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Impact of Taxation policy on SME

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Abstract

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In the world of increasing business opportunities and demand for all kinds of goods and services, we are witnessing tremendous number of businesses transitioning from start-ups to “billion corporations” or shifting to start-up cemeteries. All of those businesses had aims and targets to be achieved while their business cycle.

After long works, business researchers decided calling them small and medium enterprises based on their net assets values. All governments recognize those small and medium enterprises as boosters of local economy. By having big surplus on assets and business achievements, small and medium enterprises started attracting foreign direct investments to countries in need, which was the main reason for sustainable economic grow and flowering qualified lives. As small and medium enterprises started meeting supply needs internally, they decided expanding on international arena, where supply needs were met unbalanced. Governments, which have needs for business boost, decided encouraging small, and medium enterprise owner to go new businesses live.

This study examines theoretical background and current condition of small and medium enterprises. In particular, it assesses the support provided by the local government by aspects of tax privileges and innovation policies applied for

motivation of small and medium enterprise activities in Azerbaijan. The main goal of this thesis is to evaluate the importance, advantage, and inevitability of opportunities that small and medium enterprises will bring to Azerbaijan Republic. The basic premise throughout this thesis is impact of taxation policy on small and medium enterprises.

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Introduction

Today, the main incentive for the development of the country's economy is the state and prospects of small and medium businesses. The relevance of the topic of dissertation research is connected with the importance and priority of the role of small and medium businesses in the economy of the state. Small and medium business is stimulus to the development of the economy, the welfare of the population and the country as a whole depends on the state of this sector. Small and medium enterprises can be established in any sphere of the economy. In the system of economic and social relations of the majority of states, small business performs the most important functions today. The development of the sphere of small business is beneficial for the state economy, as it helps to produce the main part of the gross domestic product, provides employment for the majority of the working population, and easily changes the sphere of activity and the opportunity to meet various needs of the citizens of the country. As well as small business is a taxpayer, respectively, taxes and duties increase the capacity of the state budget, the higher the income of enterprises - the higher the inflow to the local and federal budgets.

In order to encourage local and foreign investors and businessmen, the State Agency for Small and Medium Entrepreneurship Development was established, which is one of the measures envisaged by the Strategic Road Map approved by the President of the Republic of Azerbaijan in 2016. As the result of creating the agency, currently 700,000 small and medium-sized subjects of over 800,000 entrepreneurs registered in Azerbaijan. The annual income of small entrepreneurship is 200 thousand, average entrepreneurship is from 200 thousand to 1 million 250 thousand manat. SMEs are affecting the poverty reduction, SMEs are machine of modern economic growth and it provides more and more employment to the huge amount of population in the economy of a country.

Even though SMEs has distinct or cleared in a different way by singular economics but they have known and accepted as a vital prospective division for generation of opportunities of employment and foremost a main supplier of occupations or income of poor people. SMEs will raise output and production expansion in the economic enlarged output or production growth is acting on a significant role for community welfare in poverty reduction.

In order to assess the capacities of SME in Azerbaijan and determine the share of SME in the GDP of Azerbaijan play the crucial role. As the result of implementation of SME Innovation priorities, by 2020, the share of small and medium-sized businesses in GDP is 15 per cent, its share in employment is up to 20 per cent and the share of non-oil exports is 10 per cent projected.

Our Government took effective actions for motivating SMEs to flourish and make contributions by simplifying taxation procedures and providing privileges for them. From January 1, 2019, according to the Amendment to the Tax Code, the income tax payable by the individual entrepreneur, who is a taxpayer engaged in the sale of goods under retail sale, will be deducted from January 1, 2019 for a period of 3 years Is reduced by 25 percent of the total tax burden determined by the POS-terminal established by the Law of the Republic of Azerbaijan "On Protection of Consumers' Rights"

Research object – evaluate the importance of the role of small and medium businesses in Azerbaijan through taxation policy.

To achieve the objectives of this paper the literature review of and its impact previous researches in this area are performed. This paper comprises of introduction, theoretical analysis, research methodology, research results and conclusions.

1. Theoretical background of Small Medium Enterprises

1.1 Functions and significance of small businesses in the economy

The term "small business" has a universal character. There have been many attempts in the scientific and educational literature to define small business. Some of the authors combine the terms "small enterprise" and "small business", while the other part, on the contrary, and tries to find differences between these concepts. According to the analysis of the Russian legislation, the definition of "small enterprise" will be valid, and the term "small business" is acquired from foreign lexicon and is synonymous with "small enterprise". There are numerous definitions of the term "small business", in our opinion the most common, comprehensive and clear definition is given by A.I. Muravyov, who in his book "Small Business: Economics, Organization, and Finance". Small enterprise is a set of independent small and medium enterprises acting as economic entities of the market. These enterprises are not part of monopolistic associations and are subordinate or dependent on them economically.

Small business has a number of functions:

1. Economic:

- It gives the market economy the necessary flexibility; - Mobilizes significant financial and production resources of the population (including labor and raw materials);
- contributes to the formation of a competitive environment (especially for our highly monopolized economy); - integrating function - small businesses, constantly adapting to the market conditions, constantly looking for emerging and disappearing needs;

2. Social:

- It solves the problems of employment; - Soothes social tension and promotes democratization of market relations; - Formation of a wide layer of owners (middle class); - Damping function - Smoothing of contradictions between two poles of human society, reduction of social tension;

3. Innovative:

- breakthrough in a number of important areas of scientific and technological progress; - function as a catalyst for scientific and technological progress; - implementation of industrial training, "running-in" of young personnel

It should be noted that small business can become a factor of development only if all functions are performed simultaneously. For example, the performance of the innovation function is inherently connected with the function of increasing the competitiveness of products or services, which is one of the conditions for the viability of the enterprise. Along with these factors, the demand for these products or services, which directly depend on the level of income of the population, is important.

1.1.1 The role of small business in the world

The topic of small and medium business development is very relevant. Small and medium businesses play an important role in any country: they provide employment, generate healthy competition, saturate the market with new goods and services and meet the needs of large enterprises.

The analysis and study of the foreign experience of small and medium-sized businesses will allow the state and municipal authorities to develop various programs to support entrepreneurship.

The improvement of little and medium-sized organizations in the developed countries is progressing at a faster pace, as national authorities attach great

importance to such enterprises and provide them with all possible support in their development and improvement, develop a huge number of programs to support small and medium-sized enterprises and provide all sorts of benefits. In economically developed countries, small and medium-sized businesses represent the middle class, which serves as a basis for stable economic improvement, just as giving work to most of the population. In these countries, about 50-70% of GDP is produced by small and medium enterprises.

The role of small business in the world at the present stage is very great. It has especially increased in the conditions of post-industrial society, which was manifested in the change of social and economic functions of this form of business. Small and medium-sized enterprises (SMEs) are becoming an integral link in the structure of the social reproduction process, without which it is impossible to ensure the successful social and economic development of society and the growth of production efficiency. In recent decades, small businesses have become actively involved in the innovation process. In addition, small businesses contribute to the formation of the middle class, which constitutes a significant part of the economically active population in the world economic system. It is the development of the functions of small and medium-sized businesses that is associated with their increasing role in the economies of leading Western countries. The need for small businesses for effective economic development is also evident in Russia. In this regard, in the medium term it is planned to significantly increase the share of SMEs in GDP. In order to understand the role of small and medium-sized businesses in the global economy, it is necessary to clearly define their essence and criteria for attributing them to entrepreneurial activity. It should be pointed out that the criteria for small business may vary from country to country, which makes international comparisons very difficult. In the United States, for instance, the term "small business" actually refers to both small and medium-sized enterprises. While in European countries and Japan the official

definitions of small business use the term "small and medium business". The Organization for Economic Co-operation and Development (OECD) charter defines enterprises with up to 19 employees as very small, 20 to 90 as small, 100 to 499 as medium and over 500 as large. However, this data differs in Azerbaijan, where the number of employees up to 10 considers as micro entrepreneur, 11-50 as small entrepreneur, 51 – 250 as medium and 251 and above as large.

With regard to statistics in the European Union, the category "small and medium enterprises" includes three types of enterprises - micro, small and medium. The defining characteristics in this case are the number of employees, sales and the annual balance sheet.

Among the qualitative criteria inherent in small and medium-sized enterprises, including in international practice, should be highlighted:

- the inseparability of property rights and direct management of the enterprise. The owner, as a rule, manages the enterprise independently, putting himself at risk and bearing full responsibility not only for the invested capital, but also for the decisions made;

- transparency of a small business, the size of which allows the owner to be aware of everything that is happening in the company;

- special relations of the entrepreneur with resource partners and buyers of products, as well as the informal nature of relations with employees of the company;

- relatively small resource and sales markets. Thus, small companies cannot have a great influence on the price level, as well as on the volume of goods sold within the industry, which forces them to apply strategies of adaptation to the external environment;

- family business. In small enterprises, basic capital is often created by family savings, the business is inherited by family members, and employees are often relatives, unlike large corporations, which generate the necessary financial resources through stock exchanges and large investors.

The role of small and medium-sized businesses in the economy is significant. It connects the economy all in all, forms a kind of foundation. State support is a key factor in the establishment and maintenance of small and medium-sized businesses. State support most often consists in providing the following conditions: preferential crediting; reduction of tax payments; privileges for renting premises; subsidies to SMEs; partial compensation of the bank rate; advanced training for the state account; elimination of administrative barriers; provision of guarantees. It can be seen that recent amendments in Tax code of the Republic of Azerbaijan imply preferential status for the small and medium enterprises thereby create some additional opportunity to maintain their activities. SMEs are the backbone of the economies of developed countries, accounting for a significant share of GDP and providing employment, while providing an opportunity to solve economic, political and social problems of states.

According to statistics, the share of SMEs in the gross domestic product of the EU, the US and Japan ranges from 55 percent to 70 percent. In Azerbaijan, this figure is at a lower level today. However, thanks to amendments in tax legislation I believe that it is possible to bring the specific share of SMEs up to 50 percent of GDP.

At the following gathering of the Public Council under the Small and Medium Business Development Agency of the Republic of Azerbaijan (SMEA) about a year ago, the work on advancement of little and medium business (SME) was talked. Various measures have been taken to strengthen the administrative base of little and medium-sized organizations, alterations were acquainted with the Tax

Code so as to invigorate the presentation of new help models, the criteria for SMEs' conveyance were endorsed, the standards for the abuse of the office were rearranged and dynamic changes to the enactment on open acquirement were made. The majority of this is significant in the advancement of enterprise, particularly in little and medium-sized organizations, in the nation's SME development.

Although, public council was established in November 2018 the importance of public control over the work done by SMEs in the development of small and medium-sized businesses, the improvement of the enactment and the dynamic support of the committee in the mindfulness raising exercises were pointed at the meeting.

Then, chairman of the Public Council, Chairman of the Association of Poultry Producers and Exporters Farhad Garashov, Chairman of the Azerbaijan Women Entrepreneurship Association Saki Babayeva, Chairman of the Azerbaijan Tourism Association Nahid Bagirov and others by presenting gave speeches about the agenda of meeting, shared their perspectives on the exercises of the committee and the board's proficient work with the office. The present issues were generally examined at the gathering and it was chosen to expand the Public Council's Action Plan for 2019.

It ought to be noticed that the Public Council under the SMEA was built up to reinforce open investment in the association, measures taken to grow little and medium-sized organizations, and to guarantee open command over the office's exercises, to extend the connection between the office and people in general, including the business network. In the Public Council there are 15 non-legislative associations and affiliations that consolidate many business visionaries.

In all economically developed countries, small and medium businesses are provided with various organizational and financial state supports, which results in

significant replenishment of the budget, which leads to efficient functioning of the economy and a high standard of living of the population.

Consequently, the role of small and medium-sized businesses in national economies is quite great.

Small and medium enterprises in the EU countries began to develop particularly actively in the 80s of the XX century. At the same time, and especially later, almost all European countries began to take measures to develop this type of business. At present, small and medium-sized enterprises play a huge role in both economic growth and employment growth in Europe. To a certain extent, it can be said that this segment has a significant impact on the success of many EU integration initiatives. The policy of supporting small and medium-sized enterprises in the EU is comprehensive and systematic. It began to be implemented in the early 1970s. Measures to eliminate some administrative barriers have played an important role in the beginning, for example: partial harmonization of the value-added tax in EU member states; implementation of changes in the financing conditions (creation of the European Association of Mutual Guarantee Funds for Small Businesses); serious social policy measures. The most important measure to stimulate SMEs was the preparation and publication of the so-called "White Paper", which analyzes European policies, tactics and strategies for these enterprises. Another important step in promoting SMEs in Europe was the so-called European Charter for Small Enterprises. Many of the provisions of the Charter have been included in the Multi-Year Programme for Small and Medium-Sized Enterprises, and it is through this programme that many projects have been implemented with the help of EU supranational structures. As a rule, the European SME policy is implemented at two levels: at the national level and through the programs implemented under the auspices of the EU. Small business support activities at the EU level are most often financed by EU Structural Funds (including regional funds). In order to improve the

regulation and development of small and medium-sized enterprises in the EU, a system of supranational, international and national authorities and organizations has been established. It takes into account the interests of the EU, individual member states, the views of various business organizations, national sectoral and regional structures and associations of small businesses, chambers of commerce and industry. An important element of the system is the European Venture Capital Association, which facilitates the development of small innovative enterprises. Much attention is paid to the creation of networks designed to maximize the interaction of small and medium-sized enterprises with national, regional and local support structures.

The development of small and medium-sized innovative enterprises at the level of the European Union is influenced by both public financial institutions and private companies and non-profit organizations. A very important place in the implementation of SME support programs is occupied by the European Programme for Scientific and Technical Cooperation in the Field of High Technologies "EUREKA", which supports innovative projects. "EUREKA complements the European Framework Programs, with the EU being able to participate as a partner. Thus, it is possible to note the joint programme of EUREKA and the European Commission "Eurostars", created to support knowledge-intensive small and medium enterprises. It should also be noted that at the EU level, innovation activities are stimulated through indirect financing through investments in privately managed venture capital funds, as well as through the provision of debt guarantees for investments in innovative small and medium enterprises. In addition to the pan-European support for small innovative enterprises, each EU country has national systems to support their development.

1.2 History of establishment State Agency for SME Development in Azerbaijan

The improvement of small and medium-sized business (SMEs) in Azerbaijan has specific significance as far as enhancement of the economy, increasing competitiveness, guaranteeing work, ensuring employment, repayment of demand for consumer goods through local resources and economic development.

Firstly, small business enterprises are those that are managed exclusively by one person - the owner of the enterprise. An important aspect in this context is the fact that the entrepreneur himself is involved in all processes of the enterprise - from production to organizational functions and sales of finished products.

Secondly, in medium-sized enterprises the functions of the owner are not limited to the production process. They cover organizational, implementation, procurement and other issues. It should also be noted that medium-sized enterprises have a deeper specialization than small businesses.

Establishment of the State Agency for Small and Medium Entrepreneurship Development is one of the measures envisaged by the Strategic Road Map approved by the President of the Republic of Azerbaijan in 2016.

According to the experts, the activity of the new organization will increase the effectiveness of the measures taken by the state in this area.

Funds will be allocated from the state budget for maintaining and maintaining the Agency, while the organization may benefit from the work and services rendered in line with its activities. Currently 700,000 small and medium-sized subjects of over 800,000 entrepreneurs registered in Azerbaijan. The annual income of small entrepreneurship is 200 thousand, average entrepreneurship is from 200 thousand to 1 million 250 thousand manat.

Considering that in developed countries 99% of existing enterprises are SMEs. The share of SMEs in employment varies between 50-70 and 50-60% in gross domestic product.

In Azerbaijan, various government agencies are currently providing various services (including consulting, sales and other support services) to SMEs within their competence. Although, according to international experience, providing these services from a single center for SMEs creates a better opportunity for them to use their services more efficiently and hence to develop. Therefore, the creation of the SMEs Development Agency is crucial.

Through the new Agency, the SMEs are relied upon to give benefits in a few techniques in the meantime because of which it is required to improve administration, take out parallelism , and increase the effectiveness of SMEs.

It should be emphasized here that the Agency's performance is expected to be functional in terms of effectiveness. Thus, based on the advanced world experience and covering all regions of the country, it provides a basis for effective action. The Small and Medium Entrepreneurship House, which offers small and medium-sized businesses a range of services (training, consulting, information, business incubator, innovation center, financial services, etc.) in a large area and towns of the country, will be created within the Agency, service centers and regional centers of the Ministry of Economy in regions without ASAN service centers.

Together with the business associations, the SMEs Development Agency will conduct a regular analysis of the problems of enterprises in the relevant sectors and will state them in relevant institutions and seek solutions. The SMEs Development Agency will cooperate with relevant government agencies and educational institutions and will pay special attention to the development of applied sciences.

The impact of the SME agency on GDP will be 200 million manat in 2020. According to strategic roadmap, 2020 share of SMEs in GDP should reach 15%,

share of employment 20% and non-oil share - 10%. According to N. Shalbizov, the SMEs Development Agency will play a key role in this area.

According to Shalbizov, SMEs agencies successfully operate in South Korea, Poland, Turkey, Germany, and Estonia and in several countries.

It should be noted that the establishment of the Small and Medium Entrepreneurship Development Agency of the Republic of Azerbaijan was defined in the "Strategic Road Map on Production of Consumer Goods at the Level of Small and Medium Enterprises in the Republic of Azerbaijan". The next important measure of complex irreversible economic reforms under the leadership of Mr. Ilham Aliyev creates favorable conditions for the development and improvement of SMEs in the development of the non-oil sector.

In 1991, when the Republic of Azerbaijan proclaimed its independence, the transition to new economic relations, the establishment and development of the private sector, and the necessity of establishing financial institutions that would provide favorable financial support to the country as a continuation of the country's independence, At the same time - on October 12, 1992, with the approval of the "Statute of the National Fund for Support of Entrepreneurship of the Republic of Azerbaijan", the foundation of the first financial institution, which will give preferential loans to the ownership, including small and medium business, at the expense of the state budget. However, since 2001, the mechanism of delivering these loans to entrepreneurs has not been properly implemented, elimination of the problems arising in the use of preferential loans provided by the state budget, harmonization of the National Fund for Entrepreneurship Support with the tasks required for the priorities and stages of development of the Azerbaijani economy, strengthening state support for entrepreneurship and the National Fund for Support of Entrepreneurship by the Decree of Heydar Aliyev on August 27, 2002, "On the National Fund for Entrepreneurship Support" and "Rules on the Use of the National Fund for Entrepreneurship Support" and autumn

investment projects of entrepreneurship subjects Restructuring of the mechanism of financing on a specific basis has become a turning point in the development of this financial institution. The application of these rules has played a significant role in the provision of concessional loans. The start of issuing loans in national currency at low interest rates, as well as identifying the period of the first two-thirds of the loan period and the low interest rates led to great interest in the use of these loans in entrepreneurship subjects. The development of modern national entrepreneurship in Azerbaijan began in the middle of 1993. As a result of successive reforms in Azerbaijan, as well as in all spheres, successful results have been achieved in the socio-economic sphere, and a number of important steps have been taken in the direction of development of entrepreneurship, which has created a favorable business environment.

In recent years, the dependence of the economy on the oil sector in Azerbaijan, the introduction of new production facilities, the elimination of unemployment and so on. The solution of socially-oriented problems is largely dependent on entrepreneurship development. Today, the state is demonstrating its will on the development of entrepreneurship. Entrepreneurs are always focusing on the way that granting preferential loans, equipment leasing, granting subsidies to farmers, adopting and successfully implementing State programs that encourage agriculture as well as entrepreneurship have created favorable conditions for the development of entrepreneurship in the country. The economic policy implemented in the country was aimed at accelerating the development of entrepreneurship, strengthening the role of entrepreneurship in addressing socio-economic problems of the country, raising public care in this direction and, most importantly, the realization of the existing potential. For this purpose, significant steps have been taken to form a legislative basis, eliminate bureaucratic obstacles, and provide financial support and other areas. Over the past 20 years, the procedures and regulations governing entrepreneurial activity in the country have

been significantly liberalized, the mechanism of state funding for entrepreneurship has been introduced, export duties for some products have been abolished in the country, and the maximum limit for imports has been set at 15%. At the same time, the tax burden applied in the republic was reduced, including the profit tax rate from 22%, the corporate income tax from 35% to 20%, simultaneous tax payment was guaranteed once in a quarter, and electronic tax invoices the application of electronic services has been expanded, agricultural producers have been exempted from all types of taxes, except for land tax by 2014.

1.3 Current condition of small and medium enterprises in AR

The strategy of entrepreneurship development implemented under the leadership of the great leader Heydar Aliyev is being successfully continued by the President of the Republic of Azerbaijan Mr. Ilham Aliyev. In line with this policy, targeted measures are being taken to further improve the business and investment climate, to strengthen the state support to the private sector, to improve the legislation, to improve the legislative framework, to attract modern technology and advanced management practices, to stimulate innovative entrepreneurship and involve young people in entrepreneurial activity.

A number of measures have been implemented to support entrepreneurship development in Azerbaijan in the last period. Thus, in accordance with the Decree of the President of the Republic of Azerbaijan No. 610 dated June 24, 1997 and No. 753 of August 17, 2002, the "State Program on Assistance to Small and Medium Enterprises in the Republic of Azerbaijan (1997-2000) and State Program on Development of Small and Medium Enterprises in the Republic of Azerbaijan (2002-2005) " was adopted and implemented.

In addition, the development of entrepreneurship, further improvement of the business environment, improvement of mechanisms of protection of entrepreneurs' rights and legitimate interests in the "State Program for Industry

Development in the Republic of Azerbaijan for 2015-2020", approved by the Order No. 964 of 26 December 2014 field activities are planned.

Furthermore, the Decree of President Ilham Aliyev dated March 3, 2014, "On Additional Measures for Entrepreneurship Development", is the most important conceptual document reflecting the attention and care of entrepreneurship development, the sequence of state support measures for the private sector, the legal framework of the new stage of entrepreneurship development. The Decree is the basis for further improvement of the business environment in Azerbaijan and the implementation of important measures to improve its implementation on the basis of best practices and opens up opportunities for entrepreneurship development in the coming years.

It is worth mention that the successful implementation of the state programs of socio-economic development of the regulators covering the years 2004-2008 and 2009-2013 and the adoption of state programs for the socio-economic development of the regions covering the years 2014-2018 had a great impact on economic development. In 2013, the volume of investments in the country's economy amounted to \$ 20 billion, of which 17.5 billion were domestic and \$ 10.5 billion were foreign investors' funds. Development of entrepreneurship in Azerbaijan is one of the priorities of economic policy. In this direction, complex measures are being undertaken consistently to develop state-entrepreneurship relations, to expand state support mechanisms for entrepreneurship, to improve the business environment legislation and administrative procedures, to develop entrepreneurial relations and to provide various services.

Implementation of the principle of "one window" in the registration of entrepreneurship subjects has been ensured and their online registration has been started. An efficient mechanism for financing entrepreneurs' investment projects has been established. Thus, as a result of the continuous improvement of the rules for the use of preferential loans, the total volume of loans granted to

entrepreneurship entities has increased and businessmen's access to credit has been expanded. As a result of carried out purposeful measures, the specific weight of the private sector in socio-economic development of the country and GDP growth has increased. Today, the share of the private sector in GDP is more than 80%. The share of non-state sector in the production and service sectors such as agrarian sector, industry, commerce, hotel and catering services, construction, transport, communication varies between 70-99%. In 2011, the volume of production in the private sector was 81.5% of the industrial output. The development of the country's economy has also been reflected in reports prepared by a number of international organizations. According to the Global Competitiveness Index, Azerbaijan's economy was 55th out of 142 countries and the first in the CIS in the last year's competitiveness level. In the "Doing Business 2012" report, Azerbaijan ranks 3rd place and ranks 66th out of 183 countries.

Azerbaijan ranks 70th in Doing Business-2014 rating prepared by World Bank (WB) and International Finance Corporation (IFC). The Doing Business report assesses the business environment in the country. The Azerbaijani economy is ranked 70th out of 189 countries, improving its position in comparison with the Doing Business-2013 report, leaving behind leading countries for a number of indicators. Thanks to 18 targeted reforms since 2005, in the area of business regulation and improvement, the current economy report is among the top 15 countries in the economy of Azerbaijan.

The Decree of President Ilham Aliyev dated October 26, 2011, "On Some Issues Regarding Special Regime and Permit System Required for Specific Types of Entrepreneurship" is another step towards further development of entrepreneurship, with the state support for the development of the private sector. In the years ahead, a number of measures have been implemented to optimize the existing system for the simplification and improvement of the licensing system, based on the changes made in the country's legislation. Thus, the number of

licenses is sharply reduced, including licensing procedures, documents required for obtaining licenses, validity period of the license, state agencies issuing licenses, amount of state duty, termination and cancellation of license 11 State Statistical Committee of the Republic of Azerbaijan 61 rules have been defined. These reforms are crucial for acquiring more transparent information on licensing for entrepreneurship subjects seeking to engage in licensed activities, as well as reducing the time spent for obtaining a license. However, analyzes in this field have shown that when an entrepreneur wants to engage in any type of activity (except for state registration of ownership subjects under the "one-stop shop" principle), the required procedures, required documents, there are some difficulties in obtaining information from the single legal source of information on the amount of payments made, the issuance and validity period of these permitting documents, the state bodies issuing these documents, the suspension, cancellation of the permit, the responsibility of the state bodies and entrepreneurs.

To be more precise the permitting documents for entrepreneurial activity are mainly based on special permits, permits, approvals, opinions, registrations, certificates, affirmations, extracts, orders, etc. Apparently, the abundance of permits in the form listed above and the absence of a single classification of such documents, as well as the fact that the information contained in the existing legislation on various types of permit documents in different legal acts required reforms in this area. A comprehensive analysis has been launched to address the above-mentioned problems and, in general, establish transparent permits to improve the business environment in the country, to improve and regulate this system.

The purpose of these analyzes was to prepare a package of proposals for the creation of a single electronic database of these documents by systematizing the list of permitted documents in Azerbaijan, as well as the application of modern technologies. In this regard, 62 international organizations have been cooperating

in the field of studying best international practice in this area and successful implementation of achievements in the country. Implementation of the administrative procedures required for entrepreneurship activity, including the system of permits, as well as the monitoring of the business environment in accordance with the methodology applied by the International Finance Corporation in the world within the framework of the "Business Environment Enhancement Project" implemented by the International Finance Corporation the Ministry of Economic Development is closely cooperating with this international organization. In this regard, the experience of Bosnia and Herzegovina, Croatia, Serbia, Montenegro, Georgia and Moldova was studied in order to explore international best practices in this field with the organization of the International Financial Corporation. In addition, recommendations were made for the purpose of reforming the permits system, identifying the specific bases and criteria for the permit system and the application of permits, accurate identification of executive authorities issuing permits and their comparison with business circles. Each year, hundreds of entrepreneurs are given preferential loans by the National Fund for Entrepreneurship Support to support private sector expansion.

Up to now, 24,000 entrepreneurs have been granted preferential loans of about 1 billion 475 million manat, most of which fall to the regions. In the future it is planned to increase the volume of loans allocated to private entrepreneurship subjects. The work done in the field of entrepreneurship development is the investment in the future of the country. Because entrepreneurial activity is always characterized by its flexibility, innovation, the tendency to use new techniques in production and enterprise management, the use of modern technology, high competitiveness and rapid adaptation to consumer demand. Due to the expansion of entrepreneurial activity, the creation of new businesses and the growth of local production will strengthen the foundations of the republic's economy. The development of the private sector, along with increasing the dynamics of the

national economy, facilitates access to international markets and allows to keep up with global economic processes.

By the Decree of the President of the Republic of Azerbaijan dated April 21, 2016, aimed at promoting the role of entrepreneurs in strategic issues such as employment, non-oil exports, business environment, promotion of entrepreneurship support in society April 25 2016 has been established as "Entrepreneur's Day" in Azerbaijan. At the same time, it was decided to suspend entrepreneurship inspections for 2 years, reduce the number of licenses and permits for entrepreneurial activity, and simplify the procedures for issuing permits, including the establishment of e-portal in this area, the Appeal Councils establishment of a "window" principle for the transportation of transit cargoes across the country, tax and customs privileges for 7 years in order to promote investment in the country, further expansion of electronic customs services for the purposes of simplifying customs procedures during import-export operations, minimizing the number of goods the Green Corridor and the other exit systems in international practice, the improvement of public procurement, the establishment of call centers for informing and advising on the direct response of entrepreneurs' appeals in the state bodies and other works were carried out. The business environment in Azerbaijan has been further improved and the country has achieved high results in some of the World Bank's Doing Business 2017 report (e.g., start a business, register 9 property). With the creation of e-government portal in line with international experience, public services have been expanded. The innovation framework for SMEs has been improved through infrastructure (e.g., industrial parks, technology parks and business incubators), as well as financial support (creation of a special fund for information and communication technologies (ICT) sector).

Also, the criteria for SME subjects were determined by Decision No. 556 of the Cabinet of Ministers of the Republic of Azerbaijan dated December 21, 2016

"On Approval of Large, Medium and Small Entrepreneur Criteria" to ensure targetness of reforms directly affecting the development of SMEs in the country.

Distribution of micro, small, medium and large entrepreneurship subjects

Criteria

Types of business entities by size	Average number of employees (people)	Annual income(ai) (thousand manats)
Micro entrepreneur	1 – 10	$ai \leq 200$
Small entrepreneur	11 – 50	$200 < ai \leq 3\ 000$
Medium businessman	51 – 250	$3\ 000 < ai \leq 30\ 000$
Big businessman	251 and above	$30\ 000 < ai$

To determine entrepreneurs as micro, small, medium or large entrepreneurs, the higher the "average number of employees" and the "annual income" criteria is taken into consideration.

When determining the newly created entrepreneurship as micro, small, medium or large entrepreneurs, the number of employees determined within 1

(one) year from the date of their state registration or tax registration is taken as the basis.

Applying entrepreneurs to micro, small, medium or large entrepreneurs are determined on the basis of information on those entrepreneurship subjects transferred to the State Statistical Committee of the Republic of Azerbaijan by the Ministry of Taxes of the Republic of Azerbaijan and the Ministry of Labor and Social Protection of Population of the Republic of Azerbaijan and remain unchanged during the year.

Over the past 10 years, the number of entrepreneurship entities has increased 2,5 times, while the share of private sector in GDP is 80 percent, 73 percent of employment and 72 percent in tax revenues. The number of registered legal entities in 2013 was 8.9 percent, while the number of individuals increased by 5.2 percent.

The policy of development of entrepreneurship in Azerbaijan, purposeful measures has been highly appreciated by influential international organizations. Thus, according to the World Economic Forum's Global Competitiveness Index 2014-2015, the Azerbaijani economy ranked 38th out of 148 countries in terms of competitiveness. It is the 6th among CIS countries for this indicator.

Improving the legal framework in the field of entrepreneurship is particularly important in terms of ensuring sustainable development in this area. So far, many laws have been adopted to expand entrepreneurial activity. One of such laws contributing to the development of entrepreneurship is the Law of the Republic of Azerbaijan on "Regulation of Entrepreneurship Tests and Protection of Entrepreneurs' Interests" adopted on July 2, 2013.

This law, consisting of 10 chapters and 38 articles, covers issues related to the purpose and principles of inspections in the field of entrepreneurship, rules of organization and conduct, the rights and duties of inspecting bodies and officials,

protection of rights and interests of entrepreneurs. The main purpose of the law is to determine the common rules of inspections in the field of entrepreneurship and to prevent unlawful obstacles in entrepreneurial activity during inspections. The law states that no inspections carried out without complying with the requirements set out in the Unified Data Logbook, have no legal effect. In other words, all kinds of inspections (investigations, examinations, monitoring, surveillance, surveillance, etc.) carried out in the country should be carried out only in the cases and in the manner prescribed by this law.

The Law "On the regulation of inspections in the field of entrepreneurship and protection of the interests of entrepreneurs" has clearly defined the goals and principles of inspections. Thus, the purpose of inspections is to ensure compliance with mandatory requirements for entrepreneurial activity, including ensuring the safety of the property interests of the people, the health of the environment and the state by assisting entrepreneurs in this area. Advocacy of non-punishment prevention of violations of the law, preventive and prophylactic inspection, and non-verification by the same inspection body of several inspection bodies are among the main principles of the Law.

The law defines and approves the list of inspecting authorities, which is to prevent the identification of the audit functions by the executive authorities and to prevent the inspections carried out by the inspection authorities.

For the first time in the law, it is envisaged that the inspection body will provide consultation services to entrepreneurs, set up inspections based on the risk assessment principle, electronically inspect and inspect the list of inspection questions when performing inspections. Thus, the division of entrepreneurs by risk groups (high, medium, and low risk) reflects that inspections of entrepreneurship subjects are carried out in accordance with that division. Supervisors of the high risk group are inspected not less than once a year, but not less than once every two years in those in the middle risk group and at least three

years in the low risk group. The number of inspections carried out by the controlling body (the number, nature of the investigations, the results of inspections, including whether the violations were discovered, decisions made on violations, guilty persons and actions taken) conducts electronic records of information on the risk group. The information contained in the electronic records of the audit is applied to the establishment, improvement of the risk assessment system of the control area covered by each inspection body, and the more efficient organization of the state control in the field of entrepreneurship and the provision of advisory services to entrepreneurs.

Under the law, each inspection body should publish a list of questions that must be answered during the inspection on the Internet site. This will allow the entrepreneur to know what is required beforehand. The law also provides an opportunity for entrepreneurs to get answers to their questions. Thus, according to the new law, each inspector should identify the "hot line". On the other hand, the Law on "Regulation of Entrepreneurship Supervision and Protection of Entrepreneurs' Interests" allows entrepreneurs to invite experts of inspection bodies to their facilities. The reflection of this article in the law is of help to some entrepreneurs and insures the entrepreneur from future offenses.

The law envisages plans and nonplan forms for inspections. It should be noted that the basics of sub-inspections in the law have been specified and this will reduce the number of inspections. Duration of the plan is 10 business days for large entrepreneurs and no more than 5 working days for small and medium-sized businesses. Regular inspection should not exceed 5 working days, and 3 business days for medium and small entrepreneurs. This is aimed at minimizing the time spent by entrepreneurs on inspections. According to the new law, sub-inspections can be carried out only in cases where the specific law requires, not with the request of the inspection body.

In order to further enhance transparency and accountability in the activities of the supervisory authorities, it is established that the assessment of the performance of the inspectors and the report of the inspection body once a year.

In accordance with the Decree signed by the Head of State on August 28, 2013, the Law "On the Regulation of Entrepreneurship Inspections and Protection of Entrepreneurs' Interests" has been given specific instructions to the relevant state bodies, including the Ministry of Economy and Industry, to formulate an efficient and effective mechanism of the Law. In accordance with the instructions of the Head of the State, the Ministry has been drafting and approving the drafting of inspection areas, inspection questions, the rules for compensating the expenses of the inspection body regarding the withdrawal of product samples, risk groups, large, medium and small entrepreneurship criteria. In addition, appropriate awareness-raising activities were carried out to explain the issues arising from the Law to entrepreneurs and these measures are still underway.

Thus, the Law on "Regulation of Entrepreneurship Supervision and Protection of Entrepreneurs' Interests" further enhances the quality and effectiveness of state control measures in entrepreneurship subjects, enhanced legal regulation of inspections in the field of entrepreneurship, more effective protection of entrepreneurial interests, making a significant contribution to the improvement.

2. SWOT analysis of SMEs in Azerbaijan

A SWOT analysis of business people in Azerbaijan is one of the fundamental approaches to decide the genuine circumstance of business people in the nation, since this examination will encourage the making of positive conditions for the further improvement of entrepreneurial activity.

Strengths: Broad e-government framework, solid reputation in business condition changes (one stop shops, e-government); positive condition for business enlistment and continuous changes in different zones, similarly great foundation

and administration arrangement, government support for the advancement of SMEs, the price of energy carriers is lower than in neighboring countries. In order to enhance the activities of the SME the Tax Ministry of the Republic of Azerbaijan introduce the electronic services in the e-Government platform. Today the number of electronic services reaches the point of 65.

Weaknesses: SME approach discontinuity among a few state programs without formal coordination and absence of far reaching technique, absence of open private discussions and absence of a co-ordinate particular state association on SME, absence of organized institutional set-up past casual participation; constrained access to bank fund; development in credit for the most part to family units, purchaser credit. In addition, the shortcoming of the observing and assessment framework to decide the effect of the state bolster instruments for enterprise, low dimension of business abilities, particularly mid-level dimension of aptitudes, defilement observations are still referred to as a hindrance to business, additionally troubles in getting to worldwide and local markets and low universal exchange propensities.

Opportunities: Appropriation of key guide for advancement of the national economy, which decides the financial improvement procedure and activity plan for 2016-20, long haul vision till 2025 and target vision after 2025; new export program being developed, with an attention on boosting exports of non-oil items; inclusion of SMEs in open acquisition and framework ventures; continuous readiness arrange for private credit authorities and library of portable resources; WTO enrollment prospects liable to support exchange; undiscovered potential in non-oil segments, for example horticulture and assembling; accessibility of potential workforce.

Threats: Possible outside monetary variables (budgetary emergency, decrease sought after in worldwide markets, and so on.); weight on the financial

part because of the downgrading of the Azerbaijani manat; banks are confronting a decrease in capital; poor household intensity of nearby SMEs in universal markets; reliance on regular assets in the midst of financial instability; absence of free usage offices in key territories, for example, advancement and enterprise; non-oil sends out blocked by deferrals in characterizing national models and specialized guidelines, restricted global quality affirmation; the Nagorno-Karabakh conflict that compromises the political and monetary security and retains critical money related assets

3. Innovation Policy

Innovation on the part of SMEs in Azerbaijan was observed only on a very low level, which may in part be due to the fact there exists no extensive, overarching national innovation policy. However, several arms of government have introduced their own innovation initiatives, distributed across various state programs and policy documents, such as the “National ICT Strategy of the Republic of Azerbaijan 2014-2020,” “Azerbaijan 2020 Vision” and “National Industrial Strategy 2015-2020”. Simultaneously, some government agencies and structures, like the Ministry of Economy, the Ministry of Communication and High Technology and the National Academy of Sciences, support the innovation initiatives.

In order to assess the capacities of SME in Azerbaijan and determine the share of SME in the GDP of Azerbaijan play the crucial role. This is a huge and diversified, strategic approach to its implementation is defined in the Strategic Road Map for the Production of Consumer Goods at the Level of Small and Medium Enterprises in the Republic of Azerbaijan. Realization of this strategy has been calculated on specific target indicators and, as a result of implementation of SME priorities, by 2020, the share of small and medium-sized businesses in GDP is 15 per cent, its share in employment is up to 20 per cent and the share of non-oil exports is 10 per cent projected.

A long-term perspective for the period up to 2025 is to further increase competitiveness of SMEs, to ensure daily consumer goods supply, mainly through SME subjects, to significantly increase the share of SMEs in GDP and employment. As a result of long-term vision for the period up to 2025 in Azerbaijan, it is expected that the share of SMEs in GDP and employment will be 35 and 40 per cent respectively, while the share of non-oil exports in the country will increase to 25 per cent.

4. Stimulation of SME according the amendments in the tax legislation

The Tax Code of the Republic of Azerbaijan, dated November 30, 1356-VQD, "On Making Amendments to the Tax Code of the Republic of Azerbaijan", has made important changes in the following five key areas:

- Entrepreneurship support;
- Reduction of tax burden and "shadow economy";
- Expansion of the tax base;
- Improvement of tax administration;
- Improving the effectiveness of tax rebates

The main purpose of the amendments and additions to the Decree "On approval of the directions of reforms to be carried out in tax field in 2016 and improvement of tax administration" is the creation of favorable conditions for the development of entrepreneurship, in particular small and medium-sized businesses, the formation of mutual trust between tax authorities and entrepreneurship subjects promoting investment in the economy by increasing the volume of non-cash transactions and tax-exempt attractiveness, stimulating exports, and building honest and transparent records.

Amendments to the Tax Code for the purpose of supporting entrepreneurship are mainly based on the simplified tax rate of 2 percent throughout the country, discounts on non-cash payments in trade and catering bank account and VAT during the administrative complaint suspension of cash withdrawal from the deposit account and other issues. To mention, before these amendments the rate of Simplified Tax in Baku was 4%, but in other regions 2%. However, it is 2 % in all regions now.

The scale of tax evasion and the "shadow economy"

Amendments to the Tax Code for purposes of reduction if the monthly salary is up to 8,000 manat, the income tax is 0 degree, if the salary is more than 8,000 manats in the amount of more than 8,000 manat -14 percent identification of certain parts of VAT to consumers returns and other problems.

Expansion of the tax base

Amendments to the Tax Act are mainly based on tax documents such as honesty and transparency, taxation of payments made on goods that can be received in cash from non-taxable persons at the source of payment, to limit the scope of simplified taxpayers, establish an effective tax control mechanism, extension of the list of excise goods (energy drinks, liquids for electronic cigarettes).

Furthermore, individuals that cannot be simplified tax payers:

- ✓ People who are engaged in production activities that have more than 10 employees
- ✓ Persons performing the implementation of submission of goods under wholesale trade activity
- ✓ People who sell gold, jewelry and other household goods
- ✓ Sellers of fur products

- ✓ People engaged in type of activity which need license(except for persons engaged in building business activities)

Improvement of tax administration

According to the changes in Tax Code making new generation cash registers working in real time, registration of the taxpayer where he has a center of economic interest, substitution of VAT mechanism, and other issues.

Improving the effectiveness of tax incentives

According to the changes in Tax Code exemption from taxation of investors participating in privatization, creating concession for the taxpayer's share of ownership at least 3 years, giving tax concessions for sensitive social strata(died, or to sons of later died people), the application of financial sanctions, and other issues, in the case of non-accounting of goods turnover to those who receive tax concessions.

These changes include micro and small entrepreneurship, where entrepreneurship support is of particular importance for businesses and they consist mainly of:

From January 1, 2019, according to the Amendment to the Tax Code, the income tax payable by the individual entrepreneur, who is a taxpayer engaged in the sale of goods under retail sale, was deducted from January 1, 2019 for a period of 3 years Is reduced by 25 percent of the total tax burden determined by the POS-terminal established by the Law of the Republic of Azerbaijan "On Protection of Consumers' Rights" (Tax Code, Article 102.1.24)

According to the amendments to the Tax Code of January 1, 2019, the order of reimbursement of VAT paid by physical persons - consumers of goods (excluding oil and gas products) received from persons engaged in retail trade or public catering activities in the territory of the Republic of Azerbaijan - the body

(body) determined by the body. In accordance with this Article, the returned amount is 15 per cent of the non-cash VAT paid, and 10 per cent of the cash paid VAT (Tax Code, Article 165.5)

In accordance with the provisions of the Tax Code, effective from January 1, 2019, the profit of SMEs is exempt from profit tax for a period of 7 years from the date on which the SMEs is included into the list of SME cluster companies (Tax Code, Article 106.1.21)

According to the provisions of the Tax Code, which came into effect on January 1, 201, 75 percent of the incomes of individual entrepreneurs, who are subjects of micro entrepreneurship, are exempt from income tax (Tax Code, Article 102.1.30)

According to the provisions of the Tax Code, effective from January 1, 2019, the profit of legal entities that are subjects of micro and small business are exempt from profit tax for a period of three years from the date of receipt of the Startup certificate (Tax Code, Article 106.1.23)

According to the provisions of January 1, 2019, those who have more than 10 employees have no right to be simplified taxpayers

In accordance with the provisions of the Tax Code, effective from January 1, 2019, deductions of amortization of fixed assets used by entrepreneurs in the entrepreneurial activity by applying 1.5 coefficients to annual amortization norms on depreciable assets as defined in Article 114.3 of the Tax Code have the right (Tax Code, Article 114.3-2)

According to the provisions of the Tax Code, effective from January 1, 2019, SMEs has the right to use technical, technological equipment and equipment for production or processing purposes on the basis of a certifying copy of the body (s) established by the relevant executive authority supporting the development of

micro, small and medium enterprises imports of equipment - were released from VAT for a period of 7 years from the date of incorporation into SMEs cluster companies' register (Tax Code, Article 164.1.40).

To be more precise, SME cluster company - the body (body), which meets the criteria defined by the body (s) defined by the relevant executive authority and coordinates with the body (s) designated by the relevant executive authority, the body (s) identified by the relevant executive authority supporting micro, small and medium- organization) is a legal entity that has issued a certificate of SMEs Cluster Company.

Startup - Startup certificate issued by the body (s) established by the relevant executive authority supporting the development of micro, small and medium-sized enterprises, based on the innovative initiative, meeting the criteria established by the relevant body of the executive authority entrepreneurial activity carried out by individuals.

Additionally, 75% of profits gained from entrepreneurial activity by legal entities that are subjects of micro-entrepreneurship; • profit of SMEs cluster company - 7 years from the date of entry of SMEs cluster into the Register of SME cluster companies; • The portion of the profit of the legal entity being a participant of the SME cluster on the goods (works, services) provided by the contract with the SME Cluster company, directed to capital expenditures - 7 years; • The benefits of Startups from the date of receipt of the startup certificate from the innovation activity - are exempt from income tax for a period of 3 years.

Furthermore, starting from 2019, rapid depreciation rates will be applied to fixed assets on the balance of micro and small entrepreneurship entities: "In addition, for the purpose of forming and improving the culture of income and expense accounting for small entrepreneurship subjects, this category of taxable income documented in the manner prescribed by the Tax Code taxpayers paying

their dividends to their founders (payers) are included in the Tax Code. This amendment, prior to this change, was subject to taxation by 10 percent in general, when distributing net profits among its founders (shareholders) they will be provided with additional tax incentives provided they are transparent and subject to the founders (Shareholders). Dividends paid will be exempt from payment of tax levied at a rate of 10 percent.

5. Tax privileges of SME in Agro-Industrial sectors

Agricultural habits are one of the most important and important aspects of our economy. Historically, most Azerbaijanis were forced to live in rural households and livestock, and today the country has grown at the forefront of agricultural life in Soviet times. After the revival of nonexistent development in all regions of the country's cleanliness was the main concern of the country. It is also included in the document "Strategic Road Map for the National Economy and Basic Sectors of the Economy", approved by the Presidential Decree of March 16, 2016. This means that the sustainable development of the rural economy and its rupture in the competitive sector is strategic. This is a very important factor in the development of the multicultural community in Azerbaijan and in the provision of safe haven. Solve all these issues to create a favorable industrial and agricultural development of the sector sector in the country.

The development and functioning of small and medium businesses in the agricultural sector depends on certain economic conditions and factors:

- Dependence of agrarian production on natural-climatic conditions;
- Orientation of the state policy towards the provision of the population with basic foodstuffs and import substitution;
- Reduction of the number of rural population (urbanization);

- Outflow of quality qualified labor resources from rural areas;
- The area of agricultural land limits the development of small and medium-sized businesses in agriculture.

5.1 State Agrarian Trade Company

The main objective of the State Enterprise of Agrarian Trade is to support the concept of agricultural policy implemented by the State, aimed at developing agricultural producers by ensuring the production of agricultural products at local, national and international level under conditions of liberalization, without barriers and competitive capacity.

The State Agrarian Trading Company LLC works in the accompanying fundamental directions:

- It analyses the supply and demand of agricultural products both at home and abroad and, based on the information acquired, develops a sales strategy;
- Establish connection among purchasers and venders;
- Measures are taken to stimulate export-oriented production and steps to promote local products;
- Financial support from producers to expand production according to demand for agricultural products on the domestic and foreign markets
- Preparation and clearance of items for joint creation through arrangements with authority assortments of outside states and global associations;
- Participation in the vehicle of local items for export in accordance with international quality standards;
- Producers get proposals on expanding sales volumes to meet the needs of domestic and foreign market;

- Appropriate proposition are made for the capacity of items and the conveyance of items to the buying association as per the terms of the agreement closed with this association;
- Best practices in the field of item deals, food supply and supply, preparing and international cooperation in this field.

Furthermore, the mission of State Agrarian Trade Company is to build up the market framework for agrarian items in the nation, facilitating market access for little and medium farmers as an organization that received the idea of social obligation.

Vision for the future is to accomplish an expansion in the generation capability of agricultural products through the esteem chain assumes a specific job in the improvement of the nation's non-oil segment, stimulating and supporting the rural area.

Inside, it holds fast to the accompanying qualities in its relations:

- Integrity and straightforwardness
- Team soul
- Social Responsibility
- Sustainable improvement and solid participation
- High quality

5.2 The National Confederation of Entrepreneurs (Employers') Organizations

National Confederation of Entrepreneurs (Employers') Organizations of the Republic of Azerbaijan (AEC) was established on March 5, 1999, on 9 April 1999 also registered in the State Register.

The National Confederation of Entrepreneurs (Employers') Organizations of the Republic of Azerbaijan (hereinafter referred to as the Confederation) is a public association of employers in the Republic of Azerbaijan, regardless of ownership and organizational - legal form (except for those funded from the state budget), voluntary activity of legal entities and individuals engaged in entrepreneurial activity is a nonprofit, non - governmental organization that coordinates its activities, advocates for their legal and economic interests, is self - sustaining, has a socially - useful purpose, and does not intend to generate income as the ultimate goal of its activities.

The main purpose of the Confederation is to actively participate in the development of Azerbaijan's integration into the global economic system, to assist in solving socio-economic problems in the country, to create new jobs, to strengthen the entrepreneurial activity of the population, and to promote entrepreneurial activity. In addition, in Azerbaijan, the voice of all entrepreneurs (employers) and their closest partners, the regulation of entrepreneurship, entrepreneurial-employee relations is to build dialogue and support the sustainable development of entrepreneurship in the country.

Values:

- Independence
- Inclusion
- Transparency
- Cooperation
- Teamwork
- Diversity

The Confederation in its activity shall be guided by the Constitution of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan "On Non-Governmental Organizations (Public Associations and Foundations)", other existing legal acts of the Azerbaijan Republic and this Charter. The Confederation is the All-Union Union of Employers in the Republic of Azerbaijan. The Confederation shall carry out its activities regardless of the state authorities and the executive, self-governing bodies, political parties and movements, as well as other non-governmental organizations. Confederation is an independent legal entity, has a separate property, an independent balance, a settlement and a currency account in domestic and foreign banks. There are stamps, flags, stamps and blanks emblem that does not contradict the Constitution of the Azerbaijan Republic. The Confederation is created for an indefinite period of time, its activities are closely interconnected with state and executive authorities, municipalities, business structures, as well as international and public organizations, local and international financial and credit organizations.

Participates in collective bargaining with the Azerbaijani Government and the Azerbaijani Trade Unions Confederation, as well as the General Collective Agreement with the Azerbaijani Government and the Trade Unions Confederation of Azerbaijan, It creates permanent business relationships among members, helping them to develop investment, innovation projects and other initiatives, as well as to form a healthy business environment. Participates in developing and implementing various areas of social and economic development, regional and country-wide programs related to entrepreneurship development; Helps country entrepreneurs find refuge abroad and internally, and participate in information support;

Additionally, President of the National Confederation of Entrepreneurs (Employers) Organizations of the Republic of Azerbaijan is Mammad Musayev

The Confederation shall carry out the following duties in accordance with its Charter objectives:

- Protects rights, property and other legitimate interests of entrepreneurship entities in the relevant state authorities, municipalities and other organizations;
- Facilitates further strengthening of market infrastructure and entrepreneurship, in line with the directions of State Support Programs for Entrepreneurship Support;
- Participates in collective bargaining with the Government of Azerbaijan and the Azerbaijani Trade Unions Confederation, as the All-Union Union of Employers in order to regulate labor relations in the country, as well as the General Collective Agreement between the Government of Azerbaijan and the Confederation of Trade Unions of Azerbaijan;
- Establish permanent business relationships among members, together with the development of investment, innovation projects and other initiatives,
- Promote a healthy entrepreneurial environment;
- Participate in the development and implementation of various areas of socio-economic orientation, regional and country-wide programs related to entrepreneurship development;
- Help domestic entrepreneurs to find internal party overseas, participate in information support;
- Develops projects for the development of entrepreneurship and socio-economic laws and other normative-legal acts;
- Provides opportunities for studying world practice in the field of entrepreneurship development and applying them in favorable areas in Azerbaijan;
- Promotes the creation and development of socially-economically-oriented organizations;

The Confederation incorporates more than 6,000 entrepreneurial entities, including about 70 economic and social associations and unions.

AEC is committed to a social partnership as a social partner as a representative of employers in the General Collective Agreement signed on May 26, 2008 by the

Cabinet of Ministers, the Trade Unions and the AEC trilateral for identifying socio-economic policy and regulation of labor relations in Azerbaijan.

AEC is a member of the International Employers 'Organization, the World Association of NGOs, the International Industrialists' and Entrepreneurship Congress. The Confederacy is closely cooperating with embassies of the United States, Great Britain, Germany, France, Iran, Turkey and Egypt, and Israel's embassies in Azerbaijan, international organizations of socio-economic orientation, as well as embassies of our republic abroad.

There are four regional offices of the Confederation.

The Confederation on Entrepreneurship Development has the following rights in its discretion:

- To make suggestions to the state authorities on entrepreneurship development, to participate in the development and implementation of programs, laws and other normative-legal acts;
- Creating conferences, meetings, etc. for solving current and perspective issues;
- Participate in the determination of the agreed general principles of the socio-economic policy in the country and the regulation of labor relations;
- To receive grants, loans from the Azerbaijani and foreign financial and credit organizations, as well as international organizations, to cooperate with them;
- to establish enterprises and also branches and representative offices in the Republic of Azerbaijan and abroad, subject to the legislation of the Republic of Azerbaijan and the relevant legislation of foreign countries;
- Purchase and lease different types of property;
- To establish own media body;

- To train professionals and employees abroad to receive training and exchange experiences;
- Preparation of personnel for new entrepreneurship structures, creation of scientific-methodological basis of entrepreneurship activity, training of business entrepreneurs with modern entrepreneurship and training programs for entrepreneurship entrepreneurs to develop basics of entrepreneurship, and assisting them to improve their qualifications;
- Conducting business oversight on internationally-recognized issues of entrepreneurship, organizing professional development of entrepreneurs in foreign companies;
- To carry out information services, mediation and other activities in accordance with their duties;
- Organize and participate in international conferences, congresses, seminars and exhibitions on matters within the Confederation's jurisdiction;
- Making deals on behalf of Azerbaijan and foreign legal entities and individuals, acquiring property and non-property rights, holding liabilities, claiming and responding to court orders;
- Invite foreign experts to carry out their duties;
- Participate in the activities of international and local organizations in accordance with the legislation;

5.3 The ABAD (Family Business Support)

The ABAD (Family Business Support) is the legal entity subordinated to the State Agency for Citizens Service and Social Innovations under the President of the Republic of Azerbaijan (ASAN service) which was established by the Decree of the President of the Republic of Azerbaijan dated September 23, 2016.

Under the decree, the Center for Family Support (ABAD), which carries out socially-oriented projects to support active participation of citizens in the socio-economic development of the Republic of Azerbaijan, development of small and medium-sized businesses, increases the employment level of the population and the formation of competitive households.

By the decree of the President of the Republic of Azerbaijan there had to be done some missions such as:

- Implementation of projects to support households, small and medium-sized businesses, and establishing a fund to finance these projects.
- Determination of family farms, small and medium-sized enterprises for Center for Family Support projects, and creation of conditions for the use of modern technological production equipment for production of farm products;
- Monitoring and evaluation within the project;
- Organization of other activities related to the development of production-oriented entrepreneurship.

The Family Business Support centers also support family enterprises in the areas of business planning, marketing, branding and design, financial accounting and legal assistance.

Family Business Support carries out the certification of registered products and sales under the principle of "one-stop shop" of manufactured products. The organization of the production and transport of the produced product. The products produced within the project are placed on the brand, together with the brand of the manufacturer's family, to indicate that the product is manufactured under the supervision of Center for Family Support.

Within the framework of support to families working in the field of decorative-applied folk art, ABAD exhibition-fair "Icherisheher" in the State Historical-

Architectural Reserve, Heydar Aliyev International Airport, Baku Railway Station, Demirchi village of Shamakhi, Durucu village in Tufandag skiing resort, sales centers operate.

Handmade work of artistic families from different regions of Azerbaijan, as well as jam and jam products of ABAD families were put in sale at the centers.

In addition, the official website of the legal entity "ABAD" - www.abad.gov.az has been launched under the subordination of the Citizens Service and Social Innovation Agency under the President of the Republic of Azerbaijan.

In the seven-page section, there can be found information on products offered by Center for Family Support, people cooperating with legal entities, services offered, brand names.

The "Products" section provides information on the products sold by the Center for Family Support or the sale of the products of the family working in the field of decorative-applied craft, sales networks.

In the "ABADCORS" section, detailed information on family businesses joined Center for Family Support and family brands created in the "Brands" section.

Also, a special "ABADCHI OL" section was created to join the Center for Family Support. The individuals included in this section will submit a request to the Center for Family Support , including information about the area in which they operate, their own farms, and available facilities.

5.4 From Village to city

On December 25 2018, the State Agrarian Commerce Company launched the «From Village to city "store on Nizami Street, 154B, Baku. The main purpose of which is to sell farmers' products within and outside the country

"From Village to city" is a project implemented by the State Enterprise of Agrarian Commerce for small and medium farmers. In the store it is able to obtain products ecologically pure, natural and of high quality.

As part of the "Village to the City" project, agricultural product fairs were organized to meet the growing needs of the capital's population, to increase demand for agricultural and food products, to increase consumer preferences and to prevent artificial price increases. In addition, the products produced by farmers are packaged and sold under the name "Village to City". Citizens of these products will have access to both the Village City store and the various markets.

At the store, only domestic food products are sold in raw and processed form.

Leyla Mammadova, director of the State Agrarian Commerce Company, "From country to city" said that the same fair was put into operation. This fair is organized for the first time with the purpose of Azerbaijan Solidarity and the New Year. Today, the store "From country to city" began to work close to the fair. The store runs every day at 10 pm. Everything has been created in the store for farmers and domestic food producers. By registering for free, farmers receive a Food Safety Agency and sell them in this store. The store offers quality products at affordable prices. It is considered to open new stores "From country to City" in different parts of the city. Every night, at 20 hours, organizing the "Akshambazari" campaign. Thus, by getting fruit and vegetable products for more affordable price.

The guests at the opening ceremony, producers of associations of products and producers of domestic products that were there in the production of a new and modern product said they believed this store would become a modern sales center.

In addition, Leyla Mammadova said that the problem facing the owners of small and medium-sized farmers is related to the place where they will be able to

sell their products. Today, the project "Village to City" will be a step towards reducing this problem.

Thus, the development of small and medium-sized businesses in the agricultural sector is one of the priorities of government policy. This sector of the economy ensures the sustainable development of the social and economic system of the state, contributes to the increase of employment through the creation of a significant number of jobs, which contributes to the improvement of social protection of the rural population. In addition, the development of small and medium-sized businesses in the agricultural sector contributes to the formation of a competitive environment, the provision of consumers with new goods and services, and the development of large businesses.

6. Research analysis

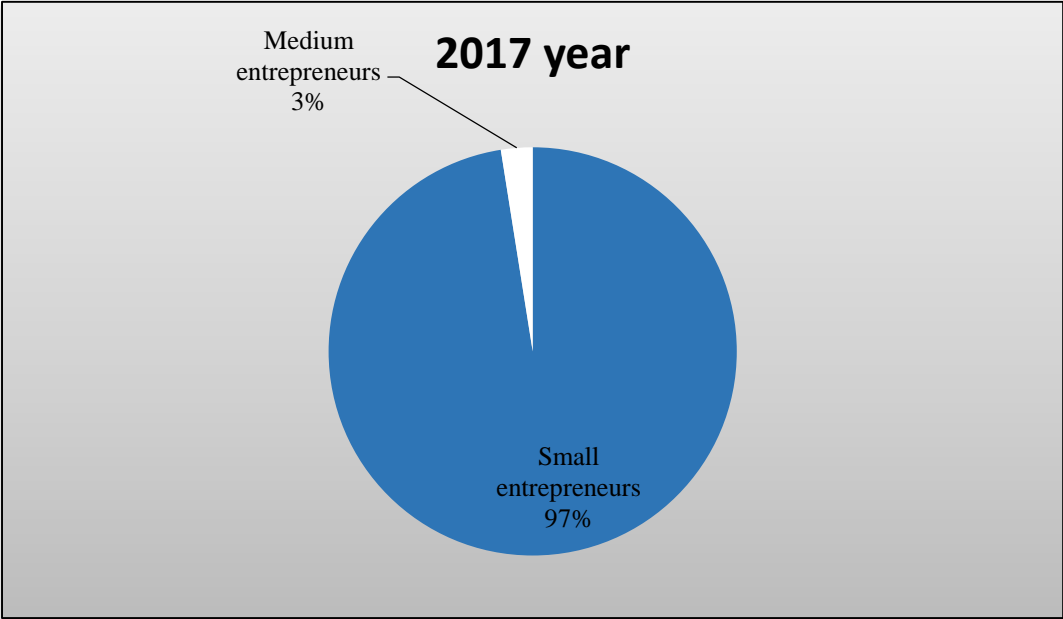
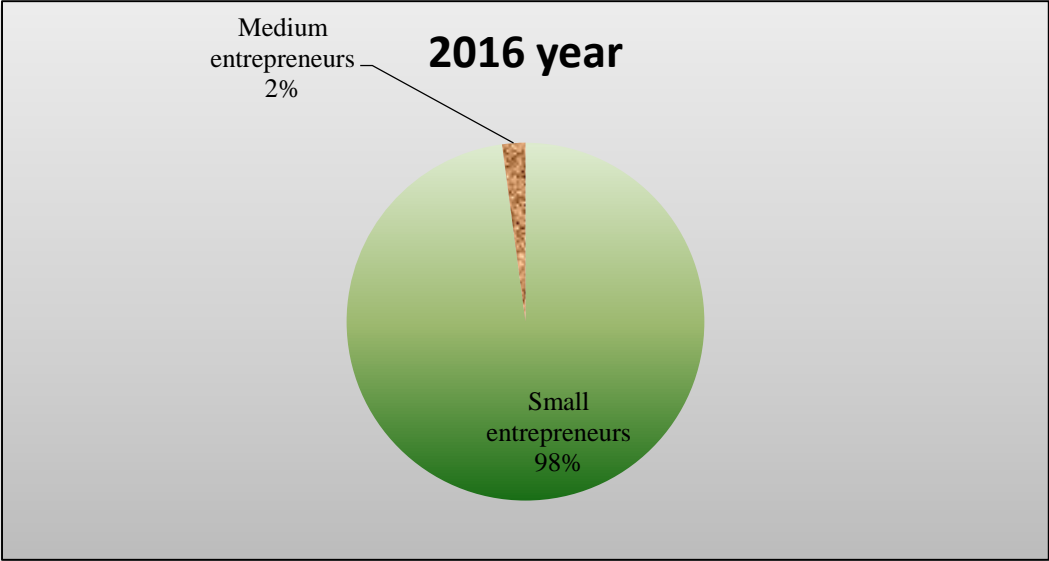
6.1. The number of acting small and medium entrepreneurship subjects

Indicators	2016			2017		
	Total	Legal persons	Individual entrepreneurs	Total	Legal persons	Individual entrepreneurs
Total number of entrepreneurs	191695	20932	170763	169603	23752	145851
The number of small entrepreneurs	187598	16835	170763	165386	19535	145851
The number of medium entrepreneurs	4097	4097	-	4217	4217	-

Analysis: The table illustrates the number of acting small and medium entrepreneurship subjects during 2016 and 2017 years. Overall, it is noticed that

the total number of entrepreneurs sharply decreased within a year from 191695 to 169603. In terms of small entrepreneurs it was decreased from 187598 to 187598, where individual entrepreneurs made the big share in contrast to legal persons. However, the number of medium entrepreneurs experienced growth from 4097 to 4217, with all legal people.

6.2. Structure of acting small and medium entrepreneurship subjects



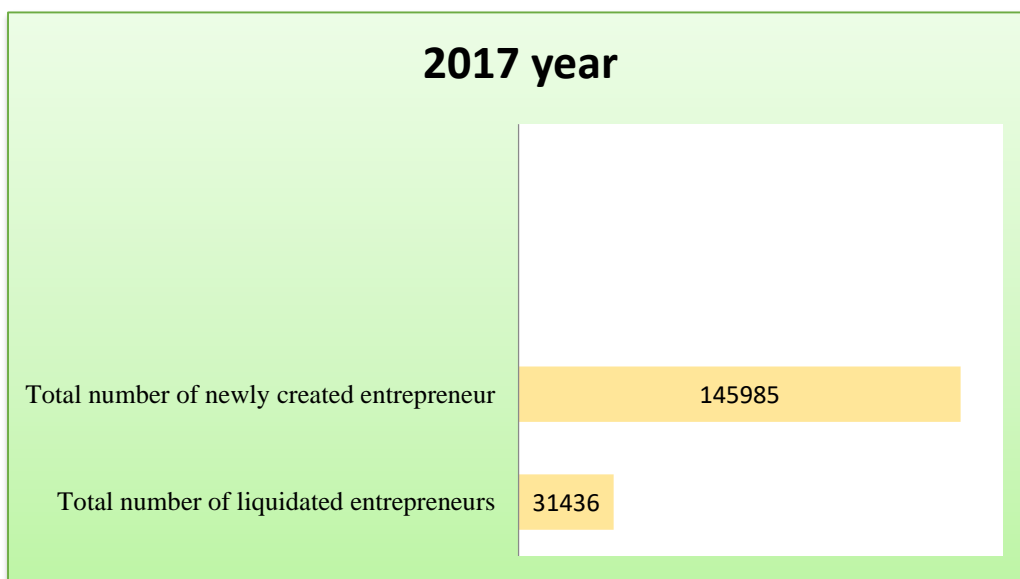
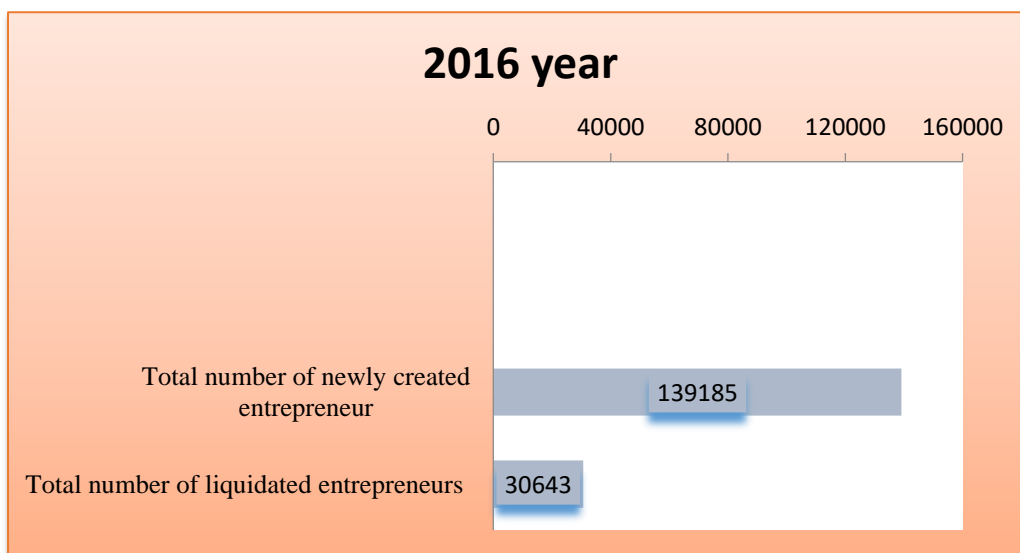
Analysis: The two pie charts illustrate small and medium entrepreneurship subjects in 2016 and 2017. Overall, in both years small entrepreneurs made the significant share. By 2016 small entrepreneurs had consisted of 98 percent, while in 2017 it showed a slight decrease of about a mere 1 % to 97percent. With regards to medium entrepreneurs, there was an approximate 1% growth to 3percent in 2017.

6.3. Number of newly created entrepreneurship subjects

Indicators	2016			2017		
	Total	Legal persons	Individual entrepreneurs	Total	Legal persons	Individual entrepreneurs
Total number of newly created entrepreneurs	139185	20932	170763	169603	23752	145851
The number of newly created small entrepreneurs	139012	7262	131750	145747	11479	134268
The number of newly created medium entrepreneurs	173	173	-	238	238	-

Analysis: The table gives information about the number of newly created entrepreneurship subjects in Azerbaijan from 2016 to 2017. It is evident that the total number of newly created entrepreneurs experienced a marked increase. It is interesting to mention that the number of newly created small entrepreneurs and medium entrepreneurs rose to 145747 and 238 respectively during a year. Furthermore, respective figures for small entrepreneurs in the number of legal people and individual entrepreneurs made growth by 4217 and 2518 people. However, medium entrepreneurs consisted only from legal people with 173 and 238 in 2016 and 2017 years respectively.

6.4. Total number of newly created and liquidated small and medium entrepreneurship subjects



Analysis: The given bar charts illustrate the number of newly created and liquidated small and medium entrepreneurship subjects in Azerbaijan during 2 years (2016, 2017). It is clearly shown that the total number of newly created entrepreneurs far higher and it is slightly increased for the given time frame. This number consisted of 139185 in the first year and it made growth by 6800 individuals. In contrast, the number of liquidated entrepreneurs showed a slight increase by exactly 1000 individuals.

6.5. Number of acting, newly created and liquidated entrepreneurship subjects by economic activity types

Types of economic activities	The number of entrepreneurship subjects in action		New created entrepreneurship subjects		Liquidated entrepreneurship subjects	
	2016	2017	2016	2017	2016	2017
Total for types of economic activity	191695	169603	139185	145985	30643	31436
Agriculture, forestry and fishing	3553	3222	76704	55972	4137	11636
Industry	6692	6875	1730	1808	1014	566
Construction	2901	2802	1655	1654	410	279
Trade; repair of transport means	97832	72925	13435	14031	9520	5245
Transportation and storage	28924	29144	7682	11599	4761	4537
Accommodation and food service activities	15508	16897	3768	3019	1899	1031
Information and communication	741	858	761	840	409	222
Real estate activities	1986	2083	401	550	779	447
Education	800	885	1068	1270	306	247
Human health and social work	686	783	275	336	172	138
Provision of services in other areas	32072	33129	31706	54906	7236	7088

Analysis: The number of acting, newly created and liquidated entrepreneurship subjects by economic activity types is given on the table during 2016 and 2017 years. Overall, it is clear that the number of entrepreneurship subjects in action for total types of economic activity has gradually declined by 22092 individuals. However, the number of new created entrepreneurship subjects and Liquidated entrepreneurship subjects experienced growth by 6800 and 793 people.

Moreover, provision of services in other areas for entrepreneurship in action saw the majority of people engaged in this economic activity in both years over 30000 people. In terms of new created entrepreneurship subjects agriculture, forestry and fishing made the biggest share of 76704 and 55972 in 2016, 2017 respectively. In addition, entrepreneurship subjects made high liquidation in trade and repair of transport means activities in 2016.

Conclusion

In summary, the essence and importance of the report in our society can be summarized as summarized above. The objective, simple, clear and timely compilation of the report by all enterprises and organizations is the most important process.

At the beginning of the thesis, we noted the significance of small businesses in the economy and came to conclusion that small enterprise is a set of independent small and medium enterprises acting as economic entities of the market. As the subject of the thesis is Small and Medium Sized Enterprises, we have focused more on this report.

The significance of small and medium businesses has been highlighted and substantiated in the course of the thesis. Thus, reached to result that SME plays an important role in any country, such as they provide employment, generate healthy competition, saturate the market with new goods and services and meet the needs of large enterprises.

Furthermore, we compared differences of considering micro, small and large entrepreneurs with OECD members and Azerbaijan. To be more precise, in the Organization for Economic Co-operation and Development (OECD) charter defines enterprises with up to 19 employees as very small, 20 to 90 as small, 100 to 499 as medium and over 500 as large. However, this data differs in Azerbaijan, where the number of employees up to 10 considers as micro entrepreneur, 11-50 as small entrepreneur, 51 – 250 as medium and 251 and above as large.

Moreover a number of measures have been implemented to support entrepreneurship development in Azerbaijan in the last period. Mainly, implementation of the principle of "one window" in the registration of entrepreneurship subjects has been ensured and their online registration has been started. In addition the Tax Code of the Republic of Azerbaijan, dated November

30, 1356-VQD, "On Making Amendments to the Tax Code of the Republic of Azerbaijan", has made important changes in area of entrepreneurship support. In detail, from January 1, 2019, according to the Amendment to the Tax Code, the income tax payable by the individual entrepreneur, who is a taxpayer engaged in the sale of goods under retail sale, was deducted from January 1, 2019 for a period of 3 years. It is reduced by 25 percent of the total tax burden determined by the POS-terminal. In all, I believe that it is possible to bring the specific share of SMEs up to 50 percent of GDP in Azerbaijan economy.

At the end of the thesis, we analyzed in detail the essence of the tax privileges of SME in Agro-Industrial sectors. The State Enterprise of Agrarian Trade was created where the main objective is to support the concept of agricultural policy implemented by the State, aimed at developing agricultural producers by ensuring the production of agricultural products at local, national and international level under conditions of liberalization, without barriers and competitive capacity. Furthermore, The National Confederation of Entrepreneurs (Employers') Organizations of the Republic of Azerbaijan (AEC) was established where the main purpose of the Confederation is to actively participate in the development of Azerbaijan's integration into the global economic system, to assist in solving socio-economic problems in the country, to create new jobs, to strengthen the entrepreneurial activity of the population, and to promote entrepreneurial activity. Center for Family Support (ABAD) was also established which carries out socially-oriented projects to support active participation of citizens in the socio-economic development of the Republic of Azerbaijan, development of small and medium-sized businesses, increases the employment level of the population and the formation of competitive households. Finally, «From Village to city "store was opened and other activities were taken to improve this area of entrepreneurial activity

In all, we have also made research analysis in 2016 and 2017 years where it was noticed that the total number of entrepreneurs sharply decreased within a year (2016-2017) from 191695 to 169603. In terms of structure of acting small and medium entrepreneurship subjects, in both years small entrepreneurs made the significant share in contrast to medium entrepreneurs. Besides all It is also evident that the total number of newly created entrepreneurs experienced a marked increase. At last, the number of acting newly created and liquidated entrepreneurship subjects by economic activity types have been analyzed.

To conclude, by reading this thesis, you will have all the knowledge you need about the SME in Azerbaijan.

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