

**REPUBLIC OF AZERBAIJAN**

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**ABSTRACT**

*of the dissertation for the degree of Doctor of Philosophy*

**FINANCIAL AND BANKING FACTORS OF EFFECTIVE  
DEVELOPMENT OF AIC IN THE REPUBLIC OF  
AZERBAIJAN**

Speciality: 5301.01 – Internal fiscal policy and public finance

Field of science: 53 - Economic sciences

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**Baku – 2024**

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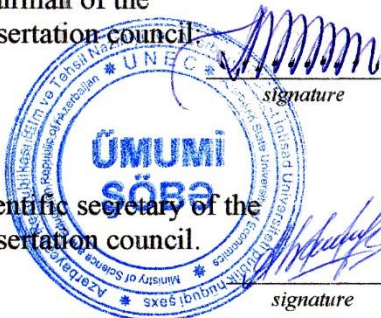
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## **GENERAL CHARACTERISTICS OF THE WORK**

### **Relevance and Degree of Processing of the Topic:**

Agriculture and its product processing enterprises are key sectors in the country's economy. The level of its development determines a number of parameters of the country's economic development. A crucial aspect of the economic diversification policy is the focused growth of agriculture and its processing industries. The development of this complex will ensure food security in the country, improve the social well-being of the population, increase the level of employment in rural areas, reduce unemployment, provide the population with ecologically clean products, efficiently use the land, develop the non-oil sector, expand and rapidly develop the processing industry. , expansion of entrepreneurship in this sector, creation of large farms, etc. is the basis.

The President of the Republic of Azerbaijan Mr. Ilham Aliyev said: "The development of agriculture is a priority issue. This is a socio-economic area, support for the development of the non-oil sector."

Taking into account the importance of the tasks facing this sector, our state constantly keeps its development in the center of attention and under its care, applies a lot of concessions, gives privileges, tries to develop the sector normally and fulfill its goals and tasks. The strategy includes offering various incentives to farmers, such as tax exemptions beyond land tax, providing preferential loans, state subsidies in specific areas, and measures to boost agricultural development and efficiency. At the expense of various financial sources, especially investment, credit, bank funds, leasing, etc. development of this complex is one of the most important issues. In the conditions of lack of funds, it is very important for the society to promptly activate these sources, to use them widely and to quickly solve the strategic issues necessary for the complex. Wide application of efficient banking and financial factors can ensure further development of agricultural sector and agricultural products processing enterprises. It depends on the level and how these factors can be applied. It is the correct organization, management and regulation of this issue that is facing the agrarian sector and agricultural products processing enterprises as an urgent problem of the day.

The development of this complex at the required level, the

importance of the tasks facing it are reflected in government documents, including "Azerbaijan 2020: Looking to the Future: "Development Concept" and "Strategic Roadmap for the Production and Processing of Agricultural Products in the Republic of Azerbaijan". Both documents analyze agricultural challenges, propose solutions, outline societal goals, and recommend implementation strategies.

While the agrarian sector and enterprises for the processing of agricultural products face the fateful economic problems of society, these issues will always remain relevant.

Undoubtedly, the historical Karabakh lands freed from occupation as a result of the 44-day "Victory March" of our glorious Army under the leadership of the Honorable Supreme Commander, President of the Republic of Azerbaijan Mr. Ilham Aliyev will play a big role in increasing the agricultural production and processing potential of the country. The President of Azerbaijan, Mr. Ilham Aliyev, during his addresses to the people, repeatedly expressed his strategies regarding the development of entrepreneurship in the field of agriculture in the "Great Return" and Karabakh, East Zangezur economic regions. The establishment of agriculture and processing industries in liberated areas, backed by investment and lending, clearly reflects the ongoing success of the President's policy and underscores the importance of this research.

**Study the degree of the subject.** The effective development of Azerbaijan's agriculture and product processing industries, including their theory, methodology, organization, management, and regulation, consistently attracts attention from researchers, scientists, economists, and practitioners. These issues have been well-studied by classical economists, foreign scientists, and Azerbaijani specialists.

Formation of agrarian and agricultural products processing enterprises, its development, principles of operation, role in economic development and an external view of ideas about damages, including European and American scientists N.Alexandratos, J.Bruinsman, A.Levis, D.Gollin, S.Parenten, R. Rogerson, A. Srinivasan, T.V. Griffin, F.J. Pierce, J.B. Barnett, C.C. Zimmerman, O. Melyukhina, P. Maitra, S. Mitra, G.B. Ahangar, M.J. Padadi and others.

Following the USSR's collapse, newly independent countries saw the emergence of entirely new agro-industrial complexes amidst fresh

property relations. A new approach to the theoretical, methodological and practical issues of the organization of this new system was required, and the main positions and ideas related to this were the Russian scientists A.A. Artemev, G. Baklazhenko, I.N. Burobkin, S.A. Gorlanov, V.A. Dobrynin, S.I. Kovanov. , V. Loginov, O. V. Moroz, N. A. Plichev, E. V. Serova, V. Shaykin, G. G. Sharifov, etc. a large space has been allocated in his studies.

Numerous problems and parameters of the agrarian sector and agricultural products processing enterprises have been widely covered in the works of Azerbaijani scientists and researchers. The following can be attributed to such scientists and researchers: Z.A. Samedzadeh, M.Ahmadov, R.Hasanov, A.Babayev, I.H.Aliyev, A.Verdiyev, A.Nuriyev, R.A.Balayev, A.Valiyev, V.H.Abbasov, E.A.Gouliyev, B.X.Atashov, H.A.Xəlilov, A.T.Əhmədov, M.C.Huseynov, R.K.Isgandarov, S.V.Salahov, E.R.Ibrahimov, R.Huseynov, F.Fikratzadeh and others.

It should be noted with a sense of agreement that a number of actual financial and banking issues of the problem have been reflected in the researches of A.Alekbarov, Z.Mammadov, M.Baghirov, S.Mammadov, N. Khudiyev, E. Sadigov.

However, despite the above, in the new stage of economic development in our country, the tasks defined in "Azerbaijan 2030: National Priorities for Socio-Economic Development" and "State Program for the Great Return to Territories Freed from Occupation", as well as bank financial factors in the effective development of the agro-industrial complex considering that there is a serious need for its analysis, this topic was chosen as a research direction.

**Targets and goals of the research.** The main goal of the research is to reveal the means, methods and parameters for achieving the comprehensive development of this complex based on the development of the financial banking factors of the efficient development of agricultural sector and agricultural products processing enterprises in the Republic of Azerbaijan. For this, the fulfillment of the following tasks is set as a goal:

- analyzing the modern level of agricultural development in our republic and determining its role in providing food to the population;
- determination of features and functions of financing in the agro-

industrial sector of the economy;

- formation of banking service to agro-industrial division and study of development experience;

- investigation of the state of financial security of the agrarian sector and agricultural products processing enterprises and analysis of the results;

- banking service to the agro-industrial sector and its level assessment;

- Projects implemented at the expense of Entrepreneurship Development Fund funds and determination of the level of bank service to them;

- substantiating the objective necessity of creating large farms and determining directions for increasing the role of the financial-banking system in their development;

- determination of directions for increasing the quality of banking service in strengthening the material and technical base of the agro-industrial division;

- determination of directions for improving the financial banking system in the production of environmentally friendly products and stimulation of export-oriented products in the agrarian sector and agricultural products processing enterprises.

**Object of research:** The agrarian sector and agricultural products processing enterprises of the Republic of Azerbaijan were selected as the object of the research.

**The subject of the research:** The organization of the country's agrarian sector and agricultural products processing enterprises consists of a set of methods and rules applied to study the theoretical and practical issues that arise in the process of regulation and management, as well as the financial banking factors applied in the effective development of that complex.

**Research methods:** The research's theoretical and methodological foundation draws from the decrees and orders of Azerbaijan's President regarding agriculture and processing enterprises, alongside laws and decisions by the Cabinet of Ministers and the National Assembly. It also includes normative acts from government bodies, as well as local and international scientific works, textbooks, monographs, and articles

focused on this issue.

Statistical, comparative analysis, synthesis, normative pragmatic, systematic complex, balance and other methods of research were used while conducting research on the effective development of agrarian sector and agricultural products processing enterprises, analyzing its modern state and evaluating its level.

**Main provisions brought up for defense.** When conducting research on the dissertation, annual collections of the Statistical Committee of the Republic of Azerbaijan, materials from the Central Bank of the Republic of Azerbaijan, the Ministry of Finance of the Republic of Azerbaijan and the Entrepreneurship Development Fund under the Ministry of Economy of the Republic of Azerbaijan were used as an information base.

**The main arguments presented for defense** consist of the following:

- theoretical and conceptual approaches to the activities of the agricultural sector and its financing, features of the development of banking services in the agricultural sector;
- Best international experience in the formation of banking services in the agricultural sector, recommendations on the application of its advantages in Azerbaijan;
- Analysis and assessment of the current state of financial support for the agro-industrial complex and the banking sector of the country, ways to solve problems associated with bank lending;
- Approaches to the creation of large farms through the prism of banking, its objective necessity and scientific substantiation of the advantages;
- Proposals for the production of environmentally friendly and export-oriented agricultural products, as well as the improvement of the financial and banking system in this direction.

**The scientific novelty of the research** lies in the following:

- analyzed in detail the current level of development of agriculture in our country and substantiated its role in the food supply of the population;
- The characteristics and functions of financing in the agro-industrial section were investigated, and fundamental proposals were

made to improve this process, such as creating a legal and commercial environment, providing state guarantees, subsidies;

- The main parameters of the agricultural sector and enterprises for the processing of agricultural products have been studied in depth on the example of a number of world countries, its advanced elements have been evaluated, their patterns have been studied and proposals have been made for their application in our country;

- Based on the performance indicators of the agricultural sector and enterprises for the processing of agricultural products, the current state of this complex was widely and comprehensively analyzed, the current situation was assessed, the results were evaluated, and proposals were made for further improvement;

- The necessity of creating large farms in the agricultural sector of our country is substantiated, implementing advanced innovative approaches, the directions for improving the financial and banking factors of their development and strengthening the material and technical base of the agro-industrial complex are identified, and the directions for improving the financial and banking factors for stimulating the production of export-oriented products are identified and valuable proposals are made.

**The theoretical and practical significance.** Conceptual provisions obtained as a result of research in the field of studying and improving financial and banking factors for the effective development of the agricultural sector and enterprises for processing agricultural products, put forward specific proposals for the adoption of the necessary programs for the further development of the complex under study, the development of functional target programs and forecasts can be widely used in the organization economic policy of the state in the sphere to which it belongs.

The research findings are highly applicable in education, particularly in courses like "Economics of the Agricultural Sector," "Organization of the Agricultural Sector," and "Financing of the Agricultural Sector," among others. They also serve as valuable resources for training personnel and guiding practical activities within the agro-industrial complex.



**Implementation and application of the research.** The results and main provisions of the study were presented and discussed at international and national conferences, symposiums and seminars in 2015-2020.

**The name of the organization** where the dissertation work was carried out is the “Finance and Audit” department of Azerbaijan State University of Economics.

**The total volume of the dissertation.** The dissertation consists of an introduction, 3 chapters, a conclusion and a 150-item bibliography. The introduction consists of 13904 characters, the first chapter has 74829 characters, the second chapter has 76908 characters, the third chapter has 79545 characters, the conclusion has 10955 characters. There are 19 graphics and tables in the dissertation. The volume of the dissertation, excluding tables, pictures and the list of references, is 256141 characters.

## **THE STRUCTURE OF THE DISSERTATION WORK**

### **Introduction**

#### **Chapter I. Banking experience and features, functions of finance in the agro-industrial complex**

1.1. The current level of development of agriculture and its role in ensuring the food security of the population.

1.2. Features and functions of financing in the agro-industrial complex.

1.3. Experience in the formation and development of banking services in the agro-industrial complex.

#### **Chapter II. Assessment of financial and economic indicators of the agro-industrial complex.**

2.1. Financial support for the agro-industrial complex and conclusions.

2.2. Banking services in the agro-industrial complex and their assessment.

2.3. Projects financed by the Entrepreneurship Development Fund and their banking services.

#### **Chapter III. The need to improve the financial and banking system for the further development of the agro-industrial complex of Azerbaijan at the present stage.**

3.1. The objective need to create large farms and increase the role of the financial and banking system in its development.

3.2. Ways to improve the quality of banking services while strengthening the material and technical base of the agro-industrial complex.

3.3. Measures to improve the financial and banking system in the production of environmentally friendly products in the agro-industrial complex and the promotion of export-oriented products.

## **Conclusion**

### **List of used literature**

## **THE MAIN SCIENTIFIC POINTS PRESENTED IN DEFENSE**

### **1. Theoretical and conceptual approaches to the activity of the agricultural sector and its financing, development features of banking services in the agricultural sector.**

As global economies evolve, influenced by industrial and technological advancements, the workforce tends to shift towards sectors dominated by industry and high technology, rather than agriculture. However, the occurrence of this process should not mean that agriculture is less important. No matter how developed the world is, the issue of providing food to the population is always on the agenda. Since agriculture is a more labor-based field, it has become the main economic activity, especially in countries with large populations. An example of this is India. This is also due to the fact that countries with large populations have more difficulties in terms of food supply and the transition to industrialization and technological development. In developed countries, the decrease in the share of the labor force in agriculture is also related to the fact that the technological innovations applied in these areas allow for more productivity with less labor force. Such countries include the Netherlands, Israel, and Denmark. These countries are developing industrially and technologically and have a large share in the world's agricultural markets .

Just as in other economic sectors, financing plays a significant role in advancing the development of the agro-industrial sector. Without sufficient financing for entities in the agro-industrial sector,

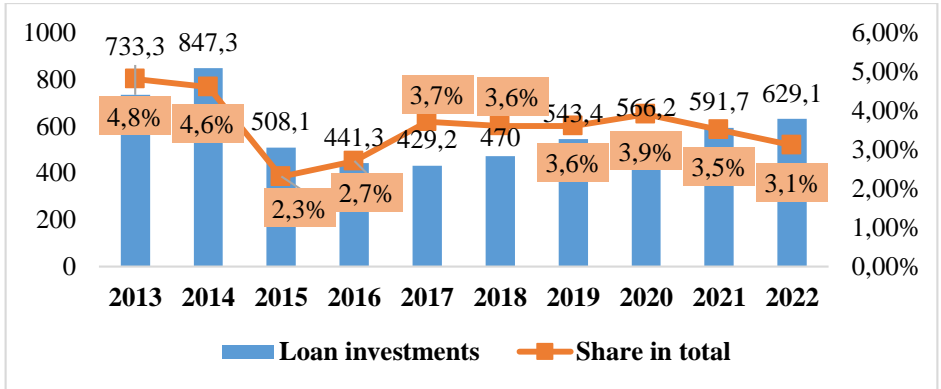
there's a reduction in the ability to enhance the material and technical infrastructure, ultimately hindering development. If the continuity of the activity is disturbed due to the lack of funds, then it is difficult to prevent the harmful consequences of the already disturbed production process, even if it is possible to attract financial resources later. At the same time, another unique feature of financing in the agro-industrial sector is that it has a seasonal nature. This means that the financing here should mainly be considered for a long-term period, and it is more appropriate to request the repayment of the borrowed funds in the season when the product is produced and sold.

There are features of financing in the agro-industrial sector that are completely different from other sectors. Therefore, it is inevitable to consider such features in the financing process. At the same time, it should be noted that these features significantly affect the functions of financing in this area. It goes without saying that there are basic functions of financing in any field. However, at the microlevel, each area of financing has its own functions. Therefore, in the financing process, these functions show themselves prominently and allow for increase its efficiency. Given their significance, analyzing both the characteristics and functions of financing in the agro-industrial sector is crucial for this research.

The financing features in agriculture and its processing industries are influenced by the financial institutions' strategies within this sector, the obstacles they face in offering financing, and the active economic units in agriculture. From this point of view, we can say that one of the main features of financing in the agricultural sector and agricultural products processing enterprises is that the risks for lenders in this area are greater.

Since the agricultural sector is one of the areas of great importance for Azerbaijan, the volume of credit investments directed to this area has increased in recent years. This concerns ensuring food security in Azerbaijan's agricultural sector, substituting imports with local products, and the significant employment this sector provides. If we look at the statistical figures, we can see that although the volume of credit investments in this area decreased during the crisis, it increased again starting in 2018. In 2014-2017, credit investments in the agricultural

sector decreased by 417 million manats and reached 429.2 million manats, but in 2022 they increased again and reached the level of 629.1 million manats (Chart 1). In general, during the periods when the impact of the crisis was felt, the rate of reduction of credit investments in this area was lower than in other areas. This is due to the great importance of this area and the fact that it is one of the main components of the diversification of the economy, which is being implemented after the crisis.

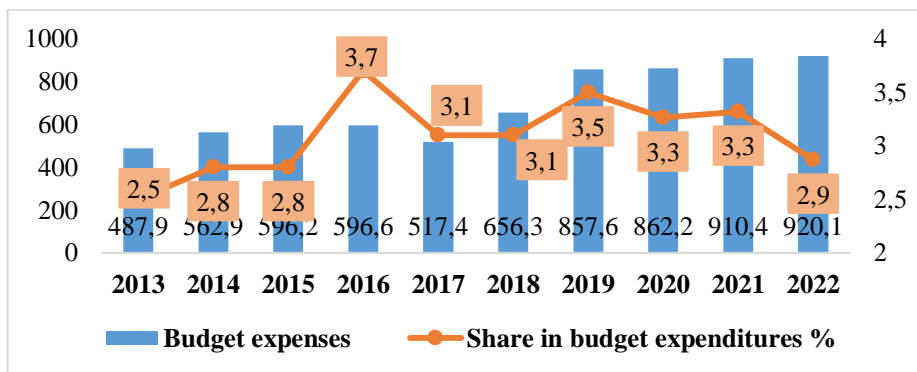


**Chart 1. Loan investments in the agricultural sector (million manats)**

*Source: State Statistics Committee of the Republic of Azerbaijan*

It should be noted that the stagnation in the banking system during the crisis led to an increase in the volume of overdue loans. The devaluation of the manat significantly affected this process, as it increased the debt burden of many borrowers. As a result, the total amount of loans to the economy decreased, while the amount of overdue loans increased.

Azerbaijan, mirroring global trends, enacts measures to secure adequate agricultural funding. This refers to the direct allocation of funds from the state budget, as well as the provision of concessional loans through various state organizations. If we take a look at the budget expenditures allocated to the agricultural sector, we will see that although there was a certain decrease in its volume during the crisis, then it increased steadily and reached its highest level in 2022 (Chart 2). This is related to both the fact that the agricultural sector is one of the main areas developed in the post-oil era, and the necessity of organizing continuous financing in this sector.



**Chart 2. Budget funds allocated to the agricultural sector (million manats)**

*Source: State Statistics Committee of the Republic of Azerbaijan*

As one of the main areas of the non-oil sector, the necessity of financing the agricultural sector in a necessary and sustainable manner is one of the priority areas of the government, so the volume of state expenses in this direction has increased. Such an increase and the possibility of a high share of overdue loans suggest that the share of the agricultural sector in these loans is high. The high share and problems related to the financing of the agricultural sector resulted in the government's decision to increase spending in the agricultural sector. When we look at the structure of the projected budget expenditures for 2019 and 2020, we witness this again. Thus, in 2019, the budget expenses allocated to the agricultural sector were increased by 1.3 times or 178.4 million manats compared to 2018, and in 2020 they were increased by 40.1% or 343.3 million manats compared to the corresponding indicator in 2019. Although there was a decrease in 2021, it increased again in 2022.

In addition to budget financing, the government of Azerbaijan has created opportunities for the creation of various organizations to improve the financing of the agricultural sector. One such organization is Agrarkredit Shareholder Credit Institution. This organization has been operating since 1987, and the main goal of the organization is to provide small and medium-sized entrepreneurs operating in the agricultural sector and peasants with households with the necessary financial resources for their activities.

The characteristics of financing in the agricultural sector are

significantly different compared to other sectors.

In general, we can say that financing in the agricultural sector and agricultural products processing enterprises is multifaceted and carries great risks. Therefore, in most cases, states try to reduce the risks of financing in the agricultural sector for financial organizations with various financial mechanisms in order to support the development of this field. The government of Azerbaijan also supports financing in the agricultural sector through state guarantees and concessional loans, and is trying to improve efficiency in this sector.

At the same time, these measures implemented by the government will enable the full implementation of the functions of financing in the agricultural sector, which will increase the share of the agricultural sector both in the formation of income and in the creation of added value. As a result, the development strategy of the non-oil sector will be supported and the provision of food security will increase.

## **2. Advanced international experience on the formation of banking services in the agricultural sector, recommendations for the application of its advantages in Azerbaijan;**

The transformation of this field into one of the main areas of the economy is primarily due to its importance in terms of food safety. Food safety is one of the main components of the country's national security in general, its provision has always become one of the main goals of governments. Another issue that makes agriculture important is that it is a large labor force in many developing and underdeveloped countries. This is due to the fact that the majority of the labor force in the economies of these countries is not highly educated, and as a result, the labor force is concentrated in areas with higher labor intensity, such as agriculture. Therefore, in many countries of the world, agriculture plays a major role in providing employment.

At the same time, if we look at the history of a number of rapidly developing countries, we can see that these countries also defined the rapid development of agriculture as their main goal at the first stage. In the later stages, the development of low labor-intensive fields such as industry and technology was ensured in these countries. As an example China, which is an agricultural country, has become the second largest economy in the world by achieving a high economic growth rate in a short

period of time.

Several developed nations place substantial economic importance on agriculture, deriving significant revenue from the export of agricultural products. Examples of these countries are Denmark, Israel and the Netherlands. The high level of development of these countries has led to their agriculture being enriched with innovations. Ensuring the development of agriculture depends on the level of financing of this sector. To ensure this attractiveness and acceptable level of financing, states use different mechanisms for financing agriculture. The implemented mechanisms, used financing methods, reforms implemented in the direction of agricultural development, and organizations created to implement financing differ depending on the economic systems of the countries. From this point of view, the study of the agricultural financing experience of different countries of the world is of great importance for the research work.

Financing of the agricultural sector in different countries of the world is one of the issues that governments pay attention to. As a result of this, the large share of agriculture in the economies of the countries whose experience we have reviewed prompts governments to implement various programs, implement reforms and create organizations to ensure the sustainability of the development of this sector. Agricultural financing strategies and the main directions of these strategies are implemented according to the economic conditions and requirements of each country. While developed countries give more priority to the application of innovations and the use of clean technologies during the financing of the agricultural sector, developing countries pay more attention to increasing the financing of agriculture in the regions.

The experience of the formation and development of banking services in the agro-industrial sector of Canada, Denmark, Israel and India can be considered appropriate for application in our country. Fund and project financing instruments in Denmark, especially the creation of "Agribusiness Fund" and "Development Fund" and their special approach in lending to young farmers, attract attention. In Canada, the adoption of programs related to preferential loans and advance payments to agricultural cooperatives, issues of lending to agricultural innovative projects are shown as examples. The experience of providing access to

financial resources to farmers and villagers who have little experience in conducting transactions with banks in India, and the experience of obtaining concessional loans with warehouse documents has given rise to significant results. Benefiting from the experience of Israel, which widely uses innovative methods in the agricultural sector, we can effectively use existing resources and increase productivity. It should be noted that only 20% of Israel's land is suitable for agriculture, and 95% of its population is supplied with food at its own expense. In our opinion, the application of the mentioned positive practices in Azerbaijan allows for a fundamental solution to the problems of agricultural financing.

### **3. Analyzes and evaluations of the financial provision of the agricultural sector and the current situation of the banking sector in the country, ways of solving problems related to bank lending;**

Financial support plays a significant role in the development of the agrarian sector and agricultural product processing enterprises. If we take into account that the agricultural sector lags behind other sectors both in terms of profitability and in terms of labor productivity, it turns out that financial provision in this sector is even more important. In many cases, the provision of financial support to the agricultural sector by the state is criticized for not fully complying with the principles of the market economy. However, the great importance of this field in terms of food safety and the production of daily basic consumer products of the population forces the states to support this field. The government of Azerbaijan constantly monitors the development of the agricultural sector and allocates subsidies for various projects to ensure the development of this sector.

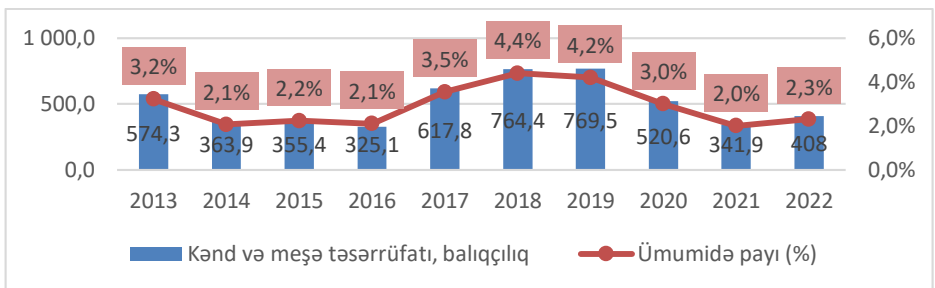
As we mentioned earlier, the state budget plays a key role in the financial provision of the agricultural sector and agricultural products processing enterprises. Annually, the state budget allocates financial resources to ensure the sustainable development of agriculture. The characteristics of the economic strategy and policy implemented by the state every year significantly affect the amount of funds allocated to agriculture. The decline observed in the economy as a result of the decrease in oil prices in recent years has significantly affected the volume of budget expenditures.

Investments in fixed capital are a crucial financial source for



supporting the agrarian industrial complex. In contrast to budget funds, the attraction of fixed capital investments is related to the extent to which the sector itself develops. That is, if the economic activity in the sector is not efficient in terms of profitability and production, then it becomes difficult to attract investments. The financing of this sector at the expense of the state budget actually acts as one of the preconditions for the formation of the competitive environment we have mentioned. Given the agricultural sector's pivotal role in developing the non-oil sector under the new economic model, attracting investments to this area is critically important. Therefore, boosting the allocation of state budget funds to the agricultural sector both now and in the future will enhance its appeal, paving the way for a rise in investments directed towards fixed capital within the sector.

Recently, the fluctuations in investments aimed at fixed capital in the agricultural sector have mirrored the changes in budget expenditures. That is, although a decrease was observed during the crisis period, an increase was recorded later. Thus, in 2013-2016, the investments directed to the fixed capital in the agricultural sector decreased from 574.3 million manats to 325.1 million manats. In 2017, it almost doubled and exceeded 617 million manats, but it decreased from 2019 to 341.9 million manats in 2021, and a slight increase was observed in 2022 (Chart 3).



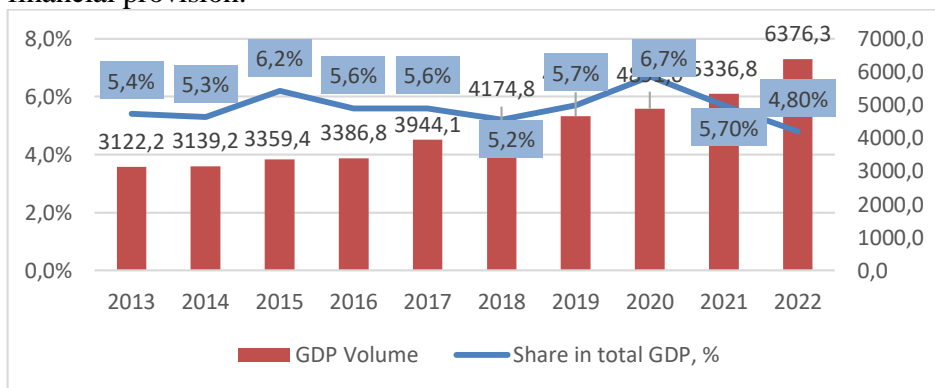
**Chart 3. Investments directed to fixed capital in the field of agriculture and forestry, fishing**

*Source: State Statistics Committee of the Republic of Azerbaijan*

One of the main sources of financial security for the agricultural sector and agricultural products processing enterprises is the credit investments directed to the agricultural sector. Credit investments

empower entities in the agricultural sector to broaden their operational capabilities, leading to enhanced production and a higher creation of value. Like other sources of finance, credit investments also decreased during the crisis, but then tended to increase.

As for the share of the GDP created in the agricultural sector in the total GDP, the change here was not consistent with the change in volume. Thus, in 2014, the share of the agricultural sector decreased by 0.1% compared to the previous year and amounted to 5.3%. Then, in 2015, it reached the level of 6.2%. In the next two years, it decreased to 5.6% and remained stable. During the years 2018-2020, this share switched to a growth trend again and settled at the highest level - 6.9% in 2020 (Chart 4). The fact that the share of the agricultural sector in the GDP in the last two years remained stable despite the increase in the volume of GDP shows that the GDP created in this area was able to maintain its importance. This happened as a result of the efficient implementation of financial provision.



**Chart 4. GDP created in the field of agriculture, forestry and fishing (billions of manats)**

*Source: State Statistics Committee of the Republic of Azerbaijan*

As we have seen, in the last year, as a result of increasing the financial provision, an increase was observed in the total product of the agricultural sector, as well as in the volume of GDP created in this area. This shows that the financial provision was effectively implemented in this area and the efficient spending of the allocated financial resources made it possible to achieve positive results by increasing economic activity.

There are other reasons why banking services are not widespread in the agricultural sector. Even after the process of bank consolidation is over, there will be a need to overcome many existing problems in order to expand banking services in the agrarian sector. One of the reasons for the poor development of banking services in the agricultural sector in Azerbaijan is the lack of necessary knowledge and skills in banks in this field. Therefore, in order to expand the activities of banks in the agricultural sector, it is important to have personnel who are familiar with both the characteristics of the agricultural sector and the characteristics of the banking sector.

From our analysis, we can come to the conclusion that the development of banking services in the agricultural sector has a unique character compared to other areas. This is primarily due to the fact that the agricultural sector is more related to natural resources and natural risks. This makes it difficult to predict the financial security of this area. This, in turn, leads banks to refrain from financing the agricultural sector.

The transformation of banks into the main source of financing of the agricultural sector will enable both the development of the agricultural sector and the development of the banking system.

The results of the conducted analysis suggest that a specialized agro-industrial bank should be established in the Republic of Azerbaijan for the purpose of effective financing of the agricultural sector, including crediting. The sooner this organization was established, the sooner it would affect the development of agriculture in the country.

**4. Approaches to the creation of large farms from the perspective of banking, its objective necessity and scientific justifications of advantages.** Despite the increase in the share of enterprises in the agricultural sector in Azerbaijan, it is still at a low level. The large number of large enterprises increases the role and quality of banking services in strengthening the material and technical base in the agricultural sector. Banks try to meet the needs of their customers at the highest level and for this they start offering better quality services. Legal, customs and tax reforms should be implemented to increase large farms. Reforms may include concessions and assistance measures that are attractive to large enterprises.

**Using technological innovations.** The adoption of technological

innovations and advanced technologies in the sector significantly improves the quality of banking services, thereby bolstering the material and technical foundation. As the incorporation of advanced technologies boosts production capacity in the agricultural sector, the demand for banking services grows, necessitating more financial resources for their upkeep and maintenance. Moreover, as these technologies intensify competition within the agricultural sector, they heighten enterprises' interests, leading to the further expansion and enhancement of banking services' quality.

**Formation of a competitive environment.** The presence of a competitive environment creates an opportunity for the development of the agro-industrial sector. Additional financial resources are needed to ensure this expansion. As a result, the need for banks to participate in this field is increasing. The state's participation and great support in the agricultural sector in Azerbaijan does not allow the rapid development of a competitive environment. In the conditions of weak competition, the quality of banks' financing and services remains low. Therefore, the government facilitating the entry of more entrepreneurs into this sector and gradually reducing its market interventions will positively impact the quality of banking services, enhancing the material and technical infrastructure in the agrarian sector and agricultural product processing enterprises..

**Implementation of support measures for banks.** In order to improve the quality of banking services in the strengthening of the material and technical base in the agricultural sector, it will be effective to provide support to the banks along with the economic subjects operating there at the initial stage. It is possible to increase the interest of banks in the agricultural sector with various concession measures, which will ultimately increase the quality of the services provided.

The factors of strengthening the material and technical base in the agricultural field include the use of technological innovations, increasing the number of large enterprises and the formation of a competitive environment in the agricultural field. The achievement of each of the mentioned directions requires additional financing, which increases the need for the services offered by banks. Although progress has been made on the mentioned factors in Azerbaijan, the share of banking services in

the agricultural sector is still at a low level. Therefore, taking into account the proposals we have put forward to achieve progress in this direction will allow both the improvement of the quality of banking services in the agricultural sector and the general development of the agricultural sector.

The agricultural sector is very risky because it is more dependent on natural phenomena than other sectors of the economy. Therefore, there is a need to implement agrarian insurance mechanisms in order to cover the financial risk of entrepreneurs engaged in the production of agricultural products, the damage caused to them by natural events that may occur in the future. In this regard, the issue of improving activities in the field of agrarian risk management and insurance in the country, the implementation of measures related to the creation of a state-supported insurance mechanism has become urgent, and in 2019, the Agrarian Insurance Fund was established based on the relevant Decree of the head of the country. The fund organizes the insurance of crops and animals. At the same time, payment of half of the insurance fee by the state gives entrepreneurs the opportunity to spend the same amount of funds on other business needs. Effective use of this risk insurance system can also impact banking stability within the agricultural sector.

## **MAIN RESULTS**

Financial and banking factors of the main development of the agro-industrial complex in Azerbaijan were analyzed.

1. Development of agriculture and studying the basics of energy supply. The development of this field, which is between the development of agriculture and the general economic development, has very significant opportunities. By developing agriculture, the level of employment increases, the level of poverty decreases, and thus socio-economic development is ensured. In addition to these, support for the socio-economic economy based on the development of agriculture. The supply of minimal food products of the population turned from a vital loss to an inevitable process of developing agriculture and meeting the

demand for food products.

2. The functions and features of financing in the agricultural sector were studied in the theoretical and conceptual issues of the dissertation. It has been determined that products based on its characteristics are complementary, even though it has not been developed much in relation to other sectors. The main reason for this is that, as a result, the implementation of economic activity has a special character and is multifaceted. Financing in agrarian agricultural products processing enterprises is not only multifaceted, but also big risks. Therefore, they try to reduce the risks of financing. The government of Azerbaijan is also trying to improve this efficiency by forming agricultural financing on state guarantees and flexible loans. These facilities also allow for the full implementation of the functions of agricultural empowerment and lead to an increase in added value.

3. The large payment of agriculture in economies related to the use of research work dedicated to international experience helps to implement programs, implement reforms and finance them to ensure the stability of the development of this field. While developed countries give more priority to the application of innovations and the use of clean technology during the financing of the agricultural sector, increasing the financing of agriculture in developing regions pays more attention.

4. Analyses have shown that in recent years, financing for the agricultural sector and agricultural product processing enterprises in Azerbaijan has been maintained at a high level. While there was a notable reduction in financial resources allocated to the agricultural sector during the crisis, a significant increase was observed in the subsequent years.

Although there was a certain decrease in the amount of financial resources allocated to the agricultural sector during the crisis, a high increase was recorded in the following years. In the last year, as a result of the increase in financial provision, an increase in the total product of the agricultural sector, as well as in the volume of GDP created in this area, was observed. This shows that the financial provision was

effectively implemented in this area and the efficient spending of the allocated financial resources made it possible to achieve positive results by increasing economic activity.

5. The development of banking services in the agricultural sector has a unique character compared to other areas. This is primarily due to the fact that the agricultural sector is more related to natural resources and possible natural risks. This, in turn, makes it difficult to predict in terms of financial security and prevents banks from financing the agricultural sector. In addition, it is important to have the necessary infrastructure, innovative activities and qualified personnel for the spread of banking services in the agricultural sector. The problems we have mentioned and the stagnation observed in the banking sector have led to the poor crediting of the agricultural sector in Azerbaijan. In such a situation, in order to maintain the sustainability of the development of the agrarian sector, the state is trying to implement the financing of the agrarian sector either through budget funds or through various financial organizations created by it. In connection with the transition to the policy of diversification of the economy, it is necessary for the state to provide such support. Otherwise, serious problems will arise in the development of the agricultural sector. However, in the long term, it is important to strengthen the role of banks in the financing of the agricultural sector and create the necessary conditions for this at the expense of the currently available opportunities. A specialized agro-industrial bank should be created for the purpose of financing the agricultural sector, including crediting. This will enable more sustainable financing of the agricultural sector in the future.

6. The activity of the Entrepreneurship Development Fund shows that the funds of the fund played a major role in financing various projects in the agricultural sector. By participating in the implementation of necessary projects in various directions, the fund participated in the achievement of general economic development. Since the development of the agricultural sector is one of the strategic issues after gaining

independence, the fund has paid great attention to the development of this sector. Through the services of the fund, the state was able to obtain the necessary economic activity in the agricultural sector. At the same time, the activity of the fund has closely participated in the spread of banking services in the agricultural sector and has influenced the increase of the trust of the banking sector in the agricultural sector.

7. The presence of large enterprises is very important for the development of the agricultural sector. Such enterprises allow to increase both the volume and efficiency of production in the agricultural field. Large enterprises bring together small farms with entrepreneurs with large amounts of capital to achieve higher results. In general, the amount of loans given to the agricultural sector is not high. This is one of the issues that slows down the development of the agricultural sector. By implementing a number of measures, it is possible to increase the financing of large enterprises in the agricultural sector by banks. These measures include enabling the establishment of more enterprises in the agricultural sector, providing state guarantees, applying concessions to large enterprises, and other measures.

8. The quality of bank services in strengthening the material and technical base in the agricultural field is formed by the influence of a number of factors. Each of these factors positively affects the quality of banking services by increasing the demand for them. These factors include the use of technological innovations, the increase in the number of large enterprises, and the formation of a competitive environment in the agricultural sector. All factors affecting the increase of competition in the agricultural sector lead to an increase in the quality of banking services. Therefore, creating an opportunity to create a competitive environment is one of the main factors for improving the quality of banking services. Although progress has been made on the mentioned factors in Azerbaijan, the share of banking services in the agricultural sector is still at a low level.

9. In the agrarian sector and agricultural products processing



enterprises, there are unique problems for banks in financing both ecologically clean products and export-oriented products. These problems have a direct impact on financial risks and determine the direction of banks' financing of such enterprises. The main problem is that seasonality plays a big role in the agricultural sector. Seasonality prevents the production process of both environmentally friendly products and export-oriented products from being sustainable. In general, overcoming the problems of financing the production of both ecological products and export-oriented products in the agricultural sector is based on increasing forecasting capabilities and implementing legal reforms. This indirectly creates a need for further improvement of personnel policy in the agricultural sector. Legal reforms should be carried out taking into account the interests of both parties, so that it is possible to reduce the risks to a minimum level.

**The main provisions of the dissertation work, the obtained results and proposals are reflected in the following published scientific works:**

1. **Ж.М.Эфендиева.** Роль развития агропромышленного комплекса в росте экономики Азербайджана. Qazfqaz Universiteti, . H.Əliyevin anadan olmasının 93 illiyinə həsr olunmuş Gənc tədqiqatçıların IV Beynəlxalq elmi komfrans, № 1, 2016, c.523
2. **J.M.Əfəndiyeva.** Kənd təsərrüfatının perspektiv sahəsi - tütünçülüyünün inkişafı. Qazfqaz Universiteti, . H.Əliyevin anadan olmasının 93 illiyinə həsr olunmuş Gənc tədqiqatçıların IV Beynəlxalq elmi komfrans, № 1, 2016, səh.524-525
3. **J.M.Əfəndiyeva.** Aqrar sənaye bölməsinin kreditləşməsinin dünya təcrübəsi. Kənd təsərrüfatının iqtisadiyyatı elmi-tədqiqat institutu, Elmi əsərlər. № 1, 2018, səh. 89-94
4. **J.M.Əfəndiyeva.** Aqrar Sənaye kompleksinin maliyyə-kredit təminatının səmərəliliyinin yüksəldilməsi istiqamətləri. “Naxçıvan” Universiteti, Elmi əsərlər. № 1 (24), 2022, səh. 95-101
5. **J.M.Əfəndiyeva.** Aqrar sektorda kredit siyasətinin formalaşması qaydaları. Sumqayıt Dövlət Universiteti, Azərbaycanın Xalq Cumhuriyyətinin 100 illik yubileyinə həsr olunan Beynəlxalq elmi konfrans. İqtisad təhlükəsizlik, mövcud vəziyyət və perspektivlər.

Sumqayıt. 02-03 may 2018, səh. 274-276

6. **Ж.М.Эфендиева.** Современное состояние кредитования аграрного сектора в Азербайджане. Москва, Министерство сельского хозяйства РФ департамент научно-технологической политики и образования, Международный научный журнал. 2019. с. 31-36
7. **Ж.М.Эфендиева.** Aqrar sənaye kompleksinin əhəmiyyətinin gücləndirilməsinin maliyyə amilləri. “Naхçıvan” Universiteti, Elmi əsərlər. 2022. №1 (24).
8. **Ж.М.Эфендиева.** Aqrar sənaye müəssisələrinin maliyyə resurslarına çıxış imkanlarının müasir vəziyyəti. Azərbaycan Kooperasiya Universiteti “Kooperasiya” elmi-praktiki jurnalı. №1.
9. **Ж.М. Эфендиева.** Влияние глобальной коронавирусной пандемии на деятельность аграрно-промышленного комплекса в Азербайджане. Сборник статей XXI международной научно-практической конференции «Инновационные подходы в современной науке», Москва. 2023. № 3 (111), с. 44-49



The defense will be held on “24” *April 2024* at the meeting of the Dissertation council ED 2.10 of Supreme Attestation Commission under the President of the Republic of Azerbaijan operating at Azerbaijan State Economic University.

Address: AZ 1001, 6 Istiglaliyyat, Baku. Azerbaijan State Economic University.

Dissertation is accessible at the Library of Azerbaijan State Economic University.

Electronic versions its abstract are available on the official website of the Azerbaijan State Economic University [www.unec.edu.az](http://www.unec.edu.az) .

Abstract was sent to the required addresses on “18” *March 2024*

Signed for print: 06.03.2024

Paper format: 60x84 <sup>1</sup>/<sub>16</sub>.

Number of hard copies: 20

(41045 Symbols)

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