

# **REPUBLIC OF AZERBAIJAN**

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## **ABSTRACT**

of the dissertation for the degree of Doctor of Philosophy

### **IMPROVEMENT PROBLEMS IN THE USE OF THE PRICE MECHANISM IN ENTREPRENEURSHIP DEVELOPMENT**

Speciality: 5304.01 - “Types of Economic Activities”

Field of science: Economy

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## OVERALL OVERVIEW OF THE STUDY

**Relevance of the topic and degree of elaboration.** Today, the travel and tourism sector plays a significant role in the social and cultural development of many countries as well as the growth of international ties. The tourism industry also facilitates the state's participation in international trade, promotes the country's natural resources, contemporary opportunities, culture, and national-historical values, and aids in tackling problems like unemployment and poverty. The success of the governmental support system will determine how this industry develops. In addition to interacting with the economy, tourism also contributes significantly to the advancement of both national and economic objectives.

Recent events have seen the signing of crucial papers and the start of initiatives aimed at the country's tourist growth. The legal documents including "On the further improvement of management in the field of small and medium enterprises", "Strategic Roadmap for the development of the specialized tourism industry in the Republic of Azerbaijan", "on a number of measures related to state support for the expansion of access to financial resources of entrepreneurs in the Republic of Azerbaijan", "the procedure for guaranteeing loans received by entrepreneurs in manat", "about the suspension of inspections in the field of entrepreneurship" and the law "about tourism" is a clear example of strengthening state support for small business. In addition, the country's president emphasized in his speeches at various events the significance of the conditions established for investors in the sector, the importance of making efficient use of the resources already available, the requirement of ongoing state support for the growth of tourism entrepreneurship, the development of regions, the proper direction of investments, and the necessity of assessing Karabakh's tourism potential.

As a result, in the modern era, the role of this sector in a stable and sustainable economy was determined by both the support offered by the state and the assessment of tourism entrepreneurship as a potential comparative advantage area. This also brought to light the necessity of improving the state support mechanism, and several structural changes were made. Therefore, it is crucial and pertinent for the growth of contemporary tourism to look into small company activities in the tourism

sector as well as state assistance mechanisms.

**Study level of research.** International experience demonstrates that small company activity in the tourism sector is regarded as the primary direction in terms of protecting the interests of the populace, eliminating poverty, developing areas, and resolving macroeconomic difficulties. Our proposed dissertation can be viewed as a study aimed at improving the effectiveness of the state support mechanism for small companies in the nation, especially in light of the signing of several new law documents in the tourism sector in recent years.

Azerbaijani scholars including Abbasov A.B., Jabiyev R.M., Alirzayev Q.Q., Aliyev T.N., Hasanli Y.H., Nadirov A.A., Rahmanov F.P., Salmanov A.H., Sultanova. R.P., Shakaraliyev A.Sh. and others examined a number of entrepreneurship-related issues.

Numerous Russian economists, including Gavrilova E. A., Ershova I. V., Zhukova M. A., Karpova G. A., Lapusta M. T., Morozov M. A., Starostin Yu. L., Khoreva L. V., Chudnovsky A. D., have studied this area and examined specific issues facing small businesses in their works.

Researchers from abroad, including G. Buckley G., Devades U.M., Dressler M., Holloway J. C., Laird R. S., Marqua C. H., and others, studied entrepreneurship in the travel and tourist industry.

In particular, it should be noted that the majority of studies completed to date have not thoroughly examined the operations of individual travel agencies, tour operators, and hotels as commercial entities in the tourism sector. As a result, effective organization and the broadening of state assistance to small firms in the tourism industry should serve as the foundation for implementing various mechanisms such as credit, tax, and discount.

Research on novel application opportunities for government policy and economic mechanisms in the context of small business is the **object** of this study, which has as its **subject** the tourism businesses operating in the Republic of Azerbaijan.

**Research goals and objectives.** The primary goal of the research is to create ideas and suggestions for improving the effectiveness of the government's support program for small tourism firms. These tasks have been established in order to accomplish this goal:

- Identification of contemporary small company development trends

in the tourism industry;

- Study and research into how to support small businesses in the tourism industry with appropriate state support;
- Research on the development of small businesses in other countries;
- Research on the nation's small business climate at the moment;
- Analysis of small business operations in Azerbaijani tourism enterprises;
- An analysis using economic data of the variables influencing the growth of entrepreneurship in the nation's tourist industry;
- Improving the effectiveness of state aid to small tourism firms;
- Establishing the major axes of governmental control of microbusinesses engaged in the tourism industry in Azerbaijan.

**Research methods.** An econometric model was created throughout the study for the thesis by using a systematic approach, comparative analysis, generalization, deduction, and induction, among other techniques.

#### **Main clauses defended**

1. A comparison of the state's regulation of small businesses in the tourism industry in our nation from the time of independence to the present has revealed new development tendencies.
2. The use of economic techniques (price control, credit, tax relief mechanisms, etc.) should be prioritized in order to increase the scope of state assistance for small firms in the tourism industry and ensure effective administration.
3. The continually evolving foreign experience was examined in relation to the growth of small business, and its application in the nation was demonstrated.
4. The current situation of small entrepreneurship in Azerbaijan during the years of independence, pandemic and post-pandemic was analyzed.
5. A forecast of international tourist receipts through 2030 and an econometric analysis of the factors influencing the nation's tourism sector's entrepreneurial activity are provided.
6. Directions for increasing and regulating the efficiency of state support for small businesses in the tourism sector in Azerbaijan have been

indicated.

- **The scientific novelty of the research** consists of the following: The scientific-theoretical perspectives on the growth of microbusinesses in the tourism sector were examined, and its contemporary development tendencies were identified;

- The forms and procedures of direct and indirect regulation of state assistance to small tourism-related firms were looked into;

- The mechanism of state support in the growth of small business has been investigated from a global perspective;

- Complete analysis of the state of small business development in the nation;

- Econometric assessment of the factors influencing entrepreneurship in the tourism sector and forecasting of international tourist revenues;

- The state's primary development priorities for small business regulation in the tourism sector are justified.

**Theoretical and practical significance of research:** Thesis topics "Introduction to Tourism", "Tourism Economy", "Entrepreneurship in Tourism", and "Tourism Policy and Planning" can be used in higher educational institutions to teach subjects, improve the work of state institutions and tourism enterprises in the relevant field, and study efficiency, state support, and small entrepreneurship in the field of tourism. The State Tourism Agency of the Republic of Azerbaijan and the Small and Medium Business Development Agency are expected to prepare projects and analyses that will incorporate the suggestions and recommendations made in order to improve the effectiveness of government assistance to small businesses in the tourism sector.

**Approval and application.** According to the guidelines set forth by the High Attestation Commission, which reports to the President of the Republic of Azerbaijan, the study's findings were published in national and international scientific publications. Six conference papers and five scholarly publications were published with the author's conclusions and primary thesis work claims.

A report containing the findings from the research as well as suggestions and recommendations was delivered to the travel agency "Travelaze" LLC, and the application of the findings was acknowledged

by a certificate dated July 10, 2018.

**The institution where the dissertation work has been implemented:** Azerbaijan Tourism and Management University

**The total volume of the dissertation with a sign indicating the volume of the structural sections of the dissertation separately.** An introduction (8378 symbols), three chapters (I chapters - ), conclusions, recommendations, and a list of referenced works make up the dissertation. The total number of pages in the study, which included 21 tables and 23 diagrams, was 141.

The dissertation consists of an introduction (8378 characters), 3 chapters (Chapter I – 86405 characters, Chapter II – 71330 characters, Chapter III – 50214 characters), results (8218 characters) and the references used. The volume of the research work is 141 pages (224545 characters), which includes 21 tables and 23 pictures.

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### **PRINCIPAL PROVISIONS INCLUDED IN DEFENSE**

#### **1. A comparison of the state's regulation of small businesses in the tourism industry in our nation from the time of independence to the present has revealed new development tendencies.**

The state support system created in the growth of small businesses in the tourism industry was looked at based on the research that was done. Due to its positive traits, small business is the form of entrepreneurship that receives the most state support. The analysis of the majority of the countries where the sector is developing demonstrates that the development of small business is related to ensuring profitability and efficiency, increasing the level of employment and welfare of the population, more flexible adaptation to the market, high mobility, the introduction of innovation, and the role of capital in higher circulation, etc.

The distinct characteristics of the growth of small enterprises in Azerbaijan's tourism industry, as well as the country's abundant tourism potential, have an impact on the reduction of production structural costs and the growth of income in the balance of income and expenses in the tourism sector. Additionally, the republic's oil revenues, small business owners' financial resources, and low foreign loans all contribute to good tourism circumstances:

- Committing financial resources to the expansion of the tourism industry in more areas, building a tourism infrastructure capable of competing with other nations on the market for both high-quality services and affordable travel;
- Creation of new state assistance initiatives for the growth of domestic tourism (agritourism, health tourism, cultural tourism, etc.);
- Determining the state assistance mechanism to promote inter-sectoral connections in a new context, assessing the contribution of the tourist sector to the growth of other sectors (agriculture, industry, construction, transport, healthcare, culture, sports, etc.);
- Ensuring that small tourism company entities can access funding from the Entrepreneurship Development Fund and other accounts.

#### **2. The use of economic techniques (price control, credit, tax**



**relief mechanisms, etc.) should be prioritized in order to increase the scope of state assistance for small firms in the tourism industry and ensure effective administration.**

The implementation of state regulation of small businesses in a market economy can take many different shapes and employ a number of different techniques. Small business state regulation practices are primarily divided into two kinds:

1. Method of direct (administrative) regulation. When direct approaches are used, quick decisions are made and short-term solutions to the economy's challenges are found.

2. Method of indirect (economic) regulation. Economic regulatory techniques that are used indirectly include taxation, price control, credit and interest rate breaks, customs charges, exchange rates, etc.

The use of more economical techniques should be favoured in order to increase the breadth of state support for small firms in the tourism industry, and particular attention should be paid to the following issues:

- Application of long-term loans, guarantee when issuing loans, simplicity of the issue of collateral, application of reduced credit rates (1.5-2%) to small business entities in the tourism sector, particularly in the regions (minimum 5 years for small loans);

- The use of tax incentive programs for the industry, an extension of the tax payment deadline, an exemption from 18% VAT for business entities operating in the domestic tourism sector during their first year of operation, the use of a different tax system, and seasonal taxes for at least three years.

**3. The continually evolving foreign experience was examined in relation to the growth of small business, and its application in the nation was demonstrated.**

- Small-scale entrepreneurial activities in the tourism industry should be carried out in a continuous, consistent, and systematic manner, with an eye toward learning from international experience, conducting scientific research, making significant decisions, and applying the support mechanism in a flexible way. In this regard, it is thought to be more beneficial to use the following procedures to address the issues currently plaguing the industry:

- Utilizing the expertise of the neighboring Republic of Turkey, it is

thought to be more efficient to include quality control institutions in the nation in order to provide services in accordance with international quality standards, and to prioritize projects where the application of new technologies in the area of small entrepreneurship is predominant.

- A competitive and intellectual atmosphere has been developed among economic organizations with state assistance in the USA with the active engagement of educational institutions with strong intellectual capacity, and it is conceivable to employ this experience as an essential direction.

- The main factors influencing the development of the sector include the introduction of a simplified tax system in Poland that is easy to use in daily life, the existence of numerous organizations offering a variety of services to small business owners, the provision of financial guarantees for more than 700 tourism projects by the fund each year, etc. Research in this area is beneficial for our nation.

- Small business owners in Germany, particularly women, young people, and subjects utilizing creative technology, are provided long-term loans with straightforward terms. In the first two years of a 10-year loan, the entrepreneur is free from making payments on the principal and interest. Further streamlining the terms of short-term credit in our nation can be seen as an essential step in this approach.

- The establishment of cooperation-subcontract business between small, medium, and large business organizations is one of the main paths in Japan's experience, and using this strategy in the growth of Azerbaijan tourism can be deemed advantageous.

**4. Analysis was done of the current state of small business in Azerbaijan during the independence, pandemic, and post-pandemic periods.** During the analysis of the state of small business in our country, the decrees and orders issued in recent years in terms of the development of this sector can be highly appreciated. The decrees of the head of the country "On the approval of the list of activities requiring special consent (license)", "On the improvement of the state control system and the elimination of artificial obstacles in the field of entrepreneurship", "State assistance to small and medium enterprises in the Republic of Azerbaijan Program (1997-2000)", "State Program of Small and Medium Business Development (2002-2005)", State Program on the Development of

Tourism in the Republic of Azerbaijan (2002-2005; 2010-2014) and social programs of the regions of the Republic of Azerbaijan on economic development (2004-2008, 2009-2013, 2014-2018, 2019-2023) are important issues taken into account for the development of tourism.

According to a review of data from 2006 to 2020 in Azerbaijan, the number of micro and small business entities expanded by 1.01 times in the first 10 years, but only small business entities saw a growth of 1.2 times between 2018 and 2020. The impact of the pandemic was felt after 2019, as evidenced by the examination of tourist lodging and public dining, which reveals that there was a spike in the years prior (see table 1).

Recently, low-star “hostel” accommodations have been built in the regions, facilities for catering and entertainment have been established, new tourist zones have been established in locations with significant tourism potential, and more flights are anticipated. All of these developments are intended to make the tourism industry in our nation more alluring. 213 new placement facilities have begun operations in Azerbaijan over the past 12 years. In 2010, there were 499 hotels and businesses that catered to travelers; by 2021, this number had risen to 712.

**Table 1.**

**The number of small business entities in Azerbaijan between 2006 and 2020 by economic activity and types of ownership**

Indicators	2006	2015	2016	2018	2019	2020
<b>Total by types of economic activity</b>	184008	183271	187598	4930	5956	5943
<b>including:</b>						
state property	1333	1567	1522	413	440	414
non-state ownership	182675	181704	186076	4517	5516	5529
private property	182251	180762	184994	40393	4948	4960
foreign ownership		801	896	59	402	427
joint ownership		141	186	119	166	142
<b>Tourist accommodation and public catering</b>	10318	14162	15390	198	216	149
<b>including:</b>						
state property	31	12	9	9	9	5
non-state ownership	10287	14150	15381	189	207	144
private property		14126	15356	176	192	132
foreign ownership	10272	17	17	7	10	8
joint ownership		7	8	6	5	4

*Source: the table was compiled by the author based on statistical materials for the relevant years.*

The number of tourism businesses operating in the industry expanded by 4.5 times between 2006 and 2019, as did the workforce growth of 2.8 times and the income growth of 7.47 times, totaling 63363.8 thousand manats. A significant drop in the industry was seen during the pandemic. Thus, there are 2.9 times as many travel agencies and tour operators, 2.3 times as many employees, 2.8 times as much money is made from tourist travel forms sold to the public, 6.5 times as much money is made from tourist travel forms sold to the public, and 6.1 times fewer people are traveling abroad.

The analysis performed by regions also reveals that East Zangezur, Upper Karabakh, and Baku economic areas saw the greatest development in small and microbusiness entities operating in the tourism industry in recent years. Therefore, the economic district in Upper Karabakh (88%), Baku City (78%), Guba-Khachmaz (54%), Absheron (51%), and Nagorno-Karabakh (44%) saw the biggest increase in these entrepreneurial themes from 2015 to 2020. In the last five years, there has been an increase in the economies of East Zangezur, Upper Karabakh, and Nakhchivan, while there has been a sharp decline in the economies of Ganja-Gazakh and Aran. This is evidence of the strong economic impact of the pandemic on the respective economies. This analysis of the output of micro and small business entities in the field of tourist accommodation and public catering. The study demonstrates that even if there are a lot of small businesses that are registered, their activity coefficient is still low. If this is fixed, it will encourage the growth of entrepreneurship. In the Kalbajar-Lachin economic region, Upper Karabakh, and the Nakhchivan Autonomous Republic, there is currently a critical need for the proper utilization of tourism potential. Small enterprises will have new chances as a result of the promotion of Karabakh's transition into a tourist destination, the growth of different types of tourism, and the execution of the "Smart Village" project.

On the other hand, one of the most pressing needs of the moment is the development of a motivating mechanism for regional businesses. Therefore, it is appropriate to create leisure and lodging facilities in the areas in accordance with the budget of the majority of the population, to grant 1.5-2% loans for at least 5 years to attract entrepreneurs, and to

make certain concessions in order to promote mass tourism. In terms of investment, income, and employment, the growth of domestic tourism currently entails addressing a variety of issues for our nation and its areas. Therefore, under contemporary circumstances, it is important to prioritize strengthening the mechanisms that encourage small company subjects to locate in the regions, and it is important to assess the effectiveness of solutions to issues that impede development trends.

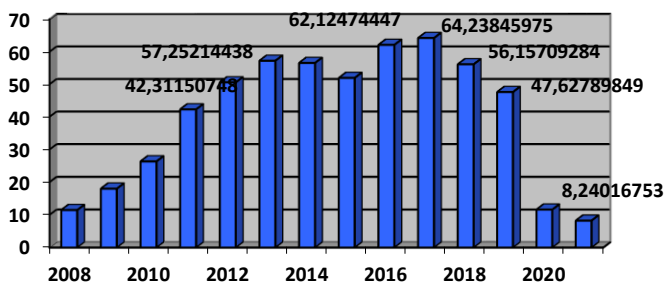
State regulatory measures, infrastructure development for the tourism industry, and service level enhancement have all been successfully put into practice recently. As a result, the President of the Republic of Azerbaijan launched the “Easy visa” system in 2016, and the adoption of electronic visas got underway quickly after that. The Republic of Azerbaijan’s political and economic development, as well as the sustainable economy that had been implemented in the tourism sector over the previous years, were guaranteed by the country's president's decree dated February 20, 2017, “On additional measures related to the acceleration of the flow of tourists to the Republic of Azerbaijan”.

Analyzing small business activity in the tourism sector should generally focus on the following concerns:

- Enhancing the role and authority of municipalities in the development of tourism; - conducting scientific research on tourism;
- Creating and updating the organizational-legal management of projects.
- Developing a new state program related to the development of regional tourism, implementation, and development of incentive mechanisms may be useful for the sector..

**5. A forecast of international tourist earnings through 2030 and an economic analysis of the variables influencing the entrepreneurial activity in the nation’s tourism sector are provided.**

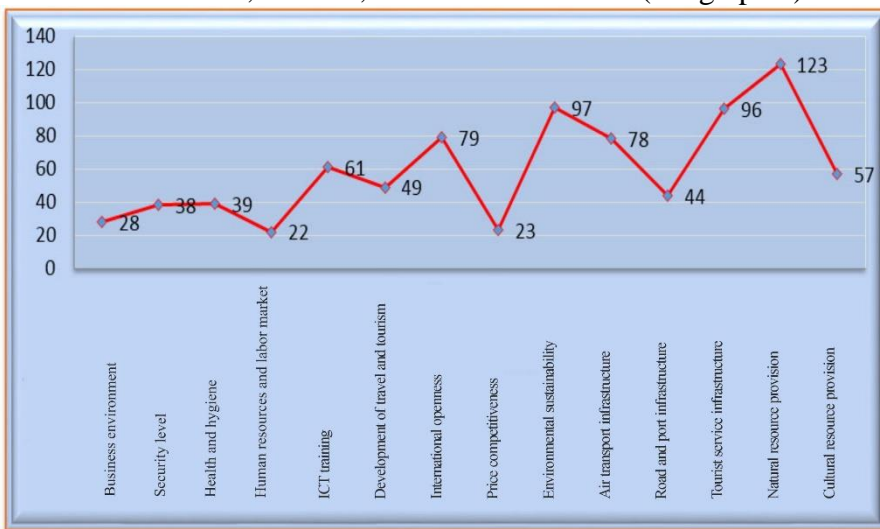
Similar to other economic sectors, a country's ability to attract more tourists and position itself favorably in a competitive environment depends on its ability to grow its tourism industries in accordance with international standards.



**Chart 1. Travel service indicators in Azerbaijan for 2008-2021**

*Source: the table was compiled by the author based on the statistics of the World Bank for the relevant years.*

The World Bank's statistics show that 8.24% of all spending in 2021 was on travel-related services. The investigation reveals that the maximum indicator, 64.23%, was attained in 2017 (see graph 1).

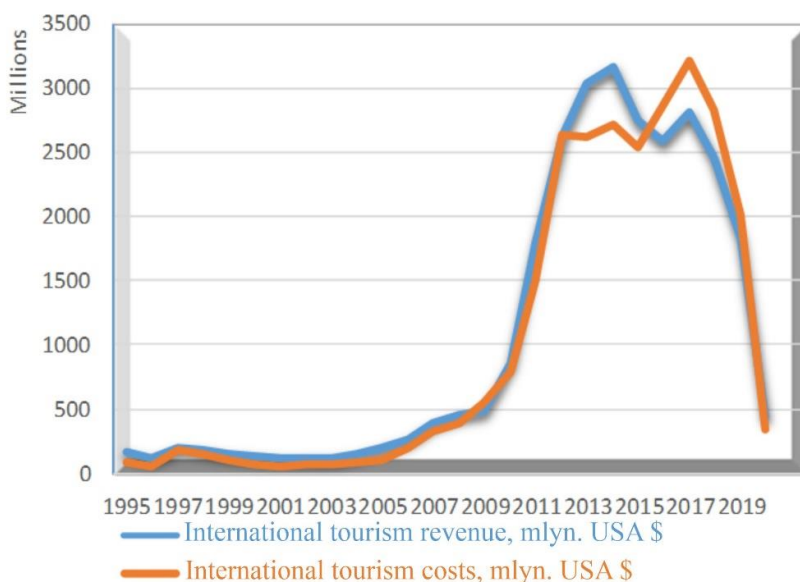


**Graph 2. Ranking of index indicators characterizing the development of entrepreneurship**

*Source: the table was compiled by the author based on the report of the World Economic Forum.*

According to an examination of the country's current business environment, the growth of small businesses is positively impacted by factors such as labor force, labor resources, price competitiveness, a

safe and healthy environment, and the economic climate that was developed for business development. At the same time, it is important to stress that the infrastructure for tourism is poor and that the degree of air travel is insufficient. Unfortunately, one of the main things harming the nation's tourism is still the high cost of overseas travel. Sustainable and sustainable tourism in business, as well as the use of alternative tourism resources, are brought to light by the negative effects of ecological sustainability and the use of natural tourism resources (see graph 2).

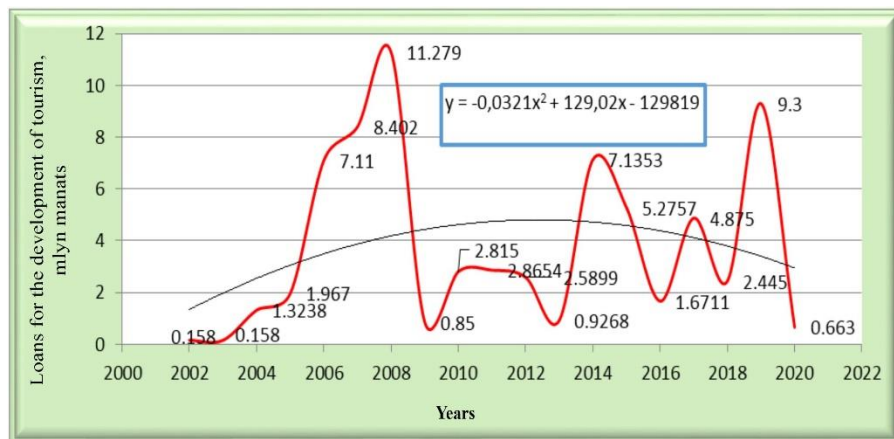


**Chart 3. Dynamics of international tourism income and expenses in Azerbaijan for the years 1995-2020, in million US dollars**

*Source: the table was compiled by the author based on the statistics of the World Bank for the relevant years.*

The Republic of Azerbaijan's foreign tourist income and expenditure patterns from 1995 to 2020 are provided. Therefore, as can be seen from the graph, the Republic of Azerbaijan's foreign tourism income climbed between 2000 and 2014, fell in 2015, and increased between 2016 and 2017. According to the data, 3214 million dollars were earned from international tourism in 2018. The US Dollar was at its highest point during all time periods examined. This gain was

followed by a drop in the ensuing years. With the exception of 2009, expenses up until 2015 were more than revenues (see chart 3).



**Chart 4. Loans allocated to the development of tourism in Azerbaijan, in million manats**

*Source: the table was compiled by the author based on statistical materials for the relevant years.*

The part played by loans aimed at this sector in the development of the tourism industry is also significant. The dynamics of loans allocated for the growth of the tourism industry from 2000 to 2020 are shown in Chart 4. As can be observed from graph 4, the amount of loans given to Azerbaijan's tourism industry's development increased at a higher rate from 2004 to 2008, reaching 11,279 million in 2007. created manat. This demonstrates that preferential loan funds were utilized more effectively in the growth of tourism in connection with the implementation of the “State Program for the Socio-Economic Development of the Regions of the Republic of Azerbaijan” for the years 2004-2008. In 2020, the quantity of credit allotted to this sector reduced to 663 thousand manats due to the global COVID-19 epidemic.

The value of the funds allocated to fixed capital by loans allocated to the development of tourism, the accommodation of tourists and public catering by small business entities, the amount of investments made in the areas characteristic for direct tourism, and the international tourism income with insurance payments were the main factors



influencing the income from international tourism in the Republic of Azerbaijan that were examined in the study. Regression analysis of dependence between variables was performed using the EViews software tool.

- In the Republic of Azerbaijan, the volume of investments made in the areas suited for tourism, insurance payments, and international tourism income all exhibit high linear dependence, as shown by the regression equation, between the loans designated for the development of tourism, the value of the funds directed to the fixed capital by the small business entities for the accommodation of tourists and public catering, and the volume of investments.

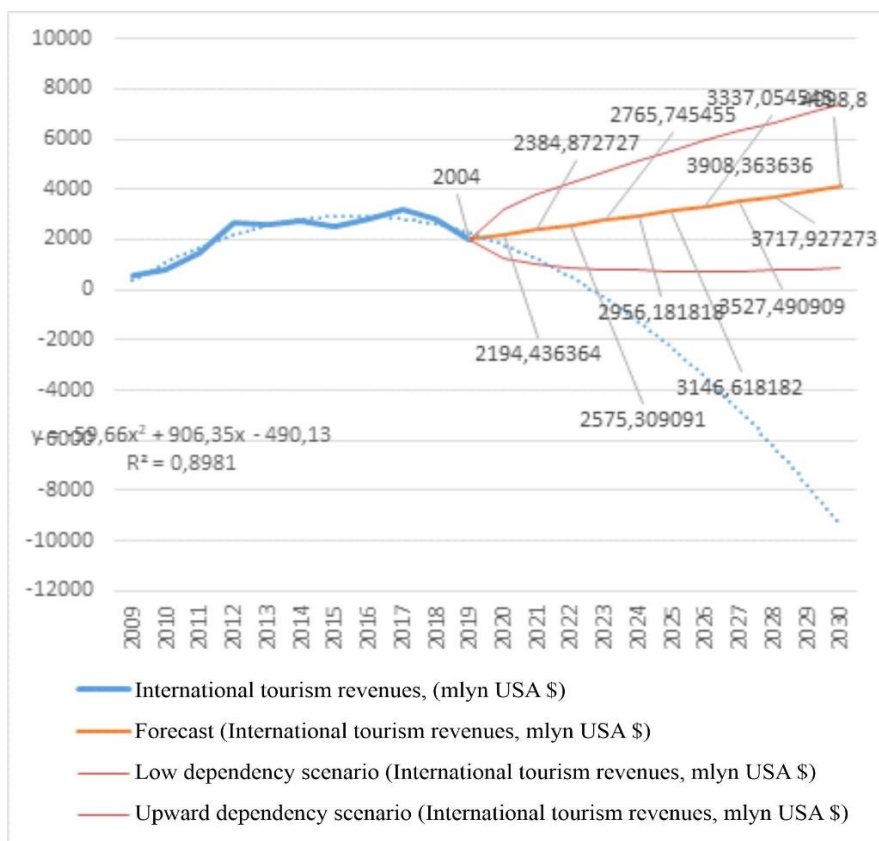
$$Y = -241.291 * X1 + 9.654 * X2 + 0.175 * X3 \\ + 21.801 * X4 - 911.804$$

- According to the research, which was based on the EViews-10 application software package, a 1% increase in the volume of loans designated for the development of tourism led to a 0.32% decrease in Azerbaijan's international tourism revenues, a 1% increase led to a 0.06% increase in those revenues, a 1% increase in the volume of investments in areas typical for tourism led to a 0.26% increase, and a 1% increase resulted in a 0.06% increase;

- According to the Cheddock scale, there is a strong correlation between loans given to the development of tourism in the Republic of Azerbaijan, the amount of money small business entities invest in fixed capital for tourist lodging and public catering, the amount of investments made in locales that are conducive to tourism, insurance payments, and revenue from international travel ( $R^2=0,964$ );

- as a result of the research, the prices of insurance payments, international tourism income by years, standard errors, as well as the loans allocated for the development of tourism in the Republic of Azerbaijan based on the EViews application software package, the value of the funds directed to the fixed capital for tourist accommodations and public catering by small business entities, the amount of investments made in areas characteristic for tourism, and;

- Research led to predictions and determinations about the volume of foreign tourism income in the Republic of Azerbaijan, which will increase dynamically until 2030. (see graph 5).



**Chart 5 shows the projected figures of foreign tourism income in the Republic of Azerbaijan through 2030.**

*Source: Developed by the author based on the EViews application software package.*

**5. Steps have been taken to improve and regulate the effectiveness of government assistance for small firms in Azerbaijan's tourism industry.**

The formation of a single system for assessing efficiency in this industry is fairly challenging since the assessment of efficiency in the growth of small businesses is a multidimensional and complex direction. The evaluation of state support efficiency is described as follows in the methodology provided by N.E. Sokolinskaya and L.M. Kupriyanova, employees of the University of Finance under the Government of the

Russian Federation: “Evaluation of the effectiveness of state support for small businesses also considers organizational structure, innovation policy, financial support (investments and credit), and other small business entrepreneurship. Utilizing indicators, support for corporate collaboration should be calculated”.

The function of investment policy in tourism, the study of domestic and foreign investments, and the significance of implementing innovations in tourism and small entrepreneurship were all broadly interpreted in the research work to ascertain the efficacy of state support. The results of the analyses demonstrate that relative to local investments, the percentage of foreign investments in the country's economy increased throughout the last period. According to an examination of investments made in the small business sector over the previous 12 years, there were around 12 times as many (1885 million manat) investments made in this sector. The pandemic's effects led to a 30% drop in investments in the small company sector in 2020 compared to 2019.

According to a broad examination of the investments made in the tourism industry, from 2012 to 2019, there was an 11-fold drop in these investments. In 2014, the industry that saw the most investment was tourism. The investment industry was impacted by the increase in prices and the increase in the average annual rate of inflation for the years 2016–2017 (13.7%). In comparison to 2019, there was a 69% drop in 2020, and an 81% rise in 2021.

It is appropriate to examine tourism as a component of the GDP in order to more clearly understand the current state of the tourism sector. Accordingly, the statistical analysis of the World Travel and Tourism Council's report on Azerbaijan demonstrates that the growth of tourism in our nation has risen year by year until 2019. Due to the pandemic's effects, tourism's overall GDP share fell by 4.6 times in 2020 compared to 2017 and by 3 times compared to 2019.

In order to determine the key directions of state regulation of small businesses in the tourism industry in Azerbaijan, a SWOT analysis was undertaken, and new avenues of development were suggested based on the results (see table 2):

- Incentives should be strengthened, and a stable economic environment should be created for investors, in order to boost the

percentage of tourism in GDP (small entrepreneurs);

- The growth of tourism should be promoted in the fall and winter, with a focus on the planning of conferences, exhibitions, symposiums, and specific music festivals in the fall;
- personnel potential in the tourism sector should be improved;
- the legislative framework should be improved;
- Provision of access to financial opportunities should be strengthened, tax benefits, credit guarantee conditions should be simplified;
- Serious steps should be taken in the process of ensuring sustainable and sustainable development of the tourism sector in the regions, development of rural tourism, cultural tourism sector should be encouraged;
- Service standards should be applied in the tourism sector;
- Application of innovations in the sector should be encouraged;
- International cooperation with the European market and Turkish states must be enlarged;

**Table 2.**

**The current state of small enterprises in the tourist sector in Azerbaijan was analyzed using the SWOT (SWOT) framework.**

<b>Strengths</b>		<b>Weaknesses</b>	
S <sub>1</sub>	Availability of rich history, cultural and natural resources, favorable geographical location;	W <sub>1</sub>	Lack of the desired level of influence of state support measures in the tourism sector;
S <sub>2</sub>	Year-on-year increase in investments allocated to the tourism sector;	W <sub>2</sub>	Lack of staff;
S <sub>3</sub>	Development of the non-oil sector, especially tourism and small business sector as a priority direction;	W <sub>3</sub>	Failure to address the ongoing seasonality factor in the sector;
S <sub>4</sub>	Existence of the legal framework;	W <sub>4</sub>	The presence of some gaps in the legislative framework;
S <sub>5</sub>	Improvement of the organizational structure of the tourism and entrepreneurship sector;	W <sub>5</sub>	The small number of small business subjects in tourism;
S <sub>6</sub>	The country's investment reserves	W <sub>6</sub>	Ignorance of the population related to

	and oil revenues;		the concept of tourism and tourist, forms of behavior;
S <sub>7</sub>	Preparation of new development programs;	W <sub>7</sub>	Lack of funding for the sector;
		W <sub>8</sub>	Cases of tax evasion;
		W <sub>9</sub>	Difficulties in securing credit;
		W <sub>10</sub>	Poor development of tourism entrepreneurship in the regions;
		W <sub>11</sub>	Poor implementation of innovations;
		W <sub>11</sub>	Weak cooperation with the European market;
<b>Opportunities</b>		<b>Threats</b>	
O <sub>1</sub>	Increasing interest in rural tourism, agrotourism, cultural and congress tourism;	T <sub>1</sub>	Mismatch between quality and quantity in service;
O <sub>2</sub>	The fact that the country has hosted many International level events in recent years;	T <sub>2</sub>	Image problem;
O <sub>3</sub>	Rapid changes in world tourism;	T <sub>3</sub>	Environmental pollution;
O <sub>4</sub>	Political and economic stability;	T <sub>4</sub>	Terrorism, minefields and pandemics;
O <sub>5</sub>	Victory in the Second Karabakh War;	T <sub>5</sub>	Indifference to the environmental factor in newly built tourism infrastructure;
O <sub>6</sub>	High interest of the population in the entrepreneurial sector;	T <sub>6</sub>	Possibility of re-emergence of war conditions, disruption of political stability;
O <sub>7</sub>	Less foreign debt;	T <sub>7</sub>	Increase in competitiveness;
O <sub>8</sub>	Redirection of oil sector revenues to the non-oil sector (tourism);		

*Source: table compiled by the author.*

Thus, the recent changes made in the Republic, the work done to improve our national economy, the higher-level organization of international collaboration, and the creation of the image of tourism in the worldwide market have all had an impact on the growth of tourism. The development of small businesses in the tourism industry can be facilitated by the effective use of state regulating mechanisms, the implementation of sound state policy, and a continuing search for new opportunities and global experience.

## **MAIN SCIENTIFIC RESULTS OF THE WORK**

The following scientific findings came from research into the theoretical and methodological underpinnings of ensuring the development of small businesses in the tourism sector in Azerbaijan, assessing the level of small business development, and looking into ways to improve the effectiveness of government support.

1. State regulation must be used in modern times, and this includes the tourism industry. As a result, the tourism industry is crucial to tackling social problems, fostering economic growth, etc. The state's guiding role should be fairly assessed, all growth opportunities should be taken advantage of, the legislative framework should be strengthened, and small business owners should have access to all available support systems. Measures taken in the sector should be examined in relation to those taken in other sectors, financial support for the growth of domestic tourism in the regions should be provided, and new state support programs should be developed. In our view, economic mechanisms should be coordinated with one another, there should be a single concept that encompasses the traits of national entrepreneurship, and the state's economic policy related to this field should be based on that conceptual foundation in order to support small entrepreneurship in the tourism sector;

2. Although economic and administrative regulation methods are the two types of regulation that are typically employed in economic systems, the analysis of the forms and methods of state support for small businesses demonstrates the importance of more economic regulation in our nation. Currently, improvements are being made to the government's support system, financial aid is being increased, the legislative framework is being improved, the privatization process is being accelerated, the activities of organizations that provide education, information, and consulting services to small business owners are being expanded, the tax burden is being decreased, and cooperation relations are expanding. Numerous works have been completed. The development of CRM platforms, the dissemination of information extensively and plainly on hotel websites, and the proper formulation of digital marketing strategies for small-scale tourism businesses are all essential. The provision of funds

by banks to business owners operating in areas with low credit rates—roughly 1.5–2%—along with the simplification of the collateral issue in credit conditions, reworking of the loan repayment period, erasing of tax debts, and temporary VAT exemption for small tourism businesses—all take place at the same time. From the standpoint of entrepreneurial development, exemption from the installation of a differential tax system for at least three to five years is advantageous.

3. An analysis of the tourism industry's global experience reveals that in nations like the USA, Turkey, Japan, Germany, and Poland, financial assistance is given to state small business entities, tax benefits are implemented, business associations are formed, and the two parties work together to strengthen quality assurance controls, conduct scientific research, and involve small business owners in educational initiatives. Taking advantage of the global experience connected to the development of the operations of small business businesses, we believe it is crucial for the tourist sector to execute large-scale and strategically significant actions now.

4. The current state of small business in the nation has been researched, as well as issues such as a lack of scientific research, difficulty obtaining funding, gaps in the legal framework governing competition in the economy, and the persistence of pandemic conditions, among others. The use of flexible policy in the tourism sector, increased scientific research efforts, better state planning of the industry, the growth of social tourism, and the adoption of a new state program have all been suggested as solutions to the challenges described.

5. Azerbaijan's tourism industry has shown development patterns through 2019 according to an analysis of the situation of small businesses in the industry. Tour operators and travel agencies have experienced a 2-fold decline in business as a result of the pandemic's catastrophic effects in recent years. In general, there has been a noticeable decline in the number of sanatorium-resort facilities, and most of these facilities need to have their infrastructure modernized. In this context, the issue of public support is crucial. The majority of the hotels functioning in the nation are owned by medium and big businesses, despite the fact that the number of lodging facilities has increased. Therefore, it is imperative to boost the quantity of two- and three-star hotels and broaden

their offerings. Despite a surge in restaurants and other catering businesses, the examination of public catering venues reveals that most of them do not provide the quality of service that is ideal. All of this should be taken into consideration when implementing the mechanism for regulating the prices and service standards of businesses engaged in the tourism industry.

6. Loans given to the tourism industry, income and costs from international tourism, index indicators illustrating the growth of entrepreneurship, factors affecting international tourism income were econometrically assessed using the EViews software package, and the international tourism income of Azerbaijan in 2030 were all examined. It is anticipated to grow more dynamically and reach a total of roughly 4098.8 million US dollars.

7. Investment, innovation, structure, financing, GDP and GDP indicators, as well as the proportion of tourism to GDP, were examined during the assessment of the efficacy of the state support mechanism in the tourism industry. The amount of fixed capital invested in service industries, such as tourism, as part of the investments made in Azerbaijan's economy, is at a low level. Alternative approaches should be looked for in order to enhance investment opportunities for tourism in the Republic, particularly attracting international capital. On the other hand, it would be appropriate to establish a new fund in order to obtain financial resources, as well as working mechanisms that regulate the relationship between the use and implementation of funds allocated for tourism in the state budget, in order to improve the provision of investment in tourism, the introduction of tourist facilities (especially in the regions) to the domestic investment markets, as well as to expand activities in this direction. The examination of the innovation activities in the tourism industry demonstrates that small businesses will benefit from increased funding for the national development of EIT, as well as from the funding and execution of scientific-technical and innovative activities from the budget. All regional tourism resources should be assessed, opportunities for use should be determined, new tourism products should be developed, the issue of transportation, sales, and marketing measures should be planned in advance, and concrete projects should be carried out. Additionally, the issue of international standardization of educational



institutions, expansion of foreign cooperation, organization of students' experience in a more effective form, and employment should be kept in focus.

8. The key development paths of the tourism industry are shaped by the way state policy is organized. Macroeconomic and microeconomic levels are used to examine small business directions in the tourism industry. The goals of visitors' visits to the nation, the length of visits, and the degree of satisfaction with the services offered were evaluated. A SWOT and 7 P analysis was done to explore the development directions of small firms in the tourism sector in Azerbaijan. A favorable economic environment should be created in the regions, lodging and dining facilities where visitors can stay on a budget should be built, the level of service should be raised, the delivery of tourists to these locations should be made simpler, the transport system should be improved, and small businesses in the tourism industry should be supported. Public-private partnerships should be developed, the state should boost money allocated to marketing the national product on the international market, and monopolization should be better controlled by the state through regulation through subsidies and subsidies.

The expansion of the tourism industry can therefore be accomplished by efficiently utilizing state regulatory systems, by putting into practice the proper state policy, and by continually exploring new avenues and gaining foreign experience. We anticipate that the recent governmental initiatives and their successful implementation in the nation's tourism industry and small business sector will soon show results.

**The following articles and theses related to the subject of the dissertation have been published:**

1. İmamverdiyeva Ç.R. Azərbaycanın turizm sektorunda kiçik sahibkarlığa dövlət dəstəyi mexanizmi //- Bakı: AMEA-nın xəbərləri. İqtisadiyyat seriyası elmi-praktiki jurnal, - 2016, № 3, -s.108-113

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Bakı: 28-29 oktyabr, -2016, -s. 21-23

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