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## FORMATION OF THE FOOD INDUSTRY IN THE LIBERATED TERRITORIES OF AZERBAIJAN

© **Gafar M. Bagirov**

Doctoral Candidate,

Baku Business University

92a H. Zardabi Prospect, Baku AZ1122, Azerbaijan

bagirov.qafar@hotmail.com

**Abstract.** The article reflects the mechanisms of establishing agrarian entrepreneurship in the liberated territories of Azerbaijan. We have considered the growth of agricultural production as one of the prerequisites for increasing the production of foodstuff. The research shown that a number of consistent and systematic measures had been taken after Azerbaijan regained its independence in order to increase the production of food. The article sets out the main directions of state regulation for the formation and development of the food industry in the liberated territories. These areas include finance, credit, price, tax, investment, insurance, foreign economic policy, state assistance to local producers, etc. We also have developed the proposals for the further development of the food industry in the liberated territories.

**Keywords:** processing industry, liberated territories, state regulation, main directions, social policy, economic development, food industry.

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### Introduction

The food industry, being one of the important sectors of the processing industry, is the main resource in ensuring food security. The food industry, which has various technical and technological processes and infrastructure, is of great importance in the formation of the national economy, ensuring economic and political independence, together with agriculture. The standard of living of the population and their physical life largely depends on the level of development of agriculture and food industry. Food industry covers the primary and secondary processing of raw materials, such as vegetable, fruit, sugar, meat, milk, tobacco, bakery, beer, alcoholic and non-alcoholic beverages, confectionery production, etc. This is strategically important area for the establishment of a diverse, environmentally friendly food fund. Taking into account the importance of the industry, the privatization of enterprises for the production of agricultural products, food and food industry enterprises was carried out, consistent and purposeful measures were taken to form new property relations from the first years of independence.

According to statistical data, in 01.01.2021 there were 393 enterprises with food production, 120 with beverage production and 10 with tobacco products. 44.5% of

these enterprises were medium and large size on food production, 45.8% of beverage production enterprises, 60% on tobacco products production enterprises of medium and large size. If in 2014 95,3 percent of enterprises engaged in the production of food products were non-state enterprises, then in 2021 their specific weight amounted to 98,2 percent. Investments directed to fixed capital in the food industry in 2014 reached from 92.6 million manat in 2018 to 196.6 million manat. 91.6% of the investment (180.1 mln. manat) was domestic investment.

#### **Agrarian entrepreneurship in the liberated territories of Azerbaijan**

Given that a large number of local businesses obtain an investment promotion document, it will be easier for them to be covered by the tax breaks provided for in the legislation. For the analysis of agrarian entrepreneurship, a regional analysis of the liberated areas should be conducted.

Unfortunately, as a result of the Armenian aggression, many agricultural enterprises operating in the area, including collective farms, state farms, economic associations and agro-firms, ceased their activities.

These territories, which have been under occupation for 30 years, are very rich in various construction materials, which are of great importance in the industry and construction of Azerbaijan. Large reserves of such materials are in the fields located in the Aghdam region. Before the occupation of our territories, there were 163 different types of proven mineral deposits, 16 underground freshwater and 11 mineral water deposits. In general, 561 deposits, manifestations and promising mineralization areas were identified in the territories occupied by the Armenian armed forces<sup>1</sup>.

Throughout history, the Nagorno-Karabakh region has had close economic ties with plain Karabakh. Contrary to these historical and geographical realities, the occupation of Nagorno-Karabakh by Armenians and its forcible separation from plain Karabakh created very serious problems for the population and economy of the region.

The Nagorno-Karabakh economic region is on the Baku-Shusha tourist route and specializes in tourism — health-treatment, perception, recreation. Because there are many natural and anthropological monuments, rich in fauna and flora. The Murovdagh and Karabakh ranges also occupy a large place here. The high peaks of the Murovdag range are sometimes snowy all year round, which is good for winter tourism. The Nagorno-Karabakh region is also one of the forested areas of the republic. Thus, 30% of its territory is forest. Called the Caucasus Conservatory, Karabakh is the cradle of Azerbaijani folk music and poetry. The Turshsu and Isa springs have historically been known as the hearth of Karabakh's poetry and music festivals. The Nagorno-Karabakh region is also rich in historical and cultural monuments. There are world-famous architectural and archeological monuments in the region. In general, Nagorno-Karabakh is the region of Azerbaijan with the richest tourism potential. Here, art, ancient history and culture, charming examples of nature are useful and very suitable for the creation of a tourist complex.

After the 44-day Victory War, the regions of the Republic of Azerbaijan were adopted in order to ensure the sustainable and balanced development of the cities and regions of our country. As a result of successful implementation of state programs for their socio-economic development, the appearance of our cities, towns and villages has changed radically, the economic potential of the regions has increased, infrastructure,

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<sup>1</sup> <https://stat.gov.az/>

quality of public services, business and investment climate have improved, and the welfare of the population has improved.

At present, large-scale measures are being taken to restore the liberated territories, ensure their future development, create the necessary infrastructure and return the population to their native lands. The expediency of carrying out all the work on the basis of a single program to ensure their equal development through the effective use of the rich economic potential, natural resources and extensive tourism opportunities of these areas requires a reconsideration of the division of the liberated regions into economic regions.

Surrounded by the Zangazur mountain range and occupying a large area from Lachin and Kalbajar to Nakhchivan, in the eastern part of the Zangazur plateau, on the border with Armenia, in the same geographical area, historically together, as well as the Zangazur district established in 1861 and traditional socio-economic, It unites historical and cultural ties in a single economic region of Zangilan, Gubadli, Jabrayil, Lachin and Kalbajar regions.

New Karabakh to ensure the restoration and rapid development of the ancient Karabakh region, which has a rich historical and cultural heritage, including Aghdam, Shusha, Fizuli, Tartar, Khojavend, Khojaly regions and the city of Khankendi, as well as Agjabadi and Barda regions of the Karabakh region. makes it necessary to create an economic region.

The reintegration of the liberated territories into the country's economy has increased the efficiency of planning for other economic regions, including the Ganja-Gazakh and Aran economic regions, to ensure flexibility in economic management, and for this purpose the composition of these economic regions has been revised.

#### **Use of resources in the area**

In modern conditions, the system of state regulation of the economy of the food industry should be consistent in nature, reflect complex measures that are sufficient to eliminate lag in the existing recovery and reconstruction process in this area and create the basis for its rapid development. We believe that in order for the state regulation of the food industry to become more intensive, the following measures should be taken:

- 1) stimulating the application of new technologies in the food industry;
- 2) establishment of progressive structure of food industry in liberated territories and stimulation of investment;
- 3) creation of conditions to meet the demand of food production for financial resources;
- 4) ensuring competitiveness of food industry;
- 5) to assist in the formation of food industry infrastructures in the area;
- 6) to increase the qualification of workers working in the field of food, etc. [2].

The effectiveness of state regulation of the agrarian sector depends on the formation of the corresponding regulatory legal framework. The main goals of improving the legislative base should be strengthening regulatory functions, supporting private sector initiatives, meeting domestic demand with competitive products and strengthening export potential. The areas of activity of public and private units in the state administration system should be clearly defined in the direction of realization of these main directions, new legal-normative base and mechanisms of activity of cooperation between them should be established.

In order to ensure the sustainable development of the food industry in the liberated territories, it can be considered expedient to adopt special legal-normative acts relating to a number of territories from the point of view of the effective activities of the economic regulators of the state in this area:

- 1) state regulation of food industry areas;
- 2) budgetary aid to the food industry;
- 3) regulation of the financial and credit system of the industry;
- 4) financial recovery of food producers;
- 5) regulation of import of food and food products and raw materials;
- 6) ensuring price ratio between the food industry and other sectors of the economy [1].

We believe that ensuring sustainable development of the food industry directly depends on effective state aid programs based on world experience and implemented at the expense of budget funds and investments. In other areas, such as in agriculture, direct budgetary assistance, subsidies, subsidies and compensations to food producers, allocation of short-term credit resources to meet certain costs, assistance in obtaining technology and equipment through leasing, stimulation of production of export-oriented agricultural and food products in priority areas, financing investments within the framework of targeted programs can play a decisive role in ensuring the development of the industry. Providing targeted state assistance enterprises fulfilling contractual conditions with the state (increase of volume and variety of production of products, reduction of costs per unit of product, etc. is based on the provision of budgetary assistance. Assistance to food producers can be carried out in the following directions, primarily focusing on improving their financial condition:

- 1) assisting producers to increase their income;
- 2) implementation of necessary measures to eliminate price disparity between agricultural and industrial products;
- 3) establishment of food industry enterprises in the liberated territories, stimulation of structural changes and rendering state aid in priority areas;
- 4) implementation of necessary measures on financial recovery;
- 5) improvement of insurance system in food industry enterprises;
- 6) formation of effective lending mechanism of the industry in accordance with the changes taking place in the market situation;
- 7) formation of the internal food market, stimulation of infrastructure development [4];
- 8) entrepreneurs as a source of credit should gradually be activated [12].

Table 1

The volume of consumption of basic food products (kg)<sup>1</sup>

<b>Indicator</b>	<b>2005</b>	<b>2010</b>	<b>2015</b>	<b>2020</b>
Consumption of meat and meat products per capita	32,0	33,2	33,4	34,8
Per capita consumption of milk and dairy products	235,1	249,1	242,8	245,2
Per capita consumption of eggs	124,6	131,5	127,2	142,3
Per capita consumption of potatoes	72,6	72,2	72,8	74,5
Vegetable and vegetable products per capita consumption	159,3	164,6	155,8	151,5

<sup>1</sup> www.azstat.org

Table 2  
 Number of individual entrepreneurs in various sectors of the economy<sup>1</sup>

	2005	2010	2015	2020
Total on economy	192 588	210 643	234 634	246 102
industry and construction	2 643	2 628	2 505	3 369
Agriculture, forest farm, fishing	2 618	2 593	2 451	2 334
trade, repair of vehicles	127 501	150 686	174 646	176 324

### Conclusion

The projects implemented in this framework have become stable and development prospects for the territories in a short period of time and have played an important role from the economic point of view.

The use of renewable resource and infrastructure potential in these areas, the potential of the public-private sector and the best business environment, the revitalization of economic activity and the provision of sustainable housing should be provided with funds in line with the country's long-term development priorities.

Guided by Article 32 of Section 109 of the Constitution of the Republic of Azerbaijan, accelerating economic recovery and development of investment attractiveness in the liberated territories, creation of modern and effective production, trade and service infrastructure, application of innovative technologies, realization of industrial potential, optimal development and stimulus mechanisms repair decisions to create and improve the business environment.

The long-term economic development strategy of the President of the Republic of Azerbaijan ensures a sustainable and balanced development strategy of the regions, which in addition ensures an industrial economy based on the principles of sustainable development, social welfare meeting high standards, resource use and reliable environmental protection. to help to help opportunities.

The development of this strategy, the new quality of socio-economic development, the state programs adopted for the socio-economic development of the regions (2004–2008, 2009–2013 and 2014–2018) are of great financial importance.

These programs, which have been successfully implemented since 2004, have radically changed the face of cities, towns and villages in the regions, opening up opportunities for capacity building, infrastructure development, utility quality, business and investment climate and population well-being.

At present, the development of these opportunities has led to a new level of work on socio-economic development, strengthening economic growth in the regions, including rural areas, decent employment and social protection, and strengthening environmental security.

The successful development of these issues will determine the potential use of the existing potential in the regions, the strengthening of socio-economic development in some rural areas and increase the sustainability of this development. This, in turn, ensures the continuation of the development of policies, including comprehensive programs for socio-economic development of the regions.

<sup>1</sup> www.azstat.org

The above-mentioned achievements in the field of socio-economic development are aimed at further implementation of paragraph 9.1.4 of the Strategic Roadmap "On the production and processing of agricultural products in the Republic of Azerbaijan", "On the production and processing of agricultural products in the Republic of Azerbaijan" The State Program of socio-economic development for 2019-2023 (hereinafter — the State Program) has been developed<sup>1</sup>.

The State Program focuses on the development of regional management systems in the field of production, including legislative capacity, further strengthening of institutional and economic mechanisms, development of investment and innovation activities, application of advanced technical equipment and technology local (natural-economic, production-technical and scientific-technical) capacity building and full utilization of the economy, accordingly, increasing the diversification of the economy (development of value-added products and services), further strengthening of equipment in the sales and social production market, facilitating access to equipment resources and markets , modernization of production, and market infrastructure, strengthening the social security of services, improving the quality and provision of low-income people, strengthening the social protection of the needy groups. It is planned to strengthen control over the more efficient use of natural resources and the protection of environmental safety, and to carry out complex work in other similar areas.

As a result, the fullest and most efficient use of natural resources, strengthening the activities of economic entities, the development of new innovations in all areas of the value chain, the creation of favorable conditions for the development of a green economy through the application of scientific and technological progress. Ensuring sustainable development of the non-oil sector in the country along with the oil sector, achieving growth in exports in the non-oil sector, increasing opportunities for decent employment and income in the regions, including rural areas, and improving their social welfare, Thus, sustainable and balanced development of the regions is expected.<sup>2</sup>

Along with the restoration and construction work in the Karabakh and East Zangazur economic regions liberated from Armenian occupation, measures are being taken to integrate these rich lands into the national economy. According to the strategic plan, it is planned to create production, processing, trade and service infrastructure in the region, introduce new technologies and ensure investment attractiveness. To this end, special tax and customs benefits, various economic, financial and institutional incentives are being developed to encourage entrepreneurs.

According to the Decree of President Ilham Aliyev dated December 10, 2021 "On some measures to accelerate economic development in the liberated territories" The service was instructed to prepare proposals.

Currently, the State Tax Service is conducting economic diagnostics of these areas and preparing proposals based on this in-depth analysis. According to the document, tax incentives will be applied for the development of the liberated territories, income tax exemptions will be provided in accordance with capital investments for the construction of new production facilities, and tax incentives will be provided for the development of tourism.

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<sup>1</sup> Azerbaijan Agriculture 2004. Baku, 2005. 611 p.

<sup>2</sup> Azerbaijan Agriculture 2015. SSC. Baku, 2016. 671 p.

According to the proposals, owners who will be engaged in agricultural activities in Karabakh and East Zangazur will be exempt from all taxes except land tax. In addition, the Karabakh region has great industrial potential. In order to increase the investment attractiveness of industrial zones, tax and customs policies are currently being promoted in the Industrial Technology Parks and the Alat Free Economic Zone, and these benefits will also apply to industrial enterprises in the liberated areas. The first foreign investors have been registered in the newly opened Araz Valley Economic Zone Industrial Park in Jabrayil. The first investment project in this area will be implemented by the Russian company KamAZ in the coming days. Tax incentives are provided for these investors. At present, more than 50 foreign companies have applied to the government to participate in projects to restore the liberated territories. Among them are companies from Turkey, Russia, Pakistan, Hungary, Kazakhstan, China, Italy, Israel and South Korea. And it is planned to apply tax benefits for them. The desire of local entrepreneurs to set up businesses in the liberated territories is also enormous. So far, 980 entrepreneurs have applied to the Small and Medium Business Development Agency (SMBDA) and expressed their intention to work in the economic regions of Karabakh and East Zangazur. Entrepreneurs operating in the liberated territories, including small and medium-sized businesses, will be covered by both profit and income tax exemptions. Given that a large number of local businesses obtain an investment promotion document, it will be easier for them to be covered by the tax breaks provided for in the legislation. Because legal entities and individual entrepreneurs who have received an investment promotion document are exempt from paying a number of taxes and duties for a period of 7 years: legal entities and individual entrepreneurs have a profit (income) tax on 50% of their profits, property on property acquired at the expense of investment funds Land tax on the relevant lands owned or used is exempt from VAT and customs duty on import of machinery, technological equipment and facilities on the basis of a supporting document.

From January 1, 2022, for the period of 3 years, the calculation of VAT on trade surcharges in the wholesale and retail sale of agricultural products, as well as the operative leasing of agricultural machinery and agro-technical services related to the production of agricultural products are also exempt from VAT. Therefore, it is already known that not all entrepreneurs in this group will pay at least 5 types of taxes in the liberated areas. After the amendments to the Tax Code, tax benefits will be introduced for other business members. Social insurance and other benefits will be applied in the liberated territories. The Ministry of Economy and the Central Bank have also been instructed to provide more favorable and preferential bank loans to entrepreneurs operating in the liberated territories. In the business plan submitted by entrepreneurs, priority will be given to projects involving liberated territories, and they will be the first to receive soft loans.

According to the head of the Center for Agrarian Research of the Ministry of Agriculture Firdovsi Fikretzade, the provision of economic incentives to the liberated areas will primarily create a significant turnaround in agriculture. Taking into account the unoccupied areas of Aghdam and Fizuli, there are about 232.8 thousand hectares of arable land in the liberated areas. There is also potential to build farms with 430,000 head of cattle and 1.6 million head of small cattle. Taking into account the region's historical potential in the field of animal husbandry and natural-relief features, livestock-intensive agricultural production will continue to dominate in the future.

Meat and dairy enterprises, viticulture, tobacco, cocoons and beekeeping will be restored and expanded in the region. In addition, new agrarian projects and intensive fruit growing are planned in the region. According to forecasts, as a result of support measures to stimulate the development of agriculture in these lands, 9% of real growth in agriculture in the coming years, including 10-12% of wheat production in the country will be achieved in Karabakh and East Zangazur economic regions. At the initial stage, it will be possible to grow agricultural products worth 1 billion manat in these areas as a whole, a significant part of which is expected to be wheat and grain. Studies show that when approaching from the point of view of the existing realities, it becomes clear that the Republic of Azerbaijan is not able to create a layer of entrepreneurs at the expense of its internal capabilities in the agrarian sector, as well as in the food industry in the areas liberated from the occupation of Armenia. In other words, the creation of a processing industry directly depends on state support, investment, as well as on the possibilities and incentives to attract highly qualified specialists here. Therefore, in the conditions of reconstruction in these territories, the application of the principles of entrepreneurship should be considered an important part of state support. We believe that at the initial stage of the process, the main means of influence of the state should be directed to the realization of strategic goals in this area and broad involvement of economic partners in this process. Another important principle of the government's patronage activity in the formation of the food industry in the liberated territories should be the creation of favorable conditions for the participation of local producers and consumers of goods in foreign food markets as equal subjects. This requires the implementation by the state of scientifically substantiated regulatory measures. These measures may include:

- 1) adaptation of local food products to international standards;
- 2) organization of export of local food products;
- 3) protection of domestic food market from unfair influence of import channels;
- 4) ensuring the production of competitive food products, etc.

Ensuring the development of food industry also depends on state regulation of the social development of Regions and villages. The regulation of social development should be realized through the active social policy of the state. This policy mainly serves to create favorable conditions for the growth of real incomes of food industry workers and to adapt the social infrastructure to modern requirements.

Implementation of measures envisaged in terms of ensuring socio-economic development in the liberated territories can create conditions for ensuring and increasing the normal standard of living in the destroyed cities and villages, improving employment, regulating the processes of settlement and urbanization.

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#### ФОРМИРОВАНИЕ ПИЩЕВОЙ ПРОМЫШЛЕННОСТИ НА ОСВОБОЖДЕННЫХ ТЕРРИТОРИЯХ АЗЕРБАЙДЖАНА

*Багиров Гафар Мушфиг оглы*

докторант,

Бакинский университет бизнеса

Азербайджан, AZ1122, г. Баку, просп. Г. Зардаби, 92а

bagirov.qafar@hotmail.com

*Аннотация.* В статье отражены механизмы становления аграрного предпринимательства на освобожденных территориях Азербайджана. Рост производства сельскохозяйственной продукции рассматривается как необходимое условие увеличения производства продуктов питания. Исследование показало, что после восстановления независимости Азербайджана был предпринят ряд последовательных и систематических мер для увеличения производства продуктов питания. В статье изложены основные направления государственного регулирования формирования и развития пищевой промышленности на освобожденных территориях. К таким направлениям относятся финансовая, кредитная, ценовая, налоговая, инвестиционная, страховая и внешнеэкономическая политика, государственная помощь местным производителям и другие. Также были разработаны предложения по дальнейшему развитию пищевой промышленности на освобожденных территориях.

*Ключевые слова:* перерабатывающая промышленность, освобожденные территории, государственное регулирование, основные направления, социальная политика, экономическое развитие, пищевая промышленность.

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