



ELIT

Economic Laboratory Transition  
Research Podgorica

## Montenegrin Journal of Economics

For citation:

Sarbassova, R., Nurumov, A., Akynbekova, D., Mussaeva, G., Amalbekova, G., Belousov, A. (2025), "Budgetary Support for the Financial Recovery of Agricultural Entities in Foreign Countries", *Montenegrin Journal of Economics*, Vol. 21, No. 3, pp. 195-207.

### Budgetary Support for the Financial Recovery of Agricultural Entities in Foreign Countries

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#### ARTICLE INFO

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Received May 12, 2024  
Revised from June 12, 2024  
Accepted July 12, 2024  
Available online July 15, 2025

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**JEL classification:** G30, G38, G39

**DOI:** 10.14254/1800-5845/2025.21-3.15

**Keywords:**

Budgetary security,  
agricultural formations,  
stability,  
sustainability,  
financial recovery,  
agricultural sector.

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#### ABSTRACT

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*The study is relevant in the context of the growing need for financial recovery of agricultural enterprises in foreign countries. Periodically occurring economic crises, changes in world trade and climate anomalies can seriously threaten the financial well-being of agricultural entities. Budget support becomes a key tool to ensure the sustainability of their activities. Analyzing the experience of other countries in this area will help identify effective approaches and tools that can be adapted for use in your country. Such research can offer useful recommendations for developing strategies for budgetary support of agricultural formations that contribute to their sustainable development in conditions of instability and changing market conditions. The purpose of the study is to analyze the mechanisms and effectiveness of budget support for the financial recovery of agricultural entities in various foreign countries. Research hypothesis: Budgetary support for the financial recovery of agricultural entities in foreign countries is an effective tool for stimulating the sustainable development of the agricultural sector and increasing its competitiveness. This hypothesis assumes that properly organized and targeted budget support can contribute to the financial recovery of agricultural entities, improving their financial situation and promoting their sustainable development.*

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## INTRODUCTION

Budgetary support plays a key role in stimulating and developing various sectors of the economy, including agriculture and agro-industrial complex. In foreign countries, budget programs are aimed at the financial recovery of agricultural entities in order to improve their competitiveness, sustainability and efficiency. In the context of modern challenges such as climate change, threats to biodiversity, and economic and social changes, fiscal support measures become especially important to ensure sustainable agricultural development.

This study examines the role and significance of budgetary support for the financial recovery of agricultural entities in foreign countries. Various aspects of budget programs, their effectiveness and impact on the development of the agricultural sector are analyzed. In particular, the effectiveness of current budget support mechanisms is examined, key success factors and challenges are identified, and recommendations are made to improve the effectiveness of such programs.

Specific research objectives include:

- Study of existing programs and mechanisms of budgetary support for agricultural enterprises in various countries.
- Assessing the effectiveness and efficiency of the applied methods and tools of budget support.
- Analysis of factors influencing the success or failure of budget support for agricultural formations.
- Identification of best practices and recommendations for optimizing budget support in agriculture.
- Proposing strategies and mechanisms to improve the efficiency and effectiveness of budget support for agricultural enterprises in foreign countries.
- The results of this study will help to better understand the role of budget support in agriculture and develop strategies for its more effective use in the context of modern challenges and requirements.

It is expected that a comprehensive analysis, an adapted approach and taking into account both positive foreign experience and erroneous government decisions will make it possible to develop and create the prerequisites for increasing the efficiency and competitiveness of the agro-industrial complex, which will significantly contribute to strengthening food security.

## 1. LITERATURE REVIEW

The concepts of effective use of budget funds, sources of their formation, methods and evaluation indicators occupy a special place among the scientific areas of analysis and control. Despite the fact that efficiency refers to the target characteristics of an economic entity and many researchers have been involved in its assessment, complete clarity in the definition of the concept of budget efficiency has not yet been achieved. This situation is explained by the fact that this concept is closely related to politics, ways of running the economy at the macro level and organizational and legal forms of management and types of economic activities at the micro level.

Management effectiveness cannot be measured by any one indicator, but is defined as the result of a complex interaction of various factors: natural, human, socio-economic, environmental, etc., influencing the adoption and implementation of management decisions.

A critical cornerstone of building a modern budget system is the implementation of performance-based budgeting (PB), which is defined as “the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budgetary decisions.” budget planning, and to ensure greater transparency and accountability throughout the budget process by providing legislators and the public with information on spending objectives as well as results achieved (Schick, 2014), (Gillan et al., 2021).

Countries with a higher proportion of ministries using performance targets in budget discussions tend to have lower public debt and higher GDP growth (Shahvalizadeh, 2020), (Yuhertiana and Fatun, 2020).

For finance ministries, performance budgeting provides new types of information to help them make resource allocation decisions based on evidence of what works, as well as tools to make line ministries more accountable for the efficiency and effectiveness of spending (Blazely, 2018).

Analyzing the essence of efficiency indicators used in budgetary practice, it becomes obvious that the very concept of efficiency in relation to the results of the implementation of programs/subprograms needs clarification and specification. In this regard, it seems necessary to evaluate the effectiveness of the results obtained from the point of view of various aspects of efficiency, among which in the practice of program budgeting the most important traditionally are: impact on society, effectiveness, productivity, quality of service, quality of the organization (Khan and Hildreth, 2002), (Gilmour, 2007), (Miller et al., 2010). Examples of such indicators include: indicators of income growth in a specific industry, regional income growth, completion of the development of a specific technology, the level of competitiveness of the industry in the world market (Peacock, 2008).

In highly developed countries of the world, in order to support the development of the agricultural sector, the state, through authorized bodies, pursues a flexible fiscal policy, organizes preferential lending, participates in agricultural insurance, supports the income of agricultural producers, carries out price and tariff regulation, allocates public investments for the development of production and market infrastructure, and subsidizes exports and uses other measures of government support and regulation. It is thanks to enhanced government support for agriculture that the countries - the largest food exporters - the USA, China, Canada, EU countries, Brazil - were able to achieve an increase in agricultural production parameters and strengthen their food security (Toktomamatov et al., 2017).

In the studies of many authors (Abdiev et al., 2017; Avzalov, 2016; Vartanova, 2019; Vartanova and Drobot, 2018; Vasilchenko and Derunova, 2020; Ovchinnikov, 2018; Prokofiev et al., 2019; Sultanova, 2017; Sushko, 2020; Chernikova et al., 2020) considered various aspects of solving budgetary support for agricultural formations in the practice of foreign countries.

For a more detailed and accurate assessment of the effectiveness of using budget resources, it is extremely important not only to continue, but also to actively develop and improve analysis methods and tools. This will allow for a deeper and more complete assessment of the efficiency of spending funds, identifying potential bottlenecks or opportunities for optimizing budget processes. This approach will allow government agencies and organizations to make more informed and informed decisions aimed at achieving maximum efficiency in the use of budget resources.

## **2. FOREIGN EXPERIENCE IN THE EFFECTIVE DISTRIBUTION OF FUNDS BETWEEN LEVELS OF MANAGEMENT AND DECENTRALIZATION OF THE BUDGET**

Fiscal sustainability is determined by the influence of internal and external factors. At the same time, external factors, as a rule, do not depend on the region, so the authorities cannot influence them and they have to come to terms with them and adapt to the circumstances. Unlike external factors, internal factors depend on the region, so regional authorities can adjust their budgetary stability by influencing these factors.

Interlevel transfers constitute the bulk of local (subnational) income in most countries. They are used to ensure that revenues roughly match the spending needs of local (subnational) governments at different levels. They are also used to achieve government and local goals, such as equality and justice, and to stimulate overall economic growth.

The composition of such transfers provides incentives for higher-level and local governments, affecting financial management, macroeconomic stability, fair and efficient redistribution, and the quality of services. Among non-targeted transfers to subnational budgets, equalizing subsidies for budgetary security and subsidies for maintaining and ensuring the balance of regional budgets are of key importance.

Equalization subsidies are the main tool of the central government to reduce interregional disproportions and differentiation. The non-targeted nature of this form of transfers ensures the flexibility of regional

budget policy, since subnational authorities independently determine the directions for using these funds in accordance with local priorities.

In foreign economies, inter-budgetary regulation is determined depending on the specifics of the budget system of each specific state. International organizations recognize the impossibility of using the same or standard methods and approaches for all countries in financial equalization according to one general model, that is, the impossibility of determining a perfect degree of equalization common to all.

The experience of the world's developed countries demonstrates uniform mechanisms for the distribution of budgetary resources between the budget levels of countries, mainly these are:

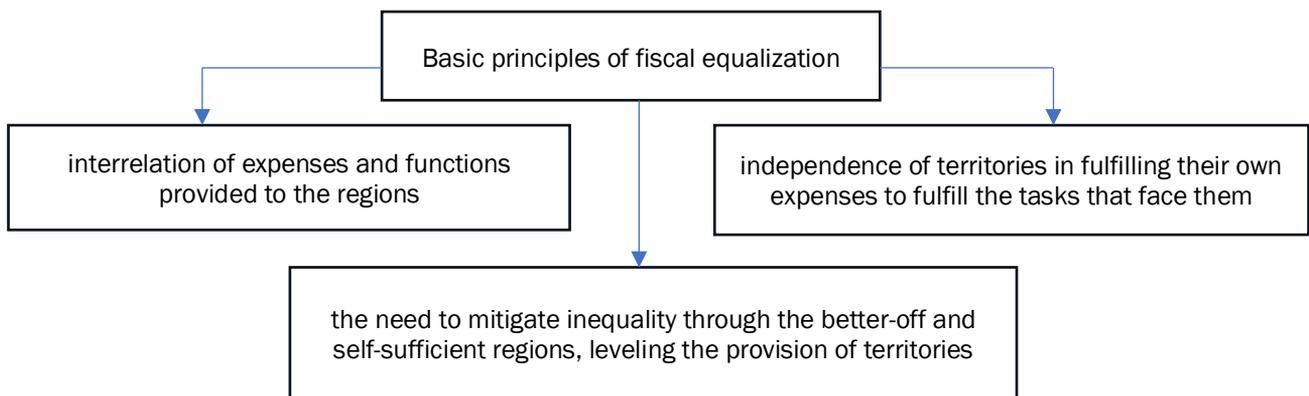
- macroeconomic stability;
- equality of regions;
- efficiency;
- coordinated spending of funds.

Similar criteria for inter-budgetary equalization are used, and their selection is significantly influenced, as a rule, by the goals and objectives of the state, and the peculiarities of the territorial and political structure of different countries.

All equalization schemes are the result of both economic and political choices. For example, in many developed countries, when equalizing, such criteria as population size and density, socio-demographic criteria, unemployment rate, general level of financial security are taken into account, income and expenses of territories, the proportion of citizens over the specified age in Switzerland and Australia are certainly taken into account (OECD, 2022).

In many countries, fiscal equalization is based on basic principles common to almost all economic systems in different countries, including the following (Figure 1).

The state forms and adjusts budget relationships, directions and channels of budget flows, thereby influencing the processes of budget relations. It changes the principles, methods, and methods of generating budget revenues and expenses, ensuring regulation of the country's budget system.



**Figure 1.** Basic principles of budget equalization

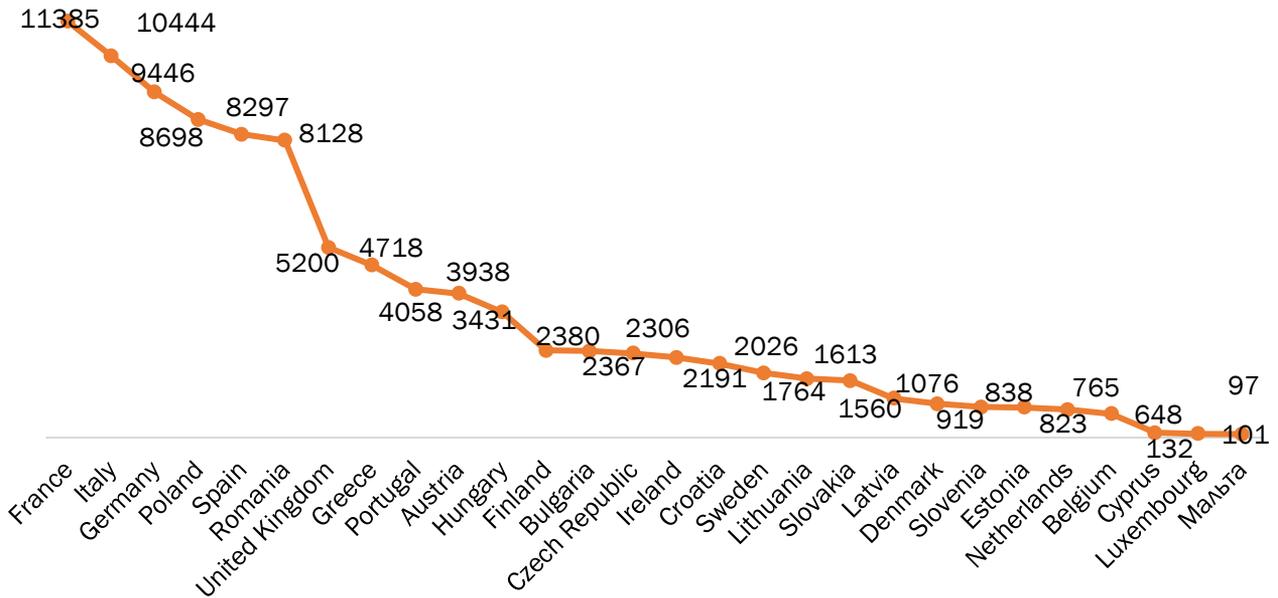
Source: compiled by authors

It is especially important to realize that the basic principles of state budget policy are formed precisely at the republican level. For this purpose, using a set of various financial instruments, the distribution of state revenues is carried out between entities of the same level, and between the center, regions and local authorities. Their use is aimed at equalizing the levels of budgetary security and, accordingly, budgetary sustainability.

Foreign experience in effectively allocating funds between levels of government and decentralizing the budget may include several key methods and strategies.

### 3. PARAMETERS FOR FINANCING DEVELOPMENT PROGRAMS FOR AGRICULTURAL FORMATIONS IN THE EUROPEAN UNION COUNTRIES

EU programs in the field of rural development are also financed from the European Agricultural Fund for Rural Development (EAFRD). Almost 100 billion euros were allocated, with each EU country receiving financial allocations for 7 years (Figure 2, 3).



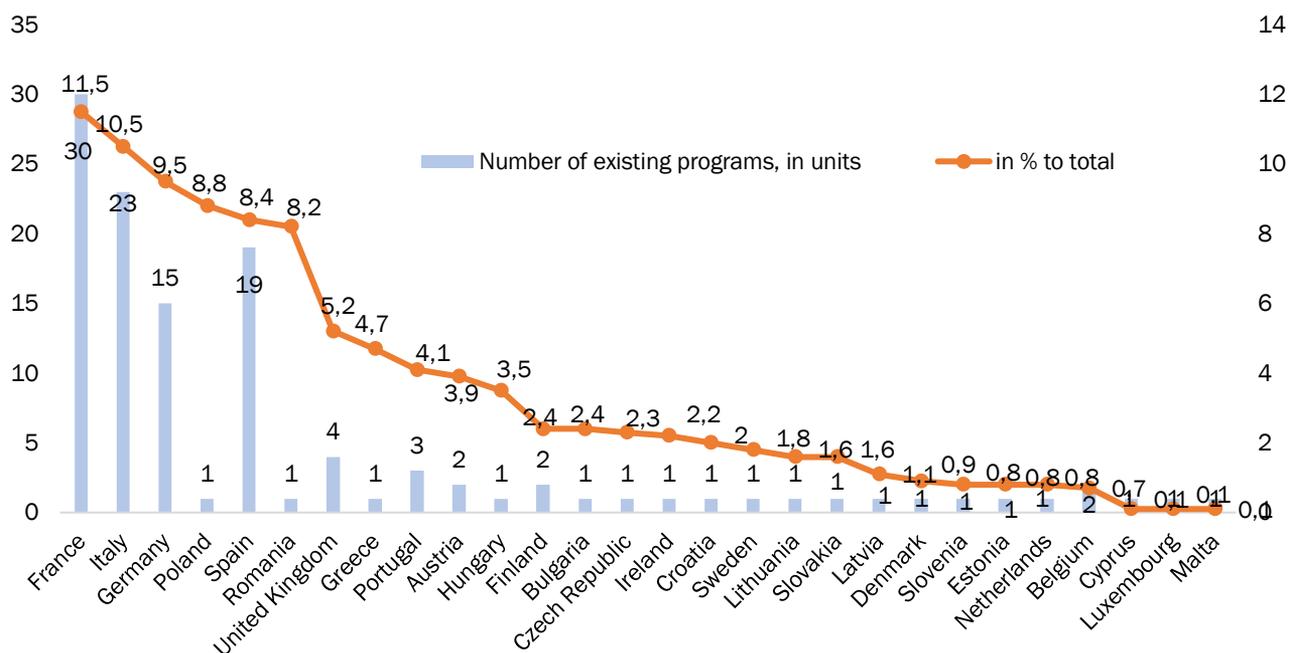
**Figure 2.** Amount of financing of agricultural formations of development programs of the European Union countries as of 01.01.2021, in million euros

Source: compiled by authors according to [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key\\_policies/documents/rdp-2014-20-list\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/rdp-2014-20-list_en.pdf)

As of 01.01.2021 in 28 countries of the European Union, 119 special programs for the development of rural regions (Rural Development Programs - RDP) have been developed and continue to be implemented. Of these, 20 programs are unified national programs.

Agriculture receives significant government support in EU countries from the budget at the national level. Unlike the supranational level of the EU, where strict uniform standards for providing financial assistance to farmers are applied, here the directions and parameters of state support are very flexible, which is determined by the financial and budgetary potential and characteristics of the economy of each country. For example, in the Netherlands, Finland, Germany, France, where the agricultural sector occupies a significant place in the national economy, the level and volume of state support for the industry is quite large. Thus, in developed EU countries, in the total volume of government financial support from all levels of budgets, the national level accounts for over 50%. In less developed EU countries (Bulgaria, Romania, Hungary, Slovakia, Poland), on the contrary, the share of the national level of financing is comparatively lower, and in the total volume of budgetary agricultural expenditures of these countries the supranational level accounts for over 80%.

In terms of the number of existing programs in the European Union, the leaders are France (30 programs with a funding share of 11.5%), Italy (23 programs with a funding share of 10.5%), Spain (19 programs with a funding share of 8.4%), Germany (15 programs with a financing share of 9.5%), Germany (15 programs with a financing share of 9.5%).



**Figure 3.** Number of existing programs for financing agricultural formations in the European Union countries as of 01.01.2021, in units

Source: compiled by authors according to [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key\\_policies/documents/rdp-2014-20-list\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/rdp-2014-20-list_en.pdf)

Comprehensive measures have been developed for agricultural producers and other entrepreneurs in rural areas to create favorable conditions:

- modern infrastructure has been formed,
- special preferential tax regimes have been established;
- optimal mechanisms for subsidizing certain expenses of rural producers, etc. have been developed;
- preferential conditions have been created for the activation of agrotourism as a way of developing rural areas.

The driving force behind setting priorities in favor of the agricultural economy was the fact that in this historical period the degree of mechanization and automation of agriculture, which was the main area of employment for rural residents, increased significantly.

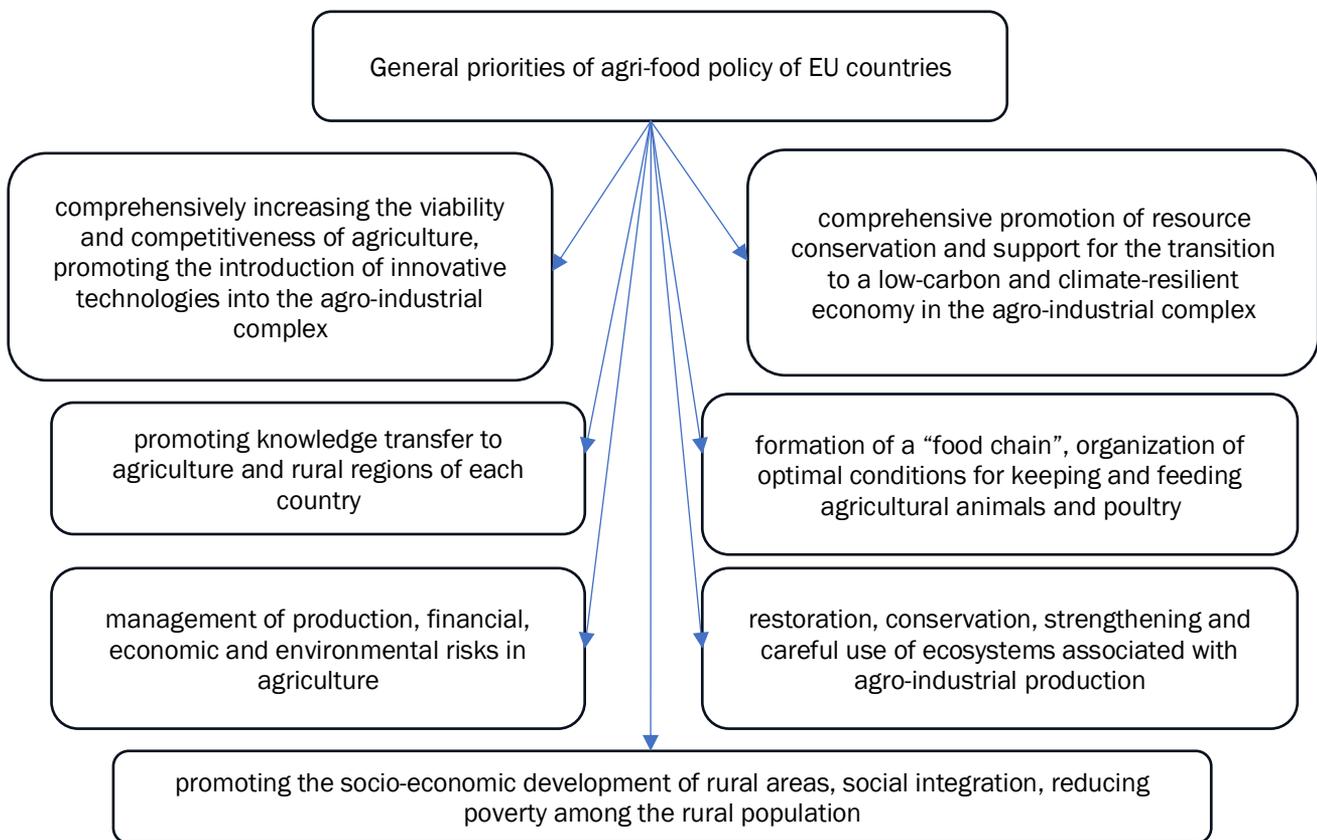
In general, state support for rural producers amounts to about 35.0% of the value of EU agricultural products, and per 1 hectare of agricultural land - more than 800 dollars.

In many EU countries, during the implementation of a common agri-food policy, including in terms of budget financing, many important socio-economic processes gradually began to be restored. The experience of Poland is interesting, whose share in the budget of the Common Agricultural and Food Policy is increasing. Thus, over the previous seven-year period (2007–2013), Poland’s share was 28 billion euros (7.5%) with a seven-year CAP budget of 371.3 billion euros. For the current seven-year period (2014–2020), the CAP budget is provided in the amount of 435.0 billion euros.

In 2014, EU countries signed a partnership agreement providing for the coordination of all European Structural and Investment Funds (ESIF) in each country. The European Commission and the authorized bodies of each EU country are working with the European Investment Bank (EIB) to develop and apply appropriate financial instruments within the framework of the European Agricultural Fund for Rural Development (EAFRD). The European Commission analyzes in detail, monitors and evaluates the results of the implementation of agri-food policy, primarily in relation to the development of budget resources provided in the form of financial assistance.

The most important priority of rural development policy in the European Union is the harmonization of ecosystems (44% of all expenditures). The countries of the European Union are alarmed by the destructive influence of anthropogenic factors on the natural environment and the negative consequences of climate change. These consequences are socio-economic, political, cultural and man-made in nature, thereby suggesting some transformation of production relations and certain changes in the parameters of the productive forces of the European community.

Each EU country develops national rural development programs, assessing and analyzing the problems and needs of the territories under its jurisdiction. At the same time, the European Union has established general priorities for agri-food policy that EU countries must comply with (Figure 4).



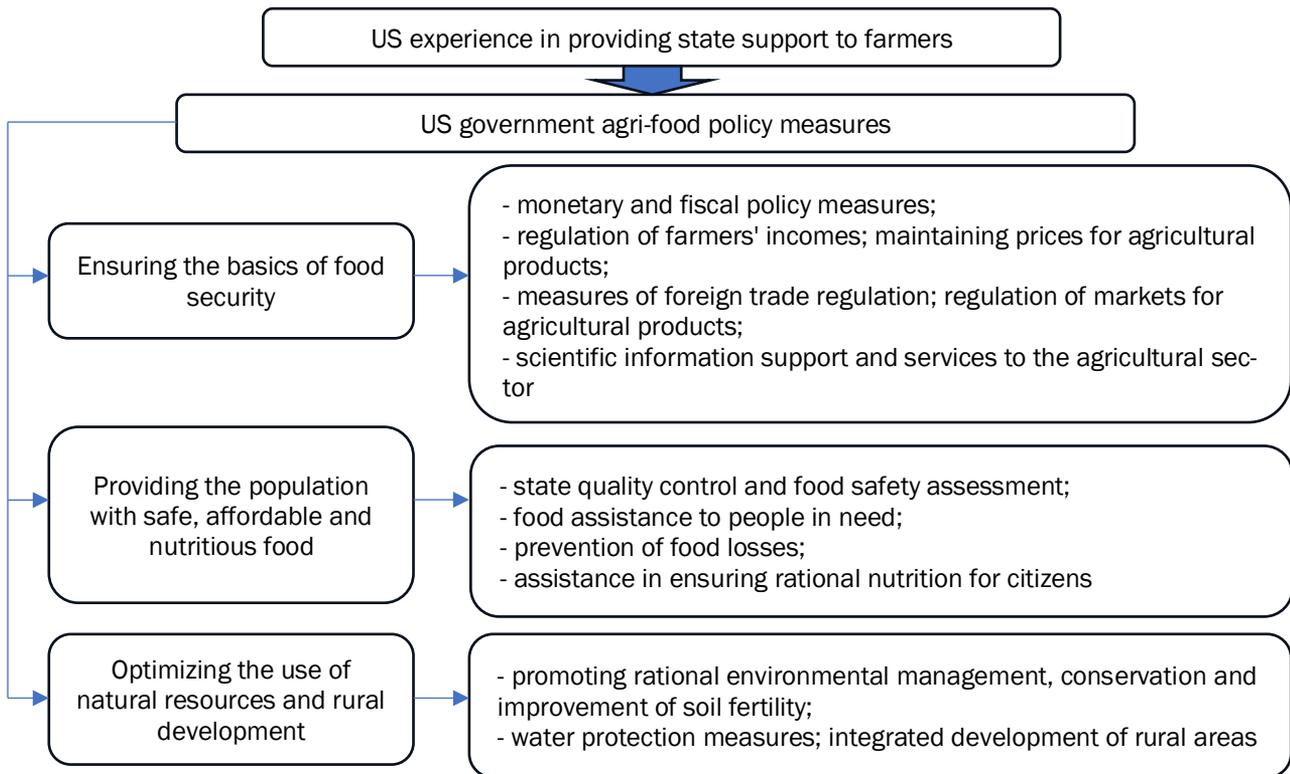
**Figure 4.** General priorities of agri-food policy of EU countries

Source: Compiled by the authors

#### 4. US GOVERNMENT AGRI-FOOD POLICY MEASURES

In general, effective distribution of funds between levels of government and decentralization of the budget requires a balanced approach that takes into account the specific local needs and management characteristics in each region.

The most important factor in the development of the US agri-food sector is its government regulation and support, which is conventionally divided into three main groups of measures (Figure 5).



**Figure 5.** US government agri-food policy measures

Source: compiled by authors according to Ovchinnikov, O.G. (2018), "Evolution of US agricultural policy measures at the beginning of the 21st century". USA and Canada: economics, politics, culture, No. 3, Vol.579, pp.5-20.

In the United States, the government provides direct subsidies to farmers in order to maintain price parity (the relationship between the prices of agricultural products and the resources purchased for their production). The increase in the efficiency of agricultural production and the creation of favorable conditions in the agri-food market contributed to a significant increase in the net income of farmers.

In the US government support system, a large part is subsidies to maintain prices. The price regulation system includes:

- firstly, the establishment of minimum and maximum price limits, as well as a conditional price that the state tries to maintain;
- secondly, government purchases of long-lasting agricultural products for the purpose of commodity intervention and maintaining conditional prices.

To provide information support for the price support policy, the state monitors the dynamics of a number of important indicators:

- costs of production of certain types of products;
- price parity for industrial and agricultural products;
- the level of profitability of farms and industries.

This makes it possible to create an information and statistical database, on the basis of which a policy to support production, income levels, savings, investments of farmers is carried out and regular measures are developed to influence market prices.

Exports of US agricultural and related products at the end of 2023 are estimated at 191 billion dollars, which is 10% lower than the previous year's record figure, Reuters reports.

Exports of bulk agricultural commodities, which include top-grossing commodities such as soybeans, corn, wheat and cotton, were the lowest in 10 years last year, down 17% from 2022, according to the U.S. Bureau of Statistics largest annual decline since 1985.

Last year's U.S. commodity exports were also the lowest in 10 years, driven by high prices and increased supply in competing exporting countries. As specified, the total exports of corn and soybeans from the United States in 2023 amounted to 94 million tons (-18% per year). The largest decline was recorded in December - China was the destination for 38% of US cargo, below the three-year average of 59%. With the exception of the 2018 trade war, this period marked China's lowest share of December U.S. soybean shipments since 2002.

Agriculture and related products accounted for 6.2% of total U.S. exports in 2023, the lowest level in four years, according to official data.

U.S. soybean oil exports fell 76% annually in 2023 as the focus shifts increasingly toward domestic consumption, the lowest on record since 1967. At the same time, soybean meal shipments hit a record 14.1 million tons, which is about 10% higher than the previous maximum set in 2018.

Separately, it noted that by value, Canada, China and Mexico accounted for about half of all U.S. agricultural and related exports in 2023, with Canada slightly ahead of China for the first time in four years. Thus, Canada accounted for 17.3% of the total value of exports from the United States, which is the highest figure since 2006. China's share, in contrast, fell to a four-year low of 16.6% from a record 19.2% in 2022.

## 5. BUDGETARY SUPPORT AND ASSESSMENT OF SWISS AGRICULTURAL POLICY

Swiss agricultural policy falls under the Agricultural Act (AgricA) of 1998, which sets out the principles and instruments for regulating the sector. AgricA is committed to ensuring that agriculture is sustainable and innovative. The main focus is on the following issues:

- food security of the population;
- conservation of natural resources;
- preservation of the cultivated landscape;
- decentralized occupation of territory;
- improvement of living conditions for animals.

The main elements of AgricA are enshrined in the Swiss Federal Constitution (Article 104). In 2017, following a referendum, a new article on food security was adopted (Article 104a), which emphasizes the need for a guaranteed food supply to the population through:

- protection of the foundations of agricultural production, especially land;
- adaptation of food production to local conditions and efficient use of natural resources;
- ensuring that the agriculture and food industry meets market needs;
- building trade relations that contribute to the sustainable development of agriculture and the food sector;
- use of food in such a way as to preserve natural resources.

Switzerland is a small economy with a high GDP per capita that experienced low and intermittently negative inflation prior to the 2022 global inflation surge and an unemployment rate of less than 5% for the past two decades. Before the COVID-19 pandemic, GDP growth was stable at around 2%, and in 2022 it returned to pre-crisis levels after a recovery period in 2021 (Figure 6).

Switzerland - Figure 5. Main economic indicators, 2000 to 2022

Percentage

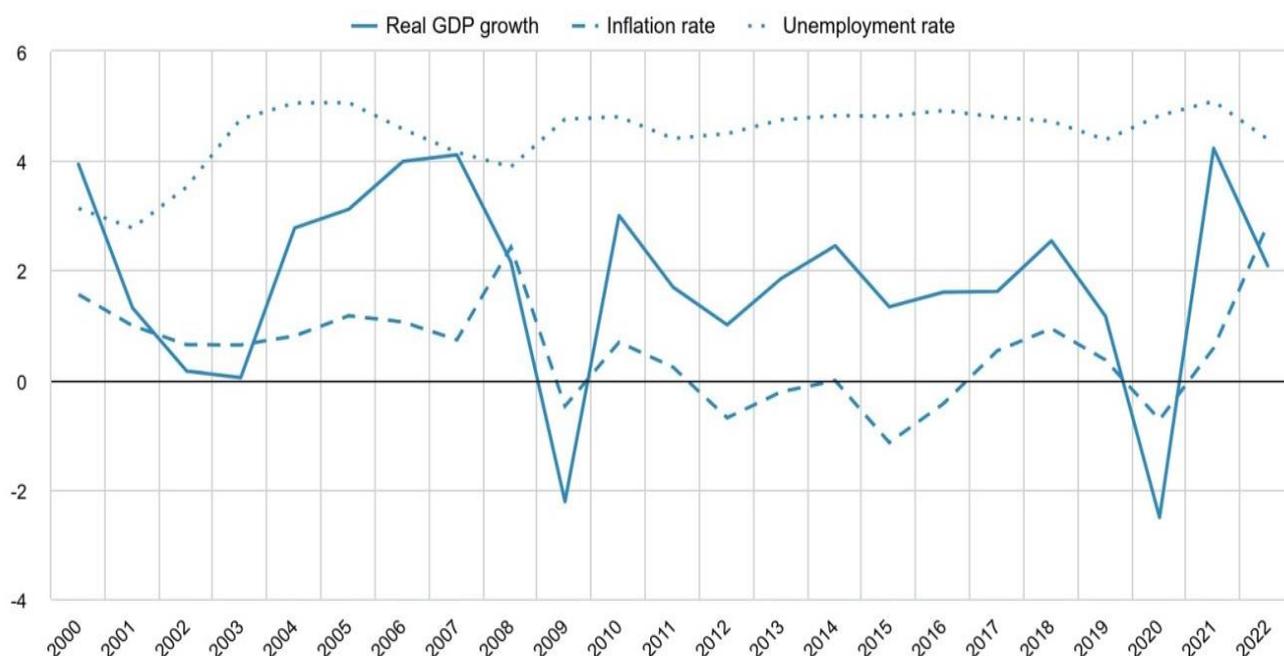


Figure 6. Main economic indicators, from 2000 to 2022

Source: compiled by authors

The relative importance of agriculture in the Swiss economy is small, accounting for only 0.6% of GDP and about 2% of employment. The farm structure is dominated by relatively small family farms. Hilly and mountainous agricultural areas (including alpine summer pastures) are used for extensive milk and meat production, while more concentrated pork and poultry production is located in the valleys.

Agricultural land covers 36% of the country's territory and consists mainly of pastures, with arable land accounting for only 10% of the total area. Crop production has shifted over time from traditional arable crops (cereals, oilseeds) to increased production of fruits and vegetables (Table 1).

Table 1. Indicators characterizing agricultural formations in Switzerland

Indicators	Switzerland		International comparison	
	2000*	2021*	2000*	2021*
Economic context			Share for all countries	
GDP	264	661	0.7%	0.5%
Population (million people)	7	9	0.2%	0.2%
Land area (thousand km <sup>2</sup> )	40	40	0.05%	0.05%
Agricultural area (AA) (thousand ha)	1 566	1 504	0.05%	0.05%
			All countries	
Population density (persons/km <sup>2</sup> )	180	218	52	64
GDP per capita	36 350	75 951	9 350	23 401

Trade as % of GDP	29.2	43.2	12.3	15.6
Agriculture in the economy			<i>All countries</i>	
Agriculture in GDP (%)	1.1	0.6	2.9	3.9
Agriculture's share of employment (%)	4.8	2.2	-	-
Agri-food exports (% of total exports)	2.7	2.9	6.2	7.9
Agri-food imports (% of total imports)	5.9	4.8	5.5	7.2
Characteristics of the agricultural sector			<i>All countries</i>	
Agricultural crops in total agricultural production (%)	50	41	-	-
Share of livestock in total agricultural production (%)	50	59	-	-
Share of arable land in AA (%)	26	27	32	34

Source: own

Current support programs are determined by the new agricultural budget for the period 2022-2025 (AP 2022-25), which follows AP 2018-21, covering the last four years. These plans are a continuation of the policy framework first developed in 2014. The 2018-21 budget allocation was 1.7% lower in nominal terms than 2014-17, while the new 2022-25 budget is 0.6% higher than 2018-21.

Budget support for agriculture consists of three main elements: direct payments, production and marketing expenses, and support for improving the production base.

Direct payments to farmers are aimed at ensuring food security and environmental protection (landscape, biodiversity, sustainable use of resources) and animal welfare. These payments are subject to cross-compliance with environmental requirements, with specific “environmental service requirements”.

Production and marketing expenses mainly support dairy producers through three types of payments:

- for processing milk into cheese;
- for the production of milk without silage feed;
- for the sale of milk and dairy products from the farm (introduced in 2019).

In addition, area payments apply to oilseeds, protein crops, grain crops (introduced in 2019) and sugar beets. Some expenses under this item relate to general sector services, including marketing and promotion.

Policies to improve the productive base include direct support for on-farm investment, as well as general support for infrastructure improvements, social assistance to farmers and extension services. These payments were first initiated under the AP Policy Framework 2014-2017.

Following the abolition of milk quotas in 2009, the intersectoral milk organization l'Interprofession du Lait (IP Lait) introduced standard milk supply contracts for its members. They set different prices and volumes for the supply of milk (contingents A, B and C). In 2013, these contracts became mandatory for all milk producers, including those not included in IP Lait. In essence, the previous production quota system was replaced by another production control mechanism, implemented on a private basis. This scheme was extended in 2021 by the Federal Council (Swiss federal government).

An assessment of agricultural support in Switzerland demonstrates a high level of government attention and support. Here are a few key aspects:

- *Financial support.* The Swiss government allocates significant funds to support agriculture. These funds are used to compensate farmers, subsidize agricultural activities, invest in infrastructure and protect the environment.

- *Development and innovation.* Switzerland invests heavily in agricultural research and development. This includes finding new technologies, resource management methods and developing environmentally sustainable practices.
- *Trade agreements and free trade.* Switzerland strives for balanced trade in agricultural products, both within its domestic market and internationally. This includes participation in trade agreements and initiatives that promote agricultural exports.
- *Environmental protection and sustainable development.* Switzerland pays special attention to environmental protection in agriculture. Government programs are aimed at reducing the negative impact of agriculture on natural resources and biodiversity.
- *Support for small farms.* Overall, support for agriculture in Switzerland reflects the desire for balanced and sustainable development of this key economic sector.

## CONCLUSION

Analysis of budgetary support for the financial recovery of agricultural formations in foreign countries allows us to draw a number of important conclusions:

The role of the state., and bilateral partners. These funds can be used to support agricultural projects and infrastructure development.

In general, budgetary support for the financial recovery of agricultural entities in foreign countries plays an important role in the development of agriculture, ensuring food security and sustainable development of rural areas. The desire to improve the efficiency of using budget resources and the development of innovative approaches in this area are key tasks for achieving the goals.

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