

**The Ministry of Education of
Azerbaijan Republic**

**Internationalization and growth
barriers of Small and Medium Sized
Enterprises**

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Abstract

In our globalizing world, the integration of the companies plays a key role in the development of each country. There are special policies and strategies of different countries and also European Union in order to enhance the situation within the member countries and to apply better platform for businesses. Modernization and internationalization of businesses help the governments to attract the investors from other countries and increase the FDI (foreign direct investments) which is very vital for the whole economic growth of the country. In the process of internationalization, there are big barriers which are hindering the process by diverse problems.

The aspect that Azerbaijan has also applied many legislative acts in the process of SME growth is very vital. Many institutions have been established by the support of the government in order to assist the SME's in Azerbaijan. But as we are developing the country and the SME's are also in the developing phase, there is big lack which could be developed. With the help of these developments, Azerbaijan could make big profits.

Keywords: Small and medium sized Enterprises, Business, Internationalization, Azerbaijan.

Table of Contents

1. Introduction
 - 1.1.Essence of SME's
 - 1.2.Importance and role of SME in economy growth
 - 1.3.SME in context of Azerbaijan
2. The decision for internationalization
 - 2.1. Motives and willingness for internationalization
 - 2.2.1. International Competitive Advantages
 - 2.2.2. Resources and Competences for Internationalization
 - 2.3. Risks of internationalization
 - 2.3.1 Economic risks
 - 2.3.2 Political-legal risks
 - 2.3.3. Market risks
 - 2.4.Experience of developing and developed countries
3. Internationalization Process in Azerbaijan
 - 3.1. Overview of the SME situation in Azerbaijan
 - 3.2.Internationalization barriers in Azerbaijan
 - 3.3.Special programs and services supporting SME in Azerbaijan
 - 3.4.Recommendation of using foreign experience in Azerbaijan
4. Conclusion
5. Bibliography

Introduction

1.1 Essence of SME's

In theory as well as in practice, the strengths of small and medium-sized enterprises (SMEs) with the flexibility, the customer proximity, the innovation potential, both the employees and the entrepreneur are described as essential success factors.

Small and medium-sized enterprises have a great advantage in terms of time when making decisions about large enterprises, as they can make decisions faster, and can therefore respond more quickly to market demands. The hierarchies are usually flatter, the organizational structures more manageable and easier to set up than in large companies. SMEs have a high degree of adaptability to internal and external demands and identify this flexibility as one of their great strengths. Precisely, because of the close customer proximity (geographically and mentally) and the knowledge, what the customer wants, the flexibility turns out to be a great advantage. The short information and decision-making channels enable SMEs to quickly focus on

new innovation projects and gain market advantages. Most of the employees come from the region and are closely rooted there. Employees in an SME generally have a stronger emotional relationship with the company and are more motivated than in large companies because of the likelihood of having their own ideas involved in the work. However, in many cases the most important decisions in an SME are made directly by the entrepreneur. Thus, the entrepreneur decisively shapes the company and his decisions have a direct influence on the success of the company.

Globalization means more sales opportunities for every company. But it can also bring more foreign competition. While large corporations are well prepared for this trend, medium-sized companies often lack the necessary know-how.

This forces companies to rethink their products and services as well as their business processes and value chains. Successful companies can strengthen their market position both nationally and internationally. Others may be forced out of the market in the medium term, with consequences for the labour market. From a theoretical point of view, it is expected that products that are more capital-intensive will be exported and less frequently crafted or labour-intensive goods.

The terms of the SMEs are shown and the different ruling definitions. In addition, the qualitative and quantitative characteristics of SMEs and their differences.

The economic importance of SMEs is explained in second and third chapter at national and European level. The European Union has targeted the promotion of SMEs and recognized their importance for Europe's prosperity. Numerous subsidies and individual subsidies are available for SMEs and should continue to be developed. A small digression on the European Union

must not be missed and the influence of EU decisions on companies cannot be ignored. The question arises as to which fundamental problems SMEs have to overcome and which weaknesses SMEs have. This shows that many SMEs have weaknesses in terms of strategic orientation. It works more operationally rather than preparing for the future and strategically leading a business.

Enterprise management today faces a new dimension of uncertainty and complexity in the 21st century that continues to grow steadily. For these and other reasons, it is particularly important for SMEs to develop strategies and ensure the continued existence of the company. But here Studies have also shown that SME strategies are not often sustainable.

1.2 Importance and role of SME in economy growth

Entrepreneurship Category in terms of size	Average Number of Employees (Definition 1)	Average Number of Employee (definition 2) For Tax Purposes only	Annual Revenue Definition 1	Annual revenue Definition 2 For tax purposes only
Small	Up to 25 employees	Self Employed (No hired labor)	Up 200 thousand manat	Up to 200 thousand manat
Medium	Between 25-125 employees		Between 200-1.250 thousand manat	
Large	More than 125 employees		More than 1.250 thousand manat	

Source: AR Cabinet of Minister's order 29th June, 2016.

Overview to determine the status:

Strength

Orientation

Orientation on market is very vital. People's needs are individual and cannot be satisfied by a standard industry product. But SMEs are close to react correctively to people's needs than big enterprises.

Flexibility

The SMEs are characterized by their agility and customer proximity. Their willingness to adapt to changeable circumstances calms and gives confidence to the customer. Start-up companies may take a bit longer to present the solution.

Area hierarchy

Since most of the SME's are the owner and the middle management, the hierarchy is very flat and is mostly missing. As a result, the decision paths are shorter. Necessary information is faster with the persons concerned by the manageable number of co-workers.

High motivation

The employees are suggested by the manageability of the operation security. The clear connections of the work favour an individual development to the task fulfilment.

Employees are mostly all-rounders

The division of labour among large companies requires employment of specialists.

By contrast, SMEs often have the same tasks to do with fewer staff. The smaller the company, the higher the number of tasks per person. As a result, SMEs mainly employ people who are versatile. The flexibility of their employees is a big advantage of SMEs.

Low organization costs

The clarity of the operations automatically reduces the organizational effort and thus the costs.

Weaknesses

Lack of market / supplier power

Large companies have a better starting position and they attract majority of buyers. Their sales volume alone makes them more important to their suppliers and gives them more leverage during negotiations. They also have advantages as large-scale suppliers. They can better exploit their opportunities on the mostly national market, such as marketing strategies and sales logistics. The sales instruments of small and medium-sized enterprises, on the other hand, are weaker.

Poor Lobbying

Large companies can use their resources, contacts and economic importance to assert their interest in politics. SMEs are also trying, but only

with limited success. In crisis situations, it has usually been shown that large companies succeed.

Production and market disadvantages

SMEs have a problem with the concept of cost leadership. This concept can only be met if the fixed costs are covered by a large output. The cost advantages achieved through high volumes are called "economies of scale". This is a classic advantage that big business owners have since industrialization. Mass production reduced prices, leaving smaller companies producing the same product out.

Succession problem

The problem of pursuit of succession for a company is not new. According to an international study, 46% of entrepreneurs say that the company's management should not remain in family hands. This could be an indicator of growing follow-up problems.

Instability

Due to the limited size of the enterprise, the characteristics of the entrepreneur are more serious for the success or failure of the failure of the enterprise. Mistakes, no matter how severe, directly negatively impact business success.

Capital constraints

SMEs, in contrast to large companies, have less capital and often struggle to obtain large amounts of capital from credit institutions. This usually has a negative impact on the strategic business area (marketing, human resources development, etc.).

State burden

The changed framework conditions (social security, environmental protection and consumer protection) call for high bureaucratic costs, which hit SMEs more than big companies.

The trend of many companies to expand their business activities abroad is unbroken. More and more entrepreneurs are venturing into new markets every year. The motives for this are diverse. But when investing in foreign markets, success and failure are close together. A high level of risk-taking is therefore required of all entrepreneurs who strive for internationalization.

Hurdles in the internationalization of many companies

- Every company must be prepared for financial, time and work-related risks in the internationalization process and have to be involved in the planning right from the start.

- Funding bottlenecks: Companies are often faced with the problem of a funding gap. Banks have a hard time lending because potential risks of internationalization are difficult to assess. But internationalization projects also mean a high capital expenditure for small and medium-sized enterprises. The financial blocks make it difficult for many companies to start their international business.

- Management blocks: A major problem in planning and controlling the internationalization many companies is management blocks. Lack of expertise on foreign markets and poor access to international networks makes it difficult for many companies to enter the expansion business. Therefore, interim managers are often used, especially for the transitional period. The experts have in-depth knowledge of their respective industry and can

distinguish themselves through many years of experience in matters of internationalization. By using an experienced temporary manager, management bottlenecks can be circumvented.

- Lack of experience: Many companies on an expansion course have so far had little or no experience in opening up foreign markets. In these cases, experienced management is often lacking. For example, executives with many years of international experience make it easier for them to go abroad due to their preventive and creative measures they can minimize these risks for SMEs. External executives have extensive experience from other successful internationalization projects. From the previous projects, interim managers provide specific language and national knowledge as well as industry-specific know-how. Because of their wealth of experience, they are familiar with the international environment and can identify problems or changes at an early stage and take appropriate measures.

The European single market is ideal for companies that are still at the beginning of internationalization. Due to the geographical and cultural proximity, almost no tariff or trade restrictions and largely harmonized standards are applied. Therefore, the internationalization within Europe often runs smoother than overseas or Far East.

As a federation of 28 member states, with more than 500 million inhabitants, 24 official languages and a gross domestic product of 13.921 billion Euros, the European single market represents the largest common economic area in the world Member States. 99.8 percent of all companies in the European Union belong to the middle class, which according to the definition of the European Commission comprises companies with up to 250 employees and an annual turnover of up to 50 million euros. Small and medium-sized companies employ two-thirds of all employees across the EU and contribute just fewer than 60 percent to value creation and 34 percent to

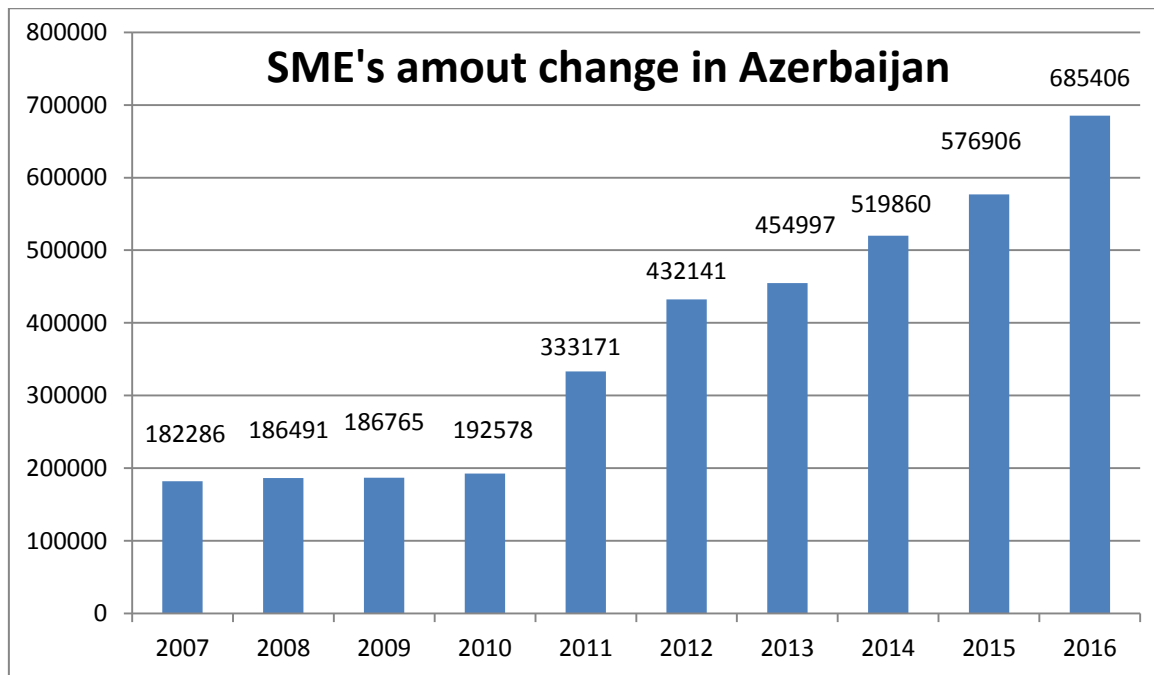
the export of all companies. In total, more than 22 million SMEs employ almost 90 million people in the European Union.

1.3 SME in context of Azerbaijan

If we take into consideration the data given by the Ministry of Economy of the Republic of Azerbaijan for 2016, the amount of entrepreneurship divisions in all areas of the economy is 792,764. In difference to 2015, the amount of entrepreneurship focuses in next year has been enlarged by 77,179. Conferring to given data, 36.1% of entire entrepreneurs were recorded in Baku and 63.9% in other cities and parts of Azerbaijan.

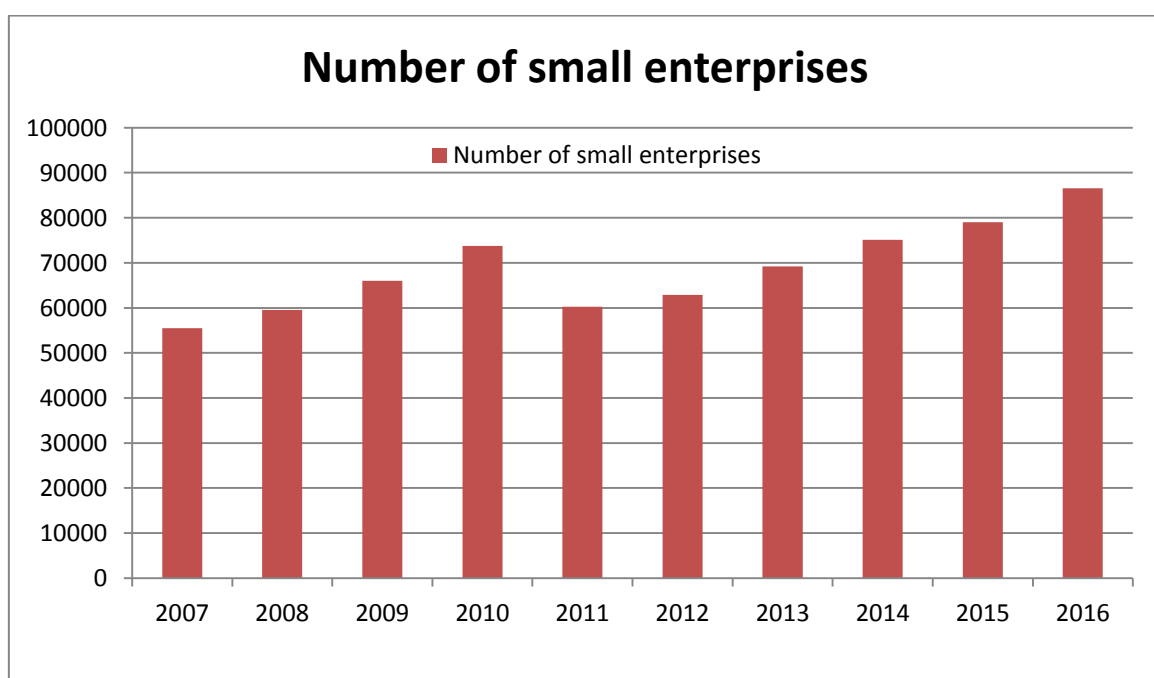
SME activity in Azerbaijan may be diversified into 2 groups. These groups are those who are creating legal entities and who are working individually without creating the entity. Legal entities are General partnerships, Limited partnerships, Limited Liability Companies or Join Stock Companies.

Furthermore, the number of individuals who are working without generating a legal entity is 685,406; below figure shows how the number of SME's has been changed throughout 9 years.



Source: The Republic of Azerbaijan Ministry of Economy, 2017

Because of the market conditions SME's have been developed in diverse directions. If we take into account the data of 2016, then we can see that the amount and share of SMEs the was very big, precisely 86,517 and with the help of Figure 26, we can see and indicate that the share of SMEs in 2016 has been enhanced to 7,477, compared to 2015.

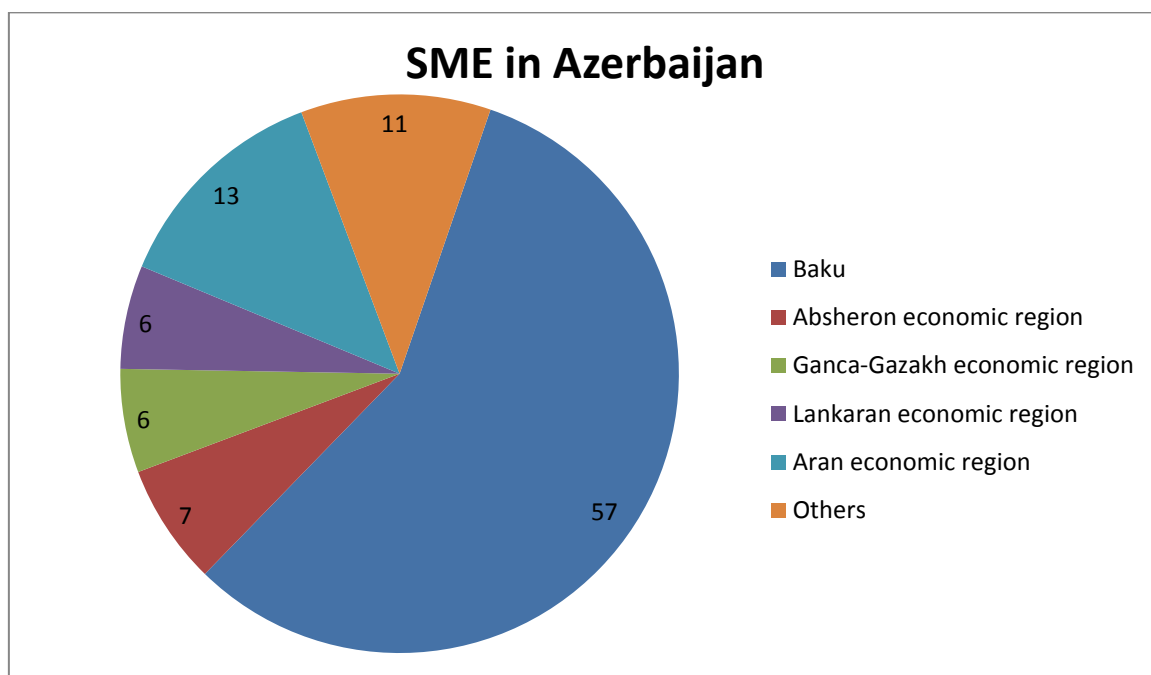


Source: The Republic of Azerbaijan Ministry of Economy, 2017

According to official statistical data, the amount of SMEs which are not orientated in the oil sector is approximately 5.8% (of value added, 0.7% in total gross profit, 6.5% in annual average employees and 9.2% in fixed capital investments. Commonly, in 2016, the amount of SME's was equal to 86,514. It was increased by 7,477 units.

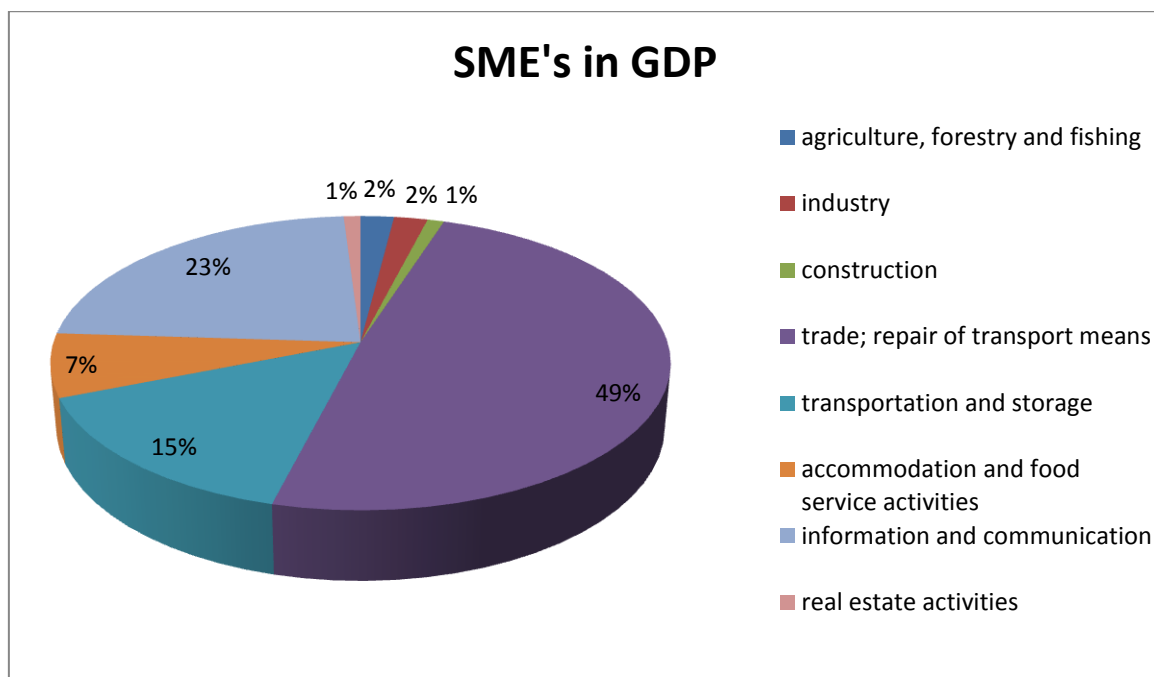
Nevertheless, it is also normal that the main location of the SME's in Azerbaijan is located in its capital (60%). We can see it in Figure above. Baku is not only one of the big cities in Azerbaijan but also in Southern Caucasus regions. Thus the number of SME's is very high in Baku.

Aran and Absheron areas are accordingly second and third largest regions in Azerbaijan for SME's.



Source: The State Statistical Committee of the Republic of Azerbaijan, 2017

We can see clearly in the figure above that, the most of the SME's are engaged with the trade and the retail trade is almost half of whole SME share in Azerbaijan. It is possible that the reason for that situation is that the lack of institutions and the weak development of consumption enterprises. In addition another cause for the unequal development of the SME in different sectors is monopoly but in retail sectors there is big chance for SME's to orientate themselves without any barriers from the monopolies.

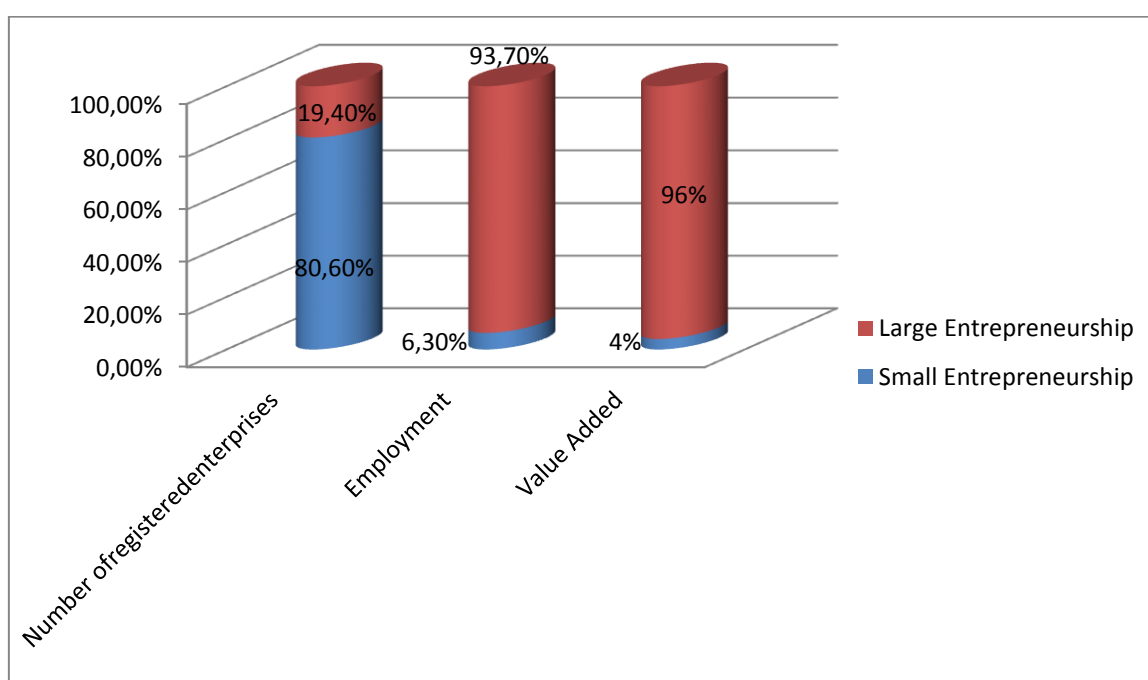


Source: The State Statistical Committee of the Republic of Azerbaijan, 2017

Nowadays due to strategy of the Azerbaijan Republic other sectors than oil and gas is being promoted. Therefore the investments in other sectors are very vital for the government. Thus the SME support and promotion from the government is very high. Although Azerbaijan is developing very rapidly the differences between S ME developments of developing countries in Europe for instance is higher than in Azerbaijan.

In this figure below we can see the differences between the percentages of the SME shares in Azerbaijan and other countries. The difference in SME sectors share is approximately 50% lower than the SME's in other countries.

The diagram below is showing us that Azerbaijan is engaged with the oil manufacturing and is making international transactions with oil more than with other products of other sectors. Thus, these entities are mostly engaged with oil and production and manufacturing. That is why the portion of corporations in whole GDP is bigger.



Source: The State Statistical Committee of the Republic of Azerbaijan, 2017

In this diagram we can see how the SME's in Azerbaijan are clarified in different aspects. SMEs part in overall companies is approximately 81% but employment and value added in SMEs is 4% which is very good for developing countries.

In difference to other CIS counties, SMEs in Azerbaijan are not very high. The employment in this sphere is just 6% and this not adequate percentage for Azerbaijan.

Thus, SMEs are very vital for the economy of each country, by which the economy growth is being enhanced. Economy growth entitles itself the employment level of the country, level of raw materials, precise living standards, investments made by foreign entities and etc. Therefore SMEs is very important for Azerbaijan.

2. The decision for internationalization

2.1 Motives and willingness for internationalization

The beginning of internationalization process is the general decision to become involved in foreign markets. The motivation can come from both the company itself and from outside. In addition to the main reasons for internationalization, this chapter also discusses the associated risks, which should not be neglected alongside the opportunities. You can find information from potential sales and profit growth to efficiency and cost advantages. However, in order to make internationalization decision to be positive, in the first place, internal basics must also be fulfilled within the company, which makes successful international activities possible. These includes the appropriate commitment of management as well as the availability of the necessary internationalization skills and competitive advantages that can be used abroad. A typical process of the internationalization decision-making process is presented, which is not always systematically carried out in practice.

The first question about the reasons for the intended internationalization is relevant, because there are many different motives for getting international.

Because as a company you should be aware of the opportunities and the goals you are pursuing or you would like to pursue in a foreign activity. However, export and international business are not only bringing the opportunities, but also carry some risks that must be recognized and assessed (see section 2.2). It makes sense to strive for increased business activity abroad, only when the additional potential that the enterprise promises through internationalization also exceeds the associated risks. Nevertheless, it is also worth considering whether there would not be greater business opportunities on the domestic market with the same amount of resources - a question that is often forgotten is the initial enthusiasm for the opportunities of internationalization offers.

In addition to weighing up opportunities and risks, a company should first also explore its own willingness to work abroad. The following basic requirements should be fulfilled:

- a) To have a competitive advantage that can be played on international markets
- b) To bring or acquire the corresponding resources and capabilities (in particular internationalization know-how,
- c) A clear commitment of the internationalization management.

The risks and the existence of the internal conditions for working abroad are essential elements in the decision-making process, which may eventually lead to the decision to take the necessary steps to internationalize the company.

Why do companies choose to operate outside their home market? The reasons can be many. The goals of internationalization can be resource-oriented (eg access to raw materials, suitably trained workers, capital or other

resources), efficiency-oriented (eg use of cost-cutting potential through relocation of production abroad) or strategically motivated (eg expansion competencies to increase competitiveness) (Dunning and Lundan 2008). The main motive for export, however, lies in the development of new markets for their own products and services. Behind it are various considerations.

Thus, a distinction can be made between proactive (initiated by the company itself) and reactive (rather passively adapting to changed environmental conditions) export motives (Albaum and Duerr 2008, Engelhardt 1992, Hollensen 2011). The proactive export motifs include:

- The intention to achieve growth and higher profits through foreign activities;
- The general desire on the part of management to internationalize the company;
- Recognizing opportunities to leverage company-specific product, technology or marketing expertise in overseas markets;
- The exploitation of free production capacity;
- Achieving economies of scale by selling products or services in several countries;
- Risk diversification through the sale of own services in countries with different political and economic risk profiles. In the case of reactive export methods for internationalization does not happen in small amount of time. The company is responding to external developments that it cannot resist. Typical examples are:

- Unwanted examinations or orders from international customers;

- The desire of national customers to follow them as a supplier to foreign markets;

- use the competitive pressures that arise when competitors operate internationally and the benefits they derive from them (eg economies of scale or the acquisition of new skills) to gain market share in the home market as good.

- A small and saturated home market, which offers no growth opportunities;

- The exploitation of currency fluctuations, which make own prices attractive to foreign customers;

- Export promotion initiatives by government agencies, chambers of commerce and industry or banks. The decision to export or to internationalize the company in another way can also bring additional benefits:

- a. An international environment can attract motivated and dedicated employees and convey a positive image of the company in public;

- b. dependence on the development of a single market is reduced;

- c. The experience gained in new markets and the associated different customer needs can be used to further develop the company's expertise and product and service offerings (Branch 2006).

If the opportunity-risk assessment has been positive, the next step is to examine whether the basic prerequisites have been met in order to be successful in international markets. Above all, the following three questions should be asked to see if the company is ready for internationalization:

1. Does the company have special services and capabilities that can provide a competitive advantage in foreign markets?

2. Are the necessary resources and competences for internationalization available (or can they be acquired)?

3. Is there a clear commitment by the management for the internationalization project?

2.2.1 International Competitive Advantages

First of all, the fundamental internationalization ability of our own products and services is to be examined. Can the services of the company be offered in unmodified form abroad or are adaptations necessary here? Above all, the question of the competitive advantage of enterprise's own offer must be asked. Without differentiation to the existing local and international providers, internationalization efforts usually remain unsuccessful. Already Hymer (1960) in his "monopolistic advantage theory" found that SMEs need company-specific advantages to outweigh the disadvantages, which one has as foreign enterprise opposite the local competition. Dunning (2001) uses the term "ownership advantage" to emphasize how central is the ownership of special resources or skills that can generate greater customer value than competitors on the ground. For smaller and medium-sized companies, which have economies of scale in terms of resources, it is often intangible assets (such as know-how or patents) or certain technological or procedural capabilities that provide the decisive competitive advantage (Delgado-Gómez et al., 2004; 2001).

In order to be able to establish itself on a foreign market, the company has to offer a clearly recognizable added value to its customers compared to existing offers, in at least one of the following categories:

- Lower price
- Unique (customer relevant) product or service characteristics
- Better service
- More targeted distribution
- Emotional added value (mostly mediated by the brand)

A critical analysis of whether one's own service offerings are actually able to provide corresponding added value for customers abroad (and which can also be defended against local and international competitors) is an important prerequisite for consequential misinvestments in export or other forms of internationalization to avoid.

2.2.2 Resources and Competences for Internationalization

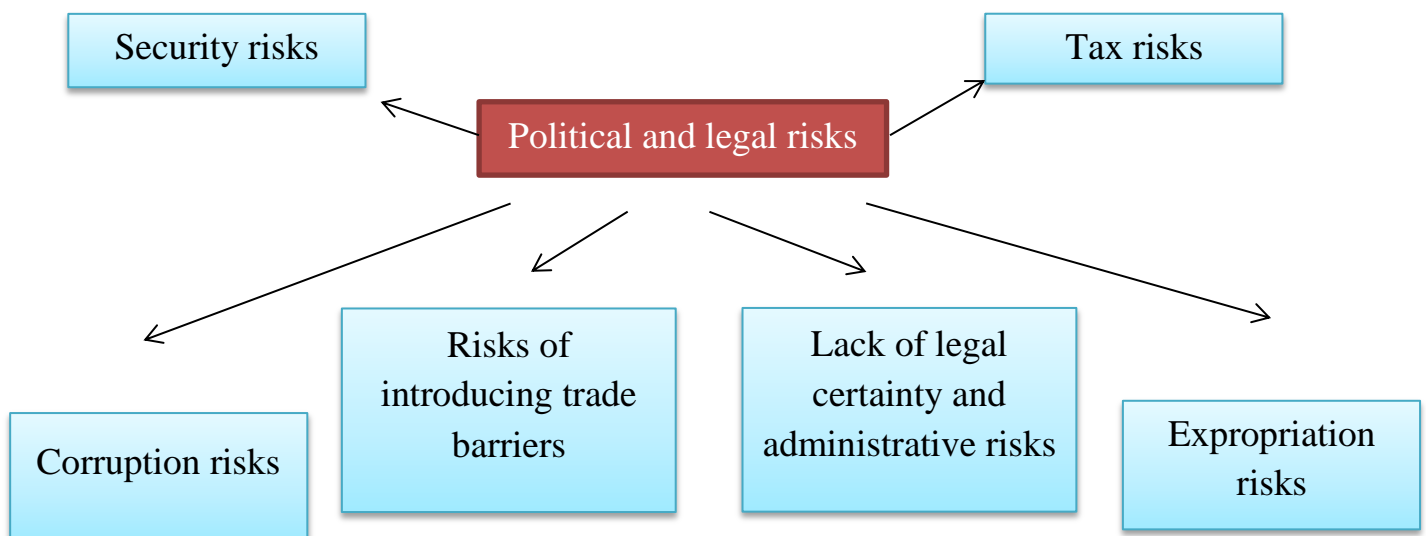
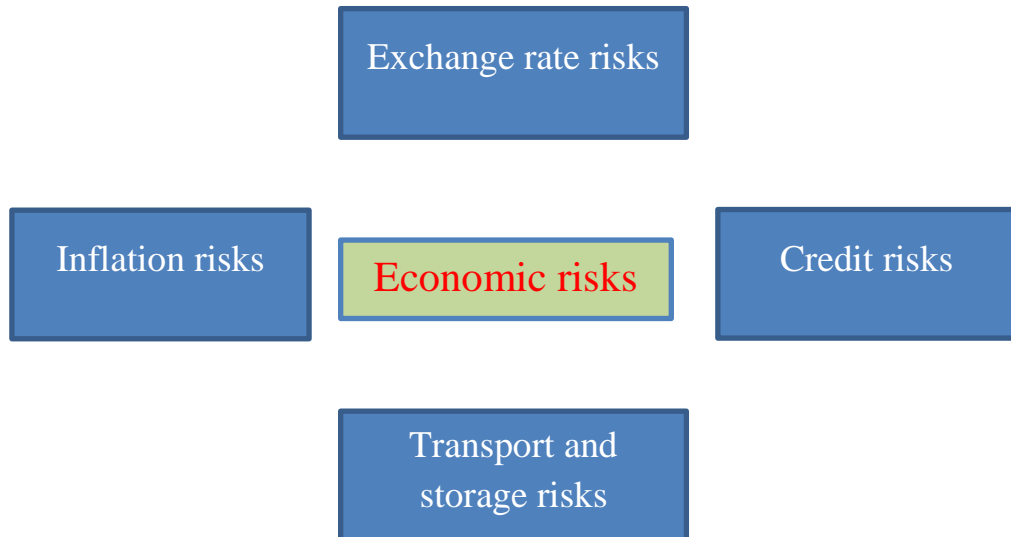
If the findings on the internationalization capability of their own products and services are positive, it should then be determined whether the company is even able to operate internationally, ie if the necessary resources and skills are available.

Investing in foreign business costs time and money. Both resources often do not abound in many companies, especially SMEs. Nevertheless, there are many examples of successful internationalization steps of smaller companies. Peng (2001) attributes this to the so-called "Resourcefulness" of SME, a term that is best translated into English as "creativity." He argues that smaller companies can more easily find flexible and innovative solutions that larger companies often do not think because of their rigid structures.

2.3 Risks of internationalization

Any company that should decide, whether or not it wants to operate internationally, must be aware of the opportunities and the risks that cross-border business can bring. There are a variety of risk types, which can essentially be assigned to one of the following three risk categories:

Problems of internationalization





2.3.1 Economic risks

The most important economic risks of international business activities include foreign exchange risks, inflation risks, credit risks and transport and storage risks:

Exchange rate risks.

If trading is carried out between two economic areas with different currencies, there are price fluctuation risks. If the exchange rate relationship between the home currency and the currency of the destination country changes between the conclusion of the contract and the actual payment flow, this can lead to exchange rate losses (but also price gains).

Inflation risks.

Inflation through inflation in a foreign market causes customers in that country to lose purchasing power and import goods become more expensive

for them. This will make it hard for exporters from hard currency and low inflation countries to remain price competitive with local competition.

Credit risks.

Customers abroad can have a bad payment history, which leads to late payment. But there is also the risk of insolvency and thus a total default of the supplier credit.

Transport and storage risks.

If goods are transferred from one country to another, there is the risk that they will be damaged, spoiled or even lost during transport or (intermediate) storage. In addition, obstacles and problems in transportation can occur that cause delays, which can then also lead to customers using alternative suppliers.

2.3.2 Political-legal risks

Political decisions and changing legislation in the target market can have a major impact on business performance abroad, both positively and negatively. Such risks can occur in many different forms, since there are many areas of law that can have a decisive influence on business activity, from corporate law to commercial law, labor law, customs law, tax law, competition law, environmental law and consumer protection law (to name but a few examples). As a result, only a selection of particularly significant political and legal risks is presented (see also Branch 2006, p.38, Hollensen 2011, pp. 207 et seq., Jahrman 2010, pp. 289 et seq., Kutschker and Schmid 2008, p 931-932).

Risks of introducing trade barriers.

States have many opportunities to protect and favour domestic companies through the introduction of trade barriers. These include, for example, import duties, import quotas, subsidies for local companies or certain administrative hurdles for foreign companies.

Lack of legal certainty and administrative risks.

The standard of jurisdiction is not the same in all countries. A functioning constitutional state with a transparent and independent judiciary, reasonably short procedural time and the possibility of executing court judgments are not standard everywhere. The consequences are a lack of legal certainty and the associated risk that a company abroad could not always enforce its contracts and claims. Also in the administration one can be challenged with intransparency, delays or excessive bureaucracy, which can complicate the transaction of business substantially.

Risk of capital transfer

When currency exchange restrictions exist in a state, making it impossible to return capital to the home market, it is referred to as conversion risk. Other measures to limit the movement of capital, such as certain money transfer limits are conceivable. Often, in this case, transactions can only be handled without direct cash flows, for example in the context of compensation agreements.

Security risks

Crises, riots or wars can entail considerable restrictions on freedom of action and movement as well as security risks for employees as well as for property of the company. Internal and external developments in countries for which business is planned should therefore be closely monitored.

Corruption risks

In many parts of the world - especially in less developed countries - corruption or even extortion in the economy, politics and administration is a problem that should not be underestimated. Particular caution should be exercised here because, regardless of ethical concerns involved in corruption activities, it can also have very negative effects on the home market, especially in legal terms and in public perception. So, before deciding to do business in a particular country, it should be well researched whether your own industry in this country is very susceptible to corruption and you really want to take the risk of acting in such an environment.

Tax risks

If the tax situation in a country changes, this can also have an impact on the business potential of this foreign market. Higher consumption taxes - either in the form of general VAT or as taxes on certain products (eg tobacco or petroleum products) - can lead to a decline in demand. On the other hand, higher corporate taxation can negatively affect the attractiveness of direct investment as an internationalization strategy.

Expropriation risks

One extreme - but still possible - form of political risk is expropriation through the nationalization of companies in specific sectors or laws requiring that the majority owners of companies must be citizens of the respective country.

2.3.3 Market risks

Market risks arise from a misjudgement of the potential of foreign markets and from possible unforeseeable developments in the target market.

Jahrman (2010) distinguishes between quantitative, qualitative, local and temporal market risks. Add to this the risks of changing the competitive situation.

Quantitative market risk

The market volume may have been mispredicted in advance, either producing too little to meet customer demand (and shutting potential buyers away from the competition), or putting too much time and resources into a market compared to the actual market potential and thus the foreign engagement develops into a loss business.

Qualitative market risks

If the company's product and service offerings do not meet local customer needs, internationalization efforts may fail as well. Achievements that are not adapted to the requirements of the target market or an inappropriate quality level may result in insufficient demand for own offers.

Local market risks

If the wrong distribution channel, the wrong marketing strategy or the wrong local partners are chosen locally, the own products and services do not reach all potential customers in the target market. This can lead to competitive disadvantages and under-exploitation of market potential.

Temporal market risks

The right time to launch a product or service in a new market is a good choice. Often a market is not mature enough for the services offered by the company; in other cases, the market is already heavily processed by competing companies and therefore saturated. Too early or too late market entry can therefore have a negative impact on the development of your own company in the international market environment.

Competitive risks

As in the domestic market, there is also the risk of new competitors entering or of existing competitors in foreign markets. In addition, as a foreign company, one has the disadvantage, known under the English term "liability of foreignness", that one often has less market and language skills and contacts than local competitors. Increased competition can also mean lower prices at which exporters can no longer compete due to price surcharges such as transport costs or intermediate trade levels.

Some risks of international business can be avoided by good preparation, others can be protected. But above all, it is important for companies facing internationalization decisions to find out about the key risks in the target market (for example via trade delegates from their own country abroad) in order to be able to better estimate them and then compare them with the opportunities that the international business activity.

2.4 Experience of developing and developed countries

Small and medium-sized enterprises are a key element of the economic structure of developing countries, and they provide a basis for promoting growth, innovation and prosperity. The company is obliged to exploit the capital needed, for its growth and economic expansion. So you see that all

SMEs in developing countries face the lack of funding, as one of their biggest problems.

With targeted support from international financing institutions such as the EIB, it is essentially closing the gap. The financial and social viability of the actions is ensured by careful selection and audit of the intermediary financial institutions. These partner institutions have strict funding criteria and a specific, well-defined system of controls and incentives. Theoretical research findings and empirical findings will further highlight the positive effects of SME support in developing countries and make specific measures.

Recent studies of economic growth confirm the assumption that countries' ability to integrate through trade and investment in the global economy is an important driver of their growth rate. Businesses in transition and developing countries face major challenges in terms of strengthening their human and institutional capacities in order to seize opportunities in these areas. While trade and investment policies are governed by governments, it is companies that trade and invest. As a result, supply and investment face shortages, and the way governments, development partners and the private sector themselves seek to address these bottlenecks, have a direct impact on the transition economies and developing countries' economic growth potential.

Most companies in the transition and developing countries are SMEs. They generally provide over 90% of all non-agricultural companies, so they have an important role to play in terms of job creation, domestic income and foreign trade revenue. However, in the poorest countries, their share of the economy is relatively small, contributing less to employment and output than the informal sector. An important priority in low-income countries' policy is to facilitate the creation of SMEs to integrate the poor into the formal sector,

where they can participate in market activities and engage in economic activities with a higher value-added share.

The development of SMEs requires a cross-cutting strategy across a range of areas: the ability of governments to implement sound macroeconomic and structural policies that contribute to a healthy business environment conducive to business creation and expansion; the ability of SMEs to apply competitive business practices and strategies; as well as competent public and private institutions. More specifically, the implementation of such a strategy requires a simplified legal and regulatory framework, good governance; rich and accessible funding opportunities, appropriate infrastructures, a development-friendly education system and a sufficiently healthy workforce with flexible skills. The SME development strategy must be integrated into the more generalized national development and poverty reduction strategy of transition and developing countries.

Essential to accessing and integrating into local, national and global markets are substantial investments in the sustainable development of institutional and physical infrastructures and the provision of services to SMEs in all parts of the country, including rural and remote areas. Continuous dialogue and partnerships between actors to implement and review development-enhancing measures, in particular in the context of capacity building for private sector service providers, lead to better results.

Strengthening women's capacity to participate in the development of SMEs should be taken into account at all levels, as women have a high share of private sector activity and make a major contribution to poverty reduction. Gender issues must be incorporated into all SME development strategies and programs; moreover, specific, targeted initiatives must work to remove crucial obstacles.

I would like to mention the Czech Republic as the example. Both Azerbaijan and Czech Republic were the part of Soviet Union. Albeit after the collapse of Soviet Union the development factors were different, the experience now could be used by Azerbaijan in SME development.

Country/Companies	Small companies		Medium companies	
	Amount of employees	Income	Amount of employees	Income
Azerbaijan	<25	118 000 USD	25-125	736 000 USD
EU	<50	11 905 000 USD	50-250	60 000 000 USD
Czech Republic	<45	187 485 USD	45-250	1,124,910 USD

Source: Small business act (SBA) in EU, SME in different countries

By far the most important trading partners are the other member states of the European Union, with which the Czech Republic handles more than two thirds of its trade. Foreign direct investment amounts to around 6.7 billion euros annually. 26% of investments came from Germany, 16% from Austria and 10% from the Netherlands.

In general, the country is certified a growth-friendly economic environment. The consistent policy of the Czech Republic to bring foreign direct investment into the country on a large scale has had a positive effect on the national economy. The average income per capita in purchasing power standards is around 58% of the EU average. The Czech economy remains

stable despite the global economic crisis. The Czech Republic has short training periods and a well-educated workforce. The importance of small and medium-sized enterprises (SMEs) is growing and a number of new national funding programs are designed to further support small and medium-sized enterprises. For example, their share of gross domestic product in the EU reaches 60%. The Czech Republic is catching up quickly in this respect: SMEs today soon produce half of the Czech GDP. Nevertheless, there are repeated allegations that support for the business sector in the Czech Republic, unlike Western Europe, is negligible.

The Czech Republic is a classic middle-class country: 99.8 percent of all companies fall under the definition of the European Union (EU) for small and medium-sized enterprises (SMEs). For 2016, the European statistics agency Eurostat identified 1 million SMEs, the vast majority of which were first-person companies and micro-enterprises with a maximum of nine employees. For key indicators such as the share of total value added (55 percent) and total employment (67 percent), the Czech SMEs are in the EU average.

A newly created National Innovation Fund (NIF) will begin in the second quarter of 2018, in particular to support technology-oriented start-ups in the early stages of their development. Fed by funds from the EU structural programs, the NIF is to provide seed capital to young companies and give them a start of incubators.

On the other hand, the EU Commission gives also attention to demand for the SME scene in terms of entrepreneurial spirit and public appreciation for entrepreneurial initiative. Founders are still too little for social recognition. Likewise, the administrative obstacles in the daily business routine are high, the implementation of e-government is slow and so-called one-stop-shops, where several administrative processes can one roof, are still rare. The EU

Commission sees much untapped potential in promoting foreign activities. SMEs should spend more time looking for export contracts.

3. Internationalization Process in Azerbaijan

3.1 Overview of the SME situation in Azerbaijan

The situation in Azerbaijan is also very vital and perspective to SMEs to develop and orientate themselves in the economy. There are many policies in Azerbaijan promoting the newly opened companies and establish a new platform in order to decrease the dependence of one sector, oil, and gas. The shares of SMEs in overall export and import operation are remaining in 8% which is very low. Nevertheless, the lack of institutional support in Azerbaijan is the main problem that should be measured and corrective actions in this field have to be taken.

In difference to last years, the amount of the SME and private companies has been increased. This is happened by the direct contribution of the Azerbaijan Republic and the government's special policies. Many legal reforms and legislative acts have been applied in recent years. The system of economic and legal relations is brief example for these reforms. There are also several laws implemented by the Azerbaijan government to enhance the SME situation and to promote individual entrepreneurs to invest in their entities. The Entrepreneurship law, State Registration of legal entities law and others are brief example for the legal contributions made by the Republic of Azerbaijan.

The launch of ASAN services is very vital for Azerbaijan economy and social life. Thus, institutional sphere has been created to the amateur entrepreneurs in Azerbaijan to open their businesses. E-government is brief

example of Republic of Azerbaijan to enhance and ease the bureaucratic procedures and to promote the entrepreneurs.

The Ministry of Economy and Industry has also contributed to the process of enhancing the SME and supporting the individual entrepreneurs by open creating department of the Entrepreneur Development Policy. This policies main aim is to stipulate the individual entrepreneurs and is in charge of realisation of the SME and governmental policies regarding SME in the Republic of Azerbaijan.

At the same time, Ministry of Economy Azerbaijan has also many branches and interventions. For instance the National Fund for Entrepreneurship Support and AZPROMO, Baku Business Training Centre. These all examples are in charge of the support of SME's.

With the help of government organizations and legislative acts of the governments, the agencies have the ability to empower and help the SMEs to orientate themselves better in the market.

In recent years the republic of Azerbaijan has implemented many policies to promote and enhance the level of individual enterprises but inappropriately this has been done after 2016. Nevertheless, till 2016 many conventions on SME have been applied. The brief example for it is the strategic road map dealing with SME in Azerbaijan. With the help of this road map many goals and strategies have been achieved and development. The economy growth has also been positively affected by the strategic road map on SME in Azerbaijan.

Furthermore, after 2008 several governmental programs have been implemented, such like from 2008 the Poverty Reduction Program and Food Security Program were very vital strategies to enhance the level of the SME

and enhancement of the individual entrepreneurs in Azerbaijan market. Program on Economic and Social Development of whole Azerbaijan is also one of many crucial strategies applied by the Republic of Azerbaijan.

The declaration about the road map of the development strategy till 2025 is also one of the very vital instruments of the process of applying the strategy of the Azerbaijan Republic.

As a result numerous goals have been achieved and are in the process. Creation of ASAN services has made great contribution, which reduced the autocratic hinders and eased the process of documentation and financing. Thus, the licences and certificates have been given in cheaper way. The creation of electronic portal and e-government eased the access to the legal documents and abridged processes of authorising the businesses for amateur entrepreneurs. On the other hand the creation of appeal council which deals with the legal issues of the SMEs and entrepreneurs, enactment of one window system has also reduced the time for registration for 40 days.

Custom and tax simplifications are also affecting the SMEs in order to operate and to achieve the given goals. Export and import operations are very vital for every SME which are operating overseas, and selling their products not only in domestic markets.

Inappropriately, the relations and co-operation between the governmental organizations and entrepreneurs is very low. Platforms are not available for entrepreneurs. Therefore the legislative agendas have to be taken into account and the development has to be realised.

At the identical period, Azerbaijan has achieved two “National Action Plan on Promotion of Open Government and Fight against Corruption (2012-2015)” to improve transparency, answerability, duty in state foundations and

government aid in policy-making. Nevertheless, apart from the plan, fraud claims are still recognized in Azerbaijan and there exists neither legal structure.

3.2 Internationalization barriers in Azerbaijan

In recent years Azerbaijan has made great development but there are still lacks which are staining our development. The interdependence of the nation's market, the estate funds and the profits from oil and gas has to be lowered in order to improve and enhance the level of sustainable improvement. The resolution to this obstacle is to raise the property potential of business strategies by promoting their internationalization policy and including them within the worldwide internationalization methods.

It is very vital to the economy of the country and to the SMEs to have the investments from other countries. At all positions of the economy it is very important to have investments. In below table we can see how the foreign investments have been indicated throughout 6 years.

Foreign Investments (mln. USD)

	2010	2011	2012	2013	2014	2015	2016
Total foreign investment	8 247.8	8673,9	10314,0	10540,9	11697,7	10719,1	10161,1
Financial Loans	3 405.9	3692,5	3135,5	2655,8	1880,6	2210,2	2197,8
Oil industry	2 955.3	3407,8	4287,8	4935,2	6730,7	6622,7	5617,4
Enterprises with	659,6	886,0	1094,5	1041,0	1318,5	860,4	1706,2

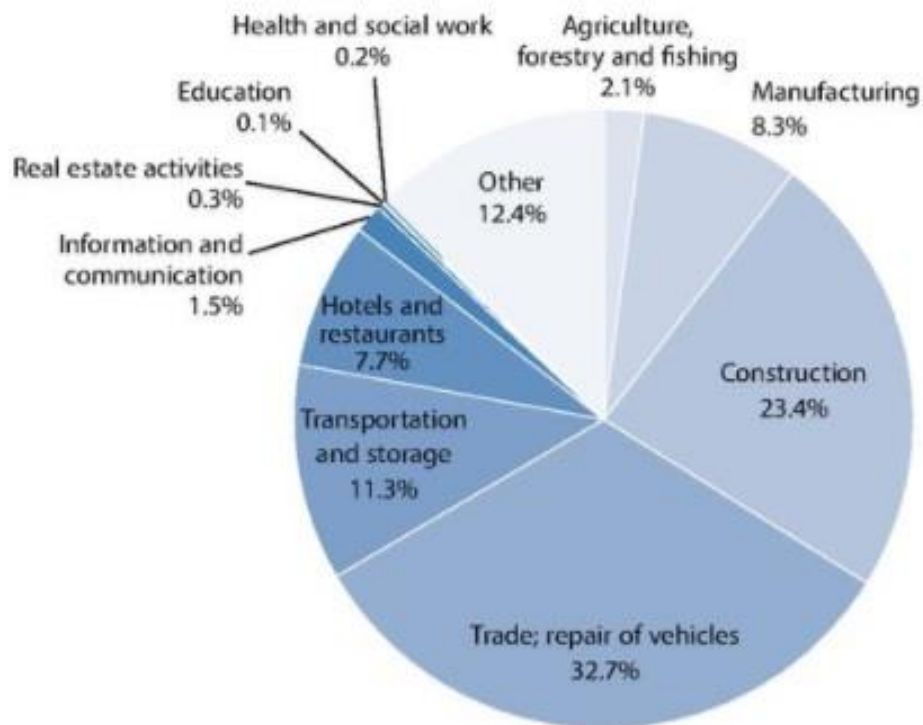
joint and foreign investment							
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Source: The State Statistical Committee of Republic of Azerbaijan

Due to the reason that oil gains significantly influence domestic willingness to consume in assets and services, variations in oil and gas costs for the government, distort the financial assurance. For instance, as a consequence of average 11.5% change in the seasonal extension percentage in 2004-2014, corporations' forecasting potential remained insufficient and also the big amount of the investments were needed in the private area. Moreover, we must bear in mind that the oil returns are the chief cause of foreign money when the price of oil in international area loses its value, our currency Manat also loses its value.

Till recent years SME was not included into the policy and strategy of the government. Big amount of the Azerbaijani corporations were big sized companies which were mostly funded by state or oligarchs. According to the statistics, small companies were entitled to the very small share of all existing enterprises and their share to value added was approximately 3%. In difference to 2010 the share of SME in value added has been increased only 1%. Most of the SMEs are engaged with the trade, which is very popular sphere in Azerbaijan and the share of SME in this sphere were 40%. Constructing, transportation, vehicle repair, and storage are also popular sectors for SMEs.

Sectoral distribution of SMEs in Azerbaijan, 2013



Primarily, the SME corporations were designed to operate in borders of the national area without going overseas or foreign markets. Due to low level of production it was hard to enhance and correspond the international quality standards which allow entering foreign markets.

Nevertheless, in today's globalizing world, the SME could not be separated from globalization processes where the markets integrate to each other and currently, SMEs have all the chances to begin the process of going overseas or to internationalize their corporations with the help of joint ventures, which lets them gain foreign market.

Due to the globalization process of the world, everything has changed. The fact that the SMEs nowadays are going to foreign markets, gave them the opportunity to act in the foreign market and also attract the investments which and have the role of the investor in the foreign market.

In today's Azerbaijan there are many problems that exist in the field of SME and the amount of beginners in the market is very low. The institutional lacks as legislative acts and the restrictions as tax or customs make the people to lose their interest in the entrepreneurship.

Psychological barriers are also one of the facts that exist in the peoples mind. Social experiments show that people are somehow scared to invest their money and create their own business. Risk management factor plays here very vital role.

Financial support is also one of the lacks that Azerbaijani entrepreneurs need to expand their business. With the help of the financial support SMEs are also powered to apply their innovative ideologies and realize them. Innovation itself contributes to the country in very good way. According to great min Raymond Vernon the innovative business has four steps. Those are introduction, growth, maturity and decline. In Azerbaijan the problems affect first and second step. Those are due to the barriers and lacks in the SME regulations. The level of financial support by banks and governmental agencies is low. People are afraid of taking loans for the business. But in difference to previous years, the situation is getting better by creation of ASAN, services.

Commonly, Azerbaijan holds development in promoting the availability of financial support the SME's since 2012 SBA evaluation. That combines the "Start-up" scheme including special National Fund concerning Entrepreneurship' assistance. However, the entrance to finance remains to be the major barrier to the SME's life cycle in Azerbaijan. According to NESF (National Entrepreneurship Support Fund) between the member states of eastern partnership, Azerbaijan is the biggest country where the citizens are relying mostly on internal funds

As foreign experience reveals us, exportation enables SMEs to have quick entrance into the foreign markets with nearly economical financing and to receive valuable practice. Most of these SMEs enter the foreign markets with special and innovative products which have better quality and therefore gain more demand. This is also called to find the niche in the market.

Furthermore, entering new countries give the SMEs access to gain more investment opportunities and to invest in other states economies. Opening the SMEs in other countries by the help of Joint ventures, mergers or acquisitions enables SMEs to gain more financial aid from this country and to apply them both in the home country as well as in other countries.

If we take into account the current situation of Azerbaijan we can directly see that the economy and the exports are trying to be modernized and diversified in order to reduce interdependence from raw materials. Exports of the raw materials were about 73% of all exports. It is happening regarding the low development of SME in Azerbaijan and according to statistics we can see that the Import and export operations of the SME are containing only 8% of all export and import transactions of the country.

Many efforts have been taken by the government of Azerbaijan but all of them were not achieving the goal which was needed. The government needs to support SMEs and the main problem here is internationalization strategy of the Republic of Azerbaijan.

The role of ASAN services here is very vital in order to expand the psychological and social self-esteem of the citizens who are planning to be engaged with entrepreneurial activities. ASAN deals also with issues such like licensing and giving patents to businesses. After the creation of ASAN, the barriers have been taken to the minimum. ASAN has made great

contribution to Azerbaijan economy and is Azerbaijan brand which is popular worldwide.

3.3 Special programs and services supporting SME in Azerbaijan

Due to the lack of innovation and development strategies in SME sector, the problems are existing in the Azerbaijan market. Therefore many agencies and ministries of Azerbaijan have demonstrated their willingness to promote the SME sector by applying innovation. For instance, National ICT Strategy of the Republic of Azerbaijan 2014-2020,” “Azerbaijan 2020 Vision” and “National Industrial Strategy 2015-2020” are great examples for the government plans about SME to future. Thus, the governmental agencies and ministries are working on the SME support. Several ministries like economy, technology and communication, academy of sciences work to achieve the goals decided by government. But currently there is no co-operation between the ministries and the result is not satisfactory yet.

Ministry of Communication and High Technologies has the agency that deals with funding SMEs.

The fund I called ICT Fund- Information, Communication and Technology Fund. ICT Fund gives loans for the bigenning entrepreneurs and assists them financially in their process of production. The loans are regularly classified into three categories.

Those are:

Small – 10 000-50 000 AZN

Medium – 50 000-500 000 AZN

Large – 500 000- 5 000 000 AZN

ICT Fund also assists with research and development programs and stimulates businesses by special technologies. Special innovative projects and SMEs are also being granted by ICT Fund.

”Despite the above progress, innovation by SMEs remains very low in Azerbaijan and product and process innovation is similarly limited, with only 2.2% firms surveyed having introduced a new product and 2.8% a new process in the previous years” (OECD/European Union/EBRD/ETF, 2015).

Entrepreneurship in Azerbaijan has also been supported by national fund for Small and Medium sized Enterprises and in recent years contribution of national support was very high. Nevertheless due to untrusting relations of the citizens to the banks affects the amount of credits and loans given by banks. National Fund for Entrepreneurship Support (NFES) of the Republic of Azerbaijan is one of the biggest financial supporters of Azerbaijan and SMEs benefit from NFES in very high amounts. In last year more than 100 000 AZN has been given to entrepreneurs as a loan. The loans have been orientated on the agricultural and production products which enhances national economy of Azerbaijan with the help of import and export operations.

Additionally, Azerbaijan Investment Company is also one of the most supportive companies in Azerbaijan. Azerbaijan Investment Company has invested and sustained the expansion of diverse sectors. The oil and gas sphere is only one sphere, where the investments of Azerbaijan Investment Company are not being applied. Tourism, agriculture, production sector are the main spheres where Azerbaijan Investment Company invests and supports most of all.

Azerbaijan Export and Investment Promotion Foundation is also one of the biggest foundations which are created by ministry of economy and which

supports businesses and entrepreneurs in different spheres. SME support is also one of the goals of the Azerbaijan Export and Investment Promotion Foundation. Those who use the AZPROMO service are not loaned and are not obliged to release payments. Nevertheless, the budget of AZPROMO is more than 2 million Azerbaijan Manats.

Because of the high credit rates in Azerbaijan, entrepreneurs get suspicious whether to get bank loans or not. The ratio of using bank loans and own money as a financing method of SME is 3 to 7. Therefore, the contribution of AZPROMO is very high. By launching the Exporter Club, the amount of exports of the SMEs has been increased. The role and contribution of AZPROMO and Ministry of Economics was very high.

3.4 Recommendation of using foreign experience in Azerbaijan

Legislative framework

One of the main goals of each state is the perfect legislative framework. Otherwise, in order to achieve its goals, both in public and private sectors the activities of various agencies, as well as the goals set by the state difficulties may arise.

Sustainable development of entrepreneurial activity in Azerbaijan's economic policy is an important ingredient. In recent years, the legislative framework, administrative procedures and the state in the direction of improvement of the state-entrepreneur relations complex measures have been undertaken.

One of the advanced tools for improving the legislation a system of analysis of the impact of legislation. Applicable or proposed normative and

the assessment of the positive and negative aspects of non-normative-legal acts.

This system, which provides a comprehensive approach, is crucial in investigating existing problems playing the role, whether the government's decisions are correct and appropriate identifying, minimizing negative situations. It prevents the direct adoption of the decisions without analysis and appropriately the authorities are able to make decisions in the decision-making process, providing full information options are offered. Public discussion of legislation with stakeholders, those parties positions, and their impact effects are important components of the analysis counted. Thus, the impact of legislation on the draft normative-legal acts which are an official part of the process of preparation will be studied. The studies mainly focus on the position of the private sector on the impact of the adoption of a normative-legal act will be studied. In new legislation proper organization of public consultation is effective and it provides more information about possible impacts that could have been faced by SMEs. Therefore, the analysis of the impact of legislation in our country is vital.

Deepening public-private partnerships

Public-private partnership experience is widely used to provide private sector participation in financing infrastructure projects in international practice. Thus, due to the fact that the implementation of infrastructure projects requires a large investment and limited access to financial resources of the states, private investments are preferred during the implementation of these projects. In this case, the private sector finances infrastructure projects and, in the long run, gradually withdraws its investment and transfers the infrastructure to the state. According to the World Bank, in the year 2015, 52.3 billion US dollars was invested by the public-private partnership mechanism for infrastructure projects around the world. Throughout the

world, this mechanism provides funding for repair and construction of telecommunication lines, infrastructure facilities such as airports, railways, seaports, highways, electricity, water, gas and etc. Increasing the effectiveness of economic reforms in Azerbaijan also requires close cooperation with the private sector, and the main issue that needs attention in this direction is the public-private partnership. From the point of view of the legal bases of the public-private partnership, the Law of the Republic of Azerbaijan No. 177-VQ dated March 15, 2016 "On Implementation of Investment Projects on Construction and Infrastructure Facilities on the Basis of Special Financing" is of particular importance. The law defines the legal and economic basis for the implementation of investment projects related to construction and infrastructure facilities on a special-purpose basis, which envisages the introduction of a special "Tick-handle" 24 model, which includes the investment costs of construction and infrastructure projects including revenue, the investor, the consumers or the competent authorities of the goods and services it produces, according to the contract, through the procurement method. The rule of co-operation in the law is the order of payment by the competent body of the financial assistance determined by the parties' consent, taking into account the service fees paid and the losses incurred by the investor in the event that the costs incurred by the investor are not fully or partially paid by the consumer. At present, the use of different forms of public-private partnerships can deepen the burden of the state budget's investment and facilitate closer private sector involvement in social infrastructure projects.

Improvement of competitive environment

Competition is one of the most important conditions for self-regulation of prices and the balance between demand and price, according to demand and supply in the market. Thus, increasing the price of a product by any

market subject when a healthy competition environment is provided in the market causes consumers to switch to alternative options. The lower price of the same product to other competitive market subjects forces the market entity to lower prices by bringing the market to a better condition, in which competition will generate a total price for identical commodities and ensure the functioning of the market mechanism of price formation. One of the main features of the competitive environment is the unrestricted number of participants, the ability to enter the market freely and to get out of the market freely as well. This means that every person can engage in entrepreneurship or stop him at any time he wants.

In addition, in order to eliminate stagnation in the economy and rush economic development through the banking sector, it is required to provide access to the financial sector of the real sector and to increase the business potential. Continuously applying banking loans to entrepreneurial entities trying to maintain their positions on the market by improving productivity and quality in a healthy competitive environment, and applying new technologies and innovations, also increases the level of the money multiplier. The economy's ability to generate money is the brief example for that.

An anti-monopoly authority in the Republic of Azerbaijan is the State Service for Antimonopoly Policy and Consumer Protection under the Ministry of Economy of the Republic of Azerbaijan. Failure of monopoly and unfair competition in our country has been defined as one of the strategic tasks of the state in the field of economic regulation. It is necessary to improve the legislative framework and to strengthen the institutional governance mechanism in order to further improve the competitive environment. Thus, one of the main challenges facing the country is to ensure the economy's export orientation and the import substitution. The main target for this is to increase the competitiveness of domestic production. Increasing

competitiveness is only possible through competitive pressure on the marketplace that is effectively competitive. Thus, competition pressure among market subjects creates conditions for increased productivity and economic benefits, and extensive use of technology and innovation. Only in full competitive conditions, liquidity support can be achieved by replacing imports with domestic products and encouraging export, as only the competitiveness of local products and services can be achieved.

Improvement of licensing mechanisms

Law of the Republic of Azerbaijan No. 714-IVQ of July 2, 2013 "On the regulation of inspections in entrepreneurship and protection of interests of entrepreneurs" was adopted in order to protect entrepreneurs' rights and legal interests and reduce the number of inspections by various state bodies. The law outlines the legality, objectives, and principles of inspections, the powers of the inspection bodies, the risk assessment system, and the registration of inspections. For the first time in the law, it is predicted that the inspectorate will provide consultancy services to entrepreneurs, set up inspections based on the risk assessment principle, electronic records of inspections and a list of inspection questions when performing inspections. According to the law, inspections of business entities are carried out in accordance with risk group division. Based on the risk methodology, the number of inspections in low-risk groups has been minimized, i.e. three times a year.

In addition, the inspection authorities should forward questions that form the subject of the audit to the business entity through online resources. At the same time, the Law No. 1410-IVQ of October 20, 2015 "On suspension of inspections in the field of entrepreneurship" was adopted and inspections in the field of entrepreneurship in the territory of the Republic of Azerbaijan were suspended for 2 (two) years. Systematic measures have been taken to improve the business and investment environment, some important decisions

have been made regarding the development of entrepreneurship, including the Law No. 761 of the President of the Republic of Azerbaijan dated 3 February 2016, the multiplicity of applications of individuals and legal entities engaged in entrepreneurial activity Central and Local Execution.

Increasing mutual trust between taxpayers and tax authorities, further it is necessary enhancing transparency, creating favourable conditions for entrepreneurs and continuation of reforms in the tax system to determine the real tax potential in accordance with the sustainable development of the country's economy, Promoting tax incentives and further improving tax administration is also key point. One of the important steps taken in this direction is the Order No. 2257 of the President of the Republic of Azerbaijan dated August 4, 2016 "On confirmation of the directions of reforms to be carried out in tax field in 2016 and improvement of tax administration". This decree envisages reforms in the tax field in 21 directions, which will lead to the adjustment of the tax system to the best international practices. In recent years, serious steps have been taken in the direction of licensing and issuing permits for SMEs. This is to simplify the requirements for licenses and permits required for entrepreneurial activity, The number of licenses and permits, and the simplification of procedures for issuing permits, including the establishment of an electronic portal in this field, the application of the "one window" principle in obtaining licenses and permits fundamental measures have been taken. It would be good, if the next step in this direction will be the formation of a mechanism for recognition of licenses issued outside the country in the Republic of Azerbaijan.

Providing direct foreign investment assistance

Special attention will be paid to attracting foreign direct investment to SMEs in Azerbaijan, and mechanisms and opportunities for attracting investments will be explored. Efforts will be made to establish direct contacts

with the potential sources of investment ("B2B") of SMEs. The issues of attracting foreign investments and new technologies will be regularly reviewed by SMEs, which will be assisted by market research, preparation of business plans and access to statistical information. The experience and potential of domestic and foreign organizations operating in this field will be used to support direct foreign investment in SMEs.

4. Conclusion

Integration level in worldwide is increased. This is due to the globalizing situation of the world. Internet plays here key role so that the dependence on the governments are being reduced through the development of private organizations and SME. The influence of the SMEs to the economic growth is very high. By many indicators, SMEs affect the economy. The indicators are, for instance, employment rate and directly to the general indicators of GDP of each country. These are investments from other countries. FDI is very positive about the strength of each economy.

The big amount of SMEs is entering the foreign markets and economies with the help of innovative ideas that do not exist or that are not developed at the appropriate level. Joint ventures and mergers with the local companies enable them to operate there without any financial and legal problem.

The situation in Azerbaijan is also very vital and perspective to SMEs to develop and orientate themselves in the economy. There are many policies in Azerbaijan promoting the newly opened companies and establish a new platform in order to decrease the dependence of one sector, oil, and gas. The shares of SMEs in overall export and import operation are remaining in 8% which is very low. Nevertheless, the lack of institutional support in

Azerbaijan is the main problem that should be measured and corrective actions in this field have to be taken. The creation of ABAD is one of the examples of the process of the adjustment of the support which is being helped by the policy of the government.

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