



FOREIGN COUNTRIES' EXPERIENCE IN ORGANISING AND MANAGING  
DEHKAN FARMING ACTIVITIES

Akhmatov Behzod Obid oqli

*Lecturer, Department of Land Resource Use and State Cadastre, Bukhara State Technical University*

**Abstract:** *This article presents the results of an analysis of materials collected on the organisation and effective management of dehkan farms in foreign countries, as well as issues related to the application of these international practices in the Republic of Uzbekistan.*

**Keywords:** *agriculture, foreign experience, dehkan farming, forms of farm management, economic environment, prices, production costs.*

## INTRODUCTION

A dehkan farm possesses all the distinctive characteristics of a family farm, including the knowledge and skills acquired by its members, the rural way of life, the commonality of property, and many other features. As an economic entity, a dehkan farm carries out entrepreneurial activity aimed at generating income through the expenditure of labour, material, and financial resources, while combining private interest with social benefit. In this context, social benefit is reflected primarily in the products and services produced and sold by dehkan farms, which satisfy social needs. Therefore, the activities of dehkan farms, irrespective of the results they achieve, should be regarded as socially beneficial.

A dehkan farm is a complex organisational and economic system that possesses its own static and dynamic characteristics. Within this system, the organisational and production structure functions as a specific subsystem. The internal composition of this subsystem consists of a set of various structural elements and living conditions, expressed through the technical and technological indicators and procedures of labour production, as well as the organisational-technological, economic, and social norms and parameters applied in each farm. These elements ensure the balanced maintenance and effective use of the farm's resource potential. It is therefore important to establish all these structural elements in certain proportions and interrelationships that continuously change under the influence of the external environment.

The study of international experience, based on the literature examined during the research process, shows that agricultural production is closely linked to people's worldview and the nature of their way of life. The literature review indicates that economic reforms that have led to the liberalisation of economic activity and expanded opportunities for choosing forms of farm management contribute to the revival of farms engaged in agricultural production. This can be observed in the experience of a number of countries studied in this article.

### Research

In Russia, the specificity of the peasant way of life began to be recognised relatively early. If ideas based on the alleged uniqueness of Russia's separate economic path are set aside, this recognition dates back to the beginning of the twentieth century. The reason for



turning to the analysis of peasant farms was the same: failures in agricultural economic development policy. Efforts to increase labour productivity, introduce new technologies, and raise the marketability of production encountered behavioural patterns among peasant farms that contradicted entrepreneurial, or economic, logic. When conditions improved, these farms reduced their labour supply, refused to use more advanced machinery, and did not bring surplus grain to the market, among other actions. Moreover, because the agrarian sector occupied a substantial place in the Russian economy at the beginning of the century, the specific behaviour of peasant farms distorted general economic regularities, including the inverse proportionality between wage dynamics and bread prices, as well as excessively high rents and land prices [5].

In the United States, state support for agriculture is implemented, in particular, through a system based on the use of several types of prices. These include target or guaranteed prices applied to the most important types of agricultural products. At the same time, target prices are calculated at a level that guarantees farms with low and medium production costs sufficient income for the self-financing of expanded reproduction. Loan rates are prices that represent the lower boundary of guaranteed prices for agricultural products. This price is applied when market prices fall below the collateral, or loan, rate. In accordance with the main provisions of the Agricultural Act of 1985, American farmers have the right to sell their products on the free market, sell them under contracts, store them directly on the farm, and pledge them to the Commodity Credit Corporation. Pledged products must be redeemed by the producer within nine months. Otherwise, they become the property of the Commodity Credit Corporation, and the farmer receives monetary compensation at the loan rate after storage costs have been deducted. However, if world prices remain below the loan rate within the established period, the farmer may repurchase the delivered product at world market prices. As a result, the farmer receives a net gain from the difference between the loan rate and the world market price [3].

European Union countries allocate substantial funds from state budgets to subsidise agriculture in order to ensure the competitiveness of their products in international markets. For example, to develop agriculture, the Government of the Netherlands encourages cooperation between companies engaged in primary production and enterprises in the processing industry. The state views farmers as an important component of national potential, placing them on a par with the army and science. In European Union countries, the principal directions of support for agricultural producers include high fixed domestic prices, subsidies for the export of surplus products, protectionist measures, and systems of customs barriers. In regulating agriculture, the governments of European Union countries follow two important principles: imported products may be sold only at the price established for similar domestically produced products; and a country exporting its products to European Union countries must pay, at customs, the difference between the threshold price and the world order price to the European Union budget, specifically to the budget of the importing country. This difference is referred to as a trade levy.

In China, after Mao Zedong came to power in 1949, land was confiscated from wealthy landowners and distributed among 300 million peasants. The level of industrialisation increased somewhat, and positive changes occurred in the living standards



of the population. In 1978, in the village of Xiaogang in Anhui Province, communal land was divided among 21 families so that each could cultivate the land assigned to it. Gradually, peasants, pursuing their own interests and acting voluntarily, began to unite into small cooperatives, then into associations, and subsequently into large cooperatives. As a result, by 1997 the number of private industrial enterprises had increased from 100,000 to 5.8 million. Agricultural reform served as the driving factor behind all these changes. In particular, the growth of agricultural output ensured the development of the processing industry, setting the “chain” of development in motion.

In economically developed countries, the scale of state support for agriculture has remained relatively high for many years. For example, such support accounts for 27–40% of production costs in the United States, 35% in Canada, 47% in Sweden, 70% in Finland, and 76% in Switzerland. This is associated with a number of circumstances, above all the state’s desire to maintain food prices at a socially acceptable level, thereby ensuring affordability for the majority of the population.

In Swedish agriculture, price regulation is carried out by the National Agricultural Products Marketing Board on the basis of state-guaranteed prices. Agricultural producers are protected from excessive imports through customs duties and from foreign competition through subsidies for the export of domestic products. Similar systems of state regulation of agricultural prices operate effectively in Norway, Denmark, Switzerland, Italy, Japan, and other countries. For example, in Italy the state sets prices for the main types of goods and services, including energy, fertilisers, and food products such as bread, milk, butter, meat, salt, and sugar; in Japan, prices are set for rice, wheat, meat, and dairy products. In the European Union, state price regulation covers nearly 90% of agricultural products. At the same time, public authorities in EU member states monitor production costs in agriculture.

In addition, there are various methods of granting tax privileges related to land tax. The legislation of the United Kingdom, the Netherlands, and Sweden does not impose taxes on agricultural land and the buildings located on it. In Canada, the value of land is assessed according to its actual use value, which leads to an undervaluation of land and, consequently, a reduction in the taxable base. In Italy, land value is included in income tax and is determined on the basis of cadastral income, which is significantly lower than the actual income derived from the land. In the United States, when an agreement on agricultural use for a specified period is concluded between the public administration and the landowner, the landowner is entitled to preferential taxation.

Agricultural enterprises in European Union countries enjoy a number of privileges in the payment of value-added tax. In Italy, three VAT regimes are applied depending on the income level of farmers: exemption from VAT for agricultural producers whose annual sales do not exceed 10 million lire; VAT payment based on the total volume of turnover; and the ordinary VAT payment procedure.

Depending on production specialisation, a farmer may ultimately gain or lose under a preferential tax regime. Therefore, the producer chooses either the ordinary tax payment regime or the tax payment procedure based on the total amount.

The special preferential regime for levying VAT in agriculture includes the following: special preferential regimes for small farmers or *dehkan* farms, as in France and Italy; lower



VAT rates or exemptions from VAT for a number of goods; calculation of VAT according to the total amount of turnover at the end of the year, as practiced in European Union countries; and the introduction of purchase and sale rates whereby the amount of tax paid is fully offset against the amount of tax calculated. As a result, the farmer or dehkan transfers nothing to the treasury. Thus, tax policy in the agriculture of foreign countries uses the entire arsenal of direct and indirect taxes, as well as tax regimes. The diversity of taxes applied makes it possible to regulate various aspects of agricultural production, to promote its development, and to increase its competitiveness. It is evident that the preservation and further development of preferential taxation in agriculture, combined with other forms of state support, should contribute to the priority development of the sector and provide agricultural enterprises with financial resources for expanded reproduction and the strengthening of farms [4].

#### Research Results

In economically developed countries, agricultural credit is an equally important instrument of state regulation of the economy. The seasonality of agricultural production gives rise to an increasing need for loan capital. For example, in 2002 the debt of American farmers to the Department of Agriculture amounted to USD 201.9 billion. However, the United States Government is responsible for only 3.5% of the loans used by farmers. International experience shows that the highest efficiency is provided by a multi-subject credit system. In the United States, the main group of credit organisations includes commercial banks, insurance companies, the Farm Credit System (FCS), the Farmers Home Administration (FmHA), the Commodity Credit Corporation (CCC), and others. Most farmers receive loans not from the government, but from commercial lenders at market rates. The Farm Credit System and commercial banks primarily serve large and financially stable farms. Loans for beginning farmers and farmers close to bankruptcy are provided through the Farmers Home Administration, which has a broad network of branches in states and counties and operates within the Department of Agriculture. Through this administration, farmers receive approximately one tenth of the loans they need.

In European Union countries, cooperative lending is carried out through specialised banks: in France, through *Crédit Mutuel Agricole et Rural* and *Banque Populaire*; in Germany, through *Deutsche Genossenschaftsbank*; in the Netherlands, through *Rabobank*; in Denmark, through *Andelskassen/Andelier Bank*; and in Finland, through *Okobank*. A three-tier organisational structure for managing credit cooperation has been formed, with a clear division of functions among its individual links. In Germany, agricultural lending is carried out by cooperative banks, savings banks, specialised banks, including an agricultural leasing bank, mortgage banks, and private commercial institutions. Among these, cooperative banks occupy a leading position.

In France, as in Germany, cooperative banks play the main role in lending to agricultural producers. For example, a large proportion of the clients of the *Crédit Agricole* cooperative credit system—approximately 75%—are rural producers. In the United Kingdom, four large banks with branches throughout the country occupy the leading position in agricultural lending. The *Agricultural Mortgage Corporation* is the principal credit institution providing farmers with long-term mortgage loans. However, many other



private credit institutions also operate in the country, although their contribution to agricultural development is not particularly high.

In the United States, under the programme for improving housing conditions, the greatest benefits are provided to low-income farmers and rural residents for a period of 35–50 years at an interest rate of 1%. Farms affected by natural disasters may obtain loans on preferential terms, at 4–4.5%, for purchasing machinery and equipment, replenishing livestock, securing feed, seeds, and fertilisers, and repaying debts on movable property. The interest rate for bank financing of working capital varies from 1% to 19%: the minimum interest rate of 1% is set when high-value goods are purchased, while the maximum rate is applied to unsecured loans. In the United Kingdom, loans for financing agricultural production are generally provided at a rate of 12%; in the Netherlands, at 5.7%; and in Germany, at 6–8.5%. In France, interest rates depend on the loan term and its category and are set within the range of 8–10%. At the same time, banks finance no more than 80% of savings. Agricultural producers receive loans on preferential terms for the purchase of machinery, equipment, feed, seeds, and fertilisers, for livestock replenishment, and for repayment of debts on movable property. Farmers who obtain loans from various credit institutions receive compensation payments amounting to 4% of credit resources. In addition, state support for farms is provided through systems of loan rates and target prices [2].

The experience of developed countries clearly shows that credit relations in the development of the agro-industrial complex of the Republic of Uzbekistan require fundamental reconsideration. In our view, such relations should be formed with due regard to the specific characteristics of agricultural production in the republic. For instance, reducing interest rates for commodity producers and classifying preferential rates would make it possible to increase the flow of funds into the sector, thereby leading to further growth in production. At the same time, it is necessary to organise control over the use of credit resources. Following the experience of the United States, the work of financial and credit institutions engaged in preferential lending to rural producers should be supervised by the Ministry of Agriculture. In the process of providing state assistance and support to agricultural producers, the development of the insurance system is no less important than lending. International experience shows that insurance is an effective instrument for accumulating private funds and involving them in economic activity, while also exerting a stabilising influence on the economy. In economically developed countries, the insurance market is viewed as a strategic sector of the economy. This is because, first, the insurance process is an important element of the economic environment; second, the sectoral dimension of insurance processes affects the strengthening of production by ensuring reliable protection; and third, in its developed forms, insurance increases investment potential and facilitates the concentration of financial resources in agriculture.

It is well known that natural disasters and unfavourable weather conditions cause agriculture to suffer substantial losses, affecting the interests of agricultural producers and the state as a whole. Therefore, state insurance provides a comprehensive solution to several problems: compensation for material costs, coverage of losses, and effective financial assistance in restoring normal production activity. Insurance services are most developed in



the United States, whose market share accounts for almost half of the global volume of such services. It is followed by Japan, with 11.25%, Germany, with 1.19%, and the United Kingdom, with 5.93%.

In the United States, any insurance company may provide crop insurance services by signing a standard contract that determines the degree of risk assumed by the company. The state pays one quarter of the administrative costs associated with providing insurance premiums to farmers. Budget funds intended to cover the state share of insurance premiums are transferred directly to insurance companies. The general framework of insurance tariffs is defined by the Agricultural Risk Protection Act. Companies collect the full premium and subsequently transfer to the Federal Crop Insurance Corporation the portion of the premium determined by the agreement between the United States Department of Agriculture and the individual company. Thus, in favourable years, insurance premiums accumulate both within insurance companies and at the federal level. If an insured event occurs, payments are made in accordance with the shares of risk specified in the signed standard contract [1].

In Spain, a state agricultural insurance institution has been established under the Ministry of Agriculture. The Ministry of Agriculture and the Ministry of Finance determine the procedure for compensating agricultural producers for part of their insurance premiums, the tax share, and the total amount of support. For this purpose, an insurance plan is developed. Spain's mixed agricultural insurance association, Agroseguro, concludes insurance contracts with producers, collects contributions, receives allocations from the state agricultural insurance institution, and pays insurance compensation.

In France, the National Guarantee Fund compensates agricultural producers for losses that exceed 27% for individual crops and 14% for all products. Half of this fund is formed from insurance premiums paid by commodity producers. The Ministry of Finance determines the amount of subsidies for insurance premiums paid by farmers. State support for agriculture is provided through a national agency without the participation of insurance companies. In crop insurance, 50% of contributions are paid by the producer, 25% by the regional administration, and 25% by the state budget.

The approaches adopted by economically developed countries to solving the problems of agricultural investment are diverse. China, for example, has accumulated substantial experience in regulating investment processes. In China, funds for agricultural investment come from four sources: state-allocated loans; funds of rural collective economic organisations; funds from dehkan farms; and bank resources. The main investors in agriculture are collective farms and dehkan farms, with the latter accounting for more than half of all investments. In the 1990s, state support for agriculture was provided through budget funds allocated to fixed capital; through budget allocations for financing crop production, forestry and fisheries, livestock breeding, and irrigation construction; and through the establishment of various funds to support the development of agricultural production. Investments provided to dehkan farms are mainly short-term in nature. They are used for the purchase of means of production and for current expenditures such as seeds, fertilisers, pesticides, and other inputs.



The People's Republic of China imposes an obligation on local governments at all levels to increase investment in agriculture and allocate funds for the introduction of agricultural technological achievements. The country's Law on Agriculture defines the sources of capital investment, the mechanism for its implementation, the procedure for training specialists, and the use of achievements in agricultural science. Over the past twenty years, the Chinese Government has secured USD 18 billion in foreign investment in the national agricultural economy. By the beginning of the second millennium, China had 9,000 agricultural projects financed by foreign investors.

In foreign countries, leasing cooperatives are assigned an important role in state support for agriculture. In the total volume of capital investments in machinery and equipment, the share of leasing operations is 30% in the United States, 17% in the United Kingdom, France, Sweden, and Spain, 10–15% in Japan, and 8–10% in Austria, Denmark, and Norway. Two types of leasing are used in these countries: financial and operating leasing. In the first case, during the leasing period the lessee pays the full value of the leased equipment, and at the end of the leasing term it becomes the lessee's property. In the second case, the value of the equipment is paid only partially, and at the end of the leasing term the equipment is returned to the lessor.

In France, CUMA, a cooperative for the joint use of expensive modern equipment, has been developed.

In Germany, machine rings are widespread; within these associations, equipment is purchased with pooled funds or belongs to one owner who performs work for members of the ring for a fee.

The main structural unit of United States agriculture is no longer the individual farm, as it was until the middle of the twentieth century, but large industrial corporate family enterprises and their associations.

For example, dairy cows are concentrated in herds exceeding 1,000 head. Commercial production is concentrated in 21% of farms specialising in wheat production. Twenty-seven per cent of farms produce the majority, 70%, of market maize. A total of 3,060 pig farms, or 3% of all operating farms, sell more than 50% of pigs.

Approximately 40 corporate companies produce 95% of all broilers. Two per cent of 110,000 cattle producers sell 85% of cattle.

Due to the high strategic importance of large corporate farms, at the end of the 1990s only 16% of farms with annual sales exceeding USD 100,000 received 75% of the total amount of state payments.

#### Conclusion

The study of the experience of economically developed countries in ensuring the competitiveness of dehqan farms makes it possible to draw the following conclusions.

The study of advanced foreign experience is of great importance for ensuring the effective functioning of the agrarian sector of the national economy.

State support measures for agriculture constitute priority areas of agrarian policy.

The level of state support for agriculture has remained high for many years, ranging from 30% to 70% of production costs. At the same time, regular monitoring of production costs in agriculture is carried out.



The common European policy concerning the agrarian sector is aimed at subsidising the cost of produced goods and the export of surplus products, clearly organising sales markets, maintaining high fixed domestic prices and farm incomes, and facilitating the sale of surplus products. The diversity of taxes applied makes it possible to regulate the development of agricultural production and increase its competitiveness.

The tax regimes applied depend on the income level of agricultural producers; that is, as farmers' incomes decrease, the tax rate also decreases.

Agricultural producers are granted loans on preferential terms.

Moreover, interest rates in different countries range from 6% to 12%. State insurance provides compensation for material costs, coverage of losses, and effective financial assistance in restoring the normal production activity of farms.

Insurance services are most widespread in the United States, where the market share approaches almost 50% of global services, as well as in Japan, 11.25%, and the United Kingdom, 5.93%.

Leasing cooperatives also play a significant role; in different countries, the cost of leasing operations accounts for 10–30% of the total cost of technical re-equipment.

The generalisation of foreign countries' experience in managing the use of land resources makes it possible to draw the following conclusions:

- no country in the world has unrestricted ownership of land; the functioning of any form of ownership takes into account the need to ensure the primacy of the interests of society and the state;
- in all developed countries, the state actively intervenes in land relations by carrying out legal and economic regulation of land relations and by exercising control over the use and conservation of land resources;
- the land market, especially in relation to agricultural land, is strictly limited and controlled by the state, which is reflected in the pace of turnover in the market for land plots;
- in developed foreign countries, a tendency is emerging to prioritise the transition from land ownership to the lease of land plots in order to preserve the leading role of the state in land resource management;
- in all countries of the world, the principles of prioritising agricultural landownership and land use are officially proclaimed and strictly implemented in order to protect productive agricultural land from allocation for non-agricultural needs.

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