculture, and will also stimulate employment problems.

### *1.3 Agricultural Insurance*

#### *1.3.1 Agricultural Insurance in Developing Countries: Experiences and Way Ahead*

Agribusiness is the mainstream of most of the developing countries. Historically, farming has been subjected to different types of uncertainties and risks, which cause a major concern for producers and eventually buyers. Agricultural production is fundamentally a risky business, and farmers confront an assortment of dangers, for example, yield risk or production risk, price risk or market risk, institutional risk, credit and monetary risk. Being the mainstay of most of the developing economies around the globe, agricultural risk has considerable hazard to the income and general price stability of those countries. This unpredicted danger of farming can't be mitigating completely however it can be limited up to certain percent with the help of insurance.

Global economy including the developing economies are changing quickly under the procedure of globalization, which clearly is probably going to expose the agricultural sector into more market risk and therefore it calls for extraordinary attention to develop a suitable institutionalized mechanism to share the risks by key stakeholders

#### **Role, Importance and Progress of Agricultural Insurance in Developing Countries**

Natural disasters can be enormously disrupting and hit hard to agriculturists and furthermore to others whose income relies upon a successful crop. Crop insurance is one of the most important instruments, which can help in dealing with these

misfortunes, especially covering misfortunes from adverse climate and similar events.

During 2001, total agricultural premiums (include fishery and forestry) was evaluated to be US\$6.5 billion while the assessed total estimation of agricultural production was US\$1.4 trillion. This showed the farming premiums were as low as just 0.4 percent of total output. Additionally, the distribution of coverage was seen to be skewed to the developed countries, which are accounting about 87 percent of the aggregate agricultural premiums as against just 13 percent in developing countries

### *China*

In China on a normal 45 million hectares of crop area is influenced by natural disasters to be a specific dry season, flood and rainfall (according to the reports of the service of farming, China). Agricultural sector faces an enormous money loses, which is almost 12.5 billion US dollars due to these common catastrophes and severe attack of insects, infections, and pests. Therefore, crop insurance plays a very important role to minimize the hazard in the agriculture sector of China.

In China agriculture insurance has a critical improvement way in 1982. The insurance agency receives subsidies from the Government of China for planting and breeding industries. There was an income of 55 million US dollar from agriculture insurance in China in 2003 according to the report of China Insurance Regulatory Commission (CIRC). This income from agriculture insurance was 0.5 percent of the total premium of property insurance of China.

In 2006 there was a recorded growth of 16.05 percent in the total premiums from agricultural insurance, which is equal to 108 million USD.



## *India*

Farming is the foundation of Indian economy. This primary sector gives jobs to almost 70 percent of Indian population and contributes 19.4 percent of its national GDP. In any case, when agriculture is influenced by common catastrophes, it is exceptionally hard to work out the loss. Thus in India agriculture insurance assumes an effective role to limit the risks in agriculture and stabilize the income of the farmer, generally little and minor in nature. Crop insurance scheme was first begun by Life Insurance Corporation of India (LIC) in 1972 in Gujarat for H-4 Cotton and in 1973 the Scheme was exchanged to GIC. At first it was based on "Individual approach" and thereafter it included groundnut, wheat and potato.

To protect the farmer from yield and price risk chance Farmer Income Insurance Scheme (FIIS) was begun in India during the period Rabi 2003-04. It was actualized in 38 regions of India and covered major cereals crop paddy and wheat. Besides this, Rainfall Insurance Scheme was acquainted and executed in India to compensate the farmers against shortfall or loss of rain.

### *1.3.2 Agricultural Insurance in Azerbaijan*

At present, the level of use of insurance services by agricultural producers is very low. So, according to the Ministry of Finance, the share of agricultural crops and livestock insurance in the total premiums paid for property insurance in the country in 2015 was 1.3%. Insurance of agricultural crops and livestock was mainly carried out by several large financial-industrial groups engaged in agro-leasing (imported breeds) and agricultural production. While state support for agricultural producers in Azerbaijan is being implemented, this support is practically not used.

These facts point to the need for large-scale reforms in the country to develop agricultural insurance, as well as to improve the mechanisms of state support in this area. In this regard, one of the key elements impeding the development of the

insurance system in the agricultural sector is the need to create a database of 30-40 years for natural disasters, animal and plant diseases, climate data and productivity indicators in agricultural production. At the same time, the lack of a proper insurance fund, widely used in world practice in agriculture, also has a negative impact on the development of the industry. Measures to be taken:

### **1) Improvement of the existing legislation on insurance in agriculture**

Ministry of Agriculture, as well as the Control Chamber for Financial Markets and other relevant bodies will be aimed at improving the existing legislation in accordance with international experience in the agricultural insurance system. These proposals include the use of a differentiated approach in the agrarian sector (regions and products), the application of compulsory insurance (for some products)

### **2) Evaluation of the possibility of creating an insurance fund for agriculture**

The Chamber of Financial Markets and the Ministry of Agriculture will explore the possibility of creating an insurance fund to expand the scope of agricultural insurance with the participation of private insurance companies. International experience in this field will be studied, and reports will be prepared by analyzing the potential consequences of producer insurance and the agrarian development of the Fund as a whole.

### **3) Preparation of Insurance Events Registry**

The Ministry of Agriculture, together with the Ministry of Ecology and Natural Resources, will create an information base for a long-term period on climate data and natural disasters, animal and plant diseases as well as productivity indicators to effectively assess insurance risks in the country.

#### **4) Establishing a compensation mechanism for agricultural producers in connection with the application of the quarantine regime**

The Ministry of Agriculture together with the Ministry of Finance will develop a mechanism for the application of quarantine regimen in plant breeding or the abolition of pests, as well as compensation of material damage to producers of agricultural products suffered from the abortion, prophylaxis and prevention of quarantine animals

#### **5) Increasing the insurance literacy of agricultural producers**

Agrarian Science and Information Counseling Centers located in regions will carry out awareness-raising campaigns on agrarian insurance. Measures will be taken to increase the role of private insurance companies in increasing the insurance literacy of producers. This measure will be coordinated within the 5.3 priority. Expected result and result indicators:

The legislative framework regulating the insurance system in agriculture will be improved. Agricultural producers will be fully informed about agrarian insurance. Mechanisms for compensation of property damage to agricultural producers will be created in connection with the application of the quarantine regime. Insurance literacy of agricultural producers will increase.

As a result of these measures, the following results are expected:

- The Insurance Events Register will be established;
- Establishment of the Agrarian Insurance Fund will be considered;
- The scope of agrarian insurance will be expanded (as the total number of insured agricultural producers will increase at least three times).

## *Chapter 2*

### *Agricultural Incentives*

#### *2.1 Agricultural Incentives in Developing Countries*

There are 4 well-known stylized records about the agricultural policies of developing countries, the interaction among which have not been completely valued.

1) The developing countries have endeavored to empower the development of the industry through policies of import substitution and protection against imports competing with local production.

2) Exaggerated exchange rates have often been maintained through exchange-control regimes and import licensing mechanisms considerably more prohibitive than those that would have been adopted in connection with import substitution.

3) Many developing countries have attempted to stifle producer prices of agrarian products through government procurement policies (especially agricultural marketing boards), export taxation, and/or export quotas.

4) Some governments have endeavored to offset part or the greater part of disincentive-effect on producers by subsidizing input prices and financing in irrigation and other capital inputs.

Suppression of producer prices has been broadly examined however there have been few endeavors to appraise the combined impact of those direct policies and three different arrangements of government policies. While international trade theorists have long known that protection of some activities discriminates against the remainder that knowledge information has not been changed into usable estimates of the extent of total discrimination against agriculture.

Those few examinations which have attempted to measure the indirect impacts on agricultural prices and incentives have used widely varying methodologies (for instance, on Brazil, Oliveira 1981; on Colombia, Garcia 1981; on Nigeria, Oyejide 1986; and on the Philippines, Bautista 1987; on Chile, Valdes 1973; on the United States, Schuh 1979; on Argentina, Cavallo and Mundlak 1982)

### **The 3 highest priorities set forth by the government to develop the agriculture**

The priorities set by the government are clearly expressed in the “Strategic Road map for the production and processing of agricultural products in the Republic of Azerbaijan” planning to accomplish competitiveness and sustainable development of the agrarian sector in the country. In this regard, the development of market infrastructure for horticultural products, the improvement of agricultural insurance and financial system and the fundamental modernization of agrarian science and education system can be considered as three critical priorities of the government.

### **What should be done to widely attract banks and insurance companies to this sector?**

The improvement of agricultural financing and insurance mechanisms is currently acting as a priority, because the current circumstance isn't agreeable here for various objective and subjective reasons. Thus, factors such as **high reliance of agricultural production on climatic conditions, low rate of capital turnover**, etc. lead to a lower rate of savings, which subsequently reduces the ability of agricultural producers to make investments at their own assets and guarantee proper funds from financial markets. In accordance with the previously mentioned, the situation stems from the poor economic potential of generally small-sized farms, issues related with collateral assurance for the procurement of loans due to the insufficient improvement of land and property market in rural areas, poor development of agricultural insurance, and additionally absence of a guarantee

mechanism for farming credits and other reasons. The key components preventing the improvement of agricultural insurance system include natural disasters, animal and plant illnesses, forecast information and lacking database of the last 30-40 years. Likewise, absence of a significant insurance fund broadly applicable in global experience in the field of agriculture negatively affects on the development of the sector. Extensive measures have been considered for the improvement of financing and insurance systems for agriculture within the Strategic Roadmap. In this way, measures are planned to be implemented in the fields of investigating possibilities to establish "Loan Guarantee Fund" for horticultural credits, explaining components for the use of inventive and unsecured advances in farming, enhancing money related education of rural makers, and so forth. Regarding the harvesters, 100 percent of cotton harvesters, 42 percent of tractors and 39 percent of other equipment sold during a 12- year period in which the "Agroleasing" OJSC has operated were purchased in 2014 to 2016. Thus, the issues related with the provision of agricultural machinery to farmers and the problem of equipment shortage was resolved in recent years. It has been started to establish specialized seed companies that meet modern requirements to improve the provision of agricultural producers with high conditioned seeds and seedlings

**Areas of agriculture can be attractive for foreign investors. Also, stimulating conditions are available for attraction of foreign investors in the country's agriculture**

At present, it is very beneficial to make an investment in agriculture in a few directions. For instance the improvement of market infrastructure for agricultural products. Initially, we can underline the construction of wholesale and retail sale focuses on modern standards for advancement of agrarian insurance system, the expected measures include the improvement of a risk management mechanism for agribusiness, the appraisal of opportunities to set up an insurance fund for agriculture, the elaboration of the insurance occasion registry and other activities.

## *2.2 Agricultural Incentives in Azerbaijan*

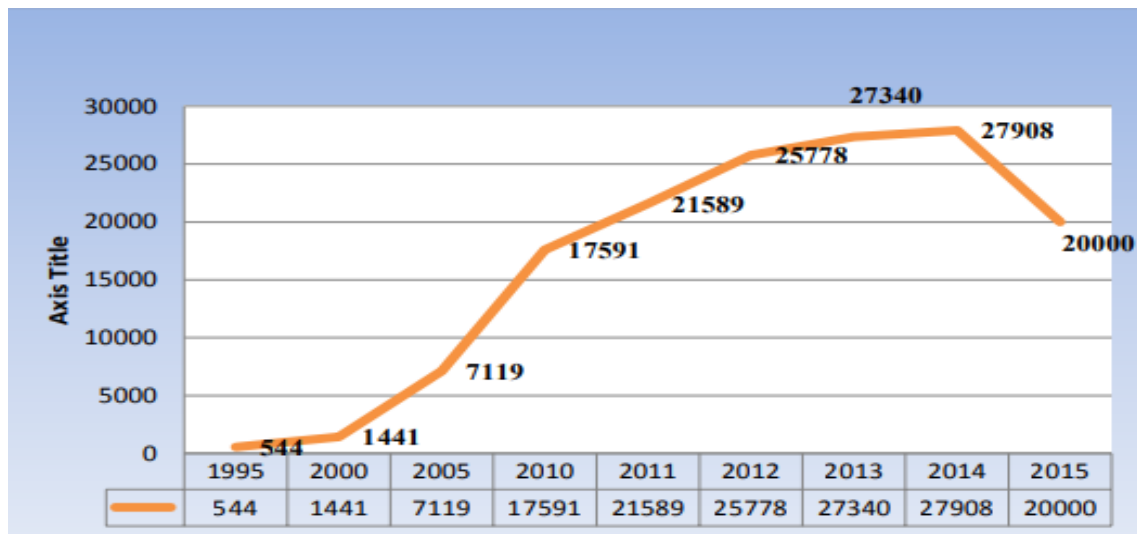
By intervening the cost of the the inputs of the agrarian products in Azerbaijan, by having low interest rate loans, and by applying some incentives, agricultural industry concentrated on securing the stabilization of the food supply, fostering rural development, contributing sustainable income level, enhancing output and yield growth ,increasing in self-sufficiency and export potential. There a lot of input support, such as the fuel support, credit support of inputs, fuel support, electricity support, fertilizer support, and etc.

The basis of the agrarian sector development policy, with a reliable supply of the population with major foodstuffs and a large part of the country's busy population, was laid in the mid 90s. The fastest land reforms were implemented in Azerbaijan among the CIS countries, mechanisms of assistance to agricultural producers were created, along with the international organizations, including the World Bank and the UN Food and Agriculture Organization (FAO), launched significant projects in this area. In 2001, the "Food Security Program of the Republic of Azerbaijan" was approved by the Presidential order. As a result of this program, the production of agricultural and food products has significantly increased. Subsequently, as a result of the rapid economic development in Azerbaijan, the measures taken to further develop the agrarian sector have also expanded. The development of the agrarian sector was one of the main directions of the Azerbaijani President's strategy of diversification of the economy. Thus, the development of this field in terms of the employment of about 1.5 million people in the agrarian sector is of particular importance in the development of non-oil sector, unemployment and poverty reduction

Agriculture is a priority for the development of the country and fast-growing territory is often viewed as a risky and profitable sector of small and medium business. However, as in all areas, the annual increase in prices for various economic, social and natural causes occurs in agriculture.

Currently, investments in this area are expanding to ensure high productivity in our republic, increase the competitiveness of local products and ensure food security. Investing in agriculture has long-term solvency as compared to other sectors of the economy, and investment attractiveness in this area is low.

According to the President of the country, \$ 160 billion has been invested in Azerbaijan over the past ten years



**Graph 8:** Total investings during 10 years

In 2014, about 28 billion dollars of investments were invested in the country, more than half of which were domestic investments. Azerbaijan has left a dependency on foreign investment and has become a country investing abroad. Over the last 10 years, most foreign direct investment in the economy has been invested in the industrial sector.

In addition to industry, foreign investment has been invested in construction, trade, communications and transportation sectors. The difference between the volume of funds invested in the industrial sector and the volume of funds allocated to other sectors is 4-31 times. Unfortunately, in the same period, foreign investors invested very little investment in agriculture. However, this sector is one of the sectors where most foreign investment is needed. Therefore, rural development should be taken into account when attracting foreign investment to the country.



President of the Republic of Azerbaijan, Mr. Ilham Aliyev, has repeatedly stated that he will keep in mind the increase of the state care for the development of the agrarian sector in the republic, and personally oversee the implementation of all necessary measures to address the existing problems in this field.

### *The Republic of Azerbaijan Ministry of Economy National Fund for Entrepreneurship Support*

On October 12, 1992, with the approval of the "Azerbaijan National Fund for Entrepreneurship Support" the fund of the first financial institution to provide concessional loans to entrepreneurship, including small and medium businesses, was funded from the state budget and took the necessary measures in connection with the activities of this organization was entrusted to the Cabinet of Ministers

The purpose of the ANFES is to promote entrepreneurship, especially to small and medium-sized enterprises, to increase the business activity of the population by the supreme governing body of the fund, which is responsible for providing them with financial support, is considered its Supervisory Board.

The Supervisory Board consists of seven members, including three chairpersons, who are appointed by the Ministry of Finance, the Ministry of Taxes, the Ministry of Labor and Social Protection, and the remaining 4 members by the Ministry of Economic Development. It should be noted that the Fund works under the Ministry of Economic Development.

In accordance with the Charter, the funds of the ANFES include contributions from the state budget of Azerbaijan, income from the activities of the fund, including principal, interest, penalties and commissions for concessional loans, voluntary donations from local and foreign legal entities and individuals, and grants provided by international organizations , grants, loans received by the government in accordance with the legislation of domestic and foreign financial markets, and other sources provided for by law.

In accordance with the rules for using the funds of the Fund, the transfer of funds to entrepreneurs is carried out by authorized banks and non-bank credit organizations (authorized credit organizations) on its own behalf and at its own expense. An agreement was signed between authorized credit institutions and the Fund on the conditions for using funds.

**Primary goal:**

To support the development of entrepreneurship by providing credit services at the expense of the Fund. **The subjects of lending** - Entrepreneurs.

**Loan assignment (Priority areas of the economy)**

1. Development of information technologies;
2. Tourism sector;
3. Agriculture;
4. Innovation-oriented entrepreneurial activity
5. Food industry
6. Light industry.
7. Chemical industry.
8. Mechanical engineering industry
9. Production of building materials based on local raw materials
10. Areas of the economy based on traditional and historical work habits of the population (carpet weaving, copperwork, etc.)
11. Manufacture of woodworking and furniture
12. Service areas

**Loan term and duration:**

For small loans from 5,000 to 50,000 manats - up to 3 (three) years;

For medium-sized loans from 50 001 to 500 000 manats - up to 5 (five) years;

For large-scale loans from 500 001 to 10 000 000 manats - up to 10 (ten) years

The grace period for the use of loans is determined on the basis of cash flow information for each individual entrepreneur depending on the nature of the activity and may cover the first semiannual period of the loan. During the grace period, business entities pay only interest rates and do not make any payments on the principal debt.

**Loan interest and commission fee:**

1. Annual interest rate - 6% (financing of media development projects - 4%).
2. The Commission fee for the Loan Evaluation and other services rendered by the Management Board.

**Payment of loan and interest**

1. Interest paid on a loan shall be at least once a month;
2. Payment of the principal debt shall be made at the expiration of the period of time provided for in the loan agreement upon expiry of the four-month grace period.

*Agroleasing*

The development of the agrarian sector and the introduction of new technologies and modern techniques are crucial for increasing the production of food products. However, attracting new technologies and buying modern agricultural machinery would require great resources, so it would not be possible to make a rotation in this area without the support of the state. Taking this into account, the President of Azerbaijan issued a decree on the establishment of Agroleasing in 2004.

" Agroleasing "OJSC has been entrusted with supply of mineral fertilizers, pesticides, process equipment, seeds, wheat seeds, breed animals to the country and other functions.

"Agroleasing" OJSC leases or leases the agricultural equipment and technological equipment purchased from the state budget at the rate of 20 percent of the value of the physical and legal persons, and the remaining part for up to 10

years (depending on the value). To date, 14564 units of agricultural machinery have been purchased by Agroleasing OJSC.

1. Wheat harvester combines 5272.
2. Tractors 52413.
3. Excavators 1124.
4. Other Agricultural Techniques 8684

### **Breeding Animal**

Breeding stock is leased or leased to persons engaged in animal husbandry with a 50% discount on animal value

### **Mineral fertilizers**

Mineral fertilizers, biohumus and pesticides - 70% discount for the sale of mineral fertilizers sold to the producers at the discounted prices, the upper limit for the price of biohumus is 100 manats per hectare, the upper limit of pesticide prices is 10 manats per hectare amount.

The development of the agrarian sector has taken a leading position in the state programs on poverty reduction and socio-economic development of the regions. **“State Program on Poverty Reduction and Economic Development in the Republic of Azerbaijan for 2003-2005, State Program on Small and Medium Entrepreneurship Development in the Republic of Azerbaijan (2002-2005), State Program on Socio-Economic Development of Regions of the Republic of Azerbaijan (2004-2008) »** and other accepted documents, including financial and technical support to farmers, development of entrepreneurship, and implementation of infrastructure projects in the regions, have increased the share of local products in the consumption of the population. **“Program of socio-economic development of the regions of the Republic of Azerbaijan for 2008-2015”** mostly focused on eliminating unemployment in the regions and ensuring food security. The solution

of these problems is the basis of the agrarian sector development strategy and is closely linked to the agrarian sector.

*State Program on Reliable Provision of Population with Foodstuffs in the Republic of Azerbaijan for 2008-2015*

Development of the non-oil sector, including agriculture, has been identified as one of the priorities of the state's economic policy. "State Program on Reliable Provision of Foodstuffs in the Republic of Azerbaijan for 2008-2015" was approved by the Order of the President of the Republic of Azerbaijan dated August 25, 2008 № 3004 for the purpose of systematic and comprehensive implementation of measures in the field of food security. Adoption of a Special State Program on Food Security The main direction of the state policy is that it is aimed at maximizing the domestic food market from imports and taking comprehensive measures to create food reserves. In May 2008, the President of the country adopted a separate State Program on providing population with foodstuffs. This program covers 2008-2015. This State Program is considered to be the most important document in terms of agrarian sector development and food security in Azerbaijan. In order to ensure implementation of the measures envisaged thereafter, the expenditures on the budget from agriculture to the budget increased by 44 percent to AZN 388.2 million in 2009. This trend of growth has continued in the years ahead and will continue in the future. Here are a few steps:

**1) Measures to increase the efficiency of land and water use**

- Complete accounting of crop areas
- Identification and mapping of lands exposed to degradation, salinization and other reasons, and preparation of proposals for their efficient use

- Determine the lands needed for melioration, preparation of their large-scale maps
- Preparation of electronic (digital) land cadastral maps for administrative districts
- Unused cultivation areas stimulation of cultivation
- Improving the delivery mechanism of irrigation water to agricultural producers, ensuring its economic and financial efficiency
- Supporting the application of advanced technologies in irrigation
- Conduct regular environmental monitoring of the environment (land and water) and provide relevant information to producers

## **2) Plant cultivation measures**

- Implementation of appropriate measures to ensure that the crop sown system meets the local conditions in the production of plant products
- Determination of the optimum sown area and production volume of agricultural crops, provision of relevant recommendations to farmers
- Stimulating the production of productive and quality wheat seeds and meeting domestic demand
- Developing a regulatory mechanism for the taxation needs of the state
- Promoting potato and vegetable export
- Supporting the expansion of greenhouse gardens
- Restoration and expansion of existing green tea fields
- Development of viticulture, increasing the production of table varieties
- Support of rice development in Lankaran-Astara region, Agdash, Zardab, Salyan and other regions

- Complying with modern agrotechnical measures, application of modern cultivation technologies and promoting the use of agricultural cultivation

### **3) Livestock development measures**

- Stimulation of livestock breeding and development of feed bases in the country on intensive technologies

- Implementing appropriate measures in the field of breeding cattle breeding

- Supporting the establishment of intensive private farms in dairy farms and settlements around Baku

- Expansion of feed crops, especially clover, corn, fodder beet, barley and other planting areas

- Development of lake fishing

### **4) Measures to improve the infrastructure of food production**

- Restoration, expansion and reconstruction of existing and distributing electricity networks for reliable power supply of agricultural and food production facilities in residential areas in the regions

- Implementation of projects related to improving drinking water supply and sewage systems in rural areas

- Intensification of work on creation of e-commerce

### **5) Amelioration and water economy development measures**

- Improvement of water resources management and their efficient use

- Improvement and capacity building of melioration and irrigation systems

- Restoration and reconstruction of water supply systems for winter pastures

- Drilling of subartezian wells and rehabilitation of existing wells to improve water supply in the districts

### **6) Measures to increase the effectiveness of veterinary care**

### **7) Measures to increase the effectiveness of the state phytosanitary control**

## *Chapter 3*

### *The Agricultural Development Organizations*

The government, when deciding the agricultural supporting strategies, they should consider the proposals and enforcement of the global associations that associated with them. At the point when Azerbaijan decides their arrangements regarding the farming, Azerbaijan must think about the strategies of some international organizations, on account of depending on these organizations, these associations are IMF, World Bank, World Trade Organization.

Also, generally the national associations are interventionists of the strategies while deciding the period. As I said before there is a market economy, and in some cases, there is a need for the mediation of government when the system stops.

### *3.1. The World Organisations of the Agricultural Enterprises*

The governments, when decide the agricultural supporting strategies, they should consider the suggestions and enforcements of the international organizations that associated with them. At the point when Azerbaijan decides their strategies regarding to the agriculture, Azerbaijan must think about the approaches of the some of the international organization, because of relying upon these organizations, these organizations are World Bank, IMF, World Trade Organization, and EU. In addition, for the most part, the national organizations are interventionists of the policies when determining the period

#### *3.1.1 The World Agricultural Organization- The Food and Agricultural Organization of the United Nations*

The Food and Agriculture Organization of the United Nations drives universal endeavors for reducing starvation. Serving both developed and developing countries. This organisation acts like neutral organisation where all nations meet, arrange and talk about policies. Likewise, FAO helps the developing nations and



the nations, which are in a transition period, for modernizing and improving the agribusiness of those nations.

FAO's has four main activities

- 1) **Putting information within reach.** FAO fills in as a learning framework. We utilize the capacity of our staff - agronomists, foresters, fisheries and tamed creatures experts, nutritionists, social researchers, financial bosses, agents and various pros - to amass, inspect and spread information that guide improvement. Additionally scatter various notices, reports and books, course several magazines, make diverse CD-ROMS and host various electronic fora.
- 2) **Sharing policy expertise.** FAO lends its times of comprehension to member countries in imagining horticultural policy, supporting planning, making national frameworks and drafting successful enactment to achieve rural advancement and diminishing starvation objectives.
- 3) **Providing a meeting place for nations.** It is a neutral meeting which gives the setting where rich and poor countries can meet up to manufacture basic comprehension.
- 4) **Bringing knowledge to the field.** Conveying learning to the field. FAO actuates and manages a million of dollars gave by industrialized nations, change banks and various sources guarantee the endeavors achieve their goals. FAO gives the specific know-how and in two or three cases is a compelled wellspring of benefits. In emergency conditions, we work one by the other with the World Food Program and other others conscious relationship to ensure country nation occupations and engage individuals to change their lives

Azerbaijan was the member of FAO on the 20th of October, 1995.

On 25 February 2005, the President of the Republic of Azerbaijan Ilham Aliyev visited head quarter of FAO in Rome and met with the former Director-General of FAO Jacques Diouf. During the meeting, the sides discussed the issues of perspectives for strengthening the relations, particularly FAO's involvement in the

development process of agrarian sector in Azerbaijan, institutional restructuring of agriculture, importing new technologies and investment, food security and poverty reduction in our country.

On 6 April 2017, with the joint initiative of the “Regional Development” Public Union of Heydar Aliyev Foundation, IDEA Public Union, Ministry of Ecology and Natural Resources, Food and Agriculture Organization of the United Nations (FAO) in the framework of the project to establish fruit gardens for low income families, the vice-president of Heydar Aliyev Foundation, founder and head of IDEA (International Dialogue for Environmental Action) Public Union and FAO Goodwill Ambassador Leyla Aliyeva attended a ceremony to plant fruit trees in Ismayilli district.

In order to participate at the 4th World Forum on Intercultural Dialogue on the theme “Advancing Intercultural Dialogue: New Avenues for Human Security, Peace and Sustainable Development” held in Baku on 5-6 May 2017, the Chief of cabinet of the UN Food and Agriculture Organization (FAO) Mario Lubetkin made a visit to Azerbaijan. At the forum M.Lubetkin delivered the regards of FAO Director-General Jose Graziano da Silva. Within the forum, M.Lubetkin met with the Minister of Foreign Affairs Elmar Mammadyarov and Vice-president of the Heydar Aliyev Foundation, founder and head of IDEA (International Dialogue for Environmental Action) Public Union and FAO Goodwill Ambassador Leyla Aliyeva.

FAO's association with Azerbaijan is focused on around six priority areas, that include the

- 1) Promotion of women's representation in rural organizations and income-generating activities for rural women as a cross-cutting issue:

- 2) Animal health and plant protection;

- 3) Supporting investments in agriculture, food security and rural development;
- 4) Capacity development, including agricultural education, research and extension;
- 5) Strengthening the policy and institutional framework for agriculture and rural development; Improve crops, fisheries and livestock production;
- 6) Sustainable, equitable and efficient forestry, land and water resource management.

### ***3.1.2 World Bank***

The World Bank is a vital source of financial and technical assistance to developing countries around the world. The World Bank isn't a bank in the standard sense, however, a remarkable organization to lessen destitution and bolster advancement. The World Bank Group includes five institutions managed by their member countries.

World Bank provides low-interest loans, zero to low-interest credits, and grants to developing countries. These support a wide array of investments in such areas as health, agriculture, education, infrastructure, public administration, financial and private sector development and environmental and natural resource management. Some of our projects are cofinanced with governments, other multilateral institutions, commercial banks, export credit agencies, and private sector investors.

To fight poverty with passion and professionalism for lasting results. To help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors

**(International Bank for Reconstruction and Development  
International Development Association)**

To promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives. (**International Finance Corporation**)

To promote foreign direct investment into developing countries to help support economic growth, reduce poverty, and improve people's lives. (**Multilateral Investment Guarantee Agency**)

The World Bank Group has set two goals for the world to achieve by 2030:

- End extreme poverty by decreasing the percentage of people living on less than \$1.90 a day to no more than 3%
- Promote shared prosperity by fostering the income growth of the bottom 40% for every country

There are 4 focused areas for the agricultural action plan.

1) Agricultural plan is organized around to the raise agricultural productivity. By organizing this action plan, the World Bank supports to increasing adoption of the advanced technologies, water management, and etc.

2) Agricultural plan is organized around to link farmers to the agricultural market and strengthen value addition which included the investments in transport infrastructure, strengthened agricultural producers organizations, strengthened agricultural market knowledge, and access to finance.

3) Third plan is about the reducing risk and vulnerability of the agricultural industry which is including supports to innovative insurance products, protection against the catastrophic losses and major diseases of livestock.

4) The fourth one is about facilitation agricultural entry and exit, and facilitation rural non-farm income.

The Country Partnership Framework (CPF) 2015-20 for Azerbaijan was by the Board of Directors on July 21, 2015. It is a joint methodology of the World Bank

Group (WBG) which has the aim to help Azerbaijan on its way toward inclusive, sustainable, and private sector-led development. Right now, the CPF is experiencing a mid-term audit that, among different results, will identify an investment program for the following three years.

The CPF is supported by the Systematic Country Diagnostic (SCD) for Azerbaijan, the WBG's complete investigation of the country's economic conditions, difficulties, and constraints in the short and longer term. The Bank program in Azerbaijan is tending to a chose set of those constraints. It is likewise very much lined up with Azerbaijan's own particular advancement needs and the WBG's worldwide twin objectives of lessening poverty and boosting shared prosperity.

The program has two fundamental concentration regions: public sector management and service delivery, and economic competitiveness.

The Bank is also supporting the country to strengthen public resource management, enhance selected infrastructure networks, encourage public service delivery, increase the country's financial inclusion enhance the quality of environmental assets, diminish the administrative weight on the private sector, and bolster economic activities in rural areas.

### ***3.1.3 International Fund for Agricultural Development (IFAD)***

Global Fund for Agricultural Development (IFAD) is a specialized organization of UN, and it works as an international financial institution this specialized organization was established in 1977. The foundation of the organization was an important outcome of the 1974 World Food Conference. The point of the Conference is to finance agricultural development projects for the food production in the developing countries by establishment of IFAD. The Governing Council of the foundation is the highest decision- making author. There are 165 member states of the foundation.

A group from the International Fund for Agricultural Development (IFAD) embraced a Mission in Azerbaijan between 2 October 2010 and 20 September with finish the outline of the proposed Integrated Rural Development Project (IRDP)

### **Project Goal and Objectives**

The general objective of the IRDP is to reduce rural poverty in Oghuz, Agdash, Sheki and Yevlakh through expanded food security and improved wage raising opportunities. The goals of the Project are:

1) To help the provincial poor in enhancing their skills to utilize the available natural resources successfully and effectively with a specific goal to accomplish sustainable productivity and profitability for crop and domesticated animals farming

2) To enhance salaries of men and women producers through better farm management and access to credit.

**Support and Development of WUAs (USD 9.9 million)** 12 will support WUAs in the Project area through co-financing of the investments, on a to-be-agreed cost offering arrangements with the WUAs, in essential and identifiably vital foundation, including renovation of workplaces, provision of equipment and machinery for on-farm O&M, and temporary financial support for the cadres of the WUAs, for the effective and efficient delivery of their mandated responsibilities to their members.

**Irrigation Rehabilitation Works (USD 51.8 million)** would support the rehabilitation and repair of the on-farm irrigation systems that include secondary, tertiary and on-farm water delivery systems and networks, and drainage, in Yevlakh and Agdash

**Social Infrastructure Improvement (USD 2.2 million):** It has been ascertained that in all Project districts there are villages that suffer from total lack or severe shortages of clean drinking water.

**Agricultural Productivity and Profitability Enhancement (USD 5.6 million):** The component would seek to increase poor smallholder assets and incomes in the participating rayons by improving crop and livestock production and marketing, and improving natural resources. It would consist of three sub-Components:

- 1.1. Enhancing Crop Productivity and Profitability,
- 1.2 Enhancing Livestock Productivity and Profitability,
- 1.3 Improving Natural Resource Use and Restoring Landscape.

### *3.2 National Organizations of the Agricultural Enterprises*

#### *3.2.1 Ministry of Agriculture*

Agricultural production not only is dependent the ecology but also the demand and supply of the agricultural products are in elastic, so that the risk and uncertainty of the agricultural industry is high. Moreover to get function of agricultural production takes a long time due to the depending ecological system, so that the capital turnover period is too high. Ministry of Agriculture has been a major actor of the agricultural policies of Azerbaijan for a long time.

The Ministry implements its activity in a proper manner with other relevant executive authorities and is subject to the Cabinet of Ministers of the Republic of Azerbaijan. The Ministry is a legal entity, has the seal of the emblem of the Azerbaijan Republic and its seal, other seals, stamps and blanks, and may open settlement and currency accounts in banks.

#### *The main tasks of the Ministry:*

- Establishment and implementation of state policy in agriculture.

- Practical assistance to local and district agrarian reform commissions in the implementation of agrarian reform in the country.
- To analyze and predict the needs of agricultural machinery in machinery, equipment, spare parts and other production-related goods, and make proposals to meet that demand together with relevant executive authorities.
- Preparation of special programs aimed at increasing the production of agricultural products and development of processing areas.
- Ensure that agricultural enterprises restore the soil fertility, ensure proper and rational use of fertilizer and other chemicals, and implement nature conservation measures within the jurisdiction.
- Implementation of appropriate measures in plant protection and plant quarantine.

Ministry of Agriculture, expanded business relations with FAO, GTZ, TICA, US Agency for International Development and Development (USAID), World Bank, Asian and Islamic Development Bank, IFAD, ECO, European Commission Food Unsaliness Program, European Union and its TACIS Program, International Science Centers, nearly 25 international projects implemented with their financial support and technical assistance have had a positive impact on agrarian reform in Azerbaijan.

### ***3.2.2 Banking-Institution***

Credit projects are being implemented to develop small and medium-sized businesses in Azerbaijan. The Agricultural Credit Agency was established in 2005 to implement these projects, and in 2007 the Cabinet of Ministers of the Republic of Azerbaijan approved the "Rules on the Use of Resources of the State Agency for Agricultural Credits under the Ministry of Agriculture of the Republic of Azerbaijan". The Cabinet of Ministers of the Republic of Azerbaijan has decided to



approve "Regulations on use of funds of the State Agency for Agricultural Credit under the Ministry of Agriculture of the Republic of Azerbaijan".

Based on this decision, starting from 2008, he started issuing soft loans. In addition, the support of other funding agencies is used for agricultural development.

In the country, loans to farmers are usually provided through 4 different channels:

1. The Government and international financial institutions, such as the World Bank and TACIS, jointly implement agricultural credit projects, as well as government agencies in Japan and Germany (GTZ)
2. Credit projects implemented by international or local NGOs
3. Loans for production facilities and equipment
4. Loans from companies

The main goal of allocating grants to the agricultural sector is the introduction of new technologies, the preparation of scientific results on farms, the organization of all scientific research work on the development of the agricultural sector, the prevention of unemployment and the development of small and medium-sized businesses.

Only in 2010, under the Agency for Financing Agriculture under the Ministry of Agriculture, 13.4 million manat were allocated to farmers, loans were repaid from the state budget and issued through 10 commercial banks. These loans received 450 households in 40 districts, resulting in more than 1,000 new jobs created. Since the beginning of the issue of soft loans from the state budget until 2010, about 20 million manat has been allocated. Only 10 million manat was allocated to the Agency for concessional lending to agriculture from the state budget for 2012. It

should be noted that the loans of the Agricultural Credit Agency are granted for a period of no more than 7% per annum for a period of up to 5 years.

Just like in all areas and in this area there are a number of shortcomings. Thus, as a result of a survey conducted by the Azerbaijan Microfinance Association, only 0.2% of agricultural loans fell on the rural population due to the lack of state control at the next stage of lending. The main reason for this is that rural residents have no idea about the activities of the Bank and the execution of documents. Moreover, a villager can not fulfill it, even if he wants to take a loan. Since banks require mortgages at the time of lending, they are required to sell the collateral if the loan is not repaid. It is very difficult to sell property in the region. He stressed that the best hostel in the region and the village is a non-residential area, that is, a shop and an object. Because it is easier to buy or sell, if it is not redeemed. The second is occupied by land plots. Unlike houses, interest in land, especially in sowing areas, is great. But these collaterals are not sufficient when buying large loans.

Summarizing all this, it can be concluded that public organizations and relevant government agencies for loans and subsidies should conduct activities in villages and regional centers and inform villagers about this issue. Otherwise, only a small group of people will benefit from these loans, and small and medium businesses in the villages are in a difficult situation and will not be able to continue to compete.

## Conclusion

Considering about the agricultural industry of Azerbaijan, macroeconomic indicators of non-agricultural sector in Azerbaijan developed, and the impacts of the agricultural sector on the economy is much more imperative than those of other main industries. Agricultural industry continued being a crucial industry of the Azerbaijan economy.

The improvement of the industrial industry has indirectly related the development of the agricultural industry of Azerbaijan, for example, the agricultural automation relies upon the industrial industry in most way. Additionally, agriculture is a significant contributor of the GDP of Azerbaijan. Agribusiness provides, crude materials for rural industry, food/nourishment for individuals, and exportation

At the current stage of socio-economic development of the country, it is urgent to improve the policy of rural development on the basis of international best practices. First of all, it is necessary to replace the policy of regional development based on a more national planning methodology that provides for large-scale and rapid implementation of social and economic development of the country's regions and, at the same time, the gradual replacement of existing problems with the concept of rural development.

From this point of view, it is extremely important to establish a system of monitoring indicators and an appropriate information base describing the relevant institutional capacity for planning rural development, including the needs for rural development. Accordingly, institutional mechanisms should be established to ensure the continued strengthening of local government and rural communities in rural development.

Agricultural industry is not quite the same as the other industries because of its qualities. Agricultural industry has a bigger number of detriments than those of

other industries so that there are a few interventions of the governments by utilizing agricultural incentives. At the point when Azerbaijan decides its government policies, it puts into drive their policies functions in the casing of the strategies of some worldwide associations, which Azerbaijan is a member of, for example, the World Bank (IBRD), International Monetary Fund (IMF) and World Trade Organization (WTO).

Over the past period, the government has established an adequate support system for agricultural producers, consistent measures have been taken to improve this system and increase its transparency.

Farming is exempt from taxes. In order to ensure that 50% of the cost of fuel and motor oils spent on production of agricultural products is covered by the state, 50 manats are provided for each hectare of lands under crops (including re-planting).40% of modern irrigation equipment sold by "Agroleasing" OJSC is paid from the budget. About 50 percent of the cost of imported goods imported by "Agroleasing" OJSC is paid from the budget and sold through leasing

These support measures are critical in terms of expanding the supply of agricultural producers using appropriate means of production and improving their access to income. Thus, earlier deficiencies in the provision of appropriate agricultural machinery and equipment were eliminated, fertilizer levels were increased, production farms were expanded, and general support measures had a significant impact on lower production costs.

In the policy of financing entrepreneurs with soft loans, the agricultural production and processing industry with 60-65 percent of soft loans allocated to these sectors was identified as a priority area. Tax incentives applied to agricultural producers are also important to reduce the costs of producers, as well as for favorable prices for local products for consumers. At present, reforms have been initiated to further improve targeting mechanisms and implement measures of state

support to agriculture in terms of development goals. In addition, it is necessary to study the applicable policy of tax discrimination in order to develop relations between producers of agricultural products and processing enterprises and trade networks. Identifying the scope and scope of relevant support activities by accurately assessing existing needs is also one of the challenges.

Furthermore there are still national organizations which try to improve the agricultural industry of Azerbaijan. The major political organizations in the agricultural industries are the Ministry of Agriculture .Also there are economical actors of the agricultural enterprises. These are banking institutions. The main banking institution is Agency for Financing Agriculture under the Ministry of Agriculture.

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