

Directions for Improving The Financial Mechanism of The Agricultural Sector in Azerbaijan

Azərbaycan'da Tarım Sektörünün Finansal Mekanizmasının İyileştirilmesi Yönləri

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Directions for Improving the Financial Mechanism of the Agricultural Sector in Azerbaijan

ABSTRACT

The development of the agricultural sector in Azerbaijan is closely linked to improving the financial security of this sector. Therefore, improving financial security in the agricultural sector and researching the sources of stability are considered to be quite current issues. Financing sources in agricultural production can be divided into two parts: internal and external. Internal sources include income from the farm, depreciation deductions and deductions made from a portion of the profit for production development. External financing sources are also divided into two groups as debt financing and non-debt financing. Debt financing includes long-term bank loans, state loans for investment purposes and other credit sources. Non-refundable financial aids, subsidies and grants are classified as non-refundable resources. The financial mechanism of the agricultural sector is of critical importance for Azerbaijan's sustainable economic development. The main goal of the study is to analyze the existing financial mechanisms in Azerbaijan's agricultural sector, identify their strengths and weaknesses, and propose practical directions and policy recommendations to enhance financial access, efficiency, and sustainability. The study typically employs a mixed-methods approach, combining: reviewing national policy documents (e.g., Strategic Roadmap, subsidy laws), statistical reports, and relevant literature, benchmarking Azerbaijan's financial instruments against international examples and best practices. Key findings of such a study generally show that Azerbaijan has made significant progress in expanding state-supported financial mechanisms, such as electronic subsidies, concessional credits, and leasing programs, implementation is mostly state-driven, with limited private sector and commercial banking involvement, many farmers, especially smallholders, still face information barriers, lack financial literacy, and have difficulties meeting collateral requirements. The study concludes with specific directions: modernizing the subsidy system, expanding digital finance tools, improving farmer training, strengthening risk management instruments, and encouraging greater private investment. The basic trends for improving the financing mechanism of agriculture in the country include budget financing, direct subsidies from the state budget, bank loans, privileged funds provided by the National Fund for Supporting Entrepreneurship, leasing services as basic investment services, organization of the agricultural insurance system and a proper tax policy. The article deals with about these in detail.

Keywords:

Agricultural sector, finance, budget, tax

Azerbaycan'da Tarım Sektörünün Finansal Mekanizmasının İyileştirilmesi Yönleri

ÖZET

Azerbaycan'da tarım sektörünün gelişmesi, bu sektörün mali güvenliğinin iyileştirilmesiyle yakından bağlantılıdır. Bu nedenle tarım sektöründe finansal güvenliğin iyileştirilmesi ve finansal güvenliğin kaynaklarının araştırılması konuları oldukça güncel konular olarak değerlendirilmektedir. Tarımsal üretimde finansman kaynakları iç ve dış olmak üzere ikiye ayrılabilir. İç kaynaklar; çiftlikten elde edilen gelir, amortisman kesintileri ve üretim geliştirme için kârın bir kısmından yapılan kesintileri içerir. Dış finansman kaynakları da kendi içinde borç finansmanı ve borç dışı finansman olmak üzere iki gruba ayrılmaktadır. Borç finansmanı, uzun vadeli banka kredilerini, yatırım amaçlı devlet kredilerini ve diğer kredi kaynaklarını içerir. Geri ödenmeyen mali yardımlar, sübvansiyonlar ve hibeler geri ödenmeyen kaynaklar olarak sınıflandırılır. Tarım sektörünün finansal mekanizması, Azerbaycan'ın sürdürülebilir ekonomik kalkınması için kritik öneme sahiptir. Çalışmanın temel amacı, Azerbaycan tarım sektöründeki mevcut finansal mekanizmaları analiz etmek, güçlü ve zayıf yönlerini belirlemek ve finansal erişimi, verimliliği ve sürdürülebilirliği artırmak için pratik yönlendirmeler ve politika önerileri sunmaktır. Çalışma, genellikle karma yöntemli bir yaklaşım benimseyerek şunları bir araya getirir: ulusal politika belgelerini (örneğin, Stratejik Yol Haritası, sübvansiyon yasaları), istatistiksel raporları ve ilgili literatürü incelemek, Azerbaycan'ın finansal araçlarını uluslararası örnekler ve en iyi uygulamalarla karşılaştırmak. Bu tür bir çalışmanın temel bulguları, Azerbaycan'ın elektronik sübvansiyonlar, imtiyazlı krediler ve leasing programları gibi devlet destekli finansal mekanizmaların genişletilmesinde önemli ilerleme kaydettiğini, uygulamanın çoğunlukla devlet tarafından yönlendirildiğini, özel sektör ve ticari bankacılık katılımının sınırlı olduğunu, birçok çiftçinin, özellikle küçük çiftçilerin, hâlâ bilgi engelleriyle karşı karşıya olduğunu, finansal okuryazarlıktan yoksun olduğunu ve teminat gereksinimlerini karşılamada zorluk çektiğini göstermektedir. Çalışma, belirli yönlerle sonuçlanmaktadır: sübvansiyon sisteminin modernizasyonu, dijital finans araçlarının genişletilmesi, çiftçi eğitiminin iyileştirilmesi, risk yönetimi araçlarının güçlendirilmesi ve daha fazla özel yatırımın teşvik edilmesi. Ülkede tarımın finansman mekanizmasının iyileştirilmesine yönelik temel yönelimler arasında bütçe finansmanı, devlet bütçesinden doğrudan sübvansiyonlar, banka kredileri, Girişimciliği Destekleme Ulusal Fonu'ndan sağlanan imtiyazlı fonlar, temel yatırım hizmetleri olarak leasing hizmetleri, tarım sigorta sisteminin örgütlenmesi ve sağlam bir vergi politikası yer alıyor. Makalede bunlara ilişkin geniş bilgi verilmektedir.

Anahtar kelimeler:

Tarım sektörü, finans, bütçe, vergi.

Introduction

One of the strategically important sectors of the national economy is agriculture. Ensuring food security in the country directly depends on its level of development. At the same time, the important role of this sector is also manifested in solving the employment problems of people living in the regions and areas. However, it should be especially emphasized that the existence of functional and efficient financial mechanisms is important in ensuring food abundance, increasing the competitiveness of the agricultural sector, and increasing the level of self-sufficiency in basic food and food products..

The agricultural sector plays a vital role in Azerbaijan's sustainable economic growth and food security objectives. As the country pursues economic diversification beyond oil and gas, developing a resilient and modern financial mechanism for agriculture has become a strategic priority. Despite substantial natural resources and agricultural potential, farmers and agribusinesses often face barriers to accessing affordable finance, modern credit instruments, and risk management tools.

The significance of this topic lies in the fact that a well-functioning financial system is a key enabler for increasing agricultural productivity, fostering technological upgrades, and ensuring the resilience of rural livelihoods.

The theoretical background for this study draws from development economics and public intervention theories. In the context of market failure theory, rural finance is often underprovided by purely commercial markets due to high transaction costs, information asymmetries, and collateral constraints. Therefore, targeted state intervention-through subsidies, concessional loans, leasing schemes, and agricultural insurance-can correct these failures and facilitate efficient capital allocation for agricultural development (Binswanger & Rosenzweig, 1986). This aligns with the wider literature emphasizing the role of institutional support and government-led programs in developing economies' rural sectors.

The primary objective of this study is to examine the current state of the financial mechanism supporting Azerbaijan's agricultural sector, identify key strengths and weaknesses, and propose evidence-based directions for improvement. Specifically, the study aims to assess the effectiveness of existing tools such as subsidies, concessional credit, leasing, and insurance schemes, analyze how well these mechanisms address farmers' real financial needs and risks, offer practical policy recommendations to enhance access to finance, promote investment, and improve the financial sustainability of the sector.

As one of the main objectives of state support in agriculture, the creation of a financial base remains one of the main conditions for its sustainable development. Considerable funds are required for the development of infrastructure in agriculture, providing current production activities with financial resources, insuring existing risks, introducing new technologies, etc. Financial provision of agriculture is carried out at the expense of funds collected by market structures and state bodies. It is impossible to imagine the development of agriculture without an efficient financial mechanism. Therefore, financial regulation occupies a special place as an integral part of the state regulation system of agriculture (Nasibov, A.C. p. 21).

1. Literature review

The development of the agricultural sector is crucial for ensuring food security, economic diversification, and sustainable rural development in Azerbaijan. Numerous studies have examined the role of financial mechanisms in boosting agricultural productivity and sustainability. World Bank (2019) highlights that modernizing agricultural finance systems in developing countries requires creating diversified funding sources, introducing credit guarantee funds, and developing microfinance institutions tailored to small farmers. Similarly, OECD Reports emphasize the importance of rural credit markets, agricultural insurance, and subsidies in mitigating risks and stabilizing farmers' incomes. Binswanger and Rosenzweig (1986), in their seminal work, pointed out that access to affordable credit remains one of the main constraints for smallholders in rural economies. Recent studies by FAO (2020) further stress integrating digital financial services to overcome traditional barriers to finance in rural areas.

Research by Lerman and Sedik (2013) on agricultural financing in post-Soviet countries suggests that legacy issues such as land tenure insecurity, weak rural banking infrastructure, and limited collateral options impede efficient credit allocation. They argue for innovative financial instruments like warehouse receipts, contract farming, and public-private partnerships to attract investment into the sector.

In the Azerbaijani context, researchers like Aliyev (2020) and Mammadov (2021) have analyzed the specific challenges of financing the agricultural sector. Aliyev argues that while state subsidies and concessional loans have improved, there are still significant gaps in private sector participation and commercial bank lending to agriculture.

The literature reveals a consensus on several directions to improve the financial mechanism of Azerbaijan's agricultural sector:

- Diversification of funding sources: Beyond state support, more emphasis on private investments and partnerships.

- Expansion of rural financial infrastructure: Developing rural banks, credit cooperatives, and mobile banking services.
- Risk mitigation tools: Strengthening agricultural insurance, hedging instruments, and flexible collateral frameworks.
- Capacity building: Improving farmers' financial literacy and the institutional capacities of local financial institutions.

Existing studies collectively underline that strengthening the financial mechanism for agriculture in Azerbaijan requires a combination of policy support, institutional reform, and the adoption of modern financial instruments aligned with international best practices.

Atashov, B.X. (2017) indicates that, conditionally, financial sources in agricultural production can be divided into two parts:

- Internal;
- External

Internal sources include income from the farm, depreciation deductions, and deductions from part of the profit for the development of production. However, due to the possibilities of using internal sources, we can assume that the situation in the agrarian sphere is sometimes problematic. In some cases, the urgent need to attract external financial resources arises because production entities do not receive the necessary income.

Mammadova, U. (2021) finds that, in turn, external sources are divided into two groups: through debt and non-repayable financing. Long-term bank loans, state loans for investment purposes, and other credit resources are included in debt financing. Non-repayable financial assistance, subsidies, and grants are classified as non-repayable sources. However, at present, it may be appropriate to apply new approaches to improving credit provision for producers.

According to Gasymova, N. (2020), in order to attract investments to the agricultural sector and create the necessary investment environment, it is necessary to provide effective tax and credit opportunities to investor organizations.

Although various international and national studies have extensively addressed agricultural development and rural finance in general, the specific context of Azerbaijan's agricultural financial mechanisms remains underexplored and fragmented. Many existing works - such as World Bank and OECD reports - focus on general rural finance, credit access, and risk management strategies in developing countries or post-Soviet economies. Likewise, a few Azerbaijani studies examine state support instruments, subsidies, and concessional loans. However, there is still a lack of comprehensive research that systematically analyzes the effectiveness, challenges, and future directions of the financial mechanism in the agricultural sector, specifically for Azerbaijan.

Most previous studies either:

- Focus too broadly on the overall economy, touching agriculture only superficially;
- Discuss state support, but do not sufficiently evaluate private financing, investment attractiveness, or modern instruments like agricultural insurance and digital finance;
- Provide statistical overviews without offering actionable, evidence-based strategies for practical improvement.

Moreover, recent economic shifts - such as climate change impacts, global food market volatility, and Azerbaijan's goals for non-oil sector diversification - highlight the urgent need to modernize agricultural financial mechanisms to ensure resilience and sustainable rural livelihoods. Therefore, this study aims to fill this gap by critically reviewing both local and international best practices, identifying weaknesses in the current system, and proposing practical directions to enhance financing instruments, risk mitigation tools, and institutional frameworks tailored to Azerbaijan's unique socio-economic and geographical conditions.

This study contributes to the existing literature in several significant ways:

While international studies widely cover agricultural finance in general and the challenges of rural credit in developing or transition economies, there is limited systematic research focusing specifically on Azerbaijan's agricultural sector. This study addresses this gap by providing an in-depth, country-specific analysis that considers the unique socio-economic, climatic, and institutional conditions of Azerbaijan's agriculture.

The study critically reviews the effectiveness of current financial instruments such as state subsidies, concessional loans, and rural credit programs, and compares them with best practices from similar economies. This comparative approach enriches the literature by identifying strengths and shortcomings specific to Azerbaijan.

Unlike many earlier works that focus narrowly on credit access or subsidies, this research highlights the importance of risk mitigation tools, such as agricultural insurance schemes, value chain financing, and digital financial services. It thus

broadens the academic discussion on how innovative financial instruments can strengthen the sector's resilience to climate and market risks.

By combining theoretical perspectives with empirical observations, the study offers practical directions for policymakers and practitioners on how to diversify funding sources, improve rural financial infrastructure, and stimulate private sector involvement. This bridges the gap between theory and practice, providing actionable knowledge rather than only descriptive analysis.

Finally, the study contributes to the broader discourse on sustainable rural development by linking financial mechanism improvements to food security, income stability, and economic diversification, which are key strategic goals for Azerbaijan beyond its oil-dependent economy. In summary, this research fills a clear gap in the literature by providing a comprehensive, evidence-based, and locally grounded analysis of the financial mechanism in Azerbaijan's agricultural sector and by proposing targeted measures that can inspire both national policy reforms and further academic studies.

However, it should be emphasized that the literature on improving the financial mechanism of the agricultural sector in Azerbaijan is quite limited. Existing studies do not provide sufficient data for an in-depth examination of the issue and do not include practical solutions. This deficiency necessitates, from both academic and policy-making perspectives, systematic research aimed at improving the effectiveness of financial mechanisms in the agricultural sector. Therefore, addressing this gap in this area will both contribute significantly to the literature and form the basis for the development of sectoral strategies.

2. Theoretical background

The agricultural sector is of strategic importance in Azerbaijan's socio-economic development. The financing of the agricultural sector is an important research area in terms of both economic development theories and rural development approaches.

1. **Development Economics Theories.** Development economics focuses on increasing productivity and improving income distribution in underdeveloped or developing regions. According to many development economists, the agricultural sector is one of the primary engines of economic growth. In this context, supporting the agricultural sector with effective financing mechanisms is considered critical for modernizing production and reducing rural poverty. Development Economics is a branch of economics that examines the transformation of the socio-economic structures, growth processes, and increasing welfare levels of low-income or developing countries. This field encompasses not only economic growth indicators but also multidimensional issues such as poverty, income distribution, unemployment, rural development, and institutional transformation. Classical economists such as Adam Smith and David Ricardo argued that wealth would increase through international trade and the division of labor. Ricardo's Theory of Comparative Advantage predicts that developing countries can develop through foreign trade.

2. **Agricultural Finance Theory.** Agricultural finance theory covers topics such as the liquidity needs of agricultural enterprises, access to credit, risk management, and the efficient use of financial instruments. Because the agricultural sector is exposed to high-risk factors such as climate, market fluctuations, and natural disasters, the need for appropriate financing models is significant. In this context, cooperative banking, agricultural insurance, state-supported subsidies, and microcredit practices form the theoretical cornerstones. Agricultural finance theory was developed at the beginning of the 20th century, when rural development was considered a priority area. Scholars such as Binswanger and Rosenzweig (1986) emphasized that modernization in agriculture depends on financial access. Limited credit flow in agriculture reduces production potential and increases rural poverty.

3. **The Azerbaijani Context:** After independence, Azerbaijan experienced transformations in the agricultural sector, including the transition to a market economy, changes in ownership structure, land reforms, and privatization. However, the development of financing mechanisms, the implementation of modern credit instruments, and the strengthening of the financial infrastructure have not yet been fully resolved. This situation limits productivity growth and competitiveness in the agricultural sector. The Republic of Azerbaijan's strategic roadmaps for the agricultural sector, regional development programs, and rural development strategies provide the basic framework for the development of financial mechanisms. These documents include objectives such as diversifying the agricultural sector's financial support instruments, establishing a modern financial infrastructure, and increasing farmers' financial literacy.

4. **The Gap in the Literature.** The existing literature generally analyzes the general situation of the agricultural sector, production infrastructure, and agricultural policies. However, issues such as addressing financial mechanisms holistically, proposing new models appropriate to local conditions, and evaluating the effectiveness of existing mechanisms have not yet been sufficiently examined.

The theoretical background of this study: drawing on agricultural financing theories, development economics approaches, and the socio-economic realities of Azerbaijan, the study provides a theoretical basis for improving financial mechanisms to support sustainable growth in the agricultural sector.

3. Sources of financing the agricultural sector

Budget financing is considered one of the most important external sources. The state budget can significantly improve the financial situation of agriculture. The government implements a stabilising financial policy in the agricultural sector through budget spending, thus creating the conditions for the formation of efficient financial resources. In practise, the following areas of effective use of expenditures are observed:

1. Payment of subsidies to agricultural producers. This covers part of the costs of purchasing mineral fertilisers;
2. Granting subsidies for technological innovations, the purchase of modern machinery and equipment;
3. Granting subsidies for livestock farming in regions with low agricultural development and financing the production of animal feed.

One of the most important sources of funding for agriculture are direct subsidies from the state budget. The experience of countries with a more developed agricultural sector shows that subsidies provided by the state are of great importance for the material and technical support and promotion of producers in this direction.

It should be noted that in the conditions of globalisation, it will be impossible to increase the competitiveness of agriculture or increase the efficiency of local agricultural production if state financial support for agriculture is not increased. In order to develop agricultural infrastructure, it is necessary to attract various types of investments along with budget sources (Gasimova, N, 2020, p. 11). The most important factor for successful activity in agriculture is the presence of reliable and long-term investors. However, the conditions for investing in agriculture should be quite transparent and attractive. Without substantial state investment, it is impossible to successfully develop agriculture. Two main directions of state policy can be identified in the proper regulation of investment activity in agriculture: the creation of favourable conditions and the involvement of the state in direct investment activities. It should be noted that the main threat to the country's food security is the decreasing attractiveness of investment in agriculture.

At present, the improvement of leasing mechanisms is seen as one of the ways to solve the problems related to investment in agriculture. Leasing has long been the most important form of financing machinery and equipment purchased by economic entities in our country. It is important to pay special attention to one point. In international practise, those who make leasing offers analyse the existing demand on the market and identify new competitive advantages. These advantages may consist of developing new products, identifying gaps in the market and differentiating in terms of additional services and product value and supply.

One of the most important financing options in the agricultural sector is lending. The fact that the flow of money to businesses does not coincide with the time of its utilisation is considered one of the main reasons for the need for credit relations in agriculture. Currently, the most important work in this direction is the “Rules for the use of funds of the Agency for Agricultural Credit and Development under the Ministry of Agriculture”, approved by the Decree of the President of the country of 2018. According to these rules, the Agency’s funds can be used for the sale of means of production in agriculture on preferential terms, for financing leasing and loans, for financing projects to improve the production, storage, processing and sale of products, for financing pilot projects of the Ministry of Agriculture, for financing innovative projects for the development of the agricultural sector in the regions, for financing projects for the development of livestock farming within the framework of a public-private partnership, etc. The use of the funds is regulated on the basis of the contract concluded between the Agency and the authorised credit organisations. Entrepreneurs officially apply to the authorised credit organisations for the allocation of leasing funds, the granting of loans and concessions. Applications are reviewed by the approved credit institutions and analysed on the basis of the evaluation criteria and project development requirements established by the Ministry of Agriculture of the Republic of Azerbaijan. A decision on the provision of loans, concessions and leasing funds is made no later than 15 working days after the application is submitted. If the decision is not favourable, the entrepreneurs receive a reasoned rejection letter (Ministry of Justice of the Republic of Azerbaijan, Unified Electronic Database of Legal Acts, n.d.)

Despite the measures that have been taken in agriculture and the mechanisms that are constantly being developed, producers are faced with a lack of financial resources for certain reasons. Therefore, they are forced to take out loans (Guliyev, E.A, 2020, p. 112). The main feature of lending in agriculture is that it is tied to seasonal spending. However, in the current conditions, the low income level of producers and their inability to provide the necessary collateral for the loan mean that banking institutions and credit organisations are not interested in channelling funds into agriculture (Bugueva, T.N., 2018, p. 45). We believe that the credit system needs to be improved by banks in order to stimulate activity in agriculture and strengthen its sustainability.

The increase in bank funding for farmers proposed in the study is essentially aimed at closing the financing gap in the agricultural sector and making it easier for producers to access credit. However, such a proposal cannot always be effectively implemented by private sector banks alone. This is where the theory of market failure and public intervention come into play.

Agricultural loans are usually granted to small, widely dispersed producers. Banks lack complete information about farmers' repayment capacity, crop risk or land value. This creates an asymmetric information problem. Agricultural production is subject to factors such as climate, disease and price fluctuations. These risks either increase lending rates or drive banks out of the agricultural sector. Agricultural production offers social benefits such as food security and employment in rural areas. However, private banks ignore these externalities and focus solely on the individual risk-return balance when loans. As a result, the financing gap in agriculture is generally not sufficiently addressed under free market conditions. This is a typical example of market failure.

So why is public intervention necessary?

The theory of public intervention states that when there is a market failure, the state intervenes to maximise social welfare. This intervention can take place in various ways in the agricultural sector:

- Subsidised loans: The state can make funds available to banks for low-interest loans or grant interest subsidies to farmers.

- Loan guarantee fund: A government guarantee can be offered to alleviate farmers' security problems.

- Public banks: Public banks (e.g. agricultural banks) that develop agriculture-specific credit programmes can be established or strengthened.

- Regulation and supervision: The government can require banks to lend to the agricultural sector or issue regulations to promote agricultural banking.

The failure of the market, insufficient access to finance, the inability of the private sector to fully manage risks and the need for state intervention make it necessary for the state to create mechanisms to increase the volume of credit, share risks and promote production in order to achieve the social optimum. In this context, the proposal can be interpreted as follows: Increasing bank resources for farmers should be supported by public intervention when the market alone cannot provide a sufficient supply of credit.

At present, the preferential loans granted by the Entrepreneurship Development Fund play an important role in the financial supply of agricultural products in our country. In our country, the financial possibilities of this fund are one of the most important instruments used in the country to strengthen the entrepreneurial environment of the targeted state policy. Low-interest loans are considered one of the most important financing mechanisms for entrepreneurs to expand their business. The number of entrepreneurs to whom the Entrepreneurship Development Fund granted soft loans in 2024 reached 5,722. This is an increase of 74.7% compared to 2023. The amount of loans granted increased by 28% and amounted to 248.1 million manats (Ministry of Economy of the Republic of Azerbaijan, 2024).

4. Qualitatively new requirements in financing the agricultural sector

The current market situation in the agricultural sector creates qualitatively new requirements for the application of the latest achievements in various areas and the implementation of production processes in an innovative way. For this purpose, it is necessary to correctly determine the main directions of improvement of the state financial mechanism in agriculture. At present, financial support in the agricultural sector can go in the following directions: Provision of loans, provision of subsidies and grants, insurance, taxation, price regulation, etc.

The granting of loans implies the development of mortgage loans, the use of credit systems with guaranteed conditions, the development of leasing and the granting of subsidies implies the provision of support to agricultural producers in unfavourable conditions. This also implies a differentiated approach in determining the level of budget support in different areas and regions. The application of a system of guaranteed minimum prices for products produced for sale by agricultural producers is considered one of the most important prerequisites for price regulation in this sector. The creation of a transparent and solid reinsurance system and the improvement of insurance services are considered the most important financial support for agriculture. In our country, an agricultural insurance fund has even been set up for this purpose. The main objective of the fund is to ensure the development and sustainability of agriculture and to further strengthen the organisation of the insurance system. The Fund was established in accordance with the principles of public-private cooperation as a non-profit legal entity created by the state to provide insurance services for certain risks.

Carry out some work to ensure that the agricultural sector utilises the banks' resources effectively. Several practical policy measures are proposed. Firstly, the creation of specialised agricultural credit institutions and the strengthening of rural credit cooperatives could increase financing opportunities for small and medium-sized enterprises. Second, expanding government guarantee programmes and increasing interest rate subsidies would help reduce the cost of credit and incentivise commercial banks to lend more to rural areas. Thirdly, it is important to develop agricultural insurance products and risk hedging instruments to protect farmers from climate-related and market-driven price volatility. Finally, improving financial literacy and promoting digital banking solutions would contribute to more effective lending and greater financial inclusion in rural communities.

The main objective of the organisation of the agricultural insurance system is to support the establishment and development of the infrastructure of the insurance market, to create protection for agricultural products against risks, to support producers' access to financial resources, to ensure the sustainability and competitiveness of product production and to strengthen the organisation, sustainability and development of the insurance system (Agricultural Insurance Fund).

Studies show that the fiscal policy of each country is of particular importance for the development of the agricultural sector and the elimination of the financial problems of the sector. The experience of developed countries shows that the creation of a progressive tax system in the country and its flexible functioning is one of the most important conditions that create real opportunities for the dynamic development of the national economy. A progressive tax policy enables high growth of national production sectors and further acceleration of economic development. One of the economic sectors covered by this policy line is the agricultural sector, and the implementation of an optimal tax policy in this sector is increasingly bearing fruit. Currently, significant tax incentives are applied in the agricultural sector in our country.

“In accordance with the amendments to the Tax Code of the Republic of Azerbaijan dated 22 November 2013, agricultural producers are exempt from paying other taxes, with the exception of property tax, for a period of 5 years from January 2014. These taxes include the following:

- vAT on turnover from the sale of products that are simultaneously produced industrially by agricultural producers;
- income tax on the income that legal entities engaged in agricultural production earn from their activities;
- property tax on the property used by natural and legal persons engaged in agricultural production (including industrial processes) during their activity;
- the scope of income from the sale of products manufactured by producers in agricultural production (including industrial processes) is not subject to taxation under the simplified tax.

The application of tax incentives in improving the financial security of the agricultural sector plays an important role in improving the legal framework, the personnel training system and scientific and methodological support, strengthening the material and technical base, improving land reclamation and irrigation works in the fields, promoting the increase in the production of competitive products, the coordinated development of raw material production and processing areas and ensuring the efficient use of land and water resources.

By improving the quality of tax regulation in the agricultural sector, the state achieves a number of objectives. On the one hand, entrepreneurship is promoted, employment in the agricultural sector is strengthened and product production is increased through well-organised activities. At the same time, it increases the volume of funds available to taxpayers and has the effect of improving their financial possibilities.

However, it is also important to bear in mind that these incentives are intended for a certain period of time. Therefore, in our opinion, it is very important to consider some factors in order to extend the duration of said incentives. If the tax incentives for production are discontinued after a certain period of time, this will lead to a further decrease in the income of those who work in rural areas. This will accelerate the migration of people whose incomes are already low to the cities, and the villages will remain empty. The imposition of taxes on producers' products will significantly increase their costs, which will lead them to engage in more profitable activities, the volume of production will decrease, which will lead to food shortages. Maintaining the period of price discounts will lead to an increase in the prices of local products compared to the prices of foreign products. As a result, the weakening of the competitive environment will create conditions for the entry of genetically modified, low-quality foreign goods into the country's markets. In addition, the abolition of tax relief in agriculture will lead to a slight decline in investment, which is already insufficient.

Conclusion

This study has analysed the current state and structural weaknesses of the financial mechanism in the Azerbaijani agricultural sector, highlighting challenges such as limited access to affordable credit, underdeveloped rural banking infrastructure and insufficient risk mitigation instruments for farmers. The analysis shows that while agriculture is a strategic sector for diversifying the economy beyond oil and gas, existing financial mechanisms do not yet meet the modern investment needs of the sector.

Key findings show that improving farmers' access to banking resources requires a balanced approach that combines private sector development with targeted public interventions. In particular, the study confirms that the presence of market failures - such as asymmetric information, high transaction costs in rural areas and lack of collateral - justifies selective government support to stimulate credit flows and improve risk-sharing mechanisms.

In response to these findings, several concrete policy directions are proposed. First, the establishment of specialised agricultural credit institutions and the strengthening of rural credit cooperatives would help to expand financing options for small and medium-sized farms. Second, the government should consider expanding its guarantee schemes and interest rate subsidies to reduce the cost of credit and encourage commercial banks to lend more actively in rural areas. Thirdly, the promotion of agricultural insurance and hedging instruments is crucial to reduce farmers' vulnerability to climate and price

risks. Finally, improving financial literacy and digital banking services can lead to more efficient credit and greater financial inclusion in rural areas.

Thus, the agricultural sector, as the most important part of the non-oil economy, unites the main directions of the national economic security platform in our country. The strategies to further improve food security include the development priorities of the agricultural sector and the main supporting measures. At present, further improvement of efficient financial, banking, tax and customs mechanisms is considered one of the most important priorities in this area. It is advisable to expand financial services in the agricultural sector, create favourable credit opportunities and increase the activity of banks and credit institutions in this direction. This is the only way to ensure producers' access to bank loans. It is advisable to strengthen the role of institutions that expand credit opportunities for entrepreneurs and farmers in agriculture, mutual aid funds, consumer co-operatives, etc. At the same time, it is important to take more effective measures to increase investment attractiveness.

In conclusion, the study underlines that a modernised and more inclusive financial system for agriculture is crucial to unlock the sector's potential and achieve sustainable rural development in Azerbaijan. Future research could explore the effectiveness of specific instruments, such as digital lending platforms and green financial instruments, to further support a resilient and diversified agricultural economy.

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