

Article

# State Support of Insurance as a Tool for Agricultural Risk Management

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**Abstract:** Insurance of agricultural producers occupies an important place among the instruments of state support for agriculture, based on this, this article discusses the issues of state support for insurance.

**Keywords:** national economy, state policy, state support, insurance, policyholder, insurer, risks.

## 1. Introduction

In recent years, due to the active influence of a number of negative factors, the risks associated with operating in the agricultural sector have increased significantly. The influence of various geopolitical and economic processes lies in the fact that penetration into trade markets, the free use of sources of financing is significantly complicated, which in turn reduces the investment attractiveness and financial stability of agricultural organizations. At the same time, the risks associated with the development of the industry are also associated with climate changes. Thus, the effects of natural disasters are often unpredictable (uncharacteristic for the territory) and complex (a combination of risk groups), which in turn affects crop yields and leads to a decrease in the number of animals. As a result, financial stability and productivity decrease.

In the current situation, state support for insurance of the risks of agricultural production is the most important financial tool that allows you to compensate for the losses of producers. The de facto expansion of the needs of the territories for financing insurance programs, along with the state's desire to make expenses in this subsidy area acceptable, necessitates the modernization of the existing state support mechanism, which, in the interests of all participants in insurance relations, provides for an increase in the efficiency of planning and distribution, monitoring and assessment of allocated budgetary funds.

## 2. Materials and Methods

The issues of state support for agriculture, in particular the introduction of an effective insurance system, have been studied by many researchers, and such research continues today. In particular, in his research, researcher Solieva pays special attention to the analysis of regulatory legal acts adopted in relation to agricultural insurance (Solieva, 2022).

Researcher Nurullaev tried to scientifically substantiate the advantages and peculiarities of the insurance system in the management of risks in agriculture, while researching the main areas, the need for a new approach to the methodology of risk insurance based on state support in the context of institutional changes in agriculture (Nurullayev, 2019).

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The issues of the role of insurance in mitigating climate changes are reflected in the scientific research of Yadgarov from local specialists. In particular, he touches on the practical aspects of mitigating climate change with the support of an agroforestry (Yadgarov, 2021).

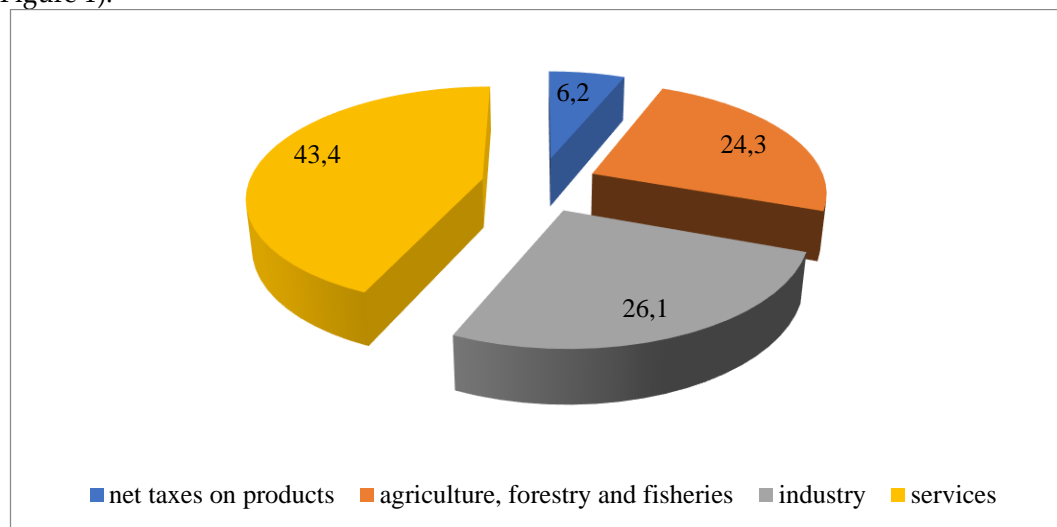
Another of the domestic specialists, Gafforov, analyzes the ways of developing risk management in the field of Agricultural Risk Insurance on the example of the experiences of foreign countries and shows the advantages and peculiarities of the insurance system in managing risks in agriculture (G'afforov, 2022).

Alternatively, researcher Kalenov studied the risks associated with the activities of agricultural enterprises and the issues of achieving the effectiveness of providing insurance services by classifying them and establishing public-private partnerships, as well as mutual insurance societies for part of insurance premiums, supporting these societies with payment by the state (Kalenov, 2021).

The methodological basis of this scientific article is a set of dialectical principles that allow us to reveal the mechanism of state support for risk insurance in agriculture as a set of interconnected and interacting elements. In addition, in the process of writing and editing a scientific article, common methods of scientific knowledge such as scientific abstraction, analysis and synthesis have been widely used.

### 3. Results and discussions

Agriculture is considered one of the most important sectors of the economy of any country, ensuring the food security of a prosperous country and saturation of consumer markets largely depend on the general state of the agricultural sector. The contribution of rural, forest and fishing in ensuring the annual growth rates of the country's GDP is 0.8-1.0 percent, while the role of the agricultural sector in the economy of Uzbekistan is high enough. As of the end of 2023, the share of rural, forest and fishing in the country's GDP is 24.9 percent, which is reflected in the importance of Agriculture in the country's economy (Figure 1).



**Figure 1. GDP structure by type of economic activity in 2023, %**

Experts estimate that a country's 1% increase in agricultural production will affect an increase of around 1-2% in other interconnected sectors of the economy, in a word, positive shifts in agriculture due to the multiplicative effect will be reflected in the economy of a whole country (Abduvoxidov, 2022).

Today, agriculture is not only a source of resources that provide the population with food, industry with raw materials and semi-finished products, but also a consumer who forms a stable demand for industrial products (Nurmuxammadova, Abduvoxidov, 2021).

It should be noted that within the framework of state support for agriculture, different approaches are distinguished to revealing the economic content of the category “state support” (Table 1).

**Table 1.**

**Different approaches to revealing the content of the “state support” category**

Approach	Approach content
Regulatory legal	a set of regulatory and legal and organizational measures that regulate the boundaries of the procedure for entering into interaction and responsibility of participants in the relationship between agriculture and the development of rural areas
Social	set of measures to improve social infrastructure in order to ensure the social stability of rural areas
Economic	a set of various financial instruments, Preferential and state-free financing tools that are used for the purpose of supporting and developing agricultural sectors

**Source:** formulated by the author on the basis of the analysis of symbiotes.

Despite the difference in approaches to understanding the essence of state support for agriculture, all authors put forward a unanimous opinion on the functional direction of these support measures. Mabodo we summarize the views of local scientists on state support for agriculture, then the state support of Agriculture is aimed at activating the potential of rural areas (cadre, production, Financial) to support sustainable development of Agriculture in order to provide raw materials for industrial production and increase the standard of living of the population, ensure the country's food security, we can characterize it as a set of targeted measures of social and economic nature (Maxmudov, 2023)

Because of the strategic importance of Agriculture, in all countries of the world, this sphere is sufficiently supported by the state.

The need for state support for agriculture is due to a number of reasons, the main of which are: features of agricultural production; clear seasonality of activities; high and poorly controlled levels of complex risks; such as the lack of equivalence in commodity exchange with industry (Abduvoxidov, 2022).

It should be noted that state support for agricultural production is an integral part of state regulation, which is carried out through certain forms and methods.

In this regard, in the strategy of agricultural development of the Republic of Uzbekistan for 2020 – 2030, improving the mechanisms of financial support of agricultural producers by the state, including subsidizing the interest rates of commercial loans allocated for the cultivation of certain agricultural products of strategic importance; it is significant that special attention is paid to the issues of improving the lending and insurance mechanism in accordance with the strategic directions and needs of the agricultural and food sector.

As one of the important areas of state support for agriculture, insurance takes the field, within the framework of the implementation of insurance relations, the main risks of the agricultural sector of the economy are affected in every possible way, which has a positive effect on increasing their stability by compensating for the losses of the final agricultural commodity producers, reducing the risk of bankruptcy, it allows them to maintain sufficient solvency to pay off current debt obligations and ensures the stability of financial results (Soliyeva, 2022) .

In the scientific work of some authors, it is noted that insurance on the basis of state support is one of the most important means of reducing existing risks in agricultural production and ensuring the sustainable development of the agricultural sector of the economy (Nurullayev, 2019) .

Kalenov believes that the need for state support is due to the fact that agricultural risks affect the functioning of not only agricultural producers, but also all economic entities involved in the value chain of products (Kalenov, 2021).

A number of foreign scientists argue that with the support of the state in their research, agricultural insurance helps to ensure the continuity of the production process, reduce the level of risks associated with activities, increase financial stability and maintain the stability of income of agricultural producers (Hazell, 1992).

The World Economic Forum's annual report on global risks notes that climate change is a devastating threat to the entire planet (McLennan M. *et al.*, 2022). Foreign researchers argue that climate change directly and indirectly affects agricultural production, and that insurance is the most important means of combating the effects of climate change (Mendelsohn, Dinar, 2009).

A number of scientists argue in their studies that climate change leads to an increase in the intensity and frequency of extreme weather phenomena, changes in air temperature and heavy precipitation. A sharp rise in air temperature negatively affects the productivity of agricultural sectors and increases the risk of risks associated with production. In their opinion, the main risks of farmers are associated with the level of yield and prices of agricultural products (Elmonov, 2022).

Currently, state support for risk insurance in agriculture is carried out in two main directions:

- classic insurance of agricultural risks;
- direct compensation from the budget for damage caused by agricultural producers as a result of natural disasters.

The specific aspects of the risks that can arise when carrying out agricultural production require special attention to these aspects in state support.

#### 4. Conclusion

Today, the state is a full-fledged participant in insurance relations. The general purpose of state support of insurance in agriculture is to protect the property interests of agricultural producers from damage associated with the occurrence of dangerous phenomena for agricultural production. In setting goals, work should be carried out based on the point of view of all participants in agricultural insurance.

Support for the complex development of rural areas, promotion of employment, improvement of the quality and living conditions of rural residents are carried out in the form of state programs for socio-economic development of rural areas, promotion of mortgage lending and employment of rural residents.

Like any commercial structure, the main goal for an insurance company is to ensure the high profitability of Agricultural Risk Insurance Operations. Today, however, the lack of financial literacy of agricultural producers, coupled with limited financial capabilities, requires active state participation in agricultural production insurance.

Taking into account the peculiarities of agricultural insurance, which implies the unpredictable nature and scale of the occurrence of insurance phenomena in agricultural insurance, the insurer seeks to reduce costs, optimize the risk level of the insurance portfolio and maintain a high level of solvency by reducing insurance premiums.

The main purpose of the organization (insurer) engaged in agricultural activities is to ensure stable profitability of economic activities. By participating in insurance, the manufacturer tries to protect its business and ensure financial stability even in the event of a negative event. In order to fully compensate for the damage received for the Agricultural Organization, the priority is to maximize the insurance payment.

The validity of the comprehensive system of support for agricultural producers is determined by the peculiarities of the validity of the national agricultural insurance market today. To date, an effective system of reinsurance of the main risks in the agricultural sector

has not been created, and as a result of natural emergencies within the framework of Commercial Insurance, Reinsurance Opportunities in sufficient volumes have not been formed to compensate for the large losses of agricultural producers and, in turn, insurance organizations.

Thus, agricultural production in Uzbekistan is primarily associated with high risks associated with natural-climatic conditions, as well as the risk of spreading dangerous diseases of agricultural animals. The creation of an effective system of agricultural insurance with the help of state support is a priority of State Agrarian Policy, which in turn serves to ensure the food security of the country and protect the interests of agricultural producers.

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