

Comprehensive Analysis of SME in Azerbaijan

Javidan A. Eldarli,
Ph D Student at Azerbaijan State Agrarian University

Abstract:-The article contains comprehensive analysis of entrepreneurship and state regulation of entrepreneurial activity in Azerbaijan and extensively studied the content of entrepreneurial activity, its important role in the market economy, various forms of this activity and its specific features, the need for state regulation of business activity, implementation mechanisms of that regulation. Moreover, various graphs and charts have been used those portray the indicators on the employment rate, distribution of small entrepreneurship subjects by kinds of economic activity, share of small entrepreneurship subjects in the economy, SWOT analyses of SME in Azerbaijan, number of small entrepreneurship subjects by regions of the country, and the main streams of state support for SMEs.

Keywords:-Small Entrepreneurship Subjects, Individual Entrepreneurs, State Support for SMEs JEL Codes: L29, L53.

The database and methods of the research

The database of the research is consisted by published statistical collections related to entrepreneurship, legislative acts on entrepreneurship and data given by central executive bodies.

I. INTRODUCTION

Entrepreneurial activity covers a wide range and there are different forms of it. Each form is distinguished by its specificity. In general, at Article I, section IV of "The Law on entrepreneurial activities" of the Republic of Azerbaijan is written:

1. Entrepreneurship in the Republic of Azerbaijan in the framework of the law is allowed in all its forms.

2. Individual and joint business activities carried out in the forms provided by the legislation can be arranged. The forms can be divided into several aspects of entrepreneurship:

- Own Property
- Another One's Property

"The Law on entrepreneurial activities" of the Republic of Azerbaijan contains:

"Depending on the nature of business activities and the relationship with the owner, both the owner of the business

activity and a person is employed by the owner of the business activity based on the owner's property right within

the limits set by him can be engaged to entrepreneurial activities". Business activities are carried out by certain production facilities, property and intellectual property. Mainly, the owners of the means of production and intellectual property manage the business activity. However, entrepreneurial activity with the third side's private ownership is widespread in a market economy, so the owners of the means of production can be delegated to someone else the entrepreneurial activity. Thus, the owner of the business, as head of the institution may entrust someone else with the contract. Also, renting a property can be engaged in entrepreneurial activity. A business activity carried out based on loan taking also can be considered as an entrepreneurial activity based on another one's property. Entrepreneurial activity can also be engaged in intellectual property of others such as a business operated by either a science laboratory or design bureau. Entrepreneurial activities are classified according to the fields of freedom of choice:

- does not require a special permit
- requires special permission
- the prohibited

In each country, areas of business activity are determined which requires a special permit and prohibited in terms of public interest. The fields of entrepreneurial activity are not mentioned, areas do not require a special 2 permit such as shoes, clothes, vehicles, household electrical appliances repair and so on. The list of business activities requiring a special permit shall be appointed by the National Parliament of the Republic of Azerbaijan. The following areas are included: oil and natural gas extraction and processing of ferrous and non-ferrous metals, precious metals and stones recycling of raw materials, waste storage and disposal of medicines, production and sale of equipment, valuable animals and fish, fishing and other areas of the business. According to the decision-making the following forms of business activity exist:

- Individual entrepreneurship. Individual business activities are carried out by a person, who performs his own decisions. These include those entrepreneurial activities without establishing a legal entity.
- Collective entrepreneurship. The collective entrepreneurship is realized by two or more persons who combine in one goal. Economic decisions are made collectively in this form of entrepreneurship.

In terms of the organization of business activities are available in the following forms:

- the natural person
- the establishment of a legal entity

In general, when the entrepreneur starts his own entrepreneurial activity he must decide what type of business he would found. It depends on the entrepreneur's subjective factors. As an example, the amount of capital entrepreneur own, skills owned by the entrepreneur and so on. As mentioned above, the entrepreneur can operate alone or with partners. In Azerbaijan entities, can be in the following organizational and legal forms:

- a. state-owned enterprises;
- b. individual enterprise;
- c. joint venture;
- d. joint venture partner;
- e. a limited liability company;
- f. joint stock company.

A state-owned enterprise is based on state property and exists in two forms:

- property is entirely owned by the state;
- control package of shares owned by the public authorities and business.

Entrepreneurial activity is carried out by state-owned enterprises where they unwilling or unable to concentrate on their own areas of direct capital. As an example, when the business requires high capital activity or the outcome of the process and the quantity is not known, product or service to be produced is not regulated by the state and so on. In some countries, energy supply, transport, communications and so on areas to ensure the normal functioning of the economy. These areas include the activity of state-owned enterprises. State-owned enterprises cover areas of public interest too. The main purpose of state-owned enterprises in these areas is to meet the needs of the population instead of to make a profit. The scope of state-owned enterprises as well as refers to the extraction of natural resources and scientific fields.

Private enterprise is a business entity owned by a citizen or the stake owned by family members. The owner is responsible to the obligation of entity in the manner prescribed by law by his property. There are several advantages of private enterprise. For example, it is easy to start and to end its activities. The owners do not have to get permission or consult with anyone (except for the state). The owner starts his business with only receiving a license from the state:

No revenue share with anyone, therefore, entrepreneur is extremely interested in the outcome of the business, and he can save the business as a legacy of the heirs, etc. These businesses also have disadvantages, for instance, a business enterprise is unlimited liability. If the entity fails to operate effectively, the entrepreneur is responsible for the whole entity; it may require more funds to start operations, it also does not allow everyone to start business activities; the business can be hard to handle alone. These enterprises

usually shown by short-term action and as a result other business structures, especially those in the financial and credit organizations are not interested in operating them.

Joint venture is an enterprise established on the basis of agreement by at least two natural or legal persons. Joint ventures are accounted for and receiving back their own shares when they quit. Joint venture's obligations are secured by the assets of all shareholders. The business also has some advantages: unlike individual entrepreneurship tend to have more financial resources.

Obviously, each shareholder has an individual resource or ability. In the enterprise, can be the division of responsibilities among partners through specialization and partners give their free time together. Entrepreneurs can boost their abilities and perspectives by taking advantage of this time. In addition to all these positive aspects, the negative aspects of joint ventures available: regardless of the share responsibility of the whole entity, the owner is responsible for all debts of the enterprise regardless of whether or not his fault. Some partners own more shares and other invest more labor resources and that case possible to cause a conflict in the distribution of income. The dispute between the partners can occur also in decision-making.

A shareholder and joint venture is founded by at least a shareholder and partner. Partners are responsible to the obligation of entity by their properties, but shareholders are liable only for the amount of their share. Only partners have the right to vote on selecting and defining the powers of the Board of Directors. However, both partners and shareholders have rights on decision-making in the entity. When a partner or shareholder quit the entity, he receives back the share he owns.

A limited liability company is an enterprise founded by one or several legal entities or natural persons and the authorized capital is allocated in the amount prescribed by the foundation agreement. Shareholder is responsible for the number of shares in the charter capital and can afford part of his obligation by precious material values such as land, housing, precious stones and etc. The participants of the society get certificates those are not securities and the certificates are not allowed to sell to anyone without the consent of the community. Participants receive a share according to the certificate. That share gives the opportunity to its owner to attend in the shareholders' meeting, receive dividends and get a portion of the property when the community suspends its activities. Another distinctive feature of a limited liability company is information about the activities of these enterprises is not published in public. It is also a reliable way allows entrepreneurs to protect the secrets of the enterprise.

A joint stock company is an entity established by the natural or legal person established on the basis of a voluntary agreement and its authorized capital formed by issue of shares in order to carry out economic activities. A joint stock company established by at least three natural or legal persons. Shareholders are obliged to responsibilities of the

company based on their shares and in exchange for their shares receive the dividend. Joint-stock companies gather people in one place in order to effectively use even the smallest funds to carry out business activities. That provides coordination of the interests of a large number of owners in the same enterprise and directs to common goals. Joint-stock companies are one of the most reliable and robust form of the unification of the capital of various owners. If any member of the society leaves the company, the society continues to operate. There are two types of joint stock companies:

1. Open joint-stock company
2. Closed joint-stock company

Open joint stock doesn't limit number of shareholders and shares are sold on the stock exchange. The shares belong to a few founders in closed joint-stock society and they are not traded freely.

II. CLASSIFICATION OF ENTREPRENEURSHIP

According to the scale of business activities the following forms of entrepreneurship exist:

- Small Business;
- Medium Businesses;
- Large-Scale Entrepreneurship;

Small and medium enterprises (SMEs) are non-subsidary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5, workers. The new definition provides for an increase in the financial ceilings: the turnover of medium enterprises (50-249 employees) should not exceed EUR 50 million; that of small enterprises (10-49 employees) should not exceed EUR 10 million while that of micro firms (less than 10 employees) should not exceed EUR 2 million.

Micro and small and middle sized entrepreneurship in Azerbaijan is divided into two groups: individual entrepreneurs; and small- and middle-size enterprises. All individual entrepreneurs are legally considered small enterprises by default, whereas those registered as legal entities are classified according to two indicators: number of employees and annual turnover. The new edition of the criteria for classification of small entrepreneurship subjects (business units) was approved by a decision of the Cabinet of Ministers of the Republic of Azerbaijan dated December 18, 2009. According to this decision, "small business units shall have less than 50 employees and annual turnover of AZN 500,000 in industry and construction; less than 25 employees and annual turnover of AZN 250,000 in agriculture; less than 15 employees and annual turnover of AZN 1 million in wholesale trade; and less than 10

employees and annual turnover of AZN 250,000 AZN in retail trade, transportation, services and other forms of economic activities."

In each market economies countries state imposes various benefits and privileges system for small and middle enterprises. The system of privileges and discounts aims to stimulate incentives in the mainly limited access part of the population for small business. Small and medium entrepreneurship performs the following important functions as being one of the most high-elements of a free market economy:

- It leads to economic efficiency by the necessary flexibility of the economy and providing specialization of production.
- It eliminates declines in the production sites, applies scientific and technological innovations into production more quickly, and regenerates investment in short-deprived.
- It creates competitive environment needed for the market economy and plays the role of anti-monopoly.
- It creates a healthy business environment, without which a market economy cannot be based on personal interest and initiative of the producers.

Global experience shows there is no any definition for small, middle and large enterprises. In order an accurate classification of small and medium businesses it is necessary to specify the quality characteristics covering of their organizational, legal, social and economic aspects and this is a complex and difficult issue. Mainly classification is used according to the number of employees in the enterprise, the cost of capital, cash amount of product sold, the amount of capital investment and so on. Small businesses operating in the area of middle and large enterprises can't operate for various reasons or the fields are considered to be economically unfavorable. Small business combines the following areas:

- Small enterprises work for the local market and seasonal products shops, cafes, workshops and so on.
- Manufacturers of engineering products.
- Entities act as the support of middle and large enterprises.

The development of small entrepreneurship has more important role in the development of the country. Therefore, the number of enterprises is growing. It also plays a major role in providing jobs for the unemployed. There are several advantages of small businesses than the rest:

- Requires less initial capital for the establishing a small business;
- Quick and prompt action by small enterprises. Therefore, these businesses are able to adapt quickly to changes in the market and can set up their activities in accordance with the demands of customers more quickly.

- Small businesses have high profitability and they are able to produce new products at the expense of the less production costs. It is caused by several factors allowing you to save on production costs: narrow specialization of these enterprises, more efficient use of equipment and workers, lower levels of salaries, administrative costs and production costs.
- Turnover of capital in small enterprises occurs more quickly;
- Small enterprises play a bigger role in restriction of monopolies and creation of competition in the market.
- Small businesses tend to use more efficient waste of production. In fact, sometimes waste products of large enterprises play the role of a necessary component of production technology for small businesses.
- Small businesses mainly work for local markets and it is resulted by reduced transportation costs. In addition to, small entrepreneurship creates favorable conditions for manufacturing and services closer to the consumer sector and to attract local raw materials, labor, and material resources to economic processes.
- When small businesses stop their activities, or focus on other areas of activity for various reasons it doesn't have a big negative impact on the market.
- Owners of small businesses are not subject to deep psychological trauma on business bankruptcy.

In addition to the mentioned positive aspects, there are also disadvantages small businesses. For instance, the individual actions of economically independent entrepreneurs create a number of problems for them. In fact, this independence is the struggle for survival both in principle and the practical activities. Small business has always operated in a highly competitive environment. The implementation of capital-intensive technique, attraction of outside investment, reception of the necessary information, to attract qualified managers, social security for employees and so on areas opportunities for small businesses are limited than large enterprises.

With the start of economic reforms small business has occurred in Azerbaijan. Its development is a solution of a number of important socio-economic tasks and problems of the transition period such as including the formation of an efficient economic structure, the start of the formation of the middle class, reducing unemployment, expansion of budget revenues at all levels, to ensure economic and social stability in society. Further development of the economy and its emergence as a party to the normal global economic system the development of small entrepreneurship should achieve such a level that will be able to provide the formation of an effective market economy and social- economic stability in the country. The small and middle entrepreneurship is not just a means of living; it allows entrepreneurs to open more widely their potential. The main objective of the establishment of small enterprises is the elimination of distortions in between jobs and the growth rate of the population, and to achieve efficiency of use of small enterprises by improving production and territorial structure.

Corporate (large) entrepreneurship also has an important role in the development of economy. First of all, large corporations and their associations provide technological progress, economic growth and social protection. "Corporate entrepreneurship" refers to different types of entrepreneurial behavior in existing, large organizations (corporations) aimed at achieving – through encouraging innovation – competitive advantage at all levels: corporate, divisional, business unit, business functions and project teams. Their positions are mainly concentrated in intensive economy, infrastructure and production sites. Therefore, small and middle businesses are not able to function in such areas. This can be attributed to the industrial areas. Though few number of entrepreneurs who engaged in corporate (large) entrepreneurial activity maintain hegemony in their own hands in the area are engaged. For instance, large corporations in the US are about one-fifth of all industrial firms, but they produce 90% of the country's overall industrial output. Corporations on average produce mass and stable range of products. These are a number of specific features of corporations:

- Extensive use of advanced techniques and technology
- High concentration and centralization of capital
- A strong manufacturing base, a structured information system, economic relations, and reliable reputation in the international market
- Extensive financial capabilities
- The ability to resist changes in the market for a long time
- The ability of the widely advertised its activity and carry out research work in high-value

According to the direction of the activities entrepreneurship can be divided into the following types:

- Production entrepreneurship;
- Commercial entrepreneurship;
- Financial entrepreneurship;
- Advisory entrepreneurship;
- Entrepreneurship and innovation

The production entrepreneurship is the main factor causing the rise of economy is a leading sector which directly linked to the manufacture of products and commodities. The production entrepreneurship is characterized as production process of specific commodity, the work and provision of services in order to meet the needs of consumers. It is classified as industrial, construction, agriculture, etc. depending on the area of economic activity due to its implementing within material production. At first entrepreneurs engaged in production areas should plan the acquisition of raw materials for the production and to whom and where the finished product will be given, sign an agreement with customers for realized products, type and quantity of the product will be produced and sold by quarters of the year should be known. However, technological production and mass consumption products created in this type of entrepreneurship are used in the economic, business, in a word at the whole state and possess a determining position in the national economy.

The production of all the commodities, service and construction works carried out by the subjects of entrepreneurship. Certainly, the production entrepreneurship does not operate independently (regardless of other forms of business), however, economic growth and social progress depend on its development. The issue of human resources is a key factor for entrepreneurs in the field of production for the release of the product in the level of world standards.

It also plays an important role in the competition between manufacturers. Consider all these, entrepreneurs engaged in production of industrial or agricultural sector play an important role. Commercial entrepreneurship is the most advanced and widely used form of business and circulation and exchange of values. This form of enterprises began to develop a wide range in the conditions of transition to new economic system. It is directly linked to consumers and that is why adapts to demand in short-term. Two basic conditions are necessary for the development of commercial enterprises:

- Enough demand for products;
- The acceptable fixed price in sales process gives an opportunity for vendors to make a profit.

Financial business (entrepreneurship) is an entrepreneurship in the field of banking, purchase and sale of securities and currency exchange. Problems such as involving reserve funds as deposit from people, the need of providing customers by loan, the form, duration and sources of loan and on what basis it is provided, explore the timely repayment of the loan are defined by the entrepreneur in financial entrepreneurship. The development of financial entrepreneurship has a direct impact on development of production entrepreneurship.

Advisory entrepreneurship serves other forms of entrepreneurship and is related to consulting of management principles and organization of the sale of goods. The development of this form of entrepreneurship allows improving the efficiency of business activity by creating the conditions for other forms of entrepreneurship in the conditions of limited resources. Advisory entrepreneurship in addition to its market is interested in the quality of production, the application of technology, raw materials and equipment, banking service of other forms of entrepreneurship. The study of trade-related areas is characteristics of entrepreneurship and has a positive effect on its activity.

Innovation entrepreneurship is a social, technical and economic process, leads to the creation of new products and technologies by practical use of ideas and inventions. That is the speed of the application of new technologies stimulates the development of the economy and its various sectors. Therefore, around the world directed more capital for the development of this form of entrepreneurship and demand

for the development of the industry are growing day by day. As previously mentioned, taking into account all difficulty levels state care and supervision for that area is necessary. Implementation of science policy for the development of innovation entrepreneurship is required. The application of new technology on the basis of scientific findings increases the economic power of country with a strong impact on the growth of production volumes. The application of the new technology is a very complex process and it covers performance of scientific research and project development, finding customers for the product, launch and implementation of products that meet international standards on the basis of supply and demand. The development of scientific and technological enterprises should be under state supervision and care in order to contribute more income to the economy of country. In the development of entrepreneurship socio-economic and environmental situation must be taken into consideration and evaluated. Studies show that development of advisory and innovation entrepreneurship is important for integration into the world economy. The creation of the subjects in this area should be supported. However, those subjects spring up by the level of the development of economy and based on a partnership among entrepreneurs. In addition to the forms of entrepreneurship in the country, its specialization also should be taken into consideration in order to divide into the following areas:

- Production entrepreneurship, including food, non-food products, construction material production;
- Social entrepreneurship, including health, education and culture;
- Consumer services, transport;
- Entrepreneurship on production infrastructure including procurement, sales and freight transport;

In the transition to market relations the dependence of the formation of a market economy and its efficiency on the development of widely diversified free entrepreneurship, as well as the production of competitive goods will be sold on the world market is certainly obvious. The formation of various forms of entrepreneurship depends on the level of economic relations and international integration. So, first of all, if the formation of commercial and financial has been realized as a result of further economic reforms the new property relations have formed production entrepreneurship and created conditions for the development of innovation and advisory entrepreneurship on the principle of self-interest.

III. THE MAIN INDICATORS OF ENTREPRENEURSHIP SECTOR IN AZERBAIJAN

In recent years, the economy of the Republic of Azerbaijan has been developing by rapidly growing oil industry, on its turn it pushed the increase in the number of small and medium enterprises. It can be seen in the following chart:

Years	2013	2014	2015
Total	165.277	186.898	196.327

Source: <http://www.stat.gov.az/source/entrepreneurship/indexen.php>

Table: 1 Number of Small Entrepreneurship Subjects:

Years	2007	2008	2009	2010	2011	2012	2013	2014	2015
Value added, million manat	449,2	718,7	844,8	1.120,0	1.227,0	1.346,5	1.466,2	1.437,0	1987,8
Gross surplus, million manat	41,7	51,9	65,8	78,3	85,3	122,8	165,4	175,4	...
Average annual number of employees, thsd. Person	92,1	103,2	105,9	93,2	90,2	95,5	109,0	115,0	87,6
Average monthly nominal wages, manat	170,7	182,1	195,2	207,0	222,2	263,3	303,5	348,0	302,1
Investments directed to fixed capital, million man.	289,4	371,2	289,3	276,3	737,6	531,6	486,5	746,5	807,2
Turnover, million manat	1.653,5	2.475,7	2.910,1	3.835,5	4.208,5	5.100,6	6.072,6	5.951,7	5986,3

Source: <http://www.stat.gov.az/source/entrepreneurship/indexen.php>

Table 2: Share of Small Entrepreneurship Subjects in the Economy of the Country:

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total GDP	28.360,5	40.137,2	35.601,5	42.465,0	52.082,0	54.743,7	58.182,0	59.014,1	54.380,0	60.393,6
oil - gas sector	15.914,2	22.251,3	16.065,5	20.409,5	25.829,9	24.487,3	23.778,1	21.405,2	15.382,2	19.648,9
non - oil sector	10.576,1	15.197,3	16.726,0	19.179,0	23.196,1	26.864,4	30.525,9	33.195,9	34.138,8	36.153,5

Source: http://www.stat.gov.az/source/system_nat_accounts/indexen.php

Table 3: GDP Production in the Section of Oil And Non-Oil of Economy (Volume of GDP, at current prices, million AZN)

In Azerbaijan SMEs are divided into 2 groups:

1. Individual entrepreneurs - without establishing a legal entity, the sole owner of the enterprise.
2. Small and medium-sized businesses - legal entities. Individual entrepreneurs are legally small businesses and those registered as a legal entity are classified according to two indexes: the number of employees and annual turnover.

Years	2011	2012	2013	2014	2015
Total economy	100,0	100,0	100,0	100,0	100,0
agriculture, forestry and fishing	5,6	5,5	5,1	5,1	5,4
Industry	18,3	18,7	18,5	15,1	7,6
Construction	10,4	12,6	14,2	10,9	4,5
trade; repair of transport means	41,1	38,9	34,5	33,6	40,1
transportation and storage	1,8	1,7	1,9	2,2	3,4
accommodation and food service activities	2,7	1,9	2,1	3,7	4,0
information and communication	1,5	2,0	2,2	2,7	3,0
real estate activities	0,9	1,1	1,5	1,6	2,6
Education	0,8	0,9	1,2	1,7	3,2
human health and social work activities	1,4	1,9	2,2	2,6	4,0
other fields	15,5	14,8	16,6	20,8	22,2

Source: The State Statistical Committee of the Republic of Azerbaijan www.azstat.org

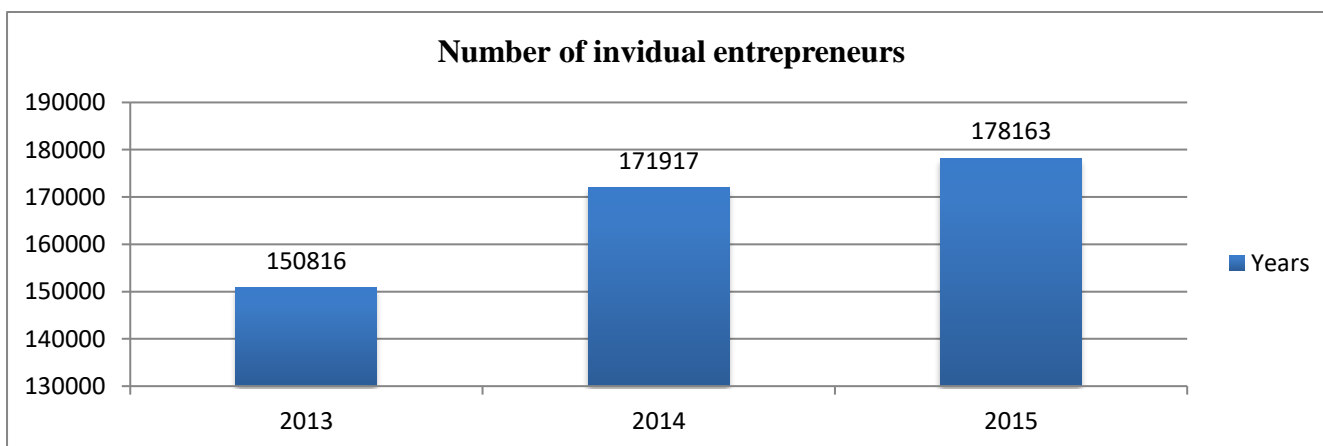
Table 4: Distribution of Employees of Small Enterprises By Benches of Economy (relative to total, at percentage)

Individual entrepreneurs are natural persons engaged in entrepreneurial activities without establishing a legal entity and possess unlimited liability. As seen from the table, the number of employees in small enterprises operating in various fields has increased over the years. In terms of the number of entities and employees individual entrepreneurs contain the majority of SME sector. In the economy for entrepreneurs to act as an individual entrepreneur is easier for several reasons:

1. The process of registration of individual entrepreneurs is easier than a legal person.
2. Registration, licensing and permitting fees are less for individual entrepreneurs.
3. According to entrepreneurs, individual entrepreneurs are more frequently inspected than legal entities by local or regional offices of inspection authorities, because there is no single list of registered individual entrepreneurs at the head offices of the ministries or agencies. Legal entities are registered by the head offices of ministries or agencies and therefore checked by the mentioned authorities. According to the common

views of entrepreneurs to deal an unofficial agreement with officers from the head offices of state bodies are much more complicated than agreement with regional representatives of those organizations. Low investment levels can be described as serious obstacles in access to external financing sources for entrepreneurs and a lack of confidence in the business environment.

Business profit increases with the development of the country's total economy. When income increases it boosts consumer income, on the other side forms the financial framework for individual entrepreneurs and small businesses, and it aims to meet the growing needs of consumers. Thus, in 2013-2015 (according to official data of the State Statistics Committee) the number of individual entrepreneurs has significantly increased and at the beginning of 2013, there were 150,816 individual entrepreneurs. There has been a significant increase in the number of individual entrepreneurs in the coming years. It can be seen in the chart below:



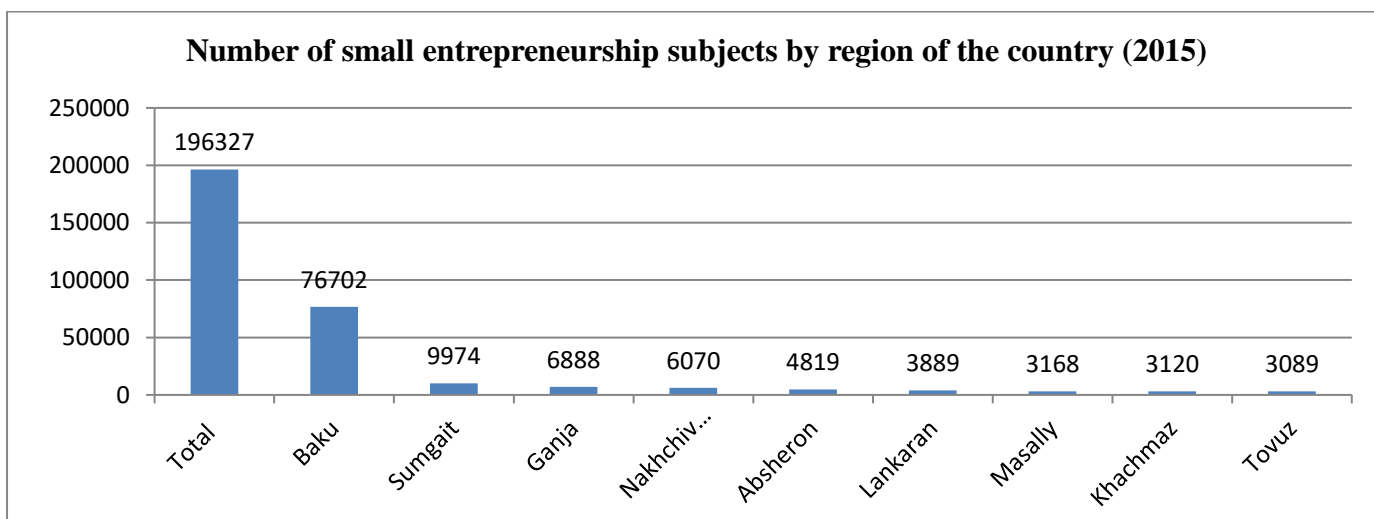
Source: <http://www.stat.gov.az/source/entrepreneurship/indexen.php>

Fig.1 Number of Invidual Entrepreneurs

The existing economic opportunities in Baku, the lack of jobs in some regions low profitability in agriculture, seasonal employment cause migration. According to official statistics the population of Baku is more than 2 million people, but this figure does not include people living in the capital whom are officially registered in other regions of the country (<http://www.baku.azstat.org/section/demography/>).

However, according to experts, the real numbers are more than twice than the official figures, which is close to 4

million people. After Baku, Ganja and Sumgait are the next largest cities in the country. The number of individual entrepreneurs and small and medium entities at those cities is much more in compare with other regions. These entrepreneurs mainly work in the consumer market; in other word most of them are concentrated in the sectors of trade and services. It can be seen more clearly in the following chart:

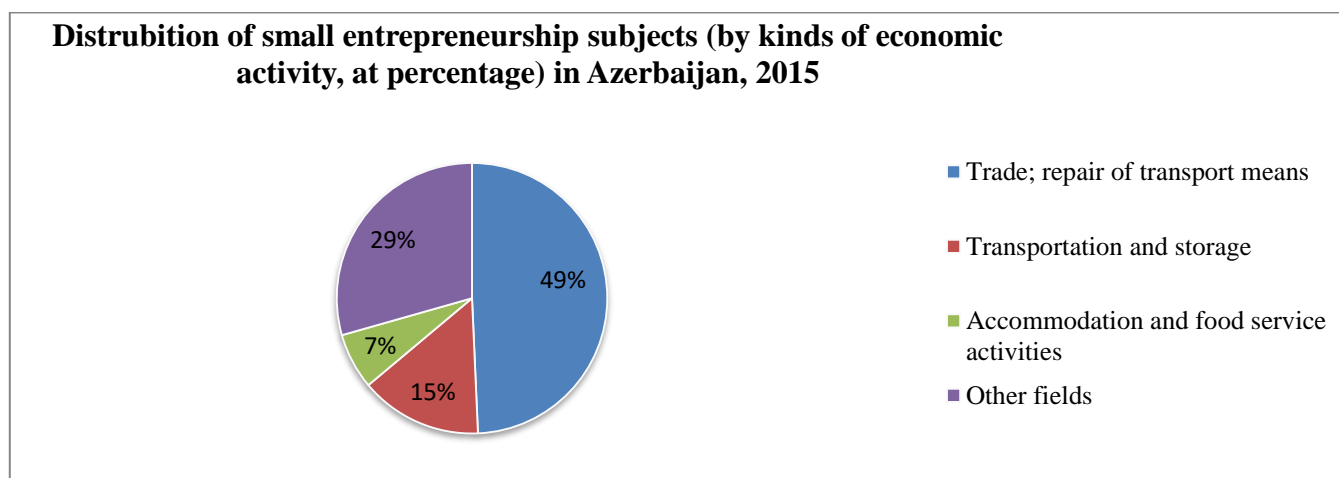


Source: <http://www.stat.gov.az/source/entrepreneurship/indexen.php>

Fig.2 Number of Small Entrepreneurship Subjects By Region of the Country (2015)

Individual entrepreneurs are concentrated in the short-term revenue-generating areas with minimal investment especially in trade. Only a small part of individual entrepreneurs are involved in production activities which require high initial investments and bring profit in long-term. Individual entrepreneurs have an average of 3 workers full or part-time and pay \$ 185 per month salary. Small business is an entity under controls of a legal entity and

meet the criteria specified in the decree of the Cabinet of Ministers (of The Republic of Azerbaijan) sets out the definition of small and medium enterprises. At the beginning of 2015, 18164 small businesses registered in the country and it was only 9.25% of the businesses operating in the SME sector. Individual entrepreneurs are mainly engaged in trade in economic activities and it is evidenced by the distribution of their economic activities.



Source: <http://www.stat.gov.az/source/entrepreneurship/indexen.php>

Fig.3: Distrubition of Small Entrepreneurship Subjects (By Kinds of Economic Activity, at percentage) in Azerbaijan, 2015

Unlike individual entrepreneurs legal entities are involved in a wide variety of economic sectors. Thus, 49% of individual entrepreneurs are engaged in trade, while only 37,3% of the legal entities are in trade.

	Number of enterprises, total	agriculture, forestry and fishing	industry	construction	trade; repair of transport means	transportation and storage	real estate activities	other fields
Total by country	18164	1915	1241	1282	6781	447	505	5993

Source: <http://www.stat.gov.az/source/entrepreneurship/indexen.php>

Table 5: Distribution of Small Enterprises By Branches of Economy in Azerbaijan in 2015

One of the most important indicators for measuring the increase in activity of SMEs is the amount and source of investments made by entrepreneurs. The volume of investments in fixed capital by small business entities in 2012-2015 years is shown at the following table:

	2012		2013		2014		2015	
	Total	%	Total	%	Total	%	Total	%
Total economy	531.627,2	100,0	486.343,5	100,0	746.451,6	100,0	807.169,3	100,0
agriculture, forestry and fishing	89.963,5	16,9	52.412,0	10,8	86.898,4	11,6	74.422,4	9,2
Industry	244.765,8	46,0	251.895,3	51,8	248.400,0	33,3	261.958,6	32,5
Construction	2.400,3	0,5	12.796,5	2,6	147.540,0	19,8	117.849,3	14,6
trade; repair of transport means	54.564,5	10,3	56.981,9	11,7	120.713,5	16,2	126.187,0	15,6
transportation and storage	1.615,8	0,3	2.947,8	0,6	21.847,7	2,9	24.564,1	3,0
accommodation and food service activities	88.020,3	16,6	55.346,5	11,4	68.016,0	9,1	134.633,6	16,7
information and communication	1,6	-	2,0	0,0	-	-	-	-
real estate activities	47.314,0	8,9	47.076,2	9,7	291,8	-	-	-
Education	593,0	0,1	2.080,0	0,4	886,5	0,1	3.296,6	0,4
human health and social work activities	1.835,0	0,3	1.820,0	0,4	1.919,9	0,3	36.027,7	4,5
other fields	553,4	0,1	2.985,3	0,6	49.937,8	6,7	28.230,0	3,5

Source: <http://www.stat.gov.az/source/entrepreneurship/indexen.php>

Table 6: Investment in Small Entrepreneurship Subjects (By Kinds of Economic Activity, 1000 AZN)

A significant part of those investments are financed by entrepreneurs' private funds. Only a small part of entrepreneurs apply to financial institutions in order to obtain financial assistance for investments. More than half of the entrepreneurs operating in Baku and only 26% in the regions lease buildings for commercial purpose. According to the entrepreneurs, approximately 60% of the enterprises located in leased buildings. In Baku 30-40% of the profits

are rent. In the buildings with direct access to the street at the vicinity of the center of the capital tenants and lease profile changes sometimes several times in a year. This is explained by the fact that, in many cases, entrepreneurs do not have enough income to pay high rents. Therefore, entrepreneurs at least who are able to pay high rental costs overshadow their investment needs in the business activities.

In 1991, after the declaration of independence of the Republic of Azerbaijan, in time of transition to new economic relations and foundation and development of the private sector in order to establish financial institutions those can give a financial support to the private sector, on October 12, 1992 with the approval of "Regulations of the National Fund for Entrepreneurship Support of the Republic Azerbaijan" the first financial institution was founded which provides soft loans from the state budget to entrepreneurship (<http://anfes.gov.az/en/>).

However, by 2001 the mechanism of delivery of those loans did not work adequately and in order to eliminate the problems on use of soft loans from the state budget, coordinate the activity of The National Fund for Entrepreneurship Support with the tasks those must be solved on the priorities and stages of development of the economy, strength and expand the provision of state support for entrepreneurship restructuring of mechanisms for financing investment projects of entrepreneurs on concessional terms and the activity of The National Fund for Entrepreneurship Support was a turning point in the development of that organization by approval of "Regulations of the National Fund for Entrepreneurship Support of the Republic Azerbaijan" and "Guidelines for the Use of Resources the National Fund for Entrepreneurship Support of the Republic Azerbaijan" on August 27, 2002. The implementation of these regulations played a significant role in the provision of soft loans. Providing loans to entrepreneurs in national currency, determination of grace period the first two-thirds parts of the loan term and low interest rates caused great interest for those loans at business entities.

In Azerbaijan development of modern national entrepreneurship started in the mid-1993. In recent years, solution of social problems such as reduction in dependence on the oil sector of the economy, the opening of new production facilities, elimination of unemployment are significantly associated with the development of entrepreneurship. The adoption and successful implementation of the State Program that stimulates agriculture and entrepreneurship, provision of soft loans to entrepreneurs and technology through leasing, subsidies to farmers created favorable conditions for the development of entrepreneurship in the country. The economic policy of the country has been directed to the development of entrepreneurship, strengthening the role of business in solution of social-economic problems, increasing public concern in that area and realization of the potential. In accordance with that policy, important steps have been taken in the field of financial support, the formation of the legislative base and removal of bureaucratic obstacles. Over the past 20 years, procedures and rules governing entrepreneurial activity in the country have been significantly liberalized, the mechanism of state financial support to entrepreneurship was launched, export duties on some products were abolished, the maximum limit for import duties was only 15% determined. At the same time, the tax burden imposed on the, including profit and income tax rate was reduced from 22% to 20%, and from 35% to

14% respectively, simplified tax payment once every quarter has been provided, started the implementation of electronic tax invoices, expanded use of e-services, agricultural producers were exempt from all taxes except land tax by 2014. (<http://www.economy.gov.az/index.php?lang=en>).

Decree of the President of the Republic of Azerbaijan on "Additional measures related to the development of entrepreneurship" signed in Baku on 3 March 2014 is an indicator of care and attention to the development of entrepreneurship, a series of government support measures for the private sector and the most important conceptual document reflecting the legal basis for a new phase of business development. The decree opens new opportunities for business development in the coming years including further improve of the business environment based on the best practices in the implementation of measures. The successful implementation of the state program on socio-economic development of regions covering the period of 2004-2008 and 2009-2013 and adoption of the state program on socio-economic development of regions covering the period of 2014-2018 has been a big boost to economic development. The volume of investments in the economy of the country in 2013 was 28 billion USD, which 17.5 billion USD was domestic and 10.5 billion USD was foreign investment funds (<http://www.stat.gov.az/xeber/index.php?id=1818>).

The development of entrepreneurship in Azerbaijan is one of the priorities of the economic policy. In this regard, comprehensive measures such as development of relations between the state and entrepreneurs, expansion of the mechanisms of state support for entrepreneurship, improvement of legislation and administrative procedures on business environment, development of business ties and supplying of various services are implemented consistently. The one stop principle was implemented in the registration of business entities and launched their online registration. Moreover, an effective mechanism for financing investment projects of entrepreneurs was formed. Thus, as a result of constant improvement of the rules of use of concessional loans the total amount of loans to enterprises increased and expanded access to business loans. The share of the private sector has increased at both the socio-economic development and GDP. In 2015 the share of private sector at GDP is more than 80% and ranges between 70-99% at agriculture, industry, trade, hotel and catering services, construction, transport, communications, manufacturing and other service sectors.

(<http://www.sahibkar.economy.gov.az/index.php/component/content/article/16-arayishlar/28-sid-2015>).

The development of the national economy is reflected positively at the reports prepared by a number of international organizations. According to "The Global Competitiveness Index 2016-2017 Rankings" Azerbaijan was 55th among 138 countries, 1st at CIS countries in terms of competitiveness of the economy and was ranked 65th at "Doing Business 2016" report (<https://www.weforum.org/reports/the-global-competitiveness-report-2016-2017-1>).

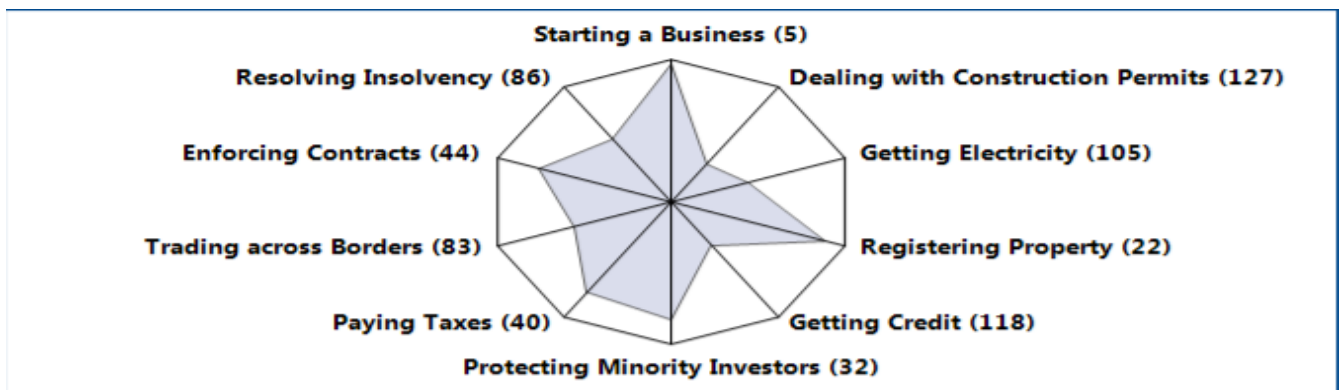


Fig. 4 Rankin on Doing Business Topics 2017 – Azerbaijan:

Before devaluation of national currency of the Republic of Azerbaijan manat in 2015, Standard & Poor's credit rating for Azerbaijan stood at "BBB" with stable outlook. Fitch's credit rating for Azerbaijan was "BBB" with positive outlook. Moody's credit rating for Azerbaijan was last set at Ba1 with positive outlook. However, after the economic downturn as a result of sharply falling global oil prices, Standard & Poor's credit rating for Azerbaijan stands at BB+ with negative outlook. Moody's credit rating for Azerbaijan was last set at Ba1 with negative watch outlook. Fitch's credit rating for Azerbaijan was last reported at BB+ with negative outlook (<https://tradingeconomics.com/azerbaijan/rating>).

One of the measures of state support for the development of the private sector is the decree of the President of the Republic of Azerbaijan on "Some issues related to required license and permit system in order to deal with certain types of business" signed on October 26, 2011. According to previous amendments to the legislation of the country a number of measures have been implemented to optimize the existing system in order to simplify and improve the licensing system. Thereby, the number of licenses sharply reduced, adopted a single consolidated set of rules covers procedures and documents required for obtaining a license, the validity of the license, fees, suspension and revocation of the license, state agencies that license. The above-mentioned reforms are very important in terms of to obtain information on licensing more transparent, as well as reducing time takes to obtain a license for entrepreneurs who want to engage in licensable activities. However, the analysis shows that when entrepreneurs want to engage in any type of business activity they confront some challenges on existing procedures for to obtain the required authorization documents (with the exception of registration of business entities on the basis of "one stop shop" principle), the required documents, the amount of fees, period of validity of the authorization and issuance of documents, the government agencies providing these documents, suspension or revocation of permits, acquisition of information on the responsibility of public authorities and entrepreneurs from a single legal source. The license, permit, special permission, approval, review, registration, certification, authorization, approval, deed of purchase, dispose etc. is attributed to

authorization documents given for entrepreneurial activity. As a large quantity of authorization documents mentioned above, the lack of a uniform classification of such documents, as well as reflection of information on permission documents at different regulations and normative legal acts at the legislation necessitated implementation of reforms. A comprehensive analysis was launched in order to set a transparent system of permits, improve and settlement of that system to improve on the resolution of above-mentioned problems and the overall business environment in the country. The aim of that analysis was preparing a package of proposals on systematizing the list of authorization documents and establishment of a unified electronic database of those documents by the application of modern technologies. In this regard, the government cooperated with international organizations in the direction of study of international experience in that field and successful implementation of the achievements in the country. Thus, improvement of the required administrative procedures and the system of permits for the implementation of entrepreneurial activity within the project of "The improvement of the business environment" implemented by the International Finance Cooperation, at the same time monitoring of the business environment in accordance with the methodology applied in global experience by the International Finance Cooperation is a good example for close cooperation of The Ministry of Economic Development of the Republic of Azerbaijan with international organizations. In this direction in order to study the global experience in this field cooperation several European and post-Soviet countries organized by the International Finance Corporation. Moreover, the reform in the system of licenses, identification of concrete foundations and criteria of the application of permits and permit system, accurate identification of bodies of executive power issue licenses, proposals have been prepared and submitted to the relevant authorities in order to compare the business community.

Every year hundreds of entrepreneurs are provided by concessional loans granted by the National Fund for Entrepreneurship Support in support of the expansion of the private sector. The fund has already granted 33035 entrepreneurs with concessional loans of state worth

1.981.074.632 AZN and large portion of the loans have been allocated to regions. In the future it is planned to increase the volume of loans allocated to entrepreneurial subjects (<http://anfes.gov.az/en/>). The allocations and work done in the field of entrepreneurship development is an investment in the future of the country. In fact, entrepreneurial activity is always characterized by its flexibility, the tendency to

innovation, use of new methods and modern technologies in production and management of enterprises and a quick adaptation of high competitiveness and consumer demand. In connection with the expansion of business activity the creation of new enterprises and an increase in local production strengthen the fundamentals of the economy.

IV. SWOT ANALYSES OF SME IN AZERBAIJAN

Strengths

1. Stable macroeconomic environment (e.g. current account surpluses), strong recovery from the global crisis.
2. Expanding non-oil economy (6.9% in 2014).
3. Significant progress in global competitiveness benchmarks (38th in the Global Competitiveness Index after constant progress).
4. Extensive e-government structure, strong track record in business environment reforms (one-stop-shop principle, e-government); favorable environment for business registration and ongoing reforms in other areas (credit bureaus, collateral registry, RIA).
5. Comparatively good infrastructure and service provision.
6. Low unemployment, relatively flexible labor legislation.
7. Increased attention to targeted support in business support infrastructure, innovation (ICT Fund).
8. New SME definition introduced in June 2015 with segmentation by size.

Weaknesses

1. SME policy fragmentation among several state programs without formal co-ordination and lack of a comprehensive strategy.
2. Public-private consultations lack a structured institutional set up beyond informal cooperation; Limited participation of SMEs.
3. Limited access to bank-financial resources (high collateral requirements, low level of access), underdevelopment of other sources (banking sector holds 95% of the total assets), basically increase in household and consumer loans.
4. Absence of monitoring and evaluation for government support tools.
5. Corruption perception is referred to as one of the obstacles in front of the business (Global Competitiveness Index).
6. Low-level internationalization of small and medium enterprises in spite of low level of customs barriers (New legislation in 2014 and 2015) and of the activities of AZPROMO.

Opportunities

1. Economic diversification, competitiveness recognized urgent priorities in Azerbaijan 2020 vision.
2. Major infrastructure projects will help galvanize new growth opportunities.
3. New export program on development, with a focus on boosting exports of non-oil products.
4. Expanding banking sector; strong capital position of commercial banks; new laws begin prepared on private credit bureaus and registry of movable assets.
5. WTO membership prospects likely to increase trade.
6. Untapped potential in non-oil sectors, such as agriculture (5.3% of GDP, but 38% of job) and manufacturing.
7. FDI in oil and non-oil sector with potential for SME linkages.
8. Innovative approaches to SME training design and delivery.

Threats

1. Dependence on natural resources leads to economic instability (such as devaluations in February and in December 2015; oil production declined in the second term of 2016)
2. Exposure to the impact of the region's driving force in particular, the non-oil sectors (e.g., exports to Russia).
3. Lack of independent implementation agencies in key areas such as innovation and entrepreneurship.
4. Non-oil exports hindered by delays in approximating national standards and technical regulations; limited international quality certification (typical for Europe and Central Asia, 22.6% vs. 12.8%);
5. Existing initiatives in innovation lacking strategy, focused largely on ICT.

Source: http://www.keepeek.com/Digital-Asset-Management/occd/development/sme-policy-index-eastern-partner-countries-2016_9789264246249-en#page235

The development of the national economy by increasing dynamism of the private sector, as well as facilitates access to international markets, allows keeping up with the global economic processes. Thus, the development of small and medium-sized businesses in recent years, the importance of the growth in small and medium enterprises for the country, the impact of economic policy in the country to the acceleration of the development of entrepreneurship, SWOT analyses of SME, the influence of improvement of the legal framework to business have been described in this paragraph by using of different tables, diagrams and graphs.

V. CONCLUSION

The purpose of the article was to investigate the current situation of entrepreneurship, the main challenges on state support for the sector in reference to the economy of Azerbaijan. The focus of the investigation was on improvement of the law of state support for small and middle entrepreneurship. The database of the research consisted by published statistical collections related to entrepreneurship, legislative acts on entrepreneurship and data given by central executive bodies. While taking into consideration the obvious importance of entrepreneurial sector both at GDP and employment rate, the state has been improving all law and decree directly related to the mentioned sector. However, the SME sector does need some extra privileges and concessions especially after the dramatic fall of majorly oil income depended Azerbaijani economy. Furthermore, the article is a work in progress due to ongoing and constant changes in the entrepreneurial sector such as updated data and evidences.

VI. RESULT AND RECOMMENDATIONS

The driving force of the market economy is entrepreneurship. The entrepreneur is a person who cares for his own economic nature. However, despite this, the entrepreneur serves a large and important service to the community. It forms the national economy by creating production and entrepreneurship facilities, employing members of the community, meeting the needs of the society for products and services, and participating in the payment of the total costs of the community by paying taxes on its income. International experience shows that macroeconomic level stability should be achieved and favorable business environment should be created for development of entrepreneurship. Creating this environment depends on the solution of many problems, ranging from government-level attitude towards entrepreneurial activity. Laws and legislative acts governing entrepreneurial activity are based on the principles of state policy in the field of entrepreneurship and provide legal safeguards for its realization. Hence, the main conceptual framework for the development of entrepreneurship is the identification of state policy in this area and the foundations of this policy in the legislative acts. Another conceptual provision is that state policy in the area of entrepreneurship development should be developed and implemented as an integral part of the state's economic policy. The use of international experience

in the development of entrepreneurship is crucial. Therefore, in the market economy entrepreneurship has become a natural-historical process. After recovering independence, the entrepreneurship development program adopted in Azerbaijan and the main directions of state policy have set the goals of entrepreneurship development. In the process of entrepreneurship development, the task of small and medium-sized businesses is on the forefront. Taking into consideration the importance of small and medium-sized businesses in economic growth and social stability, the state provides comprehensive assistance to its development in all countries. It is important to classify business ventures into small, medium and large enterprises in order to target the assistance. In the world practice, this classification is based on different criteria - the number of employees, the size of the main capital, the volume of the turnover, the statutory fund and so on. is used. Also, the quantitative level of these criteria varies by sectors of the economy. In Azerbaijan, the 1999 Law on State Assistance for Small Enterprises was adopted by the number of employees of small business entities. It would be expedient to base the number of employees and other criteria. Such a criterion may be the amount of turnover, or the cost of major production assets. Finally, subjects of small entrepreneurship are defined by a criterion in a number of areas. Industrial, transport and construction, agricultural and scientific-technical fields are one, trade, service, information and other fields are merged into another group and taken the same criterion. However, each of these areas has its own particularity and each of them should be distinguished. In addition to the experience of market-oriented countries in the field of entrepreneurship, it is important to study the experience of CIS countries. New independent countries are transitioning to a market economy through a different system than other countries. The development of small and medium-sized businesses in developed countries is primarily aimed at ensuring employment, while the development of small and medium-sized businesses in the country is aimed at the establishment of entrepreneurship and economic development. There are important tasks ahead such as adaptation of international experience to local conditions, improvement of practical results, and development of new mechanisms in the field of small and medium entrepreneurship regulation. During the research, some suggestions were made:

- At the present stage of the Azerbaijani economy, all forms of entrepreneurship should be developed irrespective of the size of the organization. However, research shows that in terms of their characteristics and features, it is more appropriate to develop small and medium-sized businesses in Azerbaijan. Because small and medium-sized enterprises are less capable of capital labor, they are more adaptable to the market environment. Even if such enterprises are going bankrupt, the foundation of new small and medium-sized enterprises does not cause much difficulty.
- The economic and social environment created in countries with a market economy affects the effectiveness of small and medium-sized businesses. For this purpose, regardless of the formation of

entrepreneurship relations in the Republic, the adoption of the necessary environment, normative acts and other socio-economic and legal documents in this area and to accelerate their implementation, to ensure their functionality and to strengthen control, should be regarded as one of the crucial conditions.

- Researches show that small and medium-sized enterprises have an important role in the entrepreneurship system in terms of providing favorable conditions for economic recovery, development of competitive environment, activation of additional workplace restructuring, and enhancement of the consumer sector. Nevertheless, the importance of small and medium-sized businesses is that they have a quick adaptability to the local food industry, a great deal of freedom, a quick and efficient implementation of the decisions taken, low operational and production costs, the ability of implementing ideas, less need for the initial capital, the ability to make changes in the form and quality of the product in a short time according to the needs of the consumer.
- To direct the state programs and activities to the development of these areas in order to ensure the development of the prospective areas for small and medium-sized businesses.
- To improve the relevant legislative framework, adoption of new laws and regulations to ensure the effective functioning, protection of the rights and interests of small and medium-sized businesses.
- Further enhancement of the mechanism of applying tax concessions to these areas related to the development of priorities in Small and Medium Entrepreneurship in Azerbaijan, implementing amendments and additions to the tax legislation.
- Acceleration of the adoption and implementation of the Competition Code envisaging the provision of a competitive environment for small and medium-sized businesses.

LIST OF USED LITERATURE

Books:

- [1]. The Constitution of the Republic of Azerbaijan.
- [2]. The Law of the Republic of Azerbaijan on entrepreneurial activity.
- [3]. The Law of the Republic of Azerbaijan on state support for small entrepreneurship.
- [4]. National Entrepreneurship Support Fund Journal
- [5]. "The Fundamentals of Business", A.B.Abbasov, Baku,2005.
- [6]. "Small Entrepreneurship", A.S.Imanov, Baku,2009
- [7]. "The bases of entrepreneurship", V.M.Niftullayev, Baku,2004.

Internet Resources:

- [1]. <http://taxes.gov.az/index.php> - Ministry of Taxes of the Republic of Azerbaijan
- [2]. <http://economy.gov.az/index.php?lang=en> – The Republic of Azerbaijan Ministry of Economy
- [3]. <http://www.stat.gov.az/indexen.php>- The State Statistical Committee of the Republic of Azerbaijan
- [4]. <http://anfes.gov.az/en/> - The Republic of Azerbaijan Ministry of Economy National Fund for Entrepreneurship Support
- [5]. <http://erc.az/az/> - Economic Research Center
- [6]. <https://stats.oecd.org/glossary/detail.asp?ID=3123> - OECD, 2005, OECD SME and Entrepreneurship Outlook: 2005, OECD Paris, page 17.
- [7]. http://cesd.az/new/wpcontent/uploads/2011/05/CESD_ReportSMEs_Azerbaijan.pdf
- [8]. <http://www.ses.org.rs/ekonomika-preduzeca/2012-7-8-03.pdf> - The role of corporate entrepreneurship in solving the competitiveness crisis of large companies.
- [9]. <http://data.worldbank.org/country/azerbaijan>
- [10]. http://www.keepeek.com/Digital-Asset-Management/oecd/development/sme-policy-index-eastern-partner-countries-2016_9789264246249-en#page235.