

## **A Comparison of the Situation of Some Developing Countries in the Financing of the Agricultural Sector**

**Shaniyazova Zamira**

**Abstract:** This paper studies the current condition of financing agriculture sector by government; furthermore some countries experience has been analyzed. According to the analysis some conclusions have been developed.

**Keywords:** State, agriculture, agriculture financing, developing countries, government subsidies



## **Introduction**

Agricultural subsidies are widespread in the world. What Uzbekistan can use in this direction, based on the experience of its potential competitors. Agriculture is one of the most important drivers of growth in the Uzbek economy. The share of agriculture in Uzbekistan's GDP in 2018 was 32%, at the end of 2019 - 35%<sup>1</sup>. At the same time, there is very intense economic competition in the world agricultural market. At the same time, the agricultural sector in the world is considered as a key link in food security, as a result of which its development in most countries of the world is fully supported by governments. The extent of this support, in view of the distortion of the requirements of free competition, causes heated international disputes, including within the framework of the World Trade Organization (WTO). In the context of significant liberalization of foreign economic activity in Uzbekistan, Uzbek agricultural products are increasingly competing in foreign markets with products of other countries, which are often subsidized by their governments. Possible accession to the EAEU may lead to increased competition with similar products in the domestic market of Uzbekistan. At the same time, in Uzbekistan, subsidizing instruments that are used by other countries are not fully applied. In this regard, it is highly relevant to analyze the support provided to agricultural producers in Uzbekistan in terms of the forms of state support used in other countries that are competitors of Uzbek agricultural products in the markets.

## **Support provided in Uzbekistan**

In Uzbekistan, in recent years, significant attention has been paid to the development of agriculture by the state. Active measures are being taken to reduce the loss of water resources, prevent erosion and degradation of agricultural land. In the context of the actual lack of opportunities to increase agricultural land, efforts are being made to move from an extensive to an intensive model for the further development of agriculture, which also implies an increase in support for agricultural producers from the state, primarily through financial resources and the creation of conditions for reducing costs along the entire production chain.

In Uzbekistan, measures of state support are currently being applied in the form of providing funds for the introduction of drip irrigation technologies and sprinkling equipment, the construction of wells for drilling water and the installation of pumping stations, compensation for payments on loans, including foreign currency.

In particular, for cotton and wheat producers, the state subsidizes production resources (fuels and lubricants, seeds, fertilizers, plant protection products, etc.). For producers of raw cotton, introducing drip irrigation technologies, subsidies are allocated in the amount of 8 million soums. per hectare.

For fruit producers, subsidies for the introduction of drip irrigation and the purchase of sprinkler equipment amount to 6 million soums. per hectare. Also, 120 million soums are allocated for the construction of wells for drilling water and irrigation on an area of 35 hectares, including for pumping stations for draining rivers, canals and other reservoirs.

For winegrowers and winemakers, concessional loans are provided for a period of up to 7 years, including a grace period of up to 3 years with an interest rate not exceeding 50% of the refinancing rate, taking into account the bank's margin of up to 3%.

---

<sup>1</sup> According to the State Committee of Statistics in Uzbekistan

Despite the significant volumes of agriculture in the economy, there are a number of problems in the industry, including those related to ineffective support and incentives for agricultural producers. In particular, the current situation in the field of land lease does not stimulate farmers to organize efficient cultivation, increase crop yields and, accordingly, increase their own income. Government support measures in the form of soft loans and compensation for the share of loan payments in conditions of high loan rates do not give the desired effect.

In comparison with other countries, in Uzbekistan, co-financing of agricultural producers' costs for equipment, implements, pest control, compliance with phytosanitary, quarantine and other standards is in its infancy.

It should be borne in mind that Uzbekistan is currently not a member of any international agreements or associations that somehow restrict the use of state support measures in the agricultural sector. But at the same time, the republic does not fully apply in practice those instruments for subsidizing agricultural products that are used in other countries.

**Results.** Under the WTO, agricultural subsidies are considered and implemented under the so-called three baskets.

Green box measures - measures of domestic support for agriculture, which are exempted from the country's obligations to reduce them. Blue box measures - measures of domestic support for agriculture in the framework of programs to limit and reduce the production of agricultural products.

Amber basket measures are measures that distort foreign trade and create economic benefits for national producers. WTO member countries are obliged to determine the general ceiling of these support measures and commit themselves to reduce them.

Agricultural support included in the green box (permitted) is not included in the calculation. In addition, support is excluded if its size in the total amount of subsidies does not exceed 5% of the value of the goods produced, and subsidies that are not of a per-commodity nature, if their amount does not exceed 5% of the total value of agricultural products. For developing countries, this figure in both cases is 10%.<sup>2</sup>

### **China's big game**

During negotiations on accession to the WTO (2001), China agreed on individual commitments regarding the volume of the "amber box". The maximum amount of support for China is limited to a de minimis level of 8.5% (which is less than that of other developing WTO member states). Under the WTO, China has no obligation to reduce aggregate support measures.

Thanks to targeted government support and agrarian reforms, China has now become a major player in the global food market. China is currently ranked among the largest producers in a number of major agricultural commodities, in particular rice, potatoes, cotton, and corn.

Beginning in 2004, the Chinese government began to implement agrarian reforms, the main part of which was increased support for agriculture. In 2004, direct payments were introduced to support grain-growing farms. The purpose of this program was to subsidize the production of corn, rice and wheat per unit of cultivated area. Payments were made at the provincial level, and each province is free to set its own method of granting subsidies. The payment is approximately

---

<sup>2</sup> World Trade organization official reports

US \$ 7.33 per acre (0.4 ha) of crop area. 2007 to 2010 the total amount of direct payments under this program reached \$ 2.2 billion annually.

Measures to expand budget subsidies for agriculture were also laid down in such state programs as “Comprehensive subsidies per unit of agricultural resources” (2006), “System of additional payments for new varieties and products” (2007), “Grain for a green nature”, "National Program for Subsidizing Agricultural Engineering" (2007). Also in 2007, a pilot drought and flood insurance scheme was launched.

Under product-specific support, the main subsidized commodities are rice, wheat, corn, cotton and rapeseed. Since 2007, subsidies for these goods have increased. So, from 2007 to 2010, the cost of supporting the production of corn increased 18 times, rice and wheat - 2 times, rapeseed - 1.4 times. Budget funds were allocated to develop improved varieties and seeds of cereals, as well as to subsidize transportation costs for the transportation of Japanese rice and cotton from selected provinces in China. China uses price support measures to subsidize wheat and rice. The minimum purchase price program for rice was introduced in 2004.

With the aim of increasing grain production capacity in 2015, the Chinese government launched a pilot program to combine the “three subsidies”. Direct payments to grain producers, full subsidies for agricultural inputs and the cost of purchasing improved seed varieties per unit of land area were consolidated into a single payment in five provinces (Anhui, Hunan, Shandong, Sichuan and Zhejiang). The total budget allocation for the “three grants” in both pilot and other provinces increased from \$ 22.5 billion in 2014 to \$ 22.8 billion in 2015.

### **Explosive growth in Vietnamese exports**

Vietnam has achieved explosive growth in agricultural exports over the past decades and is now one of the world's five largest exporters of products such as shrimp, coffee, cashews, rice and peppers. Among emerging economies in Asia, average rice yields in Vietnam are second only to those in China. Starting in 2017, the Vietnamese government began to take steps to become a rice exporter country.

In the structure of state support for agriculture, Vietnam actively uses programs within the framework of a special and differential treatment, most of which are directed to compensate the costs of low-income farmers for means of production (seeds, fertilizers).

The mechanism of state promotion of rice production is to provide preferential loans for temporary storage of grain (during the harvest season, when the price of grain is low), support of rice fields, as well as government regulation of market prices.

Food-non-specific support for agriculture in Vietnam is provided in two directions:

1. exemption from irrigation fees - previously, farmers had to pay annually fees to companies serving irrigation facilities;
2. subsidizing transport costs for the delivery of agricultural products.

Moldovan incentives. Moldova has been a member of the WTO since 2001. Export subsidies do not apply. Within the framework of the “green box” in Moldova, support is provided in the field of scientific research in agriculture, pest and disease control, the formation of state reserves of wheat, stimulation of investments in the form of payments covering part of technological investments aimed at increasing the level of competitiveness of agriculture and overcoming structural disadvantages of the production chain. Also, since 2014, compensation for the

consequences of natural disasters and activities for the provision of advisory services in the field of agriculture have been financed in Moldova.

The Moldovan state body providing support to agricultural producers is the Agency for Interventions and Payments in the Field of Agriculture. Funding is carried out through the National Fund for Agriculture and Rural Development, which is formed from annual budget allocations and other sources, including the funds of the programs of the European Commission. The funds of the National Fund for the Development of Agriculture and Rural Areas are currently over 45 million euros.

Since 2018, advance subsidies have been introduced in Moldova. Financial support is provided in the amount of 60-70% of the cost of the business project. In 2019, a government decree was adopted increasing the amount of subsidies for one producer from 3 to 5 million lei per year (about 300 thousand dollars), and for a group of producers - up to 7.5 million lei.

According to the law on the principles of subsidizing agricultural producers in Moldova, the annual financing of the fund from the state budget and other sources must be at least 2% of the state budget revenues. These funds are allocated for measures to support agriculture, in particular:

- stimulation of investments in the production of vegetables and fruits in greenhouses (greenhouses, hotbeds, tunnels). Subsidized 50% of the cost of equipment, machinery, greenhouse modules; 30% of the cost of building, roofing material used for the reconstruction of greenhouses, solariums and tunnels. At the same time, the maximum subsidy amount for one agricultural producer is 1.5 million lei (86.2 thousand dollars);
- stimulating investment in the purchase of agricultural machinery and special agricultural equipment. Support is provided in the form of compensation in the amount of 35% of the cost of a unit of equipment produced on the territory of Moldova and 25% of the cost of a unit of imported equipment. The ceiling is \$ 17.6 thousand per recipient;
- stimulation of the acquisition of breeding animals and the preservation of the breeding gene pool. The purchase of breeding animals on breeding farms included in the List of breeds zoned in Moldova, including imported ones, is subsidized. The amount of the subsidy is 50%;
- stimulating investments in the development of infrastructure for post-harvest handling and processing. The construction of packing shops, refrigerated warehouses for storing fruits, grapes and vegetables is subsidized. The subsidy is issued in the amount of 50% of the cost of the installed equipment, but not more than 176.4 thousand dollars;
- support for the formation and functioning of groups of producers for certain products or a group of similar products. In the first year of operation, support is provided in the amount of 5% of the volume of products sold, and in subsequent years it decreases by 1 percentage point. up to 1%. At the same time, the maximum amount of financial support is 88.2 thousand dollars. The minimum required volume of sold products of plant origin to receive assistance is 58.8 thousand dollars;
- stimulating investment in the consolidation of agricultural land. Assistance is provided for the unification of at least three land plots adjacent to each other into a single real estate object through purchase and sale, exchange, donation. The state provides support in the amount of 50% of the state duty and payment for notary services when certifying contracts of purchase

and sale, exchange, donation of agricultural land, etc. The maximum amount of assistance provided to a manufacturer is 5.9 thousand dollars;

**Conclusion.** As international experience shows, other countries actively and on a large scale subsidize agricultural production. In this regard, Uzbekistan needs to apply a wider range of measures of state support for the agricultural sector of the economy, including the following.

Development of a comprehensive system of state support and subsidies for the agricultural sector with the expansion of the list of state support instruments. When developing and implementing this system, it is necessary to take into account long-term plans for accession to the WTO and limit the use of measures that directly distort trade, which affect the competitiveness of enterprises, making them dependent on government support.

Within the framework of the "Young Entrepreneur" program, introduce measures to subsidize the opening of enterprises in rural areas and agricultural start-up projects by young entrepreneurs, covering part of the costs (up to 50%) at the expense of budget funds.

Study of the possibilities for the use and subsequent approbation of technologies for minimal tillage of No-Till and Mini-Till soils in the steppe regions of the country, where the minimum costs for leveling the sown land for the equipment used within these technologies will be required

#### **References**

1. Agbo, M., Rousseliere, D. and Salanie, J. 2015. Agricultural marketing cooperatives with direct selling: A cooperativenon-cooperative game. *Journal of Economic Behavior & Organization*. 109 56–71.
2. Boyabatli, O., Q. D. Nguyen, T. Wang. 2014. Capacity management in agricultural commodity processing and application in the palm industry. Working paper.
3. Chen, Y., C. S. Tang. 2015. The economic value of market information for farmers in developing economics. *Prod. & Oper. Management*. 24(9) 1441–1452.
4. Glauber, J. W., P. Westhoff. 2015. The 2014 Farm Bill and the WTO. *American Journal of Agricultural Economics*. 97(5) 1287–1297. Kazaz, B., S. Webster, P. Yadav. 2016. Interventions for an Artemisinin-based Malaria medicine supply chain. *Prod. & Oper. Management*. 25(9) 1576–1600.
5. Murali, K., M. K. Lim, N. C. Petruzzi. 2015. Municipal Groundwater Management: Optimal Allocation and Control of a Renewable Natural Resource. *Prod. & Oper. Management*. 24(9) 1453–1472.
6. Orden, D., C. Zulauf. 2015. Political economy of the 2014 Farm Bill. *American Journal of Agricultural Economics*. 97(5) 1298–1311.
7. Tang, C. S., Y. Wang, M. Zhao. 2015. The implications of utilizing market information and adopting agricultural advice for farmers in developing economics. *Prod. & Oper. Management*. 24(8) 1197–1215.