

## *Main directions for increasing the efficiency of financing small and medium businesses engaged in the agricultural sector.*

**Abstract:** The article discusses the specifics of small and medium-sized businesses in the agricultural sector of the economy. Various forms of financing and investment of funds in agriculture are analyzed. Various ways to ensure financial efficiency and sustainability in small and medium-sized businesses are considered. The validity of state support for small and medium-sized businesses in the agricultural sector of the economy is given. The possibilities of attracting private investment and the possibility of operating small and medium-sized businesses in the agricultural sector of the economy are characterized. Forms of state support are analyzed, as well as the possibilities of using preferential loans and financial resources allocated from the country's budget and transferred to the balance sheet of related financial institutions.

**Keywords:** Small and medium-sized businesses, entrepreneurship, agricultural sector, financial investments, government support, microloans, capital.

\* UNEC PhD-student  
Email: ahmadova-leyla@hotmail.com

**Összefoglalás:** A cikk a gazdaság mezőgazdasági ágazatában működő kis- és középvállalkozások sajátosságait tárgyalja. A finanszírozás és a pénzeszközök befektetésének különböző formáit elemzi a mezőgazdaságban. A kis- és középvállalkozások pénzügyi hatékonyságának és fenntarthatóságának különböző módjait vizsgálja. A gazdaság mezőgazdasági ágazatában működő kis- és középvállalkozások állami támogatásának érvényessége adott. A tanulmány bemutatja a magánbefektetések bevonzásának lehetőségeit, továbbá a kis- és középvállalkozások működésének lehetőségét a gazdaság mezőgazdasági ágazatában. Elemzi az állami támogatás formáit, valamint a kedvezményes hitelek és az ország költségvetéséből elkülönített és a kapcsolódó pénzintézetek mérlegére átutalt pénzügyi források felhasználásának lehetőségeit.

**Kulcsszavak:** Kis- és középvállalkozások, vállalkozói tevékenység, mezőgazdasági ágazat, pénzügyi befektetések, állami támogatás, mikro-hitelek, tőke.

## Introduction

Small and medium-sized businesses are one of the foundations of the country's economic development. This judgment is confirmed by an analysis of the country's economic activity indicators. The quantitative growth in the performance of small and medium-sized businesses involved in various sectors of the economy affects the growth of financial contributions to the country's budget in the form of taxes. It should be noted that despite the fact that some industries are exempt from tax deductions during the grace period for business formation and development, their activities nevertheless stimulate an increase in tax deductions by other enterprises. In developed countries, tax contributions of small and medium-sized enterprises to the state budget, the share of which in it varies between 50–70%. In this regard, it should be noted the urgent need to support small and medium-sized businesses from the state due to the direct impact of these enterprises on macroeconomic indicators. The economic indicators of SMEs (small and medium-sized businesses) ultimately provide a significant impact on macroeconomic dynamics in such indicators as employment, national income, etc.

The success of SMEs lies primarily in flexibility and adaptation to constantly changing market conditions. Ensuring flexibility occurs through the introduction of innovations or the creation of unique mechanisms capable of sustainability in changing market conditions.

The need for enterprises to improve in a competitive environment is in a constant search for the creation and improvement of the product range of manufactured products. Small enterprises created on the basis of the search and development of new types and forms of products, in other words, startups, are aimed at meeting market demand with limited opportunities. Increasing production capacity facilitates the transition of startups from one form of business to another. In some cases, a startup is absorbed or joins large companies interested in the production of these types of goods, providing their production capabilities for this.

During the transition period from the beginning of reforms in the Republic of Azerbaijan to the current state of the industry, fundamental changes have occurred in the agricultural sector of the economy. Considering the specificity of this sector of the economy, it should be noted that the formation and functioning of these enterprises operating in the agricultural sector is much higher than in industry. The reason for this trend is the peculiarity of the country itself, expressed by the fact that a large part of Azerbaijan is agricultural. Thus, the emergence of new small and medium-sized businesses is natural.

## Specifics of small and medium-sized businesses in the agricultural sector

The functioning of SMEs in the agricultural sector of the economy faces specific difficulties. The creation of enterprises faces financial difficulties due to the seasonal nature of both cultivating lands suitable for cultivating agricultural goods and harvesting crops from these lands. The difficulties of financing the agricultural sector lie in the number of entrepreneurs involved in it and their solvency. The financing deficit in this sector is caused primarily by the repayment period and seasonality of enterprises. The underfinancing of agricultural enterprises is largely due to the low attractiveness of the sector and the long repayment period, subject to an extended payback period for investments. It should be noted that traditionally the sector is always and in almost all states subsidized and subsidized [1].

Farms involved in the agricultural sector of the economy most often use financing in the form of microloans . The main reason for using microfinance is not the demand for large financial resources, but the necessary amount for carrying out certain operational activities. The maximum required amount usually varies in the range from 1000 to 7000 thousand manats . A completely fair question arises about attracting large financial resources to carry out the necessary agricultural work. The main reason for the refusal to attract sufficient financial resources is, perhaps, low solvency and risk factors, primarily not the yield and cost of products on the market.

State financial support for the agricultural sector allows farms to not only stay afloat, but also earn a certain profit. However, even for enterprises to receive state financial support, bureaucratic barriers arise that do not allow farmers to carry out the necessary activities in a timely manner. Despite the fact that the above-described fact is isolated, it is still present.

Private investments in the agricultural sector are insignificant and their share in overall financing is small. The unattractive investment background is mainly due to possible risks that may arise during the financing process, as well as alternative investment choices. The process of development of small and medium-sized businesses is dynamically developing in the non-oil sector of the economy. Diversification of economic development has allowed the emergence and functioning of many industries involved in the non-oil sector.

[1] Сеадат Гаджиева:  
*Воздействие паритета цен в аграрном секторе на прибыль производителей.*  
<https://agroecconomics.az/az/article/12/aqrar-sahede-qi-ymet-pari-tetli-yi-ni-n-i-stehsalc/?p=5>

[2] Статистические данные по предпринимательству в Азербайджане. <https://stat.gov.az/source/entrepreneurship/>

Based on indicators from the State Statistics Committee, the data below demonstrates the main trends in macroeconomic indicators in SMEs.



The diagram was compiled by the author based on statistical data <https://stat.gov.az/source/entrepreneurship/> [2].

As can be seen from the above diagram, quantitative and qualitative indicators during 2022 formed in the positive zone of data dynamics. The constant increase in the number of new enterprises satisfies the growing needs of the market, and they are involved in various fields, including the agricultural sector. The number of business enterprises was formed in 2022 in a total of 377,842 entities, of which 366,944 are micro-businesses, including 31,638 legal entities, and 335,306 individuals. In 2022, 121,737 new entrepreneurs were registered.

The number of small business entrepreneurs was 7,760, of which all are legal entities. The number of medium-sized enterprises was 3138, which were legal entities. The largest number of entrepreneurs was recorded in Baku: 71,690 of which are 9,655 micro, 23,132 small and 38,903 medium businesses. The total amount of products produced is 29,003,312.6 thousand manats.

The assets of SME enterprises in the agricultural sector amounted to 2567.6 thousand manats with a share of 74.5 percent. The amount of products produced in the agricultural sector amounted to 916,519.6 thousand manats, which amounted to 56.1% of the sectoral share of the economy. The additional profit created by SMEs in the agricultural sector amounted to 490.3 million manats with an average wage of 522.2 manats with a share of 64.5 percent. Tax payments to the country's budget amounted to 16.9 million manats [2].

[2] Статистические данные по предпринимательству в Азербайджане. <https://stat.gov.az/source/entrepreneurship/>

## Forms of investment support for small and medium-sized businesses

There are various forms of attracting financial resources to agriculture, or rather investing. Investment forms can vary from simple to complex. The source of financing can be the entrepreneurs themselves and their relatives. In this case, their motives do not include purely financial interest, agreeing to a low level of profitability and high motivation for the development of the enterprise itself. Perhaps the only limitation may be insufficient funding or limited financial resources.

Another source of financing can be “business angels”, who are highly demanding of approved projects during the implementation of which they will control all stages of implementation. Unfortunately, most investors of this type are more often involved in the creation of innovative products than in supporting conventional activities.

Suppliers of products can act as a source of financing where entrepreneurs can take out a trade loan, but in this case this measure is short-term in time and risky in terms of implementation. Banks can act as a source of financing through various operations such as: factoring and discounting of invoices, loans, leasing of machinery and equipment, etc. Long-term lending from the bank can be provided in cases of provision of large assets such as buildings, land plots and various types of property. In this case, the provision of property and land plots as collateral is not beneficial for the entrepreneurs themselves in the form of the risk of loss of personal property.

Another source can be venture capital, the peculiarity of which is that for investors it is a highly risky financial investment, and payback is achieved through a large share of profit from sales, which is naturally not profitable in agricultural business.

[3] Чучкалова И. Ю.–Паюсов А. А.: *Оценка эффективности мер по стимулированию инвестиционной активности малого предпринимательства*// Региональная экономика и управление: электронный научный журнал. ISSN 1999-2645. — №1 (69). Номер статьи: 6910. Дата публикации: 24.02.2022. Режим доступа: <https://eee-region.ru/article/6910/>

[4] *Распоряжение президента Азербайджанской Республики И. Алиева по улучшению уровня обеспечения продовольственных запасов и улучшения аграрной инфраструктуры.* <https://eqanun.az/framework/4467>

[5] *Статистические данные по предпринимательству в Азербайджане.* <https://stat.gov.az/source/entrepreneurship/>

[6] *Стратегическая дорожная карта Азербайджанской Республики.* <https://static.president.az/pdf/38542.pdf>.

[7] *Кредитная организация агрокредит.* <https://www.aqrarkredit.az/>

[8] Access банк <https://www.accessbank.az/az/business/loans/alda-loans/>

[9] *Агролизинг.* <https://www.agro.gov.az/az/nazirlik/merkezi-aparat-ve-struktur/tabeliyyindeki-qurumlar/aqrolizing-asc>

Supply chain financing is unprofitable for the agricultural sector since the amount of financial allocations, as well as the financial condition of enterprises, is insufficient to ensure the uninterrupted supply of necessary goods for agricultural needs.

A more modern method is crowdfunding, but since agriculture is not a promising area of investment, the use of this electronic platform cannot be a guaranteed financial source.

The most optimal source of financing, perhaps, are government agencies operating in the field of agricultural business and banks specializing in micro-finance. Basically, a large share of financing comes from state-owned specialized banking and financial institutions. In fact, the only and stable guarantor ensuring the implementation of various agricultural works is the state [3].

## State support for the agricultural sector of Azerbaijan

The observed dynamics of growth in quantitative and qualitative indicators would not have been possible without the implementation of various government programs providing support for SMEs in the agricultural sector of the economy. The state budget provides for annual subsidies and subsidies for agricultural work. In order to support the agricultural sector, in particular, the following state development programs were implemented: On March 2, 2001, as part of ensuring state food security, the President of the Republic of Azerbaijan I. Aliyev issued an order to improve the level of food supplies and improve the agricultural infrastructure [4]. Presidential Order No. 881 dated January 10, 2019 on supporting innovative development [5]. Strategic road map in the section production and processing of agricultural products of the Republic of Azerbaijan dated December 6, 2016 [6]. Issuance of agricultural loans on preferential terms with financial resources allocated by government bodies to credit organizations. Loans are provided by the credit organization agrocredit [7]. Agricultural loans provided by Access Bank at 12% for micro-credit and 7% for small and medium-sized businesses [8]. The state company Agroleasing under the Ministry of Agriculture provides agricultural machinery on preferential loans at 60% of leasing; the remaining amount is allocated by the state [9].

In order to simplify the procedures for obtaining preferential loans, as well as educate farmers, various electronic platforms have been created by the Agency for Agrarian Development and Credit under the Ministry of Agriculture, Agricultural Services Agency [10, 11].

Thus, the state is the main investor and financial guarantor of various works in agriculture.

## Measures to increase the efficiency of financing small and medium-sized businesses in the agricultural sector

Based on the implementation of state programs for the financing and development of the agricultural sector, research institutes evaluate the effectiveness of allocated financial allocations. Financial assistance and subsidies are allocated mainly for planting and strategically important agricultural products such as grain crops. In order to provide industry financing, various options for attracting private investment capital and creating long-term lending conditions are being studied. Often, lending to the agricultural sector discourages farmers themselves due to the impact of risk factors on profit. In most cases, lending becomes unprofitable due to the small difference between the profit and the loan amount. The main directions are the purchase of fertilizers during seasonal work, the purchase of agricultural equipment, and the hiring of seasonal workers for harvesting. Obtaining operating profit at high costs does not provide the necessary efficiency of invested financial resources. Stimulating the development of this sector can significantly increase the efficiency of financing small and medium-sized businesses in the event of a reduction in purchase prices for work, as well as the creation of agricultural infrastructure necessary to improve yields and temporary storage of various products.

Reducing credit interest and increasing financial flows directed to agriculture will significantly increase the activity of small and medium-sized enterprises in this industry. Financial leasing operations must be targeted and selective in the process of issuing certain amounts of money during the appointment of a grace period.

The creation of a network of agricultural clusters and agricultural parks will significantly increase the financial stability of small and medium-sized businesses. Long-term contracts concluded between large and small economic entities guarantee SMEs shocks from various crises due to the security of product supply obligations.

[10] *Агрокредит и агентство по развитию*. <https://agro.gov.az/az/nazirlik/tabeli-qurumlar/ktn-struktur/strukturuna-daxil-olan-qurumlar/aqrar-kreditve-inkisaf-agentliyi>.

[11] *Агентство по аграрным услугам*. <http://axa.gov.az/az>

## Conclusion

Financial stability depends on factors affecting the activities of enterprises. Unfortunately, constant financial flows and allocated loans do not lead to stabilization of the financial condition and are fraught with bankruptcy. The agricultural sector always requires significant financial investment and support from various government agencies. High demand for agricultural products allows small and medium-sized businesses to be constantly in demand. The most rational entrepreneurs in this area of the economy consider all expenditure and income items at the level of operational planning with further adjustment of the data. This technology allows you to timely determine risk areas and approximate profits. The functioning of agricultural clusters contributes to the dynamic development of the agricultural sector in the area of activity of agro-industrial complexes interested in additional agricultural products.

The efficiency of financing small and medium-sized businesses can be achieved in various ways; in our opinion, maximizing profits and minimizing costs is determined by reducing the costs of the supply chain of necessary goods for agricultural work. From this point of view, the functioning of agro-industrial clusters is significantly reduced by transport and logistics costs.

Another important element in increasing the efficiency of financing small and medium-sized businesses is the presence of a diverse base of small enterprises specializing in the supply of local feed supplies to large financially stable enterprises.

The formation and entry into the logistics chain of a large association guarantees long-term contracts, thanks to which small and medium-sized businesses will be provided with financial stability for a long period of time and will not directly depend on market demand.