

The Impact of Agricultural Subsidies on Attracting Private Investment: An Assessment Based on Structural Decomposition

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ABSTRACT

This study looks at how subsidy programs for agricultural producers in Azerbaijan directly and indirectly affect private investment in the sector. We use dynamic time series data, with suitable econometric models, and conduct comparative assessments for our analysis. The findings show that both direct and indirect subsidies have a positive effect on private investment in agriculture. Notably, planting (sown area) and product subsidies, which work through indirect channels, have a stronger impact than state-provided non-repayable payments meant for financing fixed capital investments, despite the direct effect of the latter. The results suggest that, under current conditions, to enhance the role of subsidies in encouraging investment in fixed capital, it is essential to improve how funds for purchasing machinery and high-yield livestock are used. These improvements should make means of production more accessible to a larger number of farmers and help address sustainable development goals more quickly.

Keywords: agricultural investments, private investments, agricultural subsidies, input subsidies, product subsidies, investment incentives

JEL Classification: Q14; Q18; E22; O16; H25

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